PROJECT INFORMATION DOCUMENT (PID)
CONCEPT STAGE

Report No.: PIDC474

Project Name	Guinea - Business Environment and MSME Support Project (P128443)
Region	AFRICA
Country	Guinea
Sector(s)	General industry and trade sector (50%), Agro-industry, marketing, and trade (20%), SME Finance (15%), Central government administra tion (15%)
Lending Instrument	Specific Investment Loan
Project ID	P128443
Borrower(s)	Republic of Guinea
Implementing Agency	Ministry of Finance
Environmental Category	C-Not Required
Date PID Prepared/ Updated	29-Jan-2013
Date PID Approved/ Disclosed	26-Feb-2013
Estimated Date of Appraisal Completion	12-Mar-2013
Estimated Date of Board Approval	28-May-2013
Concept Review Decision	Track II - The review did authorize the preparation to continue

I. Introduction and Context

Country Context

Guinea is a medium-sized African country which is highly endowed with natural resources. However, the country's economic performances are not commensurate with this endowment. In recent years, the major sources of growth in the economy, agriculture and mining, have performed modestly:

- Agriculture has experienced limited growth, with only one fourth of the available arable land cultivated and production insufficient to feed the local population;

- The extractive sector, which has grown over the last 20 years, and from which the country derives 90-95 percent of its export revenues, contracted in real terms by 6 percent between 2008 and 2010 - in spite of rising world commodity prices;

- In addition, over the 1990-00s, industry and manufacturing has virtually stagnated. The main activities are the processing of agricultural produce (notably palm oil) and food manufacture. Other private investments have been limited to brewing, soft drinks, bottled water, cement and metal manufacturing (EIU 2008). Manufacturing's share in GDP has changed little in recent years, from 4.6 percent in 1990 to 4.8 percent in 2010;

- Finally, services have slightly declined, going from almost 43 percent of GDP (in 1990) to 39 percent (in 2010). Domestic trade of consumer goods is a major industry that takes place mostly in the informal sector, with the transport sector being key to the distribution of goods all over the country. Import-export businesses operating through the port of Conakry are subject to monopolies and fall more within the formal sector, but there is a very large land-based cross-border trade sector that operates informally (EIU 2008).

De facto, largely because of the consequences of political instability in recent years and poor past economic policies – including a weak investment climate - the country has been unable to enjoy strong growth and to attract/generate the capital necessary to exploit its huge potential:

- The economy has experienced slow growth since 2004; while average growth was around 4.1 percent over 1990-2003, the growth rate only reached 2.3 percent over 2004-2010. Furthermore since 2004, growth in SSA became higher (5.3 percent over 2004-2010);

- FDI inflows have been very low during the 1990s and increased significantly above SSA levels in 2004-2008, before falling again. The mid-2000s rise was largely driven by FDI in the mining sector (96 percent of foreign investments in 2009, WTO (2011));

- Gross fixed capital formation, between 1990 and 2010, has been on par with SSA – i.e. low compared to other developing regions - and has been characterized by a marked decline in public investments.

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As a consequence, standards of living have declined; poverty incidence went from 49.2 percent in 2002 to 58 percent in 2010 (IMF 2012) and the country ranks 178th - out of 187 countries - in the Human Development Index. The main challenge for the country now is to achieve poverty reduction through sustained growth, based on natural resources and economic diversification

Sectoral and Institutional Context

B.1. Sector context.

A key constraint to growth, irrespective of the sector, has been the poor investment climate of the country. Comparative development experiments indicate that countries having an unfavorable investment climate have lower rates of investment, which hampers achieving stronger growth (World Bank 2005). This has been the case of Guinea.

By mid-2000s, firm level survey data showed that, besides electricity which appeared as the key business concern, transportation, access to finance and taxation were among major issues for Guinean firms. Besides these, significant issues also exist within the administrative, legal and fiscal framework for businesses of all sizes. The World Bank's Doing Business report for 2012 ranked Guinea 179th out of 183 economies, largely because of legal limitations in terms of energy access and getting credit and other significant barriers to doing business. Finally, in recent years, the

regulatory environment further worsened with the cancellations of contracts in the mining sector, changes of license terms and conditions in the telecommunications sector, and overall weaknesses in the governance of private sector activity. All of this has translated into a low level of productivity for the Guinean private sector.

However, mining and supporting/related industries, agribusiness and fisheries have vast potential for growth, but to this day have had little impact on jobs and economic development. In effect, although Guinea has some of the largest undeveloped deposits of bauxite and iron ore in the world, it only accounts for 12 per cent of global production, behind Australia (37 per cent). Combined investments to be implemented on the bauxite belt in the North-West of the country are estimated to require close to US$10 billion in capital investment while the iron ore belt in the south-east of Guinea is currently subject to intense competition among global mining conglomerates (World Bank 2012). Therefore production is poised to increase, opening massive opportunities for local businesses to branch and expand .

Agriculture also has a strong growth potential given Guinea's very favorable agro-ecological endowments. However, this did not yield yet the desired outcomes as productivity remains low. Most land use is for subsistence farming on small family farms which lack technology and capital to pursue intensive crop production. The dominance of subsistence production and the lack of market linkages have so far limited the value-adding potential of the sector. Hence, Guinea's agricultural exports are below US$ 15 million annually. While in the early 1960s Guinea was one of the world's leading exporters of bananas and pineapples today one fourth of its main agricultural produce, rice, is imported. Guinea's climate is nonetheless suitable for the production of a variety of cereal crops (maize, millet-sorghum, fonio), tubers and livestock; as well as a variety of export crops – both traditional (banana, coffee, cocoa, cotton, rubber, palm oil), which will potentially require public sector investments and an emphasis on improved productivity, and non-traditional (pineapples, other tropical fruits, vegetables, spices, essential oils) (World Bank 2012).

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Finally, fishing is another important sector in Guinea. It provides around 85,000 jobs and is mainly carried out by the artisanal sector. It contributes to food security and provides income to coastal communities. Guinea's 300 km long coastline benefits from the "upwelling" phenomenon (nutrient rich cold water driven towards the surface) specific to this region. Despite its natural assets, the fisheries sector too currently plays a relatively modest role in the national economy.

Against this difficult background, Guinea is also enjoying some brighter spots:

- After years of military dictatorship and instability, Guinea's first democratically elected president assumed power in December 2010. The vision of the new Government is to transform Guinea's political and economic governance in order to start reaping and sharing the benefits of its very rich agricultural and geological endowment;

- Guinea is poised to receive massive amounts of foreign direct investments in mining and related infrastructure projects. While Guinea only attracted US$ 110 million in FDI in 2010, the pipeline of large FDI inflows in mining and related infrastructure is estimated at above US$17 billion, which is about four times the country's GDP in 2010. These FDI inflows, if well managed and appropriately leveraged, can support the development of Guinea.

The main challenge is now to root a sustained growth path based on natural resources and economic

diversification. To do so will require – besides ensuring macroeconomic stability, a proper working of the extractive sector and an appropriate use of related upcoming resources – to improve the business environment and provide support to selected value chains, which is the purpose of the proposed project.

B.2. Institutional environment.

Institutions to be involved with the project (Ministry of Industry and SMEs, Agency for Investment Promotion (APIP, Agence de Promotion des Investissements Privés), the Central Bank and Customs) have had, and still have, relations with international agencies, including the World Bank. Recently, IFC has been working closely with the Ministry of Industry and SMEs to create a one-stop-shop to help foster business creation and supported the newly created APIP.

Relationship to CAS

The proposed project builds upon a sound policy dialogue with the Guinean authorities and the domestic private sector, major mining groups and the financial sector. The recently revised PRSP and its priority action plan identify five pillars, of which two are of special relevance for the proposed project: i) good governance; and ii) economic growth and development. The GoG has therefore indicated that it would like to design and implement a program of economic diversification and transformation to meet pressing social demands and create sustainable jobs in the short to medium term through greater involvement of the private sector in productive activities. The GoG has informed the Bank in Mid-2011 of its intention to have a project in this area.

The proposed operation also supports fundamental objectives of the World Bank's Interim Strategy Note (ISN) from March 2011. The later supports: i) macroeconomic stabilization with a focus – inter alia - on public administration; ii) a major push to boost the delivery of social services; and iii) the creation of jobs to help deliver tangible quick wins to the citizens. The proposed project is aligned with these priorities. The project will contribute towards supporting a number of the ISN outcomes including: improved economic governance, improving services and contributing to jobs. Finally, it must also be mentioned that the project is consistent with the Africa Regional Strategy pillar of competitiveness and employment, under the broad theme of inclusive and broad-based growth.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

The Project Development Objective (PDO) is to improve selected aspects of Guinea's business environment and supporting the development of key value-chains.

Key Results (From PCN)

1. The proposed project would consist of two operational components and a third project implementation component:

- Component 1. Improving selected elements of the investment climate with i) further strengthening of APIP and ii) support to design and implement reforms aimed at improving the legal framework for businesses. Provisional indicators of performance could include (but may not be limited to):

i. Increase in the number of firms using the one-stop-shop to complete administrative formalities;

ii. Increase in thenumber of firms to register formally using the one-stop-shop;
iii. Improvement in selected Doing Business Indicators;
iv.Reduction in dwell time at the port of Conakry;
v. Increase in the number of Banks using the Public Credit Bureau (PCB) of the Central Bank.

• Component 2. Improvements in selected supply chains with the development of two technical resource centers which would provide specialized support to firms in the development of 2 specific value chains along two corridors and generic support to any kind of SMEs in . Indicators of performance could include (but may not be limited to):
i. number of applications (indicator of demand);
ii. cumulated number of firms assisted with positive results (success rate);
iii. growth in the number of firms obtaining supply-contracts with foreign firms from the extractive sector;
iv.growth in duration of contracts for local firms;
v. number of firms producing new products.

2. Furthermore, a specific M&E system will be developed during project preparation in collaboration with the research department of the World Bank (DECOS) to allow for a proper impact evaluation of business support services from component 2.

III. Preliminary Description

Concept Description

Proposed project description.

Component 1: Improving selected elements of the investment climate (US$ 9, 000,000).

The objective of this component would be to provide technical assistance, goods and services to: i) improve the legal business environment throughthe implementation of targeted reforms; and ii) help develop backbone tools and institutions (public credit bureau and institutional strengthening of APIP) necessary for the Guinean private sector to benefit from growth opportunities.

Sub-component 1.1: Targeted business environment reform program (US$ 4, 000,000)

This sub-component would focus on a few doing business indicators where progress is required and where immediate action can deliver quick wins. These would include: a) starting a business; and b) trading across borders. The first indicator has been selected because it affects market entry and private sector growth and it can allow quick wins as some initial work has already been started by IFC. The second indicator has been selected because of its critical and binding role in improving country's competitiveness, and its ability to expand the revenue base. Furthermore, there is a need to reverse the deterioration of the situation in terms of trade logistics to help the country grow in the medium term. More than 50 percent of country's revenues are generated by the Customs Agency and in the coming years trade activity is bound to rapidly take off thanks to increased FDI flows and developments in the mining sector.

As part of a larger "business environment reform program" the GoG and IFC's Doing Business and Investment Climate units have put in place in early 2012 a reform agenda to establish the regulatory and institutional framework for business regulation and develop local capacity. One major and

successful outcome of these early efforts is the establishment of a basic “Guichet Unique” in Conakry within the auspices of API, which facilitates business registration and administrative improvements to issuance of construction permits and transfer of property. However, this newly created guichet unique is in need of reinforcement (automation of tasks and equipment, among others) and delegation of authority from line ministries to the Guichet Unique. Hence, the Project, in partnership with IFC’s Investment Climate and Doing Business units, would help develop and advance the reform program by reinforcing the “Guichet Unique”. The project would finance: i) a business process analysis; ii) the development/adaptation of an appropriate simple/user-friendly software for the automation of the business registry and RCCM; iii) the purchase of relevant IT equipment (computers, generators…); iv) the related TA/training activities; and v) an awareness campaign.

Trade logistics, or the capacity of countries and companies to ship goods to international markets, is a key ingredient for economic competitiveness, growth, and poverty reduction. Poor logistics performance creates a dead weight loss for producers and consumers alike, and results in a net waste of resources. Despite past donor support , Guinea is still poorly ranked in that area according to Doing Business (130th) and sees its position deteriorate in the Logistics Performance Indicator (115th country for the LPI 2012 against 97th in the LPI 2010). The proposed project would provide technical assistance and equipment to improve trade facilitation. It could specifically support: a) the introduction and adoption of improved custom’s software; b) provide technical assistance to further reform customs procedures; c) technical assistance to improve communication between border posts and systematic follow-up of the application of preferential agreements; and d) finance feasibility studies to reduce congestion at the port through PPP. This component will be complemented by a Trade Facilitation Facility (TFF) program focusing on capacity and infrastructure development for trade facilitation at the Port of Conakry.

Sub-component 1.2: Technical assistance to develop a public credit information system (US$ 2,000,000)

The financial sector is of a small size in Guinea. In the mid-2000s, the ratio of M2 over GDP was around 16.4 percent, well below the SSA average of 38.1 percent. The formal financial sector consists of the Central Bank and seven commercial banks. Credit to the private sector has stagnated at around 5 percent of GDP for much of the last decade (IMF 2012b) against an SSA average of 59.6 percent over 2000-10. In effect, commercial banks tend to favor short-term lending at high interest rates. L ending technology is mostly of a relationship lending type. As a result, it is not surprising to see that by 2006-07, 58.3 percent of the firms identified access to finance as a major constraint and that 94.1 percent of firm’s investments was financed internally against an SSA average of 79 percent .

Having proper access to credit will therefore be key for SME growth, formal employment generation in Guinea and to allow the economy to benefit from opportunities offered by the development of the mining sector and sub sequent increase in domestic demand. Inter alia, a key element which is missing now to foster SME lending is a proper information infrastructure, i.e. a registr y. Improving credit information would help break the reliance on relationship lending and provide banks with better information to start using later-on more up-to-date methodologies such as scoring methods to approve loans .

This sub-component would provide technical assistance and equipment to establish a public credit

information system (PCIS) that will serve as a building block for a public credit bureau (PCB) under the aegis of the central bank. This PCIS will: i) have a very basic but open architecture; ii) be an upgradable item which will evolve with Guineas economic development; and iii) prepare the way for private credit bureaus in the medium/long term. This PCIS should initially collect and disseminate information from financial institutions (mostly banks) and allow access for both the contribution of data and the inquiries from lenders.

The project would finance: i) the development/adaptation of the related software; ii) the purchase of relevant IT equipment, back-up and generators; iii) the related TA/training activities (for central bank and private banks staff); and iv) an awareness campaign towards local banks and other financial institutions.

Sub-component 1.3: Strengthening API (US$ 2,500,000)

The APIP (Agency for Investment Promotion) has been created by Presidential Decree in June 2011, while its Guichet Unique was set up in December 2011. The objective of APIP is to implement GoG policy in favor of private investment, either public or foreign. The API is currently organized in 4 technical departments:

- The one stop shop - in charge of facilitating selected administrative procedures;
- The department of Investment Promotion, which inter alia promotes the country and help investors;
- The department of Technical Assistance and Follow-up, which monitors firms and define/ provide support;
- The department of Research and Statistics which - inter alia - identifies investment opportunities and researches the development strategy of the private sector.

The newly created APIP is in need of support to root itself as the focal point for investors in Guinea. The proposed project would support this institution in several areas:

- For all departments, the project would support skills and institutional capacity development by financing: i) development of an institutional business plan and mid-to-long term operational and financial strategy; b) training and outside expertise for human resources development; c) operational costs, including staff costs; and d) development of promotional materials.

- For all departments, the project would ensure smooth business processes by financing: i) a business process analysis; ii) the development/adaptation of appropriate simple/user-friendly software(s); iii) the purchase of relevant IT equipment (computers, generators…); and iv) the related TA/training activities.

- For the Research and Statistics department, the project would finance: i) capacity building activities (training in investment promotion, economic analysis, basic statistics…); ii) a study on strategic and spatial planning for private sector growth (consultancy fees, training of department staff/technology transfer so as they can update and undertake such a work in the future and dissemination).

Sub-component 1.4: Supporting public-private dialogue (US$500,000)

The project would establish a new technical platform for a public-private dialogue. This platform

would be made up of a select group of representatives of all employers' associations and elaborate on issues, constraints, risks, risk mitigation measures and opportunities for reform and submit results to the Government. The proposed project would provide financing for: i) the development of a roadmap for this office; ii) the training of staff; iii) some equipment, iv) studies and policy memos to systematically and productively inform the private-public dialogue on reforms discussions; v) meetings among policy makers and private sector representatives; and vi) out-reach activities (seminars, workshops and alike). This effort will also collaborate closely with the guichet unique.

Component 2: Support for SME cluster development and regional growth (US$ 8, 500,000)

The objective of this component is to promote private sector growth and diversification with emphasis on two value chains along two corridors that have significant potential for growth in terms of income and employment generation.

Sub-Component 2.1 Regionalization of APIP along two Growth Corridors (US$3,000,000)

This component will support regionalization of APIP, through which knowledge base and investment promotion and generation capacity in two specific value chains along two corridors will be developed. The selection of the two sectors for targeted support and the specific regions where these will take place will be finalized during project preparation following more in-depth studies and value-chain analyses. Based on country's drivers for growth, endowments and economic and investment trends discussed above, the list of sectors from which the selection will be made includes agriculture and agribusiness (rice and horticulture), fisheries, light manufacturing (i.e. packaging), and mining support industry and services (i.e. catering and transport).

The Project will finance: i) institutional and capacity building for APIP to accompany the value chain development in the two corridors that will be identified during project preparation; ii) value-chain analyses and base-line surveys; iii) sub-regional investment climate assessments; iv) product development and competitiveness analyses along the two corridors; iv) market and investor research; and v) promotion of investments in these value-chains.

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Sub-Component 2.2 Establishment of Sector Support and Technology Centers for business development (SSTCs) (US$5,500,000)

The Project will also support the establishment of technical centers in the regional APIP offices which will provide firms with sector/value-chain specific business development services (BDS). While the technical support provided by these will be designed to cater to the specific needs and constraints present in the value-chains, more generic support and resources offered for SME development will also be available for those businesses that operate in sectors outside these value-chains to maximize development outcomes and enable and improve linkages.

This component will support the establishment of two regional Sector Support and Technology Centers (SSTC) for business development. They will be modeled along the lines of similar SSTCs existing in other developing countries with similar initial conditions and constraints for growth and adapted to the existing needs and capacity in Guinea in terms of size and scope. In successful cases, these centers focused on technical support, information and training to firms in the targeted sectors. Given the conditions, specific needs and priorities in Guinea, the proposed SSTCs will potentially provide specific business and technical support to SMEs in the following areas:

Sector specific for SMEs
Technical Support:
- Sector specific equipment needs and maintenance;
- Testing, norms and standards, product quality.

Information:
- Market access;
- Information on (off-the-shelf) existing technologies.

Training:
- Management, contracting;
- Identify bottlenecks and opportunities for further innovation of products and processes at the sectoral level;
- Transfer of (off-the-shelf) existing technologies.

Local representation of the one-stop-shop

Generic for any SME
Training:
- Management, contracting;
- Identify bottlenecks and opportunities for further innovation of products and processes at the sectoral level.

Local representation of the one-stop-shop

The component will finance, among others: i) the technical and financial feasibility of such SSTCs in Guinea with a detailed plan of implementation; ii) the selection and training of staff; iii) the development and disbursement of market intelligence; iv) the training activities including travel and consultancy services; v) equipment; and vi) small infrastructure and other capital investments to adapt existing buildings (or create new ones) and provide critical services and develop surrounding areas. The subcomponent could also finance the salary of the manager and key personnel. During implementation, the project would develop linkages with highly recognized regional or international centers.

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Component 3: Project Implementation (US$ 2, 500,000)

This component would be established in Conakry and would finance the following activities to reinforce the project management capacity of the Project Coordination and Implementation Unit (PIU), as well as the Executing Agencies, in the area of:

- Training in procurement and financial management, as required by Bank Guidelines. Such training should be mandatory (for PIU and key staff of the implementing agencies) and could eventually be made part of the grant agreement;

- Operational and staff costs, and training and consulting services to enable the PIU to effectively perform the following functions:
  - The coordination of executing agencies and monitoring the performance indicators of the project;
  - The preparation of progress reports and working documents required by implementation support missions;
  - The provision of information and reports to the Steering Committee and the Bank; and

- The monitoring and consolidation of the project's financial management, and assistance to the executing agencies in procurement and financial management and in meeting the reporting requirements of the Bank.

- Computer and office equipment.

IV. Safeguard Policies that might apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01		×	
Natural Habitats OP/BP 4.04		×	
Forests OP/BP 4.36		×	
Pest Management OP 4.09		×	
Physical Cultural Resources OP/BP 4.11		×	
Indigenous Peoples OP/BP 4.10		×	
Involuntary Resettlement OP/BP 4.12		×	
Safety of Dams OP/BP 4.37		×	
Projects on International Waterways OP/BP 7.50		×	
Projects in Disputed Areas OP/BP 7.60		×	

V. Tentative financing

Financing Source	Amount
BORROWER/RECIPIENT	0.00
International Development Association (IDA)	20.00
Total	20.00

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