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INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT

FOR A PROPOSED DEVELOPMENT POLICY CREDIT

IN THE AMOUNT OF SDR 28.3 MILLION

(US$40 MILLION EQUIVALENT)

TO

THE REPUBLIC OF GUINEA

FOR THE

FIRST MACROECONOMIC AND FISCAL MANAGEMENT OPERATION

May 19, 2016

Macroeconomics and Fiscal Management Global Practice
Africa Region

THE REPUBLIC OF GUINEA - GOVERNMENT FISCAL YEAR
January 1 – December 31

CURRENCY EQUIVALENTS
(Exchange Rate Effective as of April 30, 2016)

Currency Unit	=	Guinean Francs (GNF)
GNF 7,552	=	US$1
SDR 0.70555199	=	US$1

ABBREVIATIONS AND ACRONYMS

AFRITAC	African Regional Technical Assistance Center
BCRG	*Banque Centrale de la République de Guinée* (Central Bank of Guinea)
CBG	Bauxite Company of Guinea
CPS	Country Partnership Strategy
CNDP	National Committee for Public Debt
CWE	China International Water and Electricity
C2D	Debt Reduction and Development Contracts
DPO	Development Policy Operation
DSA	Debt Sustainability Analysis
ECF	Extended Credit Facility
EDG	*Electricité de Guinée (*Electricity of Guinea)
EITI	Extractive Industry Transparency Initiative
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GNF	Guinean Francs
GoG	Government of Guinea
GRS	Grievance Redress Service
HIPC	Heavily Indebted Poor Countries
IGE	General State Inspectorate
IGF	General Finance Inspectorate
IMF	International Monetary Fund
ISN	Interim Strategy Note
LIC	Low Income Countries
MEF	Ministry of Economy and Finance
MFMO	Macroeconomic and Fiscal Management Operation
MoU	Memorandum of Understanding
PEFA	Public Expenditure and Financial Accountability
PER	Public Expenditure Review
PPP	Public-Private Partnership
PFM	Public Financial Management
SAG	*Société Anglogold Ashanti de Guinée (*Anglogold Ashanti Limited)
SMB	*Société Minière de Bauxite (*Boke Mining Society)
VAT	Value Added Tax
WBG	World Bank Group

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REPUBLIC OF GUINEA

FIRST MACROECONOMIC AND FISCAL MANAGEMENT OPERATION

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SUMMARY OF PROPOSED OPERATION AND PROGRAM
REPUBLIC OF GUINEA
FIRST MACROECONOMIC AND FISCAL MANAGEMENT OPERATION

Borrower	Government of Guinea		
Implementing Agency	Ministry of Economy and Finance (MEF)		
Financing Data	IDA Credit: SDR 28.3 million (US$40 million equivalent) (38-year maturity and 6-year grace period)		
Operation Type	First in a programmatic series of two development policy operations (DPO), single tranche disbursement.		
Pillars of the Operation and Program Development Objectives	The development objectives are to support the post Ebola recovery as well as to improve public finances, mining sector transparency, and the financial health of the energy sector. **Pillar 1: Support Post Ebola Recovery:** (a) strengthen health systems; (b) rehabilitate public service delivery; and (c) improve agricultural productivity by better access to fertilizers. **Pillar 2: Improve Public Finances:** (a) increase revenue mobilization; (b) improve public procurement; (c) strengthen Government's internal and external audit system; and (d) improve mining sector transparency and its contribution to local development. **Pillar 3: Reduce Fiscal Burden of Energy Sector:** (a) improve the efficiency of the power sector through better management of the public-owned utility (EDG); and (b) reduce subsidies from the central administration budget to EDG.		
Results Indicators	**Indicators**	**Baseline (2015)**	**Target (2017)**
	Support Post Ebola Recovery		
	• Allocation of budget for health sector (percent of total budget)	2.5	4
	• Number of new recruited health care workers and teachers	100	2000
	• Fertilizer imports by private sector (MT000)	10	30
	Improve Public Finances		
	• VAT Revenue/GDP	3.6	4
	• Number of procurement contracts audited	0	68
	• Percent of single source contracts in public investment projects	70	40
	• Companies participating in EITI process	0	400
	• Size of local development fund ($ million)	0	5
	Reduce Fiscal Burden of Energy Sector		
	• Subsidy given to EDG (% of GDP)	1.0	0.5
	• Percent of transmission losses (%)	40	30
Overall risks rating	Substantial		
Climate and Disaster Risks	*Are there short and long term climate and disaster risks relevant to the operation (as identified as part of the SORT environmental and social risk rating)? No.*		
Operation ID	P156629		

IDA PROGRAM DOCUMENT FOR A PROPOSED MACROECONOMIC AND FISCAL MANAGEMENT OPERATION TO THE REPUBLIC OF GUINEA

1. INTRODUCTION AND COUNTRY CONTEXT

1. **Despite great success in stopping the spread of the Ebola epidemic, serious challenges remain in addressing the impact of the epidemic that affected Guinea, Liberia and Sierra Leone since early 2014.** By end-December 2015, the epidemic had cost the lives of more than 11,300 people in the three countries, including more than 500 health care workers. The number of new cases peaked at more than 50 per week in early 2015 before gradually declining as containment efforts took effect. Liberia was declared free of Ebola transmission in May, 2015 Sierra Leone in November and Guinea on December 29, 2015. Yet, the occurrence of new infection clusters in Liberia, Sierra Leone, and Guinea after these countries have been declared free shows that continued vigilance is needed and that strengthening the health systems of the three countries remains a high priority. In addition to the great loss of life, the epidemic has caused great economic damages to the countries' economies: total gross domestic product (GDP) losses for the three countries in 2015 alone are estimated at US$2.2 billion, of which US$535 million for Guinea, US$240 million for Liberia, and US$1.4 billion for Sierra Leone.

2. **As part of the international response, the World Bank Group significantly scaled up its support to Ebola-affected countries.** Overall, the WBG has mobilized close to US$1.6 billion in financing for the countries hardest hit by the crisis, including US$400 million announced in August and September 2014 for the emergency response. The funds have financed Ebola-containment efforts in Guinea, Liberia, and Sierra Leone, helped families and communities cope with the economic impact of the crisis, and rebuilt and strengthened essential public health systems to guard against future disease outbreaks.

3. **Guinea, which is home to 10.6 million people, is a fragile country and has been adversely affected by the fall in international commodity prices since 2014.** It is among the poorest countries in the world with an annual per capita income of only US$460. The poverty rate was close to 55 percent in 2012 and has likely increased thereafter as the result of the Ebola epidemic and other external shocks such as the decline in commodity prices. In 2015, global supply and demand conditions have conspired to lower prices for almost all commodity prices, including oil and iron ore. Weighed on by global oversupply, iron ore prices are under strain and are projected to trade at an average of US$50 a ton in 2016. This is damaging to Guinea as more than 80 percent of its foreign exchange comes from mining exports.

4. **The recent presidential elections, which returned incumbent President Condé with almost 58 percent of the vote, offers new opportunities for reforms and improved economic governance.** The new Prime Minister—Mr. Mamady Youla, a private sector mining executive took office on December 29, 2015 and a new government was nominated early in January 2016. The new Government is ready to implement an ambitious post Ebola recovery plan, which was endorsed by the international community, including the World Bank. However, the fiscal situation in the country remains extremely fragile requiring close monitoring by the Bank and the International Monetary Fund (IMF) as well as financial assistance both in the short and medium term.

5. **This program document proposes a programmatic series of two operations designed to help launch post Ebola recovery in Guinea and to focus on several institutional reforms to increase the country resilience to shocks and enhance its development prospects.** The series was designed in close collaboration with the authorities and in cooperation with other partners. The key pillars of the operation are: to support post Ebola recovery, to improve public finances, and to reduce the fiscal burden of the energy sector by improving its efficiency. The first pillar supports the recovery from the Ebola crisis by strengthening health financing and worker recruitment and enhancing agricultural production through reforms in fertilizer input provision, while the second pillar supports improved public financial management, with focus on revenue collection, procurement reforms, stronger internal audits, better transparency as well as a stronger governance framework for enhancing the impact of mining activities on local communities. The third pillar aims at reducing the fiscal burden of the energy sector by supporting the performance of the management contract of the energy utility company, increasing electricity tariffs, and improving revenue collection.

6. **The proposed First Macroeconomic and Fiscal Management Operation (MFMO1) will be the first in a series of two operations. The first operation is a disbursement of US$40 million equivalent,** provided on standard IDA conditions. It follows up on the Emergency Macroeconomic and Fiscal Support Operation (P151794 US$50 million equivalent) that was approved by the Board in November, 2014. The operation complements the previous operation and shifts focus from Ebola containment to post Ebola recovery and deepens the reform agenda in a number of areas—public finance, mining, and electricity. The operation is fully consistent with the Bank's twin goals of ending extreme poverty and promoting shared prosperity by increasing the incomes of the poorest 40 percent of the population. It is also aligned with the objectives of the Bank's four-year FY14–17 Country Partnership Strategy (CPS) for Guinea, discusssed by the Board in October 2013.

2. MACROECONOMIC POLICY FRAMEWORK

2.1 RECENT ECONOMIC DEVELOPMENTS

Economic Growth and Ebola

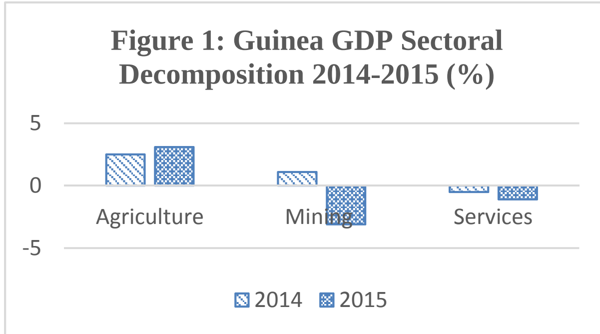
7. **After good growth performances in 2011 and 2012, Guinea's economy has suffered a number of setbacks, including the Ebola crisis and a sharp drop in new investment in the mining sector.** These external shocks were further compounded by political unrest in the run-up to legislative elections in 2013. As a result, GDP growth dropped to 1.1 percent in 2014 and 0.1 percent in 2015 respectively (Table 1). The services and mining sectors were adversely affected by Ebola in 2015 with strong contraction in the mining sector, while the agricultural sector showed resilience and was the key driver of growth in 2015, helping the economy not to contract (Box 1).

8. **Economic growth stagnated in 2015**. The main causes were the Ebola crisis and the decline in mining activities. The mining sector is estimated to have contracted substantially in 2015 due to a combination of investor aversion because of Ebola, declining international metal prices, and Guinea's uncertain policy regime in this sector. As an illustration, the preparatory work for the major Simandou iron ore project, which has the potential to transform Guinea's economy,

was further delayed.[1] The epidemic and renewed political unrest in the run-up to the October presidential elections in 2015 also resulted in declining activity in the services sector. However, agriculture appears to have weathered those shocks better than feared, and electricity production has improved following the start of operations of the new Kaleta hydroelectricity power plant by mid-2015. Reflecting low domestic demand and the sharp decline in domestic fuel prices early in 2015, inflation continued to decline and reached 7.5 percent year-on-year in November 2015.

Box 1: Economic Impact of the Ebola Epidemic in Guinea

The Ebola pandemic significantly affected Guinea's economy, jeopardizing some of the gains in macroeconomic stability and poverty reduction of the previous years. The epidemic led to a sharp fall in international travel to Guinea and in activity in investments and projects involving expatriate workers. Neighboring countries closed borders, affecting agricultural and manufacturing production. However, agricultural turned out to be more resilient than mining which contracted in 2015, while services contracted both in 2014 and 2015 (Figure 1). At the peak of the crisis in 2015, air transport has declined by more than 50 percent, and hotel occupancy was at 25 percent. Construction had contracted by more than 50 percent in 2014-2015. Cost and freight had become more expensive by more than 30 percent, and traffic container volume at the Port of Conakry declined by thirty percent in 2014-2015.



Source: Bank estimates, 2016.

Fiscal Policy and Developments in 2015

9. **The fiscal situation deteriorated sharply in 2015.** A large part of the expenditure to address the Ebola epidemic in 2014 and 2015 was financed by donors, both through and outside the budget. However, the stagnating economy negatively affected revenues, while the presidential elections and attempts to boost economic activity drove an increase in spending. Moreover, IMF program reviews were delayed as the authorities unexpectedly changed fiscal policy by increasing multiannual projects for a total amount equivalent to 12.2 percent of GDP. Not only most of these projects were not included in the 2015 budget but the provision of the payments associated to these contracts had also to be guaranteed by the central bank, therefore threatening macroeconomic and fiscal stability (Box 2). Consequently, new budget support was also delayed, including from the European Union (EU) and the Bank, resulting in a sharp decline in aid compared to 2014. As a result, the overall deficit increased to 9.3 percent of GDP, more than double the deficit of 2014.

10. **Revenue is estimated to have been slightly lower in percent of GDP in 2015 than in 2014.** On the one hand, taxes on the mining sector increased in 2015 compared to 2014, mainly due to the arrival of the *Société Minière de Bauxite* (SMB), more tax payments from one of the largest mining company operating in Guinea, *Société Anglogold Ashanti de Guinée* (SAG), and

[1] Guinea's mining sector is vital for the economy. In 2013, mining accounted for more than a quarter of GDP and more than 95 percent of its exports. Guinea has very rich mining deposits (bauxite, iron ore, gold and diamonds) and forty years of experience as a major exporter of mineral products.

exchange rate effect for taxes paid in U.S. dollars. Collections of indirect taxes did not change much in terms of GDP in 2015 as in 2014, reflecting a decline in taxes on international trade that was offset by an increase in revenue from taxes on goods and services. Encouragingly, new taxes on telecommunications, introduced in July 2015, raised revenue about 0.5 percent of GDP during the last six months of the year. Overall weaknesses in revenue mobilization in 2015, especially mining and customs taxes, suggest the need for higher tax rates.

Box 2: Government Guarantees

For 2015, the Government of Guinea (GoG) faced a possible sharp decline in financing of its capital spending. During 2012-2014, the budget maintained a high level of capital spending to strengthen the deteriorated infrastructure. A considerable part of this effort was financed from exceptional mining revenue that had been received in 2011 and another part from budget support from non-traditional donors.[2] Aid flows were close to 4 percent of GDP in 2015, and more than 1 percent of GDP in 2016, with significant inflows coming from the IMF and the EU. However, by end 2014, the exceptional revenue had been exhausted and new donor support was not forthcoming. Moreover, the chances for new exceptional mining revenue receded as the GoG was unable to finalize the sale of three bauxite concessions with the winning bidders.[3]

With the aim to fill in the infrastructure gap, the GoG entered into a special scheme whereby companies would pre-finance the project with payments guaranteed by the central bank. The GoG signed 14 contracts under the scheme for a total amount of US$811 million (12.2 percent of GDP). The contracts were committed outside the normal public procurement procedures. Roads and the electricity sector accounted for about 45 percent each of the total amount contracted; the remainder included both capital and current spending items. Most of the contracts (84 percent in value terms) were in foreign currency (52 percent in dollar and 32 percent in euro). About 79 percent of the total amount would be executed between 2015 and 2016, and the remainder during 2017-2019.

The scheme led to a sharp deterioration of the fiscal situation with public investment increasing by more than 3 percent of GDP, a decline by more than half in net international reserves, and contributed to a depreciation of the exchange rate. Actual payments on the projects amounted to GNF 1,761 billion (3.5 percent of GDP) in 2015, which resulted in a similar increase in central bank financing of the Government budget. This, compounded by a sharp increase in commercial bank credit to the budget, caused a rapid decline in Guinea's international reserves while the exchange rate depreciated. With similar amounts of spending planned for 2016, the scheme posed a threat to Guinea's external stability and risked a surge in inflation.

As part of the negotiations with the IMF and Bank staff to restore the budget's sustainability, the Government undertook strong measures to limit the impact of the pre-financing scheme. First, the Government fully cooperated and created a committee to do the appropriate due diligence on the guarantees and centralize all information. This committee consisted of senior officials in: budget, public investment, public debt, public procurement, and public treasury. As a precondition to IMF support, the Government: (a) renegotiated the terms and conditions of the guarantees that are due, but not yet paid to the private companies; (b) postponed the payment of some of the guarantees that were due in 2015 to reflect the level of execution of some the projects; and (c) suspended the issue of new guarantees while seeking alternative ways to fund public investment projects. The guarantees were restructured in 2015 to contain the impact on international reserves and the level of central bank advances to the Government. As a result, the total amount of guarantees was reduced by about one-third to 9 percent of GDP, of which 1 percent of GDP to foreign banks. Associated spending has been reduced by 2.2 percent of GDP to reach 2.3 percent of GDP.

[2] In May 2011, Guinea received a one-off payment of US$700 million (15 percent of GDP) from mining company Rio Tinto.

[3] The Government expected to raise at least $600 million from the sale of three bauxite concessions in the Boffa area, of which US$80 million was included in the initial 2015 budget.

Table 1. Guinea Macroeconomic Indicators 2013–2018

	2013	2014	2015	2016	2017	2018
			Est.	Proj.		
	(annual change in percent)					
National accounts						
GDP at constant prices	2.3	1.1	0.1	4.0	5.4	5.9
GDP deflator	6.3	9.8	6.6	8.2	9.7	6.1
GDP at current prices	8.7	11.0	6.7	12.6	15.6	12.3
Consumer prices						
Annual average	11.9	9.7	8.2	7.9	8.0	6.7
End of period	10.5	9.0	7.3	8.5	7.5	6.0
External sector						
Exports, (f.o.b.; in US$ terms)	-31.6	4.8	-4.4	5.6	5.4	6.7
Imports (f.o.b.; in US$ terms)	-0.7	11.4	-13.0	-14.0	29.8	14.3
Money and credit						
Net foreign assets 1/	-0.3	-8.3	-11.0	6.2	…	…
Net domestic assets 1/	14.4	20.6	31.2	4.8	…	…
Net claims on government 1/	10.2	7.5	17.2	-0.9	…	…
Credit to non-government sector 1/	9.7	13.7	10.8	5.7	…	…
Reserve money	15.7	14.5	2.6	8.1	…	…
Broad money	14.1	12.3	20.3	11.0	…	…
	(In percent of GDP)					
Central government finances						
Total revenue and grants	19.8	22.3	19.4	24.4	24.6	25.1
Revenue	18.4	18.2	17.9	20.4	20.4	20.7
Grants	1.5	4.1	1.5	4.0	4.2	4.4
Total expenditure and net lending	25.1	26.5	28.5	25.7	25.0	26.0
Current expenditure	16.2	17.9	18.5	16.0	15.4	15.1
Capital expenditure and net lending	8.9	8.6	10.0	9.7	9.6	10.9
Overall budget balance						
Including grants	-5.3	-4.2	-8.9	-1.3	-0.4	-0.9
Excluding grants	-6.8	-8.4	-10.3	-5.3	-4.6	-5.3
Financing						
Domestic borrowing	2.3	2.2	5.5	-0.6	-1.3	-1.0
External borrowing	2.8	2.0	3.4	1.8	1.5	1.5
National accounts						
Gross capital formation	21.0	9.3	10.1	20.6	33.7	41.5
Savings	-0.1	-16.4	-12.3	7.6	9.0	11.5
Current acount balance						
Including official transfers	-26.8	-25.7	-22.4	-13.1	-24.7	-30.0
Excluding official transfers	-27.3	-27.4	-22.6	-14.5	-26.1	-31.4
Overall balance of payments	0.5	-0.9	-5.2	1.6	0.5	2.2
Gross official reserves (in months of imports) 2/	3.6	3.6	2.4	3.0	3.0	3.0
External public debt (in percent of GDP)	25.3	26.2	27.8	27.1	24.8	…
Total public debt	39.3	41.0	46.5	43.2	38.1	…
Nominal GDP	43,048	46,995	50,147	56,448	65,250	73,281

Source: International Monetary Fund; and Bank staff estimates and projections, March 2016

1/ In percent of the broad money stock at the beginning of the period.

2/ In months of the following year's imports excluding imports for large foreign-financed mining projects.

11. **Expenditure is estimated to have been about 2 percent points of GDP higher in 2015 than in 2014.** There was an increase in spending due to increase in Ebola-related transfers, civil service wages, outlays on subsidies, reflecting a continuing high level of subsidies to the electricity company *Electricité de Guinée* (EDG) and the cost of the presidential elections.[4] Part of these increases were offset by much lower spending on goods and services on non-priority expenditures, but Ebola-related spending increased. Capital spending is estimated to have risen by 2 percentage points of GDP, mainly because of higher foreign-financed project spending. The Central Bank of Guinea (*Banque Centrale de la République de Guinée,* BCRG) provided advances equivalent to 3.7 percent of GDP, which reflected the advance payments made under the guarantee scheme. The commercial banks provided the remaining 2 percent of GDP in the form of both treasury bills and bonds. External financing amounted to 3.5 percent of GDP, mostly in the form of project loans.

12. **In terms of overall fiscal policy, the Government has taken actions to address the fiscal slippages with a combination of measures on revenue mobilization, fiscal consolidation, and continued mobilization of grant financing.** The 2016 budget, which was approved by the Parliament in early January, aims at reducing the fiscal deficit by 8 percent in 2016 through an increase in revenue by 2.5 percent of GDP compared to the expected 2015 outturn. In terms of revenue mobilization, the government is aiming for the return of significant mining investment and an increase in direct tax revenue due to resumption of economic activity in the post Ebola period. The inclusion of more than US$41 billion in the mining project pipeline over the next five to seven years in the bauxite, aluminum, and iron ore sectors and the possible creation of close to 20,000 jobs and significant revenue will help the country. Additionally, key new measures, supported by the operation, include: (a) an increase in the rate of the Value Added Tax (VAT) from 18 to 20 percent and broadening of the VAT base through the elimination of the exemption for flour and cooking oil; (b) in customs, the introduction of a stamp duty on used vehicles, an augmentation of the assessed value of imported used vehicles and of imports through land borders, and a rise in excises on alcohol and tobacco; (c) an extension of the tax on access to the telecommunications network to data (internet access) and messaging; and (d) higher fees for new vehicle license plates and biometric passports. These measures complement the efforts initiated by the authorities in mid-2015 and are expected to sustain in the medium term.

13. **In parallel and as part of its reform efforts, the Government adopted a 2016 budget agreed with donors.** As part of its reform effort, the Government has adopted fiscal consolidation measures, including reduced allocations for current expenditure by 2.5 percent of GDP compared to the estimated outturn for 2015, reflecting significant cuts in spending on goods and services (despite the intention to double spending on health) and subsidies by about 1.5 percent of GDP each, even though the wage bill will slightly increase — due to the full-year effect of the 2015 wage increase). Following the renegotiation of some of the projects under the Government guarantee scheme, the budget for domestically financed investment spending has been reduced from an estimated 6.8 percent of GDP in 2015 to 5.8 percent of GDP in 2016. The difference between revenue and expenditure (excluding foreign-financed project expenditure) resulted in a financing gap of 1.6 percent of GDP (Table 2).[5]

[4] In January 2015, the Government and the unions reached agreement on a 40 percent increase in basic civil service wages. Half of the increase became effective on April 1, and a further 10 percent became effective on July 1 and October 1, 2015.

[5] In the budget, foreign financed capital spending equals the sum of project grants and project loans.

14. **The financing framework for 2016 has been agreed between the Fund, Bank, and the Guinean authorities, with an important focus on fiscal sustainability.** The 2016 budget includes a combination of fiscal consolidation and expenditure rationalization, with the reversal of guarantees and the protection of pro-poor health expenditures, and a financing gap that is expected to benefit from the continued support of the development community. The IMF Board approval of the Extended Credit Facility (ECF) review in March 2016 provides further support. The authorities have demonstrated a quick response to the circumstances to address the Ebola epidemic and recovery efforts, as well as the fiscal slippages of 2015 while continuing the reform program.

Table 2. Guinea Financing Requirements and Sources in 2016

	In GNF billions	In US$ millions	In percent of GDP
Revenue	11,511	1,308	20.4
Expenditure	12,405	1,409	21.9
Current expenditure	9,053	1,028	16.0
Wages and salaries	3,280	373	5.8
Goods and services	2,790	317	4.9
Subsidies and transfers	1,999	227	3.5
Interest	984	112	1.7
Domestically-financed development expenditure	3,291	374	5.8
Net lending and restructuring expenditure	61	7	0.1
Balance	-894	-102	-1.6
Financing:	-872	-99	-1.5
Domestic financing	-314	-36	-0.6
Bank financing	-167	-19	-0.3
Non-bank financing	-147	-17	-0.3
Amortization external debt service and debt relief	-558	-63	-1.0
Financing gap	-1,766	-201	-3.1
Budget support grants	1,149	131	2.0
Abu Dhabi	332	38	0.6
AfDB	132	15	0.2
EU	246	28	0.4
France (C2D)	207	23	0.4
France (AFD)	56	6	0.1
World Bank	176	20	0.3
Budget support loans	616	70	1.1
Republic of Congo	440	50	0.8
World Bank	176	20	0.3
Remaining gap	0	0	0.0
Memorandum items:			
Externally-financed investment	2,113	240	3.7
Project grants	1,105	125	2.0
Project loans	1,008	115	1.8
GDP			56,558
Source: Guinean authorities, March 2016			

15. **The above fiscal gap, up to 3.1 percent of GDP when domestic financing and amortization of external debt are accounted for, is expected to be fully-financed by new budget support, including grants and loans.** As shown in Table 2, the Government expects budget support grants equivalent to 1.7 percent of GDP, including from Abu Dhabi and under the France Debt Reduction and Development Contracts (C2D). The African Development Bank, the EU, and the French Development Agency are all planning to resume their budget support.[6] It also expects the second disbursement under a loan agreement with the Republic of Congo (0.8 percent of GDP), although there are some risks that it will not materialize (the Fund program has included an adjuster in case the Congo loan does not happen). The remaining gap will be closed by the Bank's proposed budget support operation of US$40 million.

Monetary Policy and Exchange Rate

16. **After 2010, monetary policy initially focused on reducing inflation and stabilizing the exchange rate but was gradually relaxed in 2013-2014 to support higher economic growth.** These policies resulted in a steady decline in inflation rate from a peak of 23 percent in October 2011 to close to 10 percent by end-2013. The exchange rate remained stable at about GNF 7,000 per U.S. dollar since mid-2011 while gross official reserves, boosted by the 2011 exceptional revenue, remained at 3-4 months of import coverage. These positive developments allowed the BCRG to start relaxing monetary policy gradually by end 2013. Since then, the reserve requirement for commercial banks has been reduced from 22 percent to 20 percent while the BCRG's main policy interest rate was reduced in several steps from 22 percent to 11 percent by mid-2015 to provide greater liquidity. Inflation continued to fall to 9.0 percent by end-2014.

17. **Monetary policy was highly expansionary during 2015, resulting in a sharp fall in international reserves and a depreciation of the exchange rate.** Net credit to the Government is estimated to have increased by almost 20 percent of end-2014 broad money during 2015, reflecting the BCRG's advances under the Government guarantee scheme and the commercial banks' financing of the remaining budget deficit. Credit to the private sector also rose rapidly, partly reflecting the pre-financing of projects under the guarantee scheme. As a result, net domestic assets of the banking system are estimated to have expanded by 37 percent of end-2014 broad money. A large part of the BCRG's payments under the Government guarantee scheme were in foreign currency, resulting in a decline in international reserves, which came under further pressure from the large monetary expansion. By end-December, net international reserves of the BCRG had fallen by more than half and gross reserves by more than a third, covering 2.3 months of imports compared to 4.2 months at end 2014. In addition, by end of 2015, the black market premium was 7.8 percent for the U.S. dollar.

18. **Going forward it is expected that monetary policy will focus on price stability, with inflation targets in the single digits.** Despite the monetary expansion and the depreciation of the exchange rate, inflation continued to fall in 2015. Food prices rose by about 9.4 percent during 2015 as a result of supply bottlenecks due to the Ebola pandemic, partly offset by food surpluses in areas that were less affected. However, price increases were much lower in other sectors,

[6] The 2016 budget law created a special assigned budget account for the expected support from Abu Dhabi, including a list of projects (included in the budget under domestically-financed development expenditure) that will be financed from the support once it is received.

especially in the transport sector, reflecting the 20 percent reduction in pump prices for fuel in 2015. As a result, according to the Central Bank, overall 12-month consumer price inflation fell from 9.0 percent in December 2014 to 7.5 percent by end of November 2015. Moving forward, the central bank is committed to continuing to keep inflation in the single digits.

19. **Guinea's current-account deficit (including official transfers) is estimated at 22.4 percent of GDP in 2015, which is expected to have been financed by capital inflows and a fall in international reserves.** Weaker-than-envisaged mining performance has reduced exports in 2015, but imports also fell, reflecting the stagnant economy and a decline in international fuel prices, reducing the value of imports. Declines in private and foreign investment have led to a deterioration of the capital account in 2014 and 2015. Further delays in the construction of the Simandou project and related infrastructure have deferred an expected rise in foreign direct investment (FDI) inflows and imports to 2016 and 2017. Guinea's current account deficit has remained high due to the strong fuel, food, and capital needs of the economy, reaching 25.7 percent in 2014 and 22.4 percent in 2015. By 2025, the country is expected to have a current account surplus of more than 5 percent due to strong mining exports.

Poverty

20. **Poverty affected about 55 percent of Guinea's population in 2012, up from 49 percent in 2003, and is likely to have increased further as a result of Ebola crisis and economic stagnation.** The poverty headcount rate remained far higher in rural areas (65 percent in 2012) than in urban centers (35 percent). Poverty rates also varied significantly by region, with the highest rates observed in the remote Nzérékoré and central Labe provinces and the lowest rate recorded in the capital, Conakry. These rates have certainly increased as the result of the Ebola crisis and economic stagnation in 2014 and 2015. This is particularly true for Macenta and Gueckedou, the two areas in the southeast that have been most affected by Ebola and that already had poverty rates above the national average.

21. **A recently conducted mobile phone survey in September, 2015, based on interviews with close to 2500 households across Guinea, confirmed that Ebola had several negative effects on the Guinean households.** Most important, welfare levels based on asset ownership deteriorated, particularly for rural households, consistent with pronounced income decline of more than 30 percent for rural households. Women were significantly impacted in areas severely affected by Ebola, and there was a decline in food consumption. In parallel, urban unemployment reached 18 percent in severely affected areas at the end of 2015 in the aftermath of Ebola, and close to 10 percent of households withdrew their children from school, with the large majority citing Ebola as the main factor. Surprisingly, agriculture production remained resilient and food prices were stable, partly due to good food security interventions by the Government and donors.

2.2 MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

22. **Guinea's medium-term economic outlook remains positive, provided that there is no resurgence of Ebola and that the political situation remains stable.** The country has abundant natural resources, including in minerals and precious metals and in agriculture, and great potential for hydroelectric power generation. Provided that Ebola remains under control and the political situation stabilizes after the 2015 elections and in the run-up to local elections in 2016, investment

could gradually pick up, including in the mining sector. Nevertheless, given the severity of the shocks that have hit Guinea during 2014-2015, the recovery is expected to be gradual and will need to be supported by policies to restore macroeconomic stability and rebuild external reserves. Structural reform will be needed to improve the business environment, including in the mining sector, and strengthen the delivery of public services.

23. **Following the end of the Ebola epidemic, economic growth is projected to rebound to 4 percent in 2016 and to 5-6 percent in 2017-18, although considerable downside risks remain.** Agricultural production should continue to grow at the rapid pace of the previous years, and manufacturing and services should benefit from the both the resumption of trade and the improved electricity supply in Conakry. However, the projected rebound in mining production will depend crucially on quick improvements in the regulatory environment and in the outlook for international metal prices. In this regard, Rio Tinto has made progress in preparing a bankable feasibility study for the Simandou project, but it remains unclear when this large-scale investment will start. However, the project pipeline includes more than US$20 billion in bauxite, alumina, and iron ore sectors that would help employment and significantly improve government revenue. Bauxite projects in the *Compagnie des Bauxites de Guinee* (CBG), as well as SMB, are projected to come on board in the next year or two, possibly leading to more than 5,000 jobs and increases in revenue. The new one-stop shop for large mining projects should help bring in important FDI flows into the sector. However, risks also come from possible delays in restarting the structural reform effort, as well as from municipal elections, which may lead to further political unrest in 2016.

24. **The macroeconomic framework is considered sustainable and adequate for development policy lending.** The current account is projected to be sustainable in the medium-term from 2015 to 2018 and is adequately financed (Table 3). The current account deficit is forecast to decrease in 2016 before increasing in 2017 and 2018. International oil prices are projected to move to less than US$40 per barrel in 2016, which will positively affect the current account as imports cover more than 70 percent of Guinea’s energy requirements. Based on the latest Bank forecasts, iron ore prices will fall to close to US$40 per ton in 2016 but exports should rise in 2016 and 2017 driven by new mining projects. However, this price still remains above many of the company’s breakeven costs. In 2016, an increase in bauxite exports, compression in imports and lower oil prices will result in a lower current account balance. However, by 2017, the current account deficit is projected to widen as imports of construction materials increase to finance both the logistics involved in managing the post Ebola recovery effort and the new mining activities, especially Simandou. In terms of policy framework, the Government is focusing on mobilization of aid inflows and FDI in order to finance the current account. The Government is courting FDI aggressively with the plan to complete new concession projects in the coming years. These FDI inflows will finance a large part of the deficit in the medium term, but there would be contributions from official aid and transfers as well as private sector financing. As part of its reform program, the Government is having a more cautious fiscal and monetary stance, with the plan to reduce reliance on bank financing in the medium-term. As agreed between the Fund and the authorities in 2015, the quasi-fiscal activities of the Central Bank will be reduced. Over the longer term, the Government’s reform agenda will focus on increasing mining exports to help the country achieve a more sustainable longer equilibrium.

Table 3: Medium Term Sustainability: Current Account and Fiscal 2015-2018

	2015	2016	2017	2018
Current account balance (incl. transf)	-22.4	-13.1	-24.8	-30.1
Excluding imports for large mining companies	-21.9	-11.1	-13.6	-12.8
Excluding transfers	-22.6	-14.5	-26.2	-31.6
Fiscal balance (inc grants)	-8.9	-1.3	-0.4	-0.9
Revenue	17.9	20.4	20.4	20.7
Expenditure	28.5	25.7	25.0	26.0
Financing				
Public (medium and long-term)	2.6	1.9	1.0	1.5
Foreign direct investment	1.2	5.0	18.8	26.9
Private	5.5	4.9	1.8	0.7
Bank financing	5.2	-2.3	-0.8	-2.7
Other (including errors and omissions)	7.9	3.6	4.0	3.7
Source: Government of Guinea, IMF, March 2016				

25. **The medium term fiscal framework until 2018 is projected to be sustainable.** The improvement in revenues due to stronger tax measures and resumption of mining activity, combined with expenditure rationalization in the medium-term will help create sustainability. As a result of fiscal consolidation, the deficit is projected to fall from 8.9 percent in 2015 to 0.9 percent in 2018. The return of investment in the aftermath of Ebola, can contribute to revenue gains, while the Government of Guinea will reduce current expenditures as a percent of GDP from 2016 to 2018 in order to have more manageable deficits. The focus of the medium-term fiscal adjustment will be on reduction in expenditures on goods and services that are not pro-poor coupled with reductions in domestically financed public expenditure. The Government will continue its efforts to obtain grant financing over the medium-term.

26. **Guinea maintained external debt sustainability since it received debt relief under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative in 2012**. In September 2012, the IMF and Bank approved Guinea's achievement of the completion point for the enhanced HIPC program and the Multilateral Debt Relief Initiative. Guinea received a debt cancellation amounting to US$2.13 billion, which significantly reduced its external public debt. Following this, the Paris Club creditors agreed to a debt cancellation in the amount of US$655.9 million, or 99.2 percent of the country's total Paris club debt burden, on October 25, 2012. As a result, Guinea's total debt decreased from 65.9 percent of GDP in 2011 to 25.6 percent in 2012. However, the debt to GDP ratio increased up to 38.0 percent in 2015. This increase is primarily accounted for by a loan for the Kaleta hydroelectric dam.[7] The debt-service-to-exports ratio and the debt-service-to-revenue

[7] Guinea also has outstanding external debt arrears of US$186 million (11 percent of total debt) that are virtually all to non-Paris club official bilateral creditors. These arrears have increased slightly since end-2012 because of arrears accrued on debt service falling due to a creditor. Discussions between the creditor and authorities are ongoing so that these arrears can be resolved.

ratio have decreased from 9.5 percent and 13.2 in 2012 to only 5 percent for both measures in 2015.

27. **Available data indicates that Guinea's public domestic debt has varied in terms of GDP since 2008, reflecting the changes in fiscal stance.** [8] Domestic debt doubled in percent of GDP between 2008 and 2010 to over 31 percent of GDP, reflecting the large fiscal deficits in 2009-2010. During 2011-2014 most of this increase was reversed as fiscal policies aimed at avoiding new domestic debt while nominal GDP continued to increase. However, looser fiscal policies resulted in a sharp increase in borrowing from the BCRG and from commercial banks in 2015 and the debt to GDP ratio rose again to over 22 percent of GDP.

28. **According to a Bank-Fund staff update of the debt sustainability analysis (DSA) in January, 2016, Guinea continues to be assessed at a moderate risk of debt distress.** Using a higher and unified discount rate of 5 percent (previously 3 percent), which was introduced in October 2013, the team found no changes in the underlying conditions. The moderate rating is based on Guinea's vulnerability to adverse shocks to growth, exports, FDI inflows, fiscal performance, and delays in the implementation of mining projects. The Bank and Fund teams are working closely with the authorities to ensure that all new loans in 2016 and onward are contracted with high degree of concessionality and strong development impact.

2.3 IMF RELATIONS

29. **Guinea's economic policies are supported by the IMF under the ECF.** The ECF is for a total amount of SDR 173.7 million (US$240 million) and covers the period January 2012-September 2016, thus amounting to about US$60 million a year. The program aims to consolidate macroeconomic stability, improve prospects for growth, and intensify efforts to reduce poverty. Under the program, the Government is implementing measures to reinforce the economy's resilience against various shocks, while promoting inclusive growth and poverty reduction. IMF and IDA staff are supporting the authorities in implementing the Poverty Reduction Strategy Paper and providing them with technical assistance on resource mobilization and budget management.

30. **The IMF Board approved the Sixth and Seventh Reviews on March 14, 2016 and the ECF program is now scheduled for completion in October 2016 with the Eight Review.** The December 2015 review was delayed due to central bank guarantees for public investment contracts that breached the fiscal parameters of the program, but the program finally went to the Board in March 2016 with a completed macroeconomic framework and a fully financed budget for 2015. At end December 2015, the Government and the IMF had reached an agreement on policies on the successful closing of the 2015 budget, a coherent macroeconomic policy framework for 2016, together with monetary and fiscal parameters. The IMF agreed with the Government on a fully financed budget for 2016, the inscription in the budget of all public investment, including those funded by guarantees, and a plan to reimburse the central bank during 2016-2018. During 2012-

[8] There is little information about Government arrears to the private sector; given the weak administration in the years before and during the 2009-2010 military regime, such arrears could be substantial. The French Development Agency is financing an audit of the domestic debt, including arrears. The first part of the report—a review and evaluation of the claims—was provided to the Minister of Finance in December 2015. Part 2 of the report, providing proposals for clearing the arrears is expected during the first quarter of 2016.

2014, Guinea made good progress under its economic program supported under the ECF but delays occurred in 2015.[9] The completion of the 6th and 7th reviews under the ECF-supported program had been delayed in view of fiscal concerns, especially the Government's guarantee scheme and the resulting financing by the Central Bank, but now the Fund ECF program is back on track, scheduled for completion in October 2016. The authorities have taken strong fiscal adjustment measures and reformed the exchange rate mechanism to bring the program back on track. In terms of post-program monitoring agreement, the Fund team is currently discussing with the authorities a successor arrangement to the ECF to ensure that the reform agenda is maintained.

3. THE GOVERNMENT'S PROGRAM

31. **The Guinea Ebola Recovery Plan, presented at the Bank Spring Meetings in April 2015, represents the GoG's ambitious and wide-ranging attempt to relaunch the economy in the aftermath of Ebola.** The plan used a participatory approach that involved ministries, private sector operatives, representatives of civil society, and the National Assembly. In terms of financing, the total estimated cost of this plan over the 2015-2017 period amounts to US$2.89 billion, with US$857 million for 2015, US$1,174 billion for 2016, and US$864 million for 2017. This includes US$1.81 billion of additional investment to recover from the consequences of the crisis, revive the economic and social development and build resilience, US$150 million for the Emergency Fund in support of the private sector, US$50 million for auditing a portion of domestic debt, US$75 million for an ambitious program of social transfers, US$200 million to offset the loss of fiscal revenue in order to face unexpected expenses or for sectors not covered in the plan. The plan is based on the following pillars—social sector support, economic recovery, infrastructure development, and governance support.[10]

32. **The Ebola Recovery Plan provides a good starting point for policies to put the country back on track toward sustained growth and poverty reduction, although further work will be needed**. The plan reflects the Government's assessment of the key challenges emerging in the aftermath of the Ebola pandemic and represents a multi-pronged approach to focusing on the medium-term recovery by jumpstarting the key sectors. It is consistent with the recent discussions with the Bank and the Fund on macroeconomic stabilization, preservation of fiscal stability, and supporting the development of private sector-led growth. The plan remains largely underfinanced. The Bank worked closely with the authorities in reviewing the post Ebola recovery strategy. The IMF has been supportive of the Government post Ebola recovery strategy, but concerns remain regarding the ability to mobilize funding.

33. **One important element of the Government recovery plan is the development of public infrastructure.** Along the same vein, with the end of Ebola, the government aims at accelerating the construction of the Souapiti dam. The Souapiti (Kaleta) hydroelectric dam on the Konkouré River in northern Guinea has a potential to generate 550 megawatts of energy and address some

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[9] The IMF Board completed the 5th review under the ECF-supported program on February 11, 2015. At that time, the IMF increased the amount under the loan by about US$63 million, of which US$41 million was disbursed as budget support to assist in addressing the impact of the Ebola pandemic on the budget, and extended the program to provide a framework for the difficult period under the epidemic and in the run-up to the presidential elections.

[10] The Plan includes six major risks that could affect the implementation: political instability, lack of leadership, fiscal risks, regional spillover risks, climactic risks, and the resurgence of the disease that could jeopardize the recovery effort.

of Guinea's urgent needs. In 2016, the GoG signed a Memorandum of Understanding (MoU) for a deal for the construction of the dam with China that would be a US$1.5 billion joint venture in the form of a public-private partnership (PPP) between the GoG and China International Water & Electric (CWE), the company that built the successful 240 MW Kaleta dam. The dam is projected to double the country's power supply when completed by 2020. The Bank and IMF teams are starting to review the deal in order to assess the debt sustainability impacts.

4. THE PROPOSED OPERATION

4.1 LINK TO THE GOVERNMENT'S PROGRAM AND OPERATION DESCRIPTION

34. **The proposed First Macroeconomic and Fiscal Management Operation is the first of two operations in a series and is broadly supportive of key elements of the country's post Ebola recovery strategy and aims at strengthening transparency in priority sectors.** The post Ebola recovery plan provides a broad and detailed reference framework for accelerating public investment and for medium-term reforms that the Government is proposing to undertake. The main ideas behind these reforms are articulated in the Government's letter of development policy. The second operation will deepen the reforms and address more complex institutional policy areas and support putting the country's reform agenda on a medium-term basis.

35. **The design of this operation draws on lessons from the implementation of the previous US$50 million Emergency Macroeconomic and Fiscal Support Operation (Report No. 91151-GN), approved by the Bank Board in November, 2014, and builds on its achievements.** The first lesson has been that budget support can be an effective way to support a fragile country facing a fiscal crisis as the result of an external shock. The development policy operation (DPO) has helped the Guinea Government weather the twin shocks of Ebola and lower mining prices that have hurt the Government's ability to finance core expenditures as well as the Ebola mitigation and recovery effort. The operation also sent a broader signal to the international community and avoided isolating the country during the crisis. The second lesson is that such operation needs to balance the long-term objectives with the need to obtain quick and visible results. Those are important for building strong ownership by the authorities and the population and create demonstration effects. A third lesson is to have accurate data on key sectors of the economy, especially agriculture and mining, to be able to assess the needs during the recovery effort and the magnitude of the financial assistance. Last but not least, the operation borrows from much of the Bank experience in fragile environments, in which program design has to be adjusted to the implementation capacity of the authorities.

36. **The proposed first operation builds on these lessons and is aligned with Government priorities both in the new post Ebola recovery plan and the former Poverty Reduction Strategy Paper**. It has the twin objectives to help the authorities in their effort to strengthen existing health systems and to address transparency issues and remaining weaknesses in the management of public resources, including in the mining and energy sectors. Along these lines, the operation is articulated along the following pillars:

- **Pillar 1: Support Post Ebola Recovery:** (a) strengthen health systems; (b) rehabilitate public service delivery; and (c) improve agricultural productivity by better access to fertilizers.

- **Pillar 2: Improve Public Finances:** (a) increase revenue mobilization; (b) improve public procurement; (c) strengthen Government's internal and external audit system; and (d) improve mining sector transparency and its contribution to local development.

- **Pillar 3: Reduce Fiscal Burden of Energy Sector:** (a) improve the efficiency of the power sector through better management of the public-owned utility (EDG); and (b) reduce subsidies from the central administration budget to EDG.

37. **For each pillar, a set of specific actions have been agreed with the authorities, together with precise and measurable outcome indicators (see Table 4 for a summary and Annex 1 for details)**. The operation has been selective in using few manageable actions to catalyze broader changes. The prior actions have been coordinated closely with other development partners and complement Bank's investment operations. For example, the fiscal measures in the operation complement the IMF program, while the World Food Program has been playing a key role in monitoring agricultural productivity in affected regions. Policy actions related to the mining sector support the Bank's investment operation on governance in this sector.

38. **Continuity with previous budget support operations and articulation of a programmatic approach focusing on institutional reforms is at center of the Bank's support in the country**. Indeed, progress in fiscal management and in the transparency of mining resources involves a long term effort, which not only requires well targeted actions but also deeper changes in behaviors. For this reason, this operation is to a large extent anchored on the previous DPO and is expected to be followed by a new series of budget support operation that will continue to support the Government's effort to improve the country's economic performance and resilience.

4.2 PRIOR ACTIONS, RESULTS, AND ANALYTICAL UNDERPINNINGS

Pillar I. Support Post Ebola Recovery

Context and Challenges

39. **As of December 29, 2015, Guinea has been declared Ebola-free but efforts remain necessary to maintain Guinea at "zero" risk as identified in the recently adopted Post Ebola Recovery Plan.** While this plan is comprehensive, the proposed operation will focus on one specific area strengthening of health systems in the context of the post Ebola recovery. This is a high priority because evidence from the Ebola crisis showed that under-investment in health in the past had negative effects on the country's response capacity. Thus, it is very important to upgrade and develop health systems to meet immediate needs and to prevent a recurrence of Ebola. Other reasons for this selectivity are the lessons of experience that indicate the budget support is to be more effective when selective, and some of other areas will be supported by other development partners. Also, the evidence shows that underinvestment in health and human capital can have pernicious effects on long term growth.

40. **The key challenge for the Government has been the lack of a strategic plan in relation to revamping the health sector during the Ebola crisis.** The objective during the post Ebola phase is to ensure the adoption of a plan that ensures adequate funding for salaries of health care workers and for the provision of basic information, surveillance, and treatment of disease. The health system in Guinea, like in Liberia and Sierra Leone, was poorly prepared to handle an Ebola outbreak of this size and scope, and many workers died because of improper equipment and training. By working with international development partners, local ministries have been able to defeat the disease, but they will need more funding and support during the recovery period.[11] The previous DPO helped the authorities finance health care workers and support Government efforts to monitor, track and treat Ebola. The Government has committed to increase gradually the share of the budget allocated to the health sector, from 5 percent of total expenditure in 2016 to 10 percent by 2020. This is a significant shift in favor of health sector that has been traditionally underfinanced, accounting for only 1.9 and 2.6 percent of total expenditure in 2013 and 2014, respectively. Similarly, the lack of literacy prevented some of the messages on Ebola prevention from reaching the broader public. The Government has also committed to increasing its effort in favor of the health sector by buying vaccines (including vaccines against tetanus, meningitis, tuberculosis) and medicines (including for kidney failure treatment and cesarean).

41. **Agricultural production and food security has also been a key concern of the Post Ebola Recovery Plan.** The sector has been negatively impacted by the epidemic disease, but not only in affected regions. While food production actually rose during 2015, many regions and households have been facing increasing food insecurity. Using some early data, the World Food Program estimates that close to a million households are facing food insecurity in the aftermath of the Ebola crisis. Farmers became isolated and were not able to get the necessary inputs as well as to sell their production. As a response, the Government aims at taking measures to boost agricultural production. Guinea agriculture has vast potential but it suffers from a lack of critical inputs, especially seed and fertilizer. Given its vast hydro potential, the country can be self-sufficient in food production if there were better quality inputs and seeds. While there is no formal policy blocking imports of fertilizer by the private sector, in practice, there is the lack of a clear policy framework and an open and transparent bidding process that makes it hard for private sector participants to purchase fertilizer, and the current market is dominated by the public sector.

[11] The country is trying to build a strong surveillance system which will start at the district level (community, health centers, health administrators) with a strong surveillance team in each region for surveillance of the epidemiological situation and rapid response in case of any disease outbreak. Also, the Government is focusing on strengthening of the 8 regional laboratories capacity to facilitate early identification of virus. During the Ebola period the countries and partners built almost 19 treatment centers in some districts. Those centers must continue working but are lacking budget so far.

Reforms and Medium-Term Objectives

42. **This operation supports the adoption of the post Ebola recovery Plan by the Government, mainly focusing on strengthening the health sector, but the second operation will focus on improving public service delivery in the social sectors, especially health and education in coordination with the post Ebola recovery plan.** The prior action is to ensure that the government meets its commitment to formally adopt the post Ebola plan, especially in relation to strengthening the health sector (Prior Action 1). The result will be to increase health expenditures to at least 4 percent in the 2016 budget compared to 2.9 percent in the 2015 budget and help Guinea move towards international levels. This will be used to improve the country's health system by increasing the number of health workers and investing in health infrastructure,[12] equipment, medicines and vaccines. About 2,000 health workers (nurses, midwives, doctors and health technicians), as well as teachers, are expected to be recruited in 2016 and 2017, mostly through contests organized in different locations in the country. There is a pool of available people eager to be trained and support the country's growing health care work. Moreover, to ensure a national territory coverage, successful candidates will be assigned according to the centers where they took the test; this will avoid having a high concentration of health workers in the capital city. The second operation will focus on an important issue that was highlighted during the Ebola crisis - the rehabilitation of public service delivery in the context of the post Ebola recovery. Given the overall economic impact of Ebola on health and education, the second operation will try to ensure that the negative impact of Ebola on school closures and increase in cost of medicines, unfirms, desks and books will be reversed through better public delivery of public services. The Government will also support social safety nets to improve household resilience.

43. **Also to boost the performance of the agricultural sector, the second operation will increase the involvement of the private sector in fertilizer imports**. Currently, there is a monopoly by the Government on fertilizer imports, and the second operation will provide a clear policy for private sector to import fertilizer through the proper formalization and transparency of the bidding process. The medium-term goal is to have a more vibrant agricultural sector in Guinea by removing some of the bottlenecks that constrain growth. Most important, there is an urgent need for more effective fertilizer import and distribution as there is currently too much state control of the input trade. The operation will help facilitate private sector involvement in the imports and provision of inputs. In parallel, the operation will seek to support the operationalization of the Chamber of Agriculture, the entity that overlooks the supply of inputs for the farming communities in the country. The second operation will also support the implementation of the reform agenda of the Chamber of Agriculture. At present, the current functioning of the Chamber deters private sector involvement and development in the commercialization of agricultural input, particularly fertilizers.

[12] More specifically, the Government expects to renovate and build about 29 hospitals and health centers across the country, out of these, 14 will be new hospitals and health centers.

Prior Action(s) for MFMO1

1. The Recipient has adopted a post Ebola Recovery Plan that includes an upgrade of health systems, and has included the necessary increased budgetary allocations in the 2016 Budget Law.

Indicative Trigger(s) for MFMO2

1. Implementation of policy measures to rehabilitate public service delivery as outlined in the Plan, with focus on improving medicine and textbook access, staffing of health care workers and teachers, and investment in the health sector.
2. Implementation of measures to boost agricultural sector productivity by: 1) increased involvement of private sector in the import of fertilizer by Government providing clear policy framework and transparent bidding; 2) the reform of the governance of the Chamber of Agriculture to improve input provision.

Result(s): Increased budgetary allocation toward the health sector from 2.5 percent in the 2015 Budget to 4 percent in the 2016 Budget and in the 2017 Budget; new health care worker and teacher recruits from 100 in 2015 to 2000 in 2017; increase in private sector fertilizer imports from 10 (000MT) to 30 (000MT) during the same time period. The overall goal is a stronger and revamped health sector that helps resilience to shocks and a more dynamic agricultural sector.

Pillar II. Improve Public Finances

Public Finance: Context and Challenges

44. **Over the years, public finance in Guinea has suffered from weaknesses that have reduced the ability to manage public resources efficiently.** Challenges remain in the areas of revenue mobilization, budget execution, accounting, and internal as well as external audits. As a non-member of the West African Economic and Monetary Union, Guinea's public finance framework is not required to conform to regional standards and the country lags behind its neighbors. The budget execution is slowed down by weak administrative capacity, weak coordination across ministries and agencies, and the use of a much larger number of ministries and agencies than in comparable countries.

45. **Revenue mobilization in Guinea has been weak.** First, tax collection has only improved marginally in recent years and even declined as the result of a decline in economic activity and in imports. Despite a range of measures to improve the collection of import duties, revenues have not increased since 2011 even though external factors have played a role in this lack of progress. Similarly, announced improvements in tax administration have not translated into increases in revenue. Except for fuel taxes, increases in the revenue from income taxes, VAT, and mining taxes have been disappointing. Second, the mining sector has traditionally been an important contributor to tax revenue but receipts have lagged the growth in GDP in recent years. This reflects declining profitability of the gold companies due to external and domestic factors, but also deficiencies in the way mining companies are taxed. Finally, Guinea remains highly dependent on fuel taxes, which accounted for 23 percent of total revenue in 2015.

46. **A key source of concern has been in the area of procurement.** In recent years, the Government has adopted a series of measures aiming at ensuring the use of international norms. The revised Public Procurement Code approved in 2012, entered into force in June 2014, was designed to address the excessive use of single-source contracting as opposed to competitive

tender. However, problems have persisted in some public works contracts, as there is a rush to deliver certain goods and services. The recent guarantee scheme used by the Government to pre-finance some investment projects was implemented outside budgetary procedures. The proposed operation will support an externally financed procurement audit by a reputed independent firm to evaluate 68 contracts and evaluate if proper procurement procedures were followed by the Government. The report will assess the costs of these contracts and propose recommendations, which will help improve public procurement in the second operation.

47. **Despite recent reforms to achieve measurable progress in public financial management, some challenges remain in relation to external and internal audits.** In Guinea, as in many sub-Saharan African countries, both external and internal audit functions are underfunded and under-resourced. At present, in Guinea, the most critical weaknesses include: (a) the lack of proper staffing in the Chamber of Accounts (*Cour des Comptes*), including the absence of a President; and (b) the underperforming internal audit function carried out by the General State Inspectorate (IGE) and General Finance Inspectorate (IGF). With Bank support, the Government has recently recruited the President of the *Cour des Comptes* as well as five additional inspectors in IGF. This effort will help those institutions conduct their key audit functions. With the guidance from the Bank team, the Government can have the right manuals, legislation, and requisite training to be effective.

Public Finance: Reforms and Medium Term Objectives

48. **As part of the reform process initiated by the Government, this operation, together with the next one, supports three prior actions that aim at:** (i) increase revenue mobilization; (ii) improve public procurement; (iii) strengthen Government's internal and external audit system; and (iv) improve mining sector transparency and its contribution to local development. The first prior action will support the increase in the VAT rate from 18 to 20 percent and the effort to broaden the tax base by eliminating VAT exemptions on edible oils and flour. Those actions were part of the policy discussions between the Bank-Fund team and the authorities to expand revenues. The second prior action helps the Government in its effort to complete public procurement audits of key contracts (including public works of a minimum value of US$5 million) approved between 2013 and 2015.[13] The third prior action under Pillar 2 aims at strengthening Government's external and internal audit and controls by ensuring proper staffing in both the *Cour des Comptes* and IGF. The final prior action aims to improve mining sector transparency. The second operation will deepen fiscal reform in the country by supporting the simplification of tax administration for the SME sector and increase in VAT and taxes from the companies involved in the guarantee scheme, reform of the public procurement law based on audit recommendations, and specific initiatives launched by IGF to audit the efficiency of VAT system and subsidies for universities, and improvement in the mining companies' fiscal contribution to local communities and governance framework. These reforms are important because they will have a significant effect on revenue mobilization and the efficiency and equity of public spending.

[13] In agreement with the Government, about 68 out of 146 public procurements are audited. The audit is being carried out by a reputed international consulting firm based outside of Guinea that was selected through a competitive and transparent process. The Government has accepted to pay for the fees of the audit from the national budget resources.

49. **This Government has already taken action to staff properly the Court of Accounts (*Cours des Comptes)* and IGF.** The President of the Court of Accounts was appointed in January 2016 and this institution is now fully operational and able to achieve the objective of strong external audit. Furthermore, a team consisting of a secretary general, experts on budgetary discipline and financial accounts, and various other technical personnel have been picked to support the full operationalization of the Court of Accounts. In parallel, five new auditors/inspectors have been recruited in IGF, including the heads of the following departments/services: 1) Central Services (*Contrôle des Services Centraux)*, to carry out internal audit of various ministries and ensure effective public finance management; (2) Regional Inspections (*Coordination des Inspections Régionales et contrôle des Services Déconcentrés et des Collectivités Décentralisées)*, to be of charge of internal audit of decentralized local administrations; (3) Public Enterprises (*Contrôle des Entreprises Publiques)*, for internal audit of state owned enterprises. (4) Public Establishments (*Contrôle des Établissements Publics à caractère Administratif)*, for internal audit of administrative public entities, which have mainly an administrative function and for which resources come from the national budget. (5) Monitoring and Evaluation (*Centralisation, Analyse et Synthèse de rapports et suivi des Recommandations)* to ensure monitoring and evaluation for the implementation of key recommendations. The nomination of the five new inspectors will also be the opportunity to start constituting a core qualified group of IGF's workforce, a prerequisite for the implementation of various training programs for inspectors, including programs financed by the World Bank. In the same vein, the five new inspectors will also play the role of internship supervisors for the remaining 25 IGF's inspectors that are expected to be recruited in 2016.

Prior Action(s) for MFMO1
2. The Recipient has mobilized additional revenues by including the following measures in the 2016 Budget Law: (i) increase of the VAT rate from 18 to 20 percent and (ii) broadening of the VAT base by eliminating VAT exemptions on edible oils and flour.

3. The Recipient has ensured the completion of the external audit of public procurement by an independent auditing firm of public investment contracts valued at US$5 million or more and approved between 2013 and the first semester of 2015.

4. The Recipient has operationalized the Cour des Comptes by appointing its President and has strengthened the internal audit function by appointing five auditors in the General Finance Inspectorate.

Indicative Trigger(s) for MFMO2
3. Adoption of measures for: 1) simplification of the tax administration for small and medium size enterprises; 2) payment of VAT and taxes by companies involved in guarantee scheme of at least 50 billion GNF; and 3) enlargement of the fiscal base for the informal sector.

4. Adoption of the recommendations of the 2016 External Audit of Public Procurement focusing on: 1) full implementation of the existing procurement rules for single source contracting; 2) revision of Code of Public Procurement regarding reducing delays and avoiding double review; 3) clarification of roles of key agencies, including *Autorité de Regulation des Marchés Publiques* (ARMP).

5. Production of audit reports by IGF on: 1) the tax compliance of the companies involved in the guarantee scheme; 2) effectiveness of subsidies to private universities.

Result(s): VAT revenue/GDP will increase from 3.6 percent in 2015 to 4.0 percent in end 2017.
Number of procurement contracts audited increases from 0 to 68 from 2015 to 2017.
Decrease in single-source contracts for public investment from 70 percent to less than 40 percent in 2017.

50. **As part of the effort to improve public finances, the Government has embarked on an effort to improve transparency in the mining sector with the recent admission of Guinea as full member of the Extractive Industry Transparency Initiative (EITI) and needs to maintain its compliance status earned in July 2014.** Under this framework which ensures better accountability and good governance practices in the mining sector, governments and companies must publish information on revenues and payments collected from mining companies as well as report contextual information ranging from licensing, to state ownership of mineral assets, beneficial ownership, production figures, fund generated from extractives transferred to local governments, and social and infrastructure investments. The Government recruited a private firm to conduct an exhaustive and difficult review of the sector, and prepare the necessary documentation for validation. Guinea had suspended its membership of EITI and not submitted any reports since 2013, but the 2013 EITI report was submitted to the EITI Secretariat in December 2015. The EITI process is a key element of the Government's effort to improve transparency in the mining sector. EITI membership and reporting has important economic implications such membership and reporting, including in terms of attracting foreign investment and international reputation. The DPO has motivated the Government to conduct the EITI report as it is important for foreign investors. The risk of not completing the EITI by the deadline was to pushing the Government into default. The process was long and complex and involves the hiring of an external firm to conduct a deep due diligence of the mining sector. As a result, Guinea is now EITI compliant and demonstrated good financial governance and transparency in the extractive sector.

BOX 3: Guinea and EITI History

Guinea joined the EITI in 2005 and had the status of candidate country until 2007 but voluntarily suspended its candidate status in December 2009 in view of the difficult political situation in the country. On March 1, 2011, the EITI International Board agreed to lift the suspension of Guinea, following a request made by the Guinean Government. Guinea completed a first Validation process on August 31, 2012. Guinea was accepted as EITI Compliant by the international EITI Board at its meeting in Mexico City, on July 2, 2014. A country is designated as EITI compliant when the EITI Board considers that it meets all of the requirements. Compliant countries must undergo validation every three years or upon the request from the EITI Board. On October 26, 2012, EITI Board agreed that Guinea had made significant progress as part of its implementation of the EITI and has decided to renew its candidacy for a period of 18 additional months, corresponding to April 26, 2014, when Guinea completed a second Validation of the EITI process. Since EITI reports should cover data no older than the second to last complete accounting period, the 2013 report should have normally been published in December 2014, but the country was granted an exception due to the Ebola crisis.[14]

51. **Another challenge in Guinea's mining sector has been the weak legal and institutional framework governing the relationship between mining companies and local communities.** The new mining code in its Provision 130 provides for the establishment of a Local Development Agreement (LDA) between the holders of the mining operation title and the nearby communities. While in theory the mining company is meant to contribute 0.5 percent of its revenue to local development, in practice there is a lack of clarity on its implementation. A concrete definition

[14]The structure of the EITI in Guinea has three bodies, created in June 2005: a Supervisory Board, chaired by the Prime Minister, a Steering Committee, chaired by the Secretary General of the Ministry of Mines and Geology, and an Executive Secretariat headed by the National Coordinator, appointed by decree. (EITI report, 2012). Under the direction of the Chairman of the Steering Committee, the Executive Secretariat is responsible for implementing the decisions of the governing bodies, that is, the Supervisory Board and the Steering Committee, and the daily management of the implementation process of EITI activities in Guinea.

concerning eligibility, governance (who represents community? what community qualifies?), the participatory and grievance mechanisms, the reporting and audit systems, and the roles and responsibilities of parties at the central and local levels is urgently needed. This clarification of a framework will help ensure that mining companies effectively support local community development.

Mining Sector: Reforms and Medium Term Objectives

52. **This first operation supports Guinea's EITI compliant country status by supporting the Government's submission of the 2013 EITI report to the EITI Secretariat.** Not only has the report been submitted on December 31, 2015 but it was produced by an internationally reputed firm and incorporated the new norms introduced by the EITI Board in May 2013. Due to new standards, the 2013 EITI report covers a larger number of enterprises (about 455 enterprises) and payments made to the GoG (about 31 payment flows were considered). Supported by the Bank mining team, this validation will allow Guinea to send a clear and positive signal that the country is ready to follow an internationally recognized transparency standard that demonstrates commitment to reform and anti-corruption, and leads to improvements to the tax collection process and enhanced trust and stability in a volatile sector such as mining. The companies will also be required to disclose information, thus creating a level playing field. This will benefit the investment climate by creating more transparent information and enhance the capacity of the civil society to monitor this sector. The second operation will complement the first one by supporting the Government's effort to support the use of mining revenue to help local community development. Throughout sub-Saharan Africa, local communities are increasingly seeking economic benefit from mining activities in their regions through equity stakes, infrastructure development, job creation and improving the communities' ability to supply services and goods. As part of the policy dialogue with the Guinean authorities, the operation will help create a governance framework in accordance with international norms, which would ensure that the benefits derived from the mines in Guinea are increased and distributed properly throughout the community.

Prior Action(s) for MFMO1
5. The Recipient has obtained EITI compliant status by submitting the 2013 EITI report to the EITI Executive Secretariat including updated data on mining revenues and production inter alia.

Indicative Trigger(s) for MFMO2
6. Adoption by Council of Ministers of institutional framework necessary to implement the allocation of revenue from mining companies to local communities as defined in the new Mining Code.

Result(s): The Companies participating in the EITI process will be at least 400 by December 2017.
Size of Local Development Fund will go from US$0 in 2015 to US$5 million in December 2017.
The overall goal is to get more transparency in the sector and greater contribution to local community development.

Pillar 3: Reduce the Fiscal Burden of the Energy Sector

53. **Over the years, the energy sector in Guinea has been facing financial difficulties and the public company has become a drain on the budget by receiving massive subsidies.** The

energy sector has performed poorly because of a poor management system, that has resulted in technical and financial inefficiencies, including inappropriate pricing and low collection of bills for electricity. For instance, it has been estimated that only one-fifth of households pay regular bills for electricity, leading to huge losses by the company. Also, only 70 percent of energy billed is actually collected, and there is a 40 percent loss of electricity due to an ineffective distribution network. The proposed operation is supporting the Government's efforts to put the energy sector on a sound financial footing and to reduce the drain on the Government's budget.

54. **This series of two operations support the Government's effort to improve the efficiency of the *Electricité de Guinée* (EDG).** Indeed, because of the various weaknesses, the national electricity utility has been receiving significant amount of subsidies from the Government, up to GNF 600 billion in 2015. Beyond the recent operationalization of the Kaleta dam and lower thermal energy costs that have boosted the production and provision of electricity in Conakry and its surrounding, a private-public partnership contract for the EDG management has been signed by the Government. Concurrently, the Government's subsidies to EDG have been significantly reduced from GNF 600 billion in the 2015 Budget to GNF 300 billion in the 2016 Budget (a reduction equivalent to 0.5 percent of GDP). The next step would be to improve tariff collection and bring existing tariff closer to unit production costs and help improve the financial sustainability of the sector. A 2009 Government study that has been recently updated provides the Government with the analytical and empirical underpinings for a tariff increase.

Energy Sector: Reforms and Medium-Term Objectives

55. **To address the situation in the energy sector, the GoG has opted to sign a performance management contract for EGD with a private operator, with the support of the World Bank Group.** The performance management contract was signed with the Veolia-Seureca consortium on June 19, 2015. The contract is funded by the IDA US$50 million Power Sector Recovery Project (P146696) and will remunerate the operator €11.3 million, with an incentive payment structure based on performance indicators. The consortium, which combines two experienced utilities management firms, is expected to enhance the EDG management, operation, and commercial viability. More specifically, Veolia is improving the efficiency of electricity distribution, reducing the number of clients fraudulently connected to the electricity grid, and improve pricing and electricity bill collection by installing prepaid meters, although at a slow pace in 2015 and first part of 2016. This operation supports the implementation of the performance management contract. As the financial viability of the sector is improved in the wake of the contract, the subsidies by the Government are expected to diminish significantly from 1 percent of GDP to 0.5 percent in the next few years.

56. **The medium-term vision for the energy sector after the EDG reform is to improve the electricity sector's commercial and operational efficiency.** These results will be achieved through critical investment support of more than US$700 billion, building of key dams, searching for quality FDI in the energy sector, capacity building, and institutional reform, which will impact the financial viability of the sector. As Veolia and EDG staff work together to improve the management of the company on the basis of carefully determined performance indicators to improve the operational efficiency of the energy sector, the extent of public subsidy is projected to decrease. Starting in 2018, by improving the efficiency of the energy sector, the objective is eventually reduce the fiscal burden of the national electricity utility. The next operation supports

the revision of the electricity tariff based on the joint assessment of the private operators and the Government and the adoption of anti-fraud legislation. In Guinea, as in other countries in sub-Saharan Africa, the main obstacle to the increase in electricity generation capacity is the high cost of producing electricity, forcing governments to subsidize consumption. In 2015, the average effective electricity tariff in Africa was lower per kilowatt-hour (kWh) terms compared to production costs. The second operation will support an efficient schemes of electricity pricing in order to foster the development of a viable and well-functioning power industry. This new tariff increase should further increase the cost recovery in the sector. The DPO fits into the Government's overall goal of ambitious modernization plan of the sector and courting of FDI.

Prior Action(s) for MFMO1
6. The Recipient has executed the EDG Performance Management Contract.

Indicative Trigger(s) for MFMO2
7. Adoption by Council of Ministers of measures to revise electricity tariff rates.
8. Adoption of anti-fraud policy by Government to reduce EDG commercial losses.

Result(s): Subsidies given to EDG reduced from 1.0 percent of GDP in 2015 to 0.5 percent of GDP by end 2017. Percent of transmission losses are projected to fall from 40 to 30 percent from 2015 to end 2017.

Table 4. Prior Actions for the First Macroeconomic and Fiscal Management Operation

MFMO1 Prior Actions	Implementation Status/Evidence
Pillar 1: Support Post Ebola Recovery	
1.The Recipient has adopted a post Ebola Recovery Plan, that includes an upgrade of health systems, and has included the necessary increased budgetary allocations in the 2016 Budget Law.	Implemented: January 16, 2016 (MEF) Evidence: Post Ebola plan adoption; adopted 2016 budget law
Pillar 2: Improve Public Finances	
2.The Recipient has mobilized additional revenues by including the following measures in the 2016 Budget Law: (i) increase of the VAT rate from 18 to 20 percent and (ii) broadening of the VAT base by eliminating VAT exemptions on edible oils and flour.	Implemented: January 16, 2016 (MEF, Ministry of Budget) Evidence: Adopted 2016 budget law
3.The Recipient has ensured the completion of the external audit of public procurement by an independent auditing firm of public investment contracts valued at US$5 million or more and approved between 2013 and the first semester of 2015.	Implemented: February 15, 2016 (MEF) Evidence: Audit reports, April 2016
4.The Recipient has operationalized the Court of Accounts (*Cour des Comptes)* by appointing its President and has strengthened the internal audit function by appointing five auditors in the General Finance Inspectorate.	Implemented: February, 15, 2016 (MEF) Evidence: Decrees by the President, January 2016
5.The Recipient has obtained EITI compliant status by submitting the 2013 EITI report to the EITI Executive Secretariat including updated data on mining revenues and production *inter alia*.	Implemented: December 31, 2015 (MEF, Ministry of Mines) Evidence: Letter of transmission; published in 2013 EITI report
Pillar 3: Reduce Fiscal Burden of Energy Sector	
6. The Recipient has executed the EDG Performance Management Contract.	Implemented: September 15, 2015 and January 16, 2016 (Ministry of Energy, MEF) Evidence: Modified legal status of EDG; decree in September 2015

57. **Recent studies undertaken by the Bank, the GoG, and other development partners, have been essential in the design of the MFMO1**. A body of analytical work has been conducted in recent years and is ongoing in several areas relevant to the operation.

Table 5. DPO Prior Actions and Analytical Underpinnings

Prior Actions	Analytical Underpinnings
1. The Recipient has adopted a post Ebola Recovery Plan that includes an upgrade of health systems, and has included the necessary increased budgetary allocations in the 2016 Budget Law.	A health public expenditure review (PER) finalized in 2015 by the Bank team has highlighted the low allocation of the national budget to the health sector in Guinea. Also, the team has completed in 2015 a study on fiscal space for the health sector in Guinea. An economic update was prepared in April 2015 for the President's Office on the Ebola Impact on the three most-affected economies, including Guinea.
2. The Recipient has mobilized additional revenues by including the following measures in the 2016 Budget Law: (i) increase of the VAT rate from 18 to 20 percent and (ii) broadening of the VAT base by eliminating VAT exemptions on edible oils and flour.	A Bank PER team is working closely with the Government on measures to improve revenue mobilization and tax compliance and been informing the DPO on the tax policy issues.
3. The Recipient has ensured the completion of the external audit of public procurement by an independent auditing firm of public investment contracts valued at US$5 million or more and approved between 2013 and the first semester of 2015.	A separate overall 2014 PER and sectoral PERs (agriculture, education, health) assesses the implementation issues in capital expenditures and assesses the status of budget execution in Guinea and provides some parameters on public procurement.
4. The Recipient has operationalized the *Cour des Comptes* by appointing its President and has strengthened the internal audit function by appointing five auditors in the General Finance. Inspectorate.	A concluded 2015-2016 study on Guinea Public Financial Management has analyzed financial management and provided evidence of areas for reform of procurement and controls.
5. The Recipient has obtained EITI compliant status by submitting the 2013 EITI report to the EITI Executive Secretariat including updated data on mining revenues and production *inter alia*.	A Mining Sector Governance Project is strengthening capacity and providing a framework for analyzing governance systems of the sector and key institutions for managing the minerals sector in Guinea.
6. The Recipient has executed the EDG Performance Management Contract.	The Bank's energy team has done analytical work to study the management of facilities, the efficiency of the energy distribution network, the role of prepaid meters, and the effects of the expansion of the network in the country.

4.3 LINK TO THE CPS AND OTHER WORLD BANK OPERATIONS

58. **The operation is fully compatible with the Bank's assistance to Guinea as defined in the FY14–17 CPS.** The Bank Group CPS for FY14–17, discussed by the Bank Board on October 3, 2013, will support Guinea to implement a long-term development agenda of reducing extreme poverty and enhancing shared prosperity. It addresses poverty reduction and shared prosperity by supporting improved governance systems, fostering accelerated, equitable and diversified growth in Guinea and accompanying improvements in human capital. Building on a Bank Fragility Assessment and on the Interim Strategy Note (ISN, 2011-2012) which focused on human development and service delivery through decentralization, this CPS will help the country address long-term challenges of building a credible governance system to enable private sector investments, ensuring the transparent management of mineral resources, strengthening the efficiency of the energy and agriculture sectors and improving the human capital. Through the operation and the focus on health, mining, public finance, and energy, the Bank will continue to

be a key partner in building systems to improve lagging human development indicators for absolute poverty reduction, through more efficient and transparent allocation of resources.

59. **The operation is also closely aligned with the Bank's US$105 million Ebola Emergency Response Project (P152359)**. On September 16, 2014, the Board approved a US$105 million grant to finance Ebola-containment efforts underway in Guinea, Liberia, and Sierra Leone, help families and communities cope with the economic impact of the crisis, and rebuild and strengthen essential public health systems in the three worst-affected countries to guard against future disease outbreaks.

4.4 CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

60. During the preparation of this emergency operation, the Bank team collaborated closely with other donors, especially the IMF and EU, during the discussions on the key issues of public support, notably public finance reform. There was collaboration at the strategic level with the World Health Organization, the Center for Disease Control, and others on the Ebola health side in the design of the Bank operation. The operation will continue to be implemented within the framework of the general budget support, which has been in place since 2005. Together with the IMF, the Bank team has agreed on a robust program of revenue mobilization and tax reform.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1 POVERTY AND SOCIAL IMPACTS

61. **Actions and reforms supported by the operation are expected to have a significant effect on poverty reduction, although in varying degrees.** The operation addresses critical obstacles to broad-based growth, poverty reduction and economic resilience by targeting a select set of priority reforms across several areas—Ebola recovery, public finance, mining and electricity. Poverty affects about 55 percent of Guinea's population in 2012. The micro-evidence suggest that this has gone up in the aftermath of the Ebola pandemic as employment and incomes have declined. The increased spending in the health sector will translate into greater pro-poor spending, especially on goods and services in decentralized rural communities. The poor, who were disproportionately the victims of Ebola, will be amongst the main beneficiaries during the post Ebola recovery. Programs to boost food security in the rural areas, designed in the wake of the food security monitoring work, will help alleviate the food insecurity and vulnerability of poor households. Donor groups, like WFP and IFAD, explicitly target the poorest. Since average poverty rates in rural areas are more than double those of urban centers, the measures supported will help reduce vulnerabilities. Better revenue mobilization and improved use of public resources will help increase efficiency in pro-poor sectors, such as education and health.

62. **A simple analysis of the available empirical evidence suggests that in Guinea the increase of the VAT rate will not have a strong adverse effect on the poor for several reasons; however, the team is in the process of preparing a detailed econometric model simulating the impact of alternative VAT rates on poverty.** First, in Guinea, 90 percent of VAT is paid by 10 percent of the population, mostly the affluent and the middle class. Second, Guinean households

in the bottom per capita consumption rely on unprocessed agricultural products and rice that are exempt from the VAT, and consume little flour and edible oils. The spending on exempted food categories is more than 70 percent of household budgets. Thus, the reduction in real consumption is much smaller in the bottom quintile than in the top quintile, largely due to the consumption patterns of poor. Empirical modelling will be used to ascertain the exact quantitative impact of consumption expenditures on the poor from the VAT increase. Third, as part of the DPO, the increased expenditures and transfers to the social sectors, especially health and education to marginal communities, will be mitigated with government transfers for health and food security, although the social safety nets in Guinea still remain weak.

63. **Moreover, the proposed operation is expected to have a direct positive impact on poverty reduction through policy actions that will improve mining sector transparency and electricity sector efficiency in the country.** Improved governance in the mining sector will help collect more revenue and improve the use of those resources, leading to better outcomes. The EITI process is likely to lead to more collection of revenues from the mining sector, which has been declining despite the country's enormous mineral wealth. The lack of contribution to the government budget of many mining companies will be addressed in the aftermath of EITI as the Government becomes more aware of the shortfalls. The measures to electrify Guinea and deliver adequate levels of service required to support economic growth and social development will help widen the access to electricity, which remains low of about 15 percent. Better financial sustainability in the energy sector will have two benefits: improved investment and access to electricity through a more reliable distribution network and second, lower subsidies will increase fiscal space and use of resources to pro poor spending. Empirical analysis shows the distributional effects of subsidy reform will fall on more affluent population since most of these subsidies have been badly targeted and arise due to distribution losses and non-payment of bills.

5.2 ENVIRONMENTAL ASPECTS

64. **The majority of the activities supported by the proposed operation are not expected to have any environmental impact.** The majority of measures in the operation are environmentally neutral, dealing with post Ebola recovery efforts, public finance, and mining transparency. Besides being a calamity for humans, Ebola has been devastating to animal populations and wildlife. However, there are likely to be some indirect effects of the operation on the environment. First, the operation will reinforce the institutional environment in the mining sector through compliance with EITI which in turn will increase the scrutiny of environmental risks in the mining sector. At present, Guinea requires social and environmental impact assessments before granting mining licenses, and with EITI compliance, the presence of a multi-stakeholder platform will strengthen governance and increase the transparency and scrutiny. The support for better governance of mining companies vis a vis local communities is expected to have positive effects on the environment. There will be much greater scrutiny of adverse effects of mining companies on environment now. Furthermore, the revamping of health systems and the protection of the country from Ebola can also lead to better sanitary practices that can generate positive externalities on the environment. Overall, better financial management and management of natural resources can yield positive dividends for the environment.

5.3 PFM, DISBURSEMENT, AND AUDITING ASPECTS

Country PFM Status and Safeguards Environment at the Central Bank

65. **The credible commitment of the Government to a public financial management (PFM) reform strategy combined with the significant results achieved thus far provide a sufficient basis for the proposed DPO, but challenges remain.** The Bank and other donors' assessments notably the Public Expenditure and Financial Accountability (PEFA) completed in 2006 highlighted a number of shortcomings in the areas of human resources, economic governance and public expenditures management. With the support of the international community, the GoG has undertaken a series of PFM reforms. The 2013 PEFA revealed significant improvements including (a) a new legal framework (organic finance law; a statutory order on budgeting and public accounting, and a decree on governance, transparency and the procurement code); (b) improved budget credibility; and (c) timely adoption of annual budget law and enhanced transparency of inter-governmental fiscal relations. As of January 2015, the annual budget is published in the Ministry of Finance website.

66. **These reforms are beginning to yield improvements in the management of public funds.** As indicated in the 2013 PEFA and other PFM assessments, the PFM system still faces challenges including (a) budget execution; (b) accounting; and (c) internal and external audit. The Government, with support from development partners has revised the existing PFM reform strategy and prepared a reform program. The implementation and success of this PFM reforms strategy requires the Government to take additional measures including reviewing business processes and overhauling information technology systems. The Bank has supported the Government's ongoing reform efforts through the Economic Governance Technical Assistance and Capacity Building project, which aims at strengthening the capacity of the GoG to implement and monitor reform programs in public financial and human resource management.

5.4 ASSESSMENT OF THE BCRG

Disbursement and Accounting

67. **The borrower is the Republic of Guinea, represented by the Ministry of Economy and Finance (MEF).** Upon effectiveness, the funds (grant/credit) will be released in one tranche of SDR 28.3 million; equivalent to US$40 million. The proposed operation will follow IDA's disbursement procedures for DPOs. The proceeds of the credit and grant components of the project will be disbursed by IDA into a dedicated account opened in U.S. dollars or in euros at the BCRG for this budget support operation to ensure a transparent management DPF proceeds. Within three working days, an equivalent amount in local currency will be credited to an account of the Government held at the BCRG and made available in the budget management system to finance budgetary expenditure. The equivalent amount in local currency reported in the budgetary system will be based on the market rate at the date of the transfer was made. The Borrower will promptly notify the Bank that such transfer has been made, and that proceeds have been credited to the budget management system in a manner satisfactory to the Bank. Such a notification is expected twenty working days following the date the transfer was made by the Bank. The proceeds of the grant will not be used to finance expenditures excluded under the Financing Agreement.

Auditing

68. **The funds flow from the dedicated account into which the Bank proceeds are disbursed to the local currency account of the Government used to finance budgeted expenditures will be subject to external audit by external auditors acceptable to IDA.** If, after being deposited in this account, the proceeds of the grant are used for ineligible purposes as defined in the Financing Agreement, IDA will require the recipient to either: (a) apply the corresponding amount to eligible purposes, or (b) refund the amount directly to IDA.

The closing date of the operation will be **June 30, 2017.**

5.5 MONITORING, EVALUATION AND ACCOUNTABILITY

69. **The Ministry of Economy and Finance (MEF) is the designated implementing agency and will be responsible for the overall execution of the measures outlined in the MFMO operation.** The MEF has experience in coordinating and implementing DPOs, demonstrated by its successful execution of the previous Bank operations in the past. As with previous operations, the institutional arrangements for the preparation and execution of the grant are within the established framework of the donor coordination groups and in line with the performance matrix.

70. **Grievance Redress**. Communities and individuals who believe that they are adversely affected by specific country policies supported as prior actions or tranche release conditions under a World Bank Development Policy Operation may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns.

71. Affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond.

72. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org"

6. SUMMARY OF RISKS AND MITIGATION

73. **The overall risk rating for the proposed operation is substantial.** In particular, four main areas of risk could jeopardize the expected outcomes of the operation. These are (a) political risks, (b) macroeconomic risks, (c) institutional capacity for implementation and sustainability risks, and (d) fiduciary risk.

74. **Political and governance risks.** A new government has been announced in early January 2016. Guinea still remains a nascent democracy, and continued strikes and political unrest over higher costs of living, increases in indirect taxation, and fuel prices can adversely impact the country. The operation will contribute to mitigating political economy risk by improving the transparency of decision-making.

75. **Macroeconomic risks.** The success of the operation will be contingent on several macroeconomic risks, including: external risks which are caused by falling commodity and metal prices as well as slowdown in emerging economies; fiscal risks which remain large and which will require significant effort in tax collection as well as prudent expenditures and debt management; and climactic risk with heavy dependence on agriculture and vulnerability to climate change. The economy is also vulnerable to a withdrawal of private investors in the mining sector in 2016, if investors continue to perceive the environment as too risky. Another risk is the potential adverse impact on debt sustainability from the Souapiti dam, an important energy project which will be built by a Chinese company. The MFMO will mitigate these risks by supporting policies to increase revenue mobilization and better public financial management.

76. **Institutional capacity for implementation and sustainability.** The proposed operation could be affected by lack of capacity at the central and local levels, which may cause delays in the implementation of some measures supported by this operation, including improvements in local health care social-service delivery. The proposed operation attempts to reinforce the government's capacity to manage the budget implementation in a more effective way in to better deliver the much needed public services. The promotion of audits, together with greater revenue mobilization, will help strengthen the financial and technical capacity of the administration.

77. **Fiduciary risks.** The operation is influenced by potential fiduciary risks due to weak institutional capacity and poor governance in Guinea. Clear expenditure priorities and a strong government commitment to addressing institutional weaknesses can reduce the risk to an acceptable level. Risk is mitigated in the design of the operation by audits of key contracts and the ensuing strengthening of procurement and financial systems as well as public dissemination. Risk is mitigated by strong PFM measures and close monitoring in the context of regular Bank-Fund macroeconomic surveillance. Fiduciary risk will also be mitigated by the deposits of the Bank loan proceeds into a dedicated account at the Central Bank that is used exclusively for this operation.

Table 6. Risk Rating

Risk Categories	Rating
Political and governance	Moderate
Macroeconomic	Substantial
Sector strategies and policies	Moderate
Technical design of project or program	Moderate
Institutional capacity for implementation and sustainability	Substantial
Fiduciary	Substantial
Environmental and social	Moderate
Stakeholders	Moderate
OVERALL	Substantial

ANNEX 1: POLICY AND RESULTS MATRIX

Pillar	Prior Actions MFMO1	Indicative Triggers MFMO2	Result (Outputs)	Numeric Baseline (December 2015)	Numeric Target (December 2017)
Pillar 1: Support Post Ebola Recovery	1.The Recipient has adopted a post Ebola Recovery Plan, that includes an upgrade of health systems, and has included the necessary increased budgetary allocations in the 2016 Budget Law.	1. Implementation of policy measures to rehabilitate public service delivery as outlined in the Plan, with focus on improving medicine and textbook access, staffing of health care workers and teachers, and investment in the health sectors. 2. Implementation of measures to boost agricultural sector productivity by: 1) increased involvement of private sector in the import of fertilizer by Government providing clear policy framework and transparent bidding; 2) the reform of the governance of Chamber of Agriculture to improve input provision.	• Allocation of budget for health sector (percent of total budget) • Number of new recruited health care workers and teachers • Fertilizer imports by private sector (MT000)	2.5 100 10	4.0 2000 30
Pillar 2: Improve Public Finances	2. The Recipient has mobilized additional revenues by including the following measures in the 2016 Budget Law: (i) increase of the VAT rate from 18 to 20 percent and (ii) broadening of the VAT base by eliminating VAT exemptions on edible oils and flour. 3. The Recipient has ensured the completion of the external audit of public procurement by an independent auditing firm of public investment contracts valued at US$5 million or more and approved between 2013 and the first semester of 2015. 4. The Recipient has operationalized the Court of Accounts (*Cour des Comptes)* by appointing its President and has strengthened the internal audit function by appointing five auditors in the General Finance Inspectorate.	3. Adoption of measures for: 1) simplification of the tax administration for small and medium size enterprises; 2) payment of VAT and taxes by companies involved in guarantee scheme of at least 50 billion GNF; and 3) enlargement of the fiscal base for the informal sector. 4. Adoption of the recommendations of the 2016 External Audit of Public Procurement focusing on: 1) full implementation of existing procurement rules for single source contracting; 2) revision of Code of Public Procurement regarding reducing delays and avoiding double review; 3) clarification of roles of key agencies, including *Autorité de Regulation des Marchés Publique* (ARMP). 5. Production of audit reports by IGF on: 1) the tax compliance of the companies involved in the guarantee scheme; 2) effectiveness of subsidies to private universities.	• VAT revenue/GDP • Number of procurement contracts audited • Percent of single source contracts in public investment projects	3.6 0 70	4.0 68 40

Pillar	Prior Actions MFMO1	Indicative Triggers MFMO2	Result (Outputs)	Numeric Baseline (Dec, 2015)	Numeric Target (Dec, 2017)
	5. The Recipient has obtained EITI compliant status by submitting the 2013 EITI report to the EITI Executive Secretariat including updated data on mining revenues and production inter alia.	6. Adoption by Council of Ministers of institutional framework necessary to implement the allocation of revenue from mining companies to local communities as defined in the new Mining Code.	• Companies participating in EITI process • Size of local development fund (US$ million)	0 0	400 5
Pillar 3: Reduce Fiscal Burden of Energy Sector	6. The Recipient has executed the EDG Performance Management Contract.	7. Adoption by Council of Ministers of measures to revise electricity tariff rates. 8. Adoption of anti-fraud policy by Government to reduce EDG commercial losses	• Subsidy given to EDG (% of GDP) • Percent of transmission losses (%)	1.0 40	0.5 30

ANNEX 2: LETTER OF DEVELOPMENT POLICY

REPUBLIC OF GUINEA

MINITRY OF ECONOMY AND FINANCE

No. 0145/MEF/CTSP

LETTER OF DEVELOPMENT POLICY

The Minister
To
Mr. Jim Yong Kim
President of the World Bank
1818 H Street, N.W.
WASHINGTON, DC

1. This Letter of Development Policy traces the recent evolution of the economic situation in Guinea and the structural and sectoral reforms implemented by the Government. It also describes on the one hand, the objectives of the economic policy of the Government in 2016, and on the other hand, this economic prospects in the medium term.

2. The economic developments in 2014 and 2015 have been dominated by the impact of the Ebola epidemic. Since its emergence in southeastern Guinea in December 2013, the epidemic has affected 3.351 people and killed 2.083 by November 25, 2015. It has affected 26 prefectures and the five communes of Conakry, including those close to agricultural areas. With the assistance of international partners, the Government has succeeded in eradicating the disease since mid-November, and the World Health Organization declared that Guinea was Ebola-free on December 29, 2015. In addition to the Ebola epidemic, the economic environment has been characterized by the decline in commodity prices and political uncertainty linked to the preparation of the presidential elections of October 2015.

3. Economic activity slowed down strongly in 2014 and 2015 because of these exogenous

shocks. The slowdown of the growth rate in 2014 continued in 2015 with a growth rate estimated at 0.1 percent. Economic growth has been negative, although agriculture has been resilient. The stagnation in economic growth reflects the decline of mining and services, including hotels and restaurants. Inflation continued to decline reaching 7.3 per cent at the end of December 2015, due to the combination of increased agricultural production, the decline in domestic demand, and the decline in the price of petroleum products. After a significant decline in 2014 linked to the effects of the Ebola epidemic, the external current account has improved in 2015 due mainly to a decrease in the volume of imports reflecting the slowdown of growth, despite the significant increase in public investment projects. However, the overall balance of payments has deteriorated and the Guinea international reserves, estimated at 3.6 months of imports in late 2014, decreased to 2.3 months of imports at end of 2015.

4. In order to mitigate the impact of exogenous shocks on the economy, the Government has undertaken an ambitious public investment program which has had important macroeconomic consequences. In this context, the implementation of the Government's economic and financial program supported by the International Monetary Fund (IMF) on the basis of the extended Credit Facility (FEC) has been disrupted. Thus, the performance for end June 2015 criteria was not filled, due to a combination of loss of revenues caused by the Ebola epidemic and less appropriate macroeconomic policies characterized by the implementation of a major program of public investment prefinanced by guarantees issued by the Central Bank of the Republic of Guinea (BCRG).

5. The Government has adopted economic policy measures to correct macroeconomic imbalances that appeared in 2015. The 2015 budget has been closed without increasing the Central Bank advances and accumulation of domestic arrears above the level observed at end of October 2015. The BCRG has implemented the recommendations of the IMF technical assistance mission to improve exchange rate flexibility through a reform of the mechanism for the determination of the exchange rate, which has already eliminated the parallel market exchange premium. This reform has enabled the BCRG to significantly reduce its levels of interventions on the foreign exchange market in order to preserve the country's international reserves. Also, the BCRG has decided to stop its purchases of gold taking into account the consequences on excess liquidity in local currency and the exchange rate, and to maintain a diversified portfolio in accordance with its

reserves policy.

6. In January 16, 2016 the National Assembly has adopted a Finance Bill 2016 that meets the revised IMF program. The budget deficit has been significantly reduced to limit recourse to commercial bank funding and strengthen the country's international reserves. The measures envisaged in the budget will help to have a primary surplus of 0.16 percent of GDP and a fiscal contraction of 6.3 percent of GDP from 2015. The need to resort to budget financing will be limited to 1.3 percent of GDP and will be mainly covered by grants and concessional budgetary loans, domestic financing mainly due to the gradual repayment of advances made by the Central Bank to the Treasury in 2015, and the reduction of arrears accumulated towards the Guinean private sector.

7. The Government also undertook steps in the 2016 budget to increase the domestic revenue mobilization. These measures include: (1) the increase in the VAT rate from 18 to 20 percent ; (2) the removal of exemptions of the VAT to the flour and edible oils; (3) the withholding of 50 percent of the VAT invoiced by providers and service providers to the public, a mining company, oil companies and phone companies; (4) enlargement of the telecom tax and tax on access to telecommunications networks to the internet; (5) the institution of a duty on the importation of second-hand vehicles. Thanks to these measures there has been an increase in tax and non-tax revenue in 2016 compared to the level projected for 2015 (more than 2.5 percentage points of GDP).

8. On top of this, the Government has engaged in revamping the health sector to increase access to health care and to strengthen resilience in the presence of future health crises. However, despite the austerity, the 2016 budget will strengthen priority expenditures, including expenditures for health, which recorded an increase of two percentage points of GDP, passing of 3 percent of GDP by 2015 to 5 percent of GDP by 2016.

9. With the help of the World Bank, the Government is reforming public finances and increasing the transparency and effectiveness of public expenditure. From this perspective, the Government has conducted an audit of public procurement of key contracts (including public works of a minimum value of US$5 million) approved between 2013 and the first semester of 2015. It is the first external audit of public procurement, since 2012, since Guinea achieved the

HIPC Completion Point. The audit is focused on the four key categories of public procurement (public works, equipment, goods, and services) and includes markets that were the subject of guarantees. The Government has financed the audit, recruiting an external company with a strong international reputation. The preliminary draft is planned for mid-February 2006, and the Government will work to improve the effectiveness of the public procurement system.

10. The Government also plans to strengthen the public electricity company (EDG), improve its financial sustainability and reduce its impact on the budget. With the assistance of the World Bank Group, the Government has implemented the management contract between the Government and the private operator Veolia. The management contract will allow the improvement of the improvement in the managerial, technical, commercial and financial functions of EDG. In parallel, the Government is continuing its efforts to improve the production of electricity through the finalization of the dam of Kaleta, and signature of public private partnership contracts (PPP) contracts for the production of electricity. Improving electricity production, the Government has committed to reduce its subsidies to EDG. Thus, compared to 2015, in the 2016 budget, the Government has reduced its grants to EDG by half (from 600 billion in 2015 to 300 billion GNF in 2016).

11. The Government is also committed to improving transparency in the mining sector. With the support of the African Development Bank, the Government has recruited the international firm Fair Links, which prepared the EITI-2013 report. By publishing the EITI 2013 report on December 31, 2015, the Government maintains the EITI compliant status and thus strengthens the transparency in the management of mining sector resources.

12. The various policy measures undertaken by the Government will strengthen economic prospects in 2016 and in the medium-term. After two years of economic stagnation, growth is expected to rebound to 4 percent in 2016. Agriculture will continue to grow, thanks to the intensification of the use of fertilizers and irrigation. The growth of the mining sector is expected to reach 5.7 percent thanks to the ambitious production plan of the Boké mining company that started operations in 2015. There should be a rebound in manufacturing, construction and services sectors due to the end of political uncertainty, the return of foreign investors in the mining sector, and improvement of electrical production. Inflation is expected to increase slightly from 7.3 per

cent to end 2015 to 8.5 percent with the convergence of official and parallel exchange rates, and due to the effect of certain tax measures including the increase in the rate of VAT by 2 per cent.

13. The GDP growth is expected to increase to about 6 percent in the medium term (2017-21) with the return of investors, including in the mining sector, and policies envisaged in the post-Ebola recovery package of the Government. This plan aims to improve the physical and human capital through the rehabilitation of health systems and infrastructure construction to stimulate the growth potential of Guinea. The plan complements and extends the poverty reduction strategy of the government (PRSP III, 2013-2015) and the five-year Plan 2011-2015 pending the finalization of the next national planning documents. The four pillars of the plan are: i) strengthening of human and institutional capacity, ii) promotion of accelerated, diverse and sustainable growth; iii) development of infrastructure to support growth, and; iv) strengthening of access to social services. However, the financing of the plan, whose cost is estimated at US $ 2.9 billion, is not yet completed. The Government will continue to give priority to concessional loans and external grants to finance its recovery post-Ebola plan.

14. In order to support its program of reforms and recovery post-Ebola, the Government is seeking financial support from the World Bank. Budgetary support of US$40 million from the World Bank will contribute to ease budgetary constraints in 2016, and will support the economic reforms that the Government has incurred. The Government thanks the World Bank for its important support.

I would like to assure the President of my distinguished consideration.

Minister of Economy and Finance

Malado Kaba

REPUBLIQUE DE GUINEE
Travail - Justice - Solidarité
****

Conakry, le 22 FEV. 2016

MINISTÈRE DE L'ECONOMIE
ET DES FINANCES

N° 0145 MEF/CTSP

Le Ministre

A
Monsieur le Président de la
Banque Mondiale
Washington DC

Monsieur le Président,

1. La présente Lettre de Politique de Développement retrace l'évolution récente de la situation économique de la Guinée et des reformes structurelles et sectorielles mises en œuvre par le Gouvernement. Elle décrit aussi d'une part, les objectifs de la politique économique du Gouvernement en 2016, et d'autre part, présente les perspectives économiques à moyen terme.

2. Les développements économiques en 2014 et en 2015 ont été dominés par l'impact de l'épidémie Ébola. Depuis son apparition en Guinée forestière en décembre 2013, l'épidémie a touché 3.351 personnes et en a tué 2.083 à la date du 25 novembre 2015. Elle a affecté 26 préfectures et les cinq communes de Conakry, y compris des zones propices à la production agricole. Avec l'assistance de ses partenaires internationaux, le Gouvernement est parvenu à éradiquer la maladie depuis la mi-novembre, et l'Organisation Mondiale de la Santé a déclaré la fin de l'épidémie Ebola en Guinée le 29 décembre 2015. En plus de l'épidémie Ebola, le contexte économique a été marqué par la baisse des prix des matières premières et l'incertitude politique liée à la préparation des élections présidentielles d'octobre 2015.

3. L'activité économique a fortement ralenti en 2014 et 2015 à cause de ces chocs exogènes. Le ralentissement de la croissance enregistrée en 2014 s'est poursuivi en 2015 avec un taux de croissance estimé à 0,1 pour cent, la croissance économique n'a pas été négative grâce à une progression robuste de la production agricole. L'atonie de la croissance économique reflète la baisse de la production minière et celle des services, y compris des hôtels et restaurants. L'inflation a continué à baisser atteignant 7,3 pour cent à fin décembre 2015 du fait de la conjonction de l'augmentation de la production agricole, de la baisse de la demande domestique et de la baisse de prix des produits pétroliers.

Ministère de l'économie et des Finances - BP: 579 - Conakry République de Guinée
Tél.: (+224) 30 45 17 95 / 30 41 52 08 / 30 41 30 00 - Fax:.......................................

Après une dégradation significative en 2014 liée aux effets de l'épidémie Ebola, le compte courant extérieur s'est amélioré en 2015 en raison principalement d'une baisse du volume des importations reflétant le ralentissement de la croissance, malgré l'augmentation significative des crédits bancaires et des importations liés aux projets d'investissements publics. Cependant, le solde global de la balance de paiements s'est dégradé et les réserves internationales de la Guinée, estimées à 3,6 mois d'importations à fin 2014, ont diminué à 2,3 mois d'importations à fin 2015.

4. Pour limiter les impacts des chocs exogènes sur l'économie, le Gouvernement a entrepris un programme ambitieux d'investissements publics dont l'exécution a entraîné des déviations macroéconomiques importantes. Dans ce contexte, la mise en œuvre du programme économique et financier du Gouvernement soutenue par le Fonds Monétaire International (FMI) au titre de la Facilité Élargie de Crédit (FEC) a été fortement perturbée. Ainsi, les critères de performance à fin juin 2015 n'ont pas été remplis, en raison de pertes de recettes dues à l'épidémie à virus Ebola, des politiques macroéconomiques moins appropriées, caractérisées par la mise en œuvre d'un important programme d'investissements publics nettement au-delà des financements disponibles, et préfinancé par des garanties émises par la Banque Centrale de la République de Guinée (BCRG).

5. Le Gouvernement a adopté des mesures de politiques économiques visant à corriger les déséquilibres macroéconomiques apparus en 2015. Le budget 2015 a été clôturé sans augmenter le recours aux avances de la BCRG et sans accumuler des arriérés intérieurs par rapport au niveau observé à fin octobre 2015. La BCRG a mis en œuvre les recommandations de la mission d'assistance technique du FMI pour améliorer la flexibilité du taux de change à travers une réforme profonde du mécanisme de détermination du taux de change qui a déjà permis d'éliminer presque entièrement la prime de change du marché parallèle. Cette réforme a permis à la BCRG de réduire de façon significative ses niveaux d'intervention sur le marché des changes afin de préserver les réserves internationales du pays. La BCRG a également décidé de cesser ses achats d'or compte tenu des conséquences sur l'excès de liquidité en monnaie locale et sur le taux de change, et pour maintenir un portefeuille de réserves diversifié conformément à la politique d'investissement de ses réserves.

6. L'Assemblée Nationale a adopté le 16 janvier 2016 une loi de finances 2016 conforme au programme révisé avec le FMI. Le déficit budgétaire est réduit de façon significative pour limiter le recours au financement des banques commerciales et renforcer les réserves internationales du pays.

Les mesures envisagées dans le budget permettront de dégager un solde de base de +0,16 pour cent du PIB, soit une contraction budgétaire de 6,3 pour cent du PIB par rapport à 2015. Les besoins de financement du budget se limiteront ainsi à 1,3 pour cent du PIB et seront principalement couverts par des dons et prêts budgétaires concessionnels, le financement intérieur étant principalement dédié au remboursement graduel des avances consenties par la banque centrale au Trésor public en 2015 et à la réduction des arriérés accumulés vis-à-vis du secteur privé guinéen.

7. Le Gouvernement a également pris des mesures dans le budget 2016 pour accroître la mobilisation des ressources domestiques. Ces mesures incluent notamment : (1) la hausse du taux de la TVA de 18 à 20 pour cent; (2) l'extension de la TVA à la farine et aux huiles alimentaires; (3) la retenue à la source de 50 pour cent de la TVA facturée par les prestataires et fournisseurs de services au niveau des Entreprises Publiques, Sociétés minières, Sociétés pétrolières et Sociétés de téléphonie ; (4) l'élargissement de la taxe sur la consommation téléphonique et de la taxe sur l'accès aux réseaux des télécommunications aux DATA (accès internet) et SMS ; (5) l'institution d'un droit de timbre à l'importation des véhicules d'occasion. Grâce à ces différentes mesures, il est attendu une forte progression des recettes fiscales et non fiscales en 2016 par rapport au niveau projeté pour 2015 (+2.5 points de pourcentage du PIB).

8. En plus des mesures citées ci-dessus, le Gouvernement s'est engagé à redynamiser le système de santé pour prendre adéquatement soin de la population et prévenir des crises sanitaires futures. C'est ainsi que malgré le contexte d'austérité, le budget 2016 permettra de renforcer les dépenses prioritaires, en particulier les dépenses de santé qui enregistrent une hausse de deux points de pourcentage du PIB, en passant de 3 pour cent du PIB en 2015 à 5 pour cent du PIB en 2016.

9. Le Gouvernement, avec l'appui de la Banque mondiale compte poursuivre ses efforts de réformes des finances publiques, de transparence et d'efficacité des marchés publics. Dans cette perspective, le Gouvernement a conjointement initié avec la Banque mondiale l'audit externe des marchés publics passés entre l'année 2013 et le premier semestre de l'année 2015. Il s'agit du premier audit externe des marchés publics, réalisé depuis 2012, lorsque la Guinée a atteint le point d'achèvement de l'initiative PPTE. L'audit concerne les quatre principales catégories de marchés publics (marchés de travaux, de fournitures d'équipements, de fournitures courantes et de prestations de services), et inclura les marchés publics qui ont fait l'objet de garanties émises par la BCRG. Le Gouvernement s'est engagé à prendre en charge sur les ressources propres de l'Etat les frais de l'audit qui sera réalisé par un cabinet international, basé à l'extérieur de la Guinée.

Une mouture du rapport d'audit est attendue à la mi-février 2016 et le Gouvernement mettra en œuvre les principales recommandations de l'audit pour améliorer l'efficacité du système de passation des marchés publics.

10. Le Gouvernement compte également renforcer la viabilité financière de la compagnie publique d'électricité (EDG)et réduire son poids sur le budget de l'État. Avec l'assistance du Groupe de la Banque mondiale, le Gouvernement a mis en œuvre le contrat de gestion entre EDG et l'opérateur privé Veolia. Le contrat de gestion permettra d'améliorer l'efficacité managériale, technique, commerciale et financière d'EDG. En parallèle le Gouvernement a poursuivi ses efforts d'amélioration de la production d'électricité grâce à la finalisation des travaux du barrage de Kaléta, et la signature de contrats PPP pour la production d'éléctricité. La production d'électricité s'améliorant, le Gouvernement s'est engagé à réduire ses subventions à EDG. Ainsi, comparé à l'année 2015, dans le budget 2016, le Gouvernement a réduit ses subventions à EDG de moitié (de 600 milliards en 2015 à 300 milliards GNF en 2016).

11. Le Gouvernement s'est également engagé à améliorer la transparence dans le secteur minier. Avec l'appui de la Banque Africaine de Développement, le Gouvernement a recruté le cabinet international Fair Links, qui a préparé le rapport ITIE 2013. En publiant le rapport ITIE 2013, le 31 Décembre 2015, le Gouvernement maintient le statut de la Guinée de « Pays conforme à la norme ITIE », et renforce ainsi les conditions de transparence dans la gestion des ressources issues du secteur minier du pays.

12. Les différentes mesures de politique économique prises par le Gouvernement, renforcent les bonnes perspectives économiques en 2016 et à moyen terme. Après deux années de morosité économique, la croissance devrait rebondir à 4 pour cent en 2016. L'agriculture continuerait à croître, grâce à l'intensification de l'utilisation des engrais et de l'irrigation. La croissance du secteur minier devrait atteindre 5,7 pour cent grâce au plan de production ambitieux de la Société Minière de Boké qui a débuté ses opérations en 2015. L'activité devrait aussi rebondir dans les secteurs de la manufacture, de la construction et des services avec la fin de l'incertitude politique, le retour des investisseurs étrangers dans le secteur minier, et l'amélioration de la production électrique.

L'inflation devrait augmenter légèrement, de 7,3 pour cent à fin 2015, à 8,5 pour cent avec la convergence des taux de change officiel et parallèle, et l'effet de certaines mesures fiscales notamment l'accroissement du taux de la TVA de 2 pour cent.

Le déficit du compte courant extérieur devrait baisser à 17 pour cent du PIB permettant un accroissement des réserves internationales de la BCRG à au moins trois mois d'importations.

13. La croissance du PIB devrait augmenter à environ 6 pour cent sur le moyen terme (2017-21) grâce au retour des investisseurs, y compris dans le secteur minier, et aux politiques envisagées dans le plan de relance post-Ébola du Gouvernement. Ce plan vise à améliorer le capital physique et humain à travers la réhabilitation du système de santé et la construction d'infrastructures pour stimuler le potentiel de croissance de la Guinée. Le plan complète et prolonge la stratégie de réduction de la pauvreté (DSRP III, 2013-2015) et le Plan Quinquennal 2011-2015 en attendant la finalisation des prochains documents de planification nationale. Les quatre piliers du plan sont: i) le renforcement des capacités humaines et institutionnelles, ii) la promotion d'une croissance accélérée, diversifiée et durable, iii) le développement des infrastructures de soutien à la croissance, et, iv) le renforcement de l'accès aux services sociaux de base et de la résilience des ménages. Cependant, le financement du plan dont le coût est estimé à 2,9 milliards de dollars américains n'est pas encore bouclé. Le Gouvernement continuera d'accorder la priorité aux prêts concessionnels et aux dons extérieurs pour financer son plan de relance post-Ebola.

14. En vue de soutenir son programme de réformes et la relance post-Ebola, le Gouvernement sollicite l'appui financier de la Banque mondiale. L'appui budgétaire de 40 millions de dollars américains de la Banque mondiale contribuera à assouplir les contraintes budgétaires en 2016, et soutiendra les réformes économiques que le Gouvernement a engagées. Le Gouvernement remercie la Banque Mondiale pour son important appui.

Je vous prie d'agréer, **Monsieur le Président**, l'assurance de ma considération distinguée.

Ministère de l'Economie et des Finances
Le Ministre
Rép.de Guinée

Malado KABA

Ampliation: Mission résidente de la Banque mondiale

5

Press Release No. 15/562
FOR IMMEDIATE RELEASE
December 15, 2015

International Monetary Fund
Washington, D.C. 20431 USA

IMF Staff Completes Review Mission to Guinea

End-of-Mission press releases include statements of IMF staff teams that convey preliminary findings after a visit to a country. The views expressed in this statement are those of the IMF staff and do not necessarily represent the views of the IMF's Executive Board. Based on the preliminary findings of this mission, staff will prepare a report that, subject to management approval, will be presented to the IMF's Executive Board for discussion and decision.

An IMF mission led by Abdoul Aziz Wane visited Conakry during December 2-15, 2015, to conduct discussions on the sixth and seventh reviews of the authorities program supported by an arrangement under the ECF.[15] The IMF Executive Board approved the arrangement for Guinea on February 24, 2012 for SDR 128.52 million, about US$200 million (see Press Release No. 12/57).

At the conclusion of the mission Mr. Wane issued the following statement:

"The Guinean authorities and IMF staff have reached understandings *ad referendum* on a set of policies that, subject to approval by IMF management and the Executive Board, could be supported by the seventh disbursement under the ECF arrangement of SDR 18.36 million (about US$25.6 million). Subject to measures to be adopted in the coming weeks, the Executive Board meeting is expected in mid-March 2015.

"Guinea has been hit by two major adverse shocks, which have exacted a heavy toll on its economy and living conditions. First, since early 2014, Guinea has been battling the Ebola epidemic, which has claimed thousands of lives and severely disrupted economic activity. Second, Guinea has been affected by the decline in commodity prices, which led to a decline in gold production and exports, foreign exchange earnings and government revenue. Beyond the impact of these shocks, policy slippages have increased macroeconomic tensions. The fiscal deficit increased, without adequate

[15] The ECF is the IMF's main tool for medium-term financial support to low-income countries. Financing under the ECF currently carries a zero percent interest rate, with a grace period of 5½ years, and a maturity of 10 years.

financing being secured, as the authorities sought to implement a large public investment program in roads, electricity and water. The sustained increase in spending has resulted in extensive loss of international reserves and an increase in the premium between the official and bureau exchange rates. Most performance criteria and indicative targets under the ECF arrangement in 2015 were not met. Against the backdrop of weak economic growth and low fuel prices, inflation has remained subdued at some 7.5 percent at end-November 2015.

"Economic prospects have improved with the nearing end of the Ebola epidemic and the peaceful presidential elections. Growth is projected to rebound to close to 4 percent, reflecting continued strong production in the agriculture, bauxite and electricity sectors.

"The authorities intend to tighten policies in 2016 to reduce the prevailing macroeconomic imbalances, while protecting resources devoted for poverty reduction. The fiscal deficit will be limited to what can be financed through secured external budget support and project loans and limited recourse to domestic financing, avoiding the incurrence of any new arrears. The planned recapitalization of the BCRG and the reimbursement by the treasury of the central bank advances will strengthen its ability to conduct monetary policy. The mission encourages the authorities to enhance the transparency of the public investment program. It welcomed the central bank's intention to ban guarantees to private entities, which will boost its credibility and ingrain confidence in the Guinean franc.

"The IMF team thanks the authorities for their hospitality and for the constructive discussions."

The mission met with President of the Republic Alpha Condé, state minister for finance Mohamed Diaré, central bank governor Lounceny Nabé, planning minister Sékou Traoré, deputy budget minister Ansoumane Condé, and other senior government officials, the banking association, international partners, as well as civil society. The discussions focused on recent economic developments and prospects, and policy implementation.

ANNEX 4: DEBT SUSTAINABILITY ANALYSIS

GUINEA

SIXTH AND SEVENTH REVIEWS UNDER THE THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, FINANCING ASSURANCES REVIEW, AND REQUESTS FOR WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA, FOR EXTENSION OF THE ARRANGEMENT, AND FOR REPHASING OF DISBURSEMENTS—DEBT SUSTAINABILITY ANALYSIS

Approved By
Abebe Aemro Selassie and Miyazaki Masato (IMF) and John Panzer (IDA)

Prepared by the International Monetary Fund and the International Development Association

- *This Debt Sustainability Analysis (DSA) concludes that Guinea continues to face a moderate risk of debt distress,* [16]*but debt vulnerabilities have deteriorated.*

- *The DSA updates the joint Bank-Fund LIC-DSA that was considered by the Executive Board in February 2015 in the context of the 5th Review under the ECF arrangement.*[17] *Compared to the last DSA, the actual external debt stock at end-2015 was lower than previously projected, while domestic debt was substantially higher, reflecting recourse to sizeable central bank and commercial bank borrowing, and central bank guarantees on private sector loans; in the near term, the DSA includes a sharp fiscal adjustment, resulting in lower financing needs; and, external borrowing is slightly lower, while the share of concessional borrowing is lower in the longer run. The underlying macroeconomic assumptions have been updated to reflect lower world commodity and food prices, a faster depreciation of the GNF vis-a-vis the US dollar, and a 3-year delay in the start of iron ore exports from the Simondou mining project.*

[16] In the LIC-DSA framework Guinea is rated as having weak policy performance with a Country Policy and Institutional Assessment average rating for 2012-14 of 2.99.

[17] The DSA was prepared jointly by the staff of the IMF and Bank, in collaboration with the authorities of Guinea. The 2015 DSA can be found in EBS/15/4, Supp. 2, 01/28, 2015 and Country Report No. 15/39.

- *Under the baseline scenario, there are no breaches of the respective policy – dependent thresholds for any of the debt indicators. However, the stress tests show that the external debt outlook continues to be vulnerable to adverse macroeconomic shocks.*

- *Sound macroeconomic policies and prudent debt management will be important to maintain a sustainable external position. It would be important to rely primarily on concessional sources of external financing and to support public spending needs for investment primarily through efforts to enhance revenue performance.*

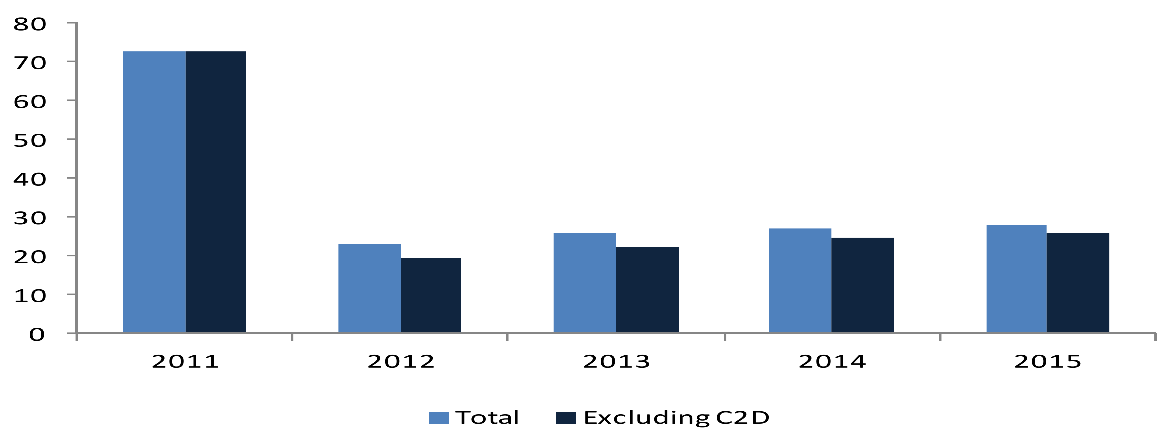
- *To realize Guinea's growth potential and increase its resilience to exogenous shocks, and promote economic diversification, structural reforms and improvements in the business environment will be important, particularly in the mining and agriculture sectors.*

- *Strengthening debt management would enhance Guinea's capacity to pursue a prudent borrowing policy and manage contingent risks. To this end, the National Public Debt Policy Statement, a manual of operational procedures in the debt department, and a medium-term debt strategy (2015-19) should be completed and rendered operationally effective. This would permit better coordination and management of debt, in particular through the National Committee for Public Debt (CNDP).*

Background

1. **Following Guinea's completion point under the enhanced HIPC Initiative in 2012, the external debt position and vulnerability improved.**[18] Since 2012 the Government has used the borrowing space created by the HIPC completion point to finance its investment plans, notably in the energy and road sectors; the construction of the Kaleta hydroelectric dam and the extension and rehabilitation of the electricity transmission line from the dam to Conakry account for a large part of the rise in external debt. As a result, outstanding public and publicly guaranteed external debt increased from US$1.1 billion at end-2012 to 1.7 billion at end-2015 (Figure 1 and Table 1), or in terms of GDP from 19.7 percent at end-2012 to 27.7 percent at end-2015.[19] At end-2015, Guinea had outstanding external debt arrears to non-Paris Club official bilateral creditors and commercial creditors of US$148.1 million (8.6 percent of total debt). In 2013, the authorities invited these creditors to hold discussions on debt relief and a normalization of arrears, but thus far most creditors have not responded to the invitation nor have requested payment of the arrears.[20]

Figure 1. Guinea: Stock of External Public Debt, 2011-15
(in percent of GDP)



Sources: Guinean authorities, IMF Staff calculations.

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[18] In this DSA external debt excludes French claims under C2D debt-for-development swaps, which were cancelled in the context of providing beyond HIPC debt relief. Under the C2D mechanism, debt service due on these claims is returned in the form of grants to the government to finance development projects. In the staff report, the flows associated with the C2D process are included in the external and fiscal accounts so as to capture the gross cash-flows (debt service and grants). See EBS/15/4, Supp. 2, 01/28, 2015 and Country Report No. 15/39 for a detailed discussion.

[19] Beginning in 2014, the data for PPG external and domestic debt include guarantees issued by the central bank (BCRG) (see Box 1).

[20] The status of these arrears under the IMF's policy concerning lending into arrears and arrears to official creditors has not changed since the (last) 5th review under the ECF arrangement.

Table 1. Guinea: Structure of External Public Debt (Nominal) 2015

	end-2015	end-2015	end-2015
	US Dollars (millions)	Percent of Total	Percent of GDP
Total	**1,723.6**	**100.0**	**27.7**
Total, incl. C2D	1,862.5	108.1	29.9
Multilateral Creditors	**684.0**	**39.7**	**11.0**
IMF	197.9	11.5	3.2
World Bank	161.1	9.3	2.6
AfDB Group	111.2	6.5	1.8
IsDB	113.0	6.6	1.8
EU	0.0	0.0	0.0
Other Multilateral Creditors	100.8	5.8	1.6
Official Bilateral Creditors	**980.0**	**56.9**	**15.7**
Paris Club (excl. C2D)	53.5	3.1	0.9
Non-Paris Club	795.5	46.2	12.8
Arab Funds	131.0	7.6	2.1
Commercial Creditors	**59.6**	**3.5**	**1.0**
Memo			
Arrears 1/	148.1	8.6	2.4

Sources: Guinean authorities and IMF and World Bank estimates.

1/ The arrears are primarily to some non-Paris Club official bilateral creditors ($88.5 million) and commercial creditors ($65.6 million) and concern debt outstanding on which there is no remaining debt service obligations falling due. The Guinean authorities have invited these creditors for discussions on debt relief and a normalization of the arrears. In addition, there are some arrears to a Paris Club creditor for which a resolution is under discussion with the Guinean authorities.

2. **Public domestic debt has increased considerably since 2013**. From end-2013 to end-2015 outstanding public domestic debt rose by almost 65 percent (from 20.3 percent[21] to 28.2 percent) as a share of GDP), primarily because of the revenue shortfalls and spending pressures linked to the fight against the Ebola epidemic. The increase in public debt was due to the issuance of guarantees by the central bank in 2014-2015 on loans by local banks which were pre-financing public projects, and in 2015 to a large run-up in central bank advances to the Government, the issuance of medium-term bonds to commercial banks, and net issuance of short-term treasury bills to commercial banks (equivalent to just over 1½ percent of GDP). As of end-2015, the domestic debt liabilities comprised: “dette conventionnée” owed to the central bank[22] (44.3 percent of domestic debt); treasury bills held by domestic banks (20.1 percent); central bank loan guarantees to local banks (14.7 percent); central bank advances (12.8 percent), and securitized debt to enterprises.

[21] The figure for domestic debt at end-2013 differs from that in the last DSA (13.0 percent of GDP), reflecting revisions to the data for domestic debt which was previously based on estimates as well as in nominal GDP.

[22] This debt comprises consolidated past advances to the government which are to be repaid over 40 years with amortization payments beginning in 2023.

Box 1. Guinea: Central Bank Guarantees of Public Investment Projects

At the request of the Ministry of Finance, the central bank (BCRG) issued guarantees during 2014 and 2015 to local and foreign banks on behalf of 12 local and foreign private companies executing public works contracts to help them secure commercial bank loans. The total value of the public works contracts is equivalent to 15.2 percent of GDP (US$1,017 million), of which 85 percent benefited from central bank guarantees, most of which are in foreign exchange (Text Table).[23] The guarantees add about US$72 million dollars to the stock of public and public-guaranteed external debt.

Text Table. Guarantees of Public Works Contracts

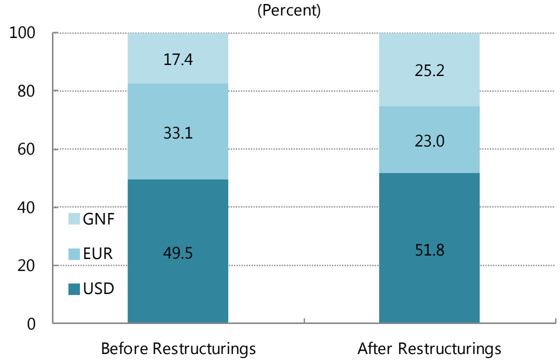
Sector	USD Million		Percent of GDP	
	Before Restructurings	After Restructurings	Before Restructurings	After Restructurings
Roads	366.2	233.1	5.5	3.5
Electricity services	443.0	308.9	6.6	4.6
Water services	22.5	22.5	0.3	0.3
Other	39.1	36.5	0.6	0.5
Total	**870.8**	**601.0**	**13.0**	**9.0**

Source: Guinean authorities, IMF staff estimates.

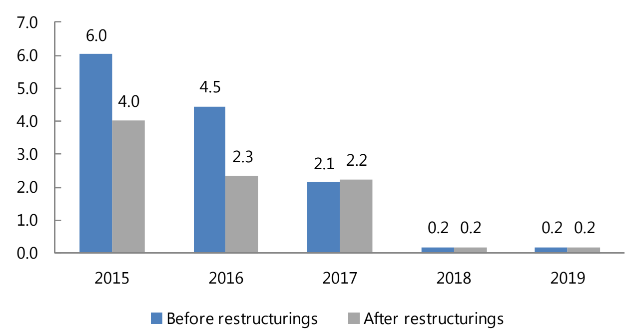
Debt service covered by the guarantees fall due in 2015-2019, and for 2015 the budget included appropriations for payment of the debt service; budgets in subsequent years will also. In the event, in 2015 due to a shortfall in budgetary revenue and less than expected external budget support, the guarantees were called on the central bank. The central bank in turn charged the payment against the Government's account at the central bank, triggering large central bank financing of the Government.

To protect international reserves and contain the run-up in central bank financing in 2015 the authorities engaged the

Currency Composition
(Percent)



Implementation Horizon
(Percent of GDP)



banks benefiting from the guarantees in discussions on restructuring the guarantees. As a result, with creditors' agreement, planned investments (and corresponding guarantees) were either cancelled or guarantee payments were rescheduled. The DSA consolidates the guarantees as part of public sector debt and uses the restructured amounts and payment profile.

Source: Guinean authorities, IMF staff estimates, March 2016

3. **In 2014-2015, the central bank issued a large amount of guarantees that had not been foreseen in the last DSA (Box 1).** The central bank guarantees initially amounted to 13 percent of GDP, of which 3 percent was to foreign banks, and guaranteed debt service payments falling due in 2015 were called. However, they were restructured in 2015 to contain the impact on international reserves and the level of central bank advances to the Government. As a result, the total amount of guarantees was reduced by about one-third to 9 percent of GDP, of which 1 percent of GDP to foreign banks; guarantees falling due in 2016, and associated spending have been

[23] Despite the inclusion in the 2015 budget of appropriations of about 3 percent of GDP for payments, the guarantees were called on the central bank.

reduced by 2.2 percent of GDP, to 2.3 percent of GDP. The DSA includes the guarantees as part of public debt using the restructured amounts and payment profile.

4. The public debt position at end-2015 differs considerably from that projected in the last DSA. The projected debt position in the last DSA (which used a base year of 2013), envisaged a higher external debt stock and a lower domestic debt stock. In the event, the outcome was reversed, reflecting primarily two factors, and total public debt was higher in value and in terms of GDP, 55.7 percent compared with a projected 46.0 percent in the last DSA. The lower-than-projected external debt stock at end-2015, including in terms of GDP, was primarily due to a significantly lower amount of external borrowing during 2014-2015. In addition, while projected external debt relief including cancellation (about US$60 million) in 2015 did not materialize,[24] this was more than offset by unforeseen debt relief which included debt cancellation from France (about US$40 million) and from the IMF's Catastrophe and Containment Trust (about US$30 million) to help Guinea cope with the Ebola outbreak.[25] With respect to GDP, although real growth was stronger than previously foreseen, in dollar terms, GDP was lower than projected in 2015 because of a more depreciated GNF/USD exchange rate. The higher-than-projected domestic debt stock in end-2015 was due to *(i)* central bank guarantees on bank loans to public works contractors (Box 1), *(ii)* a sharp increase in central bank advances to the Government because of a shortfall in budget revenues, and *(iii)* the securitization of the public utility's debt to the private sector.

Underlying Assumptions

5. Key changes in the baseline macroeconomic assumptions in relation to the 2015 LIC-DSA are as follows:

- **The start-up of production from the large-scale Simandou iron ore mining project** is projected to be delayed by three years to late 2023-2024. The construction phase of the project and related infrastructure is also delayed.

- **Real GDP growth** is projected to be somewhat lower during 2016-2020, reflecting a more muted rebound which owes in part to a the impact of lower commodity prices. Over the long run the growth rate is slightly higher, primarily reflecting the addition of new bauxite production during 2015-2017, adding one third to previously projected levels. Nominal GDP in US dollar terms is lower due to the more depreciated national currency (in 2015,

[24] Under the last DSA it was assumed that arrears to non-Paris official and commercial creditors would be restructured, in part through cancellation, in 2015; in the event, this did not occur. On the other hand, arrears to France related to public utilities were partially cancelled, and existing debt service payments rescheduled.

[25] The large negative residuals in the debt accounting for 2014-2015 reflect large errors and omissions and short-term private capital inflows. These are likely due to under-reporting of sizeable donor financing for Ebola related imports of goods and service term (see Office of United Nations Special Envoy on Ebola, Resources for Results V, October 2015 for data on the size and distribution of aid flows). In addition, in 2015 the residual reflects a sharp rundown in reserves.

the base year, the GNF/USD exchange rate was more depreciated than assumed in the last DSA by 7 percent on average and 13 percent at end-year).

- **The primary fiscal deficit** is lower, particularly in the medium term because of the sharp fiscal realignment in the near term (Box 1) and, over the long run, is lower on average than in the last DSA primarily because of a stronger assumed revenue effort, which reflects in part revenue measures in the approved 2016 budget, notwithstanding a higher level of capital expenditures. The revenue measures in the 2016 budget are projected to yield additional revenue of just over 2 percent of GDP and include an increase in the VAT rate from 18 percent to 20 percent; these measures are expected to be sustained over the medium- and long-term. In addition, projected current spending reflects lower subsidies and transfers which offset the medium-term impact of the 2015-2016 increase in civil servant salaries. The decline in budget subsidies is due to lower transfers to the public electric utility thanks to lower fuel prices, a planned tariff increase, and cost savings from improved governance stemming from implementation of a private sector performance management contract. Grants are also projected be higher in 2016 reflected already committed multilateral budget support; over the medium-term the level of grants is sustained as donors are projected to provide support for Guinea's post Ebola recovery responses.

- **External current account and foreign direct investment:** Imports reflect lower projected import prices than in the last DSA for oil, other commodity, and food prices. In the near-term, the external current account is projected to improve on the back of lower oil and food import prices. The decline in world iron ore and bauxite prices has virtually no impact because no production of iron ore is projected until the Simandou project comes on stream, and for the bulk of bauxite prices have been set in long-term contracts that pre-date the recent decline. In the medium term, imports for the mining sector and foreign direct investment also reflect the delay in the construction phase for the Simandou project. Exports are slightly lower, on average, over the long term than in the last DSA, reflecting the delayed onset of iron ore exports as well as the impact of lower food prices, which is partly offset by higher bauxite exports, with sizeable new production coming on stream 2015-2017, than in the last DSA because of new mining capacity coming on stream over the medium term.

- **Debt and debt service:** Domestic debt is higher over the medium term than in the last DSA, reflecting the higher 2015 debt stock (see preceding paragraph) and debt service is also higher because of the repayment over 6 years of the advances to the Government by the central bank in 2015, the payments on the government-securitized liabilities of EDG, and the payments on the guarantees falling due through to 2019. The actual terms (interest rate of 12 percent and amortization over 5years), and the amount (GNF 550 billion, GNF 150 billion higher than in the last DSA) of the 2015 medium-term bond issue are also included. The external debt projections assume that arrears are cleared one year in 2016

(2015 previously) and incorporate debt relief (rescheduling and partial cancellation (50 percent)) from France on loans to two public utilities.

- **New external borrowing** is slightly lower, on average, reflecting lower overall fiscal deficits. The projections assume that the share of new borrowing from concessional multilateral financing falls progressively from 60 percent to 10 percent (60-30 percent in the last DSA).

Box 2. Guinea: Macroeconomic Assumptions for 2015–36

Medium- and long-term macroeconomic assumptions are influenced heavily by the lasting effects of the Ebola outbreak, assume a large mining project starts production in 2023, and that sound macroeconomic policies are implemented.

Real GDP growth: In 2014, the Ebola outbreak imposed a heavy toll on the economy with only 0.6 growth projected on average during 2014–2015 as activity in agriculture and services was significantly affected by the epidemic. With the eradication of Ebola at end-2015 and a return to more normal levels of economic activity as well as the start of foreign investment activities in the mining sector, growth is expected to rebound to an average of 5.7 percent during 2016-2022. After the post Ebola rebound, growth (including the Simandou iron ore project) is projected at 6.2 percent during 2023–2028 as production from the Simandou project begins and ramps up. Once mining production reaches full capacity, growth tails off and is projected at an average of 4.3 percent per year after 2029. Other drivers of growth, the non-mining sector, are projected to contribute a growth impulse of about 5 percent per year over the long run. The reform programs and actions currently undertaken would unlock growth potentials, including support to the agriculture sector; an expansion of electricity supply that is already underway with the start of production from the new Kaleta hydroelectric dam; improvements in f the business environment; and the integration of the mining activities to the local economy.

Inflation: Inflation has gradually declined from 21 percent in December 2010 to about 7 percent in December 2015 and is projected to fall to 5 percent by 2019. In the long run, as measured by the GDP deflator in US dollar terms, inflation is projected to be around 4½ percent, close to CPI inflation projections in Guinea.

Fiscal policy: Following the deterioration of the macroeconomic outlook after the Ebola epidemic, the overall fiscal deficit (excluding grants) is expected to deteriorate to 10.6 percent of GDP in 2015, reflecting mainly the costs of guaranteed investments, additional transfers to EDG, and other current spending, including the establishment of new institutions mandated under the Constitution, and the impact of a 40 percent increase in base salaries. From 2016 onwards, the overall deficit is expected to decline to just between 5 and 6 percent in the final years of the current decade and to roughly 2 percent of GDP in the outer years of the projection period. The initial sharp drop in the deficit reflects strong revenue measures and a sharp realignment of expenditures with available financing, including regarding domestically-financed capital expenditures. No central bank financing or exceptional mining revenues are projected after 2015. Increased revenues from the mining sector beginning in the mid-2020s are assumed to allow for a further increase of domestically-financed investment and total investment expenditures would rise gradually to just over 12 percent of GDP in the long run. Current spending would gradually decline as a share of GDP and be just over 15 percent of GDP on average after 2030.

External current account balance (excluding official transfers): The recent significant fall in world oil price, as well as declines in other commodity and rice prices will have a positive impact on the external accounts over the medium term. The current account deficit is expected to expand beginning in 2017 and peaking at almost 51 percent of GDP by 2024, as imports and services for the mega mining Simandou project ramp up during its preparatory and construction phases. Subsequently, the current account is projected to move into surplus in 2025 as mining sector investment (imports) declines and mining exports come on stream. With the increase in output capacity at the Simandou project, mining exports rise through 2029 and then stabilize. However, as non-mining GDP continues to expand, fueling import growth together with the onset of distribution of large profits from the mining sector, the external current account moves back into deficit in 2029 and beyond. After falling to 2.3 of months of imports at end-2015, the international reserve position is expected to recover steadily and over the long run to reach just over 6 months of imports.

External financing: Official grants are expected to pick up in 2016 and amount to around 4 percent of GDP and loans are expected to amount to 3-4 percent of GDP over the medium term. Over the remainder of the projection horizon, grants financing would gradually declines. Loans would also decline as growing domestically-financed investment financed on the back of the rise in mining sector revenues would substitute for externally financed investment, but then would increase somewhat towards the end of the projection period. Over time, the share of concessional loans is expected to decline, from 60 percent during 2016–2018, to 40 percent during 2019–2023, 30 percent during 2024-2027, and then gradually decline thereafter to 10 percent by 2034.

Foreign direct investment: Net FDI is expected to surge during 2017-2023, peaking at around 40 percent of GDP in 2019–2020, owing to the rapid buildup in mining related activities. Subsequently, net FDI falls turning negative during 2025-2028 as profits from the mining sector are repatriated, before turning positive again on the back of broad based FDI inflows.

Table 2. Guinea: LIC DSA Macroeconomic Assumptions
(Percent of GDP excl. megaprojects, unless otherwise indicated)

	Previous DSA					Current DSA 2/			
	2014	2015	2020	2025	2034	2015	2020	2025	2036
Nominal GDP ($ Million)	6,638	7,155	12,174	19,997	33,084	6,696.2	8,744.4	15,292.6	32,027.2
Real GDP (Percentage change)	0.4	-0.3	8.2	5.0	4.5	0.1	6.3	6.0	4.6
Nominal GDP, excl. megaprojects ($ Million)	6,637.5	7,154.9	11,130.7	15,357.6	27,487.3	6,696.2	8,744.4	12,692.2	27,006.1
Real GDP, excl. megaprojects (Percentage change)	0.4	-0.3	5.1	4.4	4.8	0.1	6.3	4.4	4.9
Fiscal Accounts									
Revenue and grants [2]	25.3	25.7	23.5	25.2	24.9	19.3	25.9	27.6	27.4
Primary Expenditure	28.9	32.5	23.9	25.5	25.3	27.4	26.9	27.5	28.2
Of which: Capital expenditure and net lending	11.9	13.0	8.7	10.1	10.5	10.0	12.9	13.1	13.3
Primary Fiscal Balance	-3.6	-6.7	-0.5	-0.3	-0.3	-8.1	-1.1	0.1	-0.7
New external borrowing [3]	5.3	7.5	2.2	1.8	1.6	...	3.1	1.8	2.0
Grant element of new external borrowing (%)	37.93	40.84	41.99	41.99	35.16	...	44.00	41.82	32.72
Balance of Payments									
Exports of goods and services	23.4	23.1	34.4	76.9	48.7	21.0	22.1	67.0	49.8
Imports of goods and services	-40.3	-37.0	-75.5	-60.5	-46.8	-40.6	-70.2	-58.7	-45.5
Current account (including transfers) [2]	-18.1	-14.0	-41.2	8.9	-7.8	-22.4	-47.3	7.2	-6.1
Foreign direct investment	0.9	1.0	43.7	5.9	4.4	1.3	44.5	4.2	4.4

Source: Guinean authorities, IMF and World Bank staff estimates.

[1] The LIC-DSA and Figures 1-2 and Tables 3-6 use total GDP in the calculations and the ratios expressed in terms of GDP. The ratios to GDP in this Table 2 are expressed in terms of GDP excluding Simandou and are consistent with tables in the main text, figures, and tables in the Staff Report.

[2] The figures in this Table differ from the fiscal and balance of payments tables in the Staff Report as it excludes C2D related grants from fiscal revenue and grants and balance of payments grants.

[3] Includes publicly guaranteed external borrowing.

External Debt

6. **The results of the external DSA confirm that Guinea's debt dynamics are sustainable (Figure 2).**[26] They also confirm that Guinea's risk of debt distress has not changed and remains at a moderate level.

7. **The baseline debt indicators have improved compared to the previous DSA, and remain below the policy-dependent thresholds.** Under the baseline, the improvement in the debt indicators in the medium term reflects primarily the sharp fiscal adjustment in 2015 and realignment of fiscal spending to available financing. At the same time, the addition of bauxite production by 1/3 during 2015-2017 together with prices set under long-term contracts that pre-date the recent fall in world ore prices, has contributed to the improvement in the debt indicators with respect to exports. Over the long term the debt indicators are slightly improved because of lower borrowing and despite a lower grant element of new borrowing than in the last DSA. The relatively large external debt dynamic residuals in some years (Table 3), after taking into account exceptional financing (debt relief and non-FDI financial account non-debt creating inflows), reflect weaknesses in the coverage of balance of payments data. This also implies that the results and conclusions should be interpreted with a measure of caution.[27] The rise in the debt-service-to-exports indicator in the early 2020s is due to onset of repayments to the IMF and of amortization

[26] In the LIC-DSA framework Guinea is rated a having weak policy performance with a Country Policy and Institutional Assessment (CPIA) average rating for 2012-2014 of 2.99.

[27] The residual is in part accounted for by short-term private sector capital inflows (typically bank loans to fund operations), which are sizeable in 2016, and project capital grants which are not captured in the decomposition of debt dynamics.

payments on projected new debt. The subsequent decline owes to the end of repayments to the IMF and the onset of iron ore exports.

8. The indicators of debt vulnerabilities under the alternative scenarios and bound test have deteriorated. Under the alternative scenarios the debt indicators breach their thresholds only under the historical average test. The sustained breach is similar in pattern to that in the last DSA but is somewhat worse and is humped in the early 2020s. The worsening reflects the 2-year shift in the 10-year period used to calculate the average current account deficit, which is 16.2 percent of GDP compared to 10.2 percent in the last DSA; an early surplus year drops out and a large deficit. The sharp improvement in the debt-service-to-exports indicator in the early 2020s is due to the startup of iron ore exports. The improvement is subsequently steadily eroded as debt steadily accumulates to finance the large current account deficits. Under the bounds tests, breaches occur only for the debt stock indicators; the breaches are under the GDP, exports and non-debt creating inflows shocks and in the combination shock (the most extreme shock for all the debt indicators). The breaches range from 2 to 6 years.[28] Under the most extreme shock, the debt vulnerability indicators are worse than in the last DSA. The breaches of the debt-to GDP and debt-to-exports indicator thresholds are larger and of longer duration, though as noted above in part this is due to the shift in the historical period used to calibrate the shocks;[29] in the previous DSA the extreme shock was an export growth shock rather than a combination shock. In addition, the threshold for the debt-to-revenue indicator is breached which was not the case in the last DSA

9. The Government of Guinea intends to build a major 550 MW hydroelectric dam (Souapati), and its cost is such that Guinea's external debt sustainability will be affected by the modalities of the Government's participation in its financing. Although not yet finalized, the cost of the dam is reportedly in the range of US$1.2-1.6 billion (around 20 percent of GDP and greater than external debt at end-2015). As a first step in 2015 the Government signed with a private stakeholder a protocol for the creation of a joint venture under a public-private partnership structure. The protocol envisages several options for the financing of the dam, including a mix of equity and debt. The protocol also envisages the creation of a PPP for the operation of the Kaleta dam, and that the government's participation in the equity/debt financing of the Souapati debt could be met by the sale of part of its equity in the Kaleta dam.[30] Pending the completion of necessary studies no decisions have yet been taken on the size of the Government's equity stake and participation in the debt financing, either through direct borrowing or guarantees. A sizeable participation by the Government in any financing of the project could have a major effect on fiscal and external debt sustainability, especially if the financing is done on commercial terms. Under the assumptions of this DSA, sizeable debt financing by the government under non-concessional

[28] Under the real growth shock the debt-to-GDP indicator is breached for 2018-2022; for the export growth shock the debt-to-exports indicator is breached in 2017-2023; for the non-debt creating inflows (FDI) shock the three debt stock indicators are breached for varying lengths between 2018 and 2015; under the combination shock the debt-to-GDP, debt-to-exports, and debt-to revenue indicators are breached for 2018-2027, 2017-2023, 2018-2021 respectively.
[29] The shift in the period used to calculate the standard deviation with which the shocks are calibrated resulted in an increase from 13.5 in the previous DSA to 20.5 in the standard deviation of exports in this DSA.
[30] The Kaleta dam cost about US$250-300 million and was largely financed with external debt. Its current value has not yet been evaluated.

terms in the next few years would risk breaching one or more threshold for a moderate risk of debt distress as well as a significant rise in debt service costs, and would crowd out capacity to take on other debt to finance other priority projects. Bank and Fund staff stand ready to work closely with the authorities to ensure that any agreement on the project is transparent, has a high a level of concessionality as possible, does not jeopardize debt sustainability, and has a high rate of economic return.

10. Construction of the Souapati dam would have a major impact on Guinea's capacity to supply energy (more than doubling existing capacity) and could translate into higher growth and support the expansion of the mining sector. At the same time it could boost Government revenues to, including through the impact of higher growth on revenues, which could finance priority spending needs, and in the longer term strengthen fiscal and debt sustainability. In addition, the dam could have significant regional economic benefits through its contribution to a major regional electricity project (Gambia River Basin Development Organization Electricity Project) under which Guinea would export its surplus electricity capacity/production to neighboring countries, reducing their dependence on oil imports and supporting their growth potential.

11. While the use of PPPs to finance the government's participation in large-scale projects is a useful strategy to maintain external debt sustainability, they can also involve the risk of contingent liabilities. Given the magnitude of these projects it will be important that the Government should strengthen its capacity to ensure that any financing agreement does not include contingent liabilities, and second that projections of revenues are well-based and sufficient to cover financing costs of the PPP and thus avoid the possibility of assuming contingent liabilities to prevent the collapse of a project that could entail widespread damaging economic and social impacts. The assumption of any liability could lead to deterioration in debt burden indicators and in particular in the debt service burden.

Total Public Debt

12. Under the baseline, adding domestic public debt in the analysis leads to a near-term deterioration of Guinea's debt position. Under the baseline scenario, the present value of total public debt-GDP indicator is only marginally below the threshold in 2016 (37.7 percent compared to the threshold of 38 percent), which is because of the large run up in domestic debt and debt guarantees in 2015 when the indicator was above the public debt benchmark threshold at 45.6 percent. With public debt close to or above the benchmark, the overall risk of debt distress is now heightened. However, the indicator declines rapidly during 2016-2017 when the bulk of the debt guarantees are extinguished. In the longer term the indicator improves steadily as the remaining new domestic debt accumulated in 2015 is repaid and amortization payments on the "dette conventionnée" owed to the central commence in 2023.

Conclusion

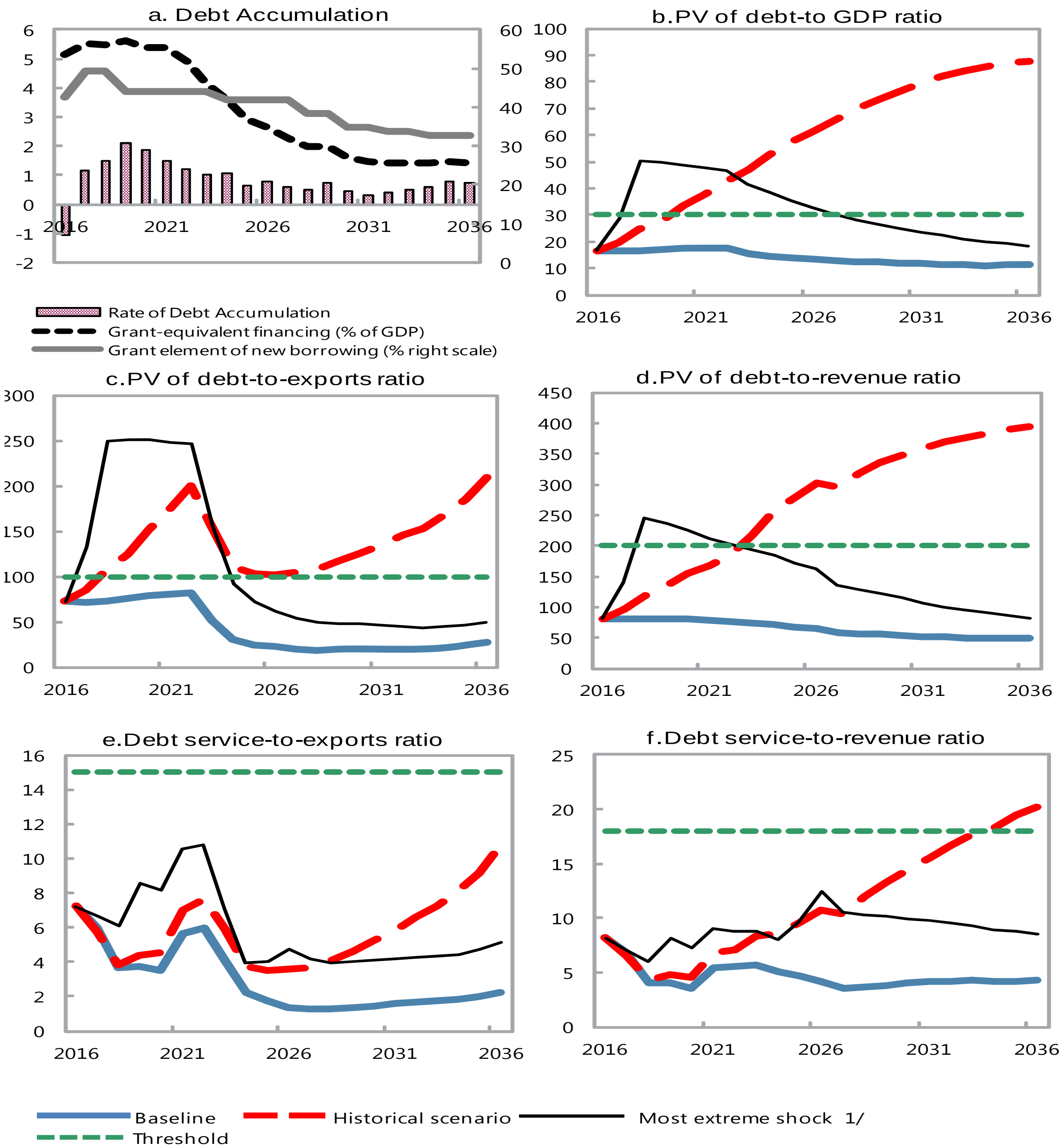
13. Guinea remains at a moderate risk of debt distress, but debt vulnerabilities have deteriorated. The risk rating is unchanged from the previous DSA in February 2015. In the baseline scenario, all debt indicators remain below their respective policy-dependent thresholds. However, stress tests suggest that Guinea’s external debt outlook has become more vulnerable to macroeconomic shocks, in particular to growth, exports, foreign direct investment flows and fiscal performance. The inclusion of domestic debt leads to a temporary deterioration in debt indicators because of the sizeable one-off net issuance of domestic debt and bank loan guarantees in 2015, but does not significantly change the conclusions of the external DSA, in particular as regards vulnerabilities to the public debt outlook. However, given the sharp rise in total public debt in 2015 the debt service burden in the short term has increased significantly and the overall risk of debt distress is heightened. As a consequence, it will be important to carefully monitor and contain the accumulation of new debt to avoid a rapid increase in the burden of debt service given limited budget flexibility (resulting from the sharp fiscal adjustment in 2015 and the burden of the bank loan guarantees[31]) and the need to preserve priority spending.

14. Sound macroeconomic policies and prudent debt management will be important to maintain a sustainable fiscal and external position and reduce external vulnerabilities. A strong structural reform effort and improvements in the business environment will also be needed to realize Guinea’s growth potential, particularly in the mining and agriculture sectors, and improved fiscal and export revenue performance. It would continue to be important to rely primarily on concessional sources of external financing, to support public spending needs for investment without excessive recourse to borrowing and through efforts to enhance revenue performance, and sustain the challenging near-term realignment in fiscal spending and revenues over the long-term. As regards debt management, several measures to strengthen debt management are nearing completion, including a National Public Debt Policy Statement, a manual of operational procedures in the debt department, and a medium-term debt strategy (2015–19). In addition, the government has requested further technical assistance to carry forward these reforms and render them effective. They have also requested technical assistance from African Regional Technical Assistance Centers (AFRITAC) to improve the programming of domestic debt issuance. It will be important for these reforms to be fully effective so that they can ensure a better coordination and management of debt, in particular through the National Committee for Public Debt (CNDP), to ensure all new government and central bank borrowing and guaranteed borrowing is in line with the statement on national public policy and fully monitored to ensure it is sustainable. In this context the central bank will revise its statutes to ban the issuance of guarantees for private sector loans. While the government intends to use PPPs to encourage private financing of needed investment to avoid excessive public borrowing to finance projects it will be important to pay close attention to any direct or contingent liabilities they entail to avoid that they compromise fiscal and dent sustainability.

[31] In the budget, payments related to the guarantees which helped pre-finance project spending are recorded under investment budget as project expenditures.

15. The authorities concurred with the analysis and conclusions of this DSA.

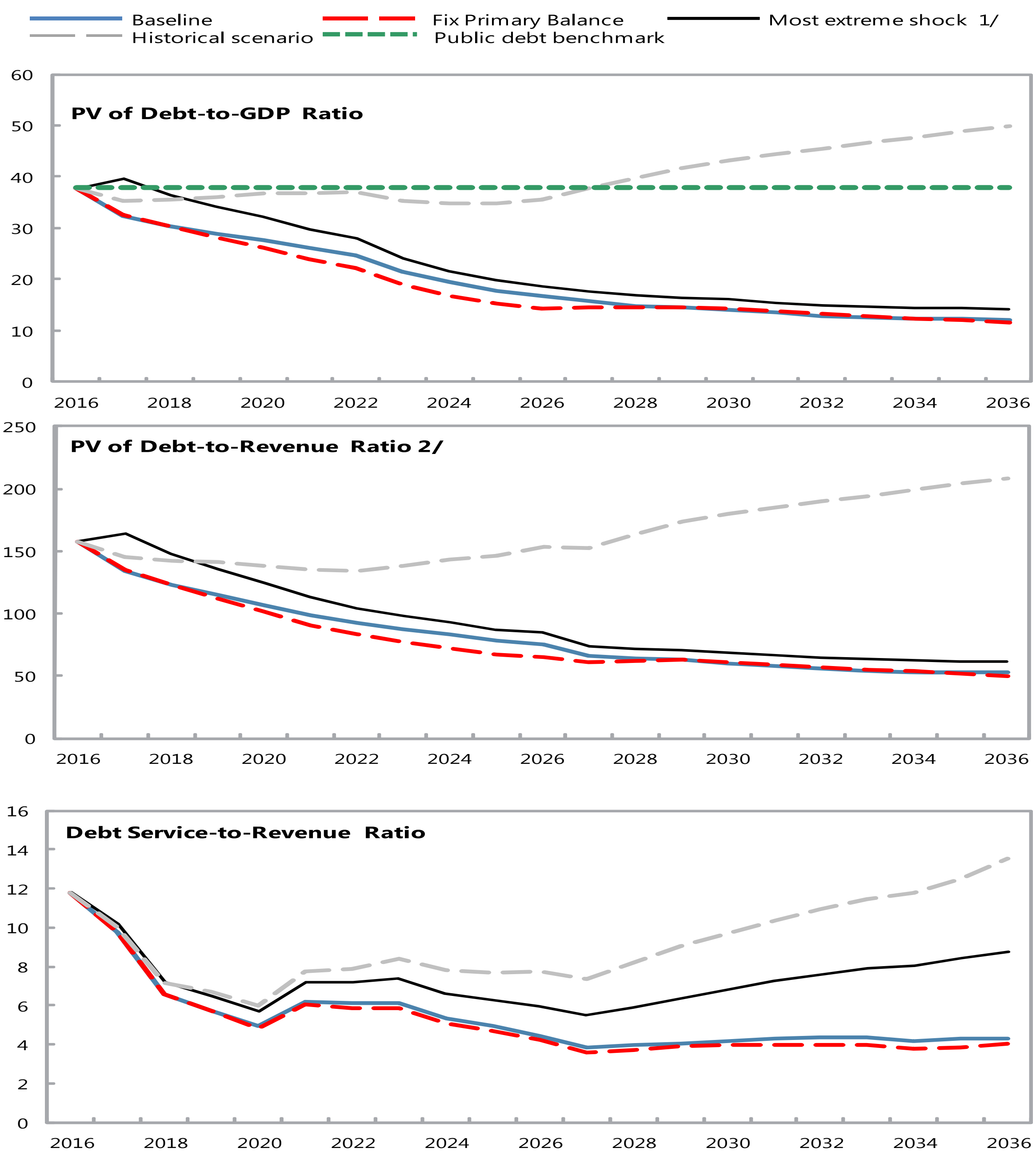
Figure 2. Guinea: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2016-36 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2026. In figure b. it corresponds to a Combination shock; in c. to a Combination shock; in d. to a Combination shock; in e. to a Combination shock and in figure f. to a Combination shock

Figure 3. Guinea: Indicators of Public Debt Under Alternative Scenarios, 2016-36 1/



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio on or before 2026.
2/ Revenues are defined inclusive of grants.

Table 3a. Guinea: External Debt Sustainability Framework, Baseline Scenario, 2013-36 1/

(Percent of GDP, unless otherwise indicated)

	Actual			Historical 6/ Average	Standard 6/ Deviation	Projections									
	2013	2014	2015			2016	2017	2018	2019	2020	2021	2016-2021 Average	2026	2036	2022-2036 Average
External debt (nominal) 1/	**22.5**	**26.6**	**27.5**			**28.3**	**28.2**	**28.6**	**29.4**	**29.6**	**29.7**		**22.1**	**17.3**	
of which: public and publicly guaranteed (PPG)	22.5	26.6	27.5			28.3	28.2	28.6	29.4	29.6	29.7		22.1	17.3	
Change in external debt	3.0	4.2	0.9			0.8	-0.1	0.4	0.8	0.3	0.0		-1.0	0.0	
Identified net debt-creating flows	23.3	23.1	21.1			7.3	4.9	2.0	5.0	1.4	2.6		0.0	0.7	
Non-interest current account deficit	**26.9**	**25.9**	**22.1**	**16.2**	**9.5**	**12.9**	**24.9**	**30.2**	**48.2**	**47.3**	**44.4**		**-8.2**	**4.9**	2.7
Deficit in balance of goods and services	24.0	23.7	19.6			14.2	25.7	32.0	50.3	48.2	46.5		-12.3	-3.6	
Exports	22.9	21.9	21.0			22.9	23.0	22.9	22.5	22.1	21.7		60.3	42.0	
Imports	46.9	45.7	40.6			37.1	48.7	54.9	72.9	70.2	68.2		48.0	38.4	
Net current transfers (negative = inflow)	-4.1	-2.0	-1.2	-5.4	2.6	-3.6	-3.6	-3.9	-3.7	-3.9	-4.1		-2.6	-1.3	-2.4
of which: official	-0.2	-1.4	-0.3			-1.1	-1.0	-1.1	-1.1	-1.1	-1.3		-0.9	-0.2	
Other current account flows (negative = net inflow)	7.0	4.1	3.7			2.3	2.8	2.1	1.6	3.1	2.0		6.7	9.8	
Net FDI (negative = inflow)	**-2.1**	**-1.0**	**-1.3**	**-4.5**	**3.5**	**-5.1**	**-18.8**	**-26.9**	**-41.7**	**-44.5**	**-40.5**		**9.1**	**-3.7**	-2.3
Endogenous debt dynamics 2/	**-1.5**	**-1.7**	**0.2**			**-0.5**	**-1.2**	**-1.3**	**-1.4**	**-1.4**	**-1.3**		**-0.9**	**-0.5**	
Contribution from nominal interest rate	0.2	0.2	0.2			0.6	0.3	0.3	0.3	0.3	0.3		0.3	0.3	
Contribution from real GDP growth	-0.4	-0.2	0.0			-1.1	-1.4	-1.5	-1.7	-1.7	-1.6		-1.1	-0.7	
Contribution from price and exchange rate changes	-1.3	-1.7	0.0			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-20.3**	**-19.0**	**-20.2**			**-6.5**	**-4.9**	**-1.6**	**-4.3**	**-1.1**	**-2.5**		**-1.0**	**-0.8**	
of which: exceptional financing	0.0	-0.1	-0.6			-1.4	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	17.4			16.6	16.3	16.5	17.1	17.5	17.5		13.3	11.2	
In percent of exports	...	...	83.0			72.4	70.9	72.2	76.0	79.2	80.7		22.0	26.6	
PV of PPG external debt	**...**	**...**	**17.4**			**16.6**	**16.3**	**16.5**	**17.1**	**17.5**	**17.5**		**13.3**	**11.2**	
In percent of exports	**...**	**...**	**83.0**			**72.4**	**70.9**	**72.2**	**76.0**	**79.2**	**80.7**		**22.0**	**26.6**	
In percent of government revenues	**...**	**...**	**97.3**			**81.7**	**80.2**	**80.1**	**81.6**	**80.2**	**77.9**		**65.7**	**50.2**	
Debt service-to-exports ratio (in percent)	**3.1**	**3.1**	**3.9**			**7.2**	**6.0**	**3.7**	**3.7**	**3.5**	**5.6**		**1.4**	**2.3**	
PPG debt service-to-exports ratio (in percent)	**3.1**	**3.1**	**3.9**			**7.2**	**6.0**	**3.7**	**3.7**	**3.5**	**5.6**		**1.4**	**2.3**	
PPG debt service-to-revenue ratio (in percent)	**3.8**	**3.7**	**4.6**			**8.2**	**6.8**	**4.1**	**4.0**	**3.6**	**5.4**		**4.1**	**4.3**	
Total gross financing need (Billions of U.S. dollars)	1.6	1.7	1.4			0.6	0.5	0.3	0.6	0.3	0.5		0.3	0.7	
Non-interest current account deficit that stabilizes debt ratio	23.9	21.7	21.2			12.1	24.9	29.8	47.4	47.0	44.3		-7.3	5.0	
Key macroeconomic assumptions															
Real GDP growth (in percent)	2.3	1.1	0.1	2.2	1.7	4.0	5.4	5.9	6.6	6.3	6.0	5.7	5.5	4.6	5.2
GDP deflator in US dollar terms (change in percent)	6.9	8.1	-0.2	7.1	14.6	-5.6	-0.2	1.1	1.8	2.4	2.5	0.3	3.9	1.8	3.1
Effective interest rate (percent) 5/	0.9	1.0	0.8	1.2	0.4	2.1	1.0	1.1	1.1	1.1	1.2	1.3	1.3	1.6	1.4
Growth of exports of G&S (US dollar terms, in percent)	-32.2	4.8	-4.2	5.3	20.5	7.2	5.4	6.6	6.8	6.6	6.7	6.6	18.7	-4.9	15.4
Growth of imports of G&S (US dollar terms, in percent)	-11.5	6.4	-11.1	12.1	21.4	-10.2	37.9	20.8	44.1	4.9	5.5	17.2	7.9	1.4	4.4
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	42.6	49.4	49.4	44.1	44.1	44.1	45.6	41.8	32.7	37.9
Government revenues (excluding grants, in percent of GDP)	18.7	18.2	17.9			20.3	20.3	20.7	21.0	21.8	22.5		20.2	22.3	21.8
Aid flows (in Billions of US dollars) 7/	0.1	0.2	0.1			0.4	0.5	0.5	0.5	0.5	0.6		0.5	0.6	
of which: Grants	0.1	0.2	0.1			0.2	0.3	0.3	0.3	0.4	0.4		0.3	0.3	
of which: Concessional loans	0.0	0.0	0.0			0.1	0.2	0.2	0.2	0.2	0.2		0.2	0.3	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			5.2	5.5	5.5	5.6	5.4	5.4		2.7	1.4	2.3
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			71.2	76.2	78.3	73.4	75.8	74.7		74.0	55.3	68.4
Memorandum items:															
Nominal GDP (Billions of US dollars)	6.1	6.7	6.7			6.6	6.9	7.4	8.0	8.7	9.5		16.8	32.0	
Nominal dollar GDP growth	9.4	9.3	0.0			-1.8	5.2	7.1	8.5	8.8	8.6	6.1	9.6	6.5	8.5
PV of PPG external debt (in Billions of US dollars)			1.1			1.0	1.1	1.2	1.4	1.5	1.6		2.2	3.5	
(PVt-PVt-1)/GDPt-1 (in percent)						-1.1	1.1	1.5	2.1	1.9	1.5	1.2	0.8	0.8	0.7
Gross workers' remittances (Billions of US dollars)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of PPG external debt (in percent of GDP + remittances)	...	...	17.4			16.6	16.3	16.5	17.1	17.5	17.5		13.3	11.2	
PV of PPG external debt (in percent of exports + remittances)	...	...	83.0			72.4	70.9	72.2	76.0	79.2	80.7		22.0	26.6	
Debt service of PPG external debt (in percent of exports + remittanc	...	...	3.9			7.2	6.0	3.7	3.7	3.5	5.6		1.4	2.3	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as $[r - g - \rho(1+g)]/(1+g+\rho+g\rho)$ times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Assumes that PV of private sector debt is equivalent to its face value.

5/ Current-year interest payments divided by previous period debt stock.

6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

7/ Defined as grants, concessional loans, and debt relief.

8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 3b. Guinea: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2016-36

(in Percent)

	Projections							
	2016	2017	2018	2019	2020	2021	**2026**	2036
PV of debt-to GDP ratio								
Baseline	17	16	17	17	17	18	**13**	11
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	17	19	25	28	34	38	**61**	88
A2. New public sector loans on less favorable terms in 2016-2036 2	17	17	18	20	21	21	**18**	18
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	17	17	18	19	19	19	**14**	12
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	17	19	24	25	25	24	**18**	13
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	17	17	19	20	20	20	**15**	13
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	17	28	45	44	43	42	**29**	16
B5. Combination of B1-B4 using one-half standard deviation shocks	17	28	50	50	49	48	**33**	18
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	17	23	23	24	25	25	**19**	16
PV of debt-to-exports ratio								
Baseline	72	71	72	76	79	81	**22**	27
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	72	84	107	124	152	174	**101**	209
A2. New public sector loans on less favorable terms in 2016-2036 2	72	73	79	87	93	98	**30**	44
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	72	69	71	75	78	79	**22**	26
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	72	101	165	170	174	175	**46**	47
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	72	69	71	75	78	79	**22**	26
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	72	120	196	197	197	195	**48**	39
B5. Combination of B1-B4 using one-half standard deviation shocks	72	132	249	250	250	248	**61**	49
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	72	69	71	75	78	79	**22**	26
PV of debt-to-revenue ratio								
Baseline	82	80	80	82	80	78	**66**	50
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	82	95	119	133	154	168	**303**	393
A2. New public sector loans on less favorable terms in 2016-2036 2	82	83	87	93	94	95	**90**	83
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	82	82	87	89	87	85	**71**	54
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	82	92	117	117	113	108	**87**	56
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	82	84	93	95	93	90	**76**	58
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	82	136	217	211	199	189	**144**	74
B5. Combination of B1-B4 using one-half standard deviation shocks	82	140	244	237	224	212	**162**	82
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	82	112	112	115	113	110	**92**	71

Table 3b. Guinea: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2016-36
(in Percent)

Baseline	7	6	4	4	4	6	**1**	2
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	7	6	4	4	5	7	**4**	11
A2. New public sector loans on less favorable terms in 2016-2036 2	7	6	4	4	4	6	**2**	3
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	7	6	4	4	4	6	**1**	2
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	7	7	6	7	7	10	**3**	4
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	7	6	4	4	4	6	**1**	2
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	7	6	5	7	6	8	**4**	4
B5. Combination of B1-B4 using one-half standard deviation shocks	7	7	6	9	8	11	**5**	5
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	7	6	4	4	4	6	**1**	2
Debt service-to-revenue ratio								
Baseline	8	7	4	4	4	5	**4**	4
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	8	7	4	5	5	7	**11**	20
A2. New public sector loans on less favorable terms in 2016-2036 2	8	7	4	4	4	6	**6**	6
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	8	7	5	4	4	6	**5**	5
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	8	7	4	5	4	6	**6**	5
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	8	7	5	5	4	6	**5**	5
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	8	7	5	7	7	8	**11**	8
B5. Combination of B1-B4 using one-half standard deviation shocks	8	7	6	8	7	9	**12**	9
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	8	10	6	6	5	8	**6**	6
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	37	37	37	37	37	37	**37**	37

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 4. Guinea: Public Sector Sustainability Framework, Baseline Scenario, 2013-36

(Percent of GDP, unless otherwise indicated)

	Actual			Average 5/	Standard Deviation 5/	Estimate	Projections								
	2013	2014	2015			2016	2017	2018	2019	2020	2021	2016-21 Average	2026	2036	2022-36 Average
Public sector debt 1/	42.8	47.1	55.7			49.4	44.3	42.4	41.1	39.8	38.2		25.6	18.3	
of which: foreign-currency denominated	22.5	29.1	29.7			29.9	28.2	28.6	29.4	29.6	29.7		22.1	17.3	
Change in public sector debt	18.5	4.3	8.6			-6.3	-5.1	-1.9	-1.3	-1.3	-1.5		-1.5	-0.2	
Identified debt-creating flows	4.1	1.0	7.9			-0.6	-4.3	-2.4	-1.7	-1.8	-1.6		-1.9	-0.2	
Primary deficit	4.4	3.4	8.1	2.6	5.1	0.0	-0.4	0.3	1.3	1.1	1.1	0.6	0.2	0.6	0.0
Revenue and grants	19.9	21.9	19.3			23.9	24.1	24.7	25.0	25.9	26.4		22.2	23.1	
of which: grants	1.3	3.7	1.3			3.6	3.8	4.0	4.0	4.0	3.9		2.0	0.9	
Primary (noninterest) expenditure	24.3	25.2	27.4			23.9	23.8	25.0	26.3	26.9	27.5		22.3	23.7	
Automatic debt dynamics	-0.3	-2.3	1.1			-0.6	-3.9	-2.8	-3.0	-2.9	-2.7		-2.0	-0.9	
Contribution from interest rate/growth differential	-0.4	-3.0	-1.9			-4.5	-5.4	-3.8	-3.8	-3.6	-3.5		-2.7	-1.3	
of which: contribution from average real interest rate	0.1	-2.5	-1.8			-2.4	-2.9	-1.4	-1.2	-1.2	-1.2		-1.3	-0.5	
of which: contribution from real GDP growth	-0.5	-0.5	-0.1			-2.1	-2.5	-2.5	-2.6	-2.4	-2.3		-1.4	-0.8	
Contribution from real exchange rate depreciation	0.1	0.6	3.0			3.9	1.5	1.0	0.8	0.8	0.8		...	...	
Other identified debt-creating flows	0.0	-0.1	-1.3			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	-0.1	-1.3			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	14.4	3.3	0.7			-5.7	-0.8	0.5	0.4	0.5	0.0		0.4	0.1	
Other Sustainability Indicators															
PV of public sector debt	...	...	45.6			37.7	32.4	30.3	28.8	27.6	26.1		16.8	12.2	
of which: foreign-currency denominated	...	...	19.7			18.2	16.3	16.5	17.1	17.5	17.5		13.3	11.2	
of which: external	...	...	17.4			16.6	16.3	16.5	17.1	17.5	17.5		13.3	11.2	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	6.1	5.1	9.8			2.8	2.0	2.0	2.7	2.3	2.7		1.1	1.6	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	236.6			157.6	134.0	122.8	115.2	106.7	98.6		75.6	52.6	
PV of public sector debt-to-revenue ratio (in percent)	...	...	254.4			185.6	159.3	146.5	137.2	126.5	115.9		83.0	54.6	
of which: external 3/	...	...	97.3			81.7	80.2	80.1	81.6	80.2	77.9		65.7	50.2	
Debt service-to-revenue and grants ratio (in percent) 4/	8.6	8.0	8.7			11.8	9.8	6.6	5.8	4.9	6.2		4.5	4.3	
Debt service-to-revenue ratio (in percent) 4/	9.2	9.6	9.4			13.9	11.6	7.9	6.9	5.8	7.3		4.9	4.5	
Primary deficit that stabilizes the debt-to-GDP ratio	-14.1	-0.9	-0.5			6.3	4.8	2.3	2.6	2.4	2.6		1.7	0.8	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	2.3	1.1	0.1	2.2	1.7	4.0	5.4	5.9	6.6	6.3	6.0	5.7	5.5	4.6	5.2
Average nominal interest rate on forex debt (in percent)	0.9	1.0	0.8	1.2	0.4	1.9	1.0	1.1	1.1	1.1	1.2	1.2	1.3	1.6	1.4
Average real interest rate on domestic debt (in percent)	16.7	-3.6	-1.3	-2.4	8.9	-2.9	-3.5	-0.6	-0.5	-0.7	-0.8	-1.5	-2.5	0.0	-1.5
Real exchange rate depreciation (in percent, + indicates depreciation	0.5	3.2	10.7	7.1	16.3	14.6	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	4.6	9.8	6.6	14.5	9.5	8.2	9.6	6.1	5.4	5.4	5.4	6.7	7.0	4.8	6.2
Growth of real primary spending (deflated by GDP deflator, in percer	1.8	4.9	8.9	1.7	3.0	-9.2	4.8	11.2	12.3	8.7	8.5	6.0	3.1	4.5	4.1
Grant element of new external borrowing (in percent)	...	...	...	...	...	42.6	49.4	49.4	44.1	44.1	44.1	45.6	41.8	32.7	...

Sources: Country authorities; and staff estimates and projections.

1/ [Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.]

2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.