

**PROGRAM INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

Date: May 6, 2016
Report No.: AB7827

Operation Name	Guinea: MFM Operations, Development Policy Operations
Region	Africa
Country	Republic of Guinea
Sector	Central Government Admin 50%; Health 50%
Operation ID	P156629
Lending Instrument	Development Policy Lending
Borrower(s)	Government of Guinea
Implementing Agency	Ministry of Finance
Date PID Prepared	May 1, 2016
Estimated Date of Appraisal	May 9, 2016
Estimated Date of Board Approval	June 16, 2016
Concept Review Decision	Following the concept review, the decision was taken to proceed with the preparation of the operation.

I. Key development issues and rationale for Bank involvement

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, Sierra Leone in November and Guinea on December 29, 2015. The rationale for Bank involvement is strong. The operation is designed to help Guinea address the economic impact of the Ebola epidemic and to support key reforms in mining, public finance, energy, and to spreadhead growth. The proposed budget operation aims at supporting the post-Ebola recovery effort, which is expected to put the economy back on track towards sustained growth and poverty reduction.

II. Proposed Objective(s)

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.

III. Preliminary Description

The proposed operation builds on these lessons and is aligned on the 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 monitor adequately food insecurity resulting from the Ebola crisis 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 three following pillars. 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) rehabilitation of 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 development 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.

IV. Poverty and Social Impacts and Environment Aspects

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 increasing 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. The empirical evidence shows that the burden of taxes in Guinea, especially the VAT and the personal income tax, fall on the richer segments of society, while the poor are among the prime beneficiaries of increase social spending. Almost two-thirds of the increase in the revenue-to-GDP ratio from 2008 to 2014 stems from fuel taxes, which are paid for by the richer classes.

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.

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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 and public finance. 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 and also EITI compliance 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. 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.

V. Tentative financing

Source:

Borrower/Recipient

Government of Guinea

IBRD

Others (specify)

Total \$40 million

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