Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 10-Oct-2019 | Report No: PIDA26882

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Guinea	P166322	Guinea First Fiscal Management, Competitiveness, and Energy Reform DPF (P166322)	
Region	**Estimated Board Date**	**Practice Area (Lead)**	**Financing Instrument**
AFRICA	26-Nov-2019	Macroeconomics, Trade and Investment	Development Policy Financing
Borrower(s)	**Implementing Agency**		
Ministry of Economy and Finance	Ministry of Economy and Finance		

Proposed Development Objective(s)

The Program Development Objectives of the DPO series are to support the Government of Guinea's efforts to: (i) strengthening fiscal management; (ii) enhancing the institutional and regulatory framework to promote competitiveness; and (iii) improving the financial performance of the electricity sector.

Financing (in US$, Millions)

SUMMARY

Total Financing	90.00

DETAILS

Total World Bank Group Financing	90.00
World Bank Lending	90.00

Decision
The review did authorize the team to appraise and negotiate

B. Introduction and Context

Country Context

1. Endowed with considerable natural resources, Guinea is one of the poorest countries in the world. According to the most recent 2012 national poverty survey, about 55 percent of the population were poor and about 35 percent were extreme poor. Although poverty numbers could have deteriorated with the Ebola outbreak in 2014-2015, the recent economic acceleration is expected to contribute to a decline in poverty rates. Guinea's Human Capital Index (HCI) is 0.37, below the average for Sub-Saharan Africa (0.4), reflecting poor education and health outcomes. Only 31 percent of adults (15+ years) are literate. Maternal mortality is among the highest in Sub-Saharan Africa at 679 maternal deaths per 100,000 live births. Access to basic services is low, with a small share of the population having electricity (28 percent) and improved sanitation (20 percent). Although income inequality is low, gender gaps are widespread across all dimensions, with a substantial gender divide in school enrollment, wages, agricultural productivity, and political representation.

2. Growth has been strong in recent years, but Guinea faces structural challenges to foster more inclusive growth. Following a period of modest growth of about 4 percent between 2013-15 as the economy struggled with Ebola and a downturn in commodity prices, economic growth accelerated to 10.8 percent and 10 percent in 2016 and 2017, respectively. Albeit lower, growth continued to be robust at 5.8 percent in 2018. The underlying strategy under the PNDES is to support sound macroeconomic policies and foster private sector development. Strengthening Guinea's fiscal management is critical to mitigate Guinea's vulnerabilities related to commodity prices shocks, debt management, weak governance, and infrastructure bottlenecks. Advancing private sector structural reforms will help with export diversification and improving the business climate. Rural roads are in a dilapidated condition, preventing market access for farmers. Access to electricity is very low in both rural (3 percent) and urban areas (48 percent), and power outages are common. Improving the performance of the electricity utility is pivotal to reduce electricity subsidies, freeing up fiscal resources, and improving the competitiveness.

Relationship to CPF

3. The proposed DPF series is consistent with the WBG's Country Partnership Framework for Guinea. The WBG CPF for FY18-23, presented to the World Bank Board on June 7, 2018, supports Guinea in implementing a long-term development agenda of reducing extreme poverty and enhancing shared prosperity. The proposed DPF series addresses the pillar of agricultural productivity and economic growth by supporting institutional and policy reforms for better access to electricity services, improved management of utilities and improved business environment.

C. Proposed Development Objective(s)

4. The Program Development Objectives of the DPO series are to support the Government of Guinea's efforts to: (i) strengthening fiscal management; (ii) enhancing the institutional and regulatory framework to promote competitiveness; and (iii) improving the financial performance of the electricity sector.

Key Results

- ***Pillar 1: Strengthening Fiscal Management*.** This pillar aims to improve tax administration and tax policy regarding excise taxes, enhance debt management while reducing the stock of non-marketable securities; and better transparency of the financial performance of SOEs.

- ***Pillar 2: Enhancing Institutional and Regulatory Framework to Promote Competitiveness.*** The policy and institutional reforms in this pillar will support reforms to improve access to modern agricultural inputs and enhance the business environment for private operators with new mechanisms to resolve business disputes, simplified trade facilitation services for border crossing, and simplified registration for land and construction permits.

- **Pillar 3:** ***improving the Financial Performance of the Energy Sector*.** The proposed reforms will contribute towards better corporate governance, the payment of net-arrears from the state to EDG for electricity services, and the adoption of a tariff setting methodology for electricity services.

D. Project Description

5. The proposed DPF series is organized around three interrelated pillars. These pillars, which are consistent with the priorities highlighted in the 2018 Systematic Country Diagnostic for Guinea, are:

- ***Pillar 1: Strengthening Fiscal Management*.** Guinea's tax collection (12.5 percent of GDP in 2018) is low and declining. This limits the fiscal space available to finance the large development needs of the country. Meanwhile, the PNDES envisions scaling-up public investment in infrastructure. Enhancing debt management and transparency would be necessary to maintain debt sustainability while making productive investments to accelerate growth. Weak governance of public entities (state-owned enterprises and public administrative agencies, SOEs) undermines fiscal management and the delivery of public goods. This pillar aims to improve tax administration and tax policy regarding excise taxes, enhance debt management while reducing the stock of non-marketable securities; and better transparency of the financial performance of SOEs. The previous DPF series in Guinea included measures to improve fiscal management in the areas of SOEs oversight and tax administration.

- ***Pillar 2: Enhancing Institutional and Regulatory Framework to Promote Competitiveness.*** Agriculture suffers from very low productivity due to low use of modern inputs, undeveloped value chains, and the mediocre quality of the rural road network. Agribusiness is embryonic with very few private operators. More broadly, an inadequate business environment, including weak investor protection and obstacles, limits the development of the private sector. Investors face regulatory uncertainty and high costs in their dealings with the government. The policy and institutional reforms in this pillar will support reforms to improve access to modern agricultural inputs and enhance the business environment for private operators with new mechanisms to resolve business disputes, simplified trade facilitation services for border crossing, and simplified registration for land and construction permits. It will also enhance road asset management to promote road maintenance.

- **Pillar 3:** ***improving the Financial Performance of the Energy Sector*.** The power utility (EDG) requires large subsidies to operate and provides electricity services with limited coverage and reliability. The proposed reforms will contribute towards better corporate governance, the payment of net-arrears from the state to EDG for electricity services, and the adoption of a tariff setting methodology for electricity services. Improving the performance of EDG would improve electricity access and potentially create fiscal space for other development

priorities. The goal is to reduce fiscal risks associated with the electricity company and attract private investors to electricity generation. The reforms in this pillar build upon the policy actions included in the previous DPF series in Guinea.

E. Implementation

Institutional and Implementation Arrangements

6. The Borrower is the Republic of Guinea, represented by the Ministry of Economy and Finance (MEF). The MEF is responsible for the monitoring and evaluation of the program supported by the proposed DPF series. As the main implementing agency, it will coordinate with other government ministries and agencies involved in the implementation of the series, such as the ministry of agriculture and the ministry of mines and geology, energy and hydraulic. Together with the MEF these institutions will collect the necessary data to assess implementation progress and report it to the World Bank. The MEF has experience in coordinating and implementing DPFs, demonstrated by its successful execution of the previous World Bank operations in the past.

F. Poverty and Social Impacts and Environmental Aspects

Poverty and Social Impacts

7. Reforms under Pillar 1 may have neutral or some positive impacts on poverty and social development. Reforms underpinning Pillar 2 are expected to have a net positive impact on poverty, through inclusive growth in the agriculture sector. Other prior actions in Pillar 2 are likely to have neutral to positive poverty impacts. Pillar 3 reforms in the energy sector are expected to lead to improved governance and free-up fiscal resources that can benefit the poor. A Poverty and Social Impact Analysis (PSIA) was prepared to assess the impacts of the electricity tariff reform.[1] The PSIA study indicates the impact of the 2019 tariff increase on poverty incidence to be marginal

Environmental Aspects

8. The reforms and policy actions supported by the proposed DPO series are not likely to have a negative impact on the country's environment. Guinea has a rich legal and institutional framework to ensure effective management and protection of the environment. The 2010 constitution reminds Guineans of the need to live in a sustainability environment. The 1987 Environmental Code is complemented by various decrees that: (i) assign to the Ministry of Environment the mission to promote the Government's national policy for environmental assessments; create the National Council of the Environment; regulate impact studies, including content and methodology; and a general guide for environmental assessments. Various entities are involved in the implementation of the existing environmental framework.

[1] Poverty and distributional analysis of the electricity tariff reform was conducted by ESMAP and the Poverty and Equity GP.

9. Efforts aimed at increasing agricultural productivity through the e-voucher program can generate negative externalities on environment and human health if not well managed. With respect to rural road maintenance, civil works often require labor force and the associated goods and services which cannot be fully supplied locally for several reasons. If not managed appropriately this influx of workers (and followers) can lead to adverse social and environmental impacts on local communities. The World Bank's guidance notes for advising Borrowers on approach to identifying risks and impacts on local communities associated with the labor influx should help manage such risks and impacts. This can be done (i) reducing labor influx by tapping into the local workforce; (ii) assessing and managing labor influx risk based on appropriate instruments; and (iii) incorporating social and environmental mitigation measures into the civil works contract.

G. Risks and Mitigation

10. The risk assessment suggests that this operation entails a substantial risk overall. The most relevant risks that can affect the achievement of the PDOs defined for this operation are: (i) political and governance risks; (ii) macroeconomic and fiscal risks; (iii) sector strategies and policies risks; (iv) institutional capacity for implementation and sustainability risks; and (v) fiduciary risk.

11. Political and governance risks are substantial. The World Bank's team is conducting a frank and open dialogue with political leadership at the highest levels, aimed at maintaining consensus and implementation momentum of the reforms. Although the macroeconomic policy framework is adequate, the macro risks are substantial. Sector strategies and policies risks are substantial, particularly in the energy sector. To mitigate those risks, the World Bank is providing technical assistance through two investment operations. Risks associated with institutional capacity for implementation and sustainability are substantial. The proposed operation supports reforms spanning multiple ministries, which compound existing capacity risks. Fiduciary risks are substantial but do not impact the proposed operation.

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APPROVAL

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