

AFRICAN DEVELOPMENT FUND



AFRICAN DEVELOPMENT BANK



GUINEA - HIPC APPROVAL DOCUMENT
DECISION POINT UNDER THE ENHANCED FRAMEWORK*

NB : This document contains errata or corrigenda (see Annexes)

**HIPC APPROVAL DOCUMENT FOR GUINEA:
Decision Point under the Enhanced Framework**

1. INTRODUCTION

1.1 The Boards of Directors approved the Bank Group's participation in the enhanced HIPC Initiative, on July 6, 2000. During this meeting, Management's proposal for the delivery modalities and financing arrangements were also approved. Accordingly, the Bank Group would provide its debt relief by releasing eligible countries from up to 80 percent of their annual debt service obligations until the total debt relief is delivered. Debt service delivery would commence at the decision point, with no more than 40 percent of HIPC assistance being provided during the interim period, viz., between the decision and completion points. Whenever possible, total debt relief will be provided within 15 years.

1.2 During their deliberations, the Boards of Directors took note of an earlier meeting of the Deputies of the African Development Fund on June 30, 2000 in Paris. At this meeting the Deputies endorsed the Bank Group's proposed delivery modalities and further agreed that the Bank Group has made the maximum effort in generating internal resources for the HIPC Initiative. The Deputies gave assurance to the Bank Group that they would meet the remaining financing gap to cover the full cost of the Bank's participation in the Initiative.

1.3 In December 2000, Guinea reached its decision point and the Boards of the IMF and World Bank approved US\$ 545 million worth of debt relief in end-1999 net present value (NPV) terms under the enhanced HIPC Framework. This document invites the Boards to note the justifications for Guinea's qualification for HIPC assistance, and approve the proposed plan to finance the Bank Group's share of Guinea's costs. Section 2 of this document summarises details of Guinea's qualification, while the total debt relief is disaggregated in Section 3 to illustrate how the Bank Group's share of the HIPC costs have been derived. The Bank Group's operations are reviewed in Section 4, with particular emphasis on activities related to the Poverty Reduction Strategy Papers (PRSPs). Section 5 presents details of the proposed delivery modality. The proposed financing plan is presented in Section 6. Recommendations for the Boards' consideration are contained in Section 7.

2. HIPC QUALIFICATION

Guinea qualified for US\$ 545 million worth of debt relief assistance, equivalent to 31.6 percent reduction in the country's outstanding stock of debt at end-1999, after full use of traditional debt relief mechanisms. The country reached its decision point in December, 2000, and is expected to reach its completion point by 2003 by fulfilling the following conditions:

- Preparation and implementation of a full PRSP for at least one year;
- Improving the poverty database and monitoring capacity by preparing a living standards measurement survey, and establishing a poverty monitoring system involving key stakeholders
- Implementation of macroeconomic and structural reforms, in particular:
 - (i) Maintaining a stable macroeconomic environment as evidenced by satisfactory performance under a program supported by the IMF-supervised Poverty Reduction and Growth Facility (PRGF) arrangement;

- (ii) Developing and implementing an appropriate regulatory framework for microcredit institutions;
- Increasing immunization rates for children under one year of age from 45 percent in 2000, to 50 percent in 2001, and to 55 percent in 2002; and improving the percentage of pregnant women benefiting from at least one prenatal consultation from 70 percent in 2000, to 80 percent in 2001, and to 85 percent in 2002;
 - Increasing gross enrollment rate for primary school students from 56 percent in 1999 to 62 percent in 2001, and to 71 percent in 2002, of which the gross enrollment rate of girls should be 40 percent, 51 percent, and 61 percent in 1999, 2001, and 2002 respectively;
 - Increasing the number of new primary school teachers hired by at least 1,500 per year for each year until the HIPC completion point;
 - Making available publicly a one-year progress report of the Anti-corruption Committee; and auditing all large government procurement contracts over GF 100 million, and publishing results of these audits on a quarterly basis.

A copy of the relevant HIPC decision point document is annexed to this report.

3. HIPC COSTS

Bilateral creditors will account for US\$ 215 million (39.5 percent) of Guinea's debt relief, commercial banks US\$ 2 million (0.5 percent), while multilateral creditors will deliver the remaining US\$ 328 million (60.0 percent) The Bank Group's share of debt relief will amount to US\$ 75.40 million in 1999 NPV terms. Table 1 provides a breakdown of Guinea's total debt relief in NPV terms.

Table 1. Breakdown of Guinea's HIPC Costs

	US\$ million (End-1999 NPV)
Total HIPC Debt Relief	545
Bilateral Creditors	215
Multilateral Creditors	328
<i>Of which:</i>	
<i>African Development Bank Group</i>	75
<i>World Bank</i>	152
<i>IMF</i>	31
Commercial Bank Creditors	2

4. BANK GROUP INVOLVEMENT IN THE PRSP

4.1 Guinea's Interim PRSP (I-PRSP) was prepared by the government in collaboration with multilateral organizations and bilateral donors, and in consultation with civil society organizations. It builds on the government's long-term *Vision 2010*, which emphasizes economic growth and poverty reduction. The I-PRSP incorporates policies to improve the quality of primary education, and access to primary health care services; and HIV/AIDS awareness and prevention programs.

It also seeks to promote agricultural production and productivity through support to rural development, extension of credit-based programs, especially in the area of microfinance, and improvements in service delivery in rural areas. Although the Bank Group was not directly involved in the preparation of the I-PRSP, its Country Strategy Paper (CSP) for Guinea took into account the Government's *Vision 2010* and the I-PRSP.

4.2 The Bank Group's CSP preparatory process included a participatory workshop with representatives from the trade unions, civil society organizations, including NGOs, and major development partners. The Bank Group's medium-term assistance strategy (1999-2001) focuses on poverty reduction through support for macroeconomic reforms that will promote accelerated growth. It emphasizes projects and programs that facilitate the diversification of small-holder agriculture in order to enhance food security, promote rural development, human resource development, and improved access to social services, particularly, basic education and primary health care. It will also support institutional capacity building and the creation of a conducive environment for private sector development.

4.3 The government of Guinea is embarking on the preparation of a full PRSP to fulfil the condition for reaching the completion point under the enhanced HIPC framework. The Bank Group plans to be actively involved in the process and would assist in the development of a coordinated approach for sustainable economic growth and poverty reduction in Guinea.

5. PROPOSED DELIVERY MODALITY

5.1 As Guinea has reached its decision point, it is proposed that the Bank Group makes a commitment to provide interim debt relief between the decision and completion points, with effect from December 2000. Interim relief will not exceed 40 percent of the total NPV debt relief, and is expected to be delivered between 2000 and 2003. The Bank Group's debt relief would be provided by releasing Guinea from up to 80 percent of its debt service obligations to the Bank Group each year, until the entire amount of US\$ 75.40 million is delivered. The conditions that would trigger Guinea's floating completion point are outlined in Section 2. When the completion point is reached, the Bank Group will enter into an irrevocable debt relief commitment.

Legal Aspects of Debt Relief Operation

5.2 Debt relief for Guinea is to be provided, under the enhanced framework of the HIPC Debt Initiative, through the mechanism of debt service relief, in accordance with the terms described in the preceding paragraphs. These terms will be implemented by a Debt Relief Agreement between the Bank Group and the government of Guinea; a HIPC Trust Fund Grant Agreement between the Bank Group, the International Development Association (IDA) and the government of Guinea; and, the Contribution Agreement between the Bank Group and the IDA. The provision of debt relief, as described, is consistent with the rules of the African Development Bank and the African Development Fund.

6. PROPOSED FINANCING ARRANGEMENTS

The Bank Group's share of debt relief will be financed as follows:

	<i>Million US\$ end-1999 NPV</i>
Internal Resources	15.08
European Commission pledge	30.16
Balance with HIPC Trust Fund	30.16
TOTAL	75.40

7. RECOMMENDATIONS

The Boards are invited to:

- 7.1 Note the justifications for Guinea's qualification for HIPC assistance at its decision point, under the enhanced framework; and
- 7.2 Approve the plan to finance the Bank Group's share of HIPC debt relief, in accordance with the arrangements presented in Section 6.

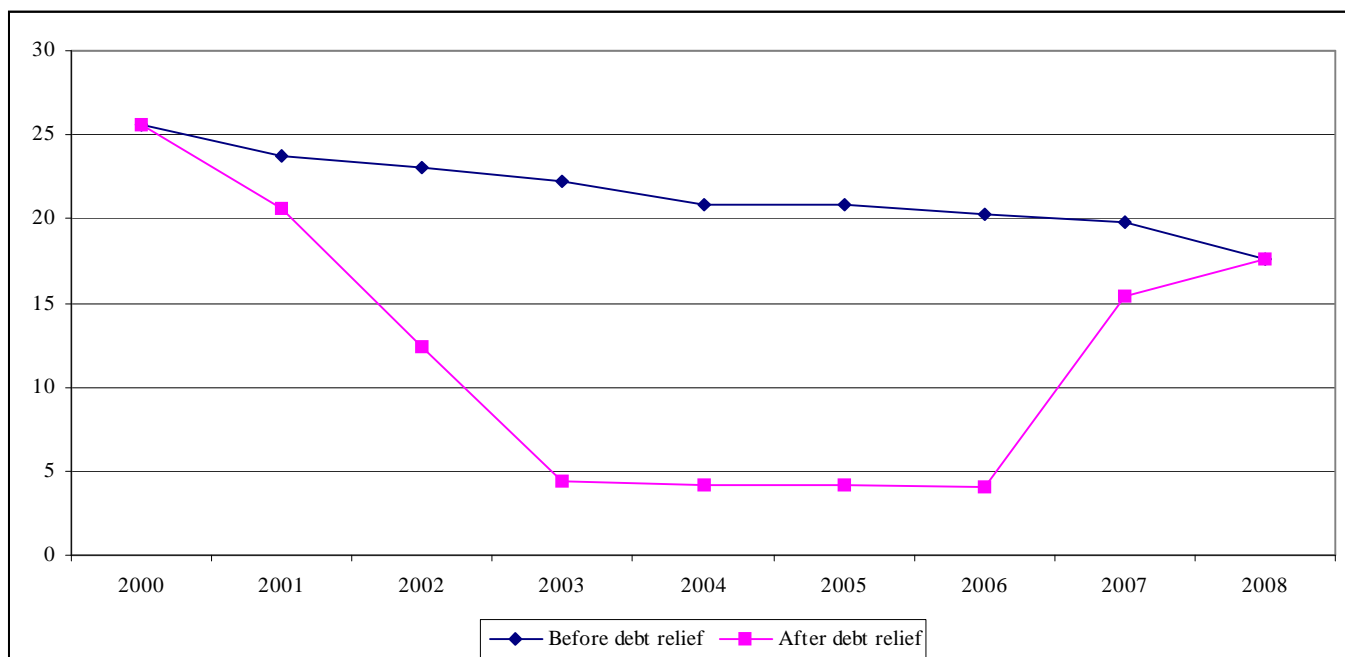
IMF/ World Bank HIPC Document for

GUINEA

Annex

**GUINEA: HIPC APPROVAL DOCUMENT - DECISION POINT UNDER
THE ENHANCED FRAMEWORK**

Impact of Debt Relief on Guinea's Bank Group Debt Service Profile (in million US dollars)



**African Development Bank
HIPC Debt Relief Schedule
(in US dollars)**

Guinea

	TOTAL ADB	TOTAL Debt Relief
2000	0	5,257
2001	2,559,901	3,207,682
2002	8,398,375	10,714,660
2003	13,816,469	17,756,918
2004	12,266,805	16,686,517
2005	11,660,386	16,641,906
2006	11,065,626	16,180,682
2007	2,734,689	4,426,851
	62,502,251	85,620,473

Summary

Total Nominal Relief	US\$ 85.62 mn
of which ADB	US\$ 62.50 mn
of which ADF	US\$ 20.59 mn
of which NTF	US\$ 2.53 mn
Total NPV Relief	US\$ 75.30 mn
Duration	08 years

* There is a marginal change in the total NPV debt relief after reconciliation with the World Bank

**African Development Fund
HIPC Debt Relief Schedule
(in US dollars)**

Guinea

	TOTAL ADF	TOTAL Debt Relief
2000	5,257	5,257
2001	558,876	3,207,682
2002	2,018,098	10,714,660
2003	3,440,281	17,756,918
2004	3,932,762	16,686,517
2005	4,508,571	16,641,906
2006	4,655,716	16,180,682
2007	1,467,162	4,426,851
	20,586,723	85,620,473

Summary

Total Nominal Relief	US\$ 85.62 mn
of which ADB	US\$ 62.50 mn
of which ADF	US\$ 20.59 mn
of which NTF	US\$ 2.53 mn
Total NPV Relief	US\$ 75.30 mn
Duration	08 years

* There is a marginal change in the total NPV debt relief after reconciliation with the World Bank

**Nigeria Trust Fund
HIPC Debt Relief Schedule
(in US dollars)**

Guinea

	TOTAL NTF	TOTAL Debt Relief
2000	0	5,257
2001	88,905	3,207,682
2002	298,187	10,714,660
2003	500,168	17,756,918
2004	486,950	16,686,517
2005	472,949	16,641,906
2006	459,340	16,180,682
2007	225,000	4,426,851
	2,531,499	85,620,473

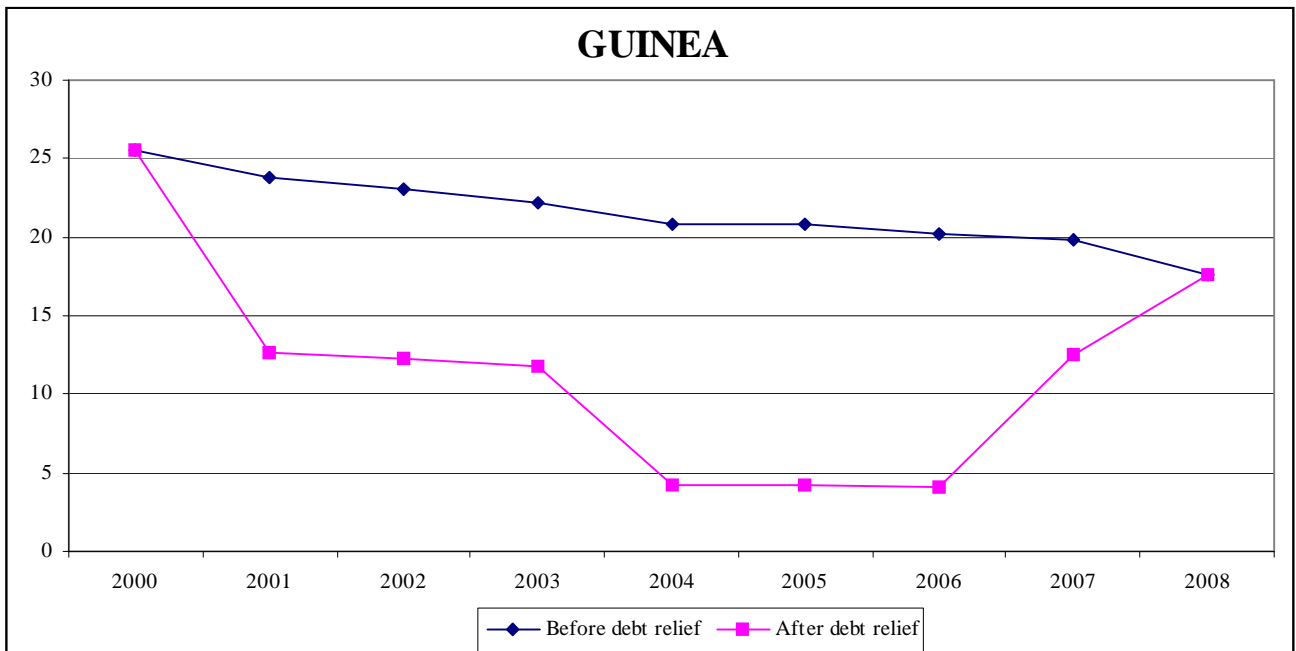
Summary

Total Nominal Relief	US\$ 85.62 mn
of which ADB	US\$ 62.50 mn
of which ADF	US\$ 20.59 mn
of which NTF	US\$ 2.53 mn
Total NPV Relief	US\$ 75.30 mn
Duration	08 years

* There is a marginal change in the total NPV debt relief after reconciliation with the World Bank

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**Impact of Debt Relief on Guinea's Bank Group Debt Service Profile
(in million US dollars)**



**African Development Bank
HIPC Debt Relief Schedule
(in US\$ millions)**

Guinea

	TOTAL ADB	TOTAL Debt Relief
2000	0.0000	0.0182
2001	9.1226	11.1142
2002	8.7123	10.7867
2003	8.3038	10.3847
2004	12.6355	16.6865
2005	12.0015	16.6419
2006	11.3889	16.1807
2007	4.8254	7.2523
	66.9899	89.0652

Summary

Total Nominal Relief	US\$ 89.06 mn
of which ADB	US\$ 66.99 mn
of which ADF	US\$ 22.07 mn
Total NPV Relief	US\$ 75.30 mn
Duration	08 years

**African Development Fund
HIPC Debt Relief Schedule
(in US\$ millions)**

Guinea

	TOTAL ADF	TOTAL Debt Relief
2000	0.0182	0.0182
2001	1.9916	11.1142
2002	2.0743	10.7867
2003	2.0810	10.3847
2004	4.0510	16.6865
2005	4.6404	16.6419
2006	4.7917	16.1807
2007	2.4270	7.2523
	22.0752	89.0652

Summary

Total Nominal Relief	US\$ 89.06 mn
of which ADB	US\$ 66.99 mn
of which ADF	US\$ 22.07 mn
Total NPV Relief	US\$ 75.30 mn
Duration	08 years