PROGRAM INFORMATION DOCUMENT (PID)
APPRAISAL STAGE

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Operation Name	Guinea: Macroeconomic and Fiscal Support Grant
Region	AFRICA
Country	Guinea
Sector	Central government administration (75%) Other Mining and Extractive Industries (10%); General agriculture, fishing and forestry sector (15%);
Operation ID	P151794
Lending Instrument	Development Policy Lending
Borrower(s)	GOVERNMENT OF GUINEA
Implementing Agency	Ministry of Economy and Finance
Date PID Prepared	October 7, 2014
Estimated Date of Appraisal	October 15, 2014
Estimated Date of Board Approval	November 20, 2014
Corporate Review Decision	Following the corporate review, the decision was taken to proceed with the preparation of the operation.

I. Country and Sector Background

Guinea is in the middle of a delicate transition towards greater political and macroeconomic stability. Guinea is among the poorest countries in West Africa with a population of 12 million and per capita income of US $460. After years of instability political isolation, and military rule, Guinea has made considerable progress towards normalcy over fast four years. Guinea adopted a new constitution, elected a President, and fully re-integrated into the international community. Macro-economic stability was restored with greater fiscal and monetary prudence, and debt sustainability dramatically improved with the attainment of the enhanced Highly Indebted Poor Countries (HIPC) completion point in September 2012. Growth has increased relative to the past, although it still remains low averaging close to 3 percent in 2010 and 2014. Building on its vast endowment of natural resources (including both mining and hydropower), Guinea has now embarked on a path of long term development. As history shows, successful recoveries from conflict need a stable institutional environment. Guinea's legacy of instability prevents the country from fully harvesting the benefits of its natural wealth. Per capita incomes have remained relatively constant in last few years, but poverty has remained high at close to 55 percent in 2012. Agriculture and services have been the primary drivers of recent growth, although the mining sector has enormous potential.

Guinea was the first country to be impacted by the Ebola virus in March 2014, leading to ripple effects on the country's economy and finances. When the epidemic hit, however, the Ministry of Health reacted swiftly, in partnership with MSF. Isolation wards were set up in

Macenta and Gueckedou, the two most affected districts. Contact tracing and follow-up in these areas seem to have allowed the authorities to contain the epidemic, despite some recent cases of migration back from the border areas of Liberia and Sierra Leone. The Ebola virus has had a significant negative impact on the Guinea economy, contributing to lower economic performance than projected in 2014, with economic growth revised downward from 4.5 percent to 2.4 percent of GDP in 2014. If not contained, Ebola can have impact into the first half of 2015 and beyond. It has had a ripple effect on the economy, overstraining health system, leading to huge fiscal pressures as revenues have contracted and expenditures have increased, and threating to undermine the country's development prospects.

II. Operation Objectives

The proposed operation will be the stand-alone singe tranche operation to address the financing gap of the Government to address the Ebola epidemic. The EMFSG focuses its support on one of the PRSP's four strategic axes: reform of public administration. The primary goal of the operation is to help the Government finance its Ebola containment strategy in 2014 and 2015 and to help provide essential social services to the population. The operation builds upon previous reforms in the health and PFM and sectors. It is informed by lessons learned from previous DPOs and by the conclusions of the CPS on Guinea. The emergency operation seeks to address the government's immediate financial needs with a view to having an operational plan and a clear monitoring framework, together with a stronger public finance system to prepare the fine plumbing for public administration.

III. Rationale for Bank Involvement

Guinea is continuing on the path of return to political and macroeconomic stability after a difficult past, but the Ebola has somewhat derailed Guinea's progress. Pre-Ebola, the overall macroeconomic assessment for 2013 and early 2014 indicates a combination of slower growth than envisaged, coupled with the return of price stability and preservation of fiscal balance. Amidst uncertainty in the global economy due to global slowdown and in the domestic sphere as it transitions to a democratic and open society, Guinea was successfully navigating its path and continues on the overall reform agenda. However, post-Ebola crisis, coupled with energy shortages and delays in structural reforms, there has been poor growth in 2014.

IV. Tentative financing

Source:		($m.)
BORROWER/RECIPIENT		0
International Development Association (IDA)		22
Borrower/Recipient		
IBRD		
Others (specifiy)		
	Total	**22**

V. Institutional and Implementation Arrangements

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 EMFSG operation. The MEF has experience in coordinating and implementing development policy operations, 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 PRSP performance matrix.

VI. Risks and Risk Mitigation

The overall risk rating for the proposed operation is moderate. However, four main areas of risk could jeopardize the expected outcomes of the operation. These are: (i) macroeconomic risks, (ii) an epidemiological risks (iii) implementation-capacity risks, and (iv) fiduciary risk.

Guinea is vulnerable to contagion effects from lack of containment of Ebola in Liberia and Sierra Leone. It is vulnerable to a withdrawal of private investors in the mining sector in 2015 if investors perceive the environment as too risky. A lack of control of Ebola could have pronounced negative ramifications on Guinea's economy. In addition, an increase in oil imports or a rise in oil prices may put pressure on the balance of payments and a difficult in obtaining critical supplies and imports due to Ebola-induced restrictions can further hurt the Guinean economy. A worsening fiscal position in the wake of Ebola-related expenditure increases is likely. As it is an emergency operation, the EMFSG is designed to mitigate these risks by helping plug the fiscal hole.

Epidemiological risks are high and represent a threat to Guinea's entire future. CDC warnings of more than 100,000 casualties in the three countries could spell pronounced growth and fiscal contractions for Guinea and rising poverty. The proposed operation mitigates these risks by supporting measures to strengthen government's capacity and ability to fight Ebola and monitor its development. As the outbreak is not yet under control, transmission continues to occur in both community and healthcare settings. The capital cities of all three countries have all been affected although differentially. Three patterns of transmission have been identified by the WHO: a) in rural communities, facilitated by strong cultural practices and traditional beliefs; b) in densely populated peri-urban communities; and c) cross-border transmission.

Lack of capacity at the local level may cause delays in the implementation of some measures supported by this operation, including improvements in local health care social-service delivery. Fear and resistance from the population may also hinder the efforts to alleviate the Ebola epidemic. Fiduciary risks can be mitigated by strong monitoring mechanisms and audits.

VII. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

The proposed series is expected to have a direct positive impact on poverty reduction. The operational design of the program is intended to help Guinea fight Ebola and thus have a direct poverty-reduction impact. The operations address critical obstacles to broad-based growth, poverty reduction and economic resilience by targeting a select set of priority reforms across three areas – Ebola response, public finance, and civil service While all policy reforms entail change, none of those supported by the proposed operation is expected to have a significant negative impact on the interests of any particular group. Direct beneficiaries of the proposed operation include people in Ebola-affected areas, farmers, rural displaced people, and the general population at large.

Guinea's poverty reduction needs to be accelerated. The results of a recent poverty assessment conducted jointly between the Bank and the National Statistics Institute indicate a moderate increase in overall poverty trends. Poverty currently affects about 55 percent of Guinea's population, up from 49 percent in 2003 suggesting that the economic reforms have so far not had a deep impact. The danger is that Ebola epidemic can lead to an increase in poverty though declines in consumption and investment. Poverty incidence remains heavily concentrated in rural areas, where average poverty rates are more than double those of urban centers. In addition, many rural areas face serious threats from drought or erratic rainfall

Environment Aspects

The majority of the activities supported by the proposed operation are expected to have positive effects on Guinea's environment. Indeed, actions under of the supported policy areas are expected to have directly positive environmental impacts. The revamping of health systems and the protection of the country from Ebola through better sanitation can have dramatic positive externalities in the form of a better environment.

VIII. Contact point

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