

PDBBE 482

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CLASSIFICATION: UNCLASSIFIED

AGENCY FOR INTERNATIONAL DEVELOPMENT  PROGRAM ASSISTANCE APPROVAL DOCUMENT (PAAD)		1. PAAD Number 675-0217      675-K-601	
		2. Country GUINEA	
		3. Category Cash Transfer	
		4. Date 7/7/86	
5. To Mark L. Edelman, Assistant Administrator for Africa		6. OYB Change Number	
7. From Mark G. Wentling, AID Affairs Officer, Conakry		8. OYB Increase \$10.0 million ESF To be taken from:	
9. Approval Requested for Commitment of \$ 10,000,000		10. Appropriation Budget Plan Code ESF,      GESA-86-31675-KG31 (637-61-675-00-50-6)	
11. Type Funding <input type="checkbox"/> Loan <input checked="" type="checkbox"/> Grant	12. Local Currency Arrangement <input type="checkbox"/> Informal <input type="checkbox"/> Formal <input checked="" type="checkbox"/> None		13. Estimated Delivery Period 8/86 to 8/88
14. Transaction Eligibility Date		15. Commodities Financed  N/A	
16. Permitted Source U.S. only Limited F.W. Free World Cash 10 million		17. Estimated Source U.S. Industrialized Countries Local 10 million Other	

18. Summary Description

This program will support and consolidate Guinea's structural adjustment program with primary emphasis upon balance of payments support and those elements of the reform which seek to liberalize and privatize trade in rural areas. The program will remove restrictions on the private sector's right to engage in all aspects of rural commerce, including the purchase and sale of agricultural commodities and provision of agricultural inputs. The GOG will also agree to disengage itself from these activities. The program is conditioned upon significant policy change in banking and credit, linked with market oriented commercial and investment legislation.

Ten million dollars (ESF) will be disbursed in two tranches (FY 86-87). The dollars will be made available to the private sector through the established foreign exchange auction system for the purchase of imported commodities. The GOG central bank will agree to capitalize a credit account in local currency at a magnitude equivalent to the value of the foreign exchange provided under this program. Commercial banks will draw funds from this account to extend short and medium term credit to private traders and entrepreneurs.

19. Clearances	Date	20. Action
DAA/AFR:LRichards <i>JL</i>	8/11/86	<input type="checkbox"/> APPROVED <input type="checkbox"/> DISAPPROVED
AAA/AFR/DP:JPatterson (draft)	8/11/86	
AFR/PD:LHausman	8/12/86	Authorized Signature: <i>[Signature]</i> Date: <i>Aug 21, 1986</i> Title: <i>Assistant Administrator for Africa</i>
AFR/CCWA:JColes <i>JL</i>	8/13/86	
GC/AFR:AVance <i>AV</i>	8/14/86	
AFR/DP:JWolgin <i>JW</i>	8/12/86	
PPC/PD:PMaushammer <i>PM</i>	8/13/86	
AID 1120-1 (5-82)		
FM/PAFD:ESOWENS <i>RCK</i>	<i>8-21-86</i>	CLASSIFICATION: UNCLASSIFIED

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
WASHINGTON D.C. 20523

ACTION MEMORANDUM FOR THE ASSISTANT ADMINISTRATOR FOR AFRICA

FROM: AFR/PD, Laurence Hausman *C. Hausman*  
SUBJECT: Guinea Economic Policy Reform Program - Promotion of  
Private Marketing and Distribution (675-0217)

Action Requested: Your approval is requested for a grant of \$10 million from the Economic Support Fund for the Guinea Economic Policy Reform Program (675-0217). It is planned that the total amount of the grant will be obligated in FY 1986.

Discussion:

A. Background:

A quarter century of mismanagement has led Guinea to the brink of total economic collapse. The past twenty-eight years has witnessed the promotion of large, inefficient state enterprises with monopolies on virtually all aspects of domestic and international trade. The private sector which accounted for 75 percent of Guinea's GDP, functioned illegally, on the parallel market, causing increasingly shrinking revenues for the government. Farmers turned away from export crops and the cash economy, and were reduced to subsistence farming and barter.

In 1985, the Government of Guinea committed itself to a series of bold reforms centered on currency reform. In large measure, the reform program is based on the realization that the key to economic transformation lies in the liberalization of trade, credit and market policies which could lead to the commercialization of the rural economy.

The GOG has already undertaken a major structural adjustment program in concert with an IBRD/IMF led donor consortium. It has eliminated all of the state banks which have now been replaced by private commercial banks; it has reduced its civil service; it has or will shortly eliminate nearly all state enterprises and parastatals; it has devalued its currency by 92 percent and allowed it to float on a domestic foreign exchange auction market; it is committed to deregulation of trade, including cash crops and imports; inter alia. The Government of Guinea clearly wants to attract foreign investment and bring its active domestic private sector into the official economy. To do so, it needs to clearly articulate comprehensive, liberalized banking and credit policies, while continuing its shift from state to market oriented trade policies.

B. Summary Program Description:

While a great deal has already been accomplished, a reform program of this magnitude takes time to implement completely. The AEPRP program is intended to achieve reforms which will lead to a complete liberalization of economic activity in the agricultural sector. The structural adjustment program, led by the World Bank, seeks to achieve a broad range of economic reforms relating principally to monetary policy and a reduction of the Civil Service. This program complements the Structural Adjustment Program, and focuses upon the following specific reforms:

(a) unrestricted private sector rights to import, sell and distribute agricultural production inputs, including the eventual disengagement of the state from these activities; (b) free and open trade in the marketing, purchase, sales and/or export of all crops; (c) removal of all government subsidies on sales of agricultural production inputs; (d) enunciation of a comprehensive credit policy, including specific guidelines for short, medium and long term credit; and, (e) promulgation of revised commercial and investment codes which will permit participation for all segments of the private sector.

The elimination of the State's role in the rural economy is predicated on the ability of the private economy to replace the State. However, it remains to be seen whether the private commercial sector is able to assume and improve upon the functions of moribund state enterprises with regard to domestic and international commerce. Although a few large entrepreneurs have access to both capital and foreign exchange, most private traders, and indeed the banking sector itself, suffer from liquidity problems and lack of access to capital. Therefore, this program will be used to help implement these reforms by ensuring that credit is provided to private traders.

The \$10 million ESF grant will be disbursed in two tranches, as mutually agreed upon reforms are put in place. These dollars will help fill a serious balance of payments deficit thereby providing Guinea with some of the foreign exchange resources it needs to reactivate the private economy. The GOG will agree to make the dollars disbursed under the program available to private sector importers through the new foreign exchange auction system. Also, in order to encourage and liberalize the privatization of trade in rural areas, the Government will make an equivalent amount of local currency available to provide commercial credit to private traders and entrepreneurs.

The AEPRP program directly supports the GOG strategy for economic recovery. It complements and reinforces elements of the structural adjustment program which include contributions from:

IDA	\$25.0 million
African Facility	17.0 million
IMF Standby Arrangement	36.3 million
Fed. Republic of Germany	9.4 million
Japan	27.8 million
Switzerland	4.8 million
France	<u>26.7 million</u>
Total	\$147.0 million

C. Summary Financial Plan:

The program is a grant to the Government to be obligated in FY 1986. The program will be implemented over a period of about two years with domestic credit reflows continuing indefinitely.

Structural Adjustment Support (ESF) \$10,000,000

D. Socio - Economic, Technical, Financial and Environment:

1. The ECPR found the macro-economic justification for dollar disbursement satisfactory.
2. There are no human rights issues.
3. The Bureau Environmental officer concurs with the granting of a categorical exclusion because dollar disbursements and direct payments for technical assistance are eligible in accordance with AID Regulation 16, Section 216.2 (c)(2)(i) and (vi) to be excluded from the environmental procedures.

E. Implementation:

The AID Affairs Office in Guinea will have primary responsibility for arranging implementation of the grant. REDSO/WCA will provide guidance and assistance as appropriate. The major implementing Agency for Policy implementation will be the Ministry of Finance. The executing agency representing the GOG will be the Central Bank. The implementation plan contained in the PAAD has been carefully reviewed by the Project Committee which concluded that the plan is realistic, and establishes a reasonable timeframe for carrying out the program.

F. Conditions and Covenants:

Conditions precedent to the first tranche will frame the terms of the GOG's contribution to the private banks and assure minimum protection against undue constraints/competition by government toward private traders of agricultural inputs. The conditions precedent to second disbursement will require the accomplishment

of specific steps in these directions. The covenants are to maintain progress in the direction of the broad reform efforts.

a. First Disbursement:

Before the disbursement of the first tranche of funds (five million dollars), the Grantee will:

i. Show evidence that the commercial banks have agreed to participate in a private sector credit program financed by the Special Local Currency Account established in the Central Bank.

ii. Open a special account in the Central Bank and agree, in writing, to deposit the local currency equivalent of the dollars provided in the first tranche at the time the dollars are made available.

iii. Show evidence that agricultural inputs sold by state enterprises will be priced at import-parity or above.

iv. Submit a time-phased plan for the disengagement of the state from the sale and distribution of all agricultural inputs including fertilizer, seed, agricultural equipment and machinery.

b. Second Disbursement:

Prior to disbursement of the second tranche of funds (five million dollars), the Grantee will:

i. Issue revised commercial and investment codes which eliminate inconsistencies between the codes and assure full equity to all segments of the private sector participating in the national economy.

ii. Eliminate all parastatals engaged in the import and distribution of agricultural production inputs, AGRIMA and SEMAPE, and the export of cash crops, PROSECO and FRUITEX.

iii. Announce its time-table for eliminating policy of establishing official producer and consumer prices.

iv. Show evidence that it has complied with covenant (e), by not permitting release of any funds from the special local currency account until a comprehensive credit policy, acceptable to AID, is formally issued.

2. Special Covenants:

The Grantee covenants to:

a. Provide to the Central Bank of Guinea for sale at its weekly foreign exchange auctions an amount of foreign exchange equal to the Dollar disbursements under this Grant.

b. Establish a Special Local Currency Account in the Central Bank of Guinea and deposit therein in Guinean local currency an amount equal to the dollar disbursements made under this Grant. Such deposits are to be made simultaneously with each disbursement of U.S. Dollars to the GOG.

c. Maintain a program for publicizing the regulatory and administrative changes agreed upon herein that are of interest to the business community, e.g. the adoption of a comprehensive credit policy, the adoption of the Tax and Customs Code, and the availability of loans to private entrepreneurs from the Special Local Currency Account.

d. Not reverse, discontinue, or otherwise impede any action taken in satisfaction of any condition precedent to the initial or second disbursement under this Grant, except as the parties may otherwise agree in writing.

e. Prohibit release of any funds from the special local currency account until a comprehensive credit policy, acceptable to AID, is formally issued.

3. Notification to Congress expires, in the absence of objection, on August 16, 1986.

4. At both the Issues and ECPR meetings representatives of all relevant offices were present and concurred in recommending authorization of this PAAD.

Recommendation: That you authorize funding of \$10 million ESF for the Guinea Economic Policy Reform Program.

Approved: \_\_\_\_\_ *AM*

Disapproved: \_\_\_\_\_

Date: \_\_\_\_\_ *9-21-86*

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## GUINEA: AFRICAN ECONOMIC POLICY REFORM PROGRAM (675-0217)

### I. SUMMARY AND RECOMMENDATIONS:

#### A. Purpose:

The purpose of the program is to support the Government of Guinea's structural adjustment program with primary emphasis on the liberalization and privatization of trade in rural areas.

#### B. Summary Program Description:

The Government of Guinea has already committed itself to a series of bold reforms which should lead to the total liberalization of the economy through market oriented domestic and foreign trade policies. The success or failure of this new approach to economic development will depend, in part, upon the ability of Guinea's private sector to effectively and efficiently assume functions previously reserved for the government; i.e., marketing of agricultural commodities, sales and distribution of agricultural inputs, and importation and sales of consumer goods, including foodstuffs. If successful, this opening of the economy will, over time, stimulate competition, generate employment, increase state revenue and bring Guinea's rural sector from a subsistence into a cash economy.

Significant economic policy reforms have already taken place with the GOG supporting the increased role of the private sector throughout the economy. These reforms include a massive devaluation and the establishment of a free market foreign exchange system; the abolition of all state-owned banks and the creation of a new currency; the elimination of almost all price controls; the closing of all state farms and many public enterprises; the elimination of state control of agricultural marketing; and, the development of a new legal and institutional framework aimed at dismantling the old, statist legal and institutional framework and the creation of a new market-oriented framework.

While a great deal has already been accomplished, a reform program of this magnitude takes time to implement completely. The AEPRP program is intended to assist in the implementation of those

reforms which will lead to a complete liberalization of economic activity in the agricultural sector. Specific policy reforms to be supported by the Program Grant are: (a) unrestricted private sector rights to import, sell and distribute agricultural production inputs, including the eventual disengagement of the state from these activities; (b) free and open trade in the marketing, purchase, sales and/or export of all crops; (c) removal of all government subsidies on sales of agricultural production inputs; (d) enunciation of a comprehensive credit policy, including specific guidelines for short, medium and long term credit; and, (e) promulgation of revised commercial and investment codes which will permit participation for all segments of the private sector.

The elimination of the State's role in the rural economy is predicated on the ability of the private economy to replace the State. However, it remains to be seen whether the private commercial sector is able to assume and improve upon the functions of moribund state enterprises with regard to domestic and international commerce. Although a few large entrepreneurs have access to both capital and foreign exchange, most private traders, and indeed the banking sector itself, suffer from liquidity problems and lack of access to capital. Therefore, this program will be used to help implement these reforms by providing credit to private traders.

The \$10 million ESF grant will be disbursed in two tranches, as mutually agreed upon reforms are put in place. These dollars will help fill a serious balance of payments deficit thereby providing Guinea with some of the foreign exchange resources it needs to reactivate the private economy. The GOG will agree to make the dollars disbursed under the program available to private sector importers through the new foreign exchange auction system. Also, in order to encourage and liberalize the privatization of trade in rural areas, the Government will make an equivalent amount of local currency available to provide commercial credit to private traders and entrepreneurs.

In addition to the program grant, \$2,500,000 of Development Assistance will be provided for technical assistance to help the Government of Guinea better understand and implement policy reforms which affect the rural economy. This technical assistance grant will be used to finance short and long-term advisors, economic and sectoral studies, on-the-job training and seminars, and to evaluate the domestic credit program and the impact of the AEPRP.

The AEPRP program directly supports the GOG strategy for economic recovery. It complements and reinforces elements of the IBRD structural adjustment program which include:

IDA	\$25.0 million
African Facility	17.0 million
IMF Standby Arrangement	36.3 million
Fed. Republic of Germany	9.4 million
Japan	27.8 million
Switzerland	4.8 million
France	<u>26.7 million</u>
Total	\$147.0 million

C. Summary Financial Plan:

The AEPRP program is a grant to the Government to be obligated in FY 1986. The program will be implemented over a period of about two years with domestic credit reflows continuing indefinitely. The GOG implementing agency is the Central Bank and the commercial banking system.

Structural Adjustment Support (ESF)	\$10,000,000
Total	\$10,000,000

D. Summary Findings:

It has been concluded from the economic and technical analysis in the Program Assistance Approval Document (PAAD) that (1) the program approach is technically and economically sound, and administratively feasible; (2) the timing and funding of program activities are appropriately scheduled; (3) sufficient planning has been made for monitoring and evaluation of the program; and, (4) all statutory requirements are satisfied.

E. Required Waivers:

No waivers are required.

F. Recommendation:

The U.S. Mission in Guinea recommends that the Assistant Administrator for Africa authorize the program grant of \$10,000,000 to the Government of Guinea. These funds will be disbursed in two tranches after the conditions precedent are satisfied. It is also recommended that a grant of \$2,500,000 for technical assistance be authorized.

## II. BACKGROUND

### A. Macroeconomic Framework

#### 1. Economic Conditions and Prospects

Guinea's economic history since 1960 is characterized by limited growth without development. Guinea is a country rich in natural resources, with substantial mineral deposits, particularly bauxite but including gold and diamonds, as well as high potential agricultural land, relatively high and stable rainfall, and enormous, though untapped, hydroelectric potential.

Before independence Guinea was the richest colony in French West Africa, with a well developed plantation agriculture to supplement mineral earnings. However, the Sekou Toure regime not only turned its back on the French dominated West African Community but also on Western capitalism. Instead it concentrated not on economic development but on the establishment of a new political and social order.

The hub of this new order was the State and between 1960 - 1980 the economic role of the State was increased. State farms, state marketing agents, state banks, state industries were the centerpiece of the new economic order. What the State did not own, it controlled. Farmers were not allowed to sell their produce freely, and the agents of the State frequently confiscated part of their harvest. The only sector relatively free from State dominance was the bauxite mining sector, in which the Government had entered into a profitable partnership with several multinational interests.

As a result the mining sector grew (as long as international prices were buoyant) while almost every other sector of the economy stagnated. This is illustrated in Table I which shows sectoral growth between 1970 and 1981.

TABLE I  
GUINEA: SECTORAL GROWTH RATES, 1970 -1981  
(Annual percentage change)

	TOTAL	PER CAPITA
Agriculture	-1.2	-4.0
Mining	14.7	11.9
Manufacturing	0.0	-2.8
Construction	-0.6	-3.4
Electricity, Gas, Water	0.0	-2.8
Transport & Communication	-1.1	-3.9
Trade	8.6	5.8
Public Administration	8.7	5.9
GDP	3.3	0.5
GDP (excluding mining and public administration)	1.1	-1.7

Agriculture suffered from the GOG's policies which were dominated by the objective of keeping the purchasing power of urban civil servants high at all costs. The disincentives faced by smallholders during this period include lack of access to credit, production delivery quotas to official agencies at unfair prices, lack of access to appropriate technologies and production inputs, an overvalued exchange rate, and unavailability of consumer goods in rural areas. As a result, farmers shifted production from cash crops to food crops to meet their subsistence needs. The declining export crop production was usually diverted to parallel market operations which decreased official export earnings and increased transactions costs, thus harming both farmers and consumers.

Despite its decline in productivity, agriculture remains the most vibrant sector in the Guinean economy, employing 80% of the labor force and producing almost 50% of GDP. Rice is the main food staple and has a predominant position in terms of both production and acreage planted. Most of the rice crop is produced for on-farm consumption with little currently reaching urban markets. Official marketed output of rice peaked in 1977 at 32,000 tons but has been negligible since 1980. Production of all cash crops declined during this period. Official coffee exports peaked at 19,000 tons in 1961 dropping to a mere 450 tons in 1984. Official palm kernel exports, which reached a level of 15,000 tons in 1979, are now a mere 1,000 tons. Banana exports reached a level of 98,000 tons in 1955, but today are zero. Pineapple exports declined from 10,000 tons in the mid-70s to virtually zero today.

Overall agricultural exports declined from 143,000 tons in 1957 to virtually nothing in 1985. Twenty years of misguided policies plunged a vibrant, diversified commercial agriculture into cashless subsistence stagnation.

The 1970's, however, saw a vast expansion of mining production. Bauxite exports decreased from 375,000 tons in 1957 to 109,000 tons in 1972, from which point they expanded dramatically to over 10,400,000 tons in 1979. Mineral earnings in current dollars increased by almost 900%, going from \$41 million in 1972 to \$360 million in 1979. The substantial mineral export earnings were used to expand the public and parastatal sectors. Until the recent reforms, all of the 140,000 workers in the formal sector were employed either by the public or parapublic sectors. Over the decade of the 70's government revenues increased from 11% of GDP to 31% of GDP. Most of these mineral earnings were wasted through unproductive investments and the payment of public sector salaries and benefits.

By 1985 the economy was completely out of control. The fourth public sector investment (1981-85) plan was only able to make 26.6% of all planned investments. Scheduled debt service had reached a level of 40% of export earnings. The public sector had gone from a net surplus position in 1981 to one in which expenditures exceeded revenues by 40%, with public enterprises being a major drain on the budget.

## 2. Balance of Payments Position:

The overall balance of payments position was negative with substantial deficits recorded between 1981 and 1985 (see Table II). The growing deficit is the result of the accumulation of foreign debt obligations. These obligations were greater than Guinea's ability to meet debt service payments. External borrowings were used to finance investments in infrastructure and public enterprises. Outstanding public external debt reached \$1.6 billion at the end of 1984. At that time, the ratio of scheduled debt service obligations to total official export earnings was 34%. Actual debt service payments amounted to 20%. Debt service on private, non-guaranteed debt was \$180 million or 11% of total official exports in 1984.

In 1985, higher service and private transfer payments combined with lower inflows of public transfers and led to an increase in the current account deficit. Net inflows of public transfers occurred in 1984 because of exceptional aid assistance related to the earthquake in late 1983 and increased aid to the new Government in 1984. The growing deficits were financed by

reducing official reserves and increasing the payments of arrears on medium and long-term public debt. By the end of 1985 official reserves were estimated to be the equivalent to less than the value of one week of public sector imports.

The need for increased funds to finance imports to rehabilitate the economy and the projected lower demand and price for bauxite require the GOG to rapidly expand non-bauxite exports and control food imports if the GOG's short to medium-term objectives are to be met. Lower bauxite earnings, should, however, be offset by a decline in the value of rice and petroleum imports.

In order to obtain the time and resources needed to expand its non-bauxite exports and to reform its economy, the GOG met with its Paris Club creditors in April to refinance its external debt, particularly the arrears. The negotiations were successfully completed with 95% of principal and interest due from January 1, 1986 to February 28, 1987 rescheduled or refinanced. The Guinean authorities are currently discussing debt relief with other major creditors, including commercial banks. All of the remaining creditors are invited to attend a meeting of the Conakry Club during the summer of 1986 at which time the GOG hopes to obtain debt relief on terms comparable to those of the Paris Club.

The debt rescheduling and refinancing exercises are, however, only part of the assistance that the GOG will need if the reform program is to succeed. New and substantial amounts of balance of payments assistance on concessional terms as well as debt relief are required to offset projected deficits of \$169 million in 1986, \$165 million in 1987, and \$100 million in 1988 and 1989. Increased assistance is critical during the first two years of the reform program as the GOG attempts to increase the import of capital and intermediate goods for new investments and the rehabilitation of existing assets.

Table II  
Trade Payments and Capital Flows  
1985-1986  
(US \$ Millions)

	1985 (estimate)	1986 (projected)
Exports	559	538
Imports	-448	511
<u>Trade Balance</u>	<u>111</u>	<u>27</u>
Services and Private Transfers (net)	-191	-195
Interest M & L/T Debt	(-53)	(-12)
Workers' Remittances	(-10)	(-46)
<u>Current account, ex transfers</u>	<u>-80</u>	<u>-168</u>
Official Transfers (net)	23	28
<u>Balance on Current Account</u>	<u>-58</u>	<u>-139</u>
Foreign Investment	40	45
Net M & L/T Borrowing	-33	-48
Disbursements	(109)	(118)
Amortization, scheduled	(-142)	(-167)
Short term capital net	-12	-10
Errors and omissions	6	-
<u>Overall Balance</u>	<u>-57</u>	<u>-169</u>
Financing:		
Use of IMF Credit	-	-6
Increase in arrears	46	-
Change in Reserves(- = increase)	11	-11
Net reserve level	-216	-205
SAC and SAC related financing	13	123
SAC, SFA	-	39
SJF (Germany, Japan)	-	35
IMF Standby	-	31
Bilateral Aid (Switzerland, France)	13	18

Source: World Bank

Additional funds will also be required to fund the consumer goods imports to provide incentives to the rural areas to increase agricultural production above subsistence levels and to redirect exports into official channels. An increase in agricultural production is essential if projected declines in bauxite are to be off-set and if the Guinean economy is to diversify. If Guinea's immediate external assistance requirements are met during the reform period and it succeeds in diversifying its exports, the country's current account deficits should become sustainable in the 1990's.

### 3. Fiscal Position:

The GOG's financial crisis is attributed to the poor performance of public enterprises and the increasing role of the private sector in unofficial trade (see Table III). Starting in the early 1980's with the liberalization of imports of consumer goods, tax and customs' receipts fell. Non-tax revenue transfers from public enterprises to the national treasury also declined because of the fall in profits. Budgetary transfers to support the operations of the public companies continued. Increased efforts by the government to collect taxes and improve customs operations led to increased revenues in 1984. After a 40% fall in revenues in 1983 to just over 10 billion sylis, (due to repayment of taxes in 1982), government revenue rose to 11 billion in 1984. This increase reflects private sector optimism following the establishment of the Second Republic as well as intensified GOG efforts to collect overdue taxes.

Shifts in government expenditure levels are the result of transfers from the treasury to public enterprises. Thus, while overall government expenditures were 19.6 billion in 1982 they fell to 13.3 billion in 1984. This reflects direct transfers to public enterprises which jumped from .6 billion Guinean sylis in 1981 to 5.5 billion in 1982. Transfers held steady at 5.8 billion in 1983 but declined to 2.8 billion in 1984. The transfers financed the bill for imports of consumer and capital goods.

The budget deficit continued to worsen in 1985 when it reached 12.3 billion GS or 135% of total revenue. This deficit is the result of the continued poor financial management performance of public companies. Transfers from state enterprises declined by 1 billion GS from the previous year to 155 million GS. Corporation tax payments, excluding the mining sector, fell 50% to 450 million GS. The collection of other taxes increased, led by import taxes which registered a 12.5% increase over 1984, an exceptionally good year.

The exchange rate adjustments are expected to make a favorable impact on government revenues in 1986. The elimination of subsidies to public enterprises should enable the GOG to improve its budgetary position, make increased contributions to financing investment programs, and, with favorable debt rescheduling from its creditors, become current on its arrears.

TABLE III  
GOVERNMENT FISCAL OPERATIONS, 1981-85  
(in billions of current sylis)

	1981	1982	1983	1984	1985
Revenues	<u>11.7</u>	<u>17.1</u>	<u>10.2</u>	<u>11.0</u>	<u>9.1</u>
Tax Revenues	8.5	11.0	6.7	9.3	8.2
Non-tax Revenues	3.2	6.1	3.5	1.7	0.9
Expenditures	<u>9.8</u>	<u>19.6</u>	<u>15.2</u>	<u>13.3</u>	<u>21.4</u>
Current Expenditures	7.4	15.8	12.4	11.2	20.0
Wages & Salaries	(3.9)	(4.3)	(4.6)	(5.0)	(11.7)
Interest	(0.4)	(0.5)	(0.5)	(0.5)	(0.5)
Subsidies	(1.4)	(6.5)	(6.5)	(3.9)	(10.8)
Capital Expenditures	(2.4)	(3.8)	(2.8)	(2.1)	(1.4)
Deficit (commitment)	<u>1.9</u>	<u>-2.5</u>	<u>-5.0</u>	<u>-2.3</u>	<u>-12.3</u>

Summary Budget  
(In Billions of constant 1981 sylis)

Revenues	11.7	16.4	8.5	8.3	6.3
Expenditures	9.8	18.8	12.7	10.0	14.8
Surplus	1.9	-2.4	-4.2	-1.7	-8.5

Source: IMF, Recent Economic Developments, Jan, 1986

B. Policy Reform Framework:

The poor performance of the public sector, especially that of the public enterprises, led to the virtual collapse of the economy. As a result, the GOG prepared and began implementing in December 1985 a far-reaching economic reform program. The objective of the program is to liberalize the economy and to support the growth and development of the private sector. The four development priorities of the program are to:

- adjust the exchange rate in order to permit the removal of price distortions and the unification of the parallel and official economies;
- improve the capacity and performance of the public sector especially transport, power and water supply, as well as public administration and social services;
- create the environment in which an active private sector can be established; and,
- diversify the economy to increase exports and to increase local production of foodstuffs, especially rice.

Banking, the Currency Exchange and Exchange Rates. During the past six months, the GOG completed its exchange of currency exercise during which time almost 30 billion sylis were exchanged for the new franc Guinean. The new currency was devalued by over 90% with subsequent weekly adjustments made through the foreign exchange auction at the Central Bank. This new system allows the commercial sector free access to official foreign exchange. The previous banking system consisted of six state owned banks. The state banks were closed December 23, 1985 and their assets are presently being liquidated. Three new banks with foreign and private participation were opened in 1985. These banks were responsible, along with the Central Bank, for managing the currency exchange exercise. The Central Bank is being reorganized to improve its operations and to enable it to undertake increased responsibilities.

Prices. Almost all prices have been decontrolled. Floor prices remain for most agricultural exports, but these have been dramatically increased -- coffee and palm kernel from 80 to 400 GF/kilo and 18 to 60 GF/kilo respectively. The two major controlled consumer prices, rice and petroleum, have also been increased substantially. The consumer price of rice rose from 20 GF/kilo to 100 GF/kilo on June 1 in Conakry. Official rice prices up-country went from 120 to 130 GF/kilo at the same time. Locally produced rice and other food crop prices were also decontrolled. Gasoline prices went from 30 GF/liter to 140 GF/liter.

Negotiations are presently underway with representatives from seven oil companies on their participation in a mixed company to import petroleum products, control storage at the port, and distribute at the wholesale level. Retail sales will be handled by the private sector. Other price increases include Public transport (15 GF/ticket to 50 GF/ticket); electricity rates (6 GF/kilowatt hour to 54 GF/kilowatt hour for the general public and 64 GF/kilowatt hour for commercial users).

Public Enterprises. Nineteen public enterprises were liquidated while the remaining thirty-five presently under review have been divided into three categories: eleven that may be retained, seventeen for which buyers are being sought, and seven to be liquidated.

Public Administration. A major reform of public administration is planned. The census of all civil servants is completed and new ministry organizational structures have been approved. The compensation incentive package for departing civil servants was announced by May 28, 1986. Competency testing for those public sector employees who chose to remain will begin at that time to determine those best qualified to be retained. Those not determined to be qualified will be dismissed. A major increase, 80%, in salaries was announced in May with additional increases planned for the retained civil servants by the end of 1986.

Other Reforms. Efforts to stimulate private investment continue. The final text of the revised Investment Code is expected shortly. Work is underway to liberalize commercial regulations in order to broaden competition. The Central Bank is expected to issue its credit policy later this summer. Faster progress in the liquidations was not possible because of the complexity of the concurrent operation to liquidate the state banks.

### C. Key Policy Problems Remaining

The Government continues to discuss its economic reform program within the cabinet as well as through the media with the Guinean people. The program is also in the process of continuous negotiations with the donor community as the GOG moves forward with its implementation and preparations for the December 1986 Consultative Group meeting.

In spite of the rapid progress made by the GOG during the past six months in the area of economic reform, much remains to be done. Basic institutional and legal arrangements need to be finalized, including the drafting of mining, commercial, investment and banking codes. The government must reduce the civil service by a substantial number. The remaining public enterprises need to be

closed down, sold off or restructured. Remaining price controls in the areas of rice and petroleum need to be removed. Decentralization of government functions must be continued. And finally, the existing reforms need to be continually supported, morally, financially and with technical assistance.

D. Other Donor Assistance:

1. IMF Standby Agreement

The thirteen month IMF Standby Agreement for \$36 million came into effect in February 1986. Under this program, the Fund is primarily responsible for advising the GOG on exchange rate adjustments and the monetary reform and related measures, i.e. price adjustment, the establishment of a new trading company, and the reorganization of the Central Bank, public finance and external debt management, and credit policy. The Fund's activities also supported the reduction in public sector employment levels, improved operating efficiencies, and the promotion of private sector activities. Under the program the GOG agreed to implement several measures to strengthen public finances while limiting domestic consumption.

As part of the program, the GOG adjusted its exchange rate and, based on the currency devaluation, increased the official price paid by consumers for rice and petroleum products. The banking system was reformed with the closure of the six state banks and the opening of three limited service commercial ones. The Central Bank was reorganized, with technical assistance from the IMF. As part of the exchange rate adjustment, a currency auction system was initiated by the Central Bank for the buying and selling of foreign exchange. The rate is set weekly based on bids submitted by importers through their commercial banks. The rate for the importation of commodities by the government and mining sectors and GOG rice imports was set at 300 GF/\$1.00. The two rates were merged into one foreign exchange auction set rate on June 1, 1986. A three year budget was established. Growth rates during the life of the budget were assumed to rise from 3% of GDP in 1986 to 4.5% in 1988. Inflation is expected to fall from 50% in 1986 to 10% in 1988. The status of state-owned enterprises is under review with only public utilities and commercially viable entities scheduled to be retained. The others are to be sold to the private sector or closed.

The immediate effects of the IMF program are only just beginning. The first Fund review of the GOG's compliance with the program was completed in May 1986. Although the GOG had made more progress than anticipated the difficult problem of maintaining the reform momentum remains.

## 2. World Bank Structural Adjustment Program

The World Bank Structural Adjustment Program, \$25.0 million, and the Africa Facility Credit, \$17.0 million, were approved in February 1986. This \$42 million program supports the economic reform program with an emphasis on expanding economic activity while the reform measures are being implemented. The Structural Adjustment Credit Program is focused on economic liberalization and reform of public administration and public enterprises. The Program supports policy reform including the eventual complete decontrol of agricultural prices, a revision of the banking sector, the simplification of tariff and customs procedures, and the provision of increased incentives for private investments and commercial activities.

Public sector administration is to be reorganized and reduced. The civil service reform exercise, a major element in the eventual reduction of official expenditures, began in October 1985 with the start of the census. In January 1986 salaries were adjusted upward, partially to offset the loss of purchasing power resulting from the devaluation. All civil servants received increases in cost of living and transportation allowances at that time. A second increase in allowances occurred in March. These increases effectively doubled the average monthly government wage to 12,000 GF, the equivalent of less than \$40. Substantial salary increases occurred in June 1986 with others planned for those who remain after the civil service competency testing and reform program are completed later this year. Total civil service levels are expected to decrease by 20,000 by the end of 1986 to approximately 65,000.

In conjunction with the IMF and other donors, the World Bank assistance aims to support the opening of the economy to the private sector and reduce government expenditures through the closure of inefficient state enterprises and civil service reform. The Structural Adjustment Program is designed to help the GOG to: (1) implement appropriate monetary and exchange rate policies; (2) adjust prices and open the economy to agricultural policy and tariff reform; (3) improve the environment for private sector investment and restrict public sector investments; and, (4) implement public sector reform measures. Specific actions and timetables were established for the accomplishment of these goals. Discussions are presently underway about the need to diversify the Guinean economy. The world demand for bauxite forecasts stagnant or falling demand through the end of this decade. The basic strategy for medium to long-term development is seen as lying in the rapid growth of non-bauxite exports, especially gold and agricultural exports. The Bank is also assisting the GOG's efforts to prepare for the Consultative Group meeting scheduled for December 1986. The GOG, in conjunction with

the World Bank, will present its analyses of its medium term prospects and requirements for development assistance needs starting in 1987. Additional aid from the donor community will be requested at that time.

### 3. Other Donors

The Japanese announced in March 1986 that they will provide \$28.6 million of untied loan funds in support of Guinea's structural adjustment program. These funds, part of Japan's special joint financing with the World Bank's Africa Facility, are designed to support the GOG's effort to more efficiently use foreign exchange, to adjust agricultural producer prices, and to promote exports and the privatization of public enterprises. An additional \$3 million for highway maintenance equipment were also provided.

France signed a \$26.7 million agreement with the GOG in September 1985 to immediately provide \$13.3 million of quick disbursing assistance. Included in this assistance were funds to finance the importation of essential foods on favorable terms to ensure that an adequate supply was on-hand at the time the reforms were announced. The remaining \$13.3 million were made available when the World Bank funds became effective in February 1986.

Other donors planning to provide direct support to the structural adjustment program include West Germany, \$9.4 million and Switzerland, \$4.8 million.

## III. PROGRAM DESCRIPTION:

### A. Rationale and Major Problems toward which Program is Directed

Guinea is embarking upon the most ambitious and far reaching economic reform program in Africa. Twenty-five years of economic mismanagement are being swept away and replaced by a market oriented political, economic and legal framework. This program is focused on liberalization of the economy, the redirection of agricultural production into official channels, and the disengagement of the state from economic activities that can be better performed by the private sector. Support for these reforms is the basis of the Guinea AEPRP, with particular emphasis on (1) liberalization of market operations, (2) creation of an improved economic environment for private sector investment, and (3) creation of an efficient and effective credit and monetary system which meets the needs of the rural economy.

The reforms are needed to ensure the free and efficient operation of the private sector in all aspects of agricultural production. The GOG has not only already committed itself to these reforms, it has begun to implement parts of them. The proposed reform measures are also incorporated into the PL-480 Title I program and in the overall structural adjustment and stabilization programs of the IBRD and IMF.

In more specific terms, the liberalization and privatization of rural trade will address the following major problems.

### 1. Marketing of Agricultural Inputs

A state owned enterprise, SEMAPE, has been responsible for importing and distributing agricultural production inputs. Nearly all distribution has been provided to state farms. Agricultural equipment is imported by AGRIMA, another state enterprise. Both are under the Ministry of Rural Development. Both formerly held monopolies as importers and distributors. Their operations have been highly subsidized and performance was abysmal. AGRIMA, the larger, has agents and distribution points outside of Conakry. SEMAPE, without employees and distribution points outside of Conakry, relies on AGRIMA and other state entities to distribute its products. Both suffer from lack of competent management and transport; complex and inefficient ordering and inventory procedures; lack of responsiveness to customer needs; insufficient financial resources; and, in the case of AGRIMA, excessive concentration of employees in Conakry. The World Bank's 1984 sector review estimated that the combined average annual turnover of SEMAPE and AGRIMA amounted to only \$7 million between 1978 and 1982.

At present, AGRIMA and SEMAPE are barely operating. SEMAPE-supplied fertilizer is available in modest quantities in the Fouta and coastal regions. AGRIMA still has left-over spare parts inventories in evidence at various locations. Its local directors are attempting to order at least basic hand tools in response to farmer inquiries, but they do not expect to be able to meet demand. There is no properly functioning input distribution system operating through the country.

With the assistance of the donor community, the GOG is working toward a private sector supply and distribution system. To do so, the GOG recognizes and has agreed, that input prices at the farm level should fully reflect the cost of purchase, or, in the case of seeds, of production. However, there is limited demand for and experience with inputs among farmers with the exception of plantation owners in the coastal region and those farmers reached

by donor projects. Historical consumption data is of little significance, since prices, for what little was available in the past, were very highly subsidized. Both SEMAPE and AGRIMA are presently under review by the Ministry of Rural Development officials and World Bank financed consultants. A decision on their future, based on the consultants recommendations, is expected in mid-1986. Their immediate future depends, however, on the willingness of the private sector to expand its trade activities to include the import, distribution, and sale of agricultural production inputs. The continued liberalization of the economy with its emphasis on increased private sector activities and the increased availability of domestic credit are critical to the privatization of these enterprises.

## 2. Marketing of Agricultural Products

In the past, state enterprises and the parallel market dominated agricultural produce marketing. Two enterprises, PROSECO, coffee and palm kernel, and FRUITEX, fruits, held monopolies in the export of cash crops until December 1985. Since then, they have continued to operate in competition with the private sector. Although neither is equipped to fulfill its role, because of lack of equipment and staff in rural areas and insufficient financial resources, they have considerable experience and clients for their exports. All monopoly rights for marketing of agricultural produce have been eliminated. However, the private sector needs a policy framework and resources to provide the incentives to assume functions previously reserved for state enterprises.

## 3. Private Trade

A fundamental characteristic of the Guinean trading class is its creativity and flexibility. This group has been able to import, distribute, and sell consumer goods at the retail level without access to domestic credit or import licenses. Particularly in light of the monopolistic nature of the former state commercial system, and the hostile credit and banking environment, informal trading patterns and practices with neighboring country suppliers were reinforced as time went on, at the expense of direct dealings with industrialized country suppliers within Guinea's borders. Estimates of illegal exports ranged from \$100 million to \$250 million per year. It is expected that informal trade will be reintegrated within the Guinean economy as currency becomes fully convertible and as banking and regulatory systems prove that they are able to support officially recorded trade at reasonable cost. The further expansion of private trade activities are constrained, however, by lack of access to domestic credit.

#### 4. Banking and Credit

Since 1965, the private sector of the Guinea economy had virtually no access to credit from the country's financial institutions. Ninety-five percent of lending was concentrated on the public and parastatal sectors. The provision of rural credit was the responsibility of the National Agricultural Development Bank (BND). What credit that was available was exclusively directed to state and party controlled collective farming activities. BND operations suffered from lack of field offices and staff, inappropriately trained staff, and lack of funds. Until late 1985, the banking sector was entirely state owned apart from one small private Islamic bank. All six of the state banks were, in practice, non-functional due to declining assets and lack of liquidity as a result of poor management and gross over-staffing. All state banks have now been replaced by three new private banks established with foreign partners.

The new banking system is already beginning to "unofficially" provide credit to the private sector to finance the import of consumer goods. This short-term credit is limited and does not meet present demand. Shortages of working capital, both domestic and foreign, remain. Medium and long term credit will be needed if investors are to finance more productive activities. The start of an active domestic credit program is hindered by the lack of a credit policy and a legal framework for the creation of liens and other forms of binding obligations. In order to ensure that funds are made available to the private sector, while strengthening the new banking system, certain fundamental reforms are required.

#### B. Program Description

The purpose of this program is to support the GOG's structural adjustment program with primary emphasis on liberalization and privatization of trade in rural areas. The \$10 million ESF grant will be disbursed in two tranches to support the following specific reforms: (1) unrestricted private sector rights to import, sell and distribute agricultural production inputs, including the eventual disengagement of the state from these activities; (2) free and open trade in the marketing, purchase, sales and/or export of all crops; (3) removal of all government subsidies on sales of agricultural production inputs; (4) enunciation of a comprehensive credit policy, including specific guidelines for short, medium and long-term credit; and (5) promulgation of revised commercial and investment codes which will permit participation for all segments of the private sector.

These dollars will help fill a serious balance of payments deficit, thereby providing Guinea with some of the foreign exchange resources it needs to reactivate the private economy. The dollars will be made available to private sector importers through the new auction system. Also, in order to encourage and liberalize the privatization of trade in rural areas, the Government will make an equivalent amount of local currency available to provide commercial credit to private traders and entrepreneurs.

The AEPRP supports the economic reforms already begun by the GOG with IBRD and IMF assistance. These reforms aim to liberalize all aspects of economic activity, and over the longer term will lead to increased agricultural production, diversified export earnings, and a private-sector led economy. The interrelationship between the AID, IMF, and IBRD programs in the three areas of credit and monetary policy, liberalization of market operations, and improved economic environment for private sector investment is a key element of the AEPRP. For example, in the area of credit and monetary policy, the ongoing IBRD and IMF programs have joint conditionality concerning credit and money supply ceilings; over the longer term, the AEPRP and IBRD's SAC II will include conditions on specialized banking functions and credit policy. In the area of liberalization of market operations, the on-going IBRD program has conditionality related to the quarterly adjustment of rice prices to reflect import prices and exchange rate fluctuations, the review of supply and distribution of agricultural inputs and preparation of an action program to ensure adequate 1986-87 supply of inputs, and the decontrol of producer prices; the AEPRP and IBRD's SAC II will include conditions to promote take-over by the private sector of all input supply and marketing activities and the elimination of parastatals engaged in these activities. In the area of improved economic environment for private sector investment, the IBRD SAC and AEPRP will include conditions related to the promulgation of revised investment and commercial codes, as well as the review of the investment environment and incentives to the private sector.

The reform objectives under the AEPRP will be implemented through three interrelated mechanisms; ESF Dollars; DA Technical Assistance; and Local Currency.

#### 1. ESF Dollars

Dollars disbursed under this program will help fill a serious balance of payments deficit thereby providing Guinea with some of the foreign exchange resources it needs to reactivate the private economy.

Mechanism of Disbursement: The dollars will be disbursed in two tranches of \$5 million as mutually agreed upon conditions are met. (See Page 28 for a description of the Conditions Precedent.) The dollars will be deposited into a U.S. bank account of the Central Bank of Guinea. The GOG will increase the amount of foreign exchange made available to the public at the weekly currency auction at a level at least equivalent to that of the dollar disbursement.

Uses: The dollar disbursement will constitute badly needed balance of payments support, and will enable an increased flow of foreign exchange to facilitate private trade.

Implementing Institutions: Foreign Exchange will be sold during the weekly auction held at the Central Bank. The system operates as follows. An importer obtains an import license from the Central Bank. With this license, the importer requests foreign exchange from his commercial bank and tells the bank how much he is willing to bid in Guinean franc that week for Foreign Exchange. Representatives of the commercial banks, the Central Bank, and the IMF meet each Friday to review the bids and to establish the rate for the week. The rate is fixed based upon the bids that week and the available supply of Foreign Exchange. The minimum amount that can be purchased through the auction is \$10,000 equivalent.

Foreign Exchange Auction  
Actual Operations  
(U.S. Dollars)

Date	Sold	Bought	Rate
1/28/86	721,000	-	355
1/31/86	96,800	-	370
2/7/86	33,526	-	365
2/14/86	502,382	225,000	370
2/21/86	666,000	-	350
2/28/86	684,960	-	340
3/7/86	1,675,000	-	340
3/14/86	370,000	-	345
3/21/86	518,860	-	345
3/28/86	1,024,197	240,000	350
4/4/86	844,900	-	360
4/11/86	249,605	-	365
4/18/86	1,411,170.59	28,000	355
4/25/86	1,060,268	1,951	345

Source: Central Bank of Guinea

During the past three months, \$10 million equivalent were sold, with \$1.1 million exchanged during the week of April 24. This reflects a growing confidence in the mechanism of the auction system which now competes favorably with the parallel exchange markets. It is important to note that the GOG plans to implement a more flexible currency auction system wherein purchasers can obtain foreign exchange in a manner similar to the letter of credit process. Foreign exchange purchasers would make a significant margin payment, then pay a second installment upon receipt of Bill of Lading, and a final payment within 120 days. This procedure should stimulate auction sales of foreign currency.

## 2. Technical Assistance

\$2,500,000 of Development Assistance funds will be obligated under a separate project for technical assistance to support the policy reform objectives of this program. The TA will be used for analyses of agricultural commercialization, inputs privatization, market liberalization, credit and banking, fiscal policy, civil service reform, and other issues related to structural adjustment and the objectives of this program. Funds will also be used for training and monitoring and evaluation of the program.

## 3. Local Currency

Liberalization and privatization of trade in rural areas is the primary objective of this program. Dollars under the AEPRP will help to put into place the policy and institutional framework which are needed to promote such liberalization. However, this will not be sufficient. It is not yet clear how quickly the private sector can move to fill the void left when the state withdraws from the marketing and distribution of agricultural inputs and production. One key constraint to increased private sector participation is capital. Therefore, the GOG has agreed to make available \$10 million equivalent of Guinean Francs to the new commercial banking system for credit to traders and entrepreneurs.

Origin: The GOG will agree at the time the dollars are disbursed to deposit the local currency equivalent of the funds into its Special Account at the Central Bank within a period of six weeks.

Local Currency Uses: Since the private sector has been denied full access to credit during the past twenty years, the demand for credit cannot be precisely quantified. Observations of the Guinean economy and present private sector activities make it safe to assume that initial credit demands will be for short-term

loans to finance the import of consumer goods and food, especially rice and other essential commodities. Based upon the requests for foreign exchange from other donor lines of foreign exchange credit, there should be considerable demand for funds to finance domestic transport, bakeries, construction equipment and supplies, materials and equipment to assemble or manufacture agricultural equipment, tools, and inputs, repair shops and garages, agro-industrial activities, e.g. feed and flour mills, and service industries. The Special Local Currency Account funds will be lent for potential productive endeavors except housing in Conakry during the first twelve to eighteen months of the program. The lending program will be reviewed during the interim evaluation. Should the evaluation justify further restrictions on the types of loans approved, the program will be modified at that time. The minimum and maximum size of the loans financed by this program will be determined by the commercial banks. Illustrative uses of credit include:

- Short-term credit to finance the trading and distribution of local goods and services of all kinds, provided that they are linked to productive investment. Credit will not be available to finance non-productive enterprises such as urban housing. Credit for the purchase of construction materials for rural or secondary city housing is acceptable, however, since such housing would provide incentives for investment in the rural sector.
- Short-term credit to finance the purchase, collection and/or transport of export crops for sale overseas.
- Short-term credit for the purchase of foreign exchange in the auction to import agricultural inputs. This form of credit depends upon the willingness of the GOG to allow commercial banks to extend credit for the purchase of foreign exchange through the auction mechanism.
- Medium, long term or equity financing to small and medium enterprises who qualify for foreign currency lending under one of the IBRD/EDF/CCE lines of credit, but who also require local currency financing, as is often the case. Such loans, or equity financing, will be a useful complement to the foreign currency loans, and their prospective availability has already been warmly welcomed by the representatives of those agencies. Medium term credit will also be available for land development.

transportation through such country of narcotic and psychotropic drugs or other controlled substances, and (c) the use of such country as a refuge for illegal drug traffickers?

3. FAA Sec. 620(c). If assistance is to a

No.

Implementing Institutions: The Central Bank will extend credit to each of the three participating private commercial banks, the BICIGUI, the SGBG, and the BIAG. These commercial banks will, in turn, lend to private borrowers at prevailing interest rates based upon criteria provided by the Central Bank, as agreed upon by AID.

Credit will be extended directly from the Central Bank to the commercial banks. Although interest rates have not yet been established by the Central Bank, rates in Guinea are initially expected to be 1 - 2 percentage points above UMOA rates. These rates, as of March 1986, were:

Preferential Discount Rate - 7.0% for agricultural planting season loans, primary residence housing, and government operations. The rediscount margin on the preferential rate is 3.5%.

Normal Discount Rate - 9.5% for all other loans with the rediscount rate margin between 3.5 and 5.5%. In actuality the banks use 5.5%.

All three banks are staffed and managed by professionals with African experience. Management contracts have been negotiated with BIAO, the BNP, and the Societe Generale for the BIAG, the BICIGUI and the SGBG respectively. Each of the three commercial banks have expressed their willingness to participate in the program. The BICIGUI is particularly interested, but has specifically requested that the participation in the program be shared with other banks, given the extent of its ongoing and projected responsibilities and commitments. SGBG, the most aggressive in providing "unofficial" credit to its clients, requested technical assistance to help review loan applications and manage subsequent loans.

#### 4. Financial Plan and Disbursements

Budget Category	U.S. \$000	
	FY 1986	FY 1987
	5,000	5,000

#### C. Implementation Schedule

The program implementation schedule below assumes that the PAAD will be authorized by AID/Washington in July 1986.

South Yemen? Will assistance be provided to Afghanistan without a certification?

6. FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction by mob action of U.S. property?

<u>Action</u>	<u>Month/Year</u>
Grant Agreement(s) negotiated and signed	8/86
GOG enlists and assures participation of private commercial banks in loan program	8/86
GOG establishes Special Account in Central Bank for local currency	8/86
GOG meets Conditions Precedent for first tranche ESF disbursement and DA disbursement	9/86
First tranche dollar funds (\$5 million) is released to Central Bank	9/86
First tranche dollar funds sold at auction	9-11/86
U.S. firms work with GOG and private banks to develop criteria for lending eligibility and reporting format. Credit policy reviewed.	10/86
GOG deposits local currency equivalent in Special Account	10/86
Private Commercial Banks begin to process and approve loan applications	10/86
GOG provides AID with progress report on evaluation of revised, comprehensive credit policy	
GOG provides quarterly progress report on foreign exchange sales and counterpart disbursement and each quarter thereafter	1/87
U.S. private accounting firm appraises commercial lending process and credit policies reviewed	2/87
GOG announces elimination of subsidies on agricultural production inputs	3/87
GOG issues new Commercial and Investment codes	3/87
GOG announces a set date for the disengagement of the state from the sale and distribution of all agricultural inputs	4/86

GOG elimination of all parastatals engaged in the import and distribution of agricultural production inputs and export of cash crops	5/87
GOG issues revised guidelines for short, medium and long term credit	5/87
All conditions precedent and covenants are satisfied	6/87
Second Tranche dollar funds are sold at auction	6-8/87
Deposit made to Special counterpart loan fund	8/87
Interim Evaluation	9/87
U.S. private accounting firm conducts follow-up visit to assess credit management. Credit and lending policies due.	9/87
All counterpart funds cycled at least once in form of productive credit	3/88
Final Program Evaluation	4/88
Retrospective repayment analysis conducted	4/89

The local currency credit fund will continue to function on basis of reflows indefinitely beyond PACD. AID may wish to contribute to this fund depending upon the success of lending activities and loan repayment rates, using various sources of counterpart funds (PL 480, etc.).

D. Conditionality

1. Conditions Precedent

The Program Agreement will call for the following special conditions related to implementation of the reform program.

30

a. First Disbursement:

Before the disbursement of the first tranche of funds (five million dollars), the Grantee will, in form and substance satisfactory to A.I.D.:

i. Show evidence that the commercial banks have agreed to participate in a private sector credit program financed by the Special Local Currency Account established in the Central Bank.

ii. Open a special account in the Central Bank and agree, in writing, to deposit the local currency equivalent of the dollars provided in the first tranche at the time the dollars are made available.

iii. Show evidence that agricultural inputs sold by state enterprises will be priced at import-parity or above.

iv. Submit a time-phased plan for the disengagement of the state from the sale and distribution of all agricultural inputs including fertilizer, seed, agricultural equipment and machinery.

b. Second Disbursement:

Prior to disbursement of the second tranche of funds (five million dollars), the Grantee will, in form and substance satisfactory to A.I.D.:

i. Issue revised commercial and investment codes which eliminate inconsistencies between the codes and assure full equity to all segments of the private sector participating in the national economy.

ii. Eliminate all parastatals engaged in the import and distribution of agricultural production inputs, AGRIMA and SEMAPE, and the export of cash crops, PROSECO and FRUITEX.

iii. Announce its time-table for eliminating policy of establishing official producer and consumer prices.

iv. Show evidence that it has complied with covenant (e), by not permitting release of any funds from the special local currency account until a comprehensive credit policy, acceptable to AID, is formally issued.

## 2. Special Covenants:

The Grantee covenants to:

a. Provide to the Central Bank of Guinea for sale at its weekly foreign exchange auctions an amount of foreign exchange equal to the Dollar disbursements under this Grant.

b. Establish a Special Local Currency Account in the Central Bank of Guinea and deposit therein in Guinean local currency an amount equal to the dollar disbursements made under this Grant. Such deposits are to be made simultaneously with each disbursement of U.S. Dollars to the GOG.

c. Maintain a program for publicizing the regulatory and administrative changes agreed upon herein that are of interest to the business community, e.g. the adoption of a comprehensive credit policy, the adoption of the Tax and Customs Code, and the availability of loans to private entrepreneurs from the Special Local Currency Account.

d. Not reverse, discontinue, or otherwise impede any action taken in satisfaction of any condition precedent to the initial or second disbursement under this Grant, except as the parties may otherwise agree in writing.

e. Prohibit release of any funds from the special local currency account until a comprehensive credit policy, acceptable to AID, is formally issued.

## 3. Reporting

In order to allow effective assessment and evaluation of the use of both dollars and local currencies, the Government of Guinea will agree to the following:

1. following disbursement of each dollar tranche, the GOG will provide AAO/Guinea with a weekly summary of foreign exchange auction sales. Since the U.S. Government dollar contribution will be comingled with other funds, it will not be possible to precisely track the U.S. Government contribution. U.S. source and origin requirements will therefore not apply. It is essential, however, that private sector demand for foreign

exchange so that AID can monitor the global utilization of convertible funds.

b. Each of the private commercial banks participating in the domestic lending program will provide the Central Bank with a quarterly report outlining:

- a. number of applications received
- b. number of applications processed
- c. detailed citation of applications approved including:
  - amount of loan
  - recipient of loan
  - terms of loan
  - purpose of loan
  - status of repayment
  - outstanding problems

The Central Bank will, in turn, provide AID with a quarterly aggregate recapitulation, appending each of the commercial bank quarterly reports. It will also provide, as a courtesy to AID, an annual report of aggregate lending activities from both the special currency account and convertible currencies.

#### E. Mission Management

The AID Affairs Office in Guinea will have primary responsibility for managing implementation of the Grant. Within USAID/Guinea, the Program Office will have responsibility for program and project management. REDSO/WCA will provide assistance when called upon. Given the present and projected staff levels in Guinea, the program is designed so that additional help to manage the program will be provided through a technical assistance Grant. The consultants will also assist the AAO/Guinea staff in the overall monitoring and oversight of the program. The technical assistance will be coordinated with other donor technical assistance to the banking sector, including World Bank, EEC, and Caisse Centrale lines of credit to private entrepreneurs through commercial banks.

#### F. Evaluation Plan

The mid-term evaluation, scheduled to occur twelve months after the disbursement of the first tranche, will examine progress in implementing reforms related to the program objectives, as well as

review progress of the credit program. The mid-term evaluation will be conducted by USAID/Guinea, GOG, and contractor personnel. The evaluation will assess the the impact of the credit program on trade privatization and liberalization in the rural sector, review and assess the loan operations of the commercial banks, assess the success of the policy changes, and make recommendations on the need for additional reforms (if any) to achieve the long-term program objectives. An external financial audit of the credit program will be part of the interim evaluation.

The end of program evaluation, scheduled for twelve months after the disbursement of the second tranche, will concentrate on analyzing the overall program including impact of policy reforms and the effectiveness of credit interventions. Particular emphasis will be placed on analyzing commercial bank loan portfolios including information on the type, size, number, borrowers, and performance of loans, the impact of the credit program on increased private sector production and marketing activities, and any other specific studies that will help improve the program's overall performance in Guinea.

The indicators for measuring achievement of program goals and purpose include:

- status of AGRIMA and SEMAPE;

- disengagement of the State from agricultural marketing, distribution and sales of inputs;

- status of the commercial and investment code;

- status of guidelines for commercial credit;

- whether or not credit reaches an increasing portion of the private sector in rural areas;

- the percentage of loans from branch banks;

- the amount of credit being used for inputs and marketing;

- increased overall use of modern inputs and cash crop marketing;

- increased market activity in rural areas, e.g., the changing quantity of production moving in local and Conakry markets.

increased availability of consumer goods in rural areas.

increase in productivity and incomes in the private sector in rural areas.

commercial banks ability to substantially recover loans and interest.

#### IV. FEASIBILITY ANALYSES

##### A. Institutional Analyses

1. Banks: The present banking system in Guinea is less than two years old. It consists of the Central Bank, three limited service commercial banks, and one Islamic bank. The commercial banks began operating in 1985. The Central Bank is undergoing a complete reorganization. Technical assistance and staff from the Central Bank of France have been on-board since 1985 to help with the reorganization and training of personnel as well as to provide technical assistance in the areas of fiscal and monetary policy. The Government has recently increased the Bank's autonomy to isolate it from domestic pressures and to strengthen its ability to function as a tradition Central Bank. The present staff needs additional training in economics, finance, and public service management.

The commercial banks consist of BIAG, BICIGUI, and SGBG. BIAG which opened in August 1985 is a joint venture between the Guinean Government, 51%, the Banque Internationale pour l'Afrique Ouest, BIAO, 34%, and Societe Financiere pour les Investissements et le Developpement en Afrique (SIFIDA), 15%. Banque Internationale pour le Credit et l'Industrie en Guinee, BICIGUI, is a joint venture among the GOG, 50.7% financed by the IFC and the European Development Bank, the Societe Financiere des Pays d'Outre Mer l'd by Banque Nationale de Paris, Banque Bruxelles-Lambert, Dresdner Bank, and Bank of America, 20%, and 29.3% from the IFC, the Caisse Centrale, (France), European Development Fund, and the German Economic Development fund with the African Development Bank expected to become a shareholder. Societe Generale de Banque en Guinee is owned by Guinean private shareholders, 45%, with the remaining 55% owned by European banks led by Societe Generale, (France), Credit Suisse, Banca Nazionale del Lavoro, (Italy), and Bayerische Vereinsbank, (Germany). BICIGUI and SGBG opened ahead of schedule in December 1985 in order for all three to be in operation in time for the currency exchange operations which occurred at the beginning of January 1986. As a result, the banks are inexperienced and untested.

The lack of interest rates and credit policy has precluded bank lending activities. There was, however, unofficial lending earlier this year when BICIGUI lent funds at 9% to the Central Bank for relending at 11% to SGBG for loans by SGBG, at 13% to private coffee traders. There is little information about the demand and no experience with loan approvals or loan portfolio management. The banks have, however, provided a wide range of services from which they have made considerable profits from the fees charged. These activities include currency exchange, overseas draft collection, payment transfers, etc. The high fees charged clients for these services reflect the high cost of operating in Guinea including the country's communications isolation from the outside world. Staff development is needed. All the banks decided not to hire any of the staff from the closed state banks. As a result, all the Guinean staff are inexperienced and will require considerable training and supervision. Although present banking activities are only in Conakry, BICIGUI, required by the GOG to open nine branches in rural areas by 1988, plans to open all nine this year. This decision reflects the bank's interest in extending credit into rural areas. SGBG is also exploring possibilities for rural branches.

Technical assistance is provided by the institutional bank shareholders along with IBRD, FED, and Caisse Centrale financed consultants. The recent start of operations and lack of activity outside of Conakry means that much remains to be done in developing the staff analytical and managerial capabilities required if the system is to grow and expand. The currency exchange operation was carried out smoothly by the banks. Services provided, given the communications problems, are adequate for the present time. However, it will be several years before the banking system in Guinea is able to function without technical assistance.

## 2. Public Sector Institutions

The weakness of Guinea's economic performance can be attributed to a large extent to the weakness of its civil service and the institutions charged with managing the economy. The economic reform program presently underway requires skills and experience beyond the limited capability of GOG institutions. Under the previous regime, the role and powers of various ministries were seriously eroded with decisions about the allocation of government revenues and resources increasing centered in the President's office. There was no formal consultation with the concerned ministries on the budget or the public investment program. National development plans were adopted without a complete assessment of the economy and the country's needs with most of the projects included mainly because financing appeared to be available

whether or not they contributed to economic development objectives. The analyses that did occur did not contain rigorous technical and financial assessments. This can be explained in part by the absence of basic statistical and other data, at central and technical ministry levels, which greatly hampered economic planning as well as the initiation and implementation of the reform process. The lack of reliable data base and systematic data gathering precluded the conduct of sound policy analysis and program development. There are few written procedures and those that exist are antiquated.

Government institutions also suffer from a scarcity of trained personnel with many civil servants lacking the training, experience, and exposure to ideas outside of Guinea and socialist countries. This isolation, combined with the general decline in educational standards, means that Guinean civil servants are, in general, unable to propose policies and analyze their impact. Inadequate incentives from the present low salary scales, high absenteeism, low productivity, and a history of lack of reward for initiative have compounded the problem. In addition, office space, materials, and basic supplies are scarce. The previous government recognized this problem and started to search for ways to improve the situation. Progress has been slow given the reluctance of the previous government to modify institutions. The new government has acted boldly in this area in the context of the economic reform program. The present leaders are aware that the capacity for planning needs to be developed along with strengthening the capacity for economic management and stronger control over revenues and expenditures. As part of the initiation of the reform program, the functions, structure, and operations of the Ministries of Planning and International Cooperation, Finance, and Rural Development and the Central Bank were reviewed and a complete overhaul begun with assistance from the IRBD and IMF. However, if the present reform program is to lead to sustained economic growth, the performance of the entire civil service must be improved. The GOG recognizes this and will use the experience gained during the implementation of the economic reform program to make further adjustments to strengthen the Guinean institutions responsible for economic management as well as other key ministries.

### 3. Private Sector,

The private sector in Guinea was not allowed to operate openly until the late 1970's when the GOG, recognizing the inability of state enterprises to meet the demand for consumer goods in Conakry opened commercial activities to private traders. The activities in the sector are chiefly composed of the importation of bulk food commodities, consumer goods, both mass consumption and luxury

items, domestic transport, construction, and small manufacturing. In spite of the difficulties faced by the sector, e.g. unfair competition from the monopolistic and inefficient state commercial system, lack of access to foreign exchange, and hostile public servants, it has expanded and grown. There remains, however, considerable room for growth.

The complete withdrawal of the GOG from the importation of food, except for rice, and consumer goods has provided the additional impetus to the expansion of the private sector. The elimination of all price controls, except for rice and petroleum products, also encouraged greater participation. Present trading activities in consumer goods are highly profitable. These commodities have proven to have a quick turn-over, virtually no risk, and require little marketing. Private sector activities are, however, hampered by the lack of experience, information about market demands, and outside of Conakry, by lack of adequate transportation. The continued growth of the Guinean private sector remains high with traders organizing themselves to influence government policies affecting them, undertake more sophisticated transactions, secure funding for imports, to compete with returning French businesses, and to take advantage of the new opportunities resulting from the economic reform program.

Attitudes toward the private sector will be an underlying concern throughout implementation of the program. Free market competition remains a controversial issue in Guinea with many, including senior decision makers, continuing to hold views that range from ambivalent to hostile toward the private sector. Although the Guinean private sector has shown surprising strength and vitality, it will be difficult, under the best of circumstances, for a thriving private commercial sector engaged in activities outside of construction and the trade of consumer goods to emerge in the next few years without help. As confidence in the reform program rises, more private individuals can be expected to take advantage of growing demands in the market.

#### B. Relationship to Other Donor Policy Programs

The IBRD has had a line of credit available since 1980 for loans to rehabilitate new or existing SMEs engaged in industrial, agro-industrial, or agricultural activities. The loans will finance the importation of machinery and equipment for these areas. Approximately \$9 million were made available but the rate of loan commitments and disbursements have been disappointing. The slow rate of disbursement is due as much because of the IBRD's administrative procedures which required Washington approval for the loans and the lack of demand for the funds prior to the

initiation of the reform program. The lending risk is borne by the project. The interest rate paid by the borrower is shared by BICIGUI, 3% for its management and administrative fee and 10% paid to the GOG to a Special Central Bank account. The local currency account will be converted to foreign exchange when repayment is due the IBRD and serves as a buffer against loan default. The GOG bears the foreign exchange risk.

The European Development Fund's 4.1 million ECU line of credit has is similar to that of the IBRD. Borrowing terms are softer, 8% with 3% to BICIGUI and 5% to the GOG. The GOG bears the credit risk. The FED also provides a development finance expert to work with the BICIGUI to help implement the program.

The Caisse Centrale de la Cooperation Economique line of credit program is currently being designed. Based on discussions with Caisse officials in Conakry, the program appears to be similar to those of the IBRD and FED. The Caisse program will, however, differ in an important way since it plans to require the participating banks to share a degree of the risk of lending the foreign exchange funds, 20% versus 80% for the Central Bank. All three commercial banks will participate in the program and will receive 3% management fee and 2% interest margin on the loans. Interest charged to the borrower will be 10% with the GOG receiving 5%. Development finance experts will be seconded to the banks from the Caisse to help with the implementation of the program.

The three credit programs will provide foreign exchange to the private sector. These programs plus previously existing sources of foreign exchange should provide most private entrepreneurs with access to foreign exchange. There remains, however, a shortage of local currency credit. The disbursement of IBRD and FED program funds have been hampered by the lack of domestic credit needed by many of the businesses to meet current expenses and to make local purchases. The proposed AEPRP will help address the problems of lack of access and availability of domestic credit.

## 5C(1) - COUNTRY CHECKLIST

Listed below are statutory criteria applicable generally to FAA funds, and criteria applicable to individual fund sources: Development Assistance and Economic Support Fund.

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FAA Sec. 481(h)(1); FY 1986 Continuing Resolution Sec. 527. Has it been determined or certified to the Congress by the President that the government of the recipient country has failed to take adequate measures or steps to prevent narcotic and psychotropic drugs or other controlled substances (as listed in the schedules in section 202 of the Comprehensive Drug Abuse and Prevention Control Act of 1971) which are cultivated, produced or processed illicitly, in whole or in part, in such country or transported through such country, from being sold illegally within the jurisdiction of such country to United States Government personnel or their dependents or from entering the United States unlawfully? No
  
2. FAA sec. 481(h)(4). Has the President determined that the recipient country has not taken adequate steps to prevent (a) the processing, in whole or in part, in such country of narcotic and psychotropic drugs or other controlled substances, (b) the No.

transportation through such country of narcotic and psychotropic drugs or other controlled substances, and (c) the use of such country as a refuge for illegal drug traffickers?

3. FAA Sec. 620(c). If assistance is to a government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) the debt is not denied or contested by such government? No.
4. FAA Sec. 620(e)(1). If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities? No.
5. FAA Sec. 620(a), 620(f), 620D; FY 1986 Continuing Resolution Sec. 512. Is recipient country a Communist country? If so, has the President determined that assistance to the country is important to the national interests of the United States? Will assistance be provided to Angola, Cambodia, Cuba, Iraq, Syria, Vietnam, Libya, or

South Yemen? Will assistance be provided to Afghanistan without a certification?

6. FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction by mob action of U.S. property? No.
7. FAA Sec. 620(l). Has the country failed to enter into an agreement with OPIC? No.
8. FAA Sec. 620(o); Fishermen's Protective Act of 1967, as amended, Sec. 5. (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing activities in international waters? No.
- (b) If so, has any deduction required by the Fishermen's Protective Act been made? Not applicable.
9. FAA Sec. 620(q); FY 1985 Continuing Resolution Sec. 518. (a) Has the government of the recipient country been in default for more than six months on interest or principal of any AID loan to the country? (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the appropriation bill (or continuing resolution) appropriates funds? No.
10. FAA Sec. 620(s). If contemplated assistance is development loan or from Economic Support Fund, has the Administrator taken into Not applicable.

account the amount of foreign exchange or other resources which the country has spent on military equipment?

(Reference may be made to the annual "Taking Into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.)

11. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption? No.
12. FAA Sec. 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears were such arrearages taken into account by the AID Administrator in determining the current AID Operational Year Budget? (Reference may be made to the Taking into Consideration memo.)
13. FAA Sec. 620A. Has the government of the recipient country aided or abetted, by granting sanctuary from prosecution to, any individual or group which has committed an act of international terrorism? No.

14. ISDCA of 1985 Sec. 522(b). No.  
Has the Secretary of State determined that the country is a high terrorist threat country after the Secretary of Transportation has determined, pursuant to section 1115(e)(2) of the Federal Aviation Act of 1958, that an airport in the country does not maintain and administer effective security measures
15. FAA Sec. 666. No.  
Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA?
16. FAA Sec. 669, 670. No.  
Has the country, after August 3, 1977, delivered or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan..)
17. FAA Sec. 670. No.  
If the country is a non-nuclear weapon state, has it, on or after August 8, 1985, exported illegally (or attempted to export illegally) from the United States any material, equipment, or technology which would

contribute significantly to the ability of such country to manufacture a nuclear explosive device?

18. ISDCA of 1981 Sec. 720. Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Assembly of the U.N. of Sept. 25 and 28, 1981, and failed to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the Taking into Consideration memo.)

19. FY 1986 Continuing Resolution Sec. 541.

Are any of the funds to be used for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions? No.

Are any of the funds to be used to pay for the performance of involuntary sterilization as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilizations? No.

Are any of the funds to be used to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning? No.

20. FY 1986 Continuing Resolution. Is the assistance being made available to any organization or program which has been determined as supporting or participating in the management of a program of coercive abortion or involuntary sterilization?

No.

If assistance is from the population functional account, are any of the funds to be made available to family planning projects which do not offer, either directly or through referral to or information about access to, a broad range of family planning methods and services?

Not applicable.

21. FY 1986 Continuing Resolution Sec. 529. Has the recipient country been determined by the President to have engaged in a consistent pattern of opposition to the foreign policy of the United States?

No

22. FY 1986 Continuing Resolution Sec. 513. Has the duly elected Head of government of the country been deposed by military coup or decree?

No.

B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria.

FAA Sec. 116. Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it

No.

be demonstrated that contemplated assistance will directly benefit the needy?

2. Economic Support Fund Country Criteria

<sup>4</sup>  
FAA Sec. 502B. Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the country made such significant improvements in its human rights record that furnishing such assistance is in the national interest?

No.

### 3(A)2 NONPROJECT ASSISTANCE CHECKLIST

The criteria listed in Part A are applicable generally to FAA funds, and should be used irrespective of the program's funding source. In Part B a distinction is made between the criteria applicable to Economic Support Fund assistance and the criteria applicable to Development Assistance. Selection of the criteria will depend on the funding source for the program.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? IDENTIFY. HAS STANDARD ITEM CHECKLIST BEEN REVIEWED?

#### A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

1. FY 1986 Continuing Resolution Sec. 524; FAA Sec. 634A.

Describe how authorizing and appropriations committees of Senate and House have been or will be notified concerning the project.

A Congressional Notification will be forwarded to Congress in July 1986.

2. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

The Conditions Precedent to disbursement and covenants contain requirements for the enunciation of domestic credit policy and the issuance of revised commercial and investment codes.

3. FAA Sec. 209. Is assistance more efficiently and, effectively given through regional or multilateral organizations? If so, why

No. The assistance is being provided directly to the GOG because of the U.S.'s desire to support certain policy reforms undertaken

is assistance not so given?  
Information and conclusion  
whether assistance will  
encourage regional development  
programs.

by the Government. The  
U.S. believes these reforms  
are necessary to the  
improvement of the Guinean  
economy.

4. FAA Sec. 601(a). Information and conclusions whether assistance will encourage efforts of the country to:
- (a) increase the flow of international trade;
  - (b) foster private initiative and competition;
  - (c) encourage development and use of cooperatives, credit unions, and savings and loan associations;
  - (d) discourage monopolistic practices;
  - (e) improve technical efficiency of industry, agriculture, and commerce; and
  - (f) strengthen free labor unions.

The Guinean EPRP is designed to support policy reforms that will encourage private sector development in the agricultural sector. As a condition precedent to receipt of assistance, the GOG must eliminate all subsidies to government-owned and operated agricultural institutions which give those institutions an unfair advantage in competition against the private sector. The GOG has also agreed to adopt a comprehensive credit policy, and Tax and Customs Codes that encourage private sector development.

5. FAA Sec. 601(b). Information and conclusions on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

A U.S. accounting firm will provide technical assistance under this Grant. In addition, the strengthening of the Guinean private sector will encourage U.S. investment in what was previously regarded as too risky and ill-defined an economic environment.

6. FAA Sec. 612(b), 636(h); FY 1986 Continuing Resolution Sec. 507. Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.

Not applicable under this assistance.

7. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and if so, what arrangements have been made for its release? No
8. FAA Sec. 601(e). Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? Yes, the selection of a Technical Assistance Contractor will follow AID-direct contracting procedures which require advertising and full and open competition.
9. FAA 121(d). If assistance is being furnished under the Sahel Development Program, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of AID funds? Not applicable.
10. FY 1986 Continuing Resolution Sec. 533. Is disbursement of the assistance conditioned solely on the basis of the policies of any multilateral institution? No.

B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

1. Nonproject Criteria for Economic Support Fund

- a. FAA Sec. 531(a). Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of part I of the FAA? Yes. It will promote economic stability by providing the foreign exchange required for Guinea's development and stability.
- b. FAA Sec. 531(c). Will assistance under this chapter be used for military, or paramilitary activities? No.

- c. FAA Sec. 531(d). Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106? Yes, local currencies will be used to provide loans to businesses in the agricultural sector in order to encourage increased food production and to move Guinea toward self-sufficiency in that area.
- d. ISDCA of 1985 Sec. 205. Will ESF funds made available for commodity import programs be used for the purchase of agricultural commodities of United States-origin? If so, what percentage of the funds will be so used? Not applicable.
- e. ISDCA of 1985 Sec. 801. If ESF funds will be used to finance imports by an African country (under a commodity import program or sector program), will the agreement require that those imports be used to meet long-term development needs in those countries in accordance with the following criteria? Not applicable.
- (i) spare parts and other imports shall be allocated on the basis of evaluations, by AID, of the ability of likely recipients to use such spare parts and imports in a maximally productive, employment generating, and cost effective way;
- (ii) imports shall be coordinated, with investments in accordance with the recipient country's plans for

promoting economic development. AID shall assess such plans to determine whether they will effectively promote economic development;

(iii) emphasis shall also be placed on imports for agricultural activities which will expand agricultural production, particularly activities which expand production for export or production to reduce reliance on imported agricultural products;

(iv) emphasis shall also be placed on a distribution of imports having a broad development impact in terms of economic sectors and geographic regions;

(v) in order to maximize the likelihood that the imports financed by the United States under the ESF chapter are in addition to imports which would otherwise occur, consideration shall be given to historical patterns of foreign exchange uses;

(vi)(A) seventy-five percent of the foreign currencies generated by the sale of such imports by the government of the country shall be deposited in a special account established by that government and, except as provided in subparagraph

(B), shall be available only for use in accordance with the agreement for economic development activities which are consistent with the policy directions of section 102 of the FAA and which are the types of activities for which assistance may be provided under sections 103 through 106 of the FAA;

(B) the agreement shall require that the government of the country make available to the United States Government such portion of the amount deposited in the special account as may be determined by the President to be necessary for requirements of the United States Government.

- f. ISDCA of 1985 Sec. 207. Will ESF funds be used to finance the construction of, or the operation or maintenance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified that such country is a party to the Treaty on the Non-Proliferation of Nuclear Weapons or the Treaty for the Prohibition of Nuclear Weapons in Latin America (the "Treaty of Tlatelolco"), cooperates fully with the IAEA, and pursues non-proliferation policies consistent with those of the United States? No.
- g. FAA Sec. 609. If commodities are to be granted, so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made? Not applicable.

2. Nonproject Criteria for Development Assistance

a. FAA Sec. 102(a); 111; 113; 281(a). Extent to which activity will (a) effectively involve the poor in development, by extending access to economy at local level; increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and, (e) utilize and encourage regional cooperation by developing countries?

Not applicable (ESF funds used).

b. FAA Sec. 103, 103A, 104, 105, 106, 107. Is assistance being made available: (including only applicable paragraph which corresponds to source of funds used. If more than one fund source is used for assistance, include relevant paragraph for each fund source.)

Not applicable.

(1) [103] for agriculture, rural development or nutrition; if so (a) extent to which activity is specifically designed to increase productivity and income of rural poor; [103A] if for agricultural research, full account shall be taken of the needs of small farmers, and extensive use of field testing to adapt basic research to local conditions shall be made; (b) extent to which assistance is used in coordination with efforts carried out under Sec. 104 to help improve nutrition of the people of developing countries through encouragement of increased production of crops with greater nutritional value, improvement of planning, research, and education with respect to nutrition, particularly with reference to improvement and expanded use of indigenously produced foodstuffs; and the undertaking of pilot or demonstration of poor and vulnerable people; and (c) extent to which activity increases national food security by improving food policies and management and by strengthening national food reserves, with particular concern for the needs of the poor, through measures encouraging domestic production, building national food reserves, expanding available storage facilities, reducing post harvest food losses, and improving food distribution.

(2) [104] for population planning under sec. 104(b) or health under sec. 104(c); if so, extent to which activity emphasizes low-cost, integrated delivery systems for health, nutrition and family planning for the poorest people, with particular attention to the needs of mothers and young children, using paramedical and auxiliary medical personnel, clinics and health posts, commercial distribution systems and other modes of community research.

(3) [105] for education, public administration, or human resources development; if so, (a) extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, or strengthens management capability of institutions enabling the poor to participate in development; and (b) extent to which assistance provides advanced education and training of people in developing countries in such disciplines as are required for planning and implementation of public and private development activities.

(4) [106] for technical assistance, energy, research, reconstruction, and selected development problems, if so, extent activity is: (i)(a) concerned with data collection and analysis, the training of skilled personnel, research on and development of suitable

energy sources, and pilot projects to test new methods of energy production; and

(b) facilitative of geological and geophysical survey work to locate potential oil, natural gas, and coal reserves and to encourage exploration for potential oil, natural gas, and coal reserves.

(ii) technical cooperation and development activities, especially with U.S. private and voluntary, or regional and international development, organizations;

(iii) research into, and evaluation of, economic development processes and techniques;

(iv) reconstruction after natural or manmade disaster;

(v) for special development problems, and to enable proper utilization of earlier U.S. infrastructure, etc., assistance;

(vi) for special development, especially small labor-intensive enterprises, marketing systems, and financial or other institutions to help urban poor participate in economic and social development.

(5) [107] Is appropriate effort placed on use of appropriate technology? (Relatively smaller, cost-saving, labor using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor.

Not applicable.

c. FAA 118(c) and (d). Does the assistance comply with the environmental procedures set forth in AID Regulation 16. Does the assistance take into consideration the problem of the destruction of tropical forests?

Yes, pursuant to AID Reg. 16, the Guinea EPRP Program is categorically excluded from the necessity of further environmental review. The determination granting the categorical exclusion is attached as an Annex to the PAAD.

d. FAA Sec. 281(b). Describe extent to which the activity recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.

The activity supports the economic reform and public administration decentralization program of the GOG which aims to encourage increased participation of individuals in the development of the country.

e. FAA Sec 122(b). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?

Yes. The activity supports previously initiated economic reform program focused on the liberalization of the economy and the development of the country's resources.

### 5C(3) - STANDARD ITEM CHECKLIST

Listed below are the statutory items which normally will be covered routinely in those provisions of an assistance agreement dealing with its implementation, or covered in the agreement by imposing limits on certain uses of funds.

These items are arranged under the general heading of (A) Procurement, (B) Construction, and (C) Other Restrictions

#### A. Procurement

1. FAA Sec. 602. Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and serviced financed? Yes.
2. FAA Sec. 604(a). Will all procurement be from the U.S. except as otherwise determined by the President or under delegation from him? Yes.
3. FAA Sec. 604(d). If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company? Not applicable.
4. FAA Sec. 604(e); ISDCA of 1980 Sec. 705(a). If offshore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than Not applicable.

parity? (Exception where commodity financed could not reasonably be procured in U.S.)

5. FAA Sec. 604(g). Will construction or engineering services be procured from firms of countries which receive direct economic assistance under the FAA and which are otherwise eligible under Code 941, but which have attained a competitive capability in international markets in one of these areas? Do these countries permit United States firms to compete for construction or engineering services financed from assistance programs of these countries? Not applicable.
6. FAA Sec. 603. Is the shipping excluded from compliance with requirement in Section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flat commercial vessels to the extent such vessels are available at fair and reasonable rates? Not applicable.
7. FAA Sec. 621. If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? If the facilities of other Federal agencies will be utilized, are they particularly suitable, Yes.

not competitive with private enterprise, and made available without undue interference with domestic programs?

8. International Air Transportation Fair Competitive Practices Act, 1974. If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available? Yes.

9. FY 1986 Continuing Resolution Sec. 504. If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States? Yes.

B. Construction

1. FAA Sec. 601(d). If capital (e.g., construction) project, will U.S. engineering and professional services be used? Not applicable.

2. FAA Sec. 611(c). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable? Not applicable.

3. FAA Sec. 620(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed \$100 million (except for productive enterprises in Egypt that were described in the CP)? Not applicable.

C. Other Restrictions

1. FAA Sec. 122(b). If development loan, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter? Not applicable.
  
2. FAA Sec. 301(d). If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? Not applicable.
  
3. FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities or the Communist-bloc countries? Yes.
  
4. Will arrangements preclude use of financing:
  - a. FAA Sec. 104(f); FY 1986 Continuing Resolution Sec. 526. (1) To pay for performance of abortions as a method of family planning or to motivate or coerce persons to practice abortions; (2) to pay for performance of involuntary sterilization as method of family planning, or to coerce or provide financial incentive to any person to undergo sterilization; (3) to pay for any biomedical research which relates, in whole or part, to methods or the performance of abortions or involuntary

- sterilizations as a means of family planning; (4) to lobby for abortion?
- b. FAA Sec. 488. To reimburse persons, in the form of cash payments, whose illicit drug crops are eradicated? Yes.
  - c. FAA Sec. 620(g). To compensate owners for expropriated nationalized property? Yes.
  - d. FAA Sec. 660. To provide training or advice or provide any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? Yes.
  - e. FAA Sec. 662. For CIA activities? Yes.
  - f. FAA Sec. 636(i). For purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained? Yes.
  - g. FY 1986 Continuing Resolution, Sec. 503. To pay pensions, annuities, retirement pay, or adjusted service compensation for military personnel? Yes.
  - h. FY 1986 Continuing Resolution, Sec. 505. To pay U.N. assessments, arrearages or dues? Yes.

- i. FY 1986 Continuing Resolution, Sec. 505. To carry out provisions of FAA Section 209(d) (Transfer of FAA funds to multilateral organizations for lending)? Yes.
- j. FY 1986 Continuing Resolution, Sec. 510. To finance the export of nuclear equipment, fuel, or technology? Yes.
- k. FY 1986 Continuing Resolution, Sec. 511. For the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights? Yes.
- l. FY 1986 Continuing Resolution, Sec. 516. To be used for publicity or propaganda purposes within U.S. not authorized by Congress? Yes.

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
WASHINGTON D C 20523

Annex II

INITIAL ENVIRONMENTAL EXAMINATION  
OR  
CATEGORICAL EXCLUSION

Country: Republic of Guinea  
Title of Activity: Guinea Economic Policy Reform Program  
(675-0217)  
Funding: FY 1986 - \$10 million  
Period of Project:  
IEE Drafted by: REDSO/WCA, Wandra Mitchell  
Environmental Action  
Recommended: Categorical Exclusion

Discussion: This activity meets the criteria for Categorical Exclusion in accordance with Section 216.2(c) of Regulation 16, and is therefore exempted from the need for further environmental review. A total of Nine Million Five Hundred Thousand Dollars (\$9,500,000) represents a cash transfer to the Government of Guinea (GOG) in support of the Government's policy reforms aimed at eliminating subsidies and other devices used to provide government-owned and operated agricultural production units with an unfair competitive advantage over their private sector counterparts. The Grant also supports the GOG's initiatives to adopt comprehensive credit policies that encourage private investment and borrowing, and to adopt Tax, Customs, Investment and Commercial codes that encourage private sector development in all sectors of the Guinean economy. The balance of \$500,000 will be used to finance evaluation of this Program and technical services, to the GOG in support of the above-mentioned policy reforms. The use of grant funds is not tied to either financing specific commodities or for a specifically identifiable project or projects. The categorical exclusion from environmental procedures for education, technical assistance or training programs and for analyses studies, academic or research workshops and meetings is applicable here. See Section 216.2(c)(2)(i) and (iii). This activity also meets the criterion of Section 216.2(c)(2)(vi) which provides a

categorical exclusion for contributions to national organizations by the United States which are not for the purpose of carrying out a specifically identifiable project or projects.

Concurrence: Mark Wentling  
AAO/Guinea, Mark Wentling

Bureau Environmental Officer's Decision:

Approved: Bessie L. Boyd

Disapproved: \_\_\_\_\_

Date: May 16, 1986  
Bessie L. Boyd, AFR/TR/SDP

Clearance: GC/AFR: \_\_\_\_\_  
Anthony Vance

Date: \_\_\_\_\_

2296K



Conakry le 16 mai \_\_\_\_\_ 1986

N° 805 /MPC/CAB/DGCI/86

Le Ministre

Objet :

A MONSIEUR LE DIRECTEUR  
USAID/CONAKRY  
Ambassade des Etats-Unis d'Amérique  
CONAKRY

*Monsieur le Directeur,*

*Suite aux nombreux entretiens entre le personnel de l'USAID et les différentes autorités guinéennes concernées, j'ai bien l'honneur de vous adresser la présente requête formelle pour un don de dix millions de dollars U.S. que votre Gouvernement a bien voulu offrir par le biais de l'Agence américaine pour le Développement International (USAID) comme soutien au programme de réformes économiques entrepris par mon Gouvernement et lancé par Son Excellence, le Président Lansana CONTE lors de son discours du 22 décembre 1985. Ces réformes ont notamment pour objectif la libéralisation de l'économie en favorisant la croissance et le développement du secteur privé. L'assistance offerte par votre Gouvernement appuiera cet effort de restaurer le secteur privé en Guinée afin qu'il puisse jouer un rôle moteur dans le développement économique tel que désiré par mon Gouvernement.*

*Au cours de ces derniers mois, les discussions techniques au sujet de l'utilisation de cette somme ont abouti à l'élaboration d'un programme qui vise à aider à résoudre les problèmes causés par le manque de devises, d'accès au crédit et de disponibilité de crédit pour le secteur privé. Les dollars fournis selon cet accord de subvention seront déboursés par le biais d'un système de ventes aux enchères hebdomadaires déjà mis en place par la Banque Centrale. La monnaie locale générée par*

la vente des dollars sera utilisée pour établir au sein des banques commerciales un système de crédit aux entreprises privées. Par conséquent, l'assistance offerte par le Gouvernement américain servira non seulement à alléger le déficit de notre balance de paiement mais aussi nous aidera à inaugurer une nouvelle politique de crédit et un système de crédit au service des entrepreneurs privés.

Mon Gouvernement est conscient qu'il pourrait s'avérer nécessaire d'utiliser jusqu'à 300.000 Dollars U.S. de cette subvention pour l'exécution, l'évaluation et le suivi de ce programme.

En conséquence, il est entendu qu'un accord séparé sera préparé pour une somme qui ne dépassera pas ce montant pour engager l'assistance technique nécessaire au bon déroulement de cet important programme.

Permettez-moi, Monsieur le Directeur, de saisir cette occasion pour vous exprimer les remerciements de mon Gouvernement pour le soutien du Gouvernement américain à notre effort de redressement national en général et particulièrement dans le cadre de cette nouvelle assistance pour un programme de réformes économiques.

Veillez agréer, Monsieur le Directeur, l'expression de ma parfaite considération.



EDOUARD BENJAMIN