Document of
The World Bank

FOR OFFICIAL USE ONLY

Report 114539-GN

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT FOR A PROPOSED

DEVELOPMENT POLICY CREDIT

IN THE AMOUNT OF SDR 42.2 MILLION
(US$60 MILLION EQUIVALENT)

TO

THE REPUBLIC OF GUINEA

FOR THE

SECOND MACROECONOMIC AND FISCAL MANAGEMENT OPERATION

February 22, 2018

Macroeconomics, Trade and Investment Global Practice
Africa Region

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

CURRENCY EQUIVALENTS
(Exchange Rate Effective as of February 23, 2018)

Currency Unit	=	Guinean Francs (GNF)
US$1	=	GNF 9,090
US$1		SDR 0.70218309

ABBREVIATIONS AND ACRONYMS

ACGPMP	Administration and Control of Large Projects and Public Procurement (*Administration et Contrôle des Grands Projets et des Marchés Publics)*
AFD	French Development Agency *(Agence de Développement Français)*
ARMP	Regulatory Authority of Public Contracts *(Autorité de Régulation des Marchés Publics)*
BCRG	Central Bank of Guinea (*Banque Centrale de la République de Guinée)*
CPS	Country Partnership Strategy
DNMP	National Directorate of Public Procurement *(Direction Nationale des Marchés Publics)*
DNPEIP	Directorate of State Property and Private Investment at MEF *(Direction Nationale du Patrimoine de l'État et des Investissements Privés)*
DPF	Development Policy Financing Operation
DSA	Debt Sustainability Analysis
ECF	Extended Credit Facility
EDG	Guinea's Power Utility *(Electricité de Guinée)*
EIB	European Investment Bank
EITI	Extractive Industry Transparency Initiative
EPA	Public Administrative Establishments (*Etablissement Public Administratif)*
EPIC	Public Enterprises in the Industrial and Commercial Sector (*Etablissements Publics à Caractère Industriel et Commercial)*
ESMAP	Energy Sector Management Assistance Program
FDI	Foreign Direct Investment
FNDL	National Fund for Local Development (*Fonds National de Développement Local*)
FY	Fiscal Year
GDP	Gross Domestic Product
GNF	Guinean Franc (*Franc Guinéen*)
GRS	Grievance Redress Service
HIPC	Heavily Indebted Poor Countries
IDA	International Development Assocaition
IGF	General Finance Inspectorate (*Inspection Générale des Finances*)
IMF	International Monetary Fund
IsDB	Islamic Development Ban
kwh	Kilowatt Hour

MEF	Ministry of Economy and Finance (*Ministère de l'Economie et des Finances*)
MSC	Management Service Contract
MW	Megawatt
NPL	Non-performing Loan
PACV	Village Communities Support Project
PEFA	Public Expenditure and Financial Accountability
PER	Public Expenditure Review
PFM	Public Financial Management
PNDES	Plan for Economic and Social Development (*Plan National de Développement Économique et Social*)
PPG	Public and Publicly Guaranteed
PPP	Public-Private Partnership
SDR	Special Drawing Rights
SOEs	State-Owned Enterprises
VAT	Value Added Tax
WBG	World Bank Group

Regional Vice President:	Makhtar Diop
Country Director:	Soukeyna Kane
Senior Practice Director:	Carlos Felipe Jaramillo
Practice Manager:	Lars Christian Moller
Task Team Leaders:	Susana Sanchez, Abdoul Mijiyawa, and Emilia Skrok

REPUBLIC OF GUINEA
SECOND MACROECONOMIC AND FISCAL MANAGEMENT OPERATION
TABLE OF CONTENTS

This operation was prepared by a team led by Susana Sanchez (Senior Economist, TTL, GMTA2), Abdoul Mijiyawa (Economist, TTL, GMTA2), and Emilia Skrok (Senior Economist, TTL, GMTE1). The core team consists of: Ali Zafar (Senior Economist, former TTL, GFCS1), Ernest Sergenti (Senior Economist, GMTA2), Alpha Bah (Senior Procurement Specialist, GGODR), Boubacar Bocoum (Lead Mining Specialist, GEEX2), Yussuf Uwamahoro (Senior Energy Specialist, GEE07), Christopher H. Herbst (Senior Health Specialist, GNH05), Ibrahim Magazi (Senior Health Specialist, GHN13), Assane Dieng (Education Specialist, GED07), Kirsten Majgaard (Senior Economist, GED07), Shobhana Sosale (Senior Education Specialist, GED07), Marc Navelet (Senior Transport Specialist, GTI08), Federico Antoniazzi (Economist, GTI08), anye Abok (Transport Specialist, GTI08), (Nicolas Perrin (Senior Social Development Specialist, GSU01), Ana Cristina Hirata Barros (Senior Financial Management Specialist, GGOFR), Henri Fortin (Lead Financial Management Specialist, GG021), Pascal Frerejacque (Senior Operations Officer, GGOFR), Maude Valembrun (Program Assistant, GMTA2), Micky Ananth (Operations Analyst, GMTA2), Kadidiatou Bah (Program Assistant, AFMGN). Frank Fariello (Senior Counsel, LEGAM), Issa Thiam (Financial Officer, WFALA) and Faly Diallo (Financial Officer, WFALA) worked closely with the team. Overall guidance was provided by Lars Christian Moller (Practice Manager, GMTA2), Jose Lopez Calix (Program Leader, AFCW3), and Christine Richaud (Lead Economist, GMTA2). The team benefited from the support of Soukeyna Kane (Country Director, AFCW3), Rachidi Radji (Country Manager, AFMGN), Paola Ridolfi (former Country Program Coordinator, AFCML), and Michael Hamaide (Country Program Coordinator, AFCML).

SUMMARY OF PROPOSED CREDIT AND PROGRAM

REPUBLIC OF GUINEA

SECOND MACROECONOMIC AND FISCAL MANAGEMENT OPERATION

Borrower	Republic of Guinea			
Implementing Agency	Ministry of Economy and Finance (MEF)			
Financing Data	IDA Terms: Credit (38-year maturity and 6-year grace period) Amount: US$60 million equivalent			
Operation Type	Second and final operation of a programmatic series of two development policy financings (DPFs), single-tranche disbursement.			
Pillars and Program Development Objectives	The program development objectives are to: (i) enhance the delivery of key services in rural areas; (ii) strengthen fiscal management; and (iii) strengthen the operational performance of the power sector. The program is articulated around three main pillars aligned to these objectives.			
Results Indicators		**Baseline Dec 2015**	**Progress Dec 2016**	**Target Dec 2018**
	Pillar I: Enhance the Delivery of Key Services in Rural Areas			
	Public health workers working in posts outside Conakry as verified by the HR monitoring system of the Ministry of Health (number)	4,388	8,025	Above 8,025
	Government paid teachers in primary and secondary education in rural areas as verified by the HR monitoring system of the Ministry of National Education and Literacy (number)	14,300	16,540	Above 16,540
	Rural roads rehabilitated per year (km)	56	66	200
	Municipalities that received transfers from FNDL (number)	0	0	114
	Municipalities with appropriate governance framework for managing FODELs' resources (number)	0	0	148
	Pillar II: Strengthen Fiscal Management			
	VAT revenue (% of GDP)	2.7	3.0	3.2
	A comprehensive report on SOEs (*sociétés publiques, mixte, et sociétés à participation publique*) is updated on an annual basis and made available to the public.	No	No	Yes
	Single source contracts (% of total value of public contracts, 2-year rolling average)	37	61[1]	30
	Revenue collected due to IGF's audits (billion GNF)	0	22.5	50
	Mining companies participating in EITI process (number)	27	350	400
	Pillar III: Strengthen the Operational Performance of the Power Sector			
	Collection rate of electricity bills (%)	60	79	85
	Technical and commercial losses (%)	40	35	30
Overall risks rating	Substantial			
Climate and Disaster Risks	*There are no short and long-term climate and disaster risks relevant to the operation (as identified as part of the SORT environmental and social risk rating).*			
Operation ID	P161796			

[1] It includes contract values up to November 2017.

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

1. INTRODUCTION AND COUNTRY CONTEXT

1. **This program document proposes a second and final operation in a programmatic series of Development Policy Financing Operations (DPFs) designed to support fiscal and structural reforms in Guinea.** The proposed second Macroeconomic and Fiscal Management Operation (DPF2) is a single-tranche credit in the amount of US$60 million equivalent, provided on standard IDA conditions. This DPF supports reforms to: (i) enhance the delivery of key services in rural areas; (ii) strengthen fiscal management; and (iii) strengthen the operational performance of the power sector. The First Macroeconomic and Fiscal Management Operation (P156629) (US$40 million equivalent), which supported post-Ebola recovery, was approved by the Board on June 17, 2016. The proposed program is consistent with the World Bank Group (WBG) Country Partnership Strategy (CPS) for the period FY14-17, particularly with the pillars of improving governance and service delivery and stimulating growth and economic diversification, and the forthcoming Systematic Country Diagnostic. The program is also consistent with the forthcoming FY18-21 Country Partnership Framework (CPF), which is under preparation and will be presented to the Board in May 2018, particularly with the focus areas of human development and public accountability, fiscal management, and protection of natural assets.

2. **Guinea is endowed with considerable natural resources, but remains one of the poorest and least competitive countries in the world following the 2014-2015 Ebola outbreak.** The country has iron ore, bauxite, gold and diamonds. Mining is one of the main drivers of the economy together with agriculture. Per capita growth of gross domestic product (GDP) is very low, averaging 0.6 percent during 1998-2016. It amounted to only US$508 in 2016, compared to an average of US$1,450 for the Sub-Saharan Africa region. Poverty stagnated at around 55 percent for the period between 2002 and 2012, and simulations using the 2014 census suggest a likely increase in poverty to nearly 58 percent in 2014.[2] In terms of the Human Development Index (HDI), Guinea ranked 183 out of 188 countries in 2015. Life expectancy at birth is 59.2 years and mean years of schooling is only 2.6 years. Access to basic services is low, with a small share of the population having electricity (28 percent) and improved sanitation (20 percent). Gender inequality is a challenge, with only 40 percent of girls enrolled in secondary education (against 50 percent for boys). The 2017-2018 Global Competitiveness Report ranked Guinea 119th out of 137 countries, with large gaps for the quality of institutions, infrastructure, health, education, and financial market development.

3. **The Government of Guinea recently approved a new five-year development plan for the period 2016-2020.** The National Plan for Economic and Social Development (*Plan National de Développement Économique et Social*, PNDES), which was approved by the Parliament in June 2017, aims at fostering higher and more inclusive growth during 2016–2020. The development plan is centered on: (i) a structural transformation and diversification of the economy through major infrastructure investments in energy, transport and agricultural mechanization; (ii) promoting good governance, including the quality of public expenditure; (iii) fostering human capital accumulation; and (iv) a sustainable management of natural resources.[3] Policy slippages, delays in structural reforms, and external vulnerabilities constitute the main risks to the success of the PNDES and Guinea's outlook as they could suppress medium-term growth and

[2] The National Institute of Statistics is carrying out a household survey that will provide new poverty estimates.

[3] The PNDES requires mobilizing external financing from donors and private investors. In response to a request by the government, the World Bank assisted with the coordination of a Consultative Group meeting, held in Paris in November 2017.

threaten debt sustainability. Such delays might arise from sociopolitical tensions caused by delayed local elections and from capacity and financial constraints that make it harder to complete planned investment projects, and potential fiscal slippages. By supporting critical policy reforms, the proposed DPF2 aims at supporting the PNDES and contributing to strengthen the policy mix for sustainable and inclusive growth.

4. **The macroeconomic policy framework for 2017–2020 is adequate for the proposed DPF.** The macroeconomic policies adopted in response to the Ebola outbreak facilitated the necessary adjustments and led to macroeconomic stabilization and growth recovery. Growth has rebounded, inflation has stayed in the single digits, fiscal imbalances have been reduced, and debt has been kept sustainable. The Government made progress in reforming the exchange rate mechanism, reducing financial sector vulnerabilities, and strengthening fiscal management. A widening external current deficit was financed largely with foreign direct investment. Given long-term balance of payments and development needs, policies are now geared to building resilience and promoting higher and broad-based growth. They involve building external buffers against shocks, solidifying the fiscal position, improving the management of sectors that drive growth, and preserving medium-term debt sustainability. The medium-term growth outlook is positive with solid growth and narrowing external imbalances.

5. **Despite some vulnerabilities, the risk of debt distress remains moderate.** External financing needs, caused by a substantial infrastructure program, will stay high and require careful management. This includes clearing arrears, securing a high level of concessional borrowing and close monitoring of debt vulnerabilities. A high rate of debt accumulation, averaging 3.5 percent year-on-year over 2017-2021, creates vulnerabilities. Nonetheless, under assumption of sound macroeconomic and debt management, Guinea will remain at moderate risk of debt distress. Such a positive medium-term outlook for Guinea could be affected by politics and reform fatigue complicating deficit reduction and diminishing benefits from investments. A new Extended Credit Facility (ECF) program with the International Monetary Fund (IMF) was approved on December 11, 2017 and will expire on December 10, 2020, providing an anchor for sound macro-fiscal management and a ceiling for non-concessional borrowing.

6. **The scope of the proposed operation has been expanded with respect to the original design.** It includes new measures to support government oversight of state-owned enterprises (SOEs) and improve the legal framework for roads' classification by incorporating rural roads as part of the classified road network, while deepening the reform agenda to improve fiscal management and the health, education, power, and mining sectors. The operation has been prepared in close coordination with development partners, including the IMF and the European Union. The PDOs and pillars have been slightly adjusted from DPF1 (see Section 4 for details) to the following: (i) enhance the delivery of key services in rural areas; (ii) strengthen fiscal management; and (iii) strengthen the operational performance of the power sector.

2. MACROECONOMIC POLICY FRAMEWORK

2.1 RECENT ECONOMIC DEVELOPMENTS

7. **The Guinean economy is recovering well from two recent major shocks: the Ebola epidemic in 2014-2015 and a decline in commodity prices in 2015.** After slowing in 2014–2015 to an average of about 3.6 percent, growth reached 6.6 percent in 2016 (based on new, revised national accounts data, see Box 1), supported by a recovery in mining and good agricultural performance[4], and a more reliable electricity

[4] According to the new series of GDP, in 2015, the service sector accounted for 55.6 percent of GDP, followed by the industry sector at 26.4 percent, including mining (10.7 percent), and the primary sector at 18 percent of GDP, dominated by agriculture (9.1 percent).

supply. The mining sector accounted for about half of that growth rate, supported by the expansion of bauxite and alumina production and intensified demand. China's demand for Guinea's natural resources increased because exports of minerals from China's main regional suppliers, Indonesia and Malaysia, had fallen. Despite the improved export performance, net exports continued to weigh on economic growth (Figure 1). In addition, higher economic activity in 2016 was supported by firmer household consumption and a rebound in private investment, the latter mostly financed by foreign savings. Gross capital formation jumped from 7.3 percent of GDP in 2015 to 25.2 percent in 2016. Despite the healthy recovery, there has been little progress on economic diversification, which continues to expose Guinea to negative external shocks and may threaten macroeconomic stability.

Box 1. Guinea: Revised the national accounts for 2012–2015

The macro framework presented in the program document is based on revised national accounts statistics. National accounts data for 2006–2015 have been substantially revised, resulting in an average upward adjustment of nominal GDP by 40 percent and affecting the main economic indicators for the period (Box Table 1). The revisions resulted from replacing the U.N. Systems of National Accounts 1968 with the 1993 SNA methodology. This change improved the statistical concepts and classifications and harmonized the methodology with international standards. Estimates for informal activity were improved, weights of the major economic sectors in GDP were adjusted, and the base year for the national accounts was changed from 2003 to 2006.

Box Table 1 Change in Key Macro indicators

	2012	**2013**	**2014**	**2015**
Old NA	Annual percentage change			
Real GDP growth	3.2	1.5	1.1	0.1
	Percent of GDP			
Overall fiscal balance	-3.6	-5.3	-4.2	-8.9
Current account balance	-26	-17.2	-17.6	-20.2
Total public debt	32.1	42.5	43.8	50.7
Revised NA	Annual percentage change			
Real GDP growth	5.9	3.9	3.7	3.5
	Percent of GDP			
Overall fiscal balance	-2.8	-3.9	-3.2	-6.9
Current account balance	-20.0	-12.5	-13.4	-15.4
Total public debt	24.4	31.3	33.9	39.8

Source: IMF, 2017

8. **Despite robust economic growth, inflationary pressures have been contained, in large part because monetary policy has been restrictive.** In 2016, average inflation was kept to 2015's 8.2 percent, despite a surge in imports, a higher value added tax (VAT) rate, and exchange rate depreciation. By year-end non-food inflation fell to 4 percent (year-on-year, y-o-y) and the decline has continued. This was an important achievement as at the beginning of 2016, the depreciation of the Guinean franc, caused by the reform of the exchange rate mechanism,[5] eased monetary conditions. Subsequently, monetary policy was tightened by raising the refinancing rate to 13.6 percent. Combined with the high reserve requirement, this reduced bank financing of both the Government and the private sector. Thus, after two years of large increases fueled by central bank guarantees, growth in credit to the private sector slowed to 3 percent in 2016 and became negative in the first quarter of 2017. To free up liquidity in the banking system, in March 2017 the central bank reduced reserve requirements from 18 to 16 percent, but the revision has done little to stimulate growth of credit to the private sector. The additional liquidity was absorbed by bank subscriptions of a GNF 500 billion government bond.

9. **Despite an exceptional surge in foreign direct investment (FDI)-related imports (which caused Guinea's current account deficit to double), international reserves increased slightly in 2016 and remain low.** The external current account deteriorated significantly, from about 15.4 percent of GDP in 2014–15

[5] The reform replaced a foreign exchange allocation system with a bilateral foreign exchange auction market (MEBD), allowing for greater exchange rate flexibility and reducing the differential between the official and the market exchange rates.

to 31.9 percent in 2016 – although this was largely financed by non-debt-creating inflows. From only 3 percent of GDP in 2015, FDI surged to 18.8 percent (Table 1), and at the same time short-term capital inflows increased by 7 percent of GDP. The increase in the current account deficit was driven by an increase in the trade deficit as higher investment-related imports more than offset improved terms of trade and exports. A 9 percent real effective depreciation of the Guinean franc provided some support to the country's competitiveness, but real and sustainable improvements in competitiveness will require a major effort to enhance nonprice factors and structural reforms. Indicators of Guinea's structural competitiveness are weak, having made almost no progress in recent years (the most recent Global Competitiveness Index ranked Guinea 117th out of 137 countries). In addition, international reserves are recovering but still slightly below comfortable levels. Reserves in months of imports did go up, from 1.5 in 2015 to 2.3 by the end of 2016 and 3.2 by the end-of 2017, still below the lower bound of the reserve adequacy recommended by the IMF program (3.3 months).

Table 1. Guinea's Key Macroeconomic Indicators

	2014	2015	2016	2017 Est.	2018	2019 Proj.	2020
Annual percentage change, unless otherwise indicated							
National Accounts and Prices							
GDP at constant prices	3.7	3.5	6.6	6.7	5.8	5.9	6.0
Mining	11.0	-4.0	33.5	13.7	7.5	10.9	8.9
Non-mining	2.8	4.5	3.4	5.6	5.5	5.0	5.5
Exports (US$ terms)	4.7	-18.5	55.0	30.0	19.3	16.6	8.3
Imports (US$ terms)	26.1	-6.7	102.1	2.5	3.2	-8.5	23.4
GDP deflator	2.8	2.8	8.5	7.8	7.7	7.8	7.6
Consumer prices (average)	9.7	8.2	8.2	8.5	8.2	8.0	7.9
Selected Monetary Accounts							
Credit to nongovernment sector	13.7	10.8	2.9	2.0	6.2	7.5	8.4
Broad money (M2)	12.3	20.3	9.9	10.5	14.0	14.0	15.0
Interest rate	9.8	11.5					
Percent of GDP, unless otherwise indicated							
Fiscal Accounts							
Total revenue and grants	17.0	14.9	16.2	17.0	18.4	18.6	19.1
Total expenditure and net lending	20.2	21.8	16.4	17.4	20.8	20.9	21.1
Overall budget balance	-3.2	-6.8	-0.1	-0.4	-2.5	-2.3	-2.0
Basic fiscal balance[1]	-5.0	-5.4	-0.7	0.6	0.6	0.9	1.1
Total public debt	33.4	39.4	40.9	40.4	45.1	46.7	46.5
External Sector							
Current account balance	-13.4	-15.4	-31.9	-24.4	-21.3	-11.2	-18.1
Goods and services balance	-10.7	-12.1	-31.5	-23.8	-17.7	-6.1	-12.9
Foreign direct investment	0.8	3.0	18.8	16.2	12.7	8.1	15.4
Gross reserves (US$ millions, EOP*)	752	461	594	680	915	1133	1321
In months of next year's imports)	3.7	1.5	2.3	2.5	3.2	3.5	3.8
Terms of trade (percentage change)	5.5	10.1	7.1	-3.2	6.0	6.1	5.9
LCU per US dollar (avg.)	7,015	7,489	9,513				
External public debt	19.7	20.3	21.5	23.0	30.8	34.6	36.4
Nominal GDP (GNF billions)	61,664	65,627	75,943	87,355	99,558	113,630	129,548

Note: EOP= end-of-period;

Source: International Monetary Fund, World Bank estimates and projections as of November 17, 2017.

[1] Revenue minus expenditure excluding interest on external debt and foreign-financed investment.

10. **Capitalization of the banking sector has improved but bank balance sheets are still being tested by high nonperforming loans (NPLs).** At the end of 2016, the ratio of total bank regulatory capital to risk-weighted assets (17.9 percent) was almost 1.5 pp higher than a year earlier, and, although at the end of 2016 six banks were not in compliance, now that is only the case for one small bank. However, the rise in NPLs from 6 percent in 2015 to 9.4 percent for 2016 is weighing on bank balance sheets and credit growth.

Consequently, provisioning for NPLs doubled, with net provisions-to-capital increasing from 6.8 percent in 2015 to 14.7 percent in 2016. The increase in NPLs reflects both the rescheduling of loans for public infrastructure projects that the central bank had guaranteed in 2014–2015 and the difficulties importers were having after the 2016 depreciation in repaying loans previously contracted in foreign currencies.

11. **To keep the economy on an even keel and debt sustainable, in 2016 the authorities undertook a major fiscal consolidation.** The overall deficit was reduced from 6.8 percent of GDP in 2015 to just 0.1 percent in 2016, and the basic deficit contracted from 5.4 percent of GDP in 2015 to 0.7 percent of GDP in 2016. Expenditure cuts dominated the adjustment. Capital spending dropped most, by 2.8 percent of GDP as external financing fell. Current spending went down by 2.6 percent of GDP as subsidies (except those to the electricity utility) were cut, as was spending on goods and services. However, the Government worked hard to protect pro-poor spending, as evidenced by the high share of health support in the national budget. Tax revenues increased by 1.3 percent of GDP, a result of stronger GDP growth, new tax policy measures, and reinforced tax controls. Among the tax policy changes, which gave priority to indirect taxes, were a temporary increase in the VAT rate from 18 to 20 percent (reversed in early 2017), a hike in the assessed value of imported used vehicles, a rise in excise taxes on alcohol and tobacco, and a new tax on phone communications (ICT).

12. **As a result, after surging in 2013–2015, overall public debt stabilized at about 40 percent of GDP in 2016.** Guinea's total debt had dropped from 58.1 percent of GDP in 2011 to 24.4 percent in 2012 but rose again in 2013–2015 to 40 percent. Since reaching the completion point of the Heavily Indebted Poor Countries (HIPC) Initiative in 2012, the Government has used the borrowing space to finance large investments in roads and energy, such as the Kaleta hydroelectric dam, which has gradually pushed up its debt stock. Guarantees by the central bank in 2014–2015 to local and foreign banks to pre-finance public investment projects have also increased the debt. In 2016, total public debt amounted to US$3.6 billion (42.9 percent of GDP), of which US$1.8 billion was public and publicly guaranteed (PPG) external debt[6] (see Table 2), and US$1.7 billion PPG domestic debt. More than half of the PPG external debt (about 12 percent of GDP) was due to official bilateral creditors, mostly to non-Paris Club creditors. In 2016, the debt-to-GDP ratio was stabilized because of the decline in PPG domestic debt as the central bank settled some guarantees it had issued, though that was offset by an increase in PPG external debt.

Table 2. Composition of External Debt, 2016.

	US$ (bn)	**% of Debt**	**% of GDP**
Monetary authorities	0	0	0
General government	1.82	100	21.5
Multilateral creditors	*0.78*	*42.7*	*9.2*
Official creditors	*0.98*	*53.7*	*11.6*
Commercial creditors	*0.06*	*3.3*	*0.7*
Banks	0	0	0
Other sectors	0	0	0
Total external debt	1.82	100	21.5
Short term	0	0	0
Long term	1.82	100	21.5
Memo			
Arrears	*0.15*		*1.7*

Source: Guinean authorities and IMF calculations as of November 2017.

13. **Debt management has been improving**. The *Manual of Procedures for Debt Management* was finalized in December 2015. Meanwhile, the capacity of the Debt Directorate for analyzing debt sustainability has been enhanced. Debt sustainability has been supported by continued government

[6] Starting in 2014, external and domestic PPG debt includes guarantees issued by the Guinean Central Bank (BCRG) to local and foreign banks to provide commercial loans to private sector operators to pre-finance the execution of public works. Notably, a guarantee issued to an external creditor in foreign currency, increased the stock of public and publicly-guaranteed external debt by US$72 million in 2014.

efforts to give priority to concessional external loans and grants. The weighted average grant element of loans signed in 2014–2015 was above 40 percent. In 2015, the minimum grant element was below 35 percent because of the loan for the Kaleta project. In addition, the Guinean authorities are committed to resolve outstanding arrears and are negotiating with creditors. At the end of 2016, arrears to external creditors amounted to about 1.7 percent of GDP, mainly owed to non-Paris Club official bilateral creditors and commercial creditors.

Table 3. Guinea's Main Fiscal Indicators, 2014 – 2020, Percent of GDP

	2015	**2016**	**2017**	**2018**	**2019**	**2020**
			Est.		Proj.	
Total revenue and grants	14.9	16.2	17.0	18.4	18.6	19.1
Revenue	13.7	15.0	15.4	16.2	17.1	17.8
Tax revenue	13.1	14.4	14.8	15.5	16.4	17.1
Mining sector	2.4	2.2	2.9	2.9	2.9	3.0
Direct taxes	2.1	2.5	3.0	3.0	3.3	3.5
Indirect taxes	8.6	9.7	8.9	9.6	10.2	10.7
Taxes on goods and services	5.8	7.0	6.2	6.4	6.7	6.9
Taxes on international trade	2.8	2.7	2.7	3.2	3.5	3.7
Non-tax revenue	0.6	0.6	0.7	0.7	0.7	0.7
Grants	1.2	1.2	1.6	2.2	1.5	1.3
Expenditures and net lending	21.8	16.4	17.40	20.8	20.9	21.1
Current expenditures	14.1	11.5	12.5	13.0	12.3	12.3
Wages and salaries	4.1	3.9	3.9	4.1	4.2	4.2
Goods and services	5.0	3.6	3.6	3.9	3.7	3.7
Subsides and transfers	4.1	2.9	3.7	3.7	3.4	3.4
Interest on debt	0.8	1.1	1.3	1.3	1.1	1.0
Capital expenditure	7.6	4.8	4.9	7.8	8.5	8.8
Domestically financed	5.1	4.5	2.7	3.0	4.1	4.7
Externally financed	2.5	0.4	2.2	4.8	4.4	4.1
Basic fiscal balance	-5.4	-0.7	0.6	0.6	0.9	1.1
Overall balance						
Excluding grants	-8.1	-1.4	-2.0	-4.6	-3.8	-3.3
Including grants	-6.9	-0.1	-0.4	-2.5	-2.3	-2.0
Financing	6.9	0.1	0.4	2.5	2.3	2.0
Domestic Financing	4.6	0.4	-0.7	-0.7	-0.8	-0.7
External Financing	2.2	-0.3	1.1	3.2	3.1	2.7

Source: IMF authorities as of November 2017.

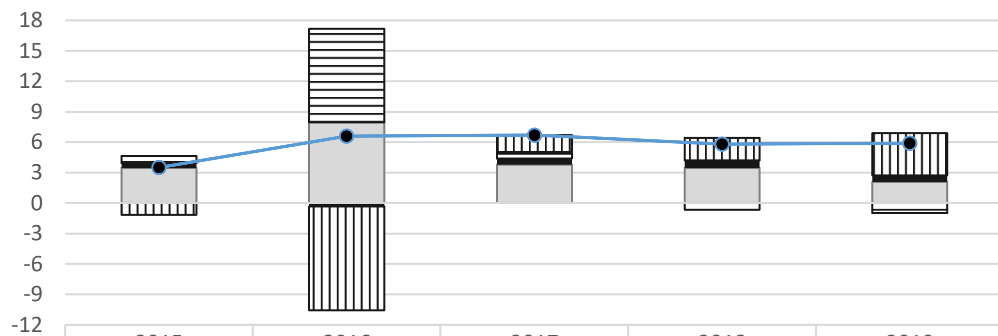
2.2 MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

14. **The medium-term growth outlook looks positive, with favorable GDP growth prospects and narrowing external imbalances**. Over the medium-term growth is expected to stabilize at 6 percent, supported by a more balanced growth pattern, due to a steady improvement in net exports and some moderation of domestic demand. While mining will continue to drive growth over the medium term[7], improved infrastructure will support diversifying sources of growth, notably agriculture. Some rebalancing of growth is already underway in 2017, with non-mining GDP accelerating from 3.4 percent in 2016 to

[7] Total investment in bauxite and alumina production and associated infrastructure is expected to reach about US$5.4 billion in 2017–2020 (15 percent of GDP, cumulative for the period). The country's main bauxite company, Guinea Bauxite Company (*Compagnie de Bauxite de Guinée, CBG*) is projected to expand its activities. The Mining Company of Boké (*Société Minière de Boké, SMB*) is constructing a second port for exporting its products. The takeover agreement of Friguia ACG (Alumina Company of Guinea) is also expected to promote mining production. On average, between 2017 and 2021 mining could contribute as much as 2 pp to growth if production capacity is maximized

around 5.6 percent in 2017. In particular, the construction sector is expected to grow strongly on the back of increased public infrastructure investment. The growth of the agriculture sector will also be strong, supported by productivity gains in agriculture, resulting from better use of inputs and farming techniques as well as positive agricultural value chains developments. On the demand side, domestic demand, especially private consumption, is likely to remain the main growth driver in 2017 but exports are projected to increase robustly due to increased bauxite and gold exports, turning the contribution of net trade to GDP growth positive.[8] More balanced growth will contribute to the narrowing of external imbalances, with the current account deficit declining from 24.4 percent of GDP in 2017 to around 18.1 percent in 2020.

Figure 1. Guinea - Real GDP growth (y-o-y, %) and contributions to GDP growth, 2015-2019



	2015	2016	2017	2018	2019
Net export	-1.2	-10.2	1.7	2.3	4.1
Investment	0.7	9.2	0.7	-0.6	-1.0
Public cons.	0.5	-0.3	0.6	0.7	0.6
Private cons.	3.5	8.0	3.8	3.5	2.1
GDP growth	3.5	6.6	6.7	5.8	5.9

Source: World Bank staff based on IMF projections as of November 2017.[9]

15. **Over the medium-term, consistent with the Economic Community of West African States (ECOWAS) convergence criteria, the objective of the Guinean monetary authorities is to keep control of inflation.** The Guinean Central Bank (BCRG) is expected to continue the successful inflation-reduction policy it began in 2011. In 2017, inflation was expected to remain moderate at about 8.5 percent and decline slightly over the medium term, based on prudent monetary policy and keeping the real interest rate positive. Monetary policy will also need to ensure that bank liquidity needs are met, given the slow pace of growth in deposits and the limited volume of interbank transactions. Finally keeping the exchange rate flexible is a priority to bring Guinea's international reserves up to 3.8 months of import coverage and build a comfortable buffer against shocks.

16. **Fiscal consolidation efforts are ramping up.** The authorities have moved ahead with corrective measures to compensate for slippages recorded in the first half of 2017, due to higher spending on electricity subsidies and lower revenues from the special tax on fuel. The electricity subsidies reached 0.7

[8] Contribution to growth from net exports was strongly negative in 2016 and 2015, due to the large import-content of investment and strong domestic demand.

[9] The forecast is based on two important assumptions: i) small but positive impact on growth of increase in government investment and ii) some crowing out of public investment on private investment (but the latter effect is mitigated by increased revenue mobilization and trade). For the methodology used and quantification, see: International Monetary Fund (IMF). 2017. Regional Economic Outlook: Sub-Saharan Africa: Chapter 3 and Chapter 1, Washington DC: IMF.

percent of GDP in the first half of this year, 0.2 percent of GDP higher than was budgeted for the year, because of higher electricity consumption, the costs of thermal generation, and payment of the 2016 arrears of the public electricity company (EDG). The suspension of the planned increase in electricity tariff for non-residential, large consumers was detrimental to achieving the objective of containing subsidies in 2017. In 2017, electricity subsidies were expected to be more than double the amount budgeted (1.3 percent of GDP against the allocated 0.5 percent). In addition, revenues from the Special Tax on Petroleum Products (TSPP) were eroded by downward rate adjustments to keep retail prices constant. To compensate for the slippages, the authorities have moved to mobilize additional revenue (***prior action #4 for DPF2***) and contain spending on goods and services. The lower execution of foreign-financed public investments, partially caused by cumbersome procurement processes, has also helped. A supplementary budget law, approved by Parliament in September 2017, translates into a deficit of about 0.4 percent of GDP, somewhat higher than originally planned. However, it is somewhat counterbalanced by a projected basic fiscal surplus of 0.6 of GDP, which would be a much better result than in 2016 (Table 3).

17. **To contain electricity subsidies, EDG has started implementing various measures with the support of the World Bank and IMF programs.** EDG adopted a management performance improvement plan (MPIP, ***prior action #7 for DPF2***) to improve commercial performance and service delivery through a combination of investments and management improvement plans. The recently approved IMF ECF program includes various structural benchmarks to reduce EDG subsidies, such as: (i) implementation of a 25 percent tariff increase for industrial and large consumers in December 2017; (ii) completion of a tariff study, including an impact analysis, expected by March 2018, to establish a cost-recovery tariff and mitigating measures to protect the most vulnerable consumers; and (iii) installation of electricity consumption smart meters in public buildings of the Prime Ministry and 15 ministries by June 2018 and throughout the central government and 100 percent of the rest of large consumers by February 2019.

18. **For the medium-term, fiscal policy will be directed to rebuilding fiscal space to finance growth-enhancing investment and priority social spending.** The basic fiscal surplus is projected to rise from 0.6 percent of GDP in 2017 to an average of 0.9 percent through 2020—the result of efforts to mobilize more revenue (***prior action #4 for DPF2***) and contain non-priority current expenditures. Tax revenues are projected to increase by more than 2 percentage points of GDP, from 14.8 percent of GDP in 2017 to 17.1 percent in 2020, owing to a higher tax intake from non-mining activities (paragraph 20). Accelerated mining activities will boost tax revenues by only 0.1 percentage points through 2020 (Table 3). Current spending will slightly decline from 12.5 percent of GDP in 2017 to 12.3 percent in 2020, though pro-poor social spending in areas like health and education will be protected from cuts, which is supported by the program. Generating more fiscal space would allow for public infrastructure investment to rise from 4.9 percent of GDP to about 9 percent in 2020. Measures to strengthen public procurement, supported by this operation, will facilitate the scaling-up and efficiency of public investments. The deficit will mainly be financed from external funding for projects but most is expected to be concessional.[10] Pace, composition of fiscal adjustments, and how the deficit is financed are key for medium- to long-term growth in Guinea. Delays in fiscal reforms such as failure to complete the cost-recovery program for EDG, reform of public procurement, strengthening investment management or improved governance of SOEs are main risks to fiscal strategy in the medium term and if not managed may result in a return to high pre-HPIC debt levels and slow growth.

19. **Reorientation toward pro-growth spending will be possible because subsidies and interest payments are being reduced**. Despite large budgetary transfers to EDG in 2017 (to compensate for below-cost-recovery tariffs, poor revenue collection, and serious inefficiencies), the policy measures outlined in

[10] Net government domestic financing is expected to be negative throughout 2017-2020, as the Government is expected to gradually repay domestic debt.

paragraph 17 will lead to a reduction in electricity subsidies to 0.6 percent of GDP in 2018–2020 as tariffs are raised and EDG's efficiency improves. In addition, better debt management will lower the costs of servicing debt. Finally, the Government is committed to level the growth of the wage bill at about 4 percent of GDP.

20. **Several tax policy and administration reforms are planned over the medium-term to help push up non-mining tax revenues by about 2.2 percent of GDP.** The Government has already adopted effective measures offsetting the reduction of the VAT rate at the end of 2016 from 20 to 18 percent. It has expanded the scope of VAT withholding,[11] improved collection of registration and stamp duties, launched tax audits for traders that have significantly higher imports than declared turnovers, and is improving taxpayer identification (***prior action #4 for DPF2)***. It also plans to further expand non-mining tax revenues by broadening the tax base (e.g., by rationalizing tax exemptions); simplifying the corporate tax regime; and reinforcing tax collection and controls (reducing delays in repaying VAT credits, paying down arrears, reinforcing the operational capacity of the National Directorate for Taxes to support direct and enhanced customs procedural efficiency). The proposed DPF2 facilitates improved tax compliance. Finally, once operational, the automatic fuel price adjustment mechanism will help to ensure both revenue collection and predictability.

21. **External financing needs are expected to decrease but stay high.** After reaching 30 percent of GDP in 2016, gross external financing needs are projected to decrease over the medium term to about 20 percent, or US$2.4billion (Table 4). The expected reduction of the current account deficit, caused by a gradual moderation of investment-related imports combined with strong mining exports, will help contain the financing requirements, but the need to build foreign reserves will act in the opposite direction. Mobilizing external resources to finance Guinea's large infrastructure gap will need to be carefully managed to contain debt vulnerabilities. FDI inflows and significant government external borrowing (mainly project loans) would provide the bulk of the financing. IMF, World Bank, and European Union financial support to Guinea is expected to help close the financing gap of US$271 million in 2017–2020. Although external borrowing is expected to rise in 2017–2018, it should fall thereafter. Over time, the share of multilateral concessional financing is expected to decline, reflecting lower access to concessional financing.

[11] Since 2016, government-owned companies, mining and oil and gas companies as well as mobile phone companies have been mandated to withhold 50 percent of the VAT invoiced by their suppliers. Subsequently, the Government has expanded its scope to companies whose shares are held by the Government (at least at 50 percent).

Table 4. External Financing Requirements and Sources, 2015-2020, (US$ million)

	2015	2016	2017	2018	2019	2020
		Prel.		Proj.		
GROSS FINANCING REQUIREMENTS	**1123**	**2958**	**2509**	**2507**	**1540**	**2419**
External current account deficit	1358	2789	2316	2212	1268	2130
Debt amortization	52	51	42	77	67	79
Gross reserves accumulation	-291	133	86	235	218	188
Other short-term capital flows	3	-15	65	-17	-14	22
AVAILABLE FINANCING	**1123**	**2957**	**2509**	**2507**	**1540**	**2419**
Foreign direct investment, net	685	2576	1540	1314	934	1834
Grants	45	93	126	150	140	149
Loans	223	22	721	932	660	554
Other flows	106	244	82	0	-265	-167
Budget support, EU, IMF	63	22	40	111	71	49

Source: Guinean authorities; and IMF projections as of November 2017.

22. **The latest debt sustainability analysis (DSA) of September 2017 concluded that Guinea's debt is sustainable and the risk of external debt distress is moderate.** However, debt vulnerabilities are expected to rise due to the large non-concessional loan the Government has contracted to finance the Souapiti dam project[12] and new infrastructure[13] (such as the rehabilitation of the RN1 national road and the Conakry urban road network, the construction of an electrical interconnection line, and the rehabilitation of a university). The baseline scenario assumes includes a US$650 non-concessional borrowing ceiling in addition to the financing of the Souapiti project of US$1.2 billion.[14] Under the baseline, all debt vulnerability indicators are below the policy-dependent threshold (Figure 2B). The PV-of-external PPG debt to GDP is below the threshold despite a high rate of external debt accumulation in the short run (the maximum PV of debt-to GDP ratio reaches 26.2 under the baseline scenario. Moreover, under two additional, plausible country-specific scenarios: (i) a weak policy implementation scenario and (ii) non-prudent phasing of investment projects scenario with frontloaded disbursements of the anticipated US$650 non-concessional loans, all indicators again remain below their policy dependent thresholds. However, only in the most extreme scenario all debt indicators breach their thresholds for a prolonged period. In this case, for example, the PV of total public debt-to-GDP ratio crosses the threshold value and reaches the maximum of 43 in 2019 (Figure 2A). The dynamic of public debt mirrors the path of external debt, which increases in the short run because debt is accumulating fast. Yet, domestic public debt will decrease over 2017-2020, due to planned debt amortization. The World Bank and IMF teams are working closely with the authorities to ensure sound macroeconomic policies and prudent debt management, with careful monitoring of new debt accumulation and a reliance on concessional borrowing that has powerful development impact.

[12] The overall estimated project cost is US$1.6 billion (18.5 percent of GDP) and expected to be financed through a combination of equity (25 percent) and debt (75 percent). For the debt portion, the Government is finalizing a US$1.2 billion non-concessional loan (17.3 percent of GDP) from China Eximbank. The grant element of the Souapiti loan is expected to be 29.7 percent. The terms of the loan are assumed to be: 20-year maturity with a 7-year grace period; 2 percent interest rate; 0.5 percent commitment fees and 0.5 percent management fees. Disbursements are expected over 2017-2020 as follows: US$184 million in 2017, US$544 million in 2018, US$265 million in 2019 and US$180 million in 2020.

[13] The Government plans to borrow an additional US$650 million in non-concessional loans from China Eximbank to be disbursed over 2018-2021. The grant element of these loans is expected to be approximately 25.9 percent.

[14] These loans, which were not included in the 2016 DSA, are consistent with the non-concessional borrowing ceiling under the IMF program.

23. **Policy slippages, delays in structural reforms, and external vulnerabilities constitute important risks to the outlook but remain manageable.** Delays in completing the structural reforms specified in Guinea's 2016–2020 PNDES could suppress medium-term growth and threaten debt sustainability. Such delays might arise from sociopolitical tensions caused by forthcoming local elections and from capacity and financial constraints that make it harder to complete planned investment projects. In addition, fiscal slippages (from a lower revenue base, weak prioritizing of public investment projects, or higher current expenditures) could lead to a recourse to inflationary financing from the BCRG, increased borrowing, and endanger medium-term debt sustainability. However, the 2017-2020 IMF ECF program approved in December 2017 is an important mitigation factor. It will both support reforms and catalyze additional donor funding. The projections presented in Table 1 underpin this program. The main external risks are: (i) a further growth slowdown in China and advanced economies (which could reduce investment in Guinea and demand for its mineral resources); (ii) tighter or more volatile global financial conditions, e.g. a surge in the US dollar (which could impair competitiveness and strain reserve buffers); and (iii) another decline in commodity prices. Given that Guinea is an undiversified commodity exporter, it is particularly vulnerable to external shocks, highlighting the need for holding adequate international reserves as a buffer (which is one of the structural benchmarks under the new IMF ECF program). However, new mining production coming on line faster than expected would support higher medium-term growth.[15]

24. **The macroeconomic policy framework for 2017–2020 is adequate for the proposed operation, with a track record of successful macroeconomic stabilization, a favorable medium-term outlook and a moderate risk of debt distress.** In particular:

- *Recent track record of successful macroeconomic stabilization.* The macroeconomic policies adopted in response to the Ebola outbreak facilitated the necessary adjustments and led to macroeconomic stabilization. Growth rebounded, inflation stayed in the single digits, fiscal imbalances were reduced, and debt was kept sustainable. The current account deficit deteriorated to 31.9 percent of GDP in 2016, but was financed by a surge in FDI in the mining sector. The Government made progress in reforming the exchange rate mechanism, reducing financial sector vulnerabilities, and strengthening fiscal management.

- *Favorable medium-term outlook*. Given long-term balance of payments and development needs, policies are now geared to building resilience and promoting higher and broad-based growth. They involve building external buffers against shocks, solidifying the fiscal position, better management of sectors that drive growth, and preserving medium-term debt sustainability. Over the medium term, growth is projected to stay close to 6 percent, supported by a strong performance in mining, construction and by productivity gains in agriculture. Inflation should remain moderate reflecting a prudent monetary policy. The twin deficits are to shrink. The government targets a basic fiscal surplus of 0.9 percent (average) during 2018–2020, while stepping up growth-supporting public investments and priority social spending. This outcome will result from mobilizing additional tax revenues and improving spending composition. A gradual moderation of investment-related imports combined with strong mining exports will result in a decline in the current account deficit.

- *A moderate risk of debt distress.* External financing needs, caused by a large infrastructure program, will stay high and require careful management (including clearing arrears and securing a high level of concessional borrowing). A high rate of debt accumulation creates vulnerabilities.

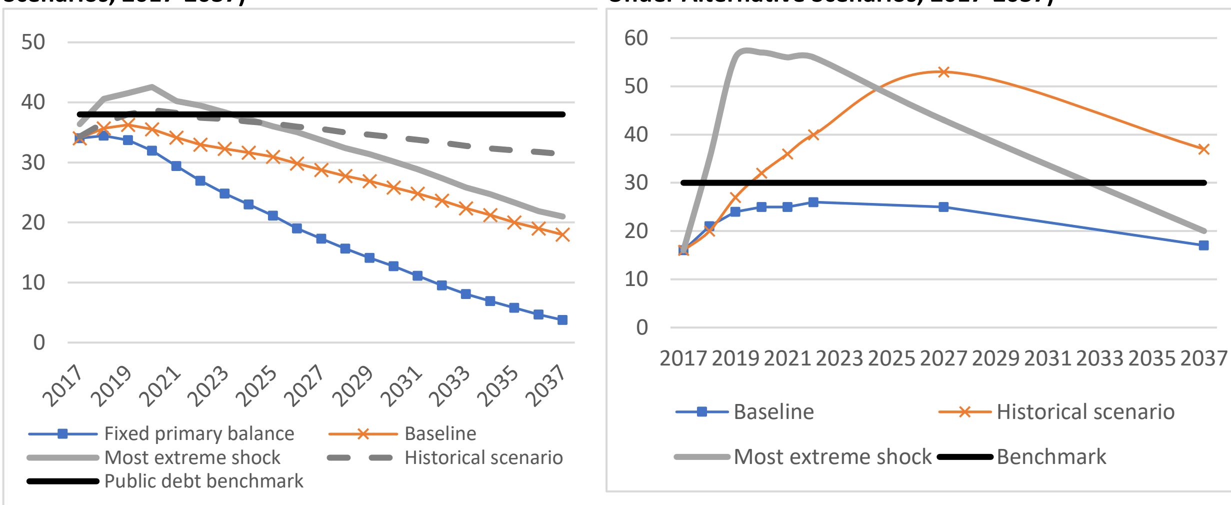
[15] The projected growth outlook is based on conservative assumptions: new mining capacity coming on stream only gradually; public investments lower than envisaged in the PNDES to account for capacity and financing constraints; and only gradual gains in agricultural productivity.

Nonetheless, under assumption of sound macroeconomic and debt management, Guinea remains at moderate risk of debt distress. This positive medium-term outlook for Guinea could be affected by politics and reform fatigue complicating deficit reduction and diminishing benefits from investments. The new ECF program approved by the IMF Board in December 2017 provides an anchor for the sound macro-fiscal management.

Figure 2 Debt Sustainability Analysis

A. Guinea Public Sector Debt Sustainability (Present Value of Total Public Debt to GDP Under Alternative Scenarios, 2017-2037)

B: Guinea External Debt Sustainability, (Present Value of External Public and Publicly Guaranteed Debt to GDP Under Alternative Scenarios, 2017-2037)



Source: IMF and World Bank. 2017. Debt Sustainability Analysis.

2.3 IMF RELATIONS

25. **The IMF Board approved a three-year new ECF in December 2017.** Guinea successfully completed for the first time a financial arrangement with the IMF in October 2016.[16] The follow-up new ECF program will support the authorities' policies and reforms towards maintaining macroeconomic stability and fostering higher and broad-based growth. The key objectives are: i) strengthening Guinea's macroeconomic resilience; ii) scaling-up public growth-supporting investments in infrastructure while preserving macroeconomic stability and medium-term debt sustainability; iii) strengthening social safety nets; and iv) promoting the development of the private sector. The World Bank team has collaborated closely with the IMF during the preparation of this operation.

3. THE GOVERNMENT'S PROGRAM

26. The Government's strategy (PNDES) is an integrator document, which builds upon the country's strategic development documents, including the post-Ebola recovery plan and the 2013 poverty reduction strategy paper. It is an ambitious agenda resuming with economic planning, and sets up the basis for economic transformation and diversification. The PNDES was prepared under the leadership of the

[16] During such ECF program, the government took steps to reinforce the resilience of the economy to a variety of shocks and addressed a breached of fiscal parameters of the program in 2015 due to BCRG guarantees for public investment contracts. The completed macroeconomic framework included a plan to reimburse the BCRG by 2018 and a coherent and well-financed plan for 2017–19.

Ministry of Planning and International Cooperation and in consultation with development partners, covering the period 2016-2020. The PNDES identified four strategic pillars: (i) a structural transformation and diversification of the economy through major infrastructure investments in energy, transport and agricultural mechanization; (ii) promoting good governance, including the quality of public expenditure; (iii) fostering human capital accumulation; and (iv) a sustainable management of natural resources. As such, the PNDES incorporates and expands upon several elements of the post-Ebola recovery plan, which focused on social sector support, economic recovery, infrastructure development, and governance support.[17] Thus, the PNDES is an ambitious vision of the Government to accelerate public investment and implement structural reforms to transform the Guinean economy to generate prosperity for current and future generation. It is a plan of about US$13 billion (almost 150 percent of 2017 GDP), expected to be financed as such: 30 percent by the national budget, 32 percent by development partners and 38 percent through Public-Private Partnerships.[18] To mobilize public and private resources for financing the plan, the Government organized a donor roundtable in November 2017 in Paris with support from the World Bank. The country got an overall pledge of US$21.7 billion, including US$7.7 billion from the private sector. The WBG has pledged about US$2.4 billion, including US$750 million from the International Finance Corporation (IFC).

4. THE PROPOSED OPERATION

4.1 LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

27. **The Program Development Objectives of the DPF series are to support the Government of Guinea's efforts to:** (i) enhance the delivery of key services in rural areas; (ii) strengthen fiscal management; and (iii) strengthen the operational performance of the power sector. These objectives are slightly different from those in the first operation to reflect more accurately the expected results of the operation and their alignment with the PNDES. The original objectives in the first operation in the series (DPF1) were to: (i) support post-Ebola recovery; (ii) improve public finances; and (iii) reduce the fiscal burden of the energy sector. The original objective (i) was changed to "enhance the delivery of key services in rural areas" to reflect the focus on rural areas, which is needed for poverty reduction and social sustainability of growth. The original objective (ii) was changed to "strengthen fiscal management" to better align the prior actions to the expected result that is reorientation of fiscal policy toward pro-growth spending while preserving fiscal sustainability. The original objective (iii) was changed to "strengthen the operational performance of the power sector" because the expected result of the associated prior actions is an improved management of the sector by focusing on improving revenues through better billing and collection rates.

28. **Another change to the series is the extension of the closing date.** The original closing date of December 2017 was very optimistic about the pace of implementation of policy reforms and achievement of results for a fragile country like Guinea. Weak implementation capacity resulted in delays with the adoption of some of the triggers envisioned in the first DPF of the series. Furthermore, some triggers were dropped, such as electricity tariff adjustments and fertilizer provision, and thus, other prior actions were negotiated with the authorities. Unsurprisingly, the preparation of DPF2 was delayed for several months and the new closing date is December 31, 2018.

[17] The Plan includes six major risks that could affect the implementation: (i) socio-political instability; (ii) weak national leadership; (iii) weak domestic resources mobilization; (iv) persisting deficit of capacity; (v) unfavorable regional and economic conditions; and (vi) climactic risks and humanitarian emergencies (such as the resurgence of Ebola and other epidemics).

[18] The Parliament adopted a new Public-Private Partnership in July 2017.

29. **The policies supported by the proposed operation are fully aligned with all of PNDES' pillars**. By enhancing service delivery in rural areas through the recruitment of additional teachers and health workers, the proposed operation contributes to human capital development (PNDES Pillar 3). Moreover, the proposed operation contributes to better public financial governance and inclusive growth by strengthening the governance of earmark fiscal revenues for local economic development (PNDES Pillars 1, 2, and 4). The strengthening in the management of the power sector contributes to better electricity services and to lower electricity subsidies in the medium-term (PNDES Pillars 2 and 4).

30. **The design and preparation of the proposed operation consider lessons learned over previous DPFs in Guinea and the World Bank's experience in fragile and low-income countries.** Experience shows that DPF can be an effective way to enhance governance in low-income countries. Specifically, with support in the context of DPF1, Guinea maintained its status as a compliant country of the Extractive Industries Transparency Initiative (EITI), which is critical for transparency in a resource-rich country. Another lesson is that DPFs should be one strategic tool of engagement for policy dialogue and broadening policy reforms. For example, in the context of DPF1, the audit of public procurement contracts approved between 2013 and mid-2015 highlighted severe dysfunctions in the public procurement system and provided the underlying analytics for evidence-based reforms of those systems. Another lesson is that close coordination with other development partners, such as the IMF and the European Union, provides additional support to the implementation of reforms. Finally, complementing a reform program with World Bank's investment project financing operations and technical assistance can be very effective in a fragile country to support the implementation of DPF's policy and institutional reforms.

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

31. **This second operation in the DPF series has expanded the scope of reforms and strengthened its pillars.** First, measures on rural roads' classification and financing have been added to the operation in Pillar I to improve access to markets by farmers. Second, measures on SOE reform have been included to increase government's oversight and transparency of this sector. Third, deepening of reforms in the electricity sector aimed to improve the efficiency and implementation of the existing performance management contract. The proposed operation has made several changes to the matrix relative to the original triggers under the previous operation, in support of the objectives of the program supported by the series. Annex 5 compares the triggers with prior actions in this operation and explains the rationale behind those changes. The status of the implementation of prior actions is shown in Annex 6.

Pillar I: Enhance the Delivery of Key Services in Rural Areas

32. **This pillar supports actions for enhanced service delivery by: (i) greater deployment of health care workers and teachers; (ii) improved legal framework for rural roads; and (iii) enhanced framework for the contribution of mining to local development.** Enhanced delivery of key public serviced is fundamental for poverty reduction and economic growth. Poverty reduction in Guinea has not materialized over the past decades, despite the abundant natural endowments of the country. Poor households are found to live mostly in rural areas and usually are engaged in agriculture and have less education. There are large disparities across regions in terms of economic development and poverty rates. The main drivers of poverty include lack of income generation opportunities, low access to infrastructure (including rural roads), high demographic growth, low human capital (education and health), and low use of farming inputs and techniques. In addition, volatile macroeconomic performance (affected by both external and domestic shocks) limits progress in poverty reduction in Guinea. Finally, developing the right skills will help ensure that the structural transformation follows the trajectory of the classical model where the manufacturing sector is the main beneficiary of labor migration.

Prior Action 1: *The Recipient, acting through its Ministry of Civil Services, has competitively selected and recruited health workers and teachers to increase the number government paid health workers outside Conakry by at least eighty (80) percent and teachers in rural areas by at least fifteen (15) percent since 2015 to reduce spatial disparities in service delivery.*

Health

33. **The Guinean health system suffers from underfunding and capacity constraints, resulting in poor outcomes and low access.** The country remains among the lowest performers in terms of health outcomes with very high maternal mortality and under-five mortality at 679 deaths and 100 deaths per 100,000 live births, respectively. Public health expenditures accounted for only 2.7 percent of GDP in 2014, which is almost half of the world average. In addition to its low levels, funding for health has been highly inequitable, largely benefitting urban centers like Conakry. About 17 percent of healthcare workers in the public sector are in rural areas, serving 62 percent of the population. Moreover, the number of new hospitals and clinics, either public or private, improved only marginally between 2006 and 2012, which suggests that access to health services have deteriorated.[19] Another bottleneck to seek health services in rural areas is the geographical distance between the place of living and health facilities. The average distance to health facilities in rural areas is 7.5 kilometers, substantially higher than in urban areas (1.4 kilometers). Most of the population depends on nursing assistants and community health workers, rather than physicians, nurses, or midwives. Finally, weak governance and public financial management (PFM) environment creates inefficiencies in public service delivery, affecting health outcomes in Guinea.[20]

34. **The Government remains committed to addressing the inadequacies of funding and staffing in the health sector.** The post-Ebola Recovery Plan adopted in 2015 recognized the importance of prioritizing service delivery, especially to people in rural areas. The plan envisioned the recruitment of additional health care workers, the rehabilitation and new construction of hospital and health centers, and the investments in medical equipment, medicines, and vaccines. To finance the plan, the budget allocation to the Ministry of Health increased from 3.5 percent of the total budget in 2015 to 4.8 percent in 2017, equivalent to a 55 percent cumulative increase during that period.

35. **On the supply side, an insufficient number of health workers, particularly in rural areas is a well-recognized bottleneck to service delivery**. Although the recruitment of health workers is constrained by lack of funding, the human resource challenge is compounded by the economic conditions in rural areas. Most health workers, even if deployed to rural areas, will not reallocate, continuing to stay in urban areas, especially in Conakry, while collecting their salaries. For them, the opportunity cost of working in rural areas is high given the low level of salaries and the limited economic opportunities to generate supplemental income in rural areas. To improve health outcomes in rural areas and reduce spatial disparities in service delivery, the Government recruited about new 3,700 health workers in December 2016 **(*prior action #1 for DPF2*)**, including doctors (708), health technicians (*Agent Technique de Santé*, 1,228), nurses (1,116), and midwives (512), among other types.[21] These workers, which were selected through a competitive process, have been assigned to health centers in provinces (*prefectures*) with only 3 percent in Conakry. The regions of Kankan and N'zérékoré, which have about 37 percent of public health posts and centers, received 37 percent of the recruited staff. Thus, the share of health workers outside

[19] At province (prefecture) level, Guinea has 1,113 Health Posts, 408 Health Centers, and 34 Municipal Medical Centers (data as of 2013, see World Bank. 2015. Public Expenditure Review in Health. Washington, DC**.**)

[20] The Primary Health Service Project (P147758) acknowledges the role of weak governance in service delivery, and thus one of its objectives is to strengthen supervision and management capacity for maternal and child health services.

[21] The Ministry of Health estimated the financial impact of hiring those additional workers on the wage bill, using estimates for the base salary, bonuses, and allowances of the different types of healthcare workers.

Conakry increased from 46 percent in 2015 to 65 percent in 2017, for a cumulative increase of 83 percent during that period.

36. **The recruitment process attracted applicants throughout the country and provided incentives to health care workers assigned to health centers outside Conakry**. To start, test centers were established throughout the country to attract candidates already living outside Conakry. Successful candidates were assigned to the locations where they took the test. Moreover, healthcare workers outside Conakry will receive a monthly bonus of at least 10 percent of their wages as an incentive to remain or reallocate to rural areas. The Ministry of Health, in collaboration with local government officials, has put in place a monitoring system at the district level to ensure that healthcare posts are providing services with their assigned staff. The first monitoring of the staff was done at the end of April 2017 to ensure that the staff is in the location where it was deployed. The directors of health in each of the prefecture prepared a monitoring report on the status of the health workers in July 2017. Based on the prefecture-level reports, the Ministry of Health is planning on-site visits to verify that health workers are in their corresponding locations and to take any administrative action. The Human Resource Department at the Ministry of Health is considering recruiting local non-governmental organizations (NGOs) to do this monitoring in the future. These measures are the first step towards a system with funded positions linked to the different facilities so that healthcare workers compete for positions in rural or urban locations.[22]

37. **Expected result**: The competitive recruitment of health workers is expected to increase the number of health workers outside Conakry, including in the rural areas, that are providing health services. A higher number of health workers is a necessary condition to improve service delivery in rural areas, which is needed to normalize service delivery after the Ebola crisis.[23] Given the duration of the DPF series, the focus on results is on improving the distribution of health workers towards the areas with higher healthcare needs. The expected result is that at least 8,025 public health workers are working outside Conakry as verified by the monitoring system of the Ministry of Health. This is an increase from 4,388 in 2015. The value of this indicator as of the end of December 2016 is 8,025 and it is expected that this number would not decline by the end of December 2018.

Education

38. **The education system suffers from weak outcomes, widespread geographical disparities, and inadequate financing**. In terms of outcomes, the youth literacy rate (15 – 24 years) reached 46 percent in 2014, about 30-percentage-points lower than the average for Sub-Saharan Africa. The net enrollment rates for primary and secondary education were 76 percent and 32 percent in 2014. Although the primary completion rate increased from 31 percent in 2000 to 62 percent in 2014, it is below the regional average in Sub-Saharan Africa (69 percent). There are large spatial disparities in educational outcomes between rural and urban areas. Rural areas have much lower levels of literacy and a much higher proportion of children who never attend school, particularly girls. Moreover, 70 percent of rural households do not have

[22] The Human Resource Department at the Ministry of Health is also considering recruiting local non-governmental organizations to carry out this monitoring. The Ministry of Health is designing a pilot to implement the rural pipeline approach in N'zérékoré. The rural pipeline approach recommends that trained health professionals should (i) be recruited in rural areas; (ii) be trained in rural areas; and (iii) be assigned to the areas where they reside. This approach has been tested in several countries (e.g., Vietnam, Senegal, Mali, and Côte d'Ivoire), showing that students residing in rural areas are more likely than their urban counterparts to remain in these areas.

[23] The 2016 project paper for the Post-Ebola Support Project (P158579) indicates that health service delivery is constrained by: insufficiently healthcare workers, shortages of supplies, limited opportunities of income generation of primary healthcare facilities in rural areas, limited availability of water points at health facilities, and weak capacity at the Ministry of Health. Moreover, weak governance in the health sector as evidenced by limited institutional capacity, weak PFM, large number of entities, lack of trust of the communities in the public health system, creates inefficiencies in service delivery.

at least one adult with primary education, substantially higher than in urban areas (22 percent). Public spending in education was about 3.2 percent of GDP in 2014, which is lower than the mean for Sub-Saharan Africa (4.6 percent) and low-income countries (4.2 percent). Relative to total government expenditures, the education sector received only 12 percent in 2014, again below the 17 percent average for Sub-Saharan Africa and low-income countries. With a growing school-age population, Guinea will continue to struggle to provide adequate funding for education. The 2015 Public Expenditure Review estimated that to serve the estimated additional population by 2020, funding for education would need to double or increase to the regional average, keeping the out-of-school youth rate at its 2012 level of 30 percent.

39. **Shortages of government paid teachers (civil servants and contractual teachers) are particularly acute in rural areas**.[24] For primary and secondary schools, only about 53 percent of government-paid teachers were deployed to rural areas in 2014/15, while most community teachers – recruited and paid by parents – were in rural schools (86 percent). This pattern of teacher distribution contributes to lowering school enrollments in rural areas because of the additional cost to families of community teachers, and may explain why rural households are more likely to report lack of teachers as a problem (14.2 percent) than their urban counterparts (3.9 percent) according to the 2012 household survey. Without community teachers, the number of students per teachers would have been 20 percent higher in rural areas (67) than in urban areas (55) for primary schools and three times higher for secondary schools in 2014/2015.

40. **To help reduce the deficit of teachers in rural areas, the Government ramped up recruitment of civil servant teachers (3,000 primary school teachers and 2,000 secondary school teachers).** Based on a competitive joint recruitment by the Ministry of National Education and Literacy and the Ministry of Civil Service, about new 5,000 teachers were selected and recruited (after a long delay) during the school year 2016/17. Applications were received in all administrative regions of Guinea, but with central government oversight and management of the process. The number of government-paid teachers in primary and secondary schools increased from 27,840 in the school year 2015/16 to 31,100 in 2016/17. Given that a portion of the newly recruited civil servant teachers were already working in schools as contractual teachers, and others were replacing retired teachers (attrition), the increase in government-paid teachers in schools was less than 5,000, but still significant (3,240 net increase) during that period. Sixty-five percent of the net increase of government-paid teachers was in rural areas.

41. **The Government has taken several actions to ensure that teachers will stay at the schools where they have been sent**. Some of these measures were: (i) initially paying teachers locally in cash instead of through a bank transfer, thereby forcing teachers to take up their post; (ii) requiring teachers to sign an agreement to stay in their positions for at least three years and to remain for at least 10 years in the education sector; and (iii) increasing the teacher's salary incentive for placement in remote areas. Other mechanisms are being put in place to improve teacher management, including procedures for the close monitoring by the Ministry of National Education and Literacy of the transfer of teachers between schools.

42. **The Government's recruitment of teachers is complementary to a set of other investments in primary and secondary education aiming to improve service delivery, as outlined in the country's education sector plan covering the period 2015-17**. Some of these are financed by the Pooled Fund for Basic Education (P148127) supervised by the World Bank and financed by the Global Partnership for Education, the French Agency for Development, UNICEF and the World Bank's Ebola Recovery and Reconstruction Trust Fund. With the support of the Pooled Fund, the Government is better able to provide basic school inputs and school grants, train teachers, support a series of pedagogical innovations, and

[24] Guinea has three types of teachers: civil servants (*fonctionnaires*), government contractors (*contractuels d'état*), and community teachers (*maîtres communautaires*).

monitor the performance of the education system. The Pooled Fund also supports the strengthening of the human resource management function of the Ministry of National Education and Literacy.

43. **Expected result**: The competitive recruitment of teachers is expected to increase the number of government paid teachers for primary and secondary education working in rural areas.[25] This DPF series expects that the number of teachers will not decrease by the end of 2018. Indicator: Government paid teachers in primary and secondary education in rural areas as verified by the HR monitoring system of the Ministry of National Education and Literacy (number). Baseline 2015: 14,300; Target 2018: at least 16,540.

Rural Roads

Prior Action 2: *The Recipient, acting through its President, has specified a definition for rural roads, assigned clear responsibilities for the classification and management of rural roads, and increased funding for rural roads by GNF 50 billion by (i) issuing decree to approve new road classification that includes rural roads; and (ii) allocating additional budget to rural roads under the 2017 Revised Budget Law.*

44. **The poor quality of infrastructure, including roads, is a binding constraint for growth and poverty reduction in Guinea as identified in the forthcoming Guinea's Systematic Country Diagnostic.** The 2017-2018 Global Competitiveness Report ranks Guinea at 125th out of 137 countries in terms of the quality of infrastructure. The forthcoming Systematic Country Diagnostic for Guinea reported that the quality of the road network has been deteriorating in the past 15 years. For example, the share of paved roads in good condition declined from 35 percent in 2002 to 16 percent in 2014. In addition, the share of paved roads out of the total length of the network is one of the lowest of the sub-region (25 percent vs. 59 percent in Sierra Leone, 41 percent in Ghana, 39 percent in Mali, 35 percent in Benin, and 34 percent in Burkina Faso). The poor condition of the Guinean road network hampers growth by increasing the cost of production and reducing connectivity of farmers to markets.

45. **Several factors contribute to the poor quality of roads conditions, such as insufficient financing, an ineffective public procurement system and poor monitoring and planning systems of roads quality**. The road maintenance fund (*Fonds d'Entretien Routier*, FER) oversees the maintenance of the road network. This fund mobilizes only 200 billion GNF per year, which amounts to 15 percent of the estimated annual cost for road maintenance. It distributes its resources to primary roads (62 percent), urban roads (18 percent), rural roads (18 percent) and road safety promotion (2 percent). Meanwhile, the fund suffers from a lack of planning and procurement thresholds for prefectural roads, and national roads are too low.

46. **In the case of rural roads, the lack of legal clarity of a definition, overlapping responsibilities among various stakeholders, and insufficient funding are among the main constraints for proper planning, maintenance, and rehabilitation.** The 2003 road classification decree distinguishes among four types of roads: national roads, prefectural roads, community roads, and urban roads. The Ministry of Public Works is responsible for the management of national and urban roads, while local governments are responsible for prefectural and community roads. One shortcoming of the 2003 decree is that highways and agricultural roads (*pistes agricoles*) are not part of the classified road system and this has implications for the financing, planning, management, and monitoring of those roads. Agricultural roads include road sections that link agricultural areas (e.g., fields, irrigated areas, pastures, etc.) with the nearest prefectural or community roads. The 2016 decree on the reorganization of the Ministry of Agriculture indicates that such ministry shall ensure the proper management of agricultural roads,

[25] Although a higher number of teachers is a necessary condition to improve service delivery in rural areas, addressing governance challenges, such as low budget execution rates and conflicting jurisdictional controls over budget planning, and poor coordination, will also contribute to improve education outcomes.

without modifying the legal classification of roads.[26] Moreover, the inventory of roads of the Ministry of Agricultural and the Ministry of Public Works have not been reconciled, resulting in a lack of coordination between both ministries to define investment priorities and share scarce funding resources relative to the large road infrastructure needs of the country.

47. **As a prior action for DPF2, the Government has approved a new road classification decree, which includes rural roads, and allocated additional budget (GNF 50 billion) to rural roads under the 2017 Revised Budget Law.** This decree includes the following types of classified roads: highways, national roads, prefectural roads, urban roads, rural roads (*routes de désenclavement des communes rurales et des zones de production*), and strategic roads.[27] The decree assigns the responsibility for the road network to the Ministry of Public Works, except for non-primary urban roads (secondary and tertiary), which fall under the remit of urban communes, and rural roads, which fall under the remit of rural communes. During a transition period not to exceed 10 years, responsibility for non-primary urban roads is delegated to the Ministry of Public Works and responsibility for rural roads is delegated to the Ministry of Agriculture. The decree creates a commission, chaired by the Ministry of Public Works, to classify all roads and spell out road standards for each road category.

48. **The implementation of the roads classification decree will be supported with externally finance technical assistance**. The European Union will continue to provide support to prepare ministerial decrees with the standards of each type of classified road and the road mapping per the new classification. The World Bank, through the Agricultural Support (PASAG) Project (P148114), is also financing the update of the rural road masterplan, which is expected by June 2018 and will provide a technical reference tool for road planning. Moreover, under the Rural Mobility and Connectivity Project (P164543), which is under preparation, the World Bank will provide technical assistance for the transition period of transferring ownership to local authorities.

49. **Expected results**. With an improved legal framework and budget allocation, this prior action will contribute to an increase in the number of kilometers of rural roads rehabilitated per year: Rural roads rehabilitated per year (km). Baseline 2015: 56 km; Target 2018: 200 km.

Local Development Funds

Prior Action 3: *The Recipient, acting through the Ministries of Mines and Geology, Decentralization, Budget, and Economy and Finance, has issued: (i) a decree to operationalize the National Fund for Local Development (FNDL), which will collect 15 percent of mining revenue to support the development of all communities; and (ii) a decree to improve governing principles of Local Economic Development Funds (FODELs), to standardize requirements for municipalities and enhance oversight and transparency.*

50. **The mining sector plays a key role in Guinea's economic growth, but it suffers from weak governance.** Mining accounted for 13.3 percent of GDP, represented over 60 percent of Guinea's total exports, and 15 percent of total government revenues (excluding grants) in 2016**.** But the mining sector scored 38 of 100 points in the 2017 Resource Governance Index (RGI), ranking 63rd among 89 country

[26] Within the Ministry of Agriculture, the division for agricultural roads is part of the Directorate of Rural Engineering (*Direction Nationale du Genie Rural*, DNGR).

[27] National roads link prefectures and regional capitals, prefectural roads link prefectures and sub-prefectures, and urban roads include roads within Conakry and other cities. Rural roads include: roads connecting a sub-prefecture capital with a district capital, two district capitals, a district capital and prefectural road, a district town and rural community, villages within a district, and agricultural roads (connecting production areas to markets). Strategic roads are roads that have strategic importance or provide access to defense and security sites.

assessments. A progressive mining code was approved in 2011 and amended in 2013 to address requests from private investors about royalties, corporate taxes, and custom duties. This mining code includes several best practices, including requirements to improve transparency (e.g., publication of mining contracts); assess environmental and social aspects; and detailed measures to help prevent corruption.[28] Although the implementation of the code has been slow, Guinea maintained compliant status of the Extractive Industry Transparency Initiative (EITI) in 2014 by submitting the 2013 EITI report to the EITI Executive Secretariat ***(prior action #5 for DPF1)***.[29] Under this initiative, the Government, mining companies, and civil society prepare an annual report about the governance of the mining sector and key recommendations to strengthen transparency and accountability.[30] The number of mining companies providing EITI declarations increased from 27 in the 2013 report to 45 in the 2015 report. The rest of mining companies in the mining cadaster provided information through the Government. Moreover, the Government launched a new online database containing all its existing mining contracts – 60 contract documents covering 18 mining projects in 2013 and with the help of the World Bank, it developed a portal for a mining cadaster to improve transparency.[31]

51. **One of Guinea's development challenges is ensuring that all citizens benefit from its abundant natural resources.** The mining code introduced reforms to increase the contribution of the mining sector to local development through the establishment of a national fund for local development (*Fonds National de Développement Local*, FNDL). Article 165 of the 2011 Mining Code states that 15 percent of mining taxes will be earmarked for local governments. However, the creation of this fund was delayed due to weak institutional capacity and disagreements about its implementation, and DPF2 contributed to its creation after almost six years in the making. During that time, the earmarked resources for the FNDL were not accumulated and thus were absorbed in the general budget for any type of spending. The Government will transfer those resources to the National Fund for Local Development. This fund will provide additional budget to municipalities (communes) to finance infrastructure projects, thus contributing to reducing spatial disparities. The Government recently issued a decree ***(prior action #3 for DPF2***) assigning the management of this fund to the National Agency for Financing Local Development *(Agence Nationale de Financement des Collectivités Locales*, ANAFIC). This agency will operate as a public administrative entity under the oversight of the Ministry of Budget and the Ministry of Territorial Administration and Decentralization. Its Board of Directors will have representatives from various ministries as well as representatives of local governments and civil society. In addition to FNDL resources, this agency will transfer to local governments budget allocations from the central government as well as financing or grants for local development from international donors. Thus, the agency will contribute to harmonize procedures for the financing of local governments. The decree contains measures to foster accountability and transparency of FNDL resources, such as maintaining a public database on local government financing, establishing a system to manage grievances for FNDL users, and a strong communication policy to disseminate the activities of ANAFIC with local governments.

52. **The FNDL will contribute to local development, improving the availability of basic infrastructure services and strengthening the decentralization process.** This fund will finance investments and capacity

---

[28] The Guinea 2011 mining code demands full and immediate compliance with the provisions of the mining code concerning the protection of the environment. Furthermore, any mining company must comply with the laws relating to the protection of the environment, and any request for an exploitation permit or a concession title must include an assessment of the environmental impact per Guinea's environmental code.

[29] EITI is a global standard to promote the open and accountable management of oil, gas and mineral resources.

[30] The EITI reports for 2013-2105 and the progress report for 2016 have been published on the EITI website (http://www.itie-guinee.org/)

[31] See http://www.contratsminiersguinee.org/about/projets and html and http://guinee.cadastreminier.org/en/

building of local governments, and will allow all regions to benefit from the mineral resources of the country. To access FNDL resources, local governments must have a local development plan, a plan of annual investments, and have accounting and financial systems subject to internal controls and external audits, among other requirements. These funds will help local communities finance the construction of schools, hospitals, and other types of infrastructure that facilitate service delivery and private sector development. ANAFIC will distribute FNDL resources to municipalities using a formula that assigns weights to various community characteristics (e.g., population, poverty rates, and number of districts/quartiers) and the performance of the local government (e.g., budget execution greater than 50 percent, good accounting for the accountability of resources, and recovery rate of revenues greater than 75 percent).

53. The 2011 mining code improved the governance of agreements between mining companies and municipalities under the area of influence of the mining project. Mining companies have been signing agreements with communities to support local development for many years. Thus, there is large discretion in the elements of those agreements and the types of projects to be financed with the local development tax paid by the mining companies. This has resulted in a lack of transparency and weak accountability and monitoring of those funds and their developmental impact. For example, mining companies' EITI declarations of transfers for local development and social projects reached US$10.1 million in 2013, US$4.8 million in 2014, and US$6.5 million in 2015. However, the EITI initiative has not verified that local authorities received those payments and that those payments are reflected in the budget of local governments. Article 130 of the Mining Code specifies that mining companies: (i) will contribute 0.5 to 1 percent of their annual turnover to a local economic development fund (*Fonds de Développement Economique Local*, FODELs), depending on the type of mine; and (ii) will negotiate a local development agreement (LDA) with communities affected by the mining project. This agreement will cover provisions for training, environmental protection, and processes for the development of social projects. To implement the provisions of Article 130, the Government issued a decree and a joint arrête (ministerial order) by the Ministry of Mines and Geology and Ministry of Decentralization ***(prior action #3 for DPF2***).

54. **The new regulatory regime to implement the local development agreements and the local development funds will improve transparency in the management of the local development funds as well as their impact in local communities.** The decree: (i) requires that each mining company opens a bank account named "local economic development fund on behalf of the communities affected" and that those resources should appear in the budget of the community; (ii) delineates that a prefectural development committee will be responsible for monitoring and implementing projects; (iii) includes mechanisms for grievance and conflict resolution; and (iv) requires the preparation of an annual report on the use of funds in accordance with EITI standards. The FODELs will finance projects that build basic infrastructure, improve the provision of basic social services, promote employment, and overall economic development. Both the decree and *arrête* include provisions for proper transparency and accountability, such as auditing and reporting requirements. Moreover, they provide the framework for drafting a standard template for local development agreements and the operations manual of the FODELs. The governance framework for managing FODELs' resources requires municipalities to: (i) use a standardized template for the local agreement with mining companies; (ii) account for FODELs' resources in their budget; and (iii) establish a management committee.

55. **The operationalization of the local development funds (FNDL, ANAFIC, and FODELs) will require technical assistance.** The Third Village Communities Support Project (PACV3, P156422) is supporting the strengthening of local government finance systems to improve service delivery in rural areas. The funds transferred under the PACV have a good track record, partly attributed to close implementation support through the World Bank team and the use of local technical advisers (*Agent de Développement Locaux*). Through PACV3, the World Bank will provide technical assistance for developing an action plan to transfer

competencies to ANAFIC and to consolidate further capacity of local governments. The governance of FNDL/ANAFIC includes transparency of financing to local governments (i.e., publication of data on regular basis) and financial controls. Since gender issues have received special attention under the PACV3, including a study to strengthen the role of women in local committees, such knowledge will be transferred to the operationalization of FNDL and FODELs. Citizen engagement initiatives under PACV3, such as participatory budgeting and monitoring, will provide a starting point to for both FNDL/ANAFIC and FODELs.

56. **Expected Results**. The expected results of the program supported by the operation will be assessed through the following indicators: municipalities that received transfers from FNDL (114), and municipalities with appropriate governance framework for managing FODELs' resources (148). The expected result of Prior Action 5 in DPF1 will be measured with the following indicator: mining companies participating in the EITI process (400).

Pillar II. Strengthen Fiscal Management

57. **This pillar supports actions aimed at strengthening fiscal management by: (i) increasing revenue mobilization; (ii) strengthening government SOE oversight; and (iii) improving public procurement.** Weak governance is a cross-cutting constraints that hinders Guinea from achieving sustained inclusive growth. Growth and institutional theories highlight the critical role of institutions in development[32]. Guinea is characterized by weak economic and political institutions[33], which is confirmed by various governance indicators when compared to the average for Sub-Saharan Africa, and a typical feature of former extractive colonies. There is a close link between the quality of institutions and the ability of governments to effectively provide public goods and a regulatory environment. The low effectiveness of government in Guinea is revealed in several areas of fiscal management such as PFM, PIM, procurement, SOEs and resource management. The major challenge with fiscal management is that there has been too much discretion, in place of rules, and little systems of control in place. Key reforms in this area include: an improvement in management of tax revenues (improving tax compliance and expanding the non-mining tax base); public investment, including through enhanced public procurement, and finally better use of natural and human resources.

Revenue Mobilization

Prior Action 4: *4. The Recipient, acting through its Ministry of Budget, has taken tax administration and policy measures to increase tax revenues and compliance by: (i) collecting 20 percent of overdue value added tax (VAT) payments on companies with Guarantee Contracts; (ii) updating the taxpayers' registry of professionals maintained by the National Directorate of Taxes (DNI); (iii) piloting the collection of invoice data for VAT revenue calculation from restaurants and hotels; and (iv) adopting a mechanism to collect registration fees on public procurement contracts through the banking system.*

58. **Guinea's tax share of GDP is now slightly above the average for sub-Saharan low-income countries, but the country has potential to mobilize more revenues.** Since 2014, performance of tax revenues in Guinea has improved and the tax-to-GDP ratio reached 14.4 percent in 2016. Still in Guinea,

---

[32] Acemoglu, D. and J. A. Robinson. 2012. Why Nations Fail: The Origins of Power, Prosperity, and Poverty. Crown Publishers: New York.

[33] Economic institutions are not organizations, but policies, or the "rules of the economic game." They include the rules that govern and regulate markets for goods and services, capital and labor; property rights; and contracts. They also include the effectiveness of government and the rule of law. They shape the incentives for investment. Political institutions determine the constraints on and the incentives of the key actors in the political sphere. Examples of political institutions include the form of government, democracy versus dictatorship or autocracy, and the extent of constraints on politicians and political elites.

tax revenues are lower than predicted for its income level, economic structure and institutional development. Guinea's tax structure provides some indications on potential sources of additional revenue. The country is heavily reliant on international trade as well as indirect taxes (e.g., VAT, fuel taxes, which are mostly collected at the border) while direct taxes are less important than in other countries with a large mining sector. In addition, tax compliance faces important risks including from large tax arrears (particularly in VAT), elevated levels of tax evasion and underground economy activities. Therefore, a plan for a targeted tax policy and administration reforms has become a central part of the growth strategy to fund an ambitious medium-term public investment program and preserve debt sustainability.

59. **VAT changes supported by DPF1 were challenged on two grounds: affordability and fairness.** The tax reforms supported by DPF1, namely the increase of the VAT rate and the broadening of the VAT base, were subject to policy reversal. The Government implemented a higher VAT rate in February 2016, but lowered the rate back from 20 to 18 percent in the 2017 Budget Law. The increase resulted in much lower revenues as compared to expectations (as it resulted in tax evasion) and caused social unrest due to its impact on the poor. Another reform supported by DPF1 was the elimination of the VAT exemptions on edible oils and flour to broaden the tax base. However, this measure was dropped completely, as it was increasing the tax burden on low income households without compensating them (e.g. through an expansion of social safety nets or the provision of progressive public services).

60. **As VAT changes supported by DPF1 were reversed, the government has undertaken offsetting tax policy and administrative actions to achieve the expected result indicator of increasing tax revenues.** The 2017 Budget Law expanded the scope of VAT withholding[34] (to include companies whose shares are held by the Government), broaden the base for withholding tax on non-VAT registered local entities, increased the minimum income tax paid by companies and adjusted tax rates for property tax. In addition, the Government began collecting overdue VAT payments on companies with guarantee contracts, reducing VAT arrears from 0.32 to 0.25 percent of GDP in the last three months; changed the mode of collection for registration fees and stamp duties as well as started improvement of identification of taxpayers and transactions (by introduction an identification number and colleting a real-time invoice data from restaurants and hotels (RAN and MERCURY pilot projects).[35] Finally, the Government adopted a new mechanism to collect registration fee on public procurement contracts through the banking system. Thus, VAT revenue increased by 15.5 percent (y-o-y) in the first eight months of 2017 and are expected to reach about 3 percent of GDP in 2017 compared to 2.7 percent in 2015 (i.e., an increase of 0.3 pp, slightly below the 0.4 percentage points envisioned at the time of DPF1).

61. **Expected Results**. Tax policy and administration measures taken by the Government will increase VAT revenue from 2.7 percent of GDP in 2015 to 3.2 percent in 2018. The baseline and target values were adjusted upward due to the rebasing of the GDP. The expectation at the time of DPF1 was an increase from 3.6 percent of GDP in 2015 to 4 percent by 2017.

[34] "Withholding" means that the tax liability of A on a payment made to them by B is met, perhaps in part or provisionally, by remittance of tax by B. And withholding taxes, levied at some monitorable point—at import, for instance, or by public or large enterprises—are often used to reach those hard to control, such as contractors. The instrument in various forms have been used successfully in many countries, including the high-income ones (UK, Australia, Ireland).

[35] Electronic invoicing: replacing paper invoices with electronic versions using certified electronic devices have potential to reduces costs for both firms and tax administrations (by enabling automated compliance control). Latin American countries were pioneers in this area; China and some European countries are using these methods to reduce missing trader VAT frauds.

Strengthening SOEs' Oversight and Transparency

Prior Action 5: *The Recipient, acting through the MEF, has strengthened the transparency and oversight of SOEs by submitting to Parliament a financial report on SOEs (société publique, mixte, et sociétés à participation publique) based on the information collected in the census.*

62. **Guinean SOEs suffer from weak governance and financial performance, which is detrimental for the delivery of public goods and services (e.g., water, electricity, and transportation) and for fiscal management.** The 2013 audit of the SOE portfolio, financed by the European Union, revealed limited availability of data, weak financial management, and lack of implementation of regulations. Many SOEs were unable to provide up-to-date financial accounts. Guinean SOEs that tend to underperform, have in some cases triggered significant fiscal losses. With greater oversight from the MEF, dividends paid by SOEs increased from US$5.5 million in 2015 and US$9.5 million in 2016. The 2017 Public Expenditure Review raised concerns about serious financial problems at three state-run utilities: EDG (electricity), SEG (water), and SOTELGUI (telecom). In 2015, the subsidies to SOEs including public utilities were close to 3 percent of GDP. Thus, ensuring that SOEs perform efficiently is crucial for resource efficiency and sound management of public finances, and making fiscal space for pro-poor spending.

63. **To strengthen oversight of the SOE sector, the Government revised the legal framework for SOEs and clarified oversight responsibilities.** In December 2016, the National Assembly adopted the "Law on the Institutional Framework of Public Establishments and Corporations". This law specifies conditions under which SOEs can be created, the modalities of their governance and supervision, their financial relations with the state, and the terms and limits about the debt they can incur. The new law, which complies with the standards of OHADA (Organization for the Harmonization of Business Law in Africa), distinguishes three main types of public entities. These are: (i) public administrative establishments (*Etablissement Public Administratif*—EPA), which have mainly an administrative function and its resources come mainly from the national budget; (ii) corporations fully or partially owned by the state: 100 percent owned by the state (*société publique*), at least 50 percent but less than 100 percent owned by the state (*société mixte*), or less than 50 percent (*sociétés à participation publique*), which are SOEs with an industrial and commercial objective and of which the resources mainly come from the sale of goods and services; and (iii) public enterprises in the industrial and commercial sector (*Etablissements Publics à caractère industriel et commercial*, EPIC). The Directorate of State Property and Private Investment at the MEF (*Direction Nationale du Patrimoine de l'État et des Investissements Privés, DNPEIP*) oversees corporations fully or partially owned by the state (*sociétés publiques/sociétés mixtes/sociétés à participation publique*) and EPICs while the Ministry of Budget oversees EPAs.

64. **Addressing weak transparency and accountability in the SOE sector requires a clear performance-monitoring system.** The Government carried out a census of all types of SOEs in 2017 as a first step towards establishing such a system. The census covered 153 EPAs, 43 state-owned corporations (including 23 where the state is a minority shareholder – *sociétés à participation publique*), and eight EPICs, and collected information about their governance and financial performance. It found that only 20 state-owned corporations had audited financial statements in 2016, only 70 EPAs are operational, and two EPICs have low or declining activities. To address the weak financial report of EPAs, the Government plans to adopt a standardized template for financial statements and execution reports. The census of SOEs allowed the MEF to prepare a financial report on the status of the state-owned corporations, which was submitted to Parliament (for first time ever) together with the 2018 budget law (***prior action for #5 DPF2***). The report presents an overview of the SOE sector and recommendations for strengthening oversight and improving transparency, such as publication of this report on a yearly basis and encouraging compliance with existing laws for SOEs. For 27 state-owned corporations, the report summarizes information about financial performance, staffing, ownership structure, and debt levels, among other topics.

65. **Expected results**. The expected result is: Comprehensive report on SOEs *(sociétés publiques, mixte, et sociétés à participation publique)* is updated on annual basis and made available to the public. Baseline 2015: Lack of comprehensive report on SOEs. Target 2018: Comprehensive report on SOEs *(sociétés publiques, mixte, et sociétés à participation publique)* prepared and published.

Public Procurement

Prior Action 6: *The Recipient has taken measures to improve transparency and efficiency of procurement practices, including: (i) submitting to Parliament an amendment to the 2012 Procurement Law to cancel the double-review process for all externally-financed projects by the Administration and Control of Large Projects and Public Procurement (ACGPMP); (ii) issuing arrêté limiting, on a pilot basis, ACGPMP's à priori oversight to procurement contracts greater than GNF 5 billion and its à posteriori oversight of such contracts to those equal to or less than said amount; and (iii) setting new monitoring rules to enforce the limit on single-source contracting for public contracts.*

66. **Guinea's public procurement system has many weaknesses that affect capital investments.** Many contracts are awarded through single-source contracting (70 percent of contracts in 2015), which affects the credibility, efficiency, and transparency of the system. The 2016 audit of 68 public procurement contracts (***prior action #3 for DPF1***) discovered that: (i) procurement processes are long, ranging from 90 to 300 days; (ii) 92 percent of the audited single-source contracts did not comply with procurement laws; (iii) only 13 percent of procurement followed existing procurement laws; (iv) 40 percent of the audited capital projects experienced delays in execution; (v) lack of a proper filing system; and (vi) inadequate implementation of projects. A rush to deliver certain goods and services have resulted in procurement problems in some public work contacts. For example, during 2014 and 2015 the BCRG issued guarantees to local and foreign banks on behalf of companies executing public work contracts.[36] This guarantee scheme was implemented outside budgetary procedures and the selection of companies lacked transparency.

67. **The Government has introduced changes to address some those procurement weaknesses.** To ban the issuance of guarantees to private companies, the Government revised the charter of the BCRG in 2016. The 2012 Public Procurement Law, which became effective in June 2014, separated the oversight, regulation, and procurement implementation functions. According to the Law, the National Directorate of Public Procurement (*Direction Nationale des Marchés Publics*, DNMP) is in charge of public procurement process, the Administration and Control of Large Projects and Public Procurement (*Administration et Contrôle des Grands Projets et des Marchés Publics*, ACGPMP) provides non-objection throughout the procurement process, and the Regulatory Authority of Public Contracts (*Autorité de Régulation des Marchés Publics*, ARMP) regulates the public procurement system. However, overlapping responsibilities among government entities pose challenges for the implementation of the Public Procurement Law.[37] The Government, through its Council of Ministers, submitted to Parliament an amendment to the procurement law to cancel the double review of externally finance projects by ACGPMP (***prior action for #6 DPF2***), which is expected to shorten the procurement process for those contracts. In October 2016, the MEF increased the threshold for à priori (à posteriori) review by ACGPMP

---

[36] The total value of the public works contracts amounted to US$1,017 million, of which 85 percent benefited from BCRG guarantees (IMF. 2016. Guinea- Sixth and Seventh Reviews under the Extended Credit Facility Arrangement. IME: Washington, DC.)

[37] Development Gateway. 2017. Open Contracting Scoping Study: Guinea Country Report. West Africa Open Contracting Assessment Project. Development Gateway: Washington, DC.

for procurement contracts greater (less) than GNF 5 billion (***prior action for #6 DPF2***), which would expedite the procurement process.

68. **Improvements in the enforcement of the limit on single-source contracting is expected to strengthen the transparency of public procurement.** The procurement law establishes that single-source contracting cannot exceed 10 percent of the total value of public contracts in each year. In March 2017, the MEF introduced a new monitoring system (***prior action for #6 DPF2***) to reduce the use of procurement exemptions (single-source contracts). This rule clarifies that the exemption regime in the procurement law does not eliminate the obligation of the procurement entity in each ministry to represent the public interest by using competitive procurement processes. The DNMP prepares a quarterly report informing which procurement entities can no longer use single-source contracting for the rest of the year. The MEF publishes on its website the list of contracting authorities from each ministry, the list of companies, and activities involved in single-source contracting.[38] The MEF clarified in its circular that to approve requests for the exemption regime, contracting authorities must prepare annual procurement plans and execute those plans accordingly. Once a contracting authority has reached the 10 percent limit, the ARMP[39] must validate the use of single-source procedure before any decision by the MEF. This new monitoring system, which started in mid-2017 is expected to improve transparency and awareness of the public on single source-contracting, and thus will reduce its use and improve accountability overtime.

69. **With the support of DPF1 the Government strengthened external and internal audit controls by ensuring proper staffing in both the Court of Audits (*Cour des Comptes)* and Inspectorate General of Finance (*Inspection Générale des Finances,* IGF).** The Court of Audits has certified the information provided by mining companies for the preparation of the EITI reports, contributing to better governance and transparency of the mining sector. For 2018, the court plans to carry out management assessments of selected public institutions. The IGF's audits have contributed in the recovery of GNF 15 billion in dividends from seven SOEs. Moreover, working with some banks, IGF recovered GNF 7.5 billion of frozen wages of ghost workers.

70. **Expected results**. Measures supported are expected to reduce the share of single-source contracts, which is fundamental for a transparent and efficient procurement system. However, the share of single-source contracts has not only fluctuated widely but also increased. In 2015, about a quarter of public contracts used single-source, a sharp decline from 51 percent in 2014. In 2016, single-source contracts accounted for 93 percent of the total amount spent in that year, corresponding to 22 percent of contracts. The award of two single-source contracts, one for the construction of a dam and another for the overseeing of the project, explains such large difference. During the 11 months of 2017, 30 percent of the value of public contracts was granted using single-source procurement. The activities of IGF will continue to contribute to the recovery of resources for the government. The results indicators are: Single source contracts (% of total value of public contracts, two-year rolling average).[40] Baseline 2015: 37 percent; Target 2018: 30 percent.[41] And, revenue collected due to IGF's audits will increase to at least GNF 50 billion in 2018, from a baseline value of zero in 2015, and progress of GNF 22.5 billion in 2016.

---

[38] http://www.mef.gov.gn/entente-directe-gre-a-gre/

[39] The ARMP is an independent entity responsible for the regulation of the procurement process.

[40] The 2-year rolling average provides a better measure of trends, given the large fluctuations in the share of single-source contracts.

[41] The baseline and target values are different from those reported in the program document of DPF1. The MEF provided revised information, and thus, the values were adjusted accordingly. The value of public contracts also includes contracts with private operators to finance infrastructure projects using Build-Operate-Transfer (BOT) arrangements.

Pillar III: Strengthen the Operational Performance of the Power Sector

71. **This pillar supports actions to enhanced management of the state-owned electricity utility through improvements of the company's technical, commercial, and financial performance**. The improvement to the management of EDG and establishment of an independent regulator for the electricity sector aim at ensuring sustainable supply and the quality of electricity services as well as increasing its affordability. Both are critical for private sector engagement in the sector, and achieving fiscal sustainability in the medium term. These actions are part of the World Bank's support to Guinea's power sector reform agenda (see Box 2).

Prior Action 7: *The Recipient has: (i) adopted EDG's Management Improvement Plan and (ii) committed to provide budgetary support for the first year of the associated business plan.*

Prior Action 8: *The Recipient's Council of Ministers has submitted to Parliament Draft Law dated October 24, 2017 establishing an independent regulator for the electricity sector to monitor financial compliance with electricity tariffs.*

72. **The state-owned electricity utility (*Electricité de Guinée,* EDG) continues to receive large subsidies from the Government due to its poor finances.** Budgetary transfers to EDG amounted to 0.4 percent of GDP in 2015, 0.5 percent in 2016, and are expected to reach 1.3 percent in 2017.[42] The combination of higher electricity demand with inadequate tariffs, weak billing practices and collection rates, and high technical and commercial losses, has contributed to the poor financial health of the power sector,[43] and thus increasing budgetary transfers. In particular:

- *Inadequate electricity tariffs that are far from being cost-reflective*: the average electricity service operating cost stand at around US$0.20/kWh while the average price is US$0.09/kWh.[44] In October 2016, the Government increased the electricity tariff for industrial and large consumers by 25 percent.[45] This measure was suspended prior to its implementation because EDG needed to implement a communications campaign to explain that small consumers will not be affected and encourage large consumers to pay for electricity. Nevertheless, the IMF program included this tariff increase as a structural benchmark of its ECF-program for 2017-20 with a target date of December 2017. This tariff adjustment will increase EDG's revenues by GNF 280 billion in 2018. Government's strategy with regards to tariff increases is twofold: (i) it is seeking to improve the billing collection for high value customers (6,500 customers), which represent 80 percent of energy consumption, and (ii) it is seeking to improve service delivery. This is consistent with global best practice which indicates that tariff increases are more likely to be successful if there is a credible promise of improved service delivery.

[42] In nominal terms, Government transfers to EDG increased from GNF 291 billion in 2015, GNF 410 billion in 2016, and GNF 1,159 billion in 2017 (projected) (IMF 2017). Please note that these values and the trend are different from those reported in the program document for DPF1.

[43] In 2016, the value of non-paid electricity was equivalent to the value of paid electricity

[44] The electricity tariff structure in Guinea includes: (i) a social tariff (up to 50 Kwh, US$0.02 per Kwh); (ii) a tariff for households and business (up to 1000 Kwh, US$0.03 per Kwh), significantly below electricity tariffs in the region; and (iii) a tariff for large consumers and business (40,000-250,000 Kwh, US$0.19 per Kwh).

[45] One of the triggers for DPF2 was the adoption of the Council of Ministers of measures to revise electricity tariff rates, but this measure was replaced by focusing on controlling costs and bill collection as part of the Management Performance Improvement Plan.

- *Weak billing practices and low collection rates*. In 2016, the average revenue collection rate was 79 percent, which is substantially lower than the target for Sub-Saharan Africa of 92 percent. In addition, the collection rate for electricity consumption from the public entities and SOEs was much lower at less than 45 percent. As of June 30, 2017, the Government had accumulated arrears with EDG of around GNF 600 billion for public administration and street lighting. Government's strategy is twofold: (i) improve billing practices by installing a monitoring system of smart meters for high value customers to improve billing collection; and (ii) provide pre-payment and post-payment meters for all other consumers, of which 80 percent still do not have meters and are billed a lump sum amount regardless of their actual consumption.

- *High technical and commercial losses*. EDG has one of the highest technical and commercial losses (35 percent) in Sub-Saharan Africa. These losses originate from poor development and maintenance of the transmission and distribution networks, and illegal connections (around 11 percent of the population).

- *Debt burden*. Before the start of the management service contract (MSC), EDG had accumulated arrears with different suppliers, estimated at about GNF 1,600 billion by October 2015.[46] In addition, EDG has not been able to fulfill its tax liability obligations to the Government. As a first step to restructure EDG's finances, the Government plans to carry out a study that will include an assessment of cross-debts between EDG and the government.

73. **The preliminary results of the MSC, which was expected to improve EDG's performance, are mixed, and has not contributed to reducing budgetary transfers to EDG as expected when DPF1 was approved.**[47] With the support of DPF1, the Government signed a MSC with the Veolia-Seureca consortium on June 19, 2015 to improve the operational and financial performance of the EDG. The mid-term review of the Power Sector Recovery Project (P146696), which was carried out in November 2017, found that some preliminary positive results have been achieved, in particular a reduction in the number and duration of power interruptions, a reduction of operations expenditures by 32 percent, an increase in generation capacity in rural secondary cities with 14 small generators, an increase in the annual turnover by 28 percent and an increase in billing collection rate by 19 percent (from 60 percent in 2015 to 79 percent in 2016). However, Veolia made little improvements in EDG's commercial performance and did not make sufficient efforts to maintain a qualified management team at EDG.[48] With regards to commercial performance, EDG continues to be confronted with the challenges of high technical and commercial losses (35 percent), low share of customers billed on meters (only 8.6 percent of customers have meters), and low collection rate from public entities (45 percent). In September 2017, four key experts left EDG's management and Veolia committed to fully reestablish the management team of EDG by the end of March 2018, which will ensure the stability of the management team for the remaining contractual period of the MSC.

[46] These arrears are cleared on ad hoc basis by the government. In 2015, for example, the Government placed securities for 720 billion Guinean Francs to clear EDG's arrears (IMF, 2017).

[47] In the case of a management service contract, the operator usually depends on investments financed by the Government, creating tensions between the operator and the government when the scale of investment needed in the sector are large (Africa Energy. 2015. Veolia's Guinea management contract offers new model for utilities. *African Energy*. Issue 304).

[48] Some of the improvements are: (i) the system average interruption duration index (SAIDI HV) dropped to 1.3 hours, reaching the target of two hours set for 2019; (ii) the system average interruption duration index (SAIDI MV) improved to 120 hours (achieved the target of 2017 of 280 hours); and (iii) the rate of non-planned shutdown of power plants decreased from 28 percent in 2016 to 18 percent (the target is 15 percent for 2017; 10 percent in 2018 and 5 percent in 2019).

74. **In response, the Government, acting through the Ministry of Energy and Hydraulics, adopted EDG's Management Improvement Plan (*prior action #7 for DPF2*) to identify specific measures that would improve the commercial performance of EDG, which requires specific investments by government.** The plan includes (i) strategic activities to turn around the performance of EDG with special focus on improving billing practices and collection rates for high value customers, which represent 80 percent of energy consumption, as well as loss reduction; (ii) specifications and costs of each activity and; (iii) the business plan of EDG for the MSC for the period (2016-2020) and beyond towards building a fully credit worthy utility. The final version of the management performance improvement plan of EDG was submitted in July 2017 to the inter-ministerial Steering Committee, appointed to supervise the MSC for approval. It was adopted by the Government in October 2017. Moreover, the plan requires the Government to allocate resources for the implementation of the plan for the first year of the associated business plan (***prior action #7 for DPF2***). A critical element of the plan is the installation of a revenue protection system supported by Advanced Metering Infrastructure for industrial and large consumers (high value customers), including public institutions. The installation of this infrastructure will increase revenue collection and reduce commercial losses, a key result to strengthen EDG's performance.

75. **The mid-term review of the MSC concluded that there is a joint responsibility of Government and Veolia to improve the performance of the utility, and in that regard, the Government has taken critical measures to strengthen its supervision of the MSC and the management of the power sector.** The Ministry of Energy and Hydraulics, the inter-ministerial steering committee, and the MSC auditor have prepared a roadmap and division of responsibilities to focus the supervision of the implementation of the MSC on commercial and human resources improvements. Veolia will need to submit an annual action plan and budget for 2018, in conformity with the Management Performance Improvement Plan of EDG, with clear milestones and Key Performance Indicators (KPI) targets, to enable quarterly evaluations by the MSC auditor. The Government has identified actions to improve the management of the power sector, which will positively impact the performance of EDG, such as (i) the establishment of a mechanism to ensure the regular and timely payment of electricity consumption from the public sector and SOEs, (ii) an independent assessment of tariff methodology by the regulator, (iii) a clear policy on tariff adjustments, and, (iv) a communication plan for its strategy to improve electricity services to the population.

76. **Investments to expand generation capacity and rehabilitation of existing infrastructure are needed to complement the MSC and improve the performance of the power sector.** As part of an ambitions development plan for the power sector, investments in the sector have increased on average 14.2 percent in the past three years. The Government's strategy to expand the generation capacity is to mobilize private investments while the limited public investments are used to finance hydropower, transmission, distribution and access programs that are not attractive for private investments.49 Various donors, including the World Bank, African Development Bank, French Development Agency (AFD), European Investment Bank (EIB), and Islamic Development Bank (IsDB), are financing rehabilitation of the existing generation facilities and distribution network in greater Conakry. With financing from the Energy Sector Management Assistance Program (ESMAP), the Government commissioned a geospatial least-cost electrification program that integrates on-grid and off-grid solutions. The objective of the program is to increase electrification rates to 36 percent in the next five years, as a first step towards the achievement

[49] The China International Water and Electric (CWE), the Exim Bank of China, and the Government are finalizing a PPP arrangement to develop the Souapiti hydroelectric plant (450 MW). The privatization of the Kaleta hydropower plant (240 MW) will raise the equity needed for Souapiti. Special purpose vehicles (SPV) for Kaleta and Souapiti were created and their respective Government board members were appointed by presidential decrees on August 28, 2017. The Government has signed various Memoranda of Understanding and project development agreements with independent power projects (IPPs) for additional thermal and hydropower projects. Moreover, regional projects are under negotiations, including Sambanglaou (120 MW) under the Gambia River Basin Development Organization Energy (OMVG) and Koukoutamba (90 MW) under the Senegal River Basin Development Organization (OMVS), with Chinese financing institutions and contractors.

of the Government's goal of universal electrification by 2030. At the donor roundtable, which was held mid-November 2017 in Paris, the Government began to mobilize resources to finance such access scale up program.

77. **With the increasing number of private operators in the power sector and the current challenges in setting electricity tariffs and ensure their compliance, the creation of an independent regulator (*prior action #8for DPF2*) is critical.** Parliament approved a law in December 2017 to establish an independent regulator for the electricity sector. The future establishment of an independent regulator will resolve one of the key core problems of the energy sector by separating regulatory functions from the Ministry of Energy and Hydraulics. The forthcoming regulatory authority will be responsible, among others for (i) establishing tariffs based on transparent principles; (ii) monitoring the adoption of the tariffs by the operator; and (iii) supervising and monitoring the quality of electricity services received by consumers. The establishment of an independent regulator and a set of regulations are critical to implement the Government policy to promote private investment in the power generation. Today there is an increasing participation of private operators in the sector including the private operator for EDG, two operational independent power producers and new private developers for hydropower projects and other renewable energy projects. The EIB will finance the technical assistance for the operationalization of the regulator.

78. **Expected results**: Contrary to the expectations at the time of the DPF1, it is expected that subsidies to EDG may continue to increase, everything equal, with rising production because electricity tariffs remain below cost-recovery. Within the time horizon of this DPF series, the expected results are an improvement in the collection rate of electricity bills (new indicator) and a reduction in technical and commercial losses.[50] The results indicators for this pillar are: Collection rate of electricity bills (percent). Baseline 2015: 60 percent; Target 2018: 85 percent. Technical and commercial losses (percent). Baseline 2015: 40 percent; Target 2018: 30 percent.

Box 2. Guinea's Power Sector Reform Agenda

To reform its power sector, the Government of Guinea has embraced a comprehensive reform agenda. The main objectives of its agenda are to: (i) improve performance of the national electricity utility, EDG, by progressively eliminating government subsidies to the sector, attracting public and private investments, and improving service delivery; (ii) adapt the sector structure to new opportunities, by increasing private sector participation in the sector and investing in renewable energy technologies to achieve the target of 30 percent renewables in the generation mix by 2030; and (iii) increase electricity access to 100 percent by 2030, by implementing the government's national electricity access scale up program, developed with ESMAP financing (TF015026).

This reform agenda comprises the following elements:

- **MSC.** EDG is implementing a MSC with a focus on service delivery, commercial improvement, human resources capacity building, and improving grid efficiency. The rehabilitation of grid infrastructure (power plants, transmission lines, and distribution networks) with financing from the national budget and the World Bank and other development partners will contribute to improve grid efficiency.
- **Tariff revision towards cost recovery.** The Government is conducting a tariff structure study, which will include recommendations on the tariff trajectory for the next five years. This study will be finalized in March 2018.
- **Installation of consumption meters and improved billing and revenue collection**: To move towards billing consumers based actual electricity consumptions, away from charging a flat rate, EDG initiated a program to rollout (i) electricity consumption meters, including smart meters; (ii) a revenue protection system for large

[50] The indicator on budgetary transfers to EDG was dropped because the original trigger on tariff increases was replaced with a prior action focused on implementing measures to improve the billing and collection rates of electricity.

consumers; and (iii) prepayment and post payment meters for residential and tertiary consumers. Moreover, Veolia will improve EDG's billing and revenue collection systems.

- **Financial restructuring of EDG.** To provide EDG with a clean balance sheet, the Government plans to carry out a financial restructuring study of EDG in 2018. This study will provide a roadmap for recapitalizing EDG, eliminating EDG's arrears (currently equivalent to 3 percent of GDP or 4 times the annual turnover of EDG), transferring sector assets to EDG. With a clean balance sheet, EDG will be able to borrow on better financial terms.
- **Powering mines and exporting electricity.** Sales of electricity to mines and exporting electricity to regional markets will improve the financial situation of the sector in the medium term.
- **Competitive selection of independent power producers (IPPs).** Future power purchase agreements with IPPs will be directly negotiated with EDG and not with the Ministry of Energy and Hydraulics, with appropriate financial terms. Selection of IPPs to develop renewable energy projects will be through competitive and transparent processes. The PPP unit of the MEH will be strengthened to be able to conduct the selection of IPPs and negotiations of PPP agreements and transactions.
- **Strengthening planning at the Ministry of Energy and Hydraulics**: The Government is planning to establish a strong planning department at the Ministry of Energy and Hydraulics to integrate planning and project implementation as well as to better coordinate water resources and hydropower production initiatives. Future investment decisions will be based on specific studies and a power master plan, which is currently under preparation.
- **Updating legal and regulatory frameworks**: A new electricity law is being revised with financial support from the African Development Bank, and a set of regulations to enforce it will follow. An independent electricity sector regulator was created by Guinea's parliament in November 2017 and it will be operationalized in 2018 with technical assistance from the World Bank and the European Union.
- **Increase generation and transmission capacity to meet increasing demand**: Guinea is also implementing projects to increase generation capacity, such as Souapiti, Koukoutamba, and Sambangalou, and other hydro-electric and solar photovoltaic projects are in the pipeline. Interconnections with neighboring countries are ongoing and power export regulations will soon be developed to facilitate power trade
- **Implementation of electricity access scale up program**: The Ministry of Energy and Hydraulics will create a Sector Wide Approach (SWAp) secretariat to coordinate donor financing and to update the investment prospectus for the access scale up program. EDG will create a dedicated grid extension access implementation directorate with strengthened fiduciary management expertise. Moreover, the recently established Rural Electrification Agency (*Agence Guinéenne d'Électrification Rurale* – AGER) will be strengthened to implement off-grid solutions.

Analytical Underpinnings and Results

79. **The design of the DPF series is informed by the findings and recommendations of recent analytical work conducted by the WBG, which provided the basis for the ongoing policy dialogue with the Government.** The studies undertaken by the World Bank, the Government, and other development partners, have been essential in the design of the two operations (DPF1 and DPF2). A body of analytical work has been conducted in recent years and is ongoing in several areas relevant to the operation (see Annex 6). The analytical work has helped guide the operation and provided intellectual rationale for many of the prior actions.

80. **The results indicators were adjusted to improve their attribution and measurability and to address changes in the triggers.** Five indicators were dropped: allocation of budget for health sector (% of total budget), fertilizer imports by private sector (metric tons), number of procurement contracts audited, size of local development fund (US$ million), and subsidy given to EDG (% of GDP). The following eight indicators were added:

- Public health workers working in posts outside Conakry as verified by the HR monitoring system of the Ministry of Health (number)

- Government paid teachers in primary and secondary education in rural areas as verified by the HR monitoring system of the Ministry of National Education and Literacy (number)
- Rural roads rehabilitated per year (km)
- Municipalities that received transfers from FNDL (number)
- Municipalities with appropriate governance framework for managing FODELs' resources (number)
- A comprehensive report on SOEs is updated on annual basis and made available to the public (No/Yes).
- Revenue collected due to IGF's audits (billion GNF)
- Collection rate of electricity bills (%)

81. **Since the approval of DPF1, the Government has achieved some progress toward the 2018 targets, but challenges remain.** Under Pillar I, the Government made progress in increasing the number of teachers and healthcare workers in rural areas. The approval of the decrees for the local development funds (FNDL and FODELs) are on themselves a major achievement. Those decrees were pending since the approval of the mining code in 2011. Also, the decree on road classification, which should be updated every 10 years, was overdue since 2013. Under Pillar II, VAT revenues increased from 2.7 percent of GDP in 2015 to 3 percent in 2016, and they are expected to reach 3.2 percent by the end of 2018. Any delays in the implementation of the local development funds of the 2011 mining code will risk the achievements of results, as well as the implementation of EDG's Management Performance Improvement Plan. As mentioned in the next section, complementary investment operations and analytical work will help mitigate those risks.

4.3. LINK TO CPF, OTHER WORLD BANK OPERATIONS AND THE WBG STRATEGY

82. The proposed DPF2 is consistent with the WBG's assistance to Guinea as defined in the FY14–17 CPS as well as with the forthcoming CPF for FY18-21. The WBG CPS for FY14–17[51], discussed by the World Bank Board on October 3, 2013, supported Guinea to implement a long-term development agenda of reducing extreme poverty and enhancing shared prosperity. The operation will help achieve CPS outcomes by supporting improved governance systems, fostering accelerated, equitable and diversified growth in Guinea and accompanying improvements in human capital. Moreover, it is also aligned with the forthcoming FY18-21 Country Partnership Framework (CPF), particularly with the focus areas of human development and public accountability, fiscal management, and protection of natural assets.

83. **This operation builds on the first operation of the DPF series as well as other World Bank operations**. Achieving the compliance status with EITI and strengthen fiscal management will help the country in attracting private investments in the mining sector.[52] With a focus on health, mining, public finance, and energy, the operation will help implement the CPS vision while supporting various investment projects, such as Mineral Governance Support Project (P122916), Economic Governance Technical Assistance and Capacity Building (P125890), Power Sector Recovery Project (P146696), the forthcoming Additional Financing for the Power Sector Recovery Project (P160771), Primary Health Services Improvement Project (P147758), Guinea Agricultural Support Project (P148114), and Third Village Community Support Project (P156422). Finally, the World Bank has started a study on SOEs that will assist the authorities to improve transparency and oversight of the sector.

[51] Report number Report No 76230-GN.

[52] FDI in the mining sector increased from only 3 percent of GDP in 2015 to 18.8 percent (Table 1).

4.4 CONSULTATIONS, COLLABORATION WITH DEVELOPMENT PARTNERS

84. **The reforms supported by this operation are anchored on the Government's development plan (PNDES), which underwent extensive public consultations with all stakeholders.** The Government used different consultation modalities, such as meetings and focus groups, to collect contributions from civil society organizations, the private sector, citizens across the country, and development partners. Through those consultations, it confirmed the relevance of the prior actions aimed at enhancing service delivery in rural areas, promoting local development with mining resources, and improving the quality of management of EDG. Moreover, various line ministries prepared background notes and participated in the preparation of the PNDES. Political consultations took the form of the adoption of the Plan by the Council of Ministers in February 2017 and the approval of the PNDES by the Parliament in June 2017. The DPF2 will continue to be implemented within the framework of the general budget support, which has been in place since 2005.

85. **This operation was prepared in consultation with development partners**. The World Bank team collaborated closely with other donors, especially the IMF, European Union and the AFD, during discussions on key policy issues, notably public finance reform, the contribution of the mining sector to local communities' development, and transport. Specifically, over the period 2017-2019, the European Union will provide a budget support operation that complements and deepens the policy reforms to the DPF2 in the health, transport and power sectors. The AFD recently approved a project to facilitate the transport of agricultural products in the Maritime Guinea (*Guinée Maritime*) *and* Forested Guinea (*Guinée Forestière*) regions by rehabilitating 615 kilometers of agricultural roads and establishing a village road maintenance scheme. Moreover, the Government expects to receive external financing for rural roads from the Saudi Development Fund.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1 POVERTY AND SOCIAL IMPACT

86. **Actions and reforms supported by this operation are expected to have significant poverty and social impacts mainly through the Pillar I that is to enhance the delivery of key services in rural areas.** This pillar is expected to strengthen actions undertaken under the adoption of the Post-Ebola Recovery Plan around three prior actions. These prior actions include the increased budget allocated to health, the rehabilitation of rural roads, the establishment of a national local development fund (FNDL), and improvements in the governance of agreements between mining companies and local communities (FODELs). There is a growing consensus on the importance of health enhancement for poverty reduction, and there are economic rationales behind investing in the health of the poor, including higher labor productivity, and improved human capital among others. However, increasing public health spending does not necessarily translate into poverty reduction and social development, especially since public health resources are beneficial for high income groups while the poor are disadvantaged. To be beneficial for the poor, the health system should be pro-poor. This requires not only the provision of quality public health and personal care services, but also to promote access to these services by the poor. The rehabilitation of rural roads seems to be a critical enabling condition to improve living standards in rural areas by facilitating access to market, and a way to improve access to health services, especially in remote areas. The operationalization of the national local development fund will also help channeling more revenues to finance municipalities' infrastructure investment plans, in favor of reducing spatial disparities in development. Together with improvements in the governance of the agreements between mining companies and local communities, this prior action will improve the transparency of transfers to local

governments through their budgets, improving the use of those resources and leading to better outcomes.

87. **Reforms that aim to mobilize additional revenues through increased tax revenues may have some impacts on poverty and social development, but only under certain conditions.** In theory, additional revenues mean greater capacity for spending to promote growth and to improve living conditions for the poorest and vulnerable people. There are several challenges that can prevent reforms from succeeding and having fully the expected positive effects. One of them is the institutional limitations which make it often difficult to get people complying with tax law. The second challenge may be the lack or the weakness of relationships between tax policy and national development objectives. Another challenge relates to the quality of tax administration. Failing to deal properly with these challenges may explain why, until recently, the tax burden is still poorly distributed in Guinea. In fact, the country was ranked 184th out of 189 countries in terms of tax payment in 2015.[53] It is therefore necessary that tax policy measures started during 2012-2016, including sensitization to tax compliance and capacity building of tax and customs administrations, are effective to expect a significant increase in tax revenues.

88. **Improving fiscal management will result in increased public revenues, which may also be better invested in economic and social sectors.** In fact, strengthening government SOE oversight and improving public procurement may contribute to a better fiscal management and service delivery down the road. The forthcoming Systematic Country Diagnostic for Guinea identified weak economic governance as one of the main causes of the country's development challenges. Improving fiscal management will help to increase domestic revenue, creating fiscal space for social spending. By also contributing to strengthen tax and customs administrations, the operation will consolidate the effects on poverty of reforms that aim at increasing tax revenues. Moreover, better financial sustainability in the energy sector will have two benefits: improved investment and access to electricity through a more reliable distribution network, and lower subsidies in the medium-term. This will increase fiscal space and use of resources to pro-poor spending such as the national policy of social protection recently developed in the country. Beyond its potential positive impact on the country's development, increasing the access to electricity may be directly seen as an improvement in well-being conceived as a multidimensional phenomenon.

5.2 ENVIRONMENTAL ASPECTS

89. **Most of the activities supported by the proposed operation are not expected to have any direct significant environmental impact, apart from the action ensuring that local communities and the rehabilitation of rural roads respect the country's environmental guidelines**. Most measures in the operation are environmentally neutral, dealing with health and education improvement, SOE reform, public procurement, and mining transparency. However, there are likely to be some indirect effects of the operation on the environment. First, the DPF series will reinforce the country's environmental guidelines because the local development funds supported in this DPF2 will need to respect environmental parameters. Moreover, mining companies will face greater scrutiny of adverse effects of mining companies on environment now that the country is compliant with the EITI initiative.[54] Furthermore, the

---

[53] Ministère du Plan et de la Coopération Internationale (2017), *Plan National de Développement Économique et Social 2016-2020*, Avant-projet Final, Volume 1 – Document principal, Version du 9 février.

[54] With support from the World Bank's Mineral Governance Support Project (P122916), the Government carried out a strategic environmental and social assessment of the mining sector to enable greater consideration at national level of environmental and social impacts of the sector, while strengthening the capacities of the government to face related challenges. The assessment proposes six main strategic pillars aimed at improving environmental and social governance in the mining sector, including: (i) improve and sustain the environmental and social governance framework of the mining sector; (ii) strengthen normative frameworks for environmental and social management in the mining sector and ensure their enforcement by mining operators,

revamping of health and education systems can also lead to better sanitary practices that can generate positive externalities on the environment. Overall, better financial management and management of natural resources can yield positive dividends for the environment.

5.3 PFM, DISBURSEMENT AND AUDITING ASPECTS

90. **Fiduciary risk in Guinea is rated high**. This rating is based on: (i) the BCRG safeguards framework, accounting systems, and internal controls that are currently weak, though they are being improved, and (ii) Guinea's PFM system that still faces challenges including budget execution; accounting; and internal and external audit. However, progress is noted in PFM areas through the Economic Governance Technical Assistance and Capacity Building Project (P125890), which aims at modernizing public financial and human resource management and enhancing statistical capacity in Guinea.

91. **The commitment of the Government to a PFM reform strategy, combined with the significant results achieved thus far, provide a sufficient basis for the proposed DPF2, but challenges remain.** The World Bank and other donors' assessments notably the Public Expenditure and Financial Accountability (PEFA) completed in 2013 highlighted a few shortcomings in the areas of human resources, economic governance and public expenditures management. With the support of the international community, the Government has undertaken a series of PFM reforms. The 2013 PEFA detailed improvements including (i) a new legal framework, including 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. The annual budget is published in the MEF website.

92. **These reforms are beginning to yield improvements in the management of public funds.** As indicated in the 2013 PEFA and other PFM assessments, the PFM system still faces challenges including (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 reform program. The implementation and success of this PFM reforms strategy requires the Government to take additional measures including reviewing business processes and overhauling information technology systems. The World Bank has supported the Government's ongoing reform efforts through the Economic Governance Technical Assistance and Capacity Building Project (P125890), which aims at modernizing public financial and human resource management and enhancing statistical capacity in Guinea.

93. **The BCRG made progress in strengthening safeguards framework**: (i) the 2017 amendment to the BCRG law improved the central bank's autonomy and prohibited the issuance of guarantees to the private sector; (ii) the Ebola epidemic did not significantly impact the operations of the BCRG; and (iii) improvement of the capacity of the audit committee. However, further strengthening of BCRG's autonomy, financial reporting transparency, internal audit capacity, controls in currency operations, and the compliance with International Financial Reporting Standards (IFRS) is important.[55]

94. **The Borrower is the Republic of Guinea, represented by the MEF.** Upon effectiveness, the funds of the credit will be released in a single-tranche in the amount of US$60 million equivalent. The proposed

---

(iii) strengthen the participation and consideration of civil society and local cultures in the development process of the Guinea; mining sector; (iv) limit the impacts of the mining sector on the environment and biodiversity; (v) contribute to the sustainable economic development of mining areas; and (vi) improve the consideration of environmental and social issues of the artisanal mining sector.

[55] IMF. 2017. Request for a Three-year Arrangement under the Extended Credit Facility. IMF Country Report No. 17/387. Washington, DC: IMF.

operation will follow IDA's disbursement procedures for DPFs. The proceeds of the credit of the project will be disbursed by IDA into a dedicated account opened in U.S. dollars or in euros at the BCRG for this budget support operation to ensure a transparent management DPF2 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 World Bank that such transfer has been made, and that proceeds have been credited to the budget management system in a manner satisfactory to the World Bank. Such a notification is expected twenty working days following the date the transfer was made by the World Bank. The proceeds of the credit will not be used to finance expenditures excluded under the Financing Agreement.

95. **Audit.** The Recipient shall: (a) report the exact sum received into the Dedicated Account; (b) ensure that all withdrawals from the Dedicated Account are for budgeted public expenditures, except for items on the World Bank's negative list (items excluded under the financing agreement). The World Bank reserves the right to seek an audit of the dedicated account by independent auditors acceptable to the World Bank**.** If the proceeds of the credit are used for ineligible purposes as defined in the Financing Agreement, the IDA will require that the Government refund an amount equal to the amount of ineligible payment to the IDA promptly upon notice from IDA. Amounts refunded to the World Bank upon such a request will be cancelled.

96. **The closing date of the operation will be December 31, 2018**.

5.4 MONITORING, EVALUATION AND ACCOUNTABILITY

97. **The MEF is responsible for the monitoring and evaluation of the program supported by this DPF series.** As the main implementing agency, it will coordinate with other government ministries and agencies involved in the implementation of the series, such as the ministry of budget, health, public service, agriculture, mines and geology, energy and hydraulic, and BCRG. Together with the MEF these institutions will collect the necessary data to assess implementation progress and report it to the World Bank. The MEF has experience in coordinating and implementing DPFs, demonstrated by its successful execution of the previous World Bank operations in the past.

98. **Grievance Redress**. Communities and individuals who believe that they are adversely affected by specific country policies supported as prior actions or tranche release conditions under a World Bank Development Policy Operation may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed to address pertinent concerns. Affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit **http://www.worldbank.org/GRS**. For information on how to submit complaints to the World Bank Inspection Panel, please visit **www.inspectionpanel.org**.

6. SUMMARY OF RISKS AND MITIGATION

99. **The risk assessment suggests that this operation entails a substantial risk overall.** The most relevant risks that can affect the achievement of the PDOs defined for this operation are: (i) political and

governance risks; (ii) sector strategies and policies risks; (iii) institutional capacity for implementation and sustainability risks; and (iv) fiduciary risk.

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

100. **Political and governance risks are substantial.** These risks are related to the complex reform agenda that requires political support. Indeed, political disagreement or legislative gridlock could threaten the pace of the structural reform agenda. The authorities are aware of this risk and are raising awareness on key policy measures. This is important given the context of citizens' low public trust in the country's institutions and the Government. The elimination of the double review for all externally-financed contracts and the decree on rural roads classification proved to be contentious, requiring building consensus across various parties. Further delays on local elections could threaten the implementation of the FNDL and the FODELs, which requires the oversight of local governments. Having newly elected local government officials could also create implementation delays as they would need to be properly trained. The World Bank's team is conducting a frank and open dialogue with political leadership at the highest levels, aimed at maintaining consensus and implementation momentum of the reforms. Nevertheless, a worsening political situation could adversely impact the results of the operation by delaying the implementation of the FNDL and EDG's Management Performance Improvement Plan.

101. **Although the macroeconomic policy framework is adequate, Guinea faces important risks – mitigated by the new IMF ECF program.** Policy slippages, delays in structural reforms, and external vulnerabilities constitute important risks. External risks in particular are substantial: a further growth slowdown in China and advanced economies (which could reduce investment in Guinea and demand for its mineral resources); tighter or more volatile global financial conditions, e.g. a surge in the US dollar (which could impair competitiveness and strain reserve buffers); and another decline in commodity prices. However, Guinea benefits from a track record of recent successful macroeconomic stabilization, a favorable medium-term outlook, and a moderate risk of debt distress. The new three-year IMF ECF program approved in December 2017 is also an important mitigating factor.

102. **Sector strategies and policies risks are substantial, particularly in the power sector**. The risks related to the improving the operational efficiency of EDG include (i) lack of capacity to provide adequate oversight for the MSC of EDG and (ii) potential lack of ownership to promote the independence of the regulator. Measures to mitigate these are (i) close supervision of the MSC, which is being financed by the Power Sector Recovery Project (P146696), and consistent support to the Inter-Ministerial Committee mandated to monitor its performance and (ii) close collaboration with EIB which is supporting the activities related to the operationalization of the regulator.

103. **Risks associated with institutional capacity for implementation and sustainability are substantial.** The government's multi-sector reform agenda raises the risk that implementation capacity

could be stretched thin, considering Guinea's weak institutional capacity. The proposed operation supports reforms spanning multiple ministries, which compound existing capacity risks. There are capacity concerns for the Ministry of Decentralization to monitor and coordinate the local development funds (FNDL/FODELs) and for ANAFIC to implement the FNDL. Reform implementation across all pillars of this operation are being supported with advisory services and technical assistance from the WBG, IMF, the European Union, and other development partners. Through its projects in health (P147758), education (P148127), governance (P125890), power sector (P146696), and village community (P156422), the World Bank is providing technical assistance in those sectors. The objective of the village community project is to strengthen local government financing system.

104. **Fiduciary risks are substantial but do not impact the proposed operation.** Guinea suffers from weakness in budget formulation, execution, and oversight. However, the operationalization of the Court of Accounts and the strengthening of the General Finance Inspectorate (***prior action #4 for DPF1***) have strengthened internal oversight functions. Fiduciary risk will also be mitigated by the deposits of the World Bank loan proceeds into a dedicated account at the BCRG that is used for this operation. The World Bank's team assessment is that the fiduciary risks (before mitigation) are high, thus justifying a dedicated account, with moderate residual risks. Moreover, the World Bank reserves the right to seek an audit of the dedicated account by independent auditors acceptable to the World Bank.

ANNEX 1: POLICY AND RESULTS MATRIX

DPF1 Prior Action	DPF2 Prior Action	Results by end 2018
Pillar I: Enhance the Delivery of Key Services in Rural Areas		
1. The Recipient has adopted a post Ebola Recovery Plan that includes an upgrade of health systems, and has included the necessary increased budgetary allocations in the 2016 Budget Law.	1. The Recipient, acting through its Ministry of Civil Services, has competitively selected and recruited health workers and teachers to increase the number government paid health workers outside Conakry by at least eighty (80) percent and teachers in rural areas by at least fifteen (15) percent since 2015 to reduce spatial disparities in service delivery.	Public health workers working in posts outside Conakry as verified by the HR monitoring system of the Ministry of Health (number). Baseline 2015: 4,388; Target 2018: at least 8,025 Government paid teachers in primary and secondary education in rural areas as verified by the HR monitoring system of the Ministry of National Education and Literacy (number). Baseline 2015: 14,300; Target 2018: at least 16,540.
	2. The Recipient, acting through its President, has specified a definition for rural roads, assigned clear responsibilities for the classification and management of rural roads, and increased funding for rural roads by GNF 50 billion by (i) issuing decree to approve new road classification that includes rural roads; and (ii) allocating additional budget to rural roads under the 2017 Revised Budget Law.	Rural roads rehabilitated per year (km). Baseline 2015: 56 km; Target 2018: 200 km
	3. The Recipient, acting through the Ministries of Mines and Geology, Decentralization, Budget, and Economy and Finance, has issued: (i) a decree to operationalize the National Fund for Local Development (FNDL), which will collect 15 percent of mining revenue to support the development of all communities; and (ii) a decree to improve governing principles of Local Economic Development Funds (FODELs), to standardize requirements for	Municipalities that received transfers from FNDL (number). Baseline 2015: 0; Target 2018: 114 Municipalities with appropriate governance framework for managing FODELs' resources (number). Baseline 2015:0; Target 2018: 148

DPF1 Prior Action	DPF2 Prior Action	Results by end 2018
	municipalities and enhance oversight and transparency.	
Pillar II: Strengthen Fiscal Management		
2. The Recipient has mobilized additional revenues by including the following measures in the 2016 Budget Law: (I) increase of the VAT rate from 18 to 20 percent and (ii) broadening of the VAT base by eliminating VAT exemptions on edible oils and flour.	4. The Recipient, acting through its Ministry of Budget, has taken tax administration and policy measures to increase tax revenues and compliance by: (i) collecting 20 percent of overdue VAT payments on companies with Guarantee Contracts; (ii) updating the taxpayers' registry of professionals maintained by the National Directorate of Taxes (DNI); (iii) piloting the collection of invoice data for VAT revenue calculation from restaurants and hotels; and (iv) adopting a mechanism to collect registration fees on public procurement contracts through the banking system.	VAT revenue (% of GDP). Baseline 2015: 2.7 percent; Target 2018: 3.2 percent.
	5. The Recipient, acting through the Ministry of Economy and Finance, has strengthened the transparency and oversight of state-owned enterprises (SOEs) by submitting to Parliament a financial report on SOEs (*société publique, mixte, et sociétés à participation publique*) based on the information collected in the census.	Comprehensive report on SOEs (*sociétés publiques, mixte, et sociétés à participation publique*) is updated on an annual basis and made available to the public (Yes/No). Baseline 2015: No. Target 2018: Yes
3. The Recipient has ensured the completion of the external audit of public procurement by an independent auditing firm of public investment contracts valued at US$5 million or more and approved between 2013 and the first semester of 2015.	6. The Recipient has taken measures to improve transparency and efficiency of procurement practices, including: (i) submitting to Parliament an amendment to the 2012 Procurement Law to cancel the double-review process for all externally-financed projects by the Administration and Control of Large Projects and Public Procurement (ACGPMP); (ii) issuing *arrêté* limiting, on a pilot basis, ACGPMP's à priori oversight to procurement contracts greater than GNF 5 billion	Single source contracts (% of total value of public contracts, 2-year rolling average).[56] Baseline 2015: 37 percent; Target 2018: 30 percent.

[56] The value of public contracts also includes contracts with private operators to finance infrastructure projects using Build-Operate-Transfer (BOT) arrangements.

DPF1 Prior Action	DPF2 Prior Action	Results by end 2018
	and its à posteriori oversight of such contracts to those equal to or less than said amount; and (iii) setting new monitoring rules to enforce the limit on single-source contracting for public contracts.	
4. The Recipient has: (i) operationalized the Court of Accounts (*Cour des Comptes*) by appointing its President; and (ii) strengthened the internal audit function by appointing five auditors in the General Finance Inspectorate (*Inspection Générale des Finances*).		Revenue collected due to IGF's audits (billion GNF). Baseline 2015: 0 billion GNF; Target 2018: 50 billion GNF
5. The Recipient has obtained EITI compliant status by submitting the 2013 EITI report to the EITI Executive Secretariat including updated data on mining revenues and production inter alia.		Mining companies participating in EITI process (number). Baseline 2015: 27; Target 2018: 400
Pillar III: Strengthen the Operational Performance of the Power Sector		
6. The Recipient has executed the EDG Performance Management Contract.	7. The Recipient has: (i) adopted EDG's Management Improvement Plan and (ii) committed to provide budgetary support for the first year of the associated business plan.	Collection rate of electricity bills (%). Baseline 2015: 60%; Target 2018: 85% Technical and commercial losses (%). Baseline 2015: 40%; Target 2018: 30%
	8. The Recipient's Council of Ministers has submitted to Parliament Draft Law dated October 24, 2017 establishing an independent regulator for the electricity sector to monitor financial compliance with electricity tariffs.	

ANNEX 2: LETTER OF DEVELOPMENT POLICY

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

Conakry, le 30 OCT. 2017

MINISTÈRE DE L'ECONOMIE
ET DES FINANCES

N° 1487 MEF/Cab/2017

Le Ministre

A
Monsieur Jim Yong Kim
Président de la Banque Mondiale
Washington, DC

Objet : **Lettre de politique de développement**

Monsieur le Président,

1. Je vous écris pour exprimer, au nom du gouvernement de la Guinée, notre volonté de relever les principaux défis auxquels notre pays est confronté dans la réalisation d'une croissance économique plus forte et inclusive pour réduire de manière significative la pauvreté. Notre vision est de mettre notre pays sur une voie de croissance soutenue et inclusive et de promouvoir la diversification économique afin de réduire les vulnérabilités, de créer des emplois pour tous, de réduire significativement la pauvreté et d'améliorer le niveau de vie de la population guinéenne.

2. La présente lettre de politique de développement décrit d'une part le Plan National de Développement Économique et Social (PNDES) 2016-20, et d'autre part la situation récente et les perspectives économiques de notre pays. Elle présente également les objectifs et principales composantes du programme d'appui budgétaire.

I. Plan National de Développement Économique et Social

3. Les autorités guinéennes viennent de doter le pays d'un Plan National de Développement Economique et Social pour la période 2016-20, après l'expiration du Plan Quinquennal 2011-15 et du Document de Stratégie de Réduction de la Pauvreté 2013-15. Le PNDES a été approuvé par le Conseil des Ministres et l'Assemblée nationale en février et juin 2017, respectivement. Il s'agit d'un document intégrateur des différents cadres stratégiques ou programmatiques de développement, et est issu d'un processus participatif incluant la Primature, les ministères, le secteur privé, la société civile, les collectivités locales et les partenaires techniques et financiers.

4. Le PNDES constitue désormais l'unique cadre stratégique de référence en matière de développement économique et social du gouvernement de la Guinée. Il est l'outil d'opérationnalisation de la vision du gouvernement pour une croissance soutenue et forte et la diversification économique afin de réduire les vulnérabilités, de créer des emplois pour tous et d'améliorer les conditions de vie de la population. De façon spécifique, le PNDES s'est fixé comme objectif global de « *promouvoir une croissance forte et de qualité pour améliorer le bien-être des Guinéens, opérer la transformation structurelle de l'économie, tout en mettant le pays sur la trajectoire du développement durable* ». Deux résultats finaux sont attendus de cet objectif global, à savoir (i) « *à l'horizon 2020, le bien-être de la population guinéenne est amélioré, les inégalités sont réduites et l'équité intergénérationnelle est garantie* » et (ii) « *la transformation structurelle durable de l'économie guinéenne est amorcée* ». Pour ce faire, notre stratégie dans le PNDES s'articule autour de quatre piliers de développement que sont : (i) la promotion d'une bonne gouvernance au service du développement durable, (ii) la transformation économique durable et inclusive, (iii) le développement inclusif du capital humain, et (iv) la gestion durable du capital naturel.

5. La mise en œuvre de notre PNDES nécessitera un financement important. Nous prévoyons de mobiliser le financement extérieur nécessaire auprès des bailleurs de fonds et des investisseurs du secteur privé dans le cadre du Groupe Consultatif prévu en novembre 2017, avec l'appui de la Banque mondiale.

II. Situation économique récente et perspectives

6. L'économie guinéenne a rebondi de l'impact négatif de l'épidémie d'Ebola. Après un ralentissement en 2014–15, la croissance économique s'est accrue à 6,6% en 2016 (contre 3,5% en 2015), augmentant le PIB par habitant de 3,9%. Le rebond de l'économie a été soutenu par une reprise de la production minière, une bonne performance agricole, une amélioration de l'approvisionnement en électricité et un renforcement du secteur manufacturier. En particulier, la croissance réelle du secteur minier est estimée avoir progressé de 33,5% suite essentiellement à la hausse des prix de la bauxite sur les marchés internationaux. La croissance du secteur agricole est estimée à 4% grâce à une disponibilité accrue d'intrants et d'équipement agricole. En 2017, la croissance économique devrait se situer à 6,7%.

7. Nous avons continué à stabiliser et contenir avec succès l'inflation à un seul chiffre grâce à notre politique monétaire prudente, avec un taux d'inflation estimé à 8,2% en 2016. L'inflation a légèrement augmenté pour s'établir à 9% (en glissement annuel) en juillet 2017 en raison d'une hausse de prix des produits alimentaires frais. Le taux d'inflation est projeté à 8,5% en 2017.

8. Le déficit du compte courant s'est détérioré pour se situer à 32% du PIB en 2016, mais a été financé par une augmentation des Investissements Directs Étrangers (IDE) dans le secteur minier. Les importations liées aux investissements ont fortement repris en 2016, en partie atténuées par le rebond des exportations de produits miniers et de produits agricoles, tandis que les IDE se sont établis à 19% du PIB (3% du PIB en 2015). Les réserves internationales ont augmenté pour s'établir à 594 millions de dollars, ce qui équivaut à 2,3 mois de couverture

des importations à fin 2016. Au cours du premier semestre 2017, les exportations ont progressé de 21%, reflétant l'impact positif de l'élimination des taxes à l'exportation sur l'or, ce qui a réduit la contrebande vers les pays voisins et a favorisé la hausse des exportations de l'or. Les importations ont augmenté de 31%, tirées par les produits alimentaires, l'équipement et les biens intermédiaires. Les entrées d'IDE au premier trimestre restent contenues à 11 millions de dollars. Les réserves internationales ont augmenté d'environ 40 millions de dollars pour se situer à 635 millions, couvrant 2,3 mois d'importations projetées, à fin août 2017. Après une dépréciation de 9% en 2016, le taux de change effectif réel s'est apprécié de 5,3% au cours des sept premiers mois de 2017, le taux de change effectif nominal s'étant légèrement déprécié de 1,3%. La prime entre les marchés officiels et des bureaux de change était de 1,4% en juillet 2017 (14% en novembre 2015).

9. Le déficit budgétaire de base s'est réduit à 0,7% en 2016, ce qui reflète des recettes plus élevées et une baisse des dépenses publiques. Les recettes fiscales ont augmenté de 1,3 point pourcentage du PIB (de 13,1% à 14,4% du PIB entre 2015 et 2016), en raison de la bonne performance des recettes fiscales non minières. La bonne performance des recettes publiques a été soutenue grâce à une croissance économique plus forte et l'impact des mesures de recettes introduites dans la loi de finances de 2016, y compris l'augmentation du taux de TVA de 18 à 20% (qui a été ramené à 18% en 2017, suite à des protestations sociales), l'introduction d'une taxe sur les communications téléphoniques, et le renforcement des contrôles fiscaux. En 2016, les dépenses courantes ont diminué de 2,6 points pourcentage du PIB (de 14,1% à 11,5% du PIB entre 2015 et 2016) suite à la maîtrise des dépenses non prioritaires, alors que les dépenses en capital ont également diminué de 1,1 point pourcentage du PIB, en raison d'une baisse de 2,3 points pourcentage du PIB du financement externe. En raison de l'amélioration de la situation budgétaire, les financements budgétaires nets de la Banque Centrale (BCRG) et des banques commerciales ont diminué pour s'établir à 0,4% et 0,3% du PIB, respectivement.

10. En raison de nos efforts visant à mobiliser des recettes supplémentaires et à contenir des dépenses non prioritaires, et la plus-value des recettes fiscales du secteur minier, nous avons réalisé un excédent budgétaire de base de 0,9% du PIB au premier semestre de 2017. Au cours du premier semestre 2017, les recettes fiscales ont été de 7,1% PIB, (soit 0,13 point de pourcentage du PIB plus élevé que prévu), à la suite d'une activité minière dynamique, une plus forte performance des taxes sur le commerce international soutenues par des importations et des exportations plus fortes et l'impact positif de plusieurs mesures fiscales que nous avons adoptées. Les principales mesures fiscales et leurs impacts en termes de recettes sont résumés dans le tableau 1.

Tableau 1 : Principales mesures fiscales et leurs impacts sur les recettes publiques en 2017

Mesures fiscales	**Recettes (million GNF) du 01/01/2016 au 31/08/2016**	**Recettes (million GNF) du 01/01/2017 au 31/08/2017**	**Variation (%)**
Prélèvement forfaitaire de 10% des sociétés d'économie mixte sur des achats auprès des fournisseurs locaux non assujettis à la TVA	29 082	51 040	75,5%
Élargissement de la retenue de 50% de TVA aux sociétés d'économie mixte	84 420	168 236	99,3%
Droit de timbre avec la mise à disposition de guichets bancaires pour perception à la DNI	18 054	31 974	77,1%
Taxe Unique sur les véhicules avec externalisation de paiement des vignettes auprès des banques et compagnies de téléphonie mobile	9 778	18 941	93,7%
Droits d'enregistrement de 2% sur les marchés publics avec paiement sur un compte auprès du Trésor public	2 474	4 247	71,7%

Source : Direction Nationale des Impôts (DNI).

III. Objectifs et principales composantes du programme d'appui budgétaire

11. L'appui budgétaire de la Banque mondiale est la deuxième d'une série programmatique de deux opérations d'appui budgétaire. Les réformes soutenues par l'opération d'appui budgétaire sont pleinement en phase avec le programme du gouvernement. En particulier, les mesures préalables de cette opération d'appui budgétaire contribuent aux piliers du PNDES suivants : (i) la promotion de la bonne gouvernance, (ii) le développement du capital humain, et (iii) la gestion durable des ressources naturelles. De façon spécifique, les réformes de l'appui budgétaire renforcent les efforts du gouvernement dans les domaines cités ci-dessous.

12. **L'accès aux services sociaux en milieu rural.** Le gouvernement vise à promouvoir l'accès aux services de santé et d'éducation à toutes les populations guinéennes, en particulier celles du milieu rural. Pour ce faire, le gouvernement a organisé le recrutement par voie de concours des agents de santé (toute catégorie confondue) et des enseignants. Afin de réduire les disparités pour l'accès à l'éducation et à la santé entre les villes et les campagnes, la plupart des nouvelles recrues ont été affectées en dehors de Conakry et des principaux centres urbains. Plusieurs mesures, y compris des primes d'éloignement ont été prises afin de s'assurer que les fonctionnaires affectés en milieu rural y resteront.

13. **L'accès aux engrais.** Pour améliorer la productivité agricole et assurer la distribution adéquate des engrais, le gouvernement a institué le système électronique de distribution des engrais subventionnés, « e-voucher », et initié la phase pilote du système dans la région de Kankan. Le processus du lancement de la phase pilote est en cours avec l'enrôlement des paysans, l'identification et la contractualisation de l'opérateur fournisseur de la plateforme électronique pour la mise en œuvre du système e-voucher, et l'identification et la contractualisation avec l'opérateur de téléphonie mobile permettant de communiquer avec les agriculteurs bénéficiaires.

14. **Pistes rurales.** Pour faciliter l'accès au marché et l'évacuation des produits agricoles, le gouvernement vise le développement d'un réseau adéquat de pistes rurales à travers une nouvelle classification des routes, intégrant les pistes rurales. Le gouvernement poursuit ses efforts en faveur des pistes rurales à travers une hausse de l'allocation budgétaire, comme l'illustrent les 50 milliards de GNF de ressources additionnelles que le gouvernement a allouées en faveur des pistes rurales dans la loi de finance rectificative 2017. Le gouvernement s'engage à maintenir au minimum la même allocation budgétaire que celle de 2017, en faveur des pistes rurales, dans la loi de finance 2018.

15. **Réformes fiscales et administratives.** L'amélioration de la mobilisation des ressources intérieures est l'un des objectifs phares du gouvernement. Pour ce faire, le gouvernement a pris des initiatives pour assurer la mise en œuvre effective des dispositions du Code des impôts, et a initié des réformes fiscales et administratives pour accroître la mobilisation des ressources intérieures. Parmi ces différentes mesures, nous pouvons citer : (i) le remboursement de TVA due par les compagnies (non exonérées de TVA) ayant bénéficié des garanties émises en 2015 par la BCRG, (ii) le lancement du processus d'adoption d'un nouveau numéro d'identification fiscale, et (iii) la signature de la lettre d'intention entre le gouvernement et la Société R.A.N. International Sénégal pour l'installation de boitiers enregistreurs des transactions de consommation dans des hôtels et restaurants ciblés pour la phase pilote.

16. **Passation des marchés.** L'amélioration de la qualité des dépenses d'investissements publics à travers un système de passation des marchés efficace est également une priorité pour le gouvernement. Ainsi, des mesures ont été prises pour assurer un meilleur suivi et une réduction de recours au gré-à-gré à travers la mise en œuvre de nouvelles règles, y compris : (i) la circulaire du Ministre de l'Économie et des Finances rappelant aux ministères sectoriels les conditions de recours au gré-à-gré et exigeant la production d'un plan de passation de marché et l'exécution de ce plan par les ministères sectoriels avant toute requête pour le recours à la procédure d'entente directe, (ii) l'envoi de lettres de rappel systématique par le Ministre de l'Économie et des Finances à tous les ministères sectoriels ayant dépassé la limite règlementaire annuelle pour le recours à la procédure d'entente directe, et (iii) la publication sur le site du Ministère de l'Économie et des Finances du rapport de suivi de l'évolution des contrats de gré-à-gré. Pour assurer la célérité du processus de passation des marchés publics, le gouvernement a également procédé au relèvement des seuils de contrôle (a priori et a posteriori) de l'ACGPMP, et à l'annulation de la double non-objection par l'ACGPMP pour des projets financés par les bailleurs internationaux.

17. **Organismes publics**. Le gouvernement vise à améliorer la gouvernance des organismes publics à travers : (i) le recensement de tous les organismes publics (établissement public à caractère administratif et sociétés anonymes), y compris des informations relatives à leurs secteurs d'activité, situation financière, etc., (ii) la production des états financiers certifiés par les sociétés anonymes (société publique et société d'économie mixte), et (iii) la production du rapport financier qui sera annexé à la loi de finance 2018, sur la base des états financiers certifiés et soumis par les sociétés anonymes. Ainsi, pour la première fois dans notre pays, le rapport financier relatif aux sociétés anonymes sera annexé à la Loi de finance 2018, et le gouvernement compte systématiser la production annuelle d'un tel rapport qui sera annexé aux Lois de finance des années à venir.

18. **Contribution du secteur minier au développement local**. Pour assurer la contribution du secteur minier au développement de toutes les communes de la Guinée, le gouvernement a institué le Fonds National de Développement Local (FNDL) à travers la Loi de finance 2016. Conformément aux dispositions de Loi de finance 2016, le FNDL sera abondé par 15% de revenus miniers qui seront alloués au développement de toutes les communes guinéennes, selon des critères bien définis y compris des règles de péréquation. Afin d'accélérer sa mise en œuvre, un décret d'opérationnalisation du FNDL a été émis par le Chef de l'État. De même, pour améliorer la gouvernance des 0,5% à 1% du chiffre d'affaire annuel (dépendant du type de mine extraite) alloués par les compagnies minières au développement des communautés où elles opèrent leurs activités extractives, un décret d'opérationnalisation du Fonds de Développement Économique et Local (FODEL) a été également émis. Ce décret vise à définir des règles de gouvernance harmonisées devant régir les interactions entre les compagnies minières et les communautés locales, avec pour objectif final, une contribution plus efficace des ressources minières au développement local et national.

19. **L'amélioration de la gestion du secteur de l'électricité**. Pour le gouvernement, le secteur de l'électricité est un secteur stratégique et porteur de croissance économique. Cependant, pour que tout le potentiel du secteur de l'électricité puisse se réaliser, il est nécessaire de remédier aux différentes défaillances et inefficacités du secteur. Conscient de ce défi, le gouvernement, avec l'appui du Groupe de la Banque mondiale a opté pour un contrat de gestion d'Electricité de Guinée (EDG) entre l'Etat et le groupe Veolia-Seureca (Veolia). Le contrat de gestion a été signé le 19 juin 2015 et mis en vigueur le 9 octobre 2017, pour une durée de quatre (4) ans. Sur la base du contrat de gestion, il est attendu que Veolia contribue à améliorer la gestion, le fonctionnement et la viabilité financière de EDG. Plus spécifiquement, Veolia aidera à améliorer l'efficacité du réseau électrique, réduire les pertes du système et améliorer la performance commerciale de la société. Afin d'atteindre ces objectifs, sous la proposition de Veolia, le gouvernement a adopté le plan de redressement interne d'EDG qui définit les actions prioritaires pour améliorer la qualité de service, la performance commerciale et le renforcement de capacité du personnel d'EDG. Avec l'adoption de ce Plan, le Gouvernement s'engage à mobiliser les ressources nécessaires, y compris à travers les ajustements tarifaires progressifs, pour sa mise en œuvre. En priorité, le gouvernement s'engage à mettre en place un programme de protection de revenus de gros consommateurs non domestiques afin de sécuriser environ 80% de revenus de la société en permanence. Le fournisseur de compteurs intelligents a déjà été sélectionné par appel d'offre international, et le processus de signature de son contrat est en cours de finalisation.

20. Dans le même sillage de renforcement de l'efficacité de la gestion du secteur de l'électricité, le gouvernement compte mettre en place une autorité indépendante de régulation des secteurs de l'électricité et de l'eau, avec pour objectif d'assurer une tarification efficace et appropriée couvrant les couts de services, améliorer la qualité des services d'approvisionnement en eau et électricité et assurer la protection des intérêts des clients.

21. Afin d'améliorer la gestion axée sur les résultats pour le développement et le suivi-évaluation de ce programme d'appui budgétaire, nous-nous engageons à renforcer notre système de statistiques économiques et sociales qui nous permettra d'avoir et de partager avec nos partenaires de développement des informations opportunes et appropriées pour gérer le programme et évaluer ses impacts.

22. En vue de soutenir son programme de réforme économique, le gouvernement sollicite la Banque mondiale pour un appui budgétaire d'un montant de 60 millions de dollars. Je réitère par la présente, l'engagement du gouvernement du Président Condé à l'égard des mesures de politiques économiques énoncées dans ce programme.

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

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

Malado KABA

Translation of the Letter of Development Policy

REPUBLIC OF GUINEA
MINISTRY OF ECONOMY AND FINANCE

Conakry, October 30, 2017

No. 1 4 8 7 MEF / cab / 2017

Mr. Jim Kim
President
The World Bank
Washington, D.C.
United States of America

REF.: Guinea: Letter of Development Policy

1. I write to express on behalf of the Government of Guinea our commitment to address the main challenges facing our country as it aims to achieve stronger and more inclusive economic growth and thus significantly reduce poverty. Our vision is to set our country on a path of sustained and inclusive growth and to promote economic diversification in order to reduce vulnerabilities, create jobs for all, significantly reduce poverty, and improve the standard of living of the people of Guinea.

2. This development policy letter describes the National Economic and Social Development Plan (PNDES) 2016–2020 along with the recent situation and economic outlook of our country. It also presents the objectives and main components of the budget support program.

I. National Economic and Social Development Plan

The Guinean authorities recently established a National Economic and Social Development Plan (PNDES) for the period 2016–2020 following the expiry of the 2011–2015 Five-Year Plan and the Poverty Reduction Strategy Paper (PRSP) 2013–2015. The PNDES was approved by the Council of Ministers and the National Assembly in February and June 2017, respectively. The document integrates the various strategic and programmatic development frameworks and is the result of a participatory process that includes the Prime Minister's office, line ministries, the private sector, civil society, local communities, and technical and financial partners.

3. The PNDES is now the Government of Guinea's sole strategic reference framework for economic and social development. The tool is designed for implementing the Government's vision for sustained and strong growth along with economic diversification in order to reduce vulnerabilities, create jobs for all, and improve the living conditions of the population. Specifically, the PNDES has set itself the overall objective of "promoting strong and quality growth designed to improve the well-being of Guineans and implement the structural transformation of the economy while setting the country on the path to sustainable development." Two final outcomes are expected from this overall objective: (i) "By 2020, the well-being of the Guinean population will have improved, inequalities will have been reduced, and intergenerational equity will have been ensured;" and (ii) "the sustainable structural transformation of the Guinean economy will have begun." To achieve this aim, the strategy contained in the PNDES is articulated around four development-oriented pillars, namely: (i) the promotion of good governance for

sustainable development; (ii) sustainable and inclusive economic transformation; (iii) inclusive development of human capital; and (iv) sustainable management of natural capital.

4. PNDES implementation will require significant funding. We plan to mobilize the necessary external financing from donors and private sector investors in the context of the Consultative Group scheduled for November 2017, with the support of the World Bank.

II. Recent Economic Situation and Outlook

5. The Guinean economy has rebounded from the negative impact of the Ebola outbreak. Following a slowdown in 2014–2015, economic growth rose to 6.6% in 2016 (up from 3.5% in 2015), increasing per capita GDP by 3.9%. The rebound in the economy was supported by a recovery in mining output, good agricultural performance, improvements to the electricity supply, and a strengthening of the manufacturing sector. In particular, real growth in the mining sector is estimated to have risen by 33.5%, mainly as a result of higher bauxite prices on international markets. Meanwhile, agricultural sector growth is estimated at 4% due to increased availability of inputs and farm equipment. In 2017, economic growth is expected to be 6.7%.

6. We continued to stabilize and successfully restrict inflation to single digits thanks to our prudent monetary policy, with an inflation rate estimated at 8.2% in 2016. Inflation increased slightly to 9% (YOY) in July 2017 due to higher fresh food prices. The inflation rate is projected to be 8.5% for 2017.

7. The current account deficit deteriorated to 32% of GDP in 2016 but was financed by an increase in foreign direct investment (FDI) in the mining sector. Investment-related imports rebounded sharply in 2016, partly offset by a rebound in exports of mining and agricultural products, while FDI stood at 19% of GDP (3% of GDP in 2015). International reserves increased to US$594 million, equivalent to 2.3 months of import cover at the end of 2016. In the first half of 2017, exports increased by 21%, reflecting the positive impact of the elimination of export taxes on gold, which reduced smuggling to neighboring countries and boosted gold exports. Imports increased 31%, driven by food, equipment, and intermediate goods. First quarter FDI inflows remain contained at US$11 million. International reserves increased by approximately US$40 million to US$635 million, covering 2.3 months of projected imports at the end of August 2017. Following a 9% depreciation of the currency in 2016, the real effective exchange rate appreciated by 5.3% in the first seven months of 2017, while the nominal effective exchange rate slightly depreciated by 1.3%. The premium between official markets and currency exchange outlets stood at 1.4% in July 2017 (as against 14% in November 2015).

8. The basic fiscal deficit narrowed to 0.7% in 2016, reflecting higher revenues and lower public spending. Tax revenues increased by 1.3 percentage points of GDP (from 13.1% to 14.4% of GDP between 2015 and 2016) due to the good performance of non-mining tax revenues. The positive performance of public revenues was sustained thanks to stronger economic growth and the impact of the revenue measures introduced in the 2016 Finance Law, including the increase in the VAT rate from 18% to 20% (though this was restored to 18% in 2017 following social protests), the introduction of a tax on telephone calls, and the reinforcement of tax inspections. In 2016, current expenditure decreased by 2.6 percentage points of GDP (from 14.1% to 11.5% of GDP between 2015 and 2016) following better control of non-priority spending, while capital expenditure fell by 1.1 percentage points of GDP due to a decrease of 2.3 percentage points of GDP in external sources of financing. As a result of the improvement in the fiscal position, the net budgetary financing of the Central Bank (BCRG) and commercial banks declined to 0.4% and 0.3% of GDP, respectively.

9. Due to our efforts to mobilize additional revenues and to contain non-priority spending along with an increase in tax revenues from the mining sector, we achieved a basic fiscal surplus of 0.9% of GDP in the first half of 2017. During that period, tax revenues amounted to 7.1% of GDP (or 0.13 percentage points of GDP higher than expected) as a result of dynamic mining activity, higher revenues from taxes on trade supported by stronger imports and exports, and the positive impact of a number of tax-related measures adopted by the Government. The main fiscal measures and their impacts in terms of revenue are summarized in Table 1.

Table 1: Key fiscal measures and their impacts on government revenue in 2017

Fiscal Measures	Revenue (million GNF) January 01– August 31, 2016	Revenue (million GNF) January 01 – August 31, 2017	Change (%)
Fixed tax of 10% from semi-public companies on purchases from local suppliers not subject to VAT	29,082	51,040	75.5%
Expansion of 50% VAT withholding from semi-public companies	84,420	168,236	99.3%
Stamp duty with the provision of banking windows for payment at DNI	18,054	31,974	77.1%
Single Tax on vehicles with outsourced payment for display stickers via banks and mobile phone providers	9,778	18,941	93.7%
Registration fees of 2% on public procurement contracts with payment to a Treasury account	2,474	4,247	71.7%

Source: National Directorate of Taxes (DNI)

III. Objectives and Main Components of the Budget Support Program

11. Budget support from the World Bank is the second in a programmatic series of two budget support operations. The reforms supported by this operation are fully in line with the Government's program. In particular, the prior actions of this program contribute to the following PNDES pillars: (i) promotion of good governance; (ii) development of human capital; and (iii) sustainable management of natural resources. Specifically, budget support reforms will reinforce the Government's efforts in the areas listed below.

12. **Access to social services in rural areas.** The Government seeks to promote access to health and education services for the whole Guinean population, particularly those in rural areas. To this end, the Government has organized the recruitment of health workers (all categories combined) and teachers on a competitive basis. To reduce disparities in access to education and health services between urban and rural areas, majority of the new recruits were hired outside of Conakry and the main urban centers. Several measures, including distance bonuses, were taken to ensure that staff members hired in rural areas will remain there.

13. **Access to fertilizers**. To improve agricultural productivity and ensure the adequate distribution of fertilizers, the Government instituted a subsidized electronic fertilizer distribution system consisting of e-vouchers and initiated the pilot phase of the system in the Kankan region. The process of launching

the pilot phase is underway with the enrollment of farmers, the identification and contracting of the operator of the electronic platform for the implementation of the e-voucher system, and the identification and contracting of the mobile operator to enable communication with the beneficiary farmers.

14. **Rural roads**. To facilitate market access and distribution of agricultural products, the Government seeks to develop an adequate network of rural roads by means of a new road classification system integrating rural roads. The Government is pursuing its efforts to improve rural roads through an increase in their budget allocation, as illustrated by the GNF 50 billion of additional resources assigned by the Government to rural roads in the amended 2017 Budget. The Government undertakes to maintain at least the same budget allocation for rural roads in the 2018 Budget as in 2017.

15. **Tax and administrative reforms.** Improving the mobilization of domestic resources is one of the Government's key objectives. To this end, the Government has taken measures to ensure the effective implementation of the provisions of the Tax Code and initiated fiscal and administrative reforms to increase mobilization. These measures include: (i) refund of VAT due by companies not exempt from VAT that benefited from the guarantees issued in 2015 by the BCRG; (ii) launch of the process of obtaining a new tax identification number; and (iii) signing the Letter of Intent between the Government and the RAN International Senegal Corporation for the installation of consumer transaction recorders in hotels and restaurants targeted for the pilot phase.

16. **Procurement**. Improving the quality of public investment spending through an efficient procurement system is also a priority of the Government. To this end, measures have been taken to ensure better monitoring and a reduction in the number of direct contracts through the implementation of new rules, including: (i) the circular issued by the Ministry of Economy and Finance reminding the sectoral ministries of the conditions for direct contracts and requiring the preparation of a procurement plan and the execution of this plan by the ministries prior to any request for recourse to the direct contract procedure; (ii) sending of systematic reminder letters by the Ministry of Economy and Finance to all sectoral ministries that exceeded the annual regulatory limit for the use of the direct contract procedure; and (iii) the publication on the website of the Ministry of Economy and Finance of the report monitoring the evolution of direct contracts. To ensure the efficiency of the public procurement process, the Government also increased the control thresholds (both a priori and a posteriori) of the Administration and Control of Major Projects and Public Procurement (ACGPMP) and the cancellation of the double non-objection by the ACGPMP for projects funded by international donors.

17. **State-owned enterprises.** The government aims to improve the governance of public bodies through: (i) a census of all public bodies (public administrative bodies and public limited companies), including information relating to their sectors of activity, financial situation, etc.; (ii) the production of the financial statements certified by all public limited companies (public and semi-public); and (iii) the production of a financial report to be annexed to the 2018 Budget on the basis of the certified financial statements submitted by the public limited companies. Thus, for the first time in our history, a financial report relating to public limited companies will be annexed to the 2018 Budget, and the Government intends to systematize the annual production of such a report, which will also be annexed to the Budget in the coming years.

18. **Contribution of the mining sector to local development.** To ensure the contribution of the mining sector to the development of all communes in Guinea, the Government established the National Fund for Local Development (FNDL) through the 2016 Budget. In accordance with the provisions of the

2016 Budget, the FNDL will be supplemented by 15% of mining revenues, which will be allocated to the development of all communes in Guinea according to well-defined criteria, including equalization rules. To accelerate its implementation, a decree aiming to operationalize the FNDL was issued by the President. In addition, to improve the administration of the 0.5% to 1% of annual turnover (depending on the type of mining output extracted) contributed by the mining companies to the development of the communities where they operate, a decree aiming to operationalize the Economic and Local Development Funds (FODELs) was also issued. The purpose of this decree is to define harmonized administrative rules governing interactions between mining companies and local communities, with the end goal of ensuring that mineral resources contribute more effectively to local and national development.

19. **Improving the management of the electricity sector**. For the Government, the electricity sector is a strategic sector that generates economic growth. However, for the full potential of the sector to be realized, it is necessary to address its various failures and inefficiencies. Conscious of this challenge, the Government, with the support of the World Bank Group, chose to pursue a management contract for Électricité de Guinée (EDG) between the State and the Veolia-Seureca group (Veolia). The management contract was signed on June 19, 2015 and came into effect on October 9, 2017 for a period of four (4) years. Based on this contract, it is expected that Veolia will contribute to improving EDG's management, operation, and financial viability. More specifically, Veolia will help improve the efficiency of the power grid, reduce system losses, and improve the company's commercial performance. To achieve these objectives, under the Veolia proposal, the Government adopted EDG's internal recovery plan, which defines the priority actions needed to improve EDG's quality of service, commercial performance, and capacity-building for EDG staff. With the adoption of this plan, the Government undertakes to mobilize the necessary resources, including through progressive tariff adjustments, for its implementation. As a priority, the Government is committed to implementing a program aiming to protect the revenues from large non-domestic consumers in order to permanently secure approximately 80% of the company's revenues. A "smart meter" provider has already been selected through international competitive bidding, and the process of signing the contract is being finalized.

20. In the same vein and to strengthen the efficient management of the electricity sector, the Government intends to set up an independent regulatory authority for the electricity and water sectors with the aim of ensuring effective and appropriate pricing covering the cost of services, improving the quality of water and electricity supply services, and ensuring the protection of customers' interests.

21. To improve results-based management for development and monitoring and evaluation of this budget support program, we commit ourselves to strengthening our economic and social statistical data collection and processing, which will allow us to obtain and share with our development partners timely and appropriate information designed to manage the program and evaluate its impacts.

22. To support its program of economic reforms, the Government of Guinea is requesting budget support from the World Bank amounting to US$60 million. I hereby reiterate the commitment of the Government of President Condé to the economic policy measures set out in this program.

Please accept, Mr. President, the assurance of my highest consideration.

Malado Kaba
Minister of Economy and Finance

ANNEX 3: FUND RELATIONS ANNEX

IMF Executive Board Approves US$170.1 Million under the ECF Arrangement for Guinea

December 12, 2017

- IMF Executive Board Approves US$170.1 Million under the ECF Arrangement
- ECF-supported program aims at strengthening the resilience of the Guinean economy, scaling-up public investments in infrastructure to foster high and more broad-based growth

On December 11, 2017, the Executive Board of the International Monetary Fund (IMF) approved a three-year arrangement under the Extended Credit Facility (ECF) for Guinea for an amount equivalent to SDR 120.488 million (about US$170 million, or 56.25 percent of Guinea's quota). The ECF arrangement will support Guinea's 2016–20 National Social and Economic Development Plan which aims at fostering higher and broad-based growth, diversifying the economy, and reducing poverty. The Executive Board's decision today enables an immediate disbursement of SDR 17.2 million (about US$24.3 million). The remaining amounts will be phased over the duration of the arrangement, subject to semi-annual reviews.

The ECF arrangement will support the authorities' economic policies and reforms to achieve high and more broad-based growth and reducing poverty while preserving macroeconomic stability. The ECF-supported program will aim at strengthening the resilience of the Guinean economy, scaling-up public investments in infrastructure to foster high and more broad-based growth while preserving medium-term debt sustainability, strengthening social safety nets to reduce poverty and foster inclusion, and promoting the development of the private sector.

Following the Executive Board discussion on Guinea, Deputy Managing Director Mr. Mitsuhiro Furusawa, and Acting Chair issued the following statement:

"The Guinean economy has rebounded from the adverse impact of the Ebola epidemic and growth momentum is expected to be sustained. Going forward, the priorities are to preserve macroeconomic stability, reduce vulnerabilities, facilitate structural transformation and diversification, tackle widespread poverty, improve living standards, and promote good governance.

"The three-year Extended Credit Facility (ECF) arrangement will support the authorities' 2016–20 National Social and Economic Development Plan to foster higher and more inclusive growth while preserving macroeconomic stability. Thus, the program will aim at improving Guinea's macroeconomic resilience, scaling-up growth-supporting public investments in infrastructure while preserving debt sustainability, bolstering social safety nets, and promoting private sector development.

"The authorities aim at strengthening the fiscal position to preserve macroeconomic stability. Creating fiscal space and prudent external borrowing will support scaling up public investment in infrastructure while preserving debt sustainability. To this end, the program will mobilize additional tax revenues, gradually phase out electricity subsidies, strengthen social safety nets, and enhance public finance and investment management. Furthermore, maximizing reliance on concessional borrowing and limiting the recourse to non-concessional borrowing will support debt sustainability

“In addition, accumulating international reserves will build external buffers and strengthen resilience. A prudent monetary policy will preserve moderate inflation while providing appropriate liquidity in the banking sector to ensure healthy credit provision to the private sector. Measures to improve financial stability and strengthen the autonomy of the central bank will enhance macroeconomic resilience and support growth.

“Advancing structural reforms will also be pivotal in supporting the development of the private sector. Notably, strengthening the business climate and governance, as well as fostering financial inclusion will be key in achieving higher and more broad-based growth.”

ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

DPF2 Prior Action	Significant positive or negative environment effects (yes/no/to be determined)	Significant poverty, social or distributional effects positive or negative (yes/no/to be determined)
Pillar I: Enhance the Delivery of Key Services in Rural Areas		
1. The Recipient, acting through its Ministry of Civil Services, has competitively selected and recruited health workers and teachers to increase the number government paid health workers outside Conakry by at least eighty (80) percent and teachers in rural areas by at least fifteen (15) percent since 2015 to reduce spatial disparities in service delivery.	No	Yes, positive
2. The Recipient, acting through its President, has specified a definition for rural roads, assigned clear responsibilities for the classification and management of rural roads, and increased funding for rural roads by GNF 50 billion by (i) issuing decree to approve new road classification that includes rural roads; and (ii) allocating additional budget to rural roads under the 2017 Revised Budget Law.	No	Yes, positive
3. The Recipient, acting through the Ministries of Mines and Geology, Decentralization, Budget, and Economy and Finance, has issued: (i) a decree to operationalize the National Fund for Local Development (FNDL), which will collect 15 percent of mining revenue to support the development of all communities; and (ii) a decree to improve governing principles of Local Economic Development Funds (FODELs), to standardize requirements for municipalities and enhance oversight and transparency.	No	Yes, positive
Pillar II: Strengthen Fiscal Management		
4. The Recipient, acting through its Ministry of Budget, has taken tax administration and policy measures to increase tax revenues and compliance by: (i) collecting 20 percent of overdue VAT payments on companies with Guarantee Contracts; (ii) updating the taxpayers' registry of professionals maintained by the National Directorate of Taxes (DNI); (iii) piloting the collection of invoice data for VAT revenue calculation from restaurants and hotels; and (iv) adopting a mechanism to collect registration fees on public procurement contracts through the banking system.	No	Yes, positive

DPF2 Prior Action	Significant positive or negative environment effects (yes/no/to be determined)	Significant poverty, social or distributional effects positive or negative (yes/no/to be determined)
5. The Recipient, acting through the MEF, has strengthened the transparency and oversight of SOEs by submitting to Parliament a financial report on SOEs (*société publique, mixte, et sociétés à participation publique*) based on the information collected in the census.	No	No
6. The Recipient has taken measures to improve transparency and efficiency of procurement practices, including: (i) submitting to Parliament an amendment to the 2012 Procurement Law to cancel the double-review process for all externally-financed projects by the Administration and Control of Large Projects and Public Procurement (ACGPMP); (ii) issuing *arrêté* limiting, on a pilot basis, ACGPMP's à priori oversight to procurement contracts greater than GNF 5 billion GNF and its à posteriori oversight of such contracts to those equal to or less than said amount; and (iii) setting new monitoring rules to enforce the limit on single-source contracting for public contracts.	No	No
Pillar III: Strengthen the Operational Performance of the Power Sector		
7. The Recipient has: (i) adopted EDG's Management Improvement Plan and (ii) committed to provide budgetary support for the first year of the associated business plan.	No	Yes, positive
8. The Recipient's Council of Ministers has submitted to Parliament Draft Law dated October 24, 2017 establishing an independent regulator for the electricity sector to monitor financial compliance with electricity tariffs.	No	No

ANNEX 5: DPF1 INDICATIVE TRIGGERS AND DPF2 PRIOR ACTIONS

Triggers under DPF 1	Prior Actions Under DPF 2	Descriptions of Changes
Pillar I: *Enhance the Delivery of Key Services in Rural Areas*		
#1: Implementation of policy measures to rehabilitate public service delivery as outlined in the post-Ebola Plan, with focus on improving medicine and textbook access, staffing of health care workers and teachers, and investment in the health sectors.	1. The Recipient, acting through its Ministry of Civil Services, has competitively selected and recruited health workers and teachers to increase the number government paid health workers outside Conakry by at least eighty (80) percent and teachers in rural areas by at least fifteen (15) percent since 2015 to reduce spatial disparities in service delivery.	**Changed wording**. Focusing on public service delivery, this prior action emphasizes the hiring of additional health workers and teachers outside the capital to reduce disparities in service delivery between urban and rural areas.
#2: Implementation of measures to boost agricultural sector productivity by: 1) increased involvement of private sector in the import of fertilizer by Government providing clear policy framework and transparent bidding; 2) the reform of the governance of Chamber of Agriculture to improve input supply.	2. The Recipient, acting through its President, has specified a definition for rural roads, assigned clear responsibilities for the classification and management of rural roads, and increased funding for rural roads by GNF 50 billion by (i) issuing decree to approve new road classification that includes rural roads; and (ii) allocating additional budget to rural roads under the 2017 Revised Budget Law.	**Trigger replaced with new prior action**. As indicated in its the letter of development policy, the Government remains committed to explore alternatives mechanisms to increase private sector participation in the fertilizer market. For example, it has initiated the process to implement a pilot for an e-voucher program in the region of Kankan.
#6: Adoption by Council of Ministers of institutional framework to implement the allocation of revenue from mining companies to local communities	3. The Recipient, acting through the Ministries of Mines and Geology, Decentralization, Budget, and Economy and Finance, has issued: (i) a decree to operationalize the National Fund for Local Development (FNDL), which will collect 15 percent of mining revenue to support the development of all communities; and (ii) a decree to improve governing principles of Local Economic Development Funds (FODELs), to standardize requirements for municipalities and enhance oversight and transparency.	**Changed wording.** The new wording distinguishes between the two types of mining revenues earmarked for local economic development (i.e., for all communities and for communities under the area of influence of mining projects).
Pillar II: Strengthen Fiscal Management		
#3: Adoption of measures for: 1) simplification of the tax administration for SME's; 2) payment of VAT and taxes by companies involved in guarantee scheme of at least 50 billion GNF; and 3) enlargement of the fiscal base for the informal sector.	4. The Recipient, acting through its Ministry of Budget, has taken tax administration and policy measures to increase tax revenues and compliance by: (i) collecting 20 percent of overdue VAT payments on companies with Guarantee Contracts; (ii) updating the taxpayers' registry of professionals maintained by the	**Changed wording.** The new wording reflects that tax policy and administration measures with quick payoffs in terms of revenues were added.

Triggers under DPF 1	Prior Actions Under DPF 2	Descriptions of Changes
	National Directorate of Taxes (DNI); (iii) piloting the collection of invoice data for VAT revenue calculation from restaurants and hotels; and (iv) adopting a mechanism to collect registration fees on public procurement contracts through the banking system. 5. The Recipient, acting through the MEF, has strengthened the transparency and oversight of SOEs by submitting to Parliament a financial report on SOEs (*société publique, mixte, et sociétés à participation publique*) based on the information collected in the census.	 **New prior action.**
#4: Adoption of the recommendations of the 2016 External Audit of Public Procurement focusing on: 1) full Implementation of existing procurement rules for single source contracting; 2) revision of Code of Public Procurement regarding reducing delays and avoiding double review; 3) clarification of roles of key agencies, including *Autorité de Regulation des Marchés Publique* (ARMP).	6. The Recipient has taken measures to improve transparency and efficiency of procurement practices, including: (i) submitting to an amendment to the 2012 Procurement Law to cancel the double-review process for all externally-financed projects by the Administration and Control of Large Projects and Public Procurement (ACGPMP); (ii) issuing *arrêté* limiting, on a pilot basis, ACGPMP's à priori oversight to procurement contracts greater than GNF 5 billion GNF and its à posteriori oversight of such contracts to those equal to or less than said amount; and (iii) setting new monitoring rules to enforce the limit on single-source contracting for public contracts.	**Change in wording.** The trigger to clarify the roles of key procurement agencies was not included because the government is preparing a new procurement law.
#5: Production of audit reports by IGF on: 1) the tax compliance of the companies involved in the guarantee scheme; 2) effectiveness of subsidies to private universities.		**Dropped, but added a new results indicator on IGF**.
Pillar III: Strengthen the Operational Performance of the Power Sector		
# 7: Adoption by Council of Ministers of measures to revise electricity tariff rates. **# 8**: Adoption of anti-fraud policy by Government to reduce EDG commercial losses	7. The Recipient has: (i) adopted EDG's Management Improvement Plan and (ii) committed to provide budgetary support for the first year of the associated business plan. 8. The Recipient's Council of Ministers has submitted to Parliament, a Draft Law dated October 24, 2017 establishing an independent regulator for the electricity sector to monitor financial compliance with electricity tariffs.	**Triggers replaced with new prior actions.**

ANNEX 6: ANALYTICAL UNDERPINNINGS

DPF2 Prior Action	Analytical Underpinnings
Pillar I: Enhance the Delivery of Key Services in Rural Areas	
1. The Recipient, acting through its Ministry of Civil Services, has competitively selected and recruited health workers and teachers to increase the number government paid health workers outside Conakry by at least eighty (80) percent and teachers in rural areas by at least fifteen (15) percent since 2015 to reduce spatial disparities in service delivery.	A health public expenditure review (PER) "Republic of Guinea Public Expenditure Review of the Health Sector" finalized in 2015 by the World Bank team has highlighted the low allocation of the national budget to the health sector in Guinea and the lack of frontline health care workers. An education PER "Republic of Guinea Public Expenditure Review Volume I: Education" also carried out in 2015 has expressed concerns about lack of teachers outside Conakry and of lack of cost savings in the sector.
2. The Recipient, acting through its President, has specified a definition for rural roads, assigned clear responsibilities for the classification and management of rural roads, and increased funding for rural roads by GNF 50 billion by (i) issuing decree to approve new road classification that includes rural roads; and (ii) allocating additional budget to rural roads under the 2017 Revised Budget Law.	Reports produced under the Africa Transport Policy Program provided guidance about best practices, such as: (i) Rural Transport: Improving its Contribution to Growth and Poverty Reduction in Sub-Saharan Africa. (2012); (ii) Good Policies and Practices on Rural Transport in Africa: Monitoring and Evaluation (2014); and (iii) Good Policies and Practices on Rural Transport in Africa: Planning Infrastructure and Services (2014).
3. The Recipient, acting through the Ministries of Mines and Geology, Decentralization, Budget, and Economy and Finance, has issued: (i) a decree to operationalize the National Fund for Local Development (FNDL), which will collect 15 percent of mining revenue to support the development of all communities; and (ii) a decree to improve governing principles of Local Economic Development Funds (FODELs), to standardize requirements for municipalities and enhance oversight and transparency.	Technical assistance through the Bank's "Third Village Community Support Project - (P156422)" aims at strengthening the local government financing system and improve local service delivery in rural communes. "Impact on mining on local communities globally and the best practices that could be used" – background note for the DPF2.
Pillar II: Strengthen Fiscal Management	
4. The Recipient, acting through its Ministry of Budget, has taken tax administration and policy measures to increase tax revenues and compliance by: (i) collecting 20 percent of overdue VAT payments on companies with Guarantee Contracts; (ii) updating the taxpayers' registry of professionals maintained by the National Directorate of Taxes (DNI); (iii) piloting the collection of invoice data for VAT revenue calculation from restaurants and hotels; and (iv) adopting a mechanism to collect registration fees on public procurement contracts through the banking system.	The audit of public procurement contracts conducted in the context of DPF1 highlighted that most private companies with guarantee contracts did not pay VAT.

<table>
<tr><th>DPF2
Prior Action</th><th>Analytical Underpinnings</th></tr>
<tr><td>5. The Recipient, acting through the MEF, has strengthened the transparency and oversight of SOEs by submitting to Parliament a financial report on SOEs (société publique, mixte, et sociétés à participation publique) based on the information collected in the census.</td><td>The Guinea – Public Expenditure Review (P151678), finalized in FY17, assessed the basic financial status of SOE's and examined the recent legislation. The PER noted the poor performance of the country's 60 SOEs and a common thread of weak financial management and a lack of implementation of laws and regulations. Several SOEs were unable to provide up-to-date financial accounts.</td></tr>
<tr><td>6. The Recipient has taken measures to improve transparency and efficiency of procurement practices, including: (i) submitting to Parliament an amendment to the 2012 Procurement Law to cancel the double-review process for all externally-financed projects by the Administration and Control of Large Projects and Public Procurement (ACGPMP); (ii) issuing arrêté limiting, on a pilot basis, ACGPMP's à priori oversight to procurement contracts greater than GNF 5 billion and its à posteriori oversight of such contracts to those equal to or less than said amount; and (iii) setting new monitoring to enforce the limit on single-source contracting for public contracts.</td><td>"Public procurement reforms best practices" – background note for DPF2.

A study on Guinea Public Financial Management (2015-2016) "Guinée: Stimuler l'Exécution du Budget d'Investissement pour un Meilleur Impact sur le Développement" analyzed financial management and provided evidence of areas for reform of procurement and controls. The 2016 audit of procurement contracts (prior action #3 for DPF1) provided detailed recommendations on the dysfunction of the procurement system.</td></tr>
<tr><td colspan="2">Pillar III: Strengthen the Operational Performance of the Power Sector</td></tr>
<tr><td>7. The Recipient has: (i) adopted EDG's Management Improvement Plan and (ii) committed to provide budgetary support for the first year of the associated business plan.</td><td rowspan="2">The Bank's energy team has done analytical work "Stratégie pour le Développement Optimal du Secteur de l'Électricité en Guinée" to study the management of facilities, the efficiency of the energy distribution network, the role of prepaid meters, and the effects of the expansion of the network in the country. The team is working with EDG as part of the MSC and the Management Performance Improvement Plan.</td></tr>
<tr><td>8. The Recipient's Council of Ministers has submitted to Parliament Draft Law dated October 24, 2017 establishing an independent regulator for the electricity sector to monitor financial compliance with electricity tariffs.</td></tr>
</table>