



Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 27-Jun-2024 | Report No: PIDIC50



BASIC INFORMATION

A. Basic Project Data

Project Beneficiary(ies) Guinea	Operation ID P501272	Operation Name Guinea DPF FY24	
Region WESTERN AND CENTRAL AFRICA	Estimated Approval Date 31-Oct-2024	Practice Area (Lead) Macroeconomics, Trade and Investment	Financing Instrument Development Policy Financing (DPF)
Borrower(s) Ministry of Economy and Finance	Implementing Agency Ministry of the Budget		

Proposed Development Objective(s)

Support reforms to expand fiscal space (revenue mobilization and subsidy reduction) and increase resource use efficiency (Public investment management, road maintenance funding, unified social registry data management and procedures).

Financing (US\$, Millions)

Maximizing Finance for Development

Is this an MFD-Enabling Project (MFD-EP)?	No
Is this project Private Capital Enabling (PCE)?	No

SUMMARY

Total Financing	0.00
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DETAILS

World Bank Lending	0.00
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Decision

The review did authorize the preparation to continue



B. Introduction and Context

Country Context

The proposed DPF for the Republic of Guinea is a standalone operation of US\$100 million that supports key reforms to expand fiscal space and increase resource use efficiency. The DPF offers the opportunity to reengage with the transition government on key policy challenges following a hiatus in policy engagement due to the coup in September 2021. The President remains committed to ongoing reforms and to implementing the transition program agreed with ECOWAS, despite scheduling delays experienced. The DPF could serve as a bridge to a potential medium-term programmatic engagement as Guinea rebuilds its track record on policy implementation.

Harnessing its natural resources for inclusive and sustainable development remains the most significant challenge for Guinea—tackled by pillar one of this operation. Resources include gold, bauxite, iron and other ores in addition to substantial hydroelectric potential, enough to satisfy domestic demand and export the surplus to the subregion. Guinea is, and will continue to be, a mining economy into the medium term, with great risks yet opportunities to leverage its natural resource wealth for broader development. Due to weak mining linkages to non-mining sectors, and headwinds from Dutch-disease dynamics, job creation and the rate of poverty reduction is limited in absence of appropriate policies and investments.¹ The Simandou iron ore project, with exports projected to commence by 2026, holds significant potential to transform Guinea’s economy and create jobs if strategic reforms are implemented.

The macroeconomic framework is currently deemed adequate for a DPF, but kept under review, especially the DSA where applying judgement enabled the overall debt distress risk rating to remain moderate. The greatest risk to the debt outlook is a shock to exports, but a shift toward more non-concessional borrowing also represents an important downside risk. On the other hand, the Simandou iron-ore project is an upside risk. Prudent macro, fiscal, and financial policies, including maximizing the concessionality of new debt, strengthening debt management capacity, and enhancing public investment management, remain key to preserving medium-term debt sustainability. Risks to the medium-term growth outlook are tilted to the downside as political transition uncertainties leading up to the 2025 elections could slow implementation of reforms, potentially reducing private investment; and spillovers from conflicts elsewhere in the world could trigger a new wave of trade disruptions and inflation.

Relationship to CPF

¹ As a mining-driven economy, Guinea’s development prospects are closely linked to its ability to leverage the mining boom for broader non-mining sector growth and sustainable development. Yet as with other countries experiencing extractives-led growth, Guinea’s mining boom, due to bauxite, gold, and soon iron exports, induces Dutch-disease dynamics that, if unaddressed, will continue to erode competitiveness of non-mining sectors capable of creating productive jobs. This results from a steady appreciation of the real effective exchange rate (REER) that makes Guinea’s non-mining products more expensive externally relative to products from other countries, thereby increasing pressures to import rather than produce locally. There is ample empirical evidence that resource-rich countries that save their earnings from extractives and allocate them to productivity-enhancing expenditures (such as network infrastructure or human capital) are best positioned to avoid Dutch-disease and enable a more inclusive and sustainable economic growth trajectory.



The proposed standalone DPF is an integral part of the WBG’s strategic support for Guinea. The last CPF (FY18-23) closed June 2023. In the context the Guinea’s ongoing political transition, a Country Engagement Note (CEN), rather than a CPF, is being prepared for the period FY24-25 and will be submitted to the Board in Q2-FY25. A *Completion and Learning Review* of the last CPF is being finalized, and it consolidates the current portfolio through a people-centered approach aligned to Government’s Interim Reference Plan (PRI).

C. Proposed Development Objective(s)

Support reforms to expand fiscal space (revenue mobilization and subsidy reduction) and increase resource use efficiency (Public investment management, road maintenance funding, unified social registry data management and procedures).

Key Results

The operation is expected to increase domestic revenues; reduce payments to cover operating costs for the electricity and water utilities; increase the share of public investment projects are selected using new criteria and require all public projects to proceed through all phases from selection to evaluation of project execution; increase the funding of the road maintenance fund; and increase the number of households newly registered in the Unified Social Registry.

D. Concept Description

The DPF supports the government in the following key areas (drawing from recent analysis in the Country Economic Memorandum and FY22 Policy Notes (both prepared under P177252), and sector project-funded assessments) These policy areas align with the government’s Interim Reference Program (PRI) adopted in December 2022 that draws extensively from the FY22 Policy Notes (P177252). **Under Pillar 1—expanding fiscal space—Prior action 1** supports the recovery of revenue losses due to profit shifting practices, based on a recent audit (financed by the African Development Bank) of the 2021 financial statements of 45 large enterprises in Guinea (including in the mining sector). **Prior action 2** supports improvement of the financial performance of the utility company—Electricité de Guinée (EDG)—through setting electricity tariffs (differentiated by user) to cover the operating costs of EDG and enables more efficient sector performance and better provision of public services. **Prior action 3** supports implementation of a new water tariff-setting methodology that sets water tariffs at levels to cover water operating costs, continuing to maintain a schedule of tariffs differentiated by user categories to minimize the social impact on the poor and vulnerable.

Under Pillar 2—Increasing resource use efficiency—Prior action 4 supports PIM reforms by formalizing the public investment project selection, monitoring and evaluation process. The ministerial order will include the procedures for preparing and selecting projects, the rules for programming investments, the procedures for monitoring, controlling, and evaluating project execution, and the rules for accounting and financial management of projects. **Prior action 5** supports updating of the road fund’s mandate to enable own generation of resources, for example through tolls. The proposed reforms will improve the efficiency and sustainability the road maintenance fund and, with complementary reforms of the Road Management Agency, also improve the quality and quantity of the road network. **Prior action 6** supports strengthening of the Unified Social Registry through adoption of a revised decree to strengthen and formalize the provisions of the USR regarding registry and updating of socio-economic data of poor and vulnerable households,



interoperability with other household databases, and data sharing provisions with social programs and services. This reform will also help blunt the impact of prior actions 3 and 4 that raise utility tariffs.

E. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

The main potential poverty and social impact stems from the prior actions on the electricity and water supply tariff reforms (PA2 and PA3, respectively). The impacts depend on the structure of the tariff increases, and on the policies or programs to which the additional fiscal space (from reducing the budget allocations for EDG and SEG) will be allocated. The higher the increase in tariffs for lower income groups, the more unfavorable the prior actions would be. Yet the greater the allocation of the additional fiscal space to social programs (such as to cash transfers, based on improved targeting aided by Prior action 6), the more favorable the impact on the poor. A PSIA on the energy and water supply tariff reforms is underway taking account of the expected tariff structures, and the findings will be summarized here.

Environmental, Forests, and Other Natural Resource Aspects

The policy actions supported by the proposed DPF are likely to have insignificant impact on the country's environment, as they are largely institutional. Guinea has a rich legal and institutional framework to ensure effective management and protection of the environment. The 1987 Environmental Code, updated in 1989, is satisfactory, complemented by ministerial decrees and orders specifying the list of activities that may require an environmental impact study, including content, procedures, and methodology. Adherence to these regulations will be reflected in the updated PIM decree (Prior action 4). The Environment Ministry unit is receiving technical support to build its capacity to provide solid assessment of environmental and social impacts, following internationally accepted standards, under the WB project "Guinea Natural Resources, Mining and Environmental Management Project (P168613).

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APPROVAL

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