PROJECT INFORMATION DOCUMENT (PID)
CONCEPT STAGE

Report No.: PIDC2754

Project Name	Power Sector Recovery Project (P146696)
Region	AFRICA
Country	Guinea
Sector(s)	Transmission and Distribution of Electricity (80%), General energy sector (20%)
Theme(s)	State-owned enterprise restructuring and privatization (60%), Infrastructure services for private sector development (40%)
Lending Instrument	Investment Project Financing
Project ID	P146696
Borrower(s)	GOVERNMENT OF GUINEA
Implementing Agency	Ministry of Energy
Environmental Category	B-Partial Assessment
Date PID Prepared/ Updated	20-Dec-2013
Date PID Approved/ Disclosed	20-Dec-2013
Estimated Date of Appraisal Completion	07-Apr-2014
Estimated Date of Board Approval	30-May-2014
Concept Review Decision	Track II - The review did authorize the preparation to continue

I. Introduction and Context

Country Context

1. The Republic of Guinea is in West Africa. It is bordered by Guinea-Bissau, Senegal and Mali to the North, Liberia and Sierra Leone to the South, Côte d'Ivoire to the East and the Atlantic Ocean to the West. In 2012, the population of Guinea was estimated at 11.3 million (with a population density of 47.2 per square kilometer and an urbanization rate of 31 percent). With a natural growth rate of 3.1 percent, the Guinean population is young (45 percent of Guineans are aged between 15 and 19).

2. The presidential election of November 7, 2010 marked the return of Guinea to constitutional order after the army seized power on December 23, 2008. After a difficult period of military transition, the election of the first democratically elected president, Alpha Condé, and the new political context, paved the way for new economic opportunities for Guinea. A series of

reforms were introduced and Guinea reached completion point for the Heavily Indebted Poor Countries (HIPC) Initiative in September 2012. The political transition was completed through the organization of legislative and local elections on September 28, 2013, whose results were confirmed by the Supreme Court.

3. Per capita GDP was about $450 in 2012. The 2012 Limited Poverty Evaluation Survey showed that 55 percent of the population is considered to be poor, compared with 53 percent in 2007 and 40 percent in 1995. Most of the poor are still living in rural areas. The results of the 2012 survey show that 65 percent of the rural population is considered to be poor, compared with 32 percent for the urban population. However, poverty is increasing more in urban areas, mainly because of the increase in prices for essential goods, the rural exodus and the employment crisis.

4. The Guinean economy is dominated by mining and the rural sector. Ongoing implementation of the 2012-2014 economic and financial program, supported by the IMF Extended Credit Facility, helped to reduce macro-economic imbalances. In 2012, despite the international crisis, economic activity remained strong, supported by the acceleration of investments in agriculture and the mining sector. Real GDP grew by 3.9 percent in 2011 to reach 4.8 percent in 2012, compared with 1.9 percent in 2010. However, electricity supply difficulties continue to adversely affect economic activities.

5. The country is well endowed with minerals particularly iron ore, bauxite , gold, uranium and diamonds. The Simandou iron ore deposit is one of the world's finest and its exploitation would result in a quantum change in the country's exports and GDP. Given the lack of grid supply, self-supply of electricity is common amongst existing mining operations: a total of 139 MW of thermal capacity was operated by mines in 2010 compared to approximately 200 MW on the national grid.

6. Growth will continue to be largely supported by government consumption, which will remain strong as the administration strives to improve living standards despite fiscal consolidation. In addition, domestic demand has the potential to improve as households benefit from lower prices, although ongoing power shortages will weigh on productivity. The economy is expected to grow at 3.7% in 2013, down from an estimated 4.8% in 2012. Growth is expected to rebound to 5% in 2014, assuming the political and external pictures improve. Nevertheless, risks are to the downside, and growth could be derailed if political stability is not restored and the global economic context remains weak.

7. Private sector investments in Guinea remain limited due to the perceived country risk and the business environment. Guinea is ranked 179 out of 183 countries by Doing Business report, the lowest ranking for a West African country. However, development of the large reserves of mining and hydropower potential is receiving increasing interest from private investors.

Sectoral and Institutional Context

8. The Ministry of State for Energy (ME) is responsible for setting strategy and supervising the energy sector. The Ministry encompasses two departments: one for electricity and one for hydrocarbons. Guinea's energy sector remains underdeveloped and characterized by a low national rate of access to electricity (20% on average; 3% access rate in rural areas). There is a high consumption of biomass, constituting 78% in the overall energy balance and contributing to rapid deforestation (from 14 million ha in 1967 to 700 thousand ha in 2002).

9. The main operator in the electricity sector in Guinea is the state-owned utility Electricité de Guinée (EDG). Electrical installations in Guinea consist of an interconnected western network fueling the largest concentration of electricity consumers (including Conakry) together with a second interconnected network in the center of the country, and isolated centers scattered throughout the country. The company owns generation plants with a total installed capacity of 200 MW (77 MW thermal, 123MW hydropower). Despite its high operating cost, the share of thermal power in total production has been increasing as hydropower installed capacity has stagnated. Only 52% of the installed thermal capacity is currently operational, due to frequent outages caused by technical incidents and poor maintenance. In 2011, actual capacity of supply in urban areas was estimated at 130 MW while peak demand is estimated to have reached 240 MW. EDG has been resorting to rolling blackouts as a result of a significant shortfall in power production and frequent incidents on the network.

10. Current commercial performance of EDG is very poor. Percentage of energy billed is estimated at about 56% of total energy generated. In addition, only 87% of energy billed is collected. Service quality has consistently deteriorated since 2000, as systematic and unpredictable rationing has been applied as the result of insufficient supply. A significant number of potential/ illegal customers are waiting to be connected or regularized.

11. Average tariff charged by EDG across all consumers was 12 USc per kWh in 2010 with most of the burden being born by the public sector: residential LV consumers (private) are paying between 1.5 and 4 USc per kWh while government agencies are being charged 26 USc per kWh. In contrast, cost of supplying 1 kWh to the end user is estimated at about 19 USc when accounting for the all of the technical and commercial losses.

12. The Government's energy strategy in the medium to long term, as articulated in its updated Energy Sector Policy Letter - General Policy Declaration (LPDSE) of March 2012, consists of:

a) Providing a high level of access and quality of service through the accelerated rehabilitation of existing capacities and development of additional generation capacity (thermal and hydro);

b) Achieving sector financial autonomy through suitable tariff structure and commercial management and implementation of an Action Plan for EDG endorsed by GOG and the main donors on January 15-16, 2012;

c) Supporting the participation of private partners in generation, transmission and distribution in a fair regulatory framework, relying in particular on partnerships with the mining industry established in Guinea;

d) Redirecting the role of the Government toward definition of policies and strategies with a reinforcement of the energy sector Regulator; and

e) Accelerating the development of the country's hydropower potential for increased energy security and lower production cost.

13. The strategy outlined in the LPDSE presents a 20 year vision including planned supply and demand of energy, and incorporates the concerns of energy efficiency and renewable energy development. In 2011/2012, the French Agency for Development (AFD) and the Bank co-financed a Power Sector Diagnostic and Recovery Study, prepared by Nodalis Conseil, which proposes a three-year action and investment plan to improve EDG's performance. This include:

a) An investment plan of over US$1bn over the next three years, of which almost US$ 400 million are yet unfunded. This plan includes the Kaleta hydropower plant (US$ 527 million) to be funded and built with Chinese help. Other investments cover power generation, transmission and

distribution, including meters for low-voltage customers.

b) A sector recovery plan was approved, which includes modifying the legal framework for the sector and for PPPs, the restructuring of EDG, signing a performance contract between EDG and the Government, and signing a management contract with a private operator for the management of EDG.

Relationship to CAS

14. The proposed project complements existing bank engagements, and is included in the WBG Country Partnership Strategy (CPS) for FY14-17. The project will contribute to strategic objective 2: catalyzing shared growth and economic diversification, whose number one priority sector is energy. The CPS states that the WBG will support the Government's Action Plan to improve energy services in the country over a 3 to 5 year horizon through: i) urgent investments and financial/ institutional measures to turnaround EDG and improve the reliability of energy services; and ii) support the development of the hydropower potential in Guinea.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

A. Proposed PDO

26. The PDO is to improve the technical and commercial performance of EDG.

Key Results (From PCN)

B. Key Results

27. The key indicators for the PDO level results are the following for EDG:
(a) Electricity losses per year (percentage);
(b) Average duration of LV outages in the project area (hours);
(c) Average interruption frequency per year in the project area (number); and
(d) Direct project beneficiaries (number of customers), of which are female (percentage).

28. Intermediate outcomes have been identified in relation to the various activities that will contribute to achieve the PDOs. These include:
(a) Management Contractor appointed (Yes/No);
(b) Meters installed at customers premises (number), of which prepayment meters (percentage); and
(c) Bill collection rate (percentage);

Public Disclosure Copy

III. Preliminary Description

Concept Description

18. The IDA project will support the Government of Guinea in financing the management contract for EDG as well as associated hard and soft investments, such as the purchase and deployment of prepayment meters, a software package for enhanced commercial operation and implementation of a loss reduction program. It is envisaged that the project would be structured under three components (with estimated cost):

(a) Component 1 - Management contract (US$12-15 million): for 3-5 years. A private operator with international experience will be selected through a rigorous and competitive process, and will

operate EDG, while implementing a utility recovery plan to improve its technical, commercial and financial performance significantly over the course of the contract. The estimated cost of the management contract includes the implementation of a comprehensive strategic business plan by the private operator that will provide a senior management team for the utility, a comprehensive training and technical assistance plan for utility personnel, and a communication plan targeted at EDG customers. This component will also include an independent auditor to monitor and evaluate the fulfillment of contractual obligations under the management contract by both parties, to avoid any disputes between the operator and the government.

(b) Component 2 - Associated investments (US$32-35 million): this includes mainly prepayment meters for EDG low-voltage clients who currently lack meters (in coordination with other donors who are also funding meters), regularization of current illegal connections and purchase of maintenance equipment.

(c) Component 3 – Technical assistance for sector reform and non-allocated (US$3 million).

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. Financing (in USD Million)

Total Project Cost:	50.00	Total Bank Financing:	50.00
Financing Gap:	0.00		

Financing Source	Amount
BORROWER/RECIPIENT	0.00
International Development Association (IDA)	50.00
Total	50.00

VI. Contact point

World Bank

Contact: Moez Cherif

Title: Senior Energy Economist

Tel: 5352+4166
Email: mcherif@worldbank.org

Borrower/Client/Recipient

Name: GOVERNMENT OF GUINEA
Contact: Saa Joseph Kadouna
Title: Director DNIP- Minsitry of Finances
Tel: 22468203613
Email: kasajose@yahoo.fr

Implementing Agencies

Name: Ministry of Energy
Contact: Mme. Kadiatou Balde Bah
Title: Senior Adviser
Tel: 224622622091
Email: katoulara2002@yahoo.fr

VII. For more information contact:

The InfoShop
The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 458-4500
Fax: (202) 522-1500
Web: http://www.worldbank.org/infoshop

Public Disclosure Copy