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INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT

FOR A PROPOSED DEVELOPMENT POLICY CREDIT

IN THE AMOUNT OF SDR 27.0 MILLION (US$40 MILLION EQUIVALENT)

AND A PROPOSED CRISIS RESPONSE WINDOW GRANT

IN THE AMOUNT OF SDR 6.8 MILLION (US$10 MILLION EQUIVALENT)

TO THE

REPUBLIC OF GUINEA

FOR AN

EMERGENCY MACROECONOMIC AND FISCAL SUPPORT OPERATION

November 5, 2014

Global Practice – Macroeconomics and Fiscal Management
Country Department AFCF2
Africa Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective September 30, 2014)

Currency Unit	=	Guinean Francs (GNF)
GNF 7,021	=	US$1
US$1.55	=	SDR 1

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

AfDB	French Development Agency (*Agence Française de Développement*)
BCRG	Banque Centrale de la République of Guinée (Central Bank of Guinea)
BIDC	ECOWAS Bank for Investment and Development
CAR	Central African Republic
CBG	Bauxite Company of Guinea
CBK	Bauxite Company of India
CDC	Center for Disease Control
CEM	Country Economic Memorandum
CPIA	Country Policy and Institutional Assessment
CPS	Country Partnership Strategy
DPO	Development Policy Operation
DSA	Debt Sustainability Analysis
DSF	Debt Sustainability Framework
ECF	Extended Credit Facility
EMFSO	Emergency Macroeconomic and Fiscal Support Operation
ERGG	Economic Recovery and Governance Grant
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
HIPC	Heavily Indebted Poor Countries
IDA	International Development Association
IMF	International Monetary Fund
ISN	Interim Strategy Note
IT	Information Technology
JSAN	Joint-Staff Advisory Note
LIA	Lending Into Arrears
LIC	Low Income Countries
MDG	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
MEEF	Ministry of Environment Water and Forest
MSF	*Médecins sans Frontières* (Doctors without Borders)
OPEC	Organization of the Petroleum Exporting Countries
PREMA	Plan for the State Reform and Modernization Program

PEFA	Public Expenditure and Financial
PER	Public Expenditure Review
PFM	Public Finance Management
PREFIP	Public Finance Reform Plan
PRSP	Poverty Reduction Strategy Paper
SDR	Special Drawing Rights
UNICEF	United Nations Children's Fund
WAEMU	West African Economic and Monetary Union
WBG	World Bank Group
WHO	World Health Organization

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REPUBLIC OF GUINEA

MACROECONOMIC AND FISCAL SUPPORT GRANT

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SUMMARY OF PROPOSED CREDIT AND GRANT AND PROGRAM

REPUBLIC OF GUINEA

EMERGENCY MACROECONOMIC AND FISCAL SUPPORT OPERATION (EMFSO)

Borrower:	Government of Guinea.
Implementing Agency:	Ministry of Economy and Finance (MEF).
Financing Data:	**Amounts:** IDA Credit: SDR 27 million (US$40 million equivalent) (38-year maturity and 6-year grace period); and IDA Crisis Response Window Grant: SDR 6.8 million (US$10 million equivalent).
Operation Type:	Stand-alone development policy operation (DPO); single-tranche disbursement.
Pillars of the Operation and Program Development Objectives	The development objective is to strengthen Government's ability to manage public funds in response to the Ebola crisis and related macroeconomic and fiscal shocks. The policies and reform measures supported by this operation are aligned with the government's Ebola response plan. **Pillar 1: Build government's resilience to combat Ebola:** *(a) strengthen the government's capacity to continue to manage the Ebola crisis; and (b) improve the monitoring and communication functions of the administration for managing the Ebola crisis.* **Pillar 2: Strengthen budget management to improve government capacity to manage Ebola spending:** *(a) increase transparency and effective implementation of the budget; and (b) improve overall public finance performance and governance.*
Results Indicator:	***Indicators*** — ***Baseline (2014)*** **Build government's resilience to combat Ebola** • *National campaign completed (activities in how many provinces)* — *18* • *Inspection units manned with necessary equipment and functioning on regular basis at the major airport of Conakry and borders* — *4* •*Number of Ebola treatment centers established* — *2* • *Number of health workers mobilized and trained* — *2500* •*Number of districts included in expenditure tracking* — *2* •*Publication frequency of income statement on Ebola funds flows (per year)* — *1* •*Percent of total incoming funds used for Ebola tracked in the budget* — *10* •*Percent of total Ebola funds spent on community sensitization* — *10* **Strengthen budget management and improve government capacity** *Overall spending in national budget on Ebola ($ US million)* — *134* *Number of ghost workers blocked* — *5000* *Accumulated arrears* — *0.3* *Number of internal audit inspectors* — *1*
Overall risks rating:	Substantial.
Operation ID:	P151794

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

1. INTRODUCTION AND COUNTRY CONTEXT

1.1. **This program document seeks the approval of the Executive Directors for a $10 million grant from the Crisis Response Window (CRW)[1] and $40 million IDA credit as a stand-alone emergency operation designed to help the Government of Guinea address the economic impact of the Ebola epidemic.** Guinea, which is home to 10.6 million people, is among the poorest countries in West Africa, with an annual per capita income of just US$460. The poverty rate was close to 55 percent in 2012. Agriculture and services have been the primary drivers of recent growth and the mining sector has enormous economic potential. The proposed Emergency Macroeconomic and Fiscal Support Operation (EMFSO) will be a single-tranche disbursement of US$50 million equivalent. This program builds on recent reforms that already have contributed to an improved macroeconomic framework and better fiscal situation.

1.2. **Guinea's progress in economic reform is now at risk due to the Ebola crisis.** The proposed operation will provide urgently needed financing assistance to a government besieged by an epidemic that, along with its devastating human toll, is also causing severe economic disruptions internally and also is having global repercussions. 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 FY 2014-17 Country Partnership Strategy (CPS) for Guinea (Report Number 76230), which was discussed on October 3, 2013. The EMFSO will address the widening fiscal deficit caused by the Ebola crisis in Guinea, and will help catalyze international support. The danger is that the Ebola epidemic, if not contained soon, can lead to an additional increase in poverty through declines in consumption and investment, plus additional risk of transmission to other countries.

1.3. **A fragile economy, Guinea is in the middle of a delicate transition towards greater political and macroeconomic stability.** After years of instability, political isolation and military rule, Guinea has made considerable progress in restoring normalcy over the last four years. Guinea adopted a new constitution, held presidential elections in June, 2010, and was fully reintegrated into the international community. Macroeconomic stability was restored through prudent monetary and fiscal policies and debt sustainability dramatically improved after the country reached the enhanced Heavily Indebted Poor Countries (HIPC) completion point in September of 2012. Economic growth has increased, averaging close to 3 percent from 2010 to 2014. Building on its vast endowment of natural resources (including both mining and

[1] A note presented to the Executive Board on August, 2014 informed the Executive Directors of Management's intention to allocate an indicative amount from the CRW window of US$105 million (SDR 69.3 million) to support the Ebola containment plans for the three affected countries – Guinea, Liberia, and Sierra Leone. Of that initial amount, Guinea has so far received US$25 million. An Additional Financing of US$285 million, of which Guinea will receive approximately US$72 million, is now under preparation.

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 has prevented the country from fully harvesting the benefits of its natural wealth.

1.4. **In 2014, the Ebola epidemic which has struck the three fragile economies of Guinea, Sierra Leone and Liberia, with a horrible human toll, also represents an existential threat to their economies and their futures and a ripple effect on the world as the deadly contagion continues to spread.** One of the worst epidemics in history to hit West Africa, Ebola has left death and destruction in its wake. It is a deadly virus that kills a majority of the people it infects and for which there is no known cure. As of October 27, 2014, more than 10,141 people have been infected, with more than 4,922 dying of the disease in Guinea, Liberia, and Sierra Leone. Misery and suffering have been intense and there are a growing number of Ebola victims and close to 5,000 Ebola orphans. A few cases have spread to the neighboring West African countries of Senegal, Nigeria and Mali, and have led to a generalized fear of the threat of further contagion, which is exacerbating the economic impact in the region, even though the epidemic has been contained in Nigeria and Senegal.

1.5. **Guinea was the first country in West Africa to be dramatically impacted by the Ebola virus.**[2] When the epidemic hit, the Ministry of Health reacted swiftly, in partnership with International partners including Doctors without Borders (*Medecins sans Frontiers* – MSF), the Center for Disease Control and Prevention (CDC) and the Red Cross. Isolation wards were set up in Macenta and Gueckedou, the two most affected districts. Contact tracing and follow-up in these areas initially seemed to have allowed the authorities to contain the epidemic, but by October, 2014, there was a resurgence of cases in Guinea linked to a greater intensity of transmission, especially via the border areas with Sierra Leone and Liberia. There are also new cases in Conakry and there has been a significant increase in cases in neighboring districts and in the original epicenter, the forested area of Macenta in the southeast. As of October 25, 2014, deaths are 988 out of 1612 cases. The authorities, together with MSF, CDC and the Red Cross are stepping up efforts to contain the epidemic and quarantine affected areas. The epidemic had spread at a slower pace in Guinea than in Sierra Leone and Liberia, due to Guinea's more effective healthcare system and the isolation of the bulk of the epidemic in the southeastern part of the country. Developments in October, however, suggest the spread of the epidemic has yet to be contained.

1.6. **The Ebola epidemic has had a significant negative impact on the Guinean economy, undermining its progress and threatening macroeconomic instability.** It has led to lower-than-projected economic performance, with economic growth revised downward from 4.5 percent to 2.4 percent of GDP in 2014. If not contained, Ebola could have a serious adverse impact on economic performance over the medium term and lead to pronounced economic contraction in 2015 and onward. It has already had serious adverse economic effects, straining the country's healthcare system and generating huge fiscal pressures as revenues have

[2] The epidemic originated in the southwest parts of the country in Guinea in December 2013, and it then spread to Liberia, Sierra Leone, Nigeria, and Senegal. Epidemiologists find it the most severe outbreak of Ebola since the discovery of the virus in 1976.

contracted and expenditures have increased. The fiscal deficit has exacerbated, and the imbalance now threatens to undermine the country's development prospects.

1.7. **Ebola has taken a major toll on families and communities, especially in the country's southeast.**[3] The disease has alarmed the public and thrown normal economic relations into turmoil. Many of the victims were healthcare workers, who died because of insufficient protective equipment. Due to a combination of unsafe burial practices and physical contact with infected persons, the epidemic has spread. Many sick patients have refused to go to isolation centers and have infected family members and other caregivers. Overstretched health systems are trying to address a growing human toll.

1.8. **As part of the international response, the World Bank is scaling up its intervention in the Ebola-affected areas.** Overall, the World Bank Group is mobilizing a $500 million financing package for the countries hardest hit by the crisis, including $400 million announced in August and September 2014 for the emergency response, and another $100 million announced in October 2014 to help speed up the deployment of expatriate health workers to the countries. A US$105 million Ebola Emergency Response Project (EERP) was approved by the Executive Board on September 16, 2014, of which US$25 million was allocated for Guinea. The funds will finance Ebola-containment efforts underway in Guinea, Liberia, and Sierra Leone, helping families and communities cope with the economic impact of the crisis, and rebuilding and strengthening essential public health systems in the three worst-affected countries to guard against future disease outbreaks. An additional financing is in preparation for the EERP for an indicative total of US$285 million and includes approximately US$72 million for Guinea. This support will enable containment efforts to be intensified at a community level.

1.9. **The design of the EMFSO reflects the central themes of the Africa Strategy, such as employment, resilience, and good governance**. The operation is structured around two pillars: (i) build resilience to combat Ebola and (ii) strengthen budget management to improve government capacity to manage Ebola spending. Objectives under both of these policy areas are intended to support accelerated poverty reduction.

1.10. **The proposed operation has been prepared in line with good-practice principles for emergency budget support operations and the actions supported under each of its two strategic pillars are designed to advance the objectives of Guinea's Poverty Reduction Strategy Paper (PRSP).** Actions supported under Pillar 1 will build economic and social resilience and reduce vulnerability to shock through (i) strengthening the government's capacity to continue to manage and monitor the Ebola crisis and; (ii) improving the monitoring and communication functions of the administration in containing the crisis. Pillar 2 will help strengthen budget transparency and reform public financial management by: (i) increasing transparency and effectiveness of budget processes, and (ii) improving the overall performance of public finance systems.

[3] The Ebola virus causes a severe acute viral illness often characterized by the sudden onset of fever, intense weakness, muscle pain, headache, and diarrhea and vomiting. There is a low survival rate, at less than 50 percent.

1.11. **The emergency operation expects to preserve the gains achieved so far on poverty reduction through the PRSP, in the face of the Ebola crisis**. The PRSP aims to accelerate economic growth and make progress toward the Millennium Development Goals (MDGs). The strategic vision of the PRSP is to use Guinea's potentially large mining rents to reduce poverty and develop a competitive employment-generating private sector. Priority is given to the following issues: (1) strengthening democracy and state effectiveness; (2) promoting accelerated and diversified growth; (3) creating employment; and (4) reducing regional inequalities. The strategy aims to take advantage of the recent political and social stability to accelerate progress toward meeting these objectives.

1.12. As with the previously approved CRW-funded Ebola response projects, this project paper also seeks the approval of Executive Directors for the financing of the project from the CRW in the amount of US$10 million equivalent entirely on grant terms rather than on Guinea's standard IDA terms as is prescribed for financing from the CRW.[4] The use of grant financing is appropriate in light of the demonstrable regional and global positive externalities that will flow from mitigating the spread of the deadly virus in the affected countries and reducing the risk of it spreading to at-risk neighboring countries, as well the rest of the world. The project will thereby be benefitting the Guinean and the global community, by minimizing the economic impact of the outbreak and protecting lives and livelihoods of the populations at large.

2. MACROECONOMIC POLICY FRAMEWORK

2.1 RECENT ECONOMIC DEVELOPMENTS

Economic Growth and Ebola

2.1. **Following a period of political instability, Guinea had made significant progress towards political and macroeconomic stabilization although growth prospects remain weak.** Amidst uncertainty in the global economy and in the domestic sphere, as the country transitions to a more democratic and open society, Guinea has successfully pursued its overall reform agenda. Pre-Ebola, the overall macroeconomic assessment for 2013 and early 2014 indicated slower-than-projected growth coupled with the return of price stability supported by tighter fiscal policies. The rise of Ebola, along with energy shortages and delays in structural reforms, has dimmed further its economic prospects for 2014 and 2015.

2.2. **Ebola has had a significant negative impact on the Guinean economy, contributing to lower-than-projected economic performance in the first half of 2014.** Projected GDP growth for 2014 has been revised from 4.5 percent to 2.4 percent. The main economic impact of Ebola in Guinea to date has been transmitted through the agriculture and service sectors. Expected agricultural growth for 2014 has been revised from 5.7 percent to 3.3 percent. Agricultural production in Ebola-affected areas has been diminished by an exodus of people to

[4] Under the CRW's implementation framework for IDA17, the terms of assistance for CRW financing are identical to those under which regular IDA assistance is provided to a particular country. For FY15, Guinea will receive 50% of its regular IDA financing on credit terms and the balance of 50% on grant terms.

other zones, affecting key export commodities such as cocoa and palm oil. October data from the Ministry of Agriculture shows a decline in paddy production of close to 190,000 tons in the forest region, which represents 23% of the national rice production. As Guinea currently imports 300,000 tons of rice a year, imports may have to increase to address the deficit. Coffee production has also fallen by half (from 5,736 tons to 2,671 tons between the first six months of 2013 and the first six months of 2014). Cocoa production has declined by a third (from 3,511 tons to 2,296 tons for the same time period). Palm oil production has fallen by 75 percent.

2.3. **The services sector has been hit especially hard, and manufacturing has also been impacted.** Growth in services is projected to fall from 6.7 percent at the beginning of 2014 to 3.8 percent in the aftermath of Ebola, with the transport and commerce subsectors suffering the most. Services are in part tied to the mining sector, where major companies, including Rio Tinto, have evacuated many expatriate workers. Airlines have reduced travel to Guinea. Senegal and Côte d'Ivoire have temporarily sealed their Guinean borders. Hotel occupancy rates in Conakry have fallen by half, compared with an average of 80 percent occupancy before the crisis. Manufacturing has also been adversely impacted by Ebola, although the impact has not been as strong yet, given that manufacturing is a small sector in Guinea, accounting for less than 7 percent of GDP, mostly concentrated in Conakry. This sector also includes agro-industry, paint, plastics, soft drinks, cement, and metal products. The Ebola outbreak has made it more difficult for firms to obtain key imports due to port delays and logistics challenges. Cement imports alone have fallen by 50 percent from 2013.

2.4. **Mining has been moderately affected by the Ebola crisis.** Guinea's mining sector is vital for its economy and an important driver of exports. 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 and forty years of experience as a major exporter of mineral products.[5] Mining output has not yet been severely affected by the Ebola outbreak, because the main mines are not located in the affected areas (with the exception of iron ore). Mining sector production was already forecast to contract by 3.0 percent before Ebola, and the projected output contraction is now 3.4 percent. Together with Ebola, a slowdown in the international mining market has reduced investment, although the sector's medium-term prospects remain strong. The international call for expressions of interest for three bauxite's blocks from Bel Air's mines in the area of Boffa has brought the government to an unexpected round of negotiation with mining companies. The country may receive a substantial mining revenue windfall, but that will be contingent on containment of Ebola.

Table 2.1: Estimated GDP Impact of Ebola (2014)

	Contribution to growth shock (%)	Initial GDP Growth Rate Projection (Jan. 2014)	Revised GDP Growth Rate Projection
Real GDP Growth		*4.5*	*2.4*

[5] Guinea has the world's biggest unexploited iron mine in Simandou, with estimated reserves of 3.2 billion; the country also has the world's largest reserve of bauxite with estimated reserves of 41 billion tons (more than 2/3 of it). It ranks 12th on diamond producers and 21st for gold. Its production of bauxite for 2012 reached 19.9 million tons. Two mines are currently in production. Sangarédi/Boké, operated by the Bauxite Company of Guinea (CBG), is the first mine of bauxite with 14.5 million tons produced in 2012, followed by the mine of Kindia (owned up to the Bauxite Company of Kindia CBK).

Agriculture	20.3	5.7	3.3
Forestry	0.0	3.5	3.5
Mining	3.8	-3.0	-3.4
Manufacturing	2.5	6.5	5.6
Services	73.5	6.7	3.8

Source: World Bank estimates (Note: construction has been classified in the services sector). These numbers could be revised further downward as more negative news on agriculture and services comes in Nov-Dec, 2014.
Note: These estimates were prepared in the context of a joint World Bank-IMF mission to Conakry, Guinea in June, 2014 at the onset of Ebola to review the macroeconomic framework and estimate the economic impact of the disease. The mission conducted detailed consultations with government authorities and representatives of the private sector.

Monetary and Exchange Rate Policy

2.5. **Guinea has continued to maintain macroeconomic stability in 2014 through prudent monetary policy and exchange rate management.** Monetary policy continues to be guided by the objectives of reducing inflation and maintaining an adequate level of reserves, while still allowing for a growth-supporting expansion of credit. Since 2011, there have been a number of favorable developments, including more prudent management of the money supply and the successful elimination of the parallel market exchange due to greater use of auctions. The aim of the BCRG's (*Banque Centrale de la Republique de Guinee*) foreign exchange policy has been to strengthen the market determination of the exchange rate and minimize daily fluctuations in exchange rates. To reduce exchange rate volatility, the BCRG strengthened the regulatory framework for foreign exchange bureaus, widened the fluctuation band for the official exchange rate and increased supplies of foreign exchange to the interbank foreign exchange market through weekly auctions, made possible by the increase in the foreign exchange reserves. The BCRG has maintained a policy rate of 20 percent and a bank reserve requirement ratio of 22 percent. In 2014, the growth of the broad money was 10.7 percent, down from 14.7 percent in 2013.

Table 2.2: Economic Indicators, 2012–14

	2011	2012	2013	2014
	(% unless otherwise indicated)			
GDP				
Real GDP growth	3.9	3.8	2.3	2.4
GDP deflator	19.7	13	6.3	7.0
CPI AND MONEY				
Consumer prices (end of period)	19	12.8	10.5	9.5
Domestic credit (GNF Billions)	6941	8279	10555	7928
	(% of GDP)			
FISCAL				
Fiscal balance (excluding grants)	-4.7	-6.0	-6.7	-11.7
Revenues	16.8	20.1	18.4	18.8
Mining revenues	3.9	4.1	3.5	3.0
Expenditures	21.5	26.1	25.1	30.7
Current expenditures	16.3	15.9	16.2	18.1
TRADE				
Current account (incl. transfers)	-19.1	-26.1	-21.1	-16.9
Exports f.o.b. US$ terms (%)	12.4	-3	-4.3	-2.2
Imports f.o.b. US$ terms (%)	50.1	6.7	-6.7	-4.6
Iron ores prices ($ per Mt)	167.8	128.5	135.4	92.6
Oil price ($ US per barrel)	104	105	104.1	100.1
INVESTMENT				
Gross capital formation	14.6	26.9	23	15.4
DEBT				
External debt (%GDP)	77.8	35.4	39.5	43.4
GDP (GNF billions)	33,739	39,591	43,048	47,388
Source: IMF staff and Bank				

2.6. **The projected inflation rate registers a slight increase in 2014, which may due in part to the impact of Ebola.** The year-on-year inflation rate averaged 9.5 percent as of end-September 2014, higher than the projected 8.5 percent in 2014 but lower than 10.5 percent observed in 2013. While conservative monetary policy has helped contain inflation, bottlenecks in the food supply due to Ebola have driven a slight increase in food prices. The CPI data as of September 2014 reveals the impact of lower agricultural production on food prices in Guinea, although there is anecdotal evidence that prices in local markets in some Ebola-affected areas went down as agricultural exports were redirected to domestic markets. Reserves now equal 3.6 months of imports, which will allow the country some buffer.

2.7. **The exchange rate remained stable during 2013, but its volatility increased in 2014 and there has been a slight depreciation of 3 percent in 2014.** The nominal exchange rate has exhibited greater fluctuations over in the second half of 2014, and there has been some slight depreciation due to capital flight. Meanwhile, there has been a parallel exchange rate which diverged from the official exchange rate by 7-8 percent in 2014 due to Ebola-related fears and capital flight. The real effective exchange rate exhibits no significant depreciation.

2.8. **The country's current-account deficit was close to 20 percent of GDP in 2013, fully financed by strong capital inflows, but is expected to go down to 16.9 in 2014.** Weaker-than-envisaged mining performance has reduced exports during 2014 but imports have also decreased due to Ebola. Commitments from mining companies and the projected expansion of the sector are expected to balance the current account. Declines in private and foreign investment have led to a deterioration of the capital account in 2014. However, delays in the construction of the Simandou project and related infrastructure have deferred an expected rise in FDI inflows and imports to 2016 and 2017, as well as future increases in production and exports. The current account remains broadly stable. The government is also tapping into regional customs agreements as ways to increase its global integration.

Fiscal Policy

2.9. **The recent Ebola outbreak has adversely impacted a fiscal situation that was already fragile.** First, the wage bill was reined in as the government delayed the third round of the civil service wage increase agreed upon in 2012, as well as the introduction of specific wage scales for certain career tracks; new recruitment was also postponed. Second, increases in the investment budget were slowed down to reflect absorptive-capacity issues and procurement challenges. Third, a planned recapitalization of the Central Bank was postponed for a few years. However, a combination of higher spending on elections and larger-than-expected subsidies to the public electricity company in 2013 worsened the deficit.

2.10. **According to Government of Guinea estimates, the Ebola epidemic is estimated to have increased the 2014 budget deficit by US$325 million or 4.7 percent of GDP before** grants.[6] According to the revised budget law submitted to Parliament, revenue projections have been reduced by 2.0 percentage points ($120 million) in the aftermath of Ebola (Table 2.3). This shortfall reflects the lower level of economic activity due to Ebola leading to huge declines in both direct and indirect taxes, delays in implementing planned administrative measures, and a shortfall in petroleum product tax revenues, though this was partly offset by higher estimates for mining sector and non-tax revenues based on agreements with some large taxpayers. On the expenditure side, the projected expenditure for end 2014 represents an increase of 2.7 percentage points ($185 million) relative to the initial budget. The government is planning to significantly increase spending on logistics, health services, and purchase of food and equipment. The Government now has an official Ebola response plan of $134 million focusing on coordination of activities ($26 million), epidemiological research ($12 million), distribution of food to affected populations ($25 million), surveillance ($19 million), community sensitization ($5.6 million), and health sector support ($25 million). However, the numbers are preliminary and are not yet backed by detailed costing.

[6] This represents a significant increase relative to the August 2014 estimate by the Fund and Bank, where there was US$50 million in lost revenue and US$70 million in lost expenditure, leading to an increase in the deficit by US$120 million dollars (2.0 percent of GDP).

Table 2.3: Fiscal Operations (2013-2014)
(GNF billions)

	2013	2014	2014	Gap(LFI-LFR)	Difference/ GDP
		LFI pre-Ebola	LFR post-Ebola		
Revenue and grants	8,544.0	12,487.7	12,036.5	-451.2	-0.9
Revenue	7,905.0	9,885.7	8,901.9	-983.8	-2.0
Tax revenues	7,619.0	9,539.4	8,444.6	-1,094.8	-2.3
Mining sector	1,489.0	1,360.3	1,451.3	91.0	0.2
Non mining sector	6,130.0	8,179.1	6,993.3	-1,185.8	-2.4
Direct taxes	1,484.0	1,894.3	1,530.0	-364.3	-0.8
Indirect taxes	4,646.0	5,938.6	5,463.3	-475.3	-1.0
Goods and services	2,943.0	3,794.5	3,360.1	-434.4	-0.9
International trade	1,703.0	2,144.1	2,103.2	-40.9	-0.1
Nontax revenue	286.0	346.3	457.3	111.0	0.2
Grants	639.0	2,602.0	3,134.6	532.6	1.1
Total expenditures and net lending	10,785.0	13,277.4	14,565.8	1,288.4	2.7
Current expenditures	6,954.0	7,212.8	8,581.6	1,368.8	2.8
Salary and Wage	2,102.0	2,455.2	2,356.0	-99.2	-0.2
Goods and services	2,499.0	2,386.4	3,670.5	1,284.1	2.7
Transfers and subsidies	1,860.0	1,821.8	2,017.3	195.5	0.4
Interest on debt	493.0	549.4	537.8	-11.6	0.0
Domestic debt	421.0	433.6	433.6	0.0	0.0
External debt	70.0	115.8	104.2	-11.6	0.0
Capital expenditures	3,822.0	5,767.8	5,873.9	106.1	0.2
Domestically financed	2,184.0	2,557.5	2,557.5	0.0	0.0
Externally financed	1,620.0	3,180.0	3,289.8	109.8	0.2
Net lending	9.0	226.8	53.0	-173.8	-0.4
Restructuring expenditures	0.0	70.0	57.3	-12.7	0.0
Primary fiscal balance	-1,188.0	-240.3	-1,991.4	-1,751.1	-3.6
Overall balance, commitments basis (% of GDP)	-6.7	-7.0	-11.7	-4.7	-4.7
Excluding grants	-2,880.0	-3,391.7	-5,663.8	-2,272.1	-4.7
Including grants	-2,241.0	-789.7	-2,529.2	-1,739.5	-3.6
Overall balance, cash basis	-2,241.0	-789.7	-2,529.2	-1,739.5	-3.6
Nominal GDP (GNF)	43,048	48,451	47,388	-1,063.0	
Exchange Rate (GNF/USD)	6,907	7,000	7,000	0.0	

Source: Official government estimates, IMF, Bank

Note: LFI is initial finance law and LFR is amended finance law. Also not all grants will come through the budget as there are many grants that are being managed outside the budget by the United Nations, MSF, and different NGO's

2.11. **The estimated overall deficit level (excluding grants) for 2014 rises from -7.0 percent of GDP at the beginning of the year to -11.7 percent of GDP post-Ebola projected in the new budget law.** The government will need to tap into significant grant financing to close the fiscal gap. Donors have already committed initial funding to support efforts to contain the Ebola epidemic: African Development Bank (US$32 million), IMF (US$41 million), World Bank (US$25 million), France (US$10 million), MSF (US$5 million), WFP (US$3 million), and UNICEF (US$4 million).[7] The government is continuing to seek emergency external assistance for 2015 as it attempts to recover from the effects of Ebola. Domestic revenues currently cover 70 percent of expenditures, but as the Ebola crisis continues, that share could deteriorate to below 60 percent or less. An additional difficulty for the authorities is that much of the grant inflows will bypass the budget as they go directly to

[7] Bilateral assistance is increasing to support the Ebola response plan. The United States has pledged US$350 million in assistance and is sending some 4,000 troops to help build treatment centers and provide logistical support for tracing Ebola contamination - a key to halting the spread of the virus. Also, Cuba has sent about 250 doctors and nurses to West Africa — 200 of them to Guinea and Sierra Leone — to fight Ebola and plans to deploy more than 450 medical personnel there.

UN agencies or through non-government organizations. The challenge and the urgency will be for the authorities to track the money and ensure complementarity with the government's own expenditures to maximize impact, and better gauge residual fiscal needs.

Debt

2.12. **Since 2012, when it received debt relief under the enhanced HIPC initiative, Guinea has maintained external debt sustainability.** In September 2012, the IMF and World Bank approved Guinea's achievement of the completion point for the enhanced HIPC program and the Multilateral Debt Relief Initiative (MDRI). 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 23 percent in 2012. The debt-service-to-exports ratio and the debt-service-to-revenue ratio fell from 9.5 percent and 13.2 in 2012 to 5.3 and 6.7 in 2013.

2.13. **According to a recent Bank-Fund DSA update in August, 2014, 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, foreign direct investment inflows, fiscal performance, and delays in the implementation of mining projects. Following HIPC debt relief at end-2012 Guinea's external public debt amounted to $1.3 billion (23 percent of GDP). Since then, the accumulation of new debt (disbursed and outstanding) has been modest, and at end-2013 external public debt had increased to $1.6 billion (25.3 percent of GDP). This increase is primarily accounted for by spending on the construction of the Kaleta hydroelectric dam.[8] In parallel, the government is seeking non-concessional loans, a loan with the BIDC; and two loans from the OPEC Fund, to finance vital infrastructure. In 2014, debt is assumed to not change much as most of the incoming aid used to fight Ebola will be in the form of grants.

2.14. **Overall, Guinea's debt and fiscal policy stance remains prudent and is supported by four pillars.** First, the government's cash-management system carefully monitors all key fiscal and debt ratios, allowing prompt action to address changes over time. Medium-term projections of changes in the balance of payments and other fiscal developments underpin this analysis and assume an inflow of grant financing. Second, in order to ensure external debt sustainability, the government tracks debt dynamics and relies primarily on grants and concessional loans to finance its investment plan. Third, the government is conducting discussions on all outstanding issues with private creditors. Fourth, it has established a clear institutional framework for debt management and is working closely with the Bank and the IMF on a medium-term debt strategy.

[8] Guinea also has outstanding external debt arrears of US$186 million (11 percent of total debt) which 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.

Poverty

2.15. **Poverty currently affects about 55 percent of Guinea's population (in 2013), up from 49 percent in 2003, and may increase further as a result of Ebola.** Since the mid-2000s, a decline in average per capita consumption has contributed to rising poverty, but a mild reduction in Gini coefficient inequality, notably in rural areas, has helped to contain the overall increase in poverty rates. Rural-urban migration and a sharp rise in food prices have also supported a modest improvement in rural poverty incidence, even though the poverty headcount rate remains far higher in rural areas (65 percent in 2012) than in urban centers (35 percent). Poverty rates vary 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. Poverty rates could significantly increase in Ebola-affected areas unless measures are taken to finance the additional expenses required. The Ebola epidemic may also lead to an additional increase in poverty through declines in consumption and investment. 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.

2.2 MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

2.16. **Guinea's growth outlook for 2015 is negatively affected by the Ebola epidemic, but will turn positive in the medium term only if the Ebola crisis is properly addressed**, partly because the overall global demand for metals, particularly Guinean bauxite and iron ore, remains bright. Real GDP growth is expected to rebound to 4.3 percent in 2015, due to resurgence in mining activity, and to continue at a higher path in the medium-term assuming the international response to Ebola is strong and that the epidemic is contained within 6 to 9 months. For the inflation rate, a rate close to 8 percent is projected by 2015, given prudent monetary policy at the Central Bank, coupled with some upward pressure on food prices. The mining companies are expected to increase investment and imports of the capital goods, as there are potentially large returns in Simandou and other mining sites, although the timeline still remains uncertain. The discussions with the mining companies in relation to contract renegotiation are expected to lead to increases in government fiscal revenues in 2015, although important gains may not be fully reflected until later years. There are also possible downside risks due to a weak international recovery and concerns about a further slowdown in China.

2.17. **Guinea's growth in 2015, projected at 4.3 percent, is conditional on the containment of Ebola.** In case of difficulty containing the epidemic, the growth could be revised to 2.0%. However, a rebound in mining and services in 2015 could help propel the economy. The downward risk for 2015 is that Ebola-induced panic dampens investors and consumer confidence. Ebola can have a continued negative impact on business and FDI in Guinea, at a time when the country greatly needs a large inflow of international capital in order to develop the promising mining sector. The next two years could result in stagnation instead of the previously forecasted growth in the absence of Ebola containment, as mining activities could be further delayed.

Table 2.4: Estimated GDP Impact of Ebola (2015)

	2012	2013	2014	2015

	Annual growth rates			
Pre-crisis baseline GDP	3.8	2.3	4.5	4.3
Low Ebola	..	..	2.4	5.0
High Ebola	..	..	2.4	2.0

Source: Bank staff estimates.

2.18. **The overall fiscal position is expected to worsen in 2014-2015, in large part due to the impact of Ebola, but it is expected to turn around in 2016-2017.** Expenditures are expected to continue to increase in 2015 to fight Ebola through spending on equipment, medicines, hazard pay for healthcare workers and logistics. The government response plan also includes food support for affected populations. The 2015 election could further increase current expenditures, as it has in previous election cycles. To finance these needs, grant support is expected to remain high during 2015-2017, although specific amounts are to be confirmed. A surge in domestic financing for healthcare expenditures may worsen the government's fiscal position over the medium-term unless additional donor commitments materialize.

2.19. **The current account deficit is forecast to be high and increase significantly between 2015 and 2017. Exchange rate volatility is likely to increase**. International oil prices are projected to remain at approximately US$80 per barrel in 2015, which will negatively affect the current account as imports satisfy more than 70 percent of Guinea's energy requirements. Based on the latest World Bank forecasts, iron ore prices will remain relatively stable at around US$85/ton. Exports should rise in 2017 driven by new mining projects. Nevertheless, the current account is projected to widen significantly as imports of food, medicines, equipment, and construction materials increase to finance both the logistics involved in managing Ebola and the new mining activities that are planned. The exchange rate will continue to exhibit high volatility in 2015 due to Ebola-related instability and a mild depreciation is likely. The exchange rate is expected to appreciate by 2017 as new mining projects come on stream. The debt burden is expected to remain sustainable over the medium term. The authorities are strengthening external debt management.

Table 2.5: Medium-Term Outlook (Ebola Containment Scenario)

	2015	2016	2017
Real GDP growth (%)	4.3	5.0	5.0
CPI (end of period)	8.5	7.5	7.5
Revenue, incl. grants (% GDP)	18.8	19.5	20.2
Expenditure (% GDP)	31.1	32.2	29.8
Overall budget deficit, incl. grants (% GDP)	-6.5	-6.0	-6.0
Current account deficit, incl. official trans. (% GDP)	-20.8	-38.4	-61.6
External debt (% GDP)	40.6	40.4	39.8
Commodity prices			
Iron Ores $/MT	84.4	84.6	84.6
Oil $/bbl	82.0	80.0	80.0
Source: Bank - Fund estimates			

2.3 IMF RELATIONS

2.20. **In September of 2014, the IMF successfully completed the fourth review of Guinea's economic performance under the ECF, enabling the immediate disbursement of about US$28.1 million, bringing total disbursements under the arrangement to US$140.6**

million. This program aims to consolidate macroeconomic stability, improve prospects for growth, and intensify efforts to reduce poverty. Through the ECF the government is implementing measures to reinforce the economy's resilience against various shocks, while promoting inclusive growth and poverty reduction. IMF and IDA staffs are supporting the authorities in implementing the PRSP and providing them with technical assistance on resource mobilization and budget management. The Bank team participated in IMF discussions with the authorities on the reviews under the ECF-supported program. In addition, a recent joint IMF/World Bank DSA was prepared in September, 2014. The macroeconomic analysis underpinning the EMFSG is in line with the ongoing ECF program.

2.21. **Guinea's macroeconomic policy framework is considered to provide adequate basis for the purposes of the operation.** The authorities have demonstrated a quick response to the circumstances as needed in order to address the Ebola epidemic while continuing the reform program. The government has ensured that the macroeconomic program remains on track while soliciting grant financing to address the growing epidemic.

3. THE GOVERNMENT'S PROGRAM

3.1. **The government's program is summarized in its PRSP, which describes its overall development policy orientation, and its Ebola response plan, which focuses on the current crisis.** Guinea's economic policy for 2013-2015 is designed to lay the foundations for robust and sustainable growth. It focuses on four priorities: (i) restoration of the rule of law and reform of the public administration; (ii) acceleration and diversification of growth; (iii) development of social sectors; and (iv) reduction of regional disparities, promotion of fundamental development and decentralization. Particular attention is given to promotion of human rights and gender equality in each of these four areas.

3.2. **To ensure a comprehensive and coordinated response to the Ebola epidemic, the National Crisis Committee in Guinea has prepared an emergency intervention plan, which has been in force since April 2014.** The plan puts particular emphasis on interventions designed to break the chain of transmission at national and regional level, and also on disease prevention. The goal of the plan is the strengthening of active surveillance through early detection of suspected cases, investigation of suspected cases and deaths, and identification of contacts to break the chain of transmission. The key objectives are: rapid and effective management of all cases at no financial cost to patients; promotion of preventive action to control Ebola viral hemorrhagic fever; improved community participation; and better coordination of response activities at all levels, and monitoring and evaluation of control measures. The government's plan is to improve coordination, financing, and logistics; strengthening of early detection of suspected cases and identification of contacts; rapid and effective case management; and good communications and community sensitization regarding Ebola.

3.3. **A Joint Staff Advisory Note (JSAN) prepared in July, 2013 by the IMF and Bank teams broadly endorsed the policy agenda adopted under the PRSP, although its economic growth targets were viewed as optimistic and not taken fully into account.** The review noted that there remained challenges of implementing effective antipoverty policies in a resource-rich environment with limited institutional capacity. Channeling resource revenues to poverty alleviation presents economic challenges—such as managing exchange rate expectations during a resource boom—which may strain governance and institutional structures. In this context sophisticated state institutions legitimized by credible elections will be particularly important. In this context the upcoming parliamentary elections will be important to reinforce the legitimacy of state institutions and policies.

4. THE PROPOSED EMERGENCY OPERATION

4.1 OPERATIONAL OVERVIEW AND LINKS TO THE GOVERNMENT'S PROGRAM

4.1. **The proposed operation will be a stand-alone single tranche operation to support the Government's Ebola response plan while contributing to addressing the fiscal gap.** The operation builds upon previous reforms in the health and public financial management (PFM) sectors. It is informed by lessons learned from previous DPOs and by the conclusions of the Guinea CPS. The emergency operation seeks to address the government's immediate financial needs, by (i) supporting the implementation of their Ebola response plan, including a clear monitoring framework, and (ii) by strengthening PFM systems to enhance public sector performance.

4.2 PRIOR ACTIONS, ANALYTICAL UNDERPINNINGS, AND RESULTS INDICATORS

4.2. **Extensive analytical work underpins each of the policy areas covered by the proposed operation.** Recent studies undertaken by the Bank, the Government of Guinea, and other development partners, have been essential in the design of the EMFSG. A Public Expenditure Review completed in June 2014, contributes to the analytical and empirical basis for the reforms supported by the proposed operations. The PER examines the government's public spending priorities, its investment agenda and the institutional framework for budget execution, and it complements reviews of public expenditures in the agriculture, education and public health sectors. An agriculture PER was completed in 2013, and expenditure reviews in the health and educations sectors were completed in 2014. Finally, a Public Expenditure and Financial Accountability (PEFA) report was prepared in 2013. Ongoing country economic work provided much of the analytical material that informs this operation.

Pillar I. Build government's resilience to combat Ebola

Context and Challenges

4.3. **The Ebola epidemic has led to the mobilization of domestic and international support to tackle the epidemic.** First, a National Ebola Coordination Unit (*Cellule Nationale pour la Riposte contre Ebola*) special interministerial committee (Cellule) comprising representatives of different agencies has been set up by the President to monitor the Ebola epidemic and coordinate the government response plan. Also, the Ministry of Health has worked closely with international partners to contain Ebola in the affected areas and conduct quarantine and contact-tracing protocols. Healthcare workers have been redeployed to affected areas. The Ministry of Finance has estimated the cost of the interventions and external financial support from multilateral and bilateral development partners has been solicited. As the Ebola epidemic continues, it will be important to consolidate this progress with the goal of eradicating the disease from Guinea in early 2015.[9]

4.4. **The international response is beginning to be manifest in Guinea with the inflow of significant personnel and equipment.** Closer coordination between the Ministry of Health and the development partners is happening on the ground. In October, 2014, out of funds from the World Bank, UNICEF has procured and delivered 18 all purpose vehicles and 57 tons of goods and equipment, including 4.5 million gloves, 50 tents, medicine and food supplements to fight Ebola. Over the next few months there will be an intensification of the effort.

4.5. **Major challenges have been the lack of an integrated plan that tackles all aspects of the epidemic and the lack of transparency in the flow of funds.** The initial 2014 budget law (*loi de finance*) did not factor in Ebola expenditures since the outbreak only started in the spring of 2014. This was remediated by the new Finance Law submitted to Parliament in October, 2014. However, even though several actions against the epidemic have been completed, until recently there was no formal plan to address the broad spectrum of government response to the epidemic. Second, there is still significant lack of transparency in budget information. Budgetary completeness and transparency have improved, as noted in the 2013 PEFA, but the public does not have access to key fiscal information. Budget documents submitted to the National Assembly do not conform to international best practices, and there is limited publication of external grant assistance. With a view to improving transparency and strengthen reporting, it is essential that the government regularly publishes (online and in newspapers) a clear statement of income and expenditure on Ebola, indicating all sources of funds and a reasonably detailed expenditure breakdown.

4.6. **As of October, 2014, in their efforts to combat Ebola, there have been a number of very concrete steps undertaken by the authorities.** First, two functioning and fully-staffed Ebola treatment centers are up and running in Gueckedou and Conakry (Donka), and a number of others are on the way. Second, after the 58 confirmed cases between October 4 and October 25, the government has stepped up its sensitization campaigns in multiple provinces and will expand that effort in the next few months. Third, a strong inspection unit is manned with necessary equipment and functioning on regular basis at the major airport of Conakry and adjacent borders. Fourth, more than 2,500 health care workers have been recruited for the Ebola campaign, and several of them have lost their lives in the battle. Fifth, the government has started collecting information on all the flow of funds into the country, and that effort will accelerate in order to track it in the budget.

Reforms and Medium-Term Objectives

4.7. **As part of the reform process, this operation supports the three reforms that will help to further consolidate public financial management.** The first is an Amended Finance Law (*Loi de Finance Rectificative*) that ensures a new budget that takes into account the new

[9] In parallel, it should be noted that the recently approved World Bank's US$105 Emergency Ebola Response Plan supports the government plan with: hazard/indemnity pay to health personnel, including volunteers, who work in emergency treatment centers and referral centers, in-country medical care to exposed health workers, death benefits to families of exposed health workers, and recruitment, training, and deployment of expatriate medical doctors, nurses and other medical and paramedical personnel.

Ebola expenditures. The second is to ensure the formalization of the Ebola response by the adoption of a plan by the Government. Finally, the third action relates to the publication of all financial flows (income and expenditure) relating to Ebola spending.

4.8. **The Government aims to end Ebola epidemic in Guinea by early 2015 through a rapid response plan, strong inflow of international grant and humanitarian aid, and enhancements in the government's monitoring capacity.** Over time, the authorities will develop a stronger operational plan to respond to different phases of the Ebola pandemic with key information made available to the public. Moreover, with close monitoring and coordination between the government and international donors, the logistics for drug provisions and the continuity plans for essential public services will need to be maintained. The longer term-goal is a return to normalcy with an effective response and revamped public health system.

Prior Actions for EMFSG:

1. Submission of the draft Amended finance law (Loi de Finance Rectificatif) to Parliament for 2014

2. Adoption of Ebola response plan by the Government consisting of: 1) publication of operational plan for Ebola surveillance and containment; 2) continued national sensitization campaign of the interministerial National Committee for Ebola Reporting; 3) setting up of Ebola treatment units and deployment of health inspection units at major airports and borders; 4) bi-monthly monitoring of food prices in regional markets affected areas, particularly Macenta and Gueckedou.

3. The Government has published online the statement of income and expenditure on Ebola, indicating all sources of funds received and spent by the budget (domestic and external)

Pillar II. Improving public finance performance and strengthening budget management process

Public Finance: Context and Challenges

4.9. Over the years, public finance in Guinea has suffered from some constraints and problems which have reduced the ability to manage public resources. Challenges remain in the areas of budget execution, accounting, internal and external audit. First, Guinea's public expenditures were highly unstable during the 2006-12 period due to excessive spending that was not matched by available revenue. Second, the budget process remains cumbersome with delays in the budget calendar (including the submission to Parliament of the finance law), and a long expenditure chain. Third, its limited administrative capacity for budget execution is spread over a much larger number of ministries and other agencies than in comparable countries, and actions of these ministries and agencies are poorly coordinated. Fourth, as a non-member of the West African Economic and Monetary Union (WAEMU), Guinea's public finance framework is not required to conform to regional standards and the country lags behind public sector modernization with respect to its neighbors. Fifth, procurement practices are irregular and have suffered from the lack of a proper legal framework and proper procedures, although these issues are now being addressed.[10] Finally, the budget is not publically published, thus reducing the transparency of the budget process.

4.10. **However, there have been significant improvements in recent years.** Compared to the previous PEFA assessment conducted in 2006, the 2013 PEFA noted some significant progress. The report recommended a multiyear action plan to achieve measurable progress in public financial management area. The Ministry of Economy, Finance and Budget is committed to the revision of the public financial management reform strategy developed with IMF assistance in 2008. The first draft was prepared in September 2013 with an action plan covering a 5 year implementation period. Since coming out of military rule in 2008, Guinea has made substantial progress in overhauling its PFM legal framework – a new organic finance law was passed, as well as a statutory order on budgeting and public accounting, and a decree on governance, transparency and the procurement code. However, there are still some gaps in the overall legal set-up, particularly when it comes to independent oversight of public finances; in addition, a key challenge for the authorities is to translate these new rules on PFM systems and processes into more effective, efficient and transparent public financial management practices. This means changing entrenched behaviors and mindsets, reviewing business processes and overhauling IT systems.

4.11. **A significant area of improvement has revolved around Guinea's cash management system.** Guinea is working to reform its budgetary system to prevent corruption and maintain fiscal discipline. Following unstable budget execution rates during 2009-10 and the proliferation of expenditures that bypassed the expenditure chain, Guinea's Treasury introduced a new cash-management system in 2011. All cash payments are now authorized by a Treasury committee chaired by the Prime Minister. This committee is tasked with maintaining fiscal and macroeconomic stability, and it authorizes payments only if sufficient resources are available. This practice has been successfully adopted in a number of African and Latin American countries. The system is based on two principles. First, monitoring cash disbursements is the main expenditure control mechanism rather than monitoring the financing commitments of line ministries. Second, provisions for planned cash disbursements are reviewed at regular intervals in order to allow for swift fiscal policy adjustments in response to unexpected shortfalls in tax revenue or donor finance.

4.12. **One key challenge has been the lack of a strong legal framework for the public finance overhaul that is needed to improve the PEFA ratings.** In this regard, the Government has adopted a new decree on the Governance of Public Finances consisting of more than 20 articles and being one of the most ambitious public finance reforms in the country. This legislation provides a sweeping legal framework on three key areas: overall conditions of budgetary politics (fiscal ratios, debt management, aid coordination); budget preparation (processes; calendar, and medium-term planning); and budget discipline and

[10] The revised Public Procurement Code approved in 2012 entered into force in June 2014. The key innovations of the revised code include: (i) the establishment of a mechanism to challenge the application of the law, and (ii) the separation of procurement regulation and ex-post control functions. The Public Procurement Code has been designed to address the excessive use of single-source contracting as opposed to competitive tender. This was particularly common during the military regime (Figure 2-9). In 2010 91 percent of public procurement contracts (by value) were allocated using the single-source method, but by 2012 this ratio had dropped to 25 percent.

transparency. In sum, the decree provides a strong anchor and foundation for PFM reform and brings the country in line with the PFM systems in the countries of the WAEMU zone.

4.13. **Another challenge centers around internal audits, important elements of a good PFM system to manage Ebola spending.** The 2013 PEFA highlighted the fact that the internal audit function, as defined by international standards, is not effective. The internal audit and administrative bodies are State General Inspectorate (IGE), Finance General Inspectorate (IGF) and departmental internal inspections. These offices operate on the basis of previously established mission programs or under unscheduled mission programs. The program implementation is relatively low. With the support of the European Union, the Government has started a reform of the internal audit bodies namely IGF and IGE with the creation and operationalization of a permanent consultative framework of internal audit bodies. New organic laws have been signed for both IGE and IGF, but are waiting for their effective operationalization, including the staffing. In the same vein, the Bank conducted a capacity building initiative that started with the reinforcement of the capacity of the IGF and IGE and other sectorial inspectorates on risk based internal audit approach, aimed at assisting the Government to achieve its business objectives without compromising compliance with management constraints and good governance.

4.14. **In line with the use of country systems, internal audit of Bank funded projects, including Ebola funds & activities, should be undertaken by IGF.** However the permanent staffing needed at IGF to continuously fulfill its primarily internal control role has remained skeletal. This obstacle can be overcome with the effective launch of the recruitment of inspectors with a quick win consisting of appointing the five inspectors in line with the related organic law. The IGF would undertake internal audit of Ebola funds with an experienced internal auditor consultant for capacity building purposes. In that regards the joint decrees of application relating to the competitive recruitment of the Inspectors of Finance and state inspectors is vital.

Public Finance: Reforms and Medium Term Objectives

4.15. **As part of the reform process, this operation will try to help to further consolidate public financial management reforms and help revamp the PFM system to better manage spending on Ebola.** The first is a proposed Decree issued on the Governance of Public Finance to provide a legal framework to ensure strong budget management, discipline and transparency. The second is a joint decree by the Minister of Finance and Minister of Public Service to provide the legal framework for finance inspectors. Together, these two measures will provide the institutional framework to allow the Guinean government to address the Ebola epidemic from a stronger fiscal and PFM standpoint.

4.16. **Over the longer term, the Public Finance Reform Plan (PREFIP) builds on the comprehensive evaluation of Guinea's current public financial management system provided by the PEFA and defines an overarching reform strategy.** The PREFIP comprises a total of 13 programs, 9 of which are reform programs covering all public financial management components, while the other 4 are support programs. The 9 reform programs cover: (1) budget programming and preparation, (2) domestic revenue mobilization and management, (3) external resource mobilization and debt management, (4) public expenditure management, (5) management of government assets, (6) cash flow management, (7) accounting reform and financial information system, (8) local finances, and (9) internal and external control systems. The 4 reform support programs are: (10) training and human resources, (11) computer system, (12) infrastructure rehabilitation and (13) communications.

Prior Action for EMFSG

4. The Government has prepared a draft decree on the Governance of Public Finance and submitted it to the President for issuance in 2014.

5. The Government has issued the joint decree (arrêtés conjoint) on the legal framework for Financial Inspections

Civil service: context and challenges

4.17. **A pressing issue for Guinea has been the significant number of ghost workers, whose payment is depriving the Government of sources of additional domestic financing to spend on core activities in the fight against Ebola.** Macroeconomic expansion and stabilization goals have affected the wage bills. During the 2006-10 budget expansion, expenditures on salaries and wages almost doubled to 5.7 percent of GDP as contractual employees were integrated into the public service. However, in the process, there were a number of ghost workers (deceased or not present in the job) who were also added to the list of workers. Within ten years, the official number of civil servants doubled from 51,433 in 2001 to 106,572 in 2012, including many of these ghost workers. Besides, this increase was poorly managed; recruitment involved ad-hoc hiring without any strategic planning and competitive examinations were disregarded. The salaries and wages expenditures have included the remuneration of the military for half of the total amount, but that has been evolving. A recent biometric survey put the number of ghost workers at more than 11,000, with negative effects on the wage bill.

4.18. **With regards to the effectiveness of payroll controls, the 2013 PEFA indicated that the government's database for personnel management was not fully integrated with the payroll.** Financial controllers were not involved in the review of adjustments made to the government database. However the system of government employees managed by the Civil Service Office is reconciled with the payroll database of Central Pay Office on a monthly basis. Such adjustments are made per month by Civil Service employees assigned to the Central Pay Office, based on information sent by the personnel management departments of ministries. There may be delays of more than three months in updating the status of employees located outside Conakry. In 2012, a physical audit was performed on the basis of a comprehensive census. The audit identified more than 5,000 irregularities. Internal controls are in place, but they are not adequate to ensure data integrity. The government's recent biometric census identified 11,089 unaccounted-for civil servants, or 11 percent of the total public administration.

Medium-Term Reforms

4.19. **The completion of a biometric survey of the civil service will improve productivity in the public administration, including for health workers, and in the management of recruitment, careers, and the wage bill.** Guinea has been able to address the Ebola crisis through the large-scale redeployment of healthcare workers with the support of MSF. The pandemic has prompted important changes in the civil service, and the database must be updated to reflect them. Massive inflows from internationals donors and the strong focus on the health sector may have created unnecessary expenditures in the public payroll. The database remains incomplete and still includes ghost workers, double dippers, and workers who are past the legal retirement age. This modernization of the public administration database would be the first step in a larger action plan for the State Reform and Modernization Program (PREMA) designed to improve public sector efficiency. Beyond this administrative modernization, an update of the system through a bio-metric survey can result in substantial saving in the wage bill and reduce fiscal risks by cutting into recurrent expenditures.

Prior Action for EMFSG

5. *The Government has issued the ministerial decision to block the monthly payments of the civil servants who are on the payroll but not registered as part of the biometric census.*

Table 4.1: Prior Actions for the Emergency Macroeconomic and Fiscal Support Operation

EMFSO Prior Actions	Implementation Status/Evidence
1. Submission of the draft Amended finance law (*Loi de Finance Rectificatif*) to Parliament for 2014	Implemented by October 15, 2014 Evidence: Receipt by Parliament; decision by Council of Ministers on October 15
2. Adoption of Ebola response plan by the Government consisting of: 1) publication of operational plan for Ebola surveillance and containment; 2) continued national sensitization campaign of the interministerial National Committee for Ebola Reporting; 3) setting up of Ebola treatment units and deployment of health inspection units at major airports and borders; 4) bi-monthly monitoring of food prices in regional markets affected areas, particularly Macenta and Gueckedou.	Implemented by September 30, 2014 Evidence: Operational plan; decree (arrêté) setting up Committee and Ebola Treatments units; situation report; instructions
3. The Government has published online the statement of income and expenditure on Ebola, indicating all sources of funds received and spent by the budget (domestic and external)	Implemented by October 24, 2014 Evidence: Website with Ebola flows data (**www.finances.gov.gn**)
4. The Government has prepared a draft decree on the Governance of Public Finance and submitted to the President for issuance in 2014.	Implemented by October 27, 2014 Evidence: Letter of transmission of decree (arrêtés)
5. The Government has issued the joint decree (*arrêtés conjoint*) on the legal framework for Financial Inspections	Implemented by April 10, 2014 Evidence: Signed decree (arrêtés conjoint)
6. The Government has issued the ministerial decision to block the monthly payments of the civil servants who are on the payroll but not registered as part of the biometric census	Implemented by September 15, 2014 Evidence: Decision by Minister of Public Service

4.3 LINK TO THE CPS AND OTHER WORLD BANK OPERATIONS

5.1. The proposed emergency operation is fully compatible with the Bank's assistance to Guinea as defined in the FY 2014-17 Country Partnership Strategy (CPS). The World Bank Group Country Partnership Strategy (CPS) for FY14-17, discussed by the World 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 World Bank Fragility Assessment and on the Interim Strategy Note (ISN, 2011-12) 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. A strong focus on governance, including transparency, public expenditure and investment management, and efficiency of key sectors, is intended to build the foundations for shared benefits and prosperity from mineral wealth governance. In the future, there is a need to reflect in the CPS progress report the need also to building a strengthened and more credible health care system both nationally and regionally to be able to prevent future epidemics and disasters. 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, and to build shared prosperity.

5.2. **The operation is also closely aligned with the World 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 OTHER DEVELOPMENT PARTNERS

5.3. **Collaboration with other development partners:** During the preparation of this emergency operation, the Bank team collaborated closely with other donors during the discussions on the key issues of public support, notably public finance reform. There was intense collaboration at the strategic level with WHO, CDC, and others on the Ebola health side in the design of the Bank operation. The support was developed in coordination with the other members of the multi-donor budget support group, and it will continue to be implemented within the framework of the general budget support, which has been in place since 2005. Together, the budget-support framework has been updated over time to facilitate a more focused and flexible approach, and it will continue to underpin donor coordination.

6. OTHER DESIGN AND APPRAISAL ISSUES

5.1 POVERTY AND SOCIAL IMPACTS

6.1. **Poverty reduction in Guinea must 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 an impact yet. The danger is that Ebola epidemic can lead to an additional increase in poverty through declines in consumption and investment, and in general slower economic activity. 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.

6.2. **The proposed operation is expected to have a direct positive impact on poverty reduction through policy actions that will preserve the health of poor vulnerable Ebola-affected populations.** 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 and public finance. The plan of action to fight Ebola will have many direct beneficiaries of the proposed emergency operation include people in Ebola-affected areas, farmers, rural displaced people, and the general population at large.

5.2 ENVIRONMENTAL ASPECTS

6.3. **The majority of the activities supported by the proposed operation are not expected to have any environmental impact.** 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.

5.3 PFM, DISBURSEMENT AND AUDITING ASPECTS

Country PFM status and safeguards environment at the Central Bank

6.4. **The credible commitment of the government to a PFM reform strategy combined with the significant results achieved thus far provide a sufficient basis for the proposed Development Policy Operation, but challenges remain.** The World Bank and others 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. The assessment recommended institutional and policy reforms affecting most PFM components. With the support of the international community, the Government of Guinea has undertaken a series of PFM reforms. The 2013 PEFA revealed significant improvements compared to the 2006 assessment including (i) 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); (ii) improved budget credibility; and (iii) timely adoption of annual budget law and enhanced transparency of inter-governmental fiscal relations. As of October 2014, the budget is not yet published.

6.5. **Although there is reason for cautious optimism it will take time for these reforms to yield substantial improvements in the management of public funds.** As indicated in the 2013 PEFA and other PFM assessments, the PFM system still faces challenges including: (i) budget execution; (ii) accounting; and (iii) internal and external audit. The government, with support from development partners has revised the existing PFM reform strategy and prepared a five year action plan. The effective implementation and success of this PFM reforms strategy requires the government to take additional measures including changing well-entrenched behaviors and mindsets, reviewing business processes and overhauling IT systems.

6.6. **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 Government of Guinea to prepare, implement and monitor reform programs in public financial and human resource management.** The Ebola crisis has put the need to improve transparency and accountability in the management of public funds into sharper focus. The proposed operation provides an opportunity to continue the Bank's support on these critical issues.

5.4 ASSESSMENT OF THE CENTRAL BANK OF REPUBLIC OF GUINEA (BCRG)

Disbursement and Accounting

6.7. **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 33.5 million; equivalent to US$50 million. The proposed operation will follow IDA's disbursement procedures for development policy operations. The proceeds of the credit and grant components of the project will be disbursed by IDA into a dedicated account opened in US dollars or in euros at the Central Bank of Guinea (*Banque Centrale de la République de Guinée* – 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

6.8. **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.

6.9. The closing date of the operation will be **June 30, 2015.**

5.5 MONITORING AND EVALUATION

6.10. **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 EMFSO 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.

7. SUMMARY OF RISKS AND RISK MITIGATION

7.1. **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: *(i) macroeconomic risks, (ii) political risks, (iii) implementation-capacity risks, and (iv) fiduciary risk.*

7.2. **Political risks.** The country is facing an election in 2015 and there is a risk of election year political instability, as happened in the recent past. After more than 50 years of authoritarian rule, Guinea held its first competitive presidential election in June 2010 after months of uncertainty and unrest. The risk is that there might be a recurrence of this. The operation will contribute to mitigating political economy risk by transparent decision-making and fiscal policy processes.

7.3. **Macroeconomic risks:** Guinea is vulnerable to an escalation effect of the crisis from lack of containment of Ebola in Liberia and Sierra Leone. It is also 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. A worsening fiscal position in the wake of Ebola-related expenditure increases is likely. As it is an emergency operation, the EMFSO is designed to mitigate these risks by helping finance the fiscal gap. In addition, an increase in oil imports may put pressure on the balance of payments, and difficulties in obtaining critical supplies and imports due to Ebola-induced restrictions can further hurt the Guinean economy and reduce exports.

7.4. **Implementation-capacity risks.** Lack of capacity at the central and local levels 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. The proposed operation attempts to reinforce the government's capacity to manage the budget implementation in a more effective way in order to better deliver the much needed public services.

7.5. **Fiduciary risks.** There are fiduciary risks due to weak institutional capacity and poor governance in Guinea. Also, the risk is that the aid inflows are not used to intended purposes and are not properly accounted for. Evidence shows that budget support has been used effectively even in fragile situations with extremely weak fiduciary systems – as shown by the experiences of countries as diverse as Central African Republic (CAR) and Haiti. Clear expenditure priorities and a strong government commitment to addressing institutional weaknesses can reduce the risk to an acceptable level. Risk is mitigated by the strengthening of financial systems and increased visibility of corruption through audits and public dissemination. Risk is mitigated by strong PFM measures in the operation. Fiduciary risk can 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, with a possibility of an audit of the concerned account.

Table 7.1: Risk Rating

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

Table 7.2: Emergency Macroeconomic and Fiscal Support Operation Results Framework

Prior Action	Result (Outputs)	Numerical or Y/N Baseline (Nov., 2014)	Numerical or Y/N Target (March, 2015)
Submission amended finance law with details on Ebola spending	• Overall spending in national budget on Ebola ($ US million)	$134 million	$ 150 million
Adoption of Ebola response plan by Government – publish operational plan for surveillance and containment; national sensitization campaign, Ebola treatment centers set up, inspection units at airport and borders, bimonthly food price monitoring	• National campaign completed (activities in how many provinces) • Inspection units manned with necessary equipment and functioning on regular basis at the major airport of Conakry and borders • Number of Ebola treatment centers established, manned and with necessary equipment and personnel • Number of health workers mobilized and trained	18 4 2 (Gueckedou and Conakry) 2500	33 8 11 5000
Published statement of income and expenditures Ebola funds received and spent by the budget, uses by district and economic category of expenditure	• Number of districts included in expenditure tracking • Publication frequency of income statement (per year) • Percent of incoming funds tracked by Ministry of Finance • Percent of total Ebola funds spent on community sensitization	2 1 10 10	20 6 90 25
Decrees of governance, decrees on internal audit, and blocking monthly payments to ghost workers	• Number of ghost workers blocked • Accumulation arrears (% of GDP) • Number of internal audit inspectors	5,000 0.3 1	11,089 0.2 5

Annex 1: Letter of Development Policy

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

MINISTÈRE DE L'ECONOMIE
ET DES FINANCES

N° 1326 MEF/CAB/CT/4E/14

Conakry, le 23 OCT. 2014

Le Ministre d'Etat

BANQUE MONDIALE
Arrivée N° 10
Date : 23/10/2014

À l'attention de
Monsieur Jim Yong Kim
Président de la Banque mondiale
WASHINGTON, DC

Objet : Lettre de Politique de Développement

Monsieur le Président,

1. La présente Lettre de Politique de Développement (LPD) retrace l'évolution de la situation socio-économique de la Guinée en 2014, spécialement dans le contexte de l'épidémie Ebola. Elle énonce les objectifs spécifiques de la lutte contre l'épidémie Ebola et présente certaines reformes clé en matière de gestion des finances publiques pour 2014 et 2015. Le Gouvernement sollicite la Banque mondiale à travers l'Opération d'Emergence pour le Soutien Macroéconomique et Fiscal, afin de soutenir son programme de lutte contre l'épidémie Ebola. Il souhaite à cet effet, l'octroi d'un appui budgétaire général à la Guinée pour un montant de 50 millions de dollars EU.

2. L'année 2014 a été une année difficile pour la Guinée en raison de l'épidémie Ebola. À la date du 20 octobre 2014, la situation épidémiologique indiquait près de 970 cas et 724 décès. Outre ces décès, la maladie a de graves conséquences économiques. La fermeture des frontières et l'arrêt des activités dans les zones agricoles ont provoqué une hausse des prix des denrées alimentaires et menacent de plonger de nombreuses communautés rurales dans la faim et l'insécurité alimentaire. Les dépenses d'urgence consacrées aux services de santé ont durement affecté la situation de nos finances publiques. L'épidémie pourrait avoir d'énormes répercussions sur les progrès économiques réalisés durant ces dernières années dans le domaine de la stabilisation macro-économique.

3. Les effets de la crise sanitaire sont déjà manifestes. Les premières estimations suggèrent que la croissance économique en Guinée diminuera de moitié - passant de 4,5 % à 2,4 % - du fait de l'épidémie. Ce sont les services et le secteur agricole qui ont le plus souffert des conséquences de la crise. L'activité dans les services est en recul, spécialement dans les sous-secteurs du bâtiment, des transports, de l'hôtellerie, et du tourisme. La désertion des zones rurales par les travailleurs agricoles et la fermeture des frontières ont entrainé une baisse des exportations de produits phares, tels que le cacao, l'huile de palme et la pomme de terre. L'épidémie Ebola a contribué à un ralentissement de l'investissement dans le secteur minier.

Le repli de l'activité économique pourrait entraîner une baisse des recettes de l'ordre de 630 milliards de Francs Guinéens.

4. Le Gouvernement s'est résolument engagé dans la riposte contre l'épidémie. Un Comité Interministériel et une Coordination nationale ont été créés pour conduire le plan de riposte préparé par le Gouvernement. Plusieurs départements ministériels sont impliqués dans la mise en œuvre du plan de riposte et en particulier le Ministère de la Santé et de l'Hygiène Publique et le Ministère de l'Économie et des Finances. Le plan de riposte comprend les volets suivants: la publication d'un plan opérationnel pour la surveillance épidémiologique du virus Ebola ; la poursuite d'une campagne de sensibilisation à l'échelle nationale; la mise en place de deux unités de traitement (Conakry et Guéckédou) ; le déploiement des unités de contrôle sanitaires dans les principaux aéroports et frontières ; le suivi des prix alimentaires sur les marchés des zones affectées, notamment à Macenta et Guéckédou. Pour endiguer les effets négatifs de cette épidémie sur le plan sanitaire, le budget de riposte est estimé à 938 milliards de Francs Guinéens. Au titre du soutien à l'économie, du fait du choc qu'elle a subi suite à l'épidémie, les prévisions préliminaires des dépenses pourraient se situer à au moins 2 800 milliards de Francs Guinéens.

5. Pour assurer une transparence sur le financement du plan de riposte, un état des ressources par origine et des dépenses par catégorie économique liées à l'épidémie Ebola a été préparé et sera actualisé et publié régulièrement. Un suivi sera réalisé sur le terrain afin de fournir des informations détaillées et mensuelles sur les nouvelles sources de financement.

6. En vue de soutenir la lutte contre l'épidémie Ebola, le Gouvernement a approuvé la Loi de Finance Rectificative 2014. Pour renforcer la gestion budgétaire et poursuivre l'assainissement des finances publiques, le Gouvernement prendra en compte les recommandations du PEMFAR (Public Expenditure Management and Financial Accountability Review). Afin d'améliorer la gouvernance des finances publiques, un décret portant cadre de gouvernance des finances publiques et un arrêté portant cadre organique de l'Inspection Générale des Finances Publiques ont été adoptés. Il faut enfin noter que dans le cadre de la réforme de la fonction publique, et suite à l'opération de biométrie qui vient d'être finalisée, le gouvernement a décidé de bloquer les salaires des fonctionnaires non recensés.

7. Le Gouvernement remercie la Banque Mondiale pour son soutien financier et technique important dans le cadre de la lutte contre l'épidémie Ebola et travaillera à renforcer ce partenariat au niveau de la mise en œuvre notamment des actions du plan de riposte. Le Gouvernement aspire à une sortie de l'épidémie Ebola en 2015. Le Ministère des Finances assurera le suivi et l'évaluation du programme.

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

Ministère de l'Économie et des Finances
Le ministre
Rép. de Guinée
MINISTRE D'ETAT

Mohamed DIARE

Unofficial Translation

REPUBLIC OF GUINEA

MINITRY OF ECONOMY AND FINANCE

No. 1326/MEF

LETTER OF DEVELOPMENT POLICY

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

Mr. President,

1. The present letter of policy development (LDP) traces the evolution of the socio-economic situation of Guinea in 2014, especially in the context of Ebola. It sets out the specific objectives of the fight against Ebola and the reforms in public finances for 2014 and 2015. The Government is seeking World Bank support, through the Emergency Macroeconomic and Fiscal Support Operation of $50 million to support the Government's program to fight the Ebola virus.

I. The political and economic context

2. The current year 2014 has been a difficult year for Guinea due to the Ebola epidemic. The outbreak plaguing West Africa has resulted in nearly 3,000 deaths since January, 2014. In addition to these deaths, the disease has had serious economic consequences for households and the governments of the three countries. The border closures and exodus from the farms has led to price increases in food deficits in many rural communities. Emergency expenditures devoted to health services have affected the budgets of these governments, which are already in weak fiscal positions. An uncontained epidemic can have a significant impact on the economic progress made in recent years by many West African countries. As of 20 October 2014, the epidemiological situation has worsened with 724 deaths out of 970 cases.

3. The effects of the health crisis are already evident in Guinea, Liberia and Sierra Leone, the three countries that have the largest number of cases. Initial estimates suggest that the real GDP growth in Guinea for 2014 will decrease by half - from 4.5% to 2.4% - because of the epidemic. Services and agriculture have been the biggest victims of the crisis. Services experienced a drop, especially the construction, transport, hotel and tourism sub-sectors. The migration from the rural areas by some agricultural workers has resulted in a fall in exports of products, such as cocoa and palm oil. Ebola has contributed to a slowdown in mining investment. The epidemic has had an impact of $ 300 million in terms of revenue shortfalls and expenditures increases.

4. Guinea has been at the center of the fight against Ebola as it was the epicenter of the pandemic. The Government is constrained by a lack of resources. The Ministry of Finance, together with the Ministry of Health, has adopted an Ebola response plan consisting of: publication of operational plan for Ebola surveillance and containment; continued national sensitization campaign of the interministerial National Committee for Ebola Reporting; setting up of Ebola treatment units and deployment of health inspection units at major airports and borders; and bi-monthly monitoring of food prices in regional markets affected areas, particularly Macenta and Gueckedou.

5. In order to increase transparency, the Minister of Finance, together with the Minister of Health, have published the inflow of resources by donor and expenditure by economic category related to Ebola. The Government has committed to transparency of all the inflows related to Ebola. They will closely monitor the situation on the ground and provide detailed information about aid inflows to finance Ebola containment and economic recovery.

6. In order to finance the containment of Ebola, the Government has submitted the Amended Finance Law (*loi de finance rectificative*) for 2014. The Government is committed to ensure proper budget management and to improve public finances and transparency by the implementation of the action plan arising from the PEMFAR (Public Expenditure Management and Financial Accountability Review). To improve the tax system and internal audit, there is a decree on governance of public finances and a joint order of the ministries of the economy and finance and the public service on the organic law of the General Inspection of Public Finances. Finally, Governments have begun a process of blocking of the salaries of civil servants that were not identified in the recent biometric census. The Government's goal is to make Guinea Ebola-free by 2015.

7. The Government appreciates the support efforts of the World Bank to the fight against Ebola and will work to strengthen this partnership in the context of the operation and the program to fight against Ebola. The Ministry of Finance will be responsible for the monitoring and evaluation of the program.

8. Please accept our respectful consideration.

Mr. Mohamed Diare

Minister of Economy and Finance

Annex 2: IMF Relations Note

IMF Executive Board Completes Fourth Review under ECF Arrangement for Guinea and Approves US$28.1 Million Disbursement

Press Release No. 14/382
August 1, 2014

The Executive Board of the International Monetary Fund (IMF) today completed the fourth review of Guinea's economic performance under the program supported by an Extended Credit Facility arrangement (ECF). The Board's decision enables the immediate disbursement of an amount equivalent to SDR 18.36 million (about US$28.1 million), bringing total disbursements under the arrangement to SDR 91.8 million (about US$140.6 million).

The Executive Board approved the three-year ECF arrangement for Guinea on February 24, 2012, for an amount equivalent to SDR 128.52 million (120 percent of the country's quota in the IMF.

At the conclusion of the Executive Board's discussion of Guinea, Mr. Naoyuki Shinohara, Chair and Deputy Managing Director issued the following statement:

"Guinea's economy was affected by a number of adverse shocks in 2013—including the suspension of investment in some large mining projects and election-related political unrest. However, with strong adjustment policies, the 2013 fiscal deficit was contained, despite a sharp revenue shortfall, which supported a further decline in inflation, a stable exchange rate, and a satisfactory level of international reserves. The onset of the Ebola epidemic in early 2014 constitutes an additional near-term challenge.

"Growth was also held back by slow progress with structural reforms, including in the electricity and mining sectors. Structural reform remains a priority and the authorities have taken steps to improve the coordination and monitoring of the reform agenda. However, political stability in the run-up to the 2015 presidential elections will also be important.

"The authorities' revised budgetary projections for 2014 remain in line with available financing and maintain macroeconomic stability. The revised projections address a revenue shortfall, while safeguarding critical social and public investment spending. The authorities also intend to continue the comprehensive reform of public financial management. In this context, the finalization of the new procurement framework is a positive step, particularly given rising public investment. Other important measures include strengthening tax administration and improving expenditure and commitment management, to avoid a recurrence of arrears.

"The Central Bank's gradual relaxation of monetary policy is appropriate, given developments in inflation and international reserves. The intended development of an interbank market will allow the introduction of indirect policy instruments to help deepen the money market and promote monetary policy flexibility.

"The authorities continue to strengthen debt management in order to preserve debt sustainability. To this end, it will be important to give priority to grants and concessional resources. Usage of the new exceptional mining revenue for medium-term investment spending under the Special Investment Fund will help ensure that such resources are used effectively and sustainably.

"The pace of other growth-enhancing structural reforms should be accelerated. In this regard, Guinea's attainment of EITI compliant status is commendable. However, prompt completion of the implementing regulations of the 2011 mining code and review of mining contracts will help reduce investor uncertainty. Rapid progress is also needed with other measures designed to enhance the business climate, including key legislative reforms concerning electricity, public-private partnerships, and the judicial system."

Annex 3: Debt Sustainability Analysis (DSA)

Guinea: Update to the Low-Income Country Debt Sustainability Analysis

This appendix provides an update to the joint IMF-World Bank LIC-DSA for the 2nd review under the concurrent ECF arrangement (IMF Country Report No. 13/192), in the context of the Guinean authorities request for a disbursement under the Rapid Credit Facility to help meet a financing shortfall as a result of the Ebola outbreak. It includes updated projections for the macroeconomic framework and the Simandou mining and related infrastructure projects, and new information on borrowing. Guinea's risk of debt distress remains moderate.

1. **Guinea continues to be assessed at a moderate risk of debt distress**.[11] [12] This debt sustainability analysis (DSA) updates the LIC-DSA presented to the Board in May 2013, and uses a higher and unified discount rate of 5 percent (previously 3 percent) which was introduced in October 2013. A full update of the LIC-DSA will be prepared in the context of the next, 5th, review under the ECF arrangement and Article IV consultation. As in the previous assessment, the moderate rating is primarily due to Guinea's vulnerability to adverse shocks to growth, exports, foreign direct investment flows, fiscal performance, and delays in mining projects coming on stream. The LIC-DSA underscores the importance of implementing a prudent debt policy and relying primarily on concessional loans and grant and avoid an excessive ramping up of external debt, especially in the short term, until the projected increase in economic growth on the back of mining sector output and of exports comes to fruition. In addition, the authorities' ongoing efforts to maintain macroeconomic stability, improve project implementation capacity and the business climate, establish a sound governance structure in mining sector, and strengthen debt management should be continued. In addition, structural reforms aimed at removing bottlenecks, improving productivity, and supporting economic diversification are important to minimize the adverse effects of Dutch disease that could arise from the significant expansion of the mining sector..

2. **Following the attainment of the HIPC initiative completion point, at end-2012 Guinea's external public debt amounted to $1.3 billion (23 percent of GDP)**. Since then, the accumulation of new debt (disbursed and outstanding) has been modest and at end-2013 external public debt had increased to $1.6 billion (25.3 percent of GDP). The increase is primarily accounted for by disbursements for the construction of the Kaleta hydroelectric dam. Guinea also has outstanding external debt arrears of $186 million (11 percent of total debt) which 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, and discussions between the creditor and authorities are ongoing so that these arrears can be resolved. The LIC-DSA, in line with the authorities objectives, incorporates a phased clearance of arrears through partial cancellation) and rescheduling (in the context of the HIPC

[11] This Debt Sustainability Analysis (DSA) is based on the Debt Sustainability Framework (DSF) for low-income countries (LICs), approved by the Executive Boards of the IMF and World Bank.

[12] Guinea's three-year average CPIA score is 2.93 and its quality of policy and institutions rating is weak.

completion point) which is different from that assumed in the last LIC-DSA, reflecting progress thus far and expected.[13]

3. **There are several significant changes in the baseline macroeconomic assumptions compared to the last LIC DSA (Table 1)**. As regards the mining sector, a new model based estimation of the financial flows, in particular foreign direct investment, mining tax revenues, mining imports and exports, associated with two major mining projects (the Simandou iron ore mine and an expansion of the capacity of an existing bauxite mine) have been incorporated. In addition, a delay in the onset of construction of the Simandou mining and related infrastructure project has pushed out a sharp rise in the related FDI inflows and imports, as well as the onset of production and exports. The delay in the Simandou project stemmed from protracted negotiations on an overarching investment framework which were concluded successfully in mid-2014. Production and exports are now expected to begin in late 2019 and 2020 compared to 2017 in the last LIC-DSA; also the projected volume of iron ore exports is somewhat higher. The expansion of the bauxite mining project is now included as the timing and details have become available only recently; the scale of the expansion is modest and would result in a two-step increase in bauxite exports in 2017 and 2022. The LIC-DSA incorporates the economic consequences of the Ebola outbreak. While there are uncertainties about the duration and spread of the epidemic, at this point in time according to the World Health Organization (WHO) it may take 6-9 months before the outbreak is under control provided strong international action is taken immediately. On this basis, the epidemic is projected to have an only a short-term temporary impact, with GDP growth lower and the basic primary fiscal and current account deficits larger in 2014–15. Medium and long term growth is projected to be higher than in the last DSA. This reflects the higher iron ore output from the Simandou mining project, the impact of the new bauxite mine expansion project, higher electricity supply (based on recent progress in raising supply capacity and future developments, and a stronger structural reform impact.

4. **There are also changes in a number of the baseline assumptions concerning debt.** One new projected nonconcessional loan has been incorporated.[14] The loan, which has yet to be signed, is for the renovation and extension of the electricity transmission line between the Kaleta hydro-electric dam and Conakry. The loan is long-term and is expected to have a grant element of slightly less than 30 percent and amount to about $80 million (4.8 percent of end-2013 external debt stock and 1.2 percent of projected 2014 GDP). As regards the large China Eximbank loan ($335 million) for the construction of the Kaleta dam that was signed in early 2013 and incorporated in the last LIC-DSA, progress in construction, and disbursements to date and projected based on an updated disbursement schedule, are broadly as initially assumed.[15] The LIC-DSA also includes the disbursement under the Rapid Credit Facility that the Guinean authorities have requested. The government's emergency response plan to the Ebola outbreak is not fully financed as yet and the authorities are seeking additional donor

[13] The status of these arrears under the IMF's lending into arrears (LIA) and arrears to official creditors has not changed since the (last) 4th review under the ECF arrangement

[14] At the time of the 4th review under the ECF arrangement, the performance criterion on new nonconcessional borrowing was adjusted to permit the loan under the ECF-supported program.

[15] The disbursement schedule assumed in the last LIC-DSA was $160 million in 2013, $102 million in 2014, $23 million in 2015, and $48 million in 2016. In the current LIC-DSA the disbursement schedule is $178 million in 2013, $98 million in 2014, $12 million in 2015, and $48 million in 2016.

assistance in the form of grants to cover this financing need. In line with this the LIC-DSA incorporates the sought after financing as grants. As compared to the last LIC-DSA, the rate of debt accumulation in the outer years of the projection period is somewhat higher than before, reflecting a lower primary fiscal balance than in the last LIC-DSA. This reflects a more stable ratio of current expenditure to GDP, following a lengthy period of gradual downward adjustment, to avoid to great a compression of current expenditures, while maintaining the investment effort. The net combination of a higher discount rate, higher external borrowing and slightly higher level of nominal GDP, results in slightly higher debt indicators in terms of GDP in the later years of the projection period. By contrast the PV of external debt is considerably lower in the near term reflecting the higher discount rate and a slightly lower initial external debt stock.[16]

5. **The results of the external LIC-DSA confirm that Guinea's debt dynamics are sustainable**. Under the baseline all debt indicators remain below the policy-dependent thresholds.[17] However, the stress tests and alternative scenarios show some breaches of the thresholds, and are indicative of Guinea's vulnerability to adverse shocks to growth, exports, foreign direct investment flows and fiscal performance. The inclusion of domestic debt does not significantly change the conclusions of the external LIC-DSA, as no major recourse to the domestic financial market is assumed given the shallow undeveloped nature of the this market. As regards, the planned recapitalization of the central bank by the government, following a first injection further planning recapitalization has been put on hold pending an evaluation of the central bank's capital need.

6. The authorities broadly agreed with the assumptions and conclusions of this update of the LIC-DSA.

[16] The outstanding external public debt stock at end-2013 is somewhat less than projected in the last LIC-DSA—$1.577 billion compared to $1.637 billion.

[17] In Table 3, the relatively large external debt dynamic residuals, after taking into account exceptional financing, reflect weaknesses in the coverage of balance of payments data.

Table 1. Structure of External Public Debt

	end-2013	end-2013	end-2013
	US Dollars (millions)	Percent of Total	Percent of GDP
Total	**1,577.3**	**100.0**	**25.3**
Multilateral Creditors	**588.3**	**37.3**	**9.4**
IMF	85.6	5.4	1.4
World Bank	168.1	10.7	2.7
AfDB Group	95.1	6.0	1.5
IsDB	122.2	7.7	2.0
EU	0.0	0.0	0.0
Other Multilateral Creditors	117.3	7.4	1.9
Official Bilateral Creditors	**923.5**	**58.5**	**14.8**
Paris Club	288.8	18.3	4.6
Non-Paris Club	498.0	31.6	8.0
Arab Funds	136.6	8.7	2.2
Commercial Creditors	**65.6**	**4.2**	**1.1**
Memo			
Arrears 1/	186.1	…	3.0

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.

Table 2. LIC DSA Macroeconomic Assumptions, 2014–32
(Percent of GDP, unless otherwise indicated)

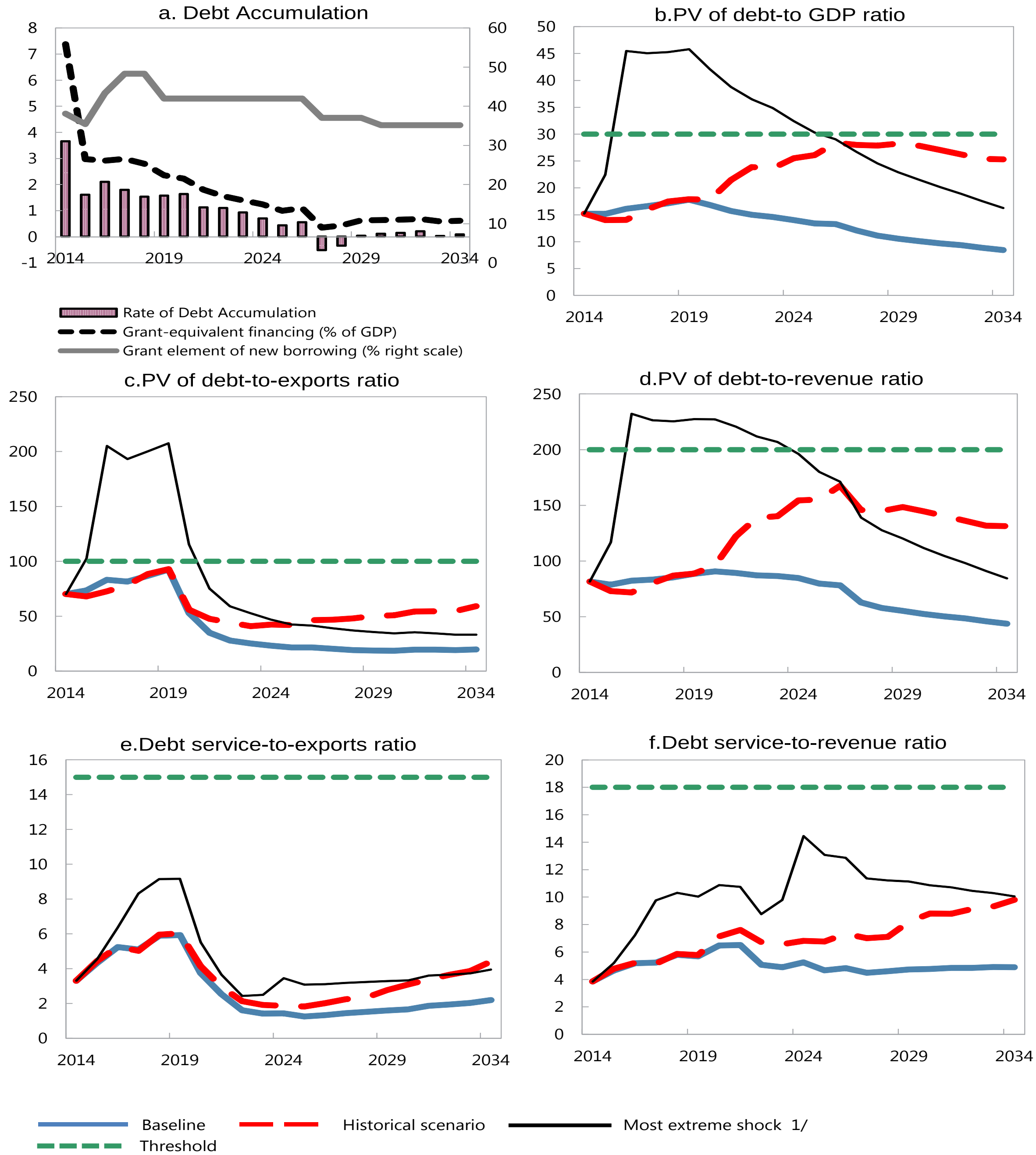
	Previous LIC DSA					Current LIC DSA				
	2014	2015	2020	2025	2032	2014	2015	2020	2025	2032
Nominal GDP ($ Million)	6,347.9	6,797.7	14,092.3	17,314.9	24,296.4	6,769.7	7,455.3	11,313.2	18,683.2	27,323.2
Real GDP (Percentage change)	5.2	5.4	6.4	3.2	3.6	2.4	4.1	7.4	5.0	4.4
Nominal GDP, excl. megaprojects ($ Million)	6,347.9	6,797.7	9,447.5	12,746.7	19,905.9	6,769.7	7,455.3	10,270.1	14,043.6	21,966.4
Real GDP, excl. megaprojects (Percentage change)	5.2	5.4	4.2	4.4	4.8	2.4	4.1	4.2	4.4	4.8
Fiscal Accounts										
Revenue and Grants	24.0	23.6	25.9	26.5	26.9	23.9	21.3	21.4	23.2	24.4
Primary Expenditure	25.5	24.1	26.6	26.0	26.1	28.7	22.9	22.8	23.1	24.8
Of which : Capital expenditure and net lending	10.8	9.4	13.0	13.9	17.4	12.6	7.3	9.7	10.2	12.2
Primary Fiscal Balance	-1.5	-0.6	-0.7	0.5	0.8	-4.8	-1.6	-1.4	0.0	-0.4
New external borrowing [2/]	3.1	1.7	1.6	0.5	0.1	5.6	2.6	3.5	1.3	1.3
Grant element of new external borrowing (%)	15.5	20.3	23.0	23.0	17.4	38.1	35.5	42.0	42.0	35.2
Balance of Payments										
Exports of goods and services	28.0	26.9	52.6	51.5	37.5	21.7	20.6	35.1	82.8	59.8
Imports of goods and services	-73.1	-67.8	-49.0	-46.8	-40.3	-39.9	-39.6	-52.1	-72.6	-55.8
Current account (including official transfers)	-46.9	-42.1	-7.0	-5.8	-10.5	-18.1	-18.0	-18.8	-11.5	-10.5
Foreign direct investment	41.8	35.8	3.6	3.9	4.6	5.6	10.1	12.1	7.0	4.6

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/] Includes publicly guaranteed external borrowing.

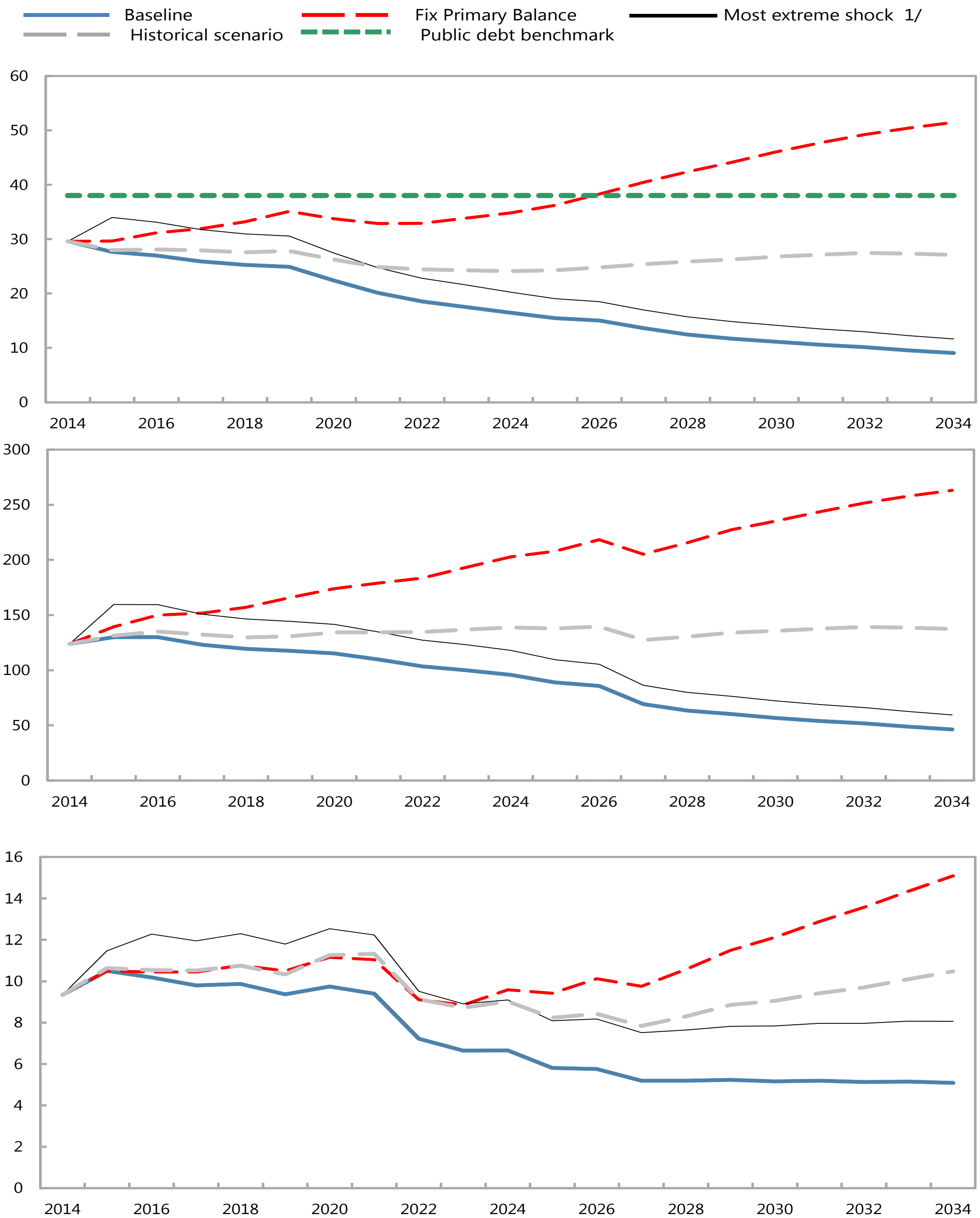
Figure 1. Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2014–2034[1/]



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 2024. 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 2. Indicators of Public Debt Under Alternative Scenarios, 2014–2034[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 2024.
2/ Revenues are defined inclusive of grants.

Table 3. External Debt Sustainability Framework, Baseline Scenario, 2011–2034[1/]

(Percent of GDP, unless otherwise indicated)

	Actual			Historical [6/]	Standard [6/]	Projections									
				Average	Deviation							2014-2019			2020-2034
	2011	2012	2013			2014	2015	2016	2017	2018	2019	Average	2024	2034	Average
External debt (nominal) 1/	**67.5**	**23.0**	**25.7**			**29.1**	**28.1**	**29.6**	**30.5**	**31.7**	**32.6**		**24.6**	**14.5**	
of which: public and publicly guaranteed (PPG)	67.5	23.0	25.7			29.1	28.1	29.6	30.5	31.7	32.6		24.6	14.5	
Change in external debt	-3.2	-44.5	2.7			3.4	-0.9	1.5	1.0	1.1	0.9		-1.2	-0.6	
Identified net debt-creating flows	10.2	8.2	15.5			12.0	6.8	5.9	1.9	2.7	4.3		0.6	2.6	
Non-interest current account deficit	**18.4**	**25.2**	**21.0**	**10.5**	**8.6**	**17.9**	**17.8**	**33.9**	**52.4**	**52.7**	**57.4**		**7.5**	**6.3**	8.4
Deficit in balance of goods and services	19.1	24.2	18.7			18.2	19.0	35.0	52.6	52.4	55.9		-7.1	-3.8	
Exports	31.5	29.8	24.7			21.7	20.6	19.4	20.4	19.8	19.3		60.4	42.8	
Imports	50.6	54.1	43.4			39.9	39.6	54.3	72.9	72.1	75.1		53.3	39.1	
Net current transfers (negative = inflow)	-8.5	-6.2	-4.3	-6.5	1.7	-5.9	-5.2	-4.8	-3.9	-3.8	-3.6		-2.2	-1.4	-2.0
of which: official	-2.2	-1.0	-0.4			-1.5	-1.1	-0.3	-0.4	-0.3	-0.3		-0.2	-0.2	
Other current account flows (negative = net inflow)	7.8	7.1	6.6			5.6	4.0	3.6	3.8	4.1	5.1		16.8	11.6	
Net FDI (negative = inflow)	**-6.5**	**-11.7**	**-3.4**	**-5.3**	**3.1**	**-5.6**	**-10.1**	**-27.0**	**-49.1**	**-49.2**	**-52.2**		**-5.9**	**-3.3**	-5.4
Endogenous debt dynamics 2/	**-1.7**	**-5.4**	**-2.0**			**-0.4**	**-0.8**	**-1.0**	**-1.4**	**-0.8**	**-0.9**		**-0.9**	**-0.4**	
Contribution from nominal interest rate	1.0	0.7	0.2			0.2	0.3	0.3	0.4	0.4	0.4		0.3	0.2	
Contribution from real GDP growth	-2.7	-2.3	-0.5			-0.6	-1.1	-1.3	-1.8	-1.2	-1.3		-1.3	-0.6	
Contribution from price and exchange rate changes	0.0	-3.7	-1.7			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-13.4**	**-52.7**	**-12.8**			**-8.6**	**-7.7**	**-4.5**	**-0.9**	**-1.6**	**-3.4**		**-1.8**	**-3.2**	
of which: exceptional financing	-1.6	-39.9	0.0			-1.9	-0.4	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	12.7			15.2	15.2	16.1	16.6	17.1	17.8		14.0	8.4	
In percent of exports	...	...	51.3			70.2	73.5	83.2	81.5	86.8	92.5		23.2	19.7	
PV of PPG external debt	**...**	**...**	**12.7**			**15.2**	**15.2**	**16.1**	**16.6**	**17.1**	**17.8**		**14.0**	**8.4**	
In percent of exports	**...**	**...**	**51.3**			**70.2**	**73.5**	**83.2**	**81.5**	**86.8**	**92.5**		**23.2**	**19.7**	
In percent of government revenues	**...**	**...**	**69.1**			**81.6**	**78.9**	**82.3**	**83.4**	**85.4**	**88.5**		**84.8**	**43.8**	
Debt service-to-exports ratio (in percent)	**13.7**	**15.2**	**3.9**			**3.3**	**4.3**	**5.2**	**5.1**	**5.9**	**5.9**		**1.4**	**2.2**	
PPG debt service-to-exports ratio (in percent)	**13.7**	**15.2**	**3.9**			**3.3**	**4.3**	**5.2**	**5.1**	**5.9**	**5.9**		**1.4**	**2.2**	
PPG debt service-to-revenue ratio (in percent)	**25.8**	**22.5**	**5.2**			**3.9**	**4.6**	**5.2**	**5.2**	**5.8**	**5.7**		**5.2**	**4.9**	
Total gross financing need (Billions of U.S. dollars)	0.8	1.0	1.2			0.9	0.6	0.6	0.4	0.4	0.6		0.4	1.2	
Non-interest current account deficit that stabilizes debt ratio	21.6	69.7	18.3			14.5	18.7	32.4	51.4	51.6	56.5		8.7	7.0	
Key macroeconomic assumptions															
Real GDP growth (in percent)	3.9	3.8	2.3	2.6	1.4	2.4	4.1	5.0	6.5	4.1	4.2	4.4	5.4	4.5	5.1
GDP deflator in US dollar terms (change in percent)	0.0	5.9	8.1	4.4	15.4	6.1	5.8	3.4	1.5	1.8	1.0	3.3	3.5	1.4	2.7
Effective interest rate (percent) 5/	1.4	1.2	0.8	1.4	0.3	1.0	1.0	1.2	1.3	1.3	1.3	1.2	1.4	1.5	1.4
Growth of exports of G&S (US dollar terms, in percent)	12.3	4.3	-8.3	6.4	13.6	-4.7	4.7	2.0	13.8	2.7	2.7	3.5	14.1	-2.1	16.2
Growth of imports of G&S (US dollar terms, in percent)	48.8	17.6	-11.2	13.6	19.3	-0.1	9.3	49.0	45.1	4.8	9.6	19.6	7.3	-4.7	3.9
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	38.1	35.5	43.4	48.4	48.4	42.0	42.6	42.0	35.2	38.7
Government revenues (excluding grants, in percent of GDP)	16.8	20.1	18.4			18.7	19.2	19.6	19.9	20.1	20.1		16.5	19.3	18.3
Aid flows (in Billions of US dollars) 7/	0.2	0.2	0.1			0.5	0.2	0.3	0.4	0.4	0.3		0.3	0.3	
of which: Grants	0.2	0.2	0.1			0.4	0.2	0.1	0.1	0.1	0.1		0.1	0.1	
of which: Concessional loans	0.0	0.0	0.0			0.1	0.1	0.2	0.3	0.3	0.2		0.2	0.2	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			7.4	3.0	2.9	3.0	2.8	2.4		1.2	0.6	1.0
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			68.0	64.0	56.4	60.2	60.3	56.1		59.3	50.1	77.1
Memorandum items:															
Nominal GDP (Billions of US dollars)	5.1	5.6	6.2			6.8	7.5	8.1	8.8	9.3	9.8		17.3	30.7	
Nominal dollar GDP growth	4.0	9.9	10.6			8.7	10.1	8.6	8.1	6.0	5.2	7.8	9.0	6.0	8.0
PV of PPG external debt (in Billions of US dollars)			0.8			1.0	1.1	1.3	1.4	1.6	1.7		2.4	2.5	
(PVt-PVt-1)/GDPt-1 (in percent)						3.7	1.6	2.1	1.8	1.5	1.6	2.0	0.7	0.1	0.4
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)	...	...	12.7			15.2	15.2	16.1	16.6	17.1	17.8		14.0	8.4	
PV of PPG external debt (in percent of exports + remittances)	...	...	51.3			70.2	73.5	83.2	81.5	86.8	92.5		23.2	19.7	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	3.9			3.3	4.3	5.2	5.1	5.9	5.9		1.4	2.2	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) 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 4. Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2014–2034

(Percent)

	Projections							
	2014	2015	2016	2017	2018	2019	**2024**	2034
PV of debt-to GDP ratio								
Baseline	15	15	16	17	17	18	**14**	8
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	15	14	14	16	17	18	**26**	25
A2. New public sector loans on less favorable terms in 2014-2034 2	15	16	17	19	20	22	**19**	15
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	15	15	17	17	18	19	**15**	9
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	15	16	20	20	20	21	**16**	9
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	15	18	22	22	23	24	**19**	11
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	15	20	37	36	37	37	**26**	13
B5. Combination of B1-B4 using one-half standard deviation shocks	15	22	45	45	45	46	**32**	16
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	15	21	22	23	23	24	**19**	11
PV of debt-to-exports ratio								
Baseline	70	74	83	81	87	92	**23**	20
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	70	68	73	78	88	93	**42**	59
A2. New public sector loans on less favorable terms in 2014-2034 2	70	75	89	92	103	113	**32**	35
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	70	73	81	79	85	90	**23**	19
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	70	90	125	121	128	135	**33**	26
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	70	73	81	79	85	90	**23**	19
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	70	99	189	178	185	192	**43**	31
B5. Combination of B1-B4 using one-half standard deviation shocks	70	102	205	193	200	208	**47**	33
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	70	73	81	79	85	90	**23**	19
PV of debt-to-revenue ratio								
Baseline	82	79	82	83	85	89	**85**	44
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	82	73	72	80	87	89	**154**	131
A2. New public sector loans on less favorable terms in 2014-2034 2	82	81	88	94	101	108	**117**	78
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	82	80	86	87	89	92	**88**	45
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	82	86	100	100	101	104	**96**	47
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	82	93	111	112	115	119	**114**	59
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	82	106	187	183	182	184	**158**	68
B5. Combination of B1-B4 using one-half standard deviation shocks	82	117	232	226	225	227	**196**	84
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	82	109	112	114	116	120	**115**	59

Table 5. Public Sector Debt Sustainability Framework, Baseline Scenario, 2011–2034

(Percent of GDP, unless otherwise indicated)

	Actual			Average 5/	Standard Deviation 5/	Estimate	Projections								
	2011	2012	2013			2014	2015	2016	2017	2018	2019	2014-19 Average	2024	2034	2020-34 Average
Public sector debt 1/	77.8	35.4	39.5			43.4	40.6	40.4	39.8	39.8	39.6		27.0	15.1	
of which: foreign-currency denominated	67.5	23.0	25.7			29.1	28.1	29.6	30.5	31.7	32.6		24.6	14.5	
Change in public sector debt	-21.9	-42.3	4.0			4.0	-2.8	-0.2	-0.6	-0.1	-0.1		-1.7	-0.7	
Identified debt-creating flows	-10.4	-42.4	2.5			2.8	-1.6	-0.9	-0.9	-0.2	-0.4		-1.7	-0.1	
Primary deficit	-0.7	1.6	4.1	1.5	4.7	4.8	1.6	1.2	1.5	1.5	1.0	1.9	0.3	0.6	0.1
Revenue and grants	20.2	22.9	19.8			23.9	21.3	20.8	21.0	21.2	21.2		17.2	19.6	
of which: grants	3.4	2.7	1.5			5.2	2.1	1.2	1.1	1.1	1.0		0.6	0.3	
Primary (noninterest) expenditure	19.5	24.4	23.9			28.7	22.9	22.0	22.5	22.6	22.2		17.5	20.2	
Automatic debt dynamics	-8.1	-10.8	-1.6			-2.0	-3.2	-2.1	-2.4	-1.6	-1.4		-2.0	-0.7	
Contribution from interest rate/growth differential	-7.7	-3.4	-0.7			-1.1	-1.9	-2.0	-2.5	-1.7	-1.7		-1.7	-0.8	
of which: contribution from average real interest rate	-4.0	-0.5	0.1			-0.2	-0.2	-0.1	-0.1	-0.2	-0.1		-0.2	-0.1	
of which: contribution from real GDP growth	-3.7	-2.9	-0.8			-0.9	-1.7	-1.9	-2.5	-1.6	-1.6		-1.5	-0.7	
Contribution from real exchange rate depreciation	-0.4	-7.4	-0.9			-0.8	-1.3	-0.1	0.1	0.1	0.3		...	...	
Other identified debt-creating flows	-1.6	-33.2	0.0			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)	-1.6	-33.2	0.0			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	-11.4	0.0	1.5			1.2	-1.2	0.8	0.3	0.1	0.2		0.0	-0.7	
Other Sustainability Indicators															
PV of public sector debt	...	...	26.5			29.6	27.7	27.0	25.9	25.2	24.9		16.5	9.0	
of which: foreign-currency denominated	...	...	12.7			15.2	15.2	16.1	16.6	17.1	17.8		14.0	8.4	
of which: external	...	...	12.7			15.2	15.2	16.1	16.6	17.1	17.8		14.0	8.4	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	4.7	7.1	6.0			7.0	3.9	3.3	3.6	3.6	3.0		1.5	1.6	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	133.4			123.8	130.0	129.9	123.1	119.4	117.6		95.9	46.2	
PV of public sector debt-to-revenue ratio (in percent)	...	...	144.2			158.6	143.9	137.8	130.2	125.7	123.6		99.5	46.9	
of which: external 3/	...	...	69.1			81.6	78.9	82.3	83.4	85.4	88.5		84.8	43.8	
Debt service-to-revenue and grants ratio (in percent) 4/	26.9	24.3	9.8			9.3	10.5	10.2	9.8	9.9	9.4		6.7	5.1	
Debt service-to-revenue ratio (in percent) 4/	32.4	27.6	10.6			12.0	11.6	10.8	10.4	10.4	9.8		6.9	5.2	
Primary deficit that stabilizes the debt-to-GDP ratio	21.2	43.9	0.0			0.8	4.4	1.4	2.1	1.6	1.1		2.0	1.3	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	3.9	3.8	2.3	2.6	1.4	2.4	4.1	5.0	6.5	4.1	4.2	4.4	5.4	4.5	5.1
Average nominal interest rate on forex debt (in percent)	1.4	1.2	0.8	1.4	0.3	1.0	1.0	1.2	1.3	1.3	1.3	1.2	1.4	1.5	1.4
Average real interest rate on domestic debt (in percent)	-12.5	-1.2	2.1	-5.5	6.7	-0.1	0.3	0.5	1.2	0.9	1.7	0.7	-2.5	-0.4	-1.5
Real exchange rate depreciation (in percent, + indicates depreciation)	-0.5	-11.5	-4.1	0.6	19.7	-3.4	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	19.7	13.0	6.3	17.5	9.5	7.4	5.8	7.3	6.6	6.9	6.1	6.7	8.6	6.4	7.8
Growth of real primary spending (deflated by GDP deflator, in percent)	-26.7	29.9	0.2	0.4	13.4	22.9	-16.9	0.7	9.4	4.4	2.1	3.8	2.5	5.5	4.5
Grant element of new external borrowing (in percent)	...	...	...	...	...	38.1	35.5	43.4	48.4	48.4	42.0	42.6	42.0	35.2	...

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.

Table 6. Sensitivity Analysis for Key Indicators of Public Debt, 2014–2034
(Percent)

	Projections							
	2014	2015	2016	2017	2018	2019	2024	2034
PV of Debt-to-GDP Ratio								
Baseline	30	28	27	26	25	25	16	9
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	30	28	28	28	28	28	24	27
A2. Primary balance is unchanged from 2014	30	30	31	32	33	35	35	51
A3. Permanently lower GDP growth 1/	30	28	27	26	26	26	19	16
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2015-2016	30	29	30	30	30	30	23	21
B2. Primary balance is at historical average minus one standard deviations in 2015-2016	30	31	33	32	31	30	20	12
B3. Combination of B1-B2 using one half standard deviation shocks	30	30	31	31	31	31	23	19
B4. One-time 30 percent real depreciation in 2015	30	33	32	30	28	28	18	12
B5. 10 percent of GDP increase in other debt-creating flows in 2015	30	34	33	32	31	31	20	12
PV of Debt-to-Revenue Ratio 2/								
Baseline	124	130	130	123	119	118	96	46
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	124	131	135	132	130	131	139	137
A2. Primary balance is unchanged from 2014	124	139	150	152	157	166	203	263
A3. Permanently lower GDP growth 1/	124	131	131	125	122	122	108	82
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2015-2016	124	135	144	140	140	142	135	108
B2. Primary balance is at historical average minus one standard deviations in 2015-2016	124	144	159	150	146	144	118	60
B3. Combination of B1-B2 using one half standard deviation shocks	124	139	151	146	145	146	134	99
B4. One-time 30 percent real depreciation in 2015	124	157	153	141	135	131	107	62
B5. 10 percent of GDP increase in other debt-creating flows in 2015	124	160	159	151	146	144	118	59
Debt Service-to-Revenue Ratio 2/								
Baseline	9	10	10	10	10	9	7	5
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	9	11	11	11	11	10	9	10
A2. Primary balance is unchanged from 2014	9	10	10	10	11	11	10	15
A3. Permanently lower GDP growth 1/	9	11	10	10	10	10	7	7
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2015-2016	9	11	11	11	11	10	8	8
B2. Primary balance is at historical average minus one standard deviations in 2015-2016	9	10	11	11	11	10	8	6
B3. Combination of B1-B2 using one half standard deviation shocks	9	11	11	11	11	10	8	8
B4. One-time 30 percent real depreciation in 2015	9	11	12	12	12	12	9	8
B5. 10 percent of GDP increase in other debt-creating flows in 2015	9	10	11	11	11	10	8	6

Sources: Country authorities; and staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.

2/ Revenues are defined inclusive of grants.

Annex 4: Country Map