Document of

The World Bank

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Report No: 73338-GN

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED GRANT

IN THE AMOUNT OF SDR 6.7 MILLION
(US$10 MILLION EQUIVALENT)

TO THE

REPUBLIC OF GUINEA

FOR A

MICRO, SMALL AND MEDIUM ENTERPRISES (MSME) DEVELOPMENT PROJECT

June 6, 2013

Financial and Private Sector Development
Africa Region

## CURRENCY EQUIVALENTS

*(Exchange Rate - Effective May 31, 2013)*

| | | |
|---|---|---|
| Currency Unit | = | Guinean Franc |
| GNF 1000 | = | US$ 0.13943 |

## FISCAL YEAR

January 1 - December 31

## ABBREVIATIONS AND ACRONYMS

| | |
|---|---|
| ACGP | Administration et Contrôle des Grands Projets |
| ACH | Automated Clearing House |
| AfDB | African Development Bank |
| APIP | Agency for Promotion of Private Investment |
| BDS | Business Development Services |
| CBRG | Central Bank of the Republic of Guinea |
| CRS | Credit Reporting System |
| DC | Director Committee |
| EA | Executing Agency |
| ECOWAS | Economic Community of West African States |
| EU | European Union |
| FDI | Foreign Direct Investment |
| GDP | Gross Domestic Product |
| GEAP | Guinea Education for All Project |
| GF | Guinean Franc |
| GoG | Government of Guinea |
| IBRD | International Bank for Reconstruction and Development |
| IFC | International Finance Corporation |
| ICB | International Competitive Bidding |
| IDA | International Development Association |
| IPR | Independent Procurement Review |
| ISM | Implementation Support Mission |
| ISN | Interim Strategy Note |
| ISP | Implementation Support Plan |
| MISME | Ministry of Industry and SMEs |
| MoEF | Ministry of Economy and Finance |
| MSME | Micro, Small and Medium Enterprise |
| NIS | National Institute for Statistics |
| PC | Project Coordinator |
| PIU | Project Implementation Unit |
| PDO | Project Development Objectives |
| PIP | Project Implementation Plan |
| PIM | Project Implementation Manual |
| PPD | Public-Private Dialogue |
| PPI | Private Participation in Infrastructures |

| | |
|---|---|
| PPP | Public-Private Partnership |
| PPR | Post Procurement Review |
| PREM | Poverty Reduction Economic Management Unit |
| SBD | Standard Bidding Documents |
| SC | Support Center |
| SCT | Steering Committee |
| SMEs | Small and Medium Enterprises |
| SSA | Sub-Saharan Africa |
| UNIDO | United Nations Industrial Development Organization |
| WB | The World Bank |

| | |
|---|---|
| Vice President: | Makhtar Diop |
| Country Director: | Ousmane Diagana |
| Sector Director: | Gaiv Tata |
| Sector Manager: | Paul Noumba Um |
| Task Team Leader: | Jean Michel N. Marchat |

**REPUBLIC OF GUINEA: MSME DEVELOPMENT PROJECT**

**PAD DATA SHEET**
Guinea
MSME Development Project (P128443)

**PROJECT APPRAISAL DOCUMENT**
*Africa Region*
*AFTFW*

| | | | |
|---|---|---|---|
| **Basic Information** | | | |
| Project ID: P128443 | EA Category: C | Team Leader: Jean-Michel Noel Marchat | |
| Lending Instrument: IDA Grant | | Fragility or Capacity Constraint [ x ]<br>Financial Intermediary [ ]<br>Series of Projects [ ] | |
| Project Implementation Start Date June 28, 2013 | | Project Implementation End Date June 30, 2017 | |
| Expected Effectiveness Date October 31, 2013 | | Expected Closing date December 31, 2017 | |
| Joint IFC: No | | | |
| Sector Manager:<br>Paul Noumba Um | Sector Director/<br>Gaiv. M. Tata | Country Director:<br>Ousmane Diagana | Regional Vice-President<br>Makhtar Diop |

| | |
|---|---|
| Borrower: Republic of Guinea | |
| Responsible Agency: Ministry of Industry and SMEs | |
| Contact: Mme Ramatoulaye Bah | Title: Minister of Industry and SMEs |
| Telephone No.: (224) 30 45 17 95 | mail: ramarama134@yahoo.fr |

| | | |
|---|---|---|
| **Project Financing Data(in USD Million)** | | |
| [ ] Loan | [X] Grant | [ ] Other |
| [ ] Credit | [ ] Guarantee | |

**For Loans/Credits/Others**

| | | | |
|---|---|---|---|
| Total Project Cost : | 10 | Total Bank Financing : | 10 |
| Total Co-financing : | 0 | Financing Gap : | 0 |

| Financing Source | Amount (USD Million) |
|---|---|
| BORROWER/RECIPIENT | 0 |
| IBRD | 0 |
| IDA: New | 10 |
| IDA: Recommitted | 0 |
| Others | 0 |
| Financing Gap | 0 |
| Total | 10 |

| Expected Disbursements (USD Million) | | | | | |
|---|---|---|---|---|---|
| Fiscal Year | **2014** | **2015** | **2016** | **2017** | **2018** |
| Annual | 1.5 | 2.5 | 3.1 | 2.9 | 0.0 |
| Cumulative | 1.5 | 4.0 | 7.1 | 10.0 | 10.0 |
| % Disb. (Cumulated) | 15.0 | 40.0 | 71.0 | 100.0 | n/a |

**Institutional Data**

Sector Board:

Competitive Industries Practice

**Sectors/Climate Change**

Sector (Maximum 5 and total % must equal 100)

| Major Sector | Sector | % | Adaptation Co-benefits % | Mitigation Co-benefits % |
|---|---|---|---|---|
| Investment Climate | Central government administration | 20 | | |
| | Credit Reporting and Secured Transactions | 13 | | |
| | General Finance | 13 | | |
| SME Development | Agro-industry, marketing, and trade | 42 | | |
| | General industry and trade sector | 12 | | |
| **Total** | | 100 | | |

☑ I certify that there is no Adaptation and Mitigation Climate Change Co-benefit information applicable to this project.

**Themes**

Theme (Maximum 5 and total % must equal 100)

| Major Theme | Theme | % |
|---|---|---|
| Financial and Private Sector Development | Micro, Small and Medium Enterprise Support | 42 |
| | International Financial Standards and Systems | 26 |
| | Other Private Sector Development | 32 |
| **Total** | | 100 |

**Project Development Objective(s)**

The Project Development Objective (PDO) is to support the development of MSMEs in various value chains and to improve selected processes of Guinea's investment climate.

| Project Components | |
|---|---|
| **Component Name** | **Cost (USD Millions)** |
| **Component 1. Establishment of Support Centers for SME Development** | **4.2** |
| **Component 2. Support to Investment** | **4.6** |
| *2.1. Facilitating investment* | *2.0* |
| *2.2: Credit Information System and Payment System* | *2.6* |
| **Component 3. Project Implementation and M&E** | **1.2** |

| Compliance | |
|---|---|
| **Policy** | |
| Does the project depart from the CAS in content or in other significant respects? | Yes [ ] No [ x ] |
| Explanation: | |
| Does the project require any waivers of Bank policies? | Yes [ ] No [ x ] |
| Have these been approved by Bank management? | Yes [ ] No [ ] |
| Is approval for any policy waiver sought from the Board? | Yes [ ] No [ x ] |
| Explanation: | |
| Does the project meet the Regional criteria for readiness for implementation? | Yes [ x ] No [ ] |

| Safeguard Policies Triggered by the Project | Yes | No |
|---|---|---|
| Environmental Assessment OP/BP 4.01 | | x |
| Natural Habitats OP/BP 4.04 | | x |
| Forests OP/BP 4.36 | | x |
| Pest Management OP 4.09 | | x |
| Physical Cultural Resources OP/BP 4.11 | | x |
| Indigenous Peoples OP/BP 4.10 | | x |
| Involuntary Resettlement OP/BP 4.12 | | x |
| Safety of Dams OP/BP 4.37 | | x |
| Projects on International Waterways OP/BP 7.50 | | x |
| Projects in Disputed Areas OP/BP 7.60 | | x |

**Legal Covenants**

| Name | Recurrent | Due | Frequency |
|---|---|---|---|
| n/a | | | |

**Description of Covenant**

**Legal Covenants**

| Name | Recurrent | Due | Frequency |
| --- | --- | --- | --- |
| n/a | | | |

**Description of Covenant**

**Conditions**

| Name | Type |
| --- | --- |
| Establishment of the Project Implementation Unit | Effectiveness |

**Description of Condition**

The Recipient shall have established the Project Implementation Unit with a mandate, staffing and resources acceptable to the Association; and recruited financial management, monitoring and evaluation and procurement specialists to be selected in accordance with the provisions Section III of Schedule 2 to this Agreement.

**Conditions**

| Name | Type |
| --- | --- |
| Establishment of the Steering Committee | Effectiveness |

**Description of Condition**

The Recipient shall have established the Steering Committee in accordance with Section I.A.3 of Schedule 2 of the Financing Agreement.

**Team Composition**

**Bank Staff**

| Name | Title | Specialization | Unit |
| --- | --- | --- | --- |
| Jean Michel Marchat | Lead PSD Specialist | TTL | AFTW |
| Tugba Gurcanlar | Trade Specialist | Trade | AFTW |
| Paivi Koskinen-Lewis | Social Development Specialist | Safeguards | SDV |
| Virginia Tanase | Senior Transport Specialist | Transport and logistics | TWIR |
| Francisco Moraes Leitao | Economist | Support to SMEs, IE | AFTW |
| Thierno Habib Hann | Operations Officer | Legal framework | CAFIC |
| Mahamoud Magassouba | Operations Officer | Investment promotion | CAFIC |
| Siobhan McInerney- | Senior Counsel | Project Lawyer | LEGAF |
| Hassine Hedda | Senior Finance Officer | Disbursement | CTRLA |
| Wolfgang Chadab | Senior Finance Officer | Disbursement | CTRLA |
| Maria Do Ceu Da Siva | Senior Financial Sector Specialist | Access to Finance, PCB | MNSF1 |
| Fredesvinda F. Montes | Infrastructure Finance Specialist | Payment systems | FFIFI |
| Aminata Toure Keita | Administrative and Client Support | Administration | AFMGN |
| Jeannette Kah Leguil | Senior Program Assistant | Administration | AFTE |
| Celestin Adjalou Niamien | Financial Management Specialist | FM Specialist | AFTFM |
| Alpha Mamoudou Bah | Procurement Specialist | Procurement Specialist | AFTPC |

| | | | |
|---|---|---|---|
| Maman-Sani Issa | Senior Environmental Specialist | Safeguards | AFTEN |
| Michaela Weber | Private Sector Development Specialist | Facilitating Investment | AFTW |
| Kevin Croke | Extended-Term Consultant | Gender, Impact Evaluation | AFTPM |

**Non-Bank Staff**

| Name | Title | Office Phone | City |
|---|---|---|---|
| Mohammed Chebbi | Consultant– Support to Industry | (216) 7086 1273 | Tunis, Tunisia |
| [redacted] | | | |

**Locations**

| Country | First | Location | Planned | Actual | Comments |
|---|---|---|---|---|---|
| Guinea | Conakry | Capitale d'Etat-Zone Spéciale de Conakry | | X | |
| [redacted] | | | | | |

# I. STRATEGIC CONTEXT

## A. COUNTRY CONTEXT

1. Guinea is a medium-sized African country which is highly endowed with natural resources. The country possesses around one third of world's bauxite reserves, deposits of gold, diamond, and iron-ore. It also has vast arable land, its coastline is rich in fish, and it has a vast hydroelectric potential. However, the country's economic performances are not commensurate with this endowment. In recent years, agriculture and mining, the major sources of growth in the economy have performed modestly.

2. Agriculture has experienced limited growth, with only one fourth of the available arable land cultivated and production insufficient to feed the local population[1]. The extractive sector, from which the country derives over 90 percent of its export revenues, contracted in real terms by 6 percent between 2008 and 2010 – in spite of rising world commodity prices. In addition, in the two decades from 1990 to 2010, industry and manufacturing[2] has virtually stagnated. Manufacturing's share in GDP has changed little in recent years, from 4.6 percent in 1990 to 4.7 percent in 2010. Finally, services have slightly declined, going from almost 43 percent of GDP in 1990 to 39 percent in 2010.

3. Hence, while average growth was around 4.1 percent over 1990-2003, the compound annual growth rate only reached 2.5 percent over 2004-2011, below the SSA average (5.1 percent). Trade has also remained largely undiversified. Two countries (France and Switzerland) accounted for about 44 percent of the country's exports in 2008 and the top 3 export products accounted for 84.3 percent of the value of exports during the same year[3]. In addition, Foreign Direct Investment (FDI) inflows have been low during the 1990s and only increased significantly above SSA levels in 2004-2008 (Figure 1)[4]. Finally, gross fixed capital formation, between 1990 and 2010, has been on par with SSA – i.e. low compared to other developing regions - and has been characterized by a marked decline in public investments (Figure 2).

4. As a consequence, standards of living have declined; poverty incidence went from 53 percent in 2007 to 55.2 percent in 2012 (PRSP 2013) and the country ranks 178th - out of 187

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[1] - Agriculture remains for the most part a subsistence sector and hence a largely informal activity using rudimentary cultivation practices, with low productivity. The agricultural sector (incl. livestock, forestry and fishing) still employs about 56 percent of the economically active population. The country's few agricultural exports are unprocessed products (WTO, 2011).

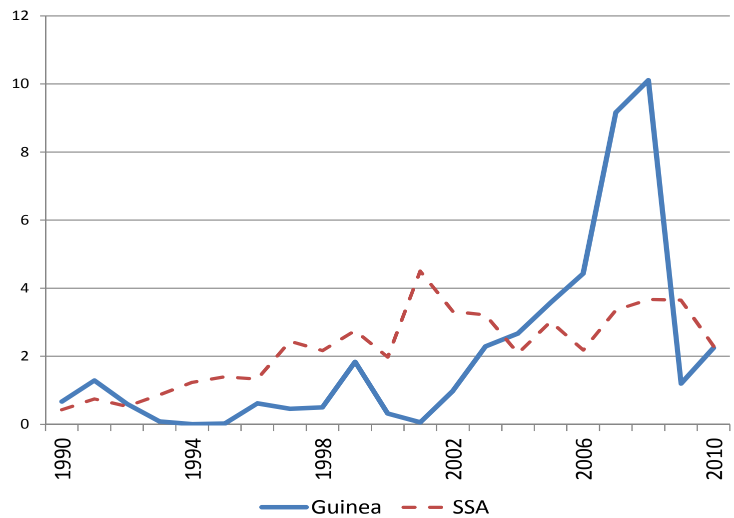
[2] - The main activities are the processing of agricultural produce (notably palm oil) and food manufacture. Other private investments have been limited to brewing, soft drinks, bottled water, cement and metal manufacturing. There are also numerous artisanal units, including bakeries, furniture and mechanical workshops, and clothing manufacturers (EIU, 2008).

[3] - Ores, slag and ash (HS 26 – 40 percent); Pearls, precious stones (HS 71 – 32.6 percent); and Inorganic chemicals (HS 28 – 11.7 percent).

[4] - The mid-2000s rise was largely driven by FDI in mining (96 percent of FDI in 2009, WTO (2011)).

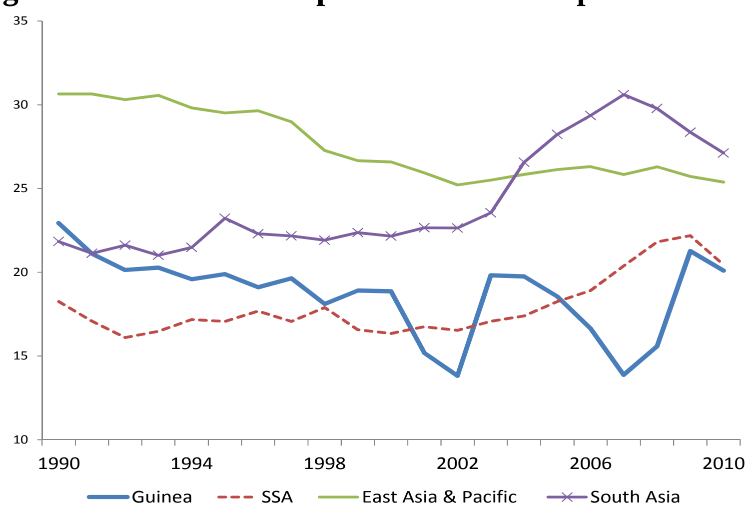
countries - in the 2012 Human Development Index. For now, the country has been unable to enjoy steady and strong growth, and to attract/generate the required investment.

**Figure 1. FDI – Net inflows as percent of GDP**




Source: DDP dataset, September 2012 update.

**Figure 2. Gross Fixed Capital Formation as percent of GDP**




Source: DDP dataset, September 2012 update.

5. This is especially disappointing given the country has a strong growth potential in several sectors.

6. *Mining* currently provides 20 to 25 percent of government revenues and over 10,000 direct jobs; it is a key component of the economy. There is room for further growth. Although Guinea has some of the largest undeveloped deposits of bauxite and iron ore in the world, it only accounts for 12 per cent of global production, behind Australia (37 percent). The bauxite belt is located in the north-west of the country. In addition, the iron ore belt in the south-east has the largest and richest non-developed iron deposits worldwide and is currently subject to intense competition among global mining conglomerates. In the next

three to four years, up to US$ 19 billion could be invested in this belt if the right conditions are put in place (IMF 2012b). Therefore production is poised to increase, opening massive opportunities for local businesses to branch and expand[5].

7. *Agriculture* has also a strong growth potential given Guinea's very favorable agro-ecological endowments. The dominance of subsistence production and the lack of market linkages have so far limited the value-adding potential of the sector. Hence, Guinea's agricultural exports are below US$15 million annually. While in the early 1960s Guinea was one of the world's leading exporters of bananas and pineapples, today one fourth of its main agricultural produce, rice, is imported. Guinea's climate is nonetheless suitable for the production of a variety of cereal crops (maize, millet-sorghum, fonio), tubers and livestock; as well as a variety of export crops – both traditional (banana, coffee, cocoa, cotton, rubber, palm oil), which will require an emphasis on improved productivity, and non-traditional (pineapples, other tropical fruits, vegetables, spices, essential oils) (World Bank, 2012).

8. Besides sectoral potential, recent changes in the political landscape offer hope for a reorientation of the country's priorities towards an economic policy favoring more growth, investment and poverty reduction. After years of instability, Guinea's first democratically elected President assumed power in December 2010. The vision of the new Government is to transform Guinea's political and economic governance in order to start sharing the benefits of its very rich agricultural and geological endowments. Guinea should receive significant foreign investment in mining and related infrastructure projects, which, if well managed and appropriately leveraged, can support the development of other industries in Guinea. However, the political transition has been difficult. In particular, parliamentary elections – and in sequence the local elections - have been postponed several times. They are now scheduled for June 30, 2013, but continued delays and a difficult political debate have posed a challenge to the country's transition to a stable democracy.

## B. SECTORAL AND INSTITUTIONAL CONTEXT

### B.1. Sector context

9. The private sector has not been able to contribute enough to growth and help realize the country's potential because it is constrained by a number of underlying barriers. These lead to low productivity and under-investment in diversifying sectors of the economy, which is a key issue for Guinea today[6].

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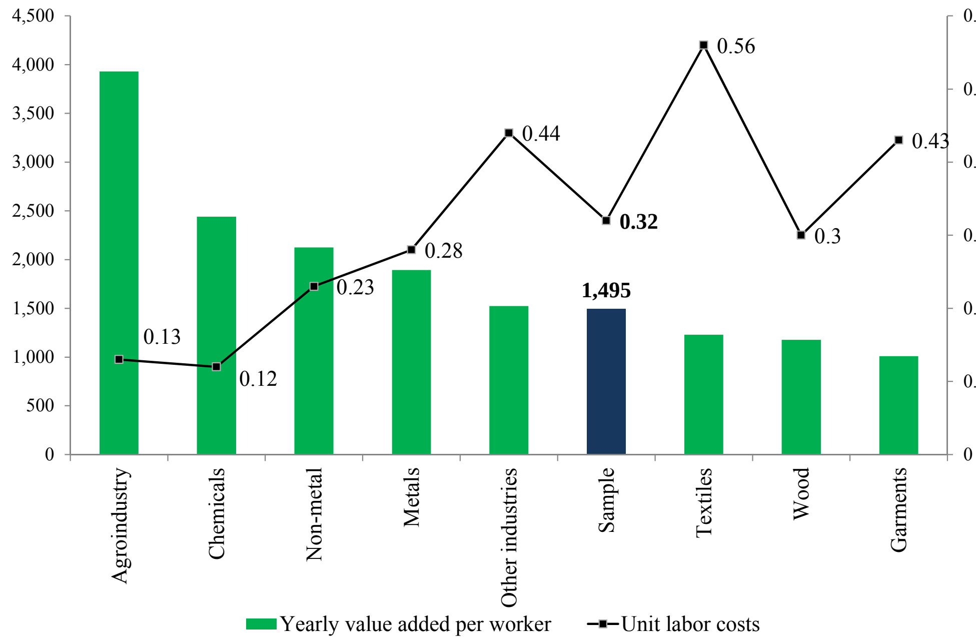
[5] - The mining code requires a considerable percentage of mining operator's procurement to be sourced locally. This gives rise to opportunities for SME in sectors such as food industry, maintenance and repair of mining equipment, clothing industry as well as technical services such as air conditioning and cooling and communication.

[6] - The importance of diversifying the economy's sources of income derives from the potential risks of over-dependence in the extractive industries, notably their potential impacts on the relative competitiveness of other tradable industries and on the vulnerability of the economy to external shocks. While Guinea is still in the process of structurally adjusting its labor and capital allocation, it is very important to have good conditions for investments in other activities with strong potential.

10. Firm level data from 2006-07 show that labor productivity in Guinea is low: around US$ 1,495 per worker, against US$ 3,152 per worker in neighboring Senegal and US$ 20,160 per worker in South Africa (World Bank 2012b). Furthermore, sectoral productivity varies widely. Agroindustry and Chemicals have a higher productivity (and conversely a lower Unit Labor Cost (ULC)[7] due to low labor costs[8]) than sectors like Textile and Garments where labor productivity is low and ULCs sky-high. Although more recent firm-level data in Guinea is not available, there is no reason to believe that the level of productivity has changed significantly since then, given that there were no extraordinary changes in the conditions, economic opportunities, investment and economic growth in the country.

**Figure 3. Labor productivity (Value Added per worker) and ULCs (percent)**




Note:
- Data were collected in 2006-07.
- Labor productivity is the value of output that the firm produces excluding the value of raw materials (such as iron or wood) and intermediate inputs (such as engine parts or textiles) used to produce the output divided by the number of workers.
- Unit Labor Costs is labor costs as a share of value added.
Source: World Bank (2012b).

11. Overall, Guinea is ranked 141$^{th}$ out of 144 countries in the 2012 WEF Global Competitiveness Index that measures the impact of a set of institutions, policies, and factors – i.e. the investment climate – on the level of productivity of a country (See Figure A.7. 3 in

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[7] - For cross-country comparisons, unit labor costs (ULC - that is, labor costs as a share of value added) have several advantages over comparisons of per worker labor costs in a common currency (for example, the dollar). First, they avoid problems associated with exchange rate fluctuations - both labor costs and value added are measured in local currency. Second, they partially account for skill differences. For example, labor productivity and labor costs will both appear low if a firm has a poorly educated workforce.

[8] - The same survey data show that labor costs were fairly low at the time of the survey (2006-07) at around US$ 40 per month. This is much lower than in Senegal (US$ 115 per month) and of course, South Africa (US$ 656 per month).

Annex 7). Guinea's investment climate affects mostly MSMEs as they account for the largest share of firms in the country: estimates suggest that 98 percent of formal firms have less than 100 employees and are MSMEs[9]. Typically, the intensity of investment climate related constraints is stronger for MSMEs. Some of the underlying causes of these weaknesses include:

12. *A poor legal environment*. Despite recent significant improvements (business registration, property registry, and access to an electrical connection) the World Bank's Doing Business report for 2013 signals significant issues, largely because of differences versus other countries on the regulatory environment for paying taxes and protecting investors (See Figure A.7. 4 in Annex 7). Survey data from the late 2000s show that MSMEs (that is firms with less than 100 employees) tend to suffer more acutely from such an environment. For example, while less than 15 percent of large firms identified tax rates, tax administration, and business licensing and permits as a major constraint, this was the case for 17 to 48 percent of MSMEs. Improvements in this area are also hampered by the limitations of the dialogue between the public and private sector (infrequent, often centered around Conakry and larger firms) which makes prioritization and follow-up of reforms difficult.

13. *Factor markets – Access to finance is weak in Guinea.* The country is constrained in accessing private international finance markets due to its political and macroeconomic instability, poor regulatory framework and limited government efficiency. On the domestic side, access to finance is also a key constraint for firms. In the late 2000s, around 54 percent of formal firms in Guinea had access to a bank or checking account against 87 percent in SSA while investment was almost entirely self-financed – 94 percent of the value of investment in Guinea against 79 percent for SSA on average. Not unexpectedly, access to finance is more difficult for smaller firms; while 85 percent of large firms have a bank account only 51 to 73 percent of MSMEs have such an account. Similarly, the share of banks in the financing of investment (in value) is a decreasing function of firm size; while this was around 7 percent for large firms, it ranges between 0 and 2 percent for MSMEs, potentially suggesting constraints of the smaller firms in accessing the formal banking market. Entrepreneurs operating micro to small firms are hence more likely to use a relatively simple but prevalent informal market, include the microfinance industry. This sector is comprised of 16 institutions with three areas of focus: the most common are cooperatives, which provide credit to their members; the other two types of institutions are those concentrated on a particular target group (eg: rural microfinance), and finally the typical open-door microfinance institution.

14. *Factor markets – Human capital is low*. In Guinea, as of 2010-11, the literacy rate is 41 percent for adults while the net intake rate in grade 1 (as a percentage of official school-age population) is less than 50 percent and the ratio of teachers to pupils in primary education is 42-44 pupils per teacher, suggesting problems of quality. In addition, vocational and professional training is little developed and does not compensate for the lack of initial training. In effect, survey data show that only 21.1 percent of Guinean firms offered training in the late 2000s; this is well below the SSA (30.7 percent) and world average (35.3 percent).

[9] - Estimate based on the 2006-07 enterprise survey. These are estimates as – in early 2013 – Guinea never undertook a census of firms on a countrywide basis.

Size based differences are again important as roughly 14 to 18 percent of MSMEs offer formal training to their employees against 100 percent of large firms.

15. *Government limitations*. Guinea faces financial, monetary, and fiscal instability, as well as micro issues such as lack of property rights, corruption, and excess taxes. Guinea is in the lowest decile in the World on rule of law, control of corruption, and political stability, according to the World Governance Indicators (2011). Recently, the government cancelled contracts in the mining sector, and changed license terms and conditions in the telecommunications sector. Finally, institutions aimed at supporting the private sector are limited (both in numbers and quality) or have recently been established and cannot fully help in promoting investment and compensating for the low human capital.

16. *Weak infrastructure*. In Guinea, currently, almost all transportation is done by road, but the condition of the roads is very poor (only 19 percent of the paved roads are in good condition), less than one-fifth is paved. The cost of rehabilitating all roads in poor condition is estimated at more than 25 percent of Guinea's 2010 GDP[10]. Similarly, electricity and telecommunication services (landline, internet) are weak. For example, in the late 2000s, almost 60 percent of Guinean firms had a generator against an SSA average of 44 percent.

17. Overall, MSMEs operate in an environment where all the underlying sources of growth have severe weaknesses that limit investment possibilities. However, it is worth targeting interventions in sequence. Specific areas of concern to drive investment include the lack of information on investment opportunities and administrative constraints to firm's registration, access to finance, firm's low skills and productivity. This project aims to tackle some of these specific constraints that limit investments in the diversification of the economy and that are realistically addressable. The project will not at the moment address issues such as direct financing of MSMEs or building of transport infrastructure, but by improving MSMEs' access to skills development solutions that address sectors' specific needs, the project seeks to help investment in upgrading and diversification of MSMEs; and by helping to improve the processes linked to attracting investment, the project aims to contribute to improve the conditions for facilitating investment.

### B.2. Institutional environment

18. The Ministry of Economy and Finance (MoEF), which defines key parameters of the business environment (through taxes and incentives), the Presidency, the Central Bank of the Republic of Guinea (CBRG), the Ministry of Industry and SMEs (MISME) which oversee the productive sectors, and multi-sectoral committees that oversee incentives to enterprises and several technical ministries (including Mining, Geology, Telecoms and new ICTs, Energy and Environment, Transport and Ministry of Trade) all play a key role in implementing the economic development strategy of the country.

19. Institutions to be involved with the project (MISME, Agency for Promotion of Private Investment - APIP, and the CBRG) have had, and still have, relations with international agencies. Recently, IFC has been working closely with MISME to create a One-stop-shop within APIP to help foster business registration. However, it must be mentioned

[10] - *Projet d'Appui au Secteur des Transports* - FED/2012/23735

that these institutions often have low capacity, staff quality is uneven, and they lack proper equipment to operate efficiently. Furthermore, MISME and APIP never implemented a World Bank financed project. This suggests the importance of introducing a set of important measures:

(i) support the creation of a dedicated Project Implementation Unit (PIU), including procurement and financial specialists, as well as a specialists for Component 1;
(ii) contract with project funds specialists to be integrated in specific agencies (APIP and Support Centers) and help with implementation;
(iii) obtain assistance from international experienced consultants for guiding specific activities;
(iv) partner as much as possible with institutions with strong experience (eg: CBRG);
(v) develop institutional capacity building in the agencies being supported by the project.

## C. HIGHER LEVEL OBJECTIVES TO WHICH THE PROJECT CONTRIBUTES

20. This project builds upon policy dialogue with the Guinean authorities and the domestic private sector, major mining groups, and the financial sector.

21. The new 2013 PRSP has four pillars – i) Governance and reinforcement of institutional and human capabilities; ii) Acceleration, diversification and sustainability of growth; iii) Development of infrastructure to support growth; and iv) Improving access to basic social services. Pillar two is of special relevance for the proposed project. In effect, this pillar (*Acceleration, diversification and sustainability of growth*) entails reaching macroeconomic stability, promoting growth sectors, improving the business climate and investment incentives, and promoting regional integration, increase industrial productivity and trade promotion. The GoG has therefore clearly indicated that it would like to design and implement a program of economic diversification and transformation to meet pressing social demands and create sustainable jobs in the short to medium term through greater involvement of the private sector in productive activities.

22. This operation also supports fundamental objectives of the World Bank's Interim Strategy Note (ISN, Report No. 59671-GN) from March 24, 2011. The latter supports: (i) macroeconomic stabilization with a focus – inter alia – on public administration; (ii) a major push to boost the delivery of social services; and (iii) the creation of jobs to help deliver tangible quick results to the citizens. By helping to promote investment and diversification, the project should contribute to better macroeconomic stability and help create formal jobs over its duration.

23. Furthermore, this project also complements existing World Bank Group operations in Guinea, notably the Mineral Governance Support Project (MGSP, September 2012), the Economic Governance Technical Assistance and Capacity Building Project (EGTACB, March 2012) and IFC's Guinea Local Supplier Development initiative and regulatory reforms. While the MGSP focuses on strengthening the capacity of institutions managing the mineral sectors, the EGTACB project aims to re-establish and strengthen basic systems and practices to improve the management of public financial and human resources. IFC's recent work includes supporting the government in developing an Investment Code and drafting

new regulations for MSMEs, as well as upgrading the managerial capacity of Guinean Small and Medium Enterprises (SMEs). The proposed project complements and expands this ongoing work by helping build backbone infrastructure in business registration, investment promotion, and access to finance, as well as developing targeted interventions to upgrade the technical capacity of MSMEs in non-mining sectors such as agribusinesses.

24. Finally, it must also be mentioned that the project is aligned with the Africa Regional Strategy pillar on competitiveness and employment, under the broad theme of inclusive and broad-based growth.

## II. PROJECT DEVELOPMENT OBJECTIVES

### A. PROJECT DEVELOPMENT OBJECTIVES[11]

25. The Project Development Objective (PDO) is to support the development of MSMEs in various value chains and to improve selected processes of Guinea's investment climate.

26. For the purposes of this project, investment climate reform comprises inter alia processes of firm's registration, investment promotion, Public-Private Dialogue (PPD), and banking infrastructure systems.

### B. PROJECT BENEFICIARIES

27. The main groups of beneficiaries are various private sector stakeholders and government agencies playing a key role in the interaction between the state and the private sector (i.e. one-stop-shop, investment promotion, central bank).

28. **Entrepreneurs and international investors:** entrepreneurs and investors will benefit from the expected improvement in investment facilitation. The expected increase in information, predictability and public-private dialogue will benefit MSMEs that tend to have limited bargaining power. It will also support foreign investors by contributing to reduce uncertainty and transaction costs. Additionally, MSMEs, notably women-owned, will also benefit directly from the training provided through Support Centers (SC), which are expected to improve skills for working in a competitive environment. MSMEs will also benefit from improved financial systems enabling them to access credit in more equitable terms and conditions and make payments in a safer and quicker manner.

29. **Workers:** the project should help create formal jobs through various channels: first, through the expansion of MSMEs supported by the project as a consequence of improvements in the firms' managerial and technical capacities; second, by promoting

[11] - A valid question is the following: if the project seeks to provide conditions for private investment, why is not investment in Guinea the main PDO outcome measure? The reason for this is that investment is affected by a realm of different things, not only the project. Attribution to the project of its objectives and indicators is necessary. Hence, the PDO and the M&E indicators need to be specific to those affected by the project. Furthermore, investment at firm level for firms with limited financial accounts is of difficult measure, more so than sales and profits, where standard definitions are used. Finally, investment is a means to an end – increasing the living standards of Guinean.

investments and through improvements in the business environment; finally, by providing support for the development of the financial sector, notably in its reach to SMEs, which can lead to a growing number of employment opportunities in this sector.

30. **Banks:** the technical assistance to operate a Real Time Gross Settlement System (RTGS) and an Automated Clearing House (ACH), as well the creation of the Credit Reporting System (CRS) will provide the technical and technological backbone for the expansion of the financial sector and facilitate access to credit for firms. The banks will thus benefit from better ways for clearing and settlement of interbank and retail transactions, as well as improve the quality of their lending portfolio. In addition the establishment of a CRS will increase transparency in the banking sector, reduce current transaction costs and allow banks and other financial institutions to extend credit and loans to new clients. This should lead into increasing their customer base to new sectors of the economy, as well as increase the penetration of services within those already using their services.

31. **Public stakeholders.** The project will support various Government agencies through technical assistance, training and technical and information systems. The MISME will lead the implementation of the project and its staff, strategy and procedures will benefit from the involvement of the project. The project will support the creation of Support Centers under the MISME. Additionally, the project will support the development of APIP – a recently created agency of investment promotion – through various means: better information and technical systems for the one-stop-shop ("guichet unique") and the investment promotion; capacity building of staff in targeted divisions. The project will also assist in the development of technical and management capabilities within the CBRG. Furthermore, improved transparency and efficiency of the government agencies supported by the project are expected to increase confidence in public institutions.

## C. PDO LEVEL RESULTS INDICATORS

32. The progress towards achieving the PDO will be monitored through the following indicators:

1. Sales of MSMEs supported by the Support Centers, relative to control group (gender-disaggregated).
2. Number of investor inquiries in targeted sectors leading to individual investments in Guinea above US$ 500 000.
3. Value of loans to firms and individuals included in the Credit Reporting System in a given year as percent of all lending in the same year.
4. Value of yearly transactions settled in RTGS / Annual GDP.

## III. PROJECT DESCRIPTION

### A. PROJECT COMPONENTS

33. The project will include 3 components:

- Component 1. Establishment of Support Centers for SME development;
- Component 2. Support to Investment;
- Component 3. Project Implementation and M&E.

34. The Project will support the GoG interest in promoting economic diversification in non-mining tradable sectors. The two main components of the project provide a contribution to this objective by supporting SME development and investment creation in non-mining related industries.

35. Component 1. *Establishment of Support Centers for SME development.* The aim of this component is to promote diversification and private sector growth through direct investment in skills development of SMEs (mainly in selected regions and women-owned enterprises in Conakry with potential for growth in terms of income and employment).

36. *Component 2. Support to Investment.* This component aims to improve specific elements of the investment climate with a view of facilitating the development and investment of the private sector. This work includes facilitating business registration, promoting investment, improving private-public dialogue, and improving access to credit. This component alone is not sufficient to drive the diversification needed, but these steps are necessary in that process.

37. *Component 3. Project Implementation and M&E.* This component will finance the establishment and operation of the Project Implementation Unit, the Steering Committee, and the monitoring and evaluation of the project and will include a rigorous impact-evaluation of the first component.

**Component 1. Establishment of Support Centers for SME development (US$ 4.2 million)**

38. This component of the project will promote SMEs through the creation and development of Support Centers (SCs) with management autonomy and responding to MISME. Annex 2 details the justification for the timeliness of this intervention. The proposed project will help finance two regional SCs - whose focus will include agroindustry and other sectors - and a center in Conakry, mostly oriented towards women entrepreneurs. The interest on agribusiness in regional development results from the government's policy of promoting the development of its agro-ecological endowments, as well as the importance of diversifying industries before the expected boom of the mining industry. Decentralization is also required if one wants to maximize the impact of SCs economy-wide. The center in Conakry aims to provide female-owned businesses with the capacity to expanding activities

to light manufacturing as opposed to traditional women-dominated sectors such as commerce and retail.

39. The SCs will provide four types of assistance: (i) technical support; (ii) information; (iii) One-stop-Shop registration services in region and (iv) training to MSMEs, including cooperatives:

- Technical support will include: laboratory activities, technical assistance to SMEs on production process, and technical support for project developers or new entrants;
- On information, activities will include: market opportunities, information on (off-the-shelf) existing technologies, identification of bottlenecks/opportunities for further innovation (products and processes), and transport options for local and international markets;
- One-stop-Shop registration services in region (similar to the one provided by APIP in Conakry);
- Finally on training, the SCs will provide specialized training on the value-chain (production, quality, conservation, packaging, etc.), as well as mentoring programs.

40. Given the current context in Guinea, the cost of the services conducted by the SCs will be (partially or in full) borne by the project. All the activities like sharing of information and training that are to be disseminated through the interested parties will be 100 percent borne by the project during its duration. The technical support provided directly by the centers is envisioned to require a contribution of 10 percent from the beneficiaries[12]. More customized initiatives will imply the entrepreneur's contribution of up to 25 percent, depending on the specificities. The centers will be administered independently and will respond directly to the MISME. At the end of the project, some of the operating expenses will be integrated in the government budget and in sequence be increasingly shared with the private sector. The government will also be able to apply for management funds from donors if the centers are proven in the impact evaluation to be successful. The commitment of the government is to keep a minimum of 4 people in each center post-conclusion of the project.

41. Implementation of the SCs will be done in sequence. The project is developing a study on the detailed implementation of the SCs[13]. This will be used for instance for defining the best location and sectors of focus for the regional support centers, using objective criteria of economic potential. The project will establish two regional support centers in year 2, which will operate for its duration. Following an impact evaluation on the effectiveness of the SCs in terms of firm-level development, the government and the donor community may

[12] - These figures are preliminary and subject to review following the initial studies. Having said that, while other models of providing the services like higher contribution matching grants were discussed, the government and the team concluded that those solutions would require ex-ante a degree of understanding of the importance of investing in human capital programs that is currently not in place. Given the importance of the uncertainty argument, we would face the risk of lack of demand for the project for reasons that have little to do with lack of need.

[13] - This study is part of the project PPA.

decide on expanding[14] this initiative to other regions[15]. Criteria for considering the initial implementation of the two centers to be successful in terms of firm-level development will include inter alia the number of firms and trainees served, and differences in firms' profitability and investment with respect to a control group.

42. For the center in Conakry, mostly oriented towards women-led SME development, the objective is to improve the skills in productive sectors. Currently, women are more concentrated in the informal sectors – including services and retail – and are often constrained by issues such as limited time for economic activities outside the household and access to skills development programs. The diagnostic conducted under the Poverty Reduction Strategy (2013) suggests the importance of expanding economic opportunities for women and facilitating the access to productive inputs. Hence, the project will build on the growing knowledge[16] of the importance of exposure and mentoring to develop (See Annex 2 for more details) skills development initiatives in terms of increasing information about opportunities and knowledge about techniques. This intervention is part of a larger joint effort with the WB/IFC of addressing constraints faced by informal firms[17].

43. Each SC will have specialized staff (see Annex 6 for more details). The component will finance among others: (i) the technical and financial plan of implementation for the SCs; (ii) the selection, financing of specialists' fees and training of staff, including specialized training on the value chain and mentoring programs; (iii) one-stop-shop services; (iv) technical support to include: laboratory activities, technical assistance to SMEs on production process and technical support for project developers or new entrants; (v) research activities to include market opportunities, information on existing technologies, identification of bottlenecks and opportunities for further innovation of products and processes and transport options for local and international markets; (vi) provision of services, including training activities for SMEs as well as travel and consultancy services; (vii) small-size equipment; and (ix) renovation of existing buildings made available by the Recipient for the Project.

[14] - At that late stage of the project, the government may decide introducing complementary interventions under the auspices of the SCs such as those discussed at project design but not incorporated due to financial constraints. This may incorporate implementing Diagnostic Studies on a selected number of Guinean mining subcontractors to evaluate their performance in all areas of the work, including in production, organization, information, management, human resources, safety standards, and quality systems. This diagnosis would identify areas of need for upgrading and help elaborate Quality Plans with the objective of introducing Quality Management Systems that meet their clients' demands.

[15] - This expansion would have to use funds outside of those currently available for this project.

[16] - Ongoing analytical work in Uganda and other countries in Africa demonstrate significant differences in productivity between women operating in male-dominated sectors and those that operate in traditional sectors, and this work suggests on the importance of circumventing gender norms and addressing information problems to balance the presence of women in non-traditional sectors such as light manufacturing.

[17] - The IFC had initiated discussions with MISME to develop programs for addressing the constraints of informal firms in accessing financial services. In that vein, the IFC/WB will be working with the government outside of this project on access to finance initiatives.

**Component 2: Support to Investment (US$ 4.6 million)**

### Sub-component 2.1. Facilitating investment (US$ 2.0 million)

44. The Agency for Investment promotion of the private sector (APIP) is the investment promotion agency of the Republic of Guinea. It was created in 2011 under the MISME and is now located in the Presidency[18]. It is currently organized in 4 technical departments[19], including a one stop shop[20]. The latter was introduced as part of a larger "business environment reform program" that the GoG and WB/IFC's Investment Climate Practice have supported, to establish the regulatory and institutional framework for business regulation and develop local capacity[21]. APIP was initially established under the MISME, but has recently been relocated to the Presidency of Guinea in order to: (i) demonstrate the government's commitment to Investment Promotion; (ii) be able to coordinate activities across all stakeholders, not only within the Ministry, chiefly all the cluster-level Departments that are involved in facilitating investment; and (iii) follow best practices in terms of Investment Promotion in the sub-region (eg: APIX in Senegal). This change in APIP comes with the risk of having to respond to a different area of the government, despite the Presidency having shown initially commitment to the reform agenda.

45. The aim of this component is to help APIP becoming the main investment facilitator in the country and bring it to international standards. Recent studies (Harding and Javorcikr, 2007) suggest that investment promotion agencies have an impact on investment and FDI, provided they are properly organized and have a clear definition of functions. Best practice agencies such as the APIX in Senegal or the BOI in Mauritius typically undertake activities related to a one-stop-shop, take the lead in improving the legal framework of the business environment, ensure typical investment promotion activities for their country and provide support to investors (domestics and foreign). Therefore, the Project supports facilitating investment in four areas. First, in collaboration with WB/IFC's Investment Climate Practice, it will help advance the reform program by reinforcing the one-stop-shop ("Guichet Unique")

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[18] - APIP has recently (April 17, 2013) been relocated to the Presidency of Guinea in order to (i) demonstrate the government's commitment to Investment Promotion, (ii) be able to coordinate activities across all stakeholders, not only within the Ministry, chiefly all the cluster-level Departments that are involved in facilitating investment, and (iii) follow good practices in terms of Investment Promotion in the sub-region (eg: APIX in Senegal). It is necessary thought a quick clarification of the specific mandate staying in APIP and what is kept in the MISME, both working directly in the project.

[19] - APIP includes a department of Investment Promotion which promotes the country and helps investors; a department of Technical Assistance and Follow-up, which supports firm development and monitors the private sector; a department of Research and Statistics, which inter alia identifies investment opportunities and develops research on entrepreneurship and private sector development, and a one stop shop.

[20] - The one-stop shop and the investment promotion agency in more general terms are financed out of Guinea's budget and will continue to be both during the project and after its closure. The activities proposed for the project are investments to improve the tools of facilitating investment and conducting operations.

[21] - This has recently included the drafting of an Investment Code and regulations for SMEs.

within APIP. Secondly, it will support the development of the investment promotion strategy of APIP. Thirdly, it will support efforts of APIP and the MISME in developing public-private dialogue (PPD) in the country and leading the dialogue in terms of legal business environment. Finally, the project will support general capacity strengthening of APIP to ensure that these tasks can be completed properly.

46. In spite of the solid progress made by the country with WB/IFC support, as mentioned in the Doing Business Report 2013[22], the *One-stop-shop* for business registration in the APIP needs to improve its functionality, increase speed and harmonize data collection across services. The one-stop-shop of business registration in APIP needs now to be electronically connected to other government structures (tax authority in particular). Therefore, the One-stop-shop for business registration will be strengthened by financing: (i) improved connectivity with several administrations (CNSS, Commercial Registry, Central Bank, etc) including back office systems; and (ii) the computerization of commercial registry (RCCM). These initiatives aim to continue the ongoing WB/IFC work of facilitating the processes of firms' formalization. These initiatives will leverage on the IFC work program that will cover the initial assessment of IT needs, and technical support to the changes in the One-stop-shop. To ensure a proper implementation of the activities under the project, the *guichet unique* will be mentored in these steps by an international consultant with previous relevant experience managing similar agencies.

47. *In terms of investment promotion*, the project will support efforts to expand the currently limited institutional and technical capacity of APIP's investment facilitation. The project will use as reference investment promotion guidance toolkits such as the WB/IFC/MIGA "Investment Generation Toolkit" and the "Global Investment Promotion Best Practices". The project will help build APIP investment facilitation capacity through: (a) the development of an investment promotion strategy; (b) the preparation of marketing materials and investors lists for of 4-6 sub-industries; (c) the wide dissemination of marketing instruments among stakeholders and the private sector together with a list of quick win activities aimed at enhancing sectors' attractiveness; (d) the provision of assistance to APIP in preparing the tools to facilitate investors' enquiries; (e) the provision of coaching to APIP in improving its website content and layout; and (f) supporting APIP in launching targeted investment promotion campaigns outside of the country.

48. *PPD* in the Guinean context, despite the best intentions, remains limited and often ad-hoc. The project will help APIP establish a new secretariat for public-private dialogue. The objective is to systematically raise and evaluate concerns, help unify the private sector representation and provide solutions to improve the local business environment. To ensure proper representation in the PPD platform of employers of all sectors, a large group of the key professional associations will be invited to participate. Besides regular activities in Conakry, the project will also support pilot operations of decentralized public-private dialogue at the commune level to ensure that the dialogue is not only guided by the concerns of larger firms in the capital city, but also takes into account the voice of smaller entrepreneurs in the countryside.

[22] - The number of business registrations has increased by 35 percent, from 3,841 in 2011 to 4,820 registered businesses in 2012.

49. The project will provide financing for: promoting public private dialogue (PPD) through: (a) development of a roadmap for the PPD platform; (b) establishing a new secretariat on PPD within APIP; (c) organizing meetings among policy makers, central and local private sector representatives; (d) provision of office equipment; and (e) continued institutional and technical capacity-building of APIP to support PPD.

50. To develop this demanding program, *APIP will need to continue upgrading its overall institutional and technical capacity*, as well as its capacity of directly facilitating investment. On that front, the project will hence finance capacity building in the different areas of work.

51. Annex 2 details this work program, its technical rationale, and its sequence of implementation.

**Sub-Component 2.2: Credit Information System and Payment Systems (US$ 2.6 million)**

52. Well-functioning financial markets contribute to sustainable growth, economic diversification and investment because they typically provide an efficient mechanism for evaluating risk and return, and then managing and allocating risk. Financial infrastructure is a core part of all financial systems. The quality of financial infrastructure determines the efficiency of intermediation, the ability of lenders to evaluate risk and of consumers and firms to obtain credit, insurance and other financial products at competitive terms.

53. The financial sector is small in Guinea: in 2012, the formal financial sector consisted of 14 active commercial banks, six insurance companies and 16 micro-finance institutions all of them regulated by the central bank (Central Bank of the Republic of Guinea, CBRG). Credit to the private sector has stagnated at around 5 percent of GDP for much of the last decade (IMF 2012b). In the 2012-13 WEF/GCI, access to finance is the top constraint for Guinean firms. The absence of a credit history impedes borrowers to access credit under reasonable terms and conditions. Also banks and other financial institutions do not evaluate new clients' credit risk in an efficient manner which translates into adverse selection. Another key constraint for the financial sector, which affects businesses and the population at large, is the absence of adequate infrastructures for the clearing and settlement of both interbank payments and retail payments. As a result, financial transactions are performed mainly in cash or paper-based instruments, with those being cleared manually through a system operated by the Central Bank but which needs to be improved.

54. Improving access to credit and the business environment is therefore critical for SME growth, formal employment generation in Guinea and to allow the economy to benefit from opportunities offered by the development of the mining sector, diversification and subsequent increase in domestic demand. A key element which is missing now to foster SME lending and enable the financial sector to fully play its role is a proper financial infrastructure. To improve access to finance and the business environment, this sub-component will finance the establishment of a comprehensive credit reporting system and modernization of the payment

system[23]. *Credit reporting* addresses a fundamental problem of credit markets: asymmetric information between borrowers and lenders, which may lead to adverse selection, credit rationing, and moral hazard problems. Regulators and financial market participants are therefore increasingly recognizing the value of credit reporting systems for improved credit risk and overall credit portfolio management, to enhance financial supervision and financial sector stability, and as a tool to enhance access to credit and facilitate investment. Without safe and efficient ways to transfer money, i.e. a *payment system*, individuals and businesses have no choice than using cash or other costly and inefficient ways to make payments (like cheques or other paper-based instruments, which are at present cleared manually), which constrains their ability to do business. In short, a more efficient payment system will contribute to the efficiency of financial infrastructure in the country and will support overall investment and growth.

55. The project will finance the establishment of a comprehensive CRS at the CBRG which will be able to evolve into a credit bureau at a later stage. It will be based on the General Principles for Credit Reporting published by the World Bank and make use of IFCs knowledge/expertise in this area. The CRS will aim to include information from firms and consumers from both positive and negative credit history. The project will seek to identify alternative data sources to cover information on SMEs (data from business registries on related parties, ownership and balance sheets), as well as payment history. The CRS being considered will be an evolving system introducing data and system enhancements as the credit market evolves and also as other relevant data is made available (e.g. payments data)[24]. Activities to be financed include: (a) building awareness on critical credit reporting issues through seminars and targeted events; (b) undertaking of preparatory studies of the main features of the CRS; (c) provision of institutional TA and IT to establish the system; (d) training CBRG staff to operate and oversee the system; (e) training of financial institutions on the usage of the system; and (f) provision of TA on the legal and regulatory framework underpinning the system.

56. On the payment systems side, the project will finance equipment and technical assistance activities to the CBRG through: (a) assisting CBRG staff in the operationalization of the ACH, CBA, Interconnection, RTGS, and electronic banking; (b) assisting CBRG staff in setting-up a payment systems unit and an oversight function and finally; (c) assisting CBRG staff in the drafting of a legal framework underpinning such systems; and (d) technical assistance to create capacity at CBRG for the continuous development of the payment system and credit reporting system, as well as to deal with increased foreign exchange flows.

[23] - Including electronic banking.

[24] - The system intends to include MFIs as they are regulated by the BCRG, but will initially start with producing credit reports in a more efficient manner to the banks, while working in parallel with the MFIs so they are ready to participate in the system. The project does not plan at this stage the establishment of a credit bureau as it will not be commercially viable with a limited number of records in the system. This might be a potential development of the system when the market evolves (in approximately 10 years' time) like the case of Rwanda.

57. Beyond assisting the CBRG in developing the adequate financial system infrastructure, it is also necessary to create capacity at the Central Bank to generate a vision for the continuous development of the payment system and credit reporting system, as well as to deal with increased foreign exchange flows. Technical assistance will be provided in this area.

**Component 3. Project Implementation and M&E (US$ 1.2 million)**

58. This component will finance the establishment and operation of the Project Implementation Unit (PIU), the Steering Committee, and the monitoring and evaluation of the project. The component will support project implementation costs as follows:

- <u>Consultant fees</u> for the Project Coordinator with a specialization in Investment Climate and SME Promotion, Procurement Specialist, Financial Management Specialist, Monitoring and Evaluation Specialist, Accountant, and technical support staff.
- <u>Training in procurement and financial management;</u>
- <u>Training and consulting services</u> to enable the PIU to effectively perform the following functions:
    - The coordination of executing agencies and monitoring the performance indicators of the project;
    - The preparation of progress reports and working documents required by implementation support missions;
    - The provision of information and reports to the Steering Committee and the Bank;
    - The implementation of the M&E plan and of related surveys;
    - The monitoring and consolidation of the project's financial management, and assistance to the executing agencies in procurement and financial management and in meeting the reporting requirements of the Bank.
- <u>Relevant office equipment.</u>

59. Each involved organization (APIP, CBRG, MISME) has nominated a head of component to liaise with the PIU under the MISME. The component will also support the establishment of a Steering Committee coordinated by MISME. The Steering Committee will include other key ministries and institutions (e.g. Ministry of Economy and Finance, CBRG, APIP, Presidency, and Prime-Minister office), as well as representatives of the private sector. The component will finally support the monitoring and evaluation of the project to ensure effective and timely monitoring – data collection and analysis – of progress towards achieving the development objective as set out in the Results Framework in Annex 1.

60. Component 1 of the project will include a rigorous impact evaluation program to compare the change disaggregated by gender in outcomes of interest for the participants in the program against what would have happened in the absence of the program. The evaluation will use counterfactual analysis to establish the direction and magnitude of the causal effect of the intervention separately from the effect of other time-varying factors.

## B. PROJECT FINANCING

### B.1. Lending instrument

61. The project is an IDA-funded operation provided as a Grant in the amount of US$ 10 million for the Republic of Guinea. It is planned to be deployed over a four year period from July 2013 to June 2017.

### B.2. Project Cost and Financing

**Table 1. Project Cost and Financing**

| Project Components | Project cost (US$ million) | IDA Financing | % IDA Financing |
|---|---|---|---|
| Component 1. Establishment of Support Centers for SME development | 4.2 | 4.2 | 100.0 |
| Component 2: Support to Investment | 4.6 | 4.6 | 100.0 |
| *Sub-component 2.1. Facilitating Investment* | *2.0* | | |
| *Sub-Component 2.2: Credit Information System and Payment System* | *2.6* | | |
| Component 3: Project Implementation and M&E | 1.2 | 1.2 | 100.0 |
| **Total baseline cost** | **10.00** | **10.00** | **100.0** |

## C. LESSONS LEARNED AND REFLECTED IN PROJECT DESIGN

62. The Project design incorporates lessons learned from the design and implementation of FPD projects in Africa (World Bank 2012c) and relevant country experiences (in LAC and MNA for firms support).

63. An analysis of the FPD portfolio in Africa over the last decade shows that project complexity is a key factor affecting project outcomes. Projects with too many components tend to have unsatisfactory outcomes (66 percent of projects with more than 9 sub-components had unsatisfactory outcomes). Similarly, projects with more than 2 implementing entities had unsatisfactory outcomes (this was the case for 82 percent of them). Given the limited implementation capacity in Guinea, ensuring that the design of the *project is simple* and with clear actions, objectives, and expected results is critical. A significant trend in the Africa FPD portfolio has been the need to restructure a number of projects in order to simplify their design and to retrofit stronger M&E frameworks. As a result, the overall design of the proposed project is kept simple, with 2 main components, the second with 2 sub-components. The project has one key implementing institution (MISME) with a PIU coordinating the implementation of the other beneficiaries (APIP, CBRG).

64. Intervention in low income and weak capacity countries like Guinea is highly challenging. Hence, as shown by a recent ICR (World Bank, 2013) done on a recently closed project in Guinea, the *strengthening of the institutional capacity of key counterpart agencies* is also critical for effective implementation. As a consequence, a significant proportion of the project funds are allocated for strengthening capacity. This is expected to strengthen project ownership and facilitate more effective implementation. The same report underlines the need to find innovative *solutions for uninterrupted project implementation in a context of political*

*instability and social unrest.* Should such situations arise, there is a risk of a loss of project momentum and benefits. To overcome this, the team plans to hire a consultant to monitor project progress on the ground in case full implementation support missions cannot be implemented normally. Another implication is a need for *high level commitment and ownership*. This project is supported at the highest level of the GoG (Presidency, Minister of Finance, and Minister of Industry) and of the CBRG (Governor and Vice-Governor). In addition, project components have been discussed with the private sector and they expressed a strong interest.

65. Finally, the design of the first component is informed by practice in MNA and LAC countries. Sectoral Technical Centers were established by the Tunisian Government in the late 1960s. Each of them has technical facilities and laboratories, a significant amount of technical staff (45-55 percent of the staff are engineers and technicians) and also undertakes training activities. The coffee federation in Colombia *(Federacion Nacional de Cafeteros)* – provides a package of activities, which are a mix of research, extension, advocacy, marketing and Technical Assistance, as envisioned here. There are a number of other centers in different regions, which often provide similar activities to the ones thought of for component 1. These are detailed in Annex 6. Implementing such schemes is however difficult. The World Bank funded project (*Enhancing Competitiveness: Trade Facilitation and Productivity Improvement Project*), which supported CITEs in Honduras focused on the (1) crafts and tourism and (2) wood and furniture industries. The centers at the end of the project had problems because of procurement delays. This suggests that implementation is a critical aspect. To overcome this, the centers planned in the project are to be set-up in a small scale through a pilot approach and the project team has been working with the GoG to minimize the number of contracts in the procurement plan, thereby reducing likely procurement delays.

## IV. IMPLEMENTATION

### A. INSTITUTIONAL AND IMPLEMENTATION ARRANGEMENTS

66. The project will be implemented over a period of four years. The institution responsible for the project will be the Ministry of Industry and SMEs (MISME). Project end of implementation is expected on June 30, 2017. A mid-term review will be carried out by July 2015.

67. Given the multi-institution nature of the project, high level support is required to ensure consistency of interventions and ensure the removal of occasional blockages. This implies: (i) setting-up a Steering Committee to oversee project progress; and (ii) ensuring there is a strong Project Coordination and Monitoring Unit.

68. **Steering Committee**. The project will operate under the guidance of a Steering Committee chaired by the Minister of Industry and SMEs (or her/his representative), which should include representatives from the Ministry of Finance, APIP, CBRG, Presidency, Prime Minister's office, private sector associations and other relevant agencies. The SCT will meet twice a year – or more frequently if needed. The SCT will facilitate project execution by i) providing strategic guidance of the implementation, ii) reviewing and coordinating

project's led initiatives and reforms, and iii) eliminating blockages that could delay project implementation.

69. **PIU – implementation.** The overall responsibility for project execution is delegated to a PIU set up within the MISME premises under the direct supervision of a designated experienced project coordinator. During preparation, the project received support from the PIU of the *Guinea Education for All* project (GEAP), because the MISME has no fiduciary management capabilities nor experience for World Bank financed projects. The GEAP team is responsible for all financial management and procurement matters during preparation, including project reporting and monitoring. In addition, the GEAP team has therefore helped put in place the project ongoing PIU. The project PIU will therefore build on an existing project management capacity, experience and established procurement and financial management systems. Each of the key institutions (MISME, APIP, and CBRG) involved in the project will have a head of component that will coordinate the work, and relay information between the departments and the PIU. The Project team is hosted at the MISME and will supervise the relationship between the different implementing parties and the Steering Committee, as well as between the implementing parties and the World Bank. Requests from each component will be circulated through the PIU, which will also oversee the flow of funds to the activities in different components, as well as the reporting of information from components to the project.

70. **PIU – Staffing.** The PIU is to be headed by an experienced project coordinator (PC) who was designated by the MISME on May 28, 2013 in accordance with Bank rules and will have administrative structures, processes, and staffing allowing an efficient administration of the project. The PC is assisted by a number of staff including: a Procurement Specialist, a Financial Management Specialist, a Monitoring and Evaluation Specialist, an Accountant, and Specialists (agribusiness, rural development, agricultural engineer and quality standards) to help support implementation of Component 1.

71. **PIU –Tasks.** The PIU will be in charge of implementing the project in accordance with the Project Implementation Plan and the Annual Work plan which were completed on May 28, 2013. Hence, it will be responsible for the preparation of monitoring reports and other documents required by the Bank. It will ensure that budgetary, procurement; disbursement (incl. management of the project IDA Designated Account), accounting, auditing, and reporting arrangements are carried out in accordance with agreed procedures. Such an arrangement will contribute to reduce fiduciary risks, and consolidate all fiduciary transaction in a way that minimizes burden to the institutions. The PIU will also be in charge of: (i) organizing the SCT meetings; (ii) providing all necessary information on project performance and monitoring to the SCT and the World Bank; (iii) developing and implementing the project communication policy; and (iv) implementing the project M&E framework.

### B. RESULTS MONITORING AND EVALUATION

72. The monitoring and evaluation will be critical for continuously improving the project during its duration, as well for assessing its effectiveness. Identifying and tracking through time, manageable but relevant indicators, is essential to measure the projects' outputs and inform its implementation. Measuring impact through rigorous methods will allow for expanding future investments, as well as guide future projects in the Africa Region. In addition to a significant focus on M&E during implementation, particular attention will be paid to building sustainable monitoring capacity beyond the life of the project.

73. The monitoring of the project's indicators will be the responsibility of the PIU. The PIU will hire a Monitoring and Evaluation Specialist responsible for this work for all sub-components. This will ensure effective and timely monitoring of progress towards achieving the results of the M&E Framework as set out in Annex 1. Other indicators for specific sub-components will be outlined in the Operations Manual. Output-level M&E indicators and implementation will be closely reviewed by the Project Steering Committee and the World Bank team in charge of the implementation support of the project to ensure that the targets are achieved – the World Bank will assist the project through three implementation support missions per year (for the first two years of project life, after there will be two missions per year) and a mid-term review. For situations when the planned results are not reached, the implementation support team will work with the PIU towards identifying the reasons behind the lack of achievement of those targets and in developing a strategy for getting the activity back on track.

74. Component 1 of the project will also include an impact evaluation in order to assess its effectiveness and to help identify the underlying mechanisms behind its impact. The results from this work will allow for the expansion of high-impact activities within Guinea and inform the development of future projects in the Africa Region. Project results will be tracked through regular enterprise and household surveys as part of the impact evaluation. The survey instruments will be gender-informed, to shed light on any differential project effects on men and women. The project – under the supervision of the World Bank – will fund and contract out the surveys needed for the impact evaluation, and the World Bank will secure human and financial resources to cover its own researchers' time and travel. The World Bank will work with the PIU M&E Specialist, and other project counterparts and as applicable with local researchers and consultants/consulting firms, but will be fully responsible for overseeing, designing, implementing, analyzing, and disseminating the impact evaluation study.

### C. SUSTAINABILITY

75. The government is committed to the implementation of the project which is one of the responses of the World Bank Group to various requests for assistance in the area of business environment, and SME development received from the GoG, including the Minister of Industry and SMEs and the Minister of Finance. The authorities and stakeholders in Guinea understand that the country is at a turning point and that proper improvement in the business

environment and support to SMEs will help the country to diversify and fully benefit from developments in the mining sector and their multiplier effect.

76. The measures supported under the project will be market based and non-discretionary. Improving the effectiveness of the institutions and developing instruments associated with an efficient MSME development strategy will also promote project sustainability. The following factors will specifically be critical for the sustainability of the project benefits:

- Institutional support to be provided to the CBRG and APIP will help improve public sector efficiency and credibility *vis a vis* the private sector. Along with the reinforcement of PPD, it will help provide a backbone institutional structure to PSD in the country;
- Beside the institutional development aspect, support to APIP, MISME (through the project PIU) and CBRG will contribute to significant improvements in the business environment as it will ease the firm's registration process, make investment easier, and improve access to finance through better financial infrastructure (credit information and payment systems). Additionally, the SCs will provide the initial backbone of a critical industry support ecosystem.

## V. KEY RISKS AND MITIGATION MEASURES

### A. RISK RATING SUMMARY – TABLE 2

| Risk | Rating |
|---|---|
| **Stakeholder Risk** | **Moderate** |
| **Implementing Agency Risk** | |
| - ***Capacity*** | **High** |
| - ***Governance*** | **High** |
| **Project Risk** | |
| - ***Design*** | **High** |
| - ***Social and Environmental*** | **Low** |
| - ***Program and Donor*** | **Low** |
| - ***Delivery Monitoring and Sustainability*** | **Substantial** |
| **Overall implementation risk** | **Substantial** |

### B. OVERALL RISK RATING EXPLANATION

77. Overall risk rating is *Substantial* for Implementation. The main risks are political, macro-economic, and related to security.

78. Despite recent democratic progress, Guinea remains politically and economically fragile. Unresolved ethnic differences, a delicate balance between civilian and military rule, and the lack of consensus between the Government and the opposition on the organization of parliamentary elections constitute major challenges, and translate into security risks. The macro-economic situation still remains vulnerable to external shocks.

79. The risk during *preparation* is considered *high* due to high country risks (including political, security, and macro-economic risks), coordination challenges between government agencies, and complex sector issues. Risk mitigating factors include an experienced and highly technical project team, strong political buy-in for the project – especially on the side of the MISME, and World Bank Senior Management involvement, with a dialogue at the highest level of Government.

80. The risk during project *implementation* is to be considered as *substantial*, mainly due to the high country level risks, weak current capacity to implement, procurement and fiduciary risks, and complex sector issues. These will be partly mitigated with the establishment of a capable PIU within the MISME, the provision of training and professional advisory services for consensus building, and the expected continued involvement of World Bank Senior Management.

## VI. APPRAISAL SUMMARY

### A. ECONOMIC AND FINANCIAL ANALYSES

81. The project has two major components, the first aims to support directly the development of firms in targeted value-chains, and the second seeks to prepare the institutional capacity of government systems and agencies.

82. Component 1 of the project focuses on MSME Support Centers (SCs) to support the development of value chains in targeted regions of Guinea (first part of the program), as well as the investment of female-owned MSMEs in non-traditional programs (second part). An economic analysis was conducted only for the first component of the project, which directly targets MSMEs, and it was done specifically for the regional centers.

83. The first part of this program under Component1 will invest approximately US$3 million on two regional SME development SCs. The main objective will be to improve the skills and information of the economic operators – farmers and cooperatives, SMEs focused in wholesale, agro-processors – in specific sectors and regions of the country. Through those, changes are expected in (i) farm-level yields, (ii) efficacy in crop selection, (iii) quality of the agricultural products resold (packaging, standards, etc.), with effects on access to new markets, and (iv) presence of agro-processing. These improvements should be reflected in increased sales of these operators. The investment in the regional centers in component 1 is estimated in this analysis to result in a net present value (NPV) of approximately US$ 0.3 million, using a discount rate of 17.5 percent to reflect the risk[25] of investing in Guinea. The economic rate of return (ERR) is estimated at 21 percent for this component.

84. Success in component 2 will be assessed by regular and effective usage of the planned systems and regulations, as measured in the Annex 1's Results Framework. In the absence of an impact evaluation for this component – which would be difficult to design in any case – it will be challenging to attribute changes in firms and (international) investors' behavior only to the project. The changes in quality of business entry and financial systems,

[25] - The interest rate for bank deposits has been steadily around 15 percent in Guinea (EIU, 2012).

coupled with targeting of investors, will in turn have effects on firm-level investment and performance but this causal link will be difficult to directly associate to some of these sub-components.

## B. TECHNICAL

85. The project design was informed by sustained World Bank engagement with the GoG on private sector development issues since 2007, including: the Guinea Enterprise Survey of 2006, the yearly Doing Business Surveys and policy reform missions, a 2011 private-public Investment Climate roundtable, an Investment Climate Policy Note and a Public-Private Partnership (PPP) workshop in 2012. Design also benefited from sector dialogue conducted for the 2011 ISN. Finally, in 2011-12, IFC led the dialogue and work on reforming the business registration and licensing procedures within the new Investment Promotion Agency and developed the SME-Linkages Project.

86. Constant dialogue between Bank staff and Management with the highest officials in the country and the direct engagement of technical staff from MISME, APIP and BCRG has informed the design of the project which seeks to balance its activities with the institutional capacities, the local context and internationally accepted practices in PSD projects.

87. This project will tackle some of the specific constraints that limit investments in the diversification of the economy. Hence, by helping to improve the processes linked to attracting investment (formalization, investment promotion, consultations with the private sector, and managing financial risks), the project aims to contribute to improve the conditions for investment. By improving MSMEs' access to solutions that address sectors' specific needs – be it technical skills or financial services – the project aims to help investment in upgrading and diversification for MSMEs. This dual intervention will help create more favorable conditions for investment in the economy and provide the GoG with some of the tools needed.

## C. FINANCIAL MANAGEMENT

88. A financial management assessment was conducted at the Ministry of Industry and SMEs (MISME) with the objectives to determine: (a) whether there were adequate Financial Management (FM) arrangements in place within MISME to ensure that the funds will be used for the purposes intended in an efficient and economical manner and the responsible entity is capable of correctly and completely recording all transactions and balances related to the Project; (b) the Project's financial reports will be prepared in an accurate, reliable and timely manner; (c) the entity's assets will be safely guarded; and (d) the Project will be subjected to auditing arrangements acceptable to the Bank. The assessment complied with the Financial Management Manual for World Bank-Financed Investment Operations that became effective on March 1, 2010 and AFTFM Financial Management Assessment and Risk Rating Principles.

89. The Assessment concluded that MISME has no fiduciary management capabilities nor experience in World Bank financed projects. As a result of the financial management

capacity constraints, FM arrangements are being put in place with the PPA for the set-up of a Project Implementing Unit (PIU) within the MISME. The PIU will then have the financial management responsibility of the overall project implementation. Each of the key institutions (MISME, APIP and CBRG) involved in the project will have a head of component that will coordinate the work, and relay information between the departments and the PIU once established.

90. Minimum FM requirements are then being put in place for the PIU to become fully operational. The elaboration of the project implementation manual including FM, administrative and procurement procedures was completed before negotiations. With regards to the financial management specialist, the recruitment process is underway and will be completed before effectiveness.

91. In addition as dated covenants, the PIU will: (i) recruit an accountant; (ii) purchase and set up an adequate accounting software; and (iii) appoint an external auditor under terms of reference (ToR) acceptable to IDA.

92. The overall FM risk for the project is rated as *Substantial*. It is considered that the financial management arrangements of the project will satisfy the Bank's minimum requirements under OP/BP 10.02 once mitigation measures are implemented.

**D. PROCUREMENT**

93. Procurement for the proposed project will be carried out in accordance with the World Bank's *Guidelines:* procurement of Goods, works, and Non-Consulting Services under IBRD Loans and IDA Credits & Grants by World Bank Borrowers, dated January 2011; *Guidelines:* Selection and employment of Consultants under IBRD Loans and IDA Credits & Grants by World Bank Borrowers, dated January 2011, and the provisions stipulated in the Legal Agreement; and *Guidelines* on preventing and combating fraud and corruption in projects financed by IBRD loans and IDA credits and grants, dated October 15, 2006, and revised January 2011.

94. *Country Procurement Assessment and Procurement Reform status.* The last CPAR, carried out in Guinea in February 2002, flagged key issues such as the lack of capacity regarding the recipient's staff, the absence of standard bidding documents at the national level, the insufficient capacity of local contractors for contracts subject to ICB, and corruption. Recommendations were made to address these issues. The Bank, through an IDF Grant (TF 55853) signed in November 2005, provided support on the public procurement reform. The main objectives were to: (i) enhance transparency of the procurement system; (ii) put in place the new institutional framework (public procurement directorate controlling procurement transactions, public procurement regulatory body including an appeal committee for complaints; (iii) update the procurement code; and (iv) design standard bidding documents. On March 2009, the legal framework was revisited. The new

procurement law and the new procurement code have been adopted and approved respectively on October 11, 2012 for the law and December 03, 2012 for the Code[26].

95. *Capacity assessment of the MISME to implement procurement, risks and mitigation measures.* The procurement activities for the two (2) Components of the project will be handled by the project's implementation unit in the MISME.

96. A procurement capacity assessment of the MISME was conducted by IDA during project preparation in January 2013. The assessment reviewed the organizational structure for implementing the project taking into account a number of actors and stakeholders. It was agreed with the Government to put in place a Project Implementation Unit (PIU) under the Minister[27].

97. The potential risk on procurement is the insufficient experience on Bank's procurement procedures, especially among the members of the Procurement commissions in the national system. This lack of experience may delay the procurement processes, especially the evaluation of bids. Capacity building measures will be introduced as needed to mitigate this risk.

98. The overall project procurement risk has been rated *high*.

99. The mitigation measures recommended as of May 2013 are: (i) strengthening the capacity of the fiduciary team (PIU and Procurement Commission) on the Bank procurement and consultant guidelines six (6) month after negotiations and as needed during the project implementation; (ii) and put in place a good filing system.

### E. Social (including safeguards)

100. The project should positively impact the poor in Guinea and in particular those economically more disadvantaged currently, including women, the youth and households in rural areas. Specifically, Component 1 will directly target firms (micro and SMEs) in rural areas as well as women-led enterprises.

101. The incidence of poverty in Guinea is 55 percent[28] as of 2012 and has increased since 2007. In rural areas it reaches 65 percent, affecting almost 5 million people. Over 74 percent of the population is less than 35 years old and over 50 percent of the population is less than 20 years old. Unemployment rate reaches 15 percent for those with secondary education but

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[26] - However, it must be noted that national procurement system is still governed by the Act L/97/016/AN passed on June 03, 1997 and its implementing regulations for six months after the publication of the new texts on the Official News.

[27] - The fiduciary function for Project Preparation Advance, financial management and procurement, is managed by an existing project implementation unit - that of the GEAP.

[28] - Draft *Document de Strategie de Reduction de la Pauvrete*, 2013. Statistics in this section are from this document, unless otherwise stated.

goes up to 42 percent for individuals with technical degrees and 61 percent for those with a university degree. Increasing the employment opportunities is hence paramount considering also that a growing number of people will join the labor force in the upcoming years.

102. Furthermore, women face acute constraints. They are more concentrated in the informal and agricultural sectors and are often constrained by issues such as limited time for economic activities outside the household[29] and access to finance for larger investments. The diagnostic conducted under the Poverty Reduction Strategy (2013) suggests the importance of expanding economic opportunities for women and facilitating the access to productive inputs.

103. Against this background, the project responds by seeking to improve the investment climate, and facilitating local and international investment. It also supports initiatives to promote firm-level growth in targeted value chains with strong potential. With the growth of these value chains, it expects to promote employment in rural areas, particularly among the youth. By reducing the constraints of women in accessing skills development programs, it aims to promote entrepreneurship as a means of poverty reduction. These activities go in line with the Poverty Reduction Strategy, which identifies the following critical issues to address the poverty problem: (i) governance; (ii) competitiveness and redistribution; (iii) need for structural reforms including investment climate; (iv) infrastructure; and (v) social protection. The project will focus in particular on the second and third constraints, with some initiatives as well to improve governance.

104. Additionally, there are no social safeguard issues (involuntary resettlement and Indigenous Peoples) with regard to this project. Hence, no WB social safeguards policies are triggered.

### F. ENVIRONMENT (INCLUDING SAFEGUARDS)

105. Project works will be limited to refurbishing existing buildings made available by the Recipient and setting up equipment and furniture. As these activities will have negligible to minimal environmental and social impacts, the project will be implemented according to local and national laws and procedures. Hence, no World Bank environmental safeguards policies are triggered and the project is an environmental assessment Category C.

[29] - According to the World Bank Country Gender Assessment, 74 percent of women contribute to the household water fetching (against 24percent for men), while 77 percent of women do cleaning and taking care of children (against 25 percent for men).

## ANNEX 1: RESULTS FRAMEWORK AND MONITORING

| **Project Development Objective (PDO):** To support the development of MSMEs in various value chains and to improve selected processes of Guinea's investment climate. |
|---|

| PDO Level Results Indicators | Core | Unit of Measure | Baseline | Cumulative Target Values | | | | Frequency | Data Source/ Methodology | Responsibility for Data Collection | Description (indicator definition, etc.) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | YR 1 | YR 2 | YR3 | YR 4 | | | | |
| ***PDO Indicator One:*** Sales of MSMEs supported by the SCs, relative to control group (gender-disaggregated) | ☐ | % | TBD at baseline | n/a | 0% | n/a | 20% | YR2, YR4 | Impact Evaluation Surveys | PIU to contract survey firm, WB IE team to support analysis | For farms, the sales should be measured by agricultural output sold |
| ***PDO Indicator Two:*** Number of investor inquiries in targeted sectors leading to individual investments in Guinea above US$ 500 000 | ☐ | Number | 0.0 | 0 | 3 | 7 | 15 | Yearly | APIP | APIP | Sectors to be targeted by APIP and defined under its investment promotion strategy. |
| ***PDO Indicator Three:*** Value of loans to firms and individuals included in the Credit Reporting System in a given year as percent of all lending in the same year. | ☐ | % | 0.0 | 0.0 | 0.0 | 10.0 | 15.0 | Yearly | Administrative data / National Accounts | BCRG | |
| ***PDO Indicator Four:*** Value of yearly transactions settled in RTGS / Annual GDP | ☐ | Ratio | 0.0 | 0.0 | 0.5 | 1.0 | 1.5 | Yearly | Administrative data / National Accounts | BCRG | Current value of transactions |

## INTERMEDIATE RESULTS

| Intermediate Results Indicators* | Core | Unit of Measure | Baseline | Cumulative Target Values | | | | Frequency | Data Source/ Methodology | Responsibility for Data Collection | Description (indicator definition etc.) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | YR 1 | YR 2 | YR3 | YR 4 | | | | |
| **Component One: Establishment of Support Centers for SME development** | | | | | | | | | | | |
| ***Intermediate Result Indicator One:*** Number of entrepreneurs supported by the SCs (of which percentage female) | ☐ | Number (% female) | 0 | 0 (N/A) | 0 (N/A) | 200 (50%) | 400 (50%) | Yearly | Support Centers Administrative Data | PIU | This includes farmers, cooperatives, MSMEs in any sector, and processing plants |
| **Component Two: Support to Investment** | | | | | | | | | | | |
| ***Intermediate Result Indicator Two:*** Number of investor inquiries in APIP's investment promotion | ☐ | Number | 0 | 0 | 20 | 40 | 60 | Yearly | APIP | APIP | |
| ***Intermediate Result Indicator Three:*** Number of reforms adopted through the PPD platform | ☐ | Number | 0 | 0 | 1 | 2 | 4 | Yearly | Doing Business | PPD Technical Secretariat | A reform is defined as a change which brings an improvement in an indicator or a component of Doing Business |
| ***Intermediate Result Indicator Four:*** Businesses registered and included in the Credit Reporting System | ☐ | Number | 0 | 0 | 50 | 100 | 150 | Yearly | Administrative data | BCRG | |
| ***Intermediate Result Indicator Five:*** Proportion (%) of banks with access to ACH | ☐ | Percentage | 0% | 0% | 20% | 50% | 100% | Yearly | Administrative data | BCRG | |

**Data collection for PDO indicators**: A rigorous impact evaluation will be carried out to assess the effects of the SC program. The identification of a counterfactual will allow for assessing the effects of this component on sales (and job creation), as measured in PDO indicator 1. The indicators referred here will thus be captured by relevant baseline and follow-up surveys as discussed in the impact evaluation sections of this PAD.

## ANNEX 2: DETAILED PROJECT DESCRIPTION

The proposed project consists of 3 components:

- Component 1. *Establishment of Support Centers for SME development*
- Component 2. *Support to Investment*
- Component 3. *Project Implementation and M&E*

Comparative development experiments indicate that countries having an unfavorable investment climate have lower rates of investment, which hampers achieving stronger growth (World Bank, 2005). This has been the case of Guinea.

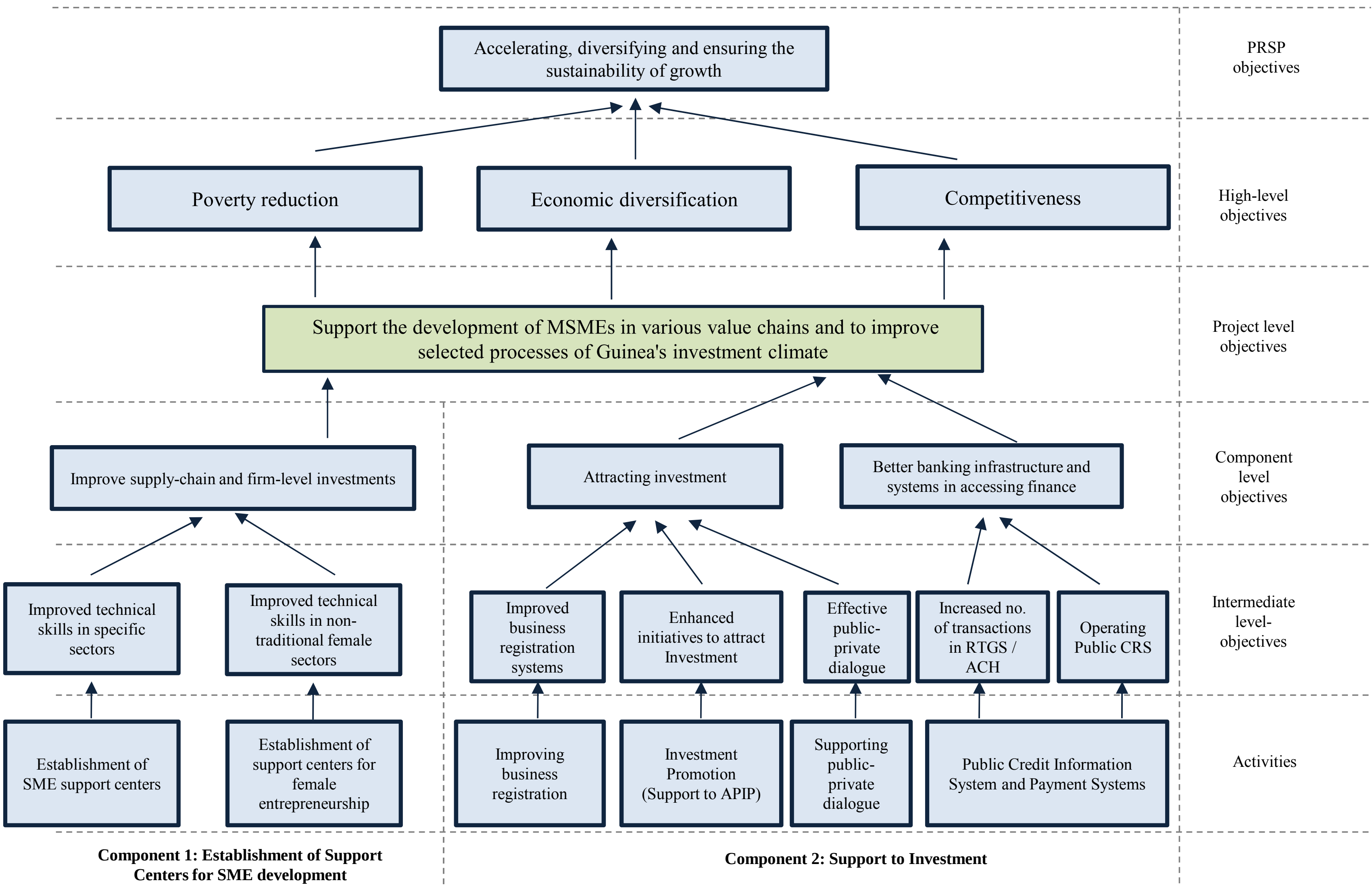
In terms of investment climate, the World Bank's *Doing Business* report for 2013 signals significant issues, largely because of the large number of procedures, high costs and long delays in indicators such as paying taxes, protecting investors, creating a business, getting credit and other significant barriers to doing business. Standard property rights are not protected, court procedures are lengthy and credit information is not registered. Not surprisingly, FDI inflows have been low during the 1990s and only increased significantly above SSA levels in 2004-2008 before falling again. FDI in Guinea is now expected to increase significantly in the coming years due to significant investments in the mining sector.

The development of the mining sectors will have implications for the overall economy. It will not only increase the importance of this industry, but it will also have positive impacts on non-tradable sectors. However, it may also have negative impacts on the competitiveness of other tradable sectors (the usual "Dutch Disease" effects). In this context, the GoG is interested in identifying mechanisms of reducing the risks of the mining boom impacting negatively other emerging and existing sectors in the country. One way of achieving this is by promoting economic diversification before the mining boom takes place. The two main components of the project provide a contribution to this objective.

- Component 1. *Establishment of Support Centers for SME development*. The aim of this component is to promote diversification and private sector growth through supporting the development of value chains in targeted regions of Guinea (including in agribusiness activities that have the potential for increasing income, creating employment, and supporting regional development, as well as creating opportunities for female entrepreneurs in Conakry).
- *Component 2. Support to Investment.* It is necessary to improve key elements of the investment facilitation with a view of expanding the development of the private sector. This work includes facilitating business registration, promoting investment, improving private-public dialogue, as well as improving monitoring mechanisms in accessing credit. The activities included under this component alone are not sufficient to drive the diversification needed, but these steps are necessary in that process.

The next figure describes the logical framework of the project.

**Figure 4. Project Log-Frame**



**Component 1. Establishment of Support Centers (SCs) for SME development (US$ 4.2 million)**

The density, degree of diversification, and size of SMEs in the industrial and services sectors in Guinea is very weak[30]. The exception to this is a limited number of SMEs, often subsidiaries of international companies, which provide port services (transit, handling, transport, etc.) and services to mining companies.

Guinea is currently fairly unsuccessful in terms of exports of goods and services including agricultural products or higher value-added processed products. This is mostly associated to weaknesses in the volume, quality, and price competitiveness of what is produced locally. Although exports as a percentage of GDP is relatively high at 39.5 percent (EIU, 2012), this figure masks the importance of the extractive industries. Agriculture exports represent less than 1 percent of the total exports of goods and services, which have reached approximately US$ 2 billion as of 2011 (EIU, 2012).

Nonetheless, the opportunity for growth in a number of clusters is extremely high. The large expected FDI inflows in mining and related infrastructure in the next five to seven years are estimated to be larger than three times current GDP. Coupled with the minerals extraction, the mining companies are planning significant investments in the transport system including a new railroad system connecting the Simandou region in the East and the Forecariah region, south of Conakry. A new port for exporting iron ore is planned for the Forecariah region and the railroad line(s) will have entry/exit points in a small number of sub-regions[31].

The upgraded transport system can be used by people and other products, creating unique opportunities for new investments and regional growth[32]. These opportunities will be generated in sequence though. While some sub-regions – like Forecariah/Kindia/Mamou – will be able to use the improved road transport systems fairly soon, others may be dependent on the development of the railroad system in the coming years. Still, the improved environment for trading will generate access to new local and international markets for a number of products and services.

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[30] - According to WB Enterprise Surveys (2006), which commonly oversamples large businesses, over 88 percent of the formal firms are small, and employ from 5 to 19 employees.

[31] - At the time of writing this PAD, the iron ore companies – Rio Tinto and Bellzone for instance - have not agreed as yet on having a single railroad line shared by different players or building individual parallel systems (Vale, on their hand, is submitting to the government a plan of extracting their iron ore out of Sierra Leone). Inasmuch as a single railroad system will in principle be more efficient, it will have implications on the capacity available to transport people and agriculture products.

[32] - Using different layers of information on quality of soils, expected road and railway system, other infrastructure investments, growth of urban areas including new housing, telecommunications and other utilities investments, Rio Tinto estimated the unused land capacity available for primary sectors in Guinea (Rio Tinto, 2012). With 1km by 1km precision on the usage of the land, Rio Tinto estimates that the maximum value for the land in Guinea amounts to $3bn if it is used efficiently in the primary sectors (mostly agriculture, some fishery). This is the untapped potential in the first best world using primary sectors only, meaning all land is efficiently used in the primary sectors – hence no constraints nor its effects – but also assuming the available land will also not be used in more productive sectors.

This will place Guinea in a different position from the recent past, considerably changing the potential capacity of the country in competing in a number of sectors. This opportunity may be grasped if only a set of additional complementary constraints are addressed. The sectors with strongest potential are those associated with the country's factor endowments, technology and institutions (Trefler, 1995), taking into account the country's private and public specific inputs (Hausmann and Klinger, 2007)[33]. These include inter alia agribusiness industries - such as rice, pineapple, potatoes, vegetables and mango (the activities in these sectors comprise the full value chain including farming, processed products and convenience food/services (juices, fresh/canned/preserved fruits, energy) – and light manufacturing.

*Market failures being addressed*

Against this backdrop, the challenge for Guinea is to develop the necessary steps to seize the growing opportunities and place it in a sustained growth path based on natural resources and economic diversification. In addition to ensuring macroeconomic stability, providing institutional space for the development of the mining industry, and minimizing political economy issues, the country needs to address important constraints that limit its potential.

Currently, investors in specific industries face multiple barriers, including in accessing finance, electricity and in developing the entrepreneurial, managerial and technical skills to compete in high-standard markets.

For women-led businesses, they are often also constrained by gender differences in time use (primarily resulting from differences in care responsibilities), gender differences in access to productive inputs (particularly land and credit) and market and institutional failures that disproportionately affect women. Women are also significantly more likely than men to be employed in the informal sector – 72 percent of women work in informal enterprises versus 61 percent of men (Household Survey, 2007-2008). Informality typically entails smaller scale of operations and greater difficulties in accessing productive inputs.

This component of the project will focus in particular on the skills constraints and the asymmetries of information. In upgrading skills and increasing access to new information to operate in these sectors, the targeted entrepreneurs require technical support. Without accessing these skills, they tend to under-invest in existing industries and not enter new sectors. However, they currently face a set of constraints in accessing this set of skills, including:

- **Supply-side constraints**. The weak entrepreneurship process in Guinea can be tightly linked to the lack of institutions promoting, facilitating and supporting enterprise creation and business development. In regions where valuable value chains can be developed, the

[33] - According to Hausmann and Klinger (2007), products require a large number of both private and public specific inputs/capabilities. These inputs cannot easily be redeployed to the production of other products given their specificity. Thus, structural transformation is restricted up to a point by the products that are currently being produced. This helps explain why countries with similar factor endowments produce/export very different goods and services.

absence of institutions dedicated to the promotion and facilitation of technical support for the different links of the value chains, constitutes the main obstacle to be addressed[34].

- **Financial constraints and credit market failures**. No financial institution in Guinea is financing technical training programs– even if outside Guinea – notably because of the limited information about the benefits of this investment.

- **Lack of markets to insure the risk of the investments**. The targeted entrepreneurs may identify the opportunity to invest in a specific industry, but being risk-averse limiting their investment in the absence of a market that insures their risk. Providing information to entrepreneurs on new opportunities and linking them to international investors with increased access to credit markets and sharing the risk with other markets may help spur new investments.

- **Information failures**. Existing SMEs have limited knowledge about the benefits of investing in training programs and other mechanisms of upgrading skills, and hence are unwilling to pay for the market value of these programs. This leads into under-investments in these programs and thus a reduction in the capacity of the firms to compete. Furthermore, even those entrepreneurs that have identified a need for training services have limited information to identify a good "certified" provider that is able to provide cost-effective services.

- **Coordination failure**s. Investment in skills development programs and more generally in the targeted clusters is dependent on a well-defined concerted effort from various players. Coordinating the needs of those in the initial stages of the value chain with the remaining actors, including the support sectors such as transport and logistics is critical for the success of the cluster. Having the transport system addressed, the targeted entrepreneurs will still be constrained by the lack of other physical and institutional infrastructure, which needs to be addressed through coordination between the players in the value-chain.

- **Spillovers**. Skills development training programs involve spillovers where businesses and workers not participating in the programs are likely to be able to benefit from these investments. Trained workers are likely to move to other nearby firms bringing in knowledge, plus in regionally concentrated clusters, knowledge is transferred through direct copying of techniques and (*compelled*) information sharing. The spillovers reduce the private returns for participating companies and lead to under-investment in this type of programs.

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[34] - The *Institut de Recherche Agronomique de Guinée* provides technical support to farming, but does not comprise a comprehensive package linking agribusinesses to final markets through a technical work all through the value chain and all through the functions of an SC. The Ministry of Labor's *Office National de Formation et de Perfectionnement Professionnels (ONFPP)* provides technical/managerial training to workers/managers of firms contributing to the social security, as well as some informal firms. This is a relevant initiative but does not have the sectorial focus and technical depth that are the goal of this component. The IFC's Supplier Development Program for mining companies' contractors is another relevant project.

*Intervention*

Considering the opportunity for growth in targeted clusters and regions of the country and the constraints faced by firms, this component of the project comprises one main activity: establishment of Support Centers (SCs) for SME Development. This component will build on IFC's current positive experience with the "Guinea Local Supplier Development" program[35] and UNIDO's experience in the Forest Region with Community Production Centers aimed at training youth[36]. The support centers will focus on specific clusters two locations of the country, and a small center for women entrepreneurship in Conakry.

*Regional SCs*

Each SC will have dedicated specialized staff (see Annex 6 for more details). The component will finance among others: (i) the technical and financial plan of implementation for the SCs; (ii) the selection, financing of specialists' fees and training of staff, including specialized training on the value chain and mentoring programs; (iii) one-stop-shop services; (iv) technical support to include: laboratory activities, technical assistance to SMEs on production process and technical support for project developers or new entrants; (v) research activities to include market opportunities, information on existing technologies, identification of bottlenecks and opportunities for further innovation of products and processes and transport options for local and international markets; (vi) provision of services, including training activities for SMEs as well as travel and consultancy services; (vii) small-size equipment; and (ix) renovation of existing buildings made available by the Recipient for the Project.

The SCs will provide four types of assistance: (1) technical support; (2) information; (3) One-stop-Shop registration services in region and (4) training to MSMEs, including cooperatives:

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[35] - With this program, IFC aims to bridge the gap between mining companies and local businesses by:

- Building the capacity of local suppliers;
- Supporting local consulting firms and trainers;
- Helping develop the "Guinea Buy Local Program";
- Working with government officials, financial institutions, international donors (Austria, Denmark, Japan, Netherlands), and other relevant stakeholders (mining corporations like Rio Tinto, GAC (Guinea Aluminum Corporation), BHP Billiton and a bank like BICIGUI) to develop the local supply chain;
- Developing a comprehensive database of local businesses that can become suppliers to mining companies.

Over $7.7 million in new contracts in sectors such as transport, construction and agriculture have been obtained by local SMEs and over 700 new jobs were created. The IFC initiative aims to be integrated in the SCs initiative under this project.

[36] - The Community Production Centers sponsored by UNIDO focus on technical training programs on specific sectors such as (i) embroidery, (ii) sewing, (iii) hair dressing, (iv) tie dying, (v) soap making, (vi) carpentry, (vii) palm oil extracting, (viii) blacksmithing, (ix) bakery.

**Table 2. Details on SCs**

| Services | Technical support | Information | Training |
|---|---|---|---|
| | • Laboratory/testing activities<br>• Technical assistance on production process<br>• Technical support for project developers or new entrants.<br>. | • Market opportunities<br>• Information on (off-the-shelf) existing technologies<br>• Identification of constraints and opportunities for further innovation (products and processes)<br>• Transport options for local and international markets | • Production<br>• Quality<br>• Conservation<br>• Packaging |
| **Pricing** | • 10 % of cost, customized initiatives up to 25 % | • Free, customized initiatives up to 25 % | • Free, customized initiatives up to 25 % |
| **Eligibility criteria** | • 1 year of accounts and/or Min YTO 34 620 000 GF (USD 5,000) | 1 year of accounts and/or Min YTO 34 620 000 GF (USD 5,000) | 1 year of accounts and/or Min YTO 34 620 000 GF (USD 5,000) |

Given the constraints outlined above, the cost of the services conducted by the SCs will be subsidized. The centers will be administered independently – one of the centers will be the central hub of the SC activities – and will respond directly to the MISME. All the activities like sharing of information that are to be disseminated through the (full) interested parties will be 100 percent borne by the project during its duration. The technical support provided directly by the centers is envisioned to require the contribution of 10 percent[37] from beneficiaries. The more customized initiatives like a quality program that require support from international experts outside of the centers will imply the entrepreneur's contribution of up to 25 percent. After the end of the project, the operating expenses can be increasingly shared with the private sector and integrated in the government budget, even if downscaled. The government will also be able to apply for management funds from donors if the centers are proven in the impact evaluation to be successful. The commitment of the government is to keep a minimum of 4 people in each center post-conclusion of the project.

The targeted audience of the regional SCs will be the whole value chain of selected sectors: (i) producers including farmers, cooperatives, and federations (ii) food processors and other agribusiness related manufacturing, and (iii) supporting service industries like transport, warehousing, and packaging. Some of these industries – most notably farming – have already players in place that would seek to improve productivity. Others – most importantly food processing – have a very limited number of players at the moment. For these sub-industries, the role of the project is on the one hand to help identify investors, and on the other, to support the development of local capacity and, hence, facilitate those investments.

[37] - These figures are preliminary and subject to review following the initial studies. Having said that, while other models of providing the services like higher contribution matching grants were discussed, the government and the team concluded that those solutions would require ex-ante a degree of understanding of the importance of investing in human capital programs that is currently not in place. Given the importance of the uncertainty argument, we would face the risk of lack of demand for the project for reasons that have little to do with lack of need.

The sub-industry selection will abide by regional endowments and technology availability, as well private sector demand. Technical studies are being conducted by the government to identify the clusters of focus and their location. The component will in principle be focused on fruits (pineapple, mango, etc.) and vegetables (rice, potato, etc.).

Implementation of the SCs will be done in sequence. The project is developing a study on the detailed implementation of SCs[38] following which the project will establish two regional centers in year 2, which will operate for its duration.

Following an impact evaluation on the effectiveness of the SCs in terms of firm-level development, the government and the donor community may decide on expanding[39] this initiative to other regions[40]. Criteria for considering the initial implementation of the two centers to be successful in terms of firm-level development will include the number of firms and trainees served, and differences in firms' profitability and investment with respect to a control group.

*SC in Conakry for women-led enterprises*

The aim of the center in Conakry, mostly oriented towards women-led SME development, is to improve the skills in non-traditional productive sectors, including for new entrepreneurship development. Currently, women are more concentrated in the informal sectors – including services and retail – and are often constrained by issues such as limited time for economic activities outside the household and access to skills development programs. The diagnostic conducted under the Poverty Reduction Strategy (2013) suggests the importance of expanding economic opportunities for women and facilitating the access to productive inputs. Hence, the project will build on the growing knowledge[41] of the importance of exposure and mentoring to develop skills development initiatives in terms of increasing information about opportunities and knowledge about techniques. This intervention is part of a larger joint effort with the WB/IFC of addressing constraints faced by informal firms[42].

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[38] - This study is part of the project PPA.

[39] - At that late stage of the project, the government may decide introducing complementary interventions under the auspices of the SCs such as those discussed at project design but not incorporated due to financial constraints. This may incorporate implementing Diagnostic Studies on a selected number of Guinean mining subcontractors to evaluate their performance in all areas of the work, including in production, organization, information, management, human resources, safety standards, and quality systems. This diagnosis would identify areas of need for upgrading and help elaborate Quality Plans with the objective of introducing Quality Management Systems that meet their clients' demands.

[40] - This expansion would have to use funds outside of those currently available for this project.

[41] - Ongoing analytical work in Uganda and other countries in Africa demonstrate significant differences in productivity between women operating in male-dominated sectors and those that operate in traditional sectors, and this work suggests on the importance of circumventing gender norms and addressing information problems to balance the presence of women in non-traditional sectors such as light manufacturing.

[42] - The IFC had initiated discussions with MISME to develop programs for addressing the constraints of informal firms in accessing financial services. In that vein, the IFC/WB will be working with the government outside of this project on access to finance initiatives.

This center will have dedicated specialized staff. The component will finance among others: (i) the technical and financial plan of implementation for the SCs; (ii) the selection, financing of specialists' fees and training of staff, including specialized training on the value chain and mentoring programs; (iii) one-stop-shop services; (iv) technical support to include: laboratory activities, technical assistance to SMEs on production process and technical support for project developers or new entrants; (v) research activities to include market opportunities, information on existing technologies, identification of bottlenecks and opportunities for further innovation of products and processes and transport options for local and international markets; (vi) provision of services, including training activities for SMEs as well as travel and consultancy services; (vii) small-size equipment; and (ix) renovation of existing buildings made available by the Recipient for the Project.

*Theory of change / Mechanism of addressing constraint*

For existing operations, the improved technical skills under the SCs will likely lead to improved productivity through both increases in quality (price) and production efficiency, which will allow these firms to compete in new markets and/or improve firm-level performance. The provision of relevant information will likely increase the knowledge about market conditions and opportunities, which can lead to better management of resources – hence efficiency – and through that profitability, as well as new investments. Workers are also to benefit from these skills by increasing their relative value in the market. For new businesses, the technical training can help spur new investments, which may lead to job creation.

Results will be tracked through a rigorous impact evaluation, seeking to identify the causal effect of the SCs on firm-level development. The impact evaluation will aim to compare what happened with the SCs to firms on these dimensions versus what would happen in the absence of the program.

| **Component 2: Support to Investment (US$ 4.6 million)** |
|---|

**Sub-component 2.1. Facilitating investment (US$ 2.0 million)**

The APIP is the investment promotion agency of the Republic of Guinea. It was created in 2011 under the MISME, and is now located in the Presidency[43]. It is currently organized into 4 Technical Departments: a department of Investment Promotion, which *inter alia* promotes the country and helps investors; a department of Technical Assistance and Follow-up, which supports firm development and monitors the private sector; a department of Research and Statistics, which *inter alia* identifies investment opportunities and develops research on entrepreneurship and private sector development, and a one stop shop. The later was introduced in December 2011 as part of a larger "business environment reform program". The GoG and WB/IFC's Investment Climate Practice have put in place a reform agenda to establish the regulatory and institutional framework for business regulation and develop local capacity. This

[43] - APIP has recently (April 17, 2013) been relocated to the Presidency of Guinea in order to (i) demonstrate the government's commitment to Investment Promotion, (ii) be able to coordinate activities across all stakeholders, not only within the Ministry, chiefly all the cluster-level Departments that are involved in facilitating investment, and (iii) follow best practices in terms of Investment Promotion in the sub-region (eg: APIX in Senegal).

work has recently also included the drafting of an Investment Code and of a policy letter on SMEs.

**The objective of this component is to help the Agency for Investment Promotion (APIP) to become the key investment facilitator in the country and bring it progressively to international standards.**

Recent research (Harding and Javorcikr, 2007) shows that investment promotion agencies have an impact on investment and FDI. Best practice agencies such as the APIX in Senegal or the BOI in Mauritius typically undertake activities related to a one-stop-shop, take the lead in improving the legal framework of the business environment and ensure typical investment promotion activities for their country (see box).

**Examples of investment promotion institutions**

**I. APIX Senegal** is an autonomous structure which was established in July 2000. Its main purpose is to assist the President of the Republic of Senegal in the design and implementation of the investment promotion and major projects. APIX has the following responsibilities:

- **Investment promotion.** Missions and services entrusted to the APIX include:
  - Improving the business environment in Senegal and investment promotion;
  - Research and identification of national and foreign investors, contact tracing and evaluation of investment projects.

To accomplish these tasks, APIX provides a number of services (permanent availability of economic, commercial and technological support; assistance to the investor in registration formalities and obtaining administrative authorizations; referrals to funding structures and research partnership).

APIX also exercises all the functions of a one-stop-shop (investment code approval, approval of status of free enterprise, performance of administrative formalities for the registration of a company and monitoring projects investment plans).

- **Major projects.** Under its statutes, APIX responds to the President in terms of priority infrastructure. APIX works on this through concessions to the private sector (PPPs).

**II. The Board of Investment of Mauritius (BOI)** is an autonomous structure under the Ministry of Finance. The BOI was established under the Investment Promotion Act of 2000 and aims to simplify the legal framework for business as well as promoting and facilitating investment in Mauritius.

BOI provides the following services free of charge:
- information on investment opportunities in Mauritius;
- provision of customized information on business in Mauritius;
- organization of visits and meetings for investors;
- Identification of partners for joint ventures;
- Assistance in obtaining industrial and commercial land
- Assistance to the investor for the registration formalities and obtaining various administrative permissions.

BOI also has all the functions of a single window and manages various investment incentives.

Therefore, the Project supports APIP in several areas. First, in collaboration with WB/IFC's Investment Climate Practice, it will help advance the reform program by reinforcing the *guichet unique* within APIP. Secondly, it will support investment promotion activities of APIP. Thirdly, it will support efforts of APIP in developing PPD in the country and leading the dialogue in terms of legal business environment. Finally, the project will support general capacity strengthening of APIP to ensure that these tasks can be completed properly.

***The One-stop-shop*** needs to improve its functionality, increase speed and harmonize data collection across services, the services provided in the one-stop-shop of business registration in APIP need now to be electronically connected to their respective head offices[44]. The project will support the connection between agencies within the one-stop-shop. The interface and the different systems will be made compatible. To this end, offices need to be computerized, systems need to be connected and a common interface created.

Therefore, the One-stop-shop for business registration will be strengthened by financing: (i) improved connectivity with several administrations (CNSS, Commercial Registry, Central Bank, etc) including back office systems; and (ii) the computerization of commercial registry (RCCM). These initiatives aim to continue the ongoing WB/IFC work of facilitating the processes of firms' formalization. These initiatives will leverage on the IFC work program that will cover the initial assessment of IT needs, and technical support to the changes in the one-stop-shop. To ensure a proper implementation of the activities under the project, the *guichet unique* will be mentored in these steps by an international consultant with previous relevant experience managing similar agencies.

***In terms of investment promotion,*** the project will support efforts to expand the currently limited institutional and technical capacity of APIP's investment facilitation. The project will use as reference investment promotion guidance toolkits such as the WB/IFC/MIGA "Investment Generation Toolkit" and the "Global Investment Promotion Best Practices". The project will provide support to APIP's Department of Investment Promotion on the following activities:

(i) Support an investment promotion strategy;

(ii) Identification of sub-industries with highest potential to attract new investment, including comparing country's endowments and conditions with other countries competing in these clusters[45]. Use this work to concentrate efforts on a group of 4 to 6 sub-industries, and develop marketing materials and target investor lists. This data will also help better serve potential investors with information on specific issues such as costs and regulations in buying land, quality of soil, human capital skills and availability, etc.;

[44] - Services attached to the Business Registration One-Stop-Shop are: the Social Security (*Caisse Nationale de Securité Sociale, CNSS*), the Tax Bureau in the Revenue service (*Bureau d'Immatriculation Fiscale in the Direction Nationale des Impôts*), and the Clerk's office in charge of business registration (*Registre de Commerce et du Crédit Mobilier, RCCM*). The one stop shop allows to create *entreprises individuelles*, *sociétés à responsabilité limitée* (SARL) and *sociétés anonymes* (S.A).

[45] - These studies will build upon assessments conducted by USaid in 2007/2008 on the investment opportunity of specific agribusiness sectors. These updates in specific sectors will be focused on: (i) identifying which criteria investors use to select where to locate a business in a specific area; (ii) identifying areas within that criteria where Guinea does better than alternative countries; (iii) identifying areas where Guinea needs to work further and who should be involved in that process; and (iv) prepare the technical information to be used for the marketing materials of promoting the country.

(iii) Share these instruments widely with GoG's stakeholders and the private sector together with a list of quick win activities aimed at enhancing sectors' attractiveness;

(iv) Provide assistance to APIP in preparing the tools to facilitate investors' enquiries, as well as in improving its website content;

(v) Provide assistance in direct targeting and servicing of investors, participating in regular exhibitions and events (dedicated to promoting investments and business especially in targeted sectors) both locally and internationally;

(vi) Linking international investors with local entrepreneurs for specific industries, as well as developing the instruments and institutional knowledge for supporting potential investor visits to the country, including in liaising with different counterparts.

***Public Private Dialogue***. The quality of the representation of the private sector in Guinea is fairly uneven. Many business associations in Guinea – such as the CEPEG, the Patronat, and the Chamber of Commerce – have limited means and often outdated processes. Exceptions are the Group of Guinean Business People (GOHA) and the Association of Guinean Industrialists (AGI), which have established a decentralized structure and extensive communication channels both inwards and outwards to its members and policy makers. Many of their members are women-business owners. In this context of uneven private sector representation, the PPD, despite the best intentions, remains limited and often ad-hoc. On the administration side, one of the most dynamic institutions has been the MISME which organized several events, including a major one with large investors in September 2012.

The project will help APIP establish a new platform for public-private dialogue and a technical secretariat for this platform. The objective is to systematically raise and evaluate concerns, help unify the private sector representation, and provide solutions to improve the local business environment.

To ensure proper representation in the PPD platform of employers of all sectors, a large group of the key professional associations will be invited to participate. The proposed PPD platform will meet once every three months. The platform will include the Prime Minister, representatives of APIP, MISME, Ministry of Finance, other public sector institutions as needed, and six representatives of the professional organizations. Besides regular activities in Conakry, the project will also support pilot operations of decentralized public-private dialogue at the commune level to ensure that the dialogue is not only guided by the concerns of larger firms in the capital city, but also takes into account the voice of smaller entrepreneurs in the countryside. Special attention will also be given to women business organizations, at the central and at the local level.

The project will provide financing for: promoting public private dialogue (PPD) through: (a) development of a roadmap for the PPD platform; (b) establishing a new secretariat on PPD within APIP; (c) organizing meetings among policy makers, central and local private sector representatives; (d) provision of office equipment; and (e) continued institutional and technical capacity-building of APIP to support PPD.

***Institutional and Technical Capacity Building of APIP.*** To develop this demanding program, APIP will need to continue upgrading its overall institutional and technical capacity, as well as its capacity of directly supporting entrepreneurs. The activities under this work will aim to provide APIP with the institutional, technical and managerial capacity to serve as the catalyst of local and international investments. The project will support skills and institutional capacity development by financing staff training and support to management in terms of team organization and monitoring of performance.

**Sub-Component 2.2: Public Credit Information System and Payment Systems (US$ 2.6 million)**

Financial Infrastructure broadly defined comprises the underlying foundation for a country's financial system. It includes all institutions, information, technologies, rules and standards that enable financial intermediation. It comprises in particular payment systems, credit reporting systems and mechanisms for secure lending. The quality of financial infrastructure determines the efficiency of intermediation, the ability of lenders to evaluate risk and of consumers to obtain credit, insurance and other financial products at competitive terms.

Credit reporting addresses a fundamental problem of credit markets: asymmetric information between borrowers and lenders, which may lead to adverse selection, credit rationing, and moral hazard problems. Regulators and financial market participants are therefore increasingly recognizing the value of credit reporting systems for improved credit risk and overall credit portfolio management, to enhance financial supervision and financial sector stability, and as a tool to enhance access to credit.

Payments systems are essential components of a country's financial infrastructure and underpin the successful operation of modern integrated financial markets. Well-designed payment infrastructure contributes to the proper functioning of markets and financial stability and helps to eliminate frictions in trade and therefore support economic activity. They are also an essential component of an enabling business environment.

*Context and Issues*

The financial sector is of a small size in Guinea. In the mid-2000s, the ratio of M2 over GDP was around 16.4 percent, well below the SSA average of 38.1 percent. As of 2012, the formal financial sector consists of 14 active commercial banks (with 3 more having received an agreement and getting ready to start), 6 insurance companies and 16 microfinance institutions all of them regulated by the central bank (BCRG). Credit to the private sector has stagnated at around 5 percent of GDP for much of the last decade (IMF 2012b). Commercial banks tend to favor short-term lending at high interest rates. The lending model is based on a relationship lending. As a result, it is not surprising to see that by 2006-07, 58.3 percent of the firms identified access to finance as a major constraint and that 94 percent of firm's investments was financed internally against an SSA average of 79 percent (World Bank, 2007). Similarly, in the 2013 WEF GCI, access to finance is the top constraint quoted by Guinean firms.

Having proper access to credit is key for MSME growth and investment, formal employment generation in Guinea and to allow the economy to benefit from opportunities offered by the development of the mining sector and subsequent increase in domestic demand. Inter alia, an element which is missing now to foster MSME lending is a proper financial infrastructure:

- There are no reliable, safe and efficient mechanisms for sharing credit information. There is no system that allows participants in the financial system to get a comprehensive view of the borrowers impeding them to perform responsibly regarding access to credit. In spite of the fact that financial institutions are obligated to report certain categories of credit transactions to the CBRG, the information reported is limited to the size of lending and whether the credit required any collateral. From 1994 to 1998 a credit risk registry operated based on a list of bounced cheques, bills of exchange and defaulted credits.

- There is also no real time gross settlement system (RTGS) to facilitate the settlement of interbank transactions in central bank money or an automated clearing house (ACH) to facilitate retail transactions. The CBRG has benefitted from a grant from the AfDB for the development of financial infrastructure, namely for the development of an RTGS system and an ACH. These are due to be ready by the end of 2013. However, the CBRG does not have skilled resources to successfully operate those systems nor to exert the required oversight. An additional problem is the absence of an adequate legal framework, and overall, a strategy to modernize the payment system as a whole, following a stage by stage methodology. The objective of such a strategy would also be that over time, the access to modern payment services for companies and the population at large significantly increases.

These limitations in the development of financial infrastructure pose a considerable constraint upon financial institutions to expand their offering of financial services to underserved segments of the population – including MSMEs. It also creates risks which can threaten the stability of the financial system as a whole. Intervention by the project to develop financial infrastructure in Guinea will contribute to developing the capacity of the financial sector to fully play its role with regard to supporting economic activity.

Additionally, it is also essential to support the Central Bank of Guinea to build capacity in these areas, which includes, inter-alia, a better internal organization of resources to deal with the modernization of the payment system and the setting-up of a modern CRS, a better consultation process of the private sector to fully involve them in the process of modernization, and to deal with an increase in foreign exchange needs.

*Intervention*

Intervention in the field of payment systems will focus on providing technical assistance to the CBRG so that it can operate the RTGS and ACH, and implement an oversight function of both systems. This implies in particular TA on how to operate such systems, the adoption of the related legal framework, as well as the setting-up of a payment systems unit and oversight function.

With regard to credit reporting systems, taking into account the weakness of existing arrangements at the CBRG, intervention would include the development of a Credit Reporting System (CRS) that meets the needs of the financial system in Guinea and allows for the adoption of a full array of services from such system in the future. The establishment of a CRS will be complemented by technical assessment on institutional arrangements, legal and regulatory framework supporting the CRS operations and the oversight function ensuring the adequate functioning of such system. Taking into account the degree of development of the financial sector in Guinea, such a system should be simple, easy to operate, scalable over time, and should be based on the General Principles for Credit Reporting Systems published by the World Bank. The CRS will aim to include information from firms and consumers from both positive and negative credit history. The project will seek to identify alternative data sources to cover information on SMEs (data from business registries on related parties, ownership and balance sheets), as well as payment history.[46] The CRS being considered will be an evolving system introducing data and system enhancements as the credit market evolves and also as other relevant data is made available (e.g. payments data).

With regard to capacity building, TA will also include the following support: (i) to improve the consultation process of the private sector; (ii) help the Central Bank to design a comprehensive strategy for the continuous modernization of the payment system and with a view to significantly improving usage of electronic means of payment; and (iii) supporting staff dealing with foreign exchange.

The implementation of the RTGS system and ACH for retail payments in Guinea will allow for more safety and efficiency in interbank payments, in support of economic activity. It will also support monetary policy and enhance financial stability. In addition, the ACH will allow the development of retail transactions for both companies and individuals. The development of a fully-fledged credit reporting system will facilitate the expansion of credit to the economy and contribute to decreasing its cost, in particular for SMEs and micro-enterprises.

The expected results with regard to payment systems can be measured by the existence of an adequate legal framework, which underpins safe and efficient systems, a well-functioning operation of the systems and adequate oversight. This materializes in an increasing number of transactions going through these systems, which typically translates into a growing turnover of transactions in RTGS/GDP. A growing number of transactions should also be performed through the ACH, even though the existence and successful operation and oversight of ACH per se are not determinant conditions with regard to the intensity of its usage, as much depends on access to payment services in the first place.

The development of the credit reporting system should lead, over time, to smoother access to finance and more credit being granted to MSMEs that are able to repay their loans.

[46] - The system intends to include MFIs as they are regulated by the BCRG, but will initially start with producing credit reports in a more efficient manner to the banks, while working in parallel with the MFIs so they are ready to participate in the system. The project does not plan at this stage the establishment of a credit bureau as it will not be commercially viable with a limited number of records in the system. This might be a potential development of the system when the market evolves (10 years' time) like the case of Rwanda.

## ANNEX 3: IMPLEMENTATION ARRANGEMENTS

### 3.1. Project Institutional and Implementation Arrangements

The project will be implemented over a period of four years. The implementing institution responsible for the project will be the Ministry of Industry and SMEs (MISME). Project completion is expected by June 30, 2017. A mid-term review will be carried out by July 2015.

Given the multi-institution nature of the project, high level support is required to ensure consistency of interventions and ensure the removal of occasional blockages. This implies: (i) setting-up a Steering Committee to oversee project progress; and (ii) ensuring there is a strong Project Coordination and Monitoring Unit.

**Steering Committee**. The project will operate under the guidance of a Steering Committee chaired by the Minister of Industry and SMEs (or his representative), which should include representatives from the Ministry of Finance, APIP, the CBRG, Presidency, Prime-Minister office, private sector associations, and other relevant agencies. The SCT will meet twice a year – or more frequently if needed. The SCT will facilitate project execution: by (i) providing strategic guidance for the implementation; (ii) reviewing and coordinating project's led initiatives and reforms; and (iii) eliminating blockages that could delay project implementation.

**PIU – implementation.** The overall responsibility for project execution will be delegated to a PIU to be set up within the MISME premises under the direct supervision of a designated project coordinator. Considering that MISME has neither fiduciary management capabilities nor experience for World Bank financed projects, it has received assistance from an existing PIU for the *Guinea Education for All* Project (GEAP) during the preparation phase. The GEAP team is responsible for all financial management and procurement matters during preparation, including project reporting and monitoring. In addition, the GEAP team is helping putting in place the PIU. The project PIU will therefore build on an existing project management capacity, experience and established procurement and financial management systems. Each of the key institutions (MISME, APIP and CBRG) involved in the project have designated a head of component that will coordinate the work, and relay information between the departments and the PIU. The Project team will be hosted at the MISME and will supervise the relationship between the different implementing parties and the Steering Committee, as well as between the implementing parties and the World Bank. Requests from each component will be circulated through the PIU, which will also oversee the flow of funds to the activities in different components, as well as the reporting of information from components to the project.

**PIU – Staffing.** The PIU is headed by an experienced project coordinator designated by the MISME and will have administrative structures, processes, and staffing allowing an efficient administration of the project. The PC is assisted by a number of staff including: a Procurement Specialist, a Financial Management Specialist, a Monitoring and Evaluation Specialist, an Accountant, and Specialists (agribusiness, rural development, and quality standards) to help support implementation of Component 1.

**PIU –Tasks.** The PIU is in charge of implementing the project in accordance with the Project Implementation Plan. Hence, it will be responsible for the preparation of quarterly monitoring reports and other documents required by the Bank. It will ensure that budgetary, procurement, disbursement (incl. management of the project IDA Designated Account), accounting, auditing, and reporting arrangements are carried out in accordance with agreed procedures. Such an arrangement will contribute to reduce fiduciary risks, and consolidate all fiduciary transaction in a way that minimizes burden to the institutions. The PIU will also be in charge of: (i) organizing the SCT meetings, ii) providing all necessary information on project performance and monitoring to the SCT and the World Bank and iii) developing and implementing the project communication policy.

### 3.2. Financial Management, Disbursements and Procurement.

#### 3.2.1. Financial management and disbursements.

A financial management assessment was conducted at the MISME with the objectives to determine: (a) whether there were adequate Financial Management (FM) arrangements in place within the MISME to ensure that the funds will be used for the purposes intended in an efficient and economical manner and the responsible entity is capable of correctly and completely recording all transactions and balances related to the Project; (b) the Project's financial reports will be prepared in an accurate, reliable and timely manner; (c) the entity's assets will be safely guarded; and (d) the Project will be subjected to auditing arrangements acceptable to the Bank. The assessment complied with the Financial Management Manual for World Bank-Financed Investment Operations that became effective on March 1, 2010 and AFTFM Financial Management Assessment and Risk Rating Principles.

It appears that MISME has no fiduciary management capabilities nor experience for World Bank financed projects. As a result of the financial management capacity constraints, FM arrangements are being put in place with the PPA for the set-up of a Project Implementing Unit (PIU) within the MISME. The PIU will then have the financial management responsibility of the overall project implementation. Each of the key institutions (MISME, APIP and CBRG) involved in the project will have a focal point that will coordinate the work, and relay information between the departments and the PIU once established.

Minimum FM requirements are then being put in place for the PIU to become fully operational: the elaboration of the project implementation manual including FM, administrative and procurement procedures was completed on May 28, 2013. With regards to the financial management specialist, the recruitment process is underway and will be completed before effectiveness.

In addition, the PIU will: (i) recruit an accountant no later than one month after effectiveness; (ii) purchase and set up an adequate accounting software no later than two months after effectiveness; and (iii) appoint an external auditor under terms of reference (ToR) acceptable to IDA four months after effectiveness.

*FM arrangements*

**Staffing and Training.** The Project FM staff will consist of one financial management specialist and one accountant. They will benefit from training conducted by Bank FM team during implementation as needed.

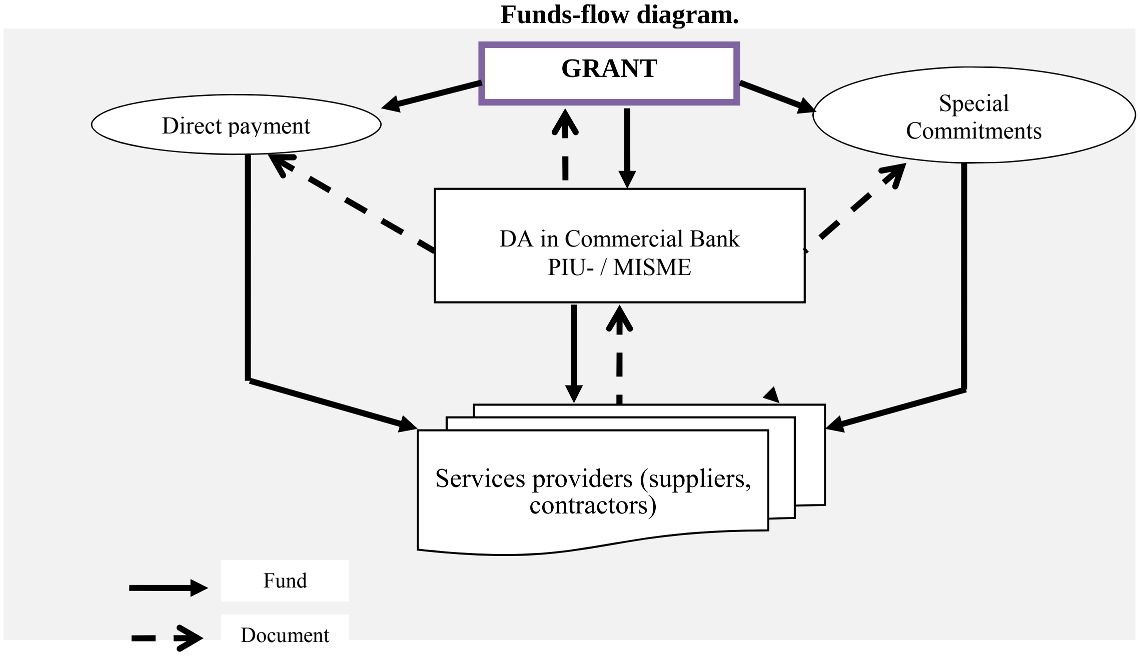
*Flow of funds and Disbursement arrangements*

**Disbursement methods.** Disbursements for this project will be transaction-based. All documentation for all transactions shall be retained by the PIU and shall be made available for audit and to the Bank and its representatives, if requested.

**Designated account (DA).** One designated account (DA) will be maintained in a commercial bank and managed by the PIU. The Coordinator and the financial management specialist of the PIU will sign jointly on the DA. The DA will be managed according to the disbursement procedures described in the Administrative, Accounting and Financial procedures and the Disbursement Letter which was discussed in detail with the relevant government officials during negotiations. Direct payments and payments through issuance of Special Commitment letters above a minimum application threshold specified in the Disbursement Letter will be acceptable disbursement methods.

The first allocation of the Designated Account will cover approximately four months of expenditures. The minimum value of applications for direct payment and special commitments (when feasible) will be 20 percent of the outstanding advance in the DA.

**Funds-flow diagram.**



### *Budgeting arrangements*

The project budgeting process from elaboration to execution and control will be clearly defined in the PIM. The budget will be adopted by the steering committee of the project before the beginning of the year and monitored through the project accounting software. Annual draft project budgets will be submitted to the IDA's no objection before adoption and implementation.

### *Accounting policies and procedures*

Project accounts will be maintained and supported with appropriate records and procedures to track commitments and to safeguard assets in line with SYSCOHADA, the assigned accounting system in West African Francophone countries. Annual financial statements will be prepared by the PIU by using an accounting software which will be designed during the project preparation to also generate automatically acceptable IFRs. The accounting policies and procedures are documented in the PIM.

### *Internal controls and internal audit*

A project implementation manual (PIM) including accounting administrative and financial procedures has been prepared (May 28, 2013). To maintain a sound control environment, the project team is expected to follow the control mechanisms described in the PIM. The said manual ensures that adequate internal controls are in place for the preparation, approval and recording of transactions as well as segregation of duties. The PIM will be subject to update as needed.

### *Reporting and Monitoring*

The PIU will prepare quarterly Interim Financial Reports (IFR) during project implementation. The reporting format will be documented in the administrative, financial and accounting procedures. Interim Financial Reports will be furnished to the Bank not later than 45 days after the end of the quarter. Annual financial statements will be prepared by the PIU and will be subject to annual external audits.

The PIU will also produce the projects Annual Financial Statements and these statements will comply with SYSCOHADA and World Bank requirements. They will be comprised of:

- A Statement of Sources and Uses of Funds which includes all cash receipts, cash payments and cash balances ;
- A Statement of Commitments;
- Accounting Policies Adopted and Explanatory Notes;
- A Management Assertion that project funds have been expended for the intended purposes as specified in the relevant financing agreements.

### *Audit arrangements*

The Financing Agreement (FA) will require the submission of Audited Financial Statements for the PIU to IDA within six months after year-end. The auditor will conduct an annual audit of the annual financial statements. A single opinion on the Audited Project Financial Statements in compliance with International Standards on Auditing (ISA) will be required. The external auditors will prepare a Management Letter giving observations and comments, and providing recommendations for improvements in accounting records, systems, controls and compliance with financial covenants in the Financial Agreement.

### *Implementation Support Plan*

The PIU will send to the Bank quarterly Interim Financial Reports in addition to annual audited financial statements. The auditor will also provide a management letter assessing the internal control system at the PIU. The project overall FM residual risk rating is deemed *Substantial*. Based on that, the Bank FM team will conduct supervision missions on a semester basis. The first FM review will thus be carried out within 6 months of credit effectiveness. This detailed review will cover all aspects of financial management, internal control systems, and overall fiduciary control environment. Thereafter, the on-site supervision intensity will be based on risk - initially on the appraisal document risk rating and subsequently on the updated financial management risk rating during implementation.

Based on the outcome of the FM risk assessment, the following implementation support will apply.

| FM Activities | Frequency |
|---|---|
| **Desk reviews** | |
| Interim financial reports review | Quarterly |
| Audit report review of the project | Annually |
| Review of other relevant information such as interim internal control systems reports. | Continuous as they become available |
| **On site visits** | |
| Review of overall operation of the FM system | Semi-annual (Implementation Support Mission) |
| Monitoring of actions taken on issues highlighted in audit reports, auditors' management letters, internal audit and other reports | As needed |
| Transaction reviews (if needed) | As needed |
| **Capacity building support** | |
| FM training sessions | When needed. |

### *Financial Covenants*

The Borrower shall establish and maintain a financial management system including records, accounts and preparation of related financial statements in accordance with accounting standards acceptable to the Bank. The Financial Statements will be audited in accordance with international auditing standards. The Audited Financial Statements for each period shall be furnished to the Association not later than six (6) months after the end of the project fiscal year.

The Borrower shall prepare and furnish to the Association not later than 45 days after the end of each calendar quarter, interim un-audited financial reports for the Project, in form and substance satisfactory to the Association. The Borrower will be compliant with all the rules and procedures required for withdrawals from the Designated Accounts of the project.

***Conclusion of the assessment***

The project FM residual risk at preparation is *Substantial*. The proposed financial management arrangements for this project are considered adequate to meet the Bank's minimum fiduciary requirements under OP/BP10.00 once the following measures are implemented: (i) the elaboration of a project procedures manual including accounting, administrative and financial procedures, (ii) the recruitment of the accounting team comprising an FM officer and an accountant, (iii) the set-up of an adequate accounting multi projects software, and (iv) the appointment of an independent external auditor.

**Major weaknesses and Action Plan to reinforce the control environment**

| Significant Weaknesses or risks | Action | Responsible body | Completion |
|---|---|---|---|
| Low capacity and lack of Bank-financed experience at the MISME | Elaborate a project procedures manual including administrative, financial and accounting procedures and roles and responsibilities of the stakeholders | PSE | Done before negotiations on May 28, 2013 |
| Lack of qualified and adequate staffing | Appoint an FM officer to be fully dedicated to the management of the project | PSE | Before effectiveness |
| | Appoint an accountant | PSE/PIU coordination Unit | One month after effectiveness |
| Delays in book keeping due to lack of accounting software | Purchase and set up an appropriate accounting software | PSE/PIU | Two months after effectiveness |
| Lack of capacity of the Chamber of accounts of the Supreme Court that could lead to limited scope of audit | Recruit an external auditor with ToR acceptable to the Bank (including fraud & corruption term) | PIU | Within Four (04) months of effectiveness |

It should be noted that the elaboration of the project implementation manual including FM, administrative and procurement procedures has been completed by May 28, 2013. With regards to the financial management specialist, the recruitment process is underway and will be completed before effectiveness. The required accounting software is currently being procured.

### 3.2.2. Procurement

***General***

Procurement for the proposed project will be carried out in accordance with the World Bank's "Guidelines: Procurement under IBRD Loans and IDA Credits" dated January 2011; and "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated January 2011, and the provisions stipulated in the Legal Agreement. The general description of various items under different expenditure category is described below. For each contract to be financed by the Grant, the different procurement methods or consultant selection methods, the need for prequalification, estimated costs, prior review requirements, and time frame are agreed between the Borrower and the Bank project team in the Procurement Plan. The Procurement Plan will be updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

*Country Procurement Assessment*. Such an assessment was carried out in Guinea in February 2002, flagged the main issues such as the lack of capacity regarding the recipient's staff, the absence of standard bidding documents at the national level, the insufficient capacity of local contractors for contracts subject to ICB, and corruption. Recommendations were made to address these issues. The Bank, through an IDF Grant (TF 55853) signed in November 2005, provided support on the public procurement reform. The main objectives were to: (i) enhance transparency of the procurement system; (ii) put in place the new institutional framework (public procurement directorate controlling procurement transactions, public procurement regulatory body including an appeal committee for complaints, (iii) update the procurement code; and (iv) design standard bidding documents. On March 2009, the legal framework has been revisited and the new procurement law and the new procurement code has been adopted and approved respectively on October 11, 2012 for the law and December 03, 2012 for the Code[47].

*Procurement Documents*. Procurements will be carried out using the Bank's Standard Bidding Documents (SBD) or Standard Request for Proposal (RFP) respectively for all ICB, for goods and selection of consultants. For National Competition Bidding (NCB), the borrower should ensure that the following special requirements are taken into account : (i) four weeks will be provided for preparation and submission of bids, after the issuance of the Invitation for Bids or availability of the bidding documents, whichever is later; (ii) for all procurement of goods and works, the SBD published by the Bank for ICB will be used and modified in order to adapt it to the current situation; (iii) bids will be advertised in national newspapers with wide circulation; (iv) bids will be presented and submitted only in one internal envelope (no system with two envelopes will be used); (v) bid evaluation, bidder qualifications criteria, and the contract award criteria will be clearly specified in the bidding documents; (vi) no preference margin will be granted to domestic bidders; (vii) eligible firms, including foreign firms, will not be excluded from the competition; (viii) the procedures will include the publication of the results of evaluation and of the award of the contract, and provisions for bidders to protest; (ix) procurement audit will be included in the terms of reference of financial audits of the project;

[47] - However, it be noted that the national procurement system will still governed by the Act L/97/016/AN passed on June 03, 1997 and its implementing regulations for six months after the publication of the new texts on the Official News.

and (x) if the procurement Code doesn't apply to small contracts, the procedures will require that for such contracts, a competitive method be used (reference for example to the shopping method in instance). In addition, any other adjustment will be taken into account when the Bank determines during the project execution as necessary in order to assure economy, efficiency, transparency, and broad consistency with the provision included in the Section I of the Guidelines.

***Assessment of the agency's capacity to implement procurement***

The procurement activities for the three (3) Components of the project will be handled by the project's implementation unit in MISME.

A procurement capacity assessment of MISME was conducted by IDA during project preparation on January 2013. The assessment reviewed the organizational structure for implementing the project taking into account a number of actors and stakeholders. It was agreed with the Government to put in place a Project Implementation Unit (PIU) in MISME. The fiduciary function for Project Preparation Advance, financial management and procurement, is managed by an existing project implementation unit – that of the GEAP.

The potential risk on procurement identified is the insufficient experience on Bank's procurement procedures of the MISME, especially by the members of the Procurement Commissions in the national system. This lack of experience may delay the procurement process, especially the evaluation of bids.

The mitigation measures recommended as of May 2013 are: (i) strengthening the capacity of the fiduciary team (PIU and Procurement Commission) on the Bank procurement and consultant guidelines six (6) month after negotiations and as needed during the project implementation; (ii) and put in place a good filing system.

The overall project procurement risk has been rated *High*.

***Procurement Plan***

The Borrower has provided a procurement plan for project implementation which provides the basis for the procurement methods. All procurement activities will be carried out in accordance with approved original or updated procurement plans. The Procurement Plans will be updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity. All procurement plans should be published on the Bank website according to the Guidelines. MISME and the Bank have agreed on a procurement plan covering the first eighteen (18) months of the Project. Procurement documents will be submitted to Bank review.

***Frequency of procurement reviews and supervision***

Bank's prior and post reviews will be carried out on the basis of thresholds indicated in the following table. The Bank will conduct six-monthly supervision missions and annual Post

Procurement Reviews (PPR); the ratio of post review is at least 1 to 5 contracts. The Bank could also conduct an Independent Procurement Review (IPR) at any time until after two years of the closing date of the project.

**Procurement and selection review thresholds**

| Procurement/selection methods | Prior review threshold (US$) | Comments |
|---|---|---|
| **1. Works, Goods and Non consulting services** | | |
| ICB and LIB<br>• Works<br>• Goods and non-Consulting services | ≥ 500,000<br><br>≥ 250,000 | Review of all contracts |
| LIB Works<br><br>Goods and non-Consulting services | > 500,000<br><br>> 250, 000 | Review of all contracts |
| NCB Works<br><br>Goods and non-consulting services | < 500,000<br><br>< 250,000 | Review of the first two contracts independently of amount. Method applicable for contract less than US$ 500,000 for Works and US$ 250,000 for Goods and non-Consulting services |
| Shopping | | Review of the first two contracts independently of amount.<br>Method applicable for works, goods and non-consultant services contracts less than US$50,000 |
| Direct Contracting | All contracts | Review of all contracts |
| **2. Consulting services** | | |
| Others Competitive selection methods (firms) and QCBS | ≥ 200,000 | Review of all contracts |
| LCS | < 200,000 | With review of the first two contracts independently of amount |
| Selection under a Fixed Budget (FBS) | < 200,000 | With review of the first two contracts independently of amount |
| CQS | ≥ 50,000 < 100,000 | With review of the first two contracts independently of amount. Method applicable for contracts less than US$100,000. |
| Individual Consultants (IC) | ≥ 50,000 | Review of all contracts |
| Individual Consultants (IC) | < 50,000 | With review of the first two contracts independently of amount |
| Single Source Selection (SSS) | All contracts | Review of all contracts |
| **3. Trainings and workshops** | | |
| Training and workshops | ≥ 20,000 | On basis of detailed and approved annual plan (with indication of venue, number of participants, duration and exhaustive budget, etc.) |

All trainings, terms of reference of contracts estimated to more than US$ 20,000, and all amendments of contracts raising the initial contract value by more than 15 percent of original amount or above the prior review thresholds will be subject to IDA prior review. All contracts not submitted to the prior review, will be submitted to IDA post review in accordance with the provisions of paragraph 4 of Annex 1 of the Bank's Consultant Selection Guidelines and Bank's procurement Guidelines.

### 3.3. Environmental and Social (including safeguards)

The project should positively impact the poor in Guinea and in particular those economically more disadvantaged currently, including women, the youth and households in rural areas.

Specifically, Component 1 will directly target firms (micro, and SMEs) in rural areas, with one of the centers just focused on women entrepreneurs.
The incidence of poverty in Guinea is 55 percent as of 2012 and has increased since 2007. In rural areas it reaches 65 percent, affecting almost 5 million people. Over 74 percent of the population is less than 35 years old and over 50 percent of the population is less than 20 years old. Unemployment rate reaches 15 percent for those with secondary education but goes up to 42 percent for individuals with technical degrees and 61 percent for those with a university degree. Increasing the employment opportunities is hence paramount considering also that a growing number of people will join the labor force in the upcoming years.

Furthermore, women face acute constraints. They are more concentrated in the informal and agricultural sectors and are often constrained by issues such as limited time for economic activities outside the household and access to finance for larger investments. The diagnostic conducted under the Poverty Reduction Strategy (2013) suggests the importance of expanding economic opportunities for women and facilitating the access to productive inputs.

Against this background, the project responds by seeking to improve the investment climate, facilitating local and international investment. It also supports initiatives to promote firm-level growth in targeted value chains with strong potential. With the growth of these value chains, it expects to promote employment in rural areas, particularly among the youth. By reducing the constraints of women in skills development, it aims to promote entrepreneurship as a means of poverty reduction. These activities go in line with the Poverty Reduction Strategy, which identifies the following critical issues to address the poverty problem: (1) governance, (2) competitiveness and redistribution, (3) need for structural reforms including investment climate, (4) infrastructure, and (5) social protection. The project will focus in particular in the second and third constraints, with some initiatives as well to improve governance.

In that vein, there are no social and environmental safeguard issues triggered as a result of this project and the project is a safeguards assessment Category C.

### 3.4. Monitoring & Evaluation

The monitoring and evaluation of the project will be critical for continuously improving it during its duration, as well as for assessing its effectiveness. Identifying and tracking through time manageable but relevant indicators is essential to measure the projects' outputs and inform its implementation. Measuring impact through rigorous methods will allow for expanding future investments, as well as guide future projects in the country and elsewhere. In addition to a significant focus on M&E during implementation, particular attention will be paid to building sustainable monitoring capacity beyond the life of the project. This will focus on improving M&E capacity in the MISMEs and APIP.

The Results Framework and Monitoring is outlined in Annex 1, including the projects' Results and Intermediate Indicators. The main objective of the project is to improve selected aspects of Guinea's business environment and support the development of MSMEs. As discussed at length throughout this document, significant constraints hinder the capacity of the private sector in growing and, hence, there is an untapped potential once some of the institutional, financial and informational barriers are removed by the project. In that vein, the main outcomes of interest of this project are improved financial systems, and improvement in performance and in number of economic operators (entrepreneurs, employees) in specific targeted industries. These will be tracked through both administrative data and regular enterprise and household surveys as part of the impact evaluation work.

**An impact evaluation will be fully integrated into the project.** The evaluation will use counterfactual analysis to establish the direction and magnitude of the causal effect of the interventions. Counterfactual analysis is used to obtain precise estimates of the causal effect of an intervention (or a set of interventions) on the outcomes of interest separately from the effect of other time-varying factors. The impact analysis will be able to capture intended and unintended benefits of project interventions. The objective is to compare the change in outcomes of interest for the participants in the programs against what would have happened in the absence of the programs (counterfactual). The evaluation will be an assessment of the effectiveness for firms of the SCs proposed in Component 1, chiefly in understanding if it achieves its development objectives. The main objective of this intervention is to improve the skills of enterprises and firms all throughout the value-chain. This type of intervention – where we will focus initially on assessing the effects of the two regional centers to be deployed – does not lend itself to standard randomized controlled trials in order to measure causal impact, but, through comprehensive understanding of the SC implementation design and intended beneficiaries, the evaluation can identify valid comparison groups to allow for counterfactual analysis.

Furthermore, the project will secure enough resources to conduct an effective monitoring and evaluation. The output-level M&E will be the responsibility of the PIU. The PIU will hire a Monitoring and Evaluation Specialist responsible for this work for all components. This will ensure effective and timely monitoring of progress towards achieving the intermediate results of the Monitoring Framework as set out in Annex 1. This will use administrative data from the project as well as Government and Central Bank data as appropriate.

Output-level M&E indicators and implementation will be closely reviewed by the Project Steering Committee and by the World Bank team in charge of the supervision of the project to ensure that the required targets are achieved. If ever the planned results are not reached, the supervision team will need to closely analyze the reasons and develop a strategy (possibly to review the approach of the sub-component if results do not meet expectations).

The management of the impact evaluations will be a responsibility of the World Bank. The project, under the supervision of the World Bank, will fund and contract out the surveys needed for the impact evaluation, but the World Bank will secure out of its budget enough human and financial resources to cover the researchers' time and travel. The World Bank will work with the PIU M&E Specialist, and as applicable with local researchers and consultants/consulting firms, but will be fully responsible for overseeing, designing, implementing, analyzing, and disseminating the impact evaluations studies. The World Bank will be responsible for completing an Implementation Completion Report (ICR), and its researchers will be responsible for publishing, as relevant for these studies, papers, (baseline or follow-up) reports, and presentations to policy makers in the region.

# ANNEX 4: OPERATIONAL RISK ASSESSMENT FRAMEWORK (ORAF) – (Disclosable)

| Project Stakeholder Risks | | | | | | |
|---|---|---|---|---|---|---|
| **Stakeholder Risk** | Rating | **Moderate** | | | | |
| Description:<br>Successful implementation will require a clear division of responsibilities, buy-in and general collaboration across agencies/line ministries which will be complex with the multiplicity of institutions involved (MISME, CBRG and APIP).<br><br>Under the work on investment climate, some reforms supported by the Project will necessitate a revision in roles and related-authority. Some forms of resistance may occur at that stage.<br><br>Recent changes in the organization of implementing partners including APIP imply the need of working with additional partners. | **Risk Management:**<br>• Concerted efforts to be made by project teams to consult with stakeholders during project preparation and setting up of a steering committee to oversee projects progress.<br>• Working together with different units in the Bank Group, including IFC Advisory Services and the Guinea country unit, as well as the IMF, the Project is flagging the importance of reforms. | | | | | |
| | Resp: Bank | Stage: Preparation | Recurrent: Yes | Due Date: June-2013 | Frequency: n.a | Status: Done |
| | Resp: Bank | Stage: Preparation and Implementation | Recurrent: Yes | Due Date: June-2017 | Frequency: Each Quarter | Status: In Progress |
| **Implementing Agency (IA) Risks (including Fiduciary Risks)** | | | | | | |
| **Capacity** | Rating | **High** | | | | |
| Description:<br>Implementation capacity is insufficient and main project partner has never implemented a Bank project.<br><br>If left unmitigated, this will negatively impact the realization of the PDO. | **Risk Management:**<br>• Close project monitoring and at least 3 implementation support missions initially per FY (instead of 2 usually);<br>• Use the PIU of an existing project (GEAP) to help set-up the project PIU and capacity building activities for project partners | | | | | |
| | Resp: Bank | Stage: Preparation and Implementation | Recurrent: Yes | Due Date: June-2017 | Frequency: Each Quarter | Status: In Progress |
| **Governance** | Rating | **High** | | | | |
| Description:<br>The overall governance environment is weak and may impact project implementation and the achievement of the PDO. | **Risk Management:**<br>• Close project monitoring and 3 implementation support missions per FY.<br>• Implementation of specific Governance structure for the project | | | | | |
| | Resp: Bank | Stage: Preparation and Implementation | Recurrent: Yes | Due Date: June-2017 | Frequency: Each Quarter | Status: In Progress |

<table>
<tr><th colspan="7">Project Risks</th></tr>
<tr><td>Design</td><td>Rating</td><td colspan="5">High</td></tr>
<tr><td rowspan="2">Description:<br>Given the uncertainty in the country and the multiple problems, it is difficult to identify without testing which issues are most important.<br>Still, all project components have been lengthily discussed with the counterpart and there is a broad agreement with stakeholders.<br>The WBG has relevant experience with the private sector in Guinea (ICA survey in 2006, IFC involvement, WB work on IC issues and PPP since 2009), but no recent lending operations.<br>The development of the mining sectors will have implications for the overall economy. It may also have negative impacts on the competitiveness of other tradable sectors (the usual “Dutch Disease” effects).</td><td colspan="6">Risk Management:<br>• Impact evaluations integrated in the project to identify binding constraints and monitor results, as well as inform next stage of the policy dialogue<br>• Close project monitoring and at least 3 implementation support missions per FY (instead of 2 usually);<br>• Promoting economic diversification in specific industries before the mining boom takes place. The focus of the two main components of specific tradable sectors such as agribusiness provides a contribution to this objective.</td></tr>
<tr><td>Resp: Both</td><td>Stage: Implementation</td><td>Recurrent: Yes</td><td>Due Date: June-2017</td><td>Frequency: n/a</td><td>Status: In Progress</td></tr>
<tr><td>Social and Environmental</td><td>Rating</td><td colspan="5">Low</td></tr>
<tr><td rowspan="2">Description:<br>The project is mostly a capacity building project with installation of equipment, training and BDS<br>It is not expected to have any kind of significant detrimental social and environmental impact</td><td colspan="6">Risk Management:<br>• Include Social and Environment staff at appraisal stage to confirm this rating</td></tr>
<tr><td>Resp: Bank</td><td>Stage: Preparation</td><td>Recurrent: Yes</td><td>Due Date: June-2013</td><td>Frequency: n.a</td><td>Status: Done</td></tr>
<tr><td>Program and Donor</td><td>Rating</td><td colspan="5">Low</td></tr>
<tr><td rowspan="2">Description:<br>No significant risks identified for the short to medium term. The Government is now committed to private sector development as a tool to foster growth and reduce poverty. This overall policy stance is strongly supported by the donor community. The project fits in this framework</td><td colspan="6">Risk Management:<br>• Continuous discussions will be held with other projects and initiatives to ensure effective complementarities between the various interventions.</td></tr>
<tr><td>Resp: Both</td><td>Stage: Preparation</td><td>Recurrent: Yes</td><td>Due Date: June-2013</td><td>Frequency: n.a</td><td>Status: Done</td></tr>
<tr><td>Delivery, Monitoring and Sustainability</td><td>Rating</td><td colspan="5">Substantial</td></tr>
<tr><td>Description:<br>Data reporting in terms of business activity and trade has been relatively limited to date.<br>Due to lack of prior frameworks and proper systems for data collection, the PIU may have difficulties obtaining reliable information from the regions and line-ministries.</td><td colspan="6">Risk Management:<br>• Close project monitoring and 3 implementation support missions per FY;<br>• With a strong emphasis on M&E, a baseline surveys will be carried out in Conakry and the regions selected for value-chain support;<br>• Particular attention will be paid to capacity of the PIU to perform good-quality management of project implementation and on reporting mechanisms;<br>• The PIU will hire a full-time staff for monitoring and evaluation.</td></tr>
</table>

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Security risks stemming from insufficient security sector reform, political and ethnic tensions, elections… | Resp: | Client | Stage: | Preparation and Implementation | Recurrent: | Yes | Due Date: | June-2017 | Frequency: | Each Quarter | Status: | In Progress |

| Overall Risk | |
|---|---|
| **Preparation Risk Rating:** **High** | **Implementation Risk Rating:** **Substantial** |
| Description:<br><br>The risk during preparation is considered as High but with low likelihood (before any mitigation), due to an experienced project team and strong buy-in for the project. | Description:<br><br>The residual risk level for project implementation is considered High, mainly due to the persistence of substantial risks, which are of out control of the project team but can be partly mitigated with the establishment of an efficient PIU. |

## ANNEX 5: IMPLEMENTATION SUPPORT PLAN

### A. STRATEGY AND APPROACH FOR IMPLEMENTATION SUPPORT

The ISP is designed to take into account risks identified in the ORAF, and to mitigate them. Hence, it is built on the following key considerations:

- Guinea is a complex and high risks (political, security, and macro-economic risks) environment to operate in;
- Guinea is a country in which fiduciary and procurement risks are significant;
- Project implementation is to be decentralized: (i) institutionally to several participating institutions (MISME, BCRG, APIP); and (ii) regionally through SCs;
- All ministries and institutions have experience in implementing donor funded projects, although experience with World Bank projects and procedures is more limited. Specifically, the project main partner – MISME – has low capacity and very limited knowledge of Bank's procedures as it will be its first Bank project.

Given the issues above, resources beyond the statutory Bank allocation will be required to support project implementation.

### B. IMPLEMENTATION SUPPORT PLAN

As a result, the proposed ISS is based on the following:

- **Project Implementation support.** The project will initially be overseen by a field-based team (Dakar Office) which will coordinate with the local Country Office and decentralized fiduciary staff as necessary. In addition to the usual sector, safeguard and fiduciary staff, the team will also include a small number of high-level international staff/consultants who have been involved in project preparation and will continue to assist the Borrower. During the first 24 months of the project life, three (3) field implementation support missions will be carried out each year to support the institutions involved in the project.
- **Financial Management.** FM implementation support missions will be consistent with a risk-based approach, and will involve a collaborative approach with the Task Team (incl. procurement). The PIU will be requested to send to the Bank quarterly Interim Financial Reports in addition to annual audited financial statements. The auditor will also provide a management letter assessing the internal control system at the PIU. The project overall rating is deemed Substantial (after mitigation). Based on that, the Bank FM team will conduct supervision missions on a semester basis. The first FM review will thus be carried out within 6 months of credit effectiveness. This detailed review will cover all aspects of financial management, internal control systems, and overall fiduciary control environment. Thereafter, the on-site supervision intensity will be based on risk – initially on the appraisal document risk rating and subsequently on the updated financial management risk rating during implementation. Based on the outcome of the FM risk assessment, the following implementation support will apply:

| FM Activities | Frequency |
|---|---|
| **Desk reviews** | |
| Interim financial reports review | Quarterly |
| Audit report review of the project | Annually |
| Review of other relevant information (eg. interim internal control systems reports) | Continuous (based on availability) |
| **On site visits** | |
| Review of overall operation of FM system Semi-Annual (ISM) | Semi Annual (ISM) |
| Monitoring of actions taken on issues highlighted in audit documents | As needed |
| Transaction reviews | As needed |
| **Capacity building support** | |
| FM training sessions | As needed |

- **Procurement.** The Bank will conduct several supervision missions per year and annual Post Procurement Reviews; the ratio of PPR is at least 1 to 5 contracts. The Bank may also conduct an IPR at any time until after two years of the closing date of the project. Throughout implementation, appropriate support and capacity strengthening measures will be offered to the project's procurement staff as necessary;

- **Capacity Strengthening and Knowledge Transfer.** The *Guinea Education for All* (GEAP) project team is used during project preparation to manage the PPA, while capacity of the MISME is gradually building-up. A whole dedicated project implementation management team will be competitively hired, and made up with staff experienced in managing World Bank projects so that the transition from GEAP to this new Project Management Team will be seamless, and relevant knowledge will be transferred. Relevant personnel in the MISME will be trained on World Bank fiduciary matters to enable quick processing of project requirements. The Project will also benefit from the GEAP Team which would help in training the counterparts on the requirements of Bank funded projects.

- **Government Coordination**. The Setting up of an inter-ministerial Steering Committee to ensure coordination between various departments will assist in improving coordination between key stakeholders. Continued high-level dialogue between World Bank and the Government, and other development partners will also be maintained, and play a critical role in ensuring ownership and continued support.

- **Technical inputs**. Technical expertise on *Component 1: Establishment of Support Centers (SCs) for SME development* will be handled by AFTFW staff and international consultants, while *for Component 2: Facilitating Investment* will be handled by AFTFW and IFC staff.

Finally, the ISP will be revised on a regular basis during implementation on the basis of project progress and continuous risk assessment.

## Table 3: Main focus in terms of World Bank support to implementation and cost

**Annual estimate - year 1 and 2**

| Time horizon | Focus | Skills Needed | Ressource Estimate (USD) |
|---|---|---|---|
| 0-24 months | Team leadership, coordination, dialogue with authorities | TTL, overall project design | 51,500 |
| | Procurement review of bidding documents<br>Procurement supervision and training | Procurement specialist | 24,000 |
| | Financial Management supervision | FM Specialist | 23,000 |
| | Business environment | PSD specialist | 48,000 |
| | Payment systems and information systems | Financial sector specialist | 48,000 |
| | Support to enterprises | International consultant | 22,500 |

**Annual estimate - year 3 to 4**

| Time horizon | Focus | Skills Needed | Ressource Estimate (USD) |
|---|---|---|---|
| 25-48 months | Team leadership, coordination, dialogue with authorities | TTL, overall project design | 38,000 |
| | Procurement review of bidding documents<br>Procurement supervision and training | Procurement specialist | 24,000 |
| | Financial Management supervision | FM Specialist | 29,000 |
| | Business environment | PSD specialist | 32,000 |
| | Payment systems and information systems | Financial sector specialist | 32,000 |
| | Support to enterprises | International consultant | 15,000 |

## Table 4: World Bank Support – Team Skills Mix Required

**Annual estimate - year 1 and 2**

| Time horizon | Skills Needed | Staff weeks | Trips | Comments |
|---|---|---|---|---|
| 0-24 months | Team leadership, coordination, dialogue with authorities | 8 | 3 | Dakar Office Based |
| | Procurement review of bidding documents<br>Procurement supervision and training | 8 | 0 | Conakry Based |
| | Financial Management supervision (2 trips) | 6 | 2 | Abidjan Office Based |
| | Business environment | 6 | 3 | HQ based |
| | Payment systems and information systems | 6 | 3 | HQ based |
| | Support to enterprises | 6 | 3 | MENA Based |

**Annual estimate - year 3 to 4**

| Time horizon | Skills Needed | Staff weeks | Trips | Comments |
|---|---|---|---|---|
| 25-48 months | Team leadership, coordination, dialogue with authorities | 6 | 2 | Dakar Office Based |
| | Procurement review of bidding documents<br>Procurement supervision and training | 8 | 0 | Conakry Based |
| | Financial Management supervision | 8 | 2 | Abidjan Office Based |
| | Business environment | 4 | 2 | HQ based |
| | Payment systems and information systems | 4 | 2 | HQ based |
| | Support to enterprises | 4 | 2 | HQ based |

## ANNEX 6: STRUCTURE AND SEQUENCE OF IMPLEMENTATION OF THE SUPPORT CENTERS (SC)

In this Annex, we provide more detail on the process of implementation of the regional Support Centers (SCs) - mostly on agribusiness - under component 1. We provide here an overview of the implementation sequence, background information on a typical structure for these 2 regional SCs and a list of existing similar programs in other countries.

### I. IMPLEMENTATION SEQUENCE

Under component 1, the project will seek to establish 2 regional SCs during its duration, one of them will be a central hub coordinating the other center in addition to working on its own sectors. The process of establishing the regional SCs will proceed in sequence: first, there will be a learning phase from initial experiences using a pilot approach. The results of this project can be used for other initiatives like this at the end of the project.

Following the satisfactory completion of a study on the detailed implementation of SCs[48], the component will launch the centers. The first of these two centers will be the central hub. These two centers will be selected based on the regional conditions at time of effectiveness of the project, particularly the readiness of the region for accessing local and international markets. Regions such as Forecariah/Kindia are possible candidates for the initial investments based on their clusters' starting conditions (current demand throughout the value chain), availability of complementary infrastructure, capacity to transport final products, and access to markets.

The project will prepare very detailed Terms of Reference (ToR) for the work contracted with the selected partner or consortium, establishing clear responsibilities, strict timelines with penalties for not achieving results, capacity building duties, etc. Leveraging on the knowledge of an existing SC from another country will bring clear benefits, including learning from experience on the technical issues at stake and building local capacity. Using a manager for the implementation will secure timeliness response and sound project management. The project will additionally need to implement rigorous monitoring and evaluation of all steps of the implementation.

These SCs are an innovation for Guinea and should be managed through a step-by-step process. Minimizing risks by testing the implementation through a sequenced approach seems the most solid approach.

### II. TYPICAL STRUCTURE OF SUPPORT CENTERS

The governance structure of the regional SCs and their staff profile will be defined under their respective implementation manuals. In this section, we provide initial guidance on what should be expected on these two dimensions.

The SCs will comprise a technical team – based in a central hub and a regional office – as well as a Steering Committee. This Steering Committee will likely include the following functions: (1)

[48] - This study is part of the project PPA.

oversee the design of a technical and financial studies for the SCs; (2) oversee the development of the SC implementation strategy; (3) approve yearly budgets and activities; (4) monitor progress towards achieving output and outcome results; (5) provide approval for new centers in new regions; (6) provide guidance on model of implementation of the final centers. The Support Centers Steering Committee will likely comprise the following members: (i) representative of the government (MISME); (ii) representative(s) of producers; (iii) representative(s) of SMEs; (iv) researcher(s); and (v) representative of women-led businesses association.

The technical team should include functions shown below with an example of possible staffing, based on existing SCs in MNA.

**Table 5. Example of Possible Staffing for two Support Centers Regional Offices**

| Department | Office | Staff |
|---|---|---|
| **0. Management** | | |
| | *Central Office* | Director General<br>Exec Assistant<br>Accounting Assistant |
| | *Regional Office* | Exec Assistant<br>Accounting Assistant |
| **1. Laboratory** | | |
| | *Central Office* | Senior Agronomist Engineer Lab<br>Senior Lab Technician<br>Lab Technician |
| | *Regional Office* | Senior Agronomist Engineer Lab<br>Senior Lab Technicians |
| **2. Technical support and assistance** | | |
| *2.1 Technical Support* | *Central Office* | Senior Agronomist Engineer Tech. Support<br>Senior Food industry Engineer Tech. Support<br>Senior Engineer Quality<br>Senior Technician Quality<br>Technicians Tech. Support (2) |
| | *Regional Office* | Senior Agronomist Engineer Tech. Support<br>Senior Technicians Tech. Support<br>Senior Engineer Quality<br>Senior Technician Quality |
| **3. Information & Documentation** | | |
| | *Central Office* | Marketing specialist<br>IT specialist<br>Senior Documentation Technicians |
| | *Regional Office* | Documentation Technicians |
| **4. Training (1)** | | |
| | *Central Office* | Senior HR and Training specialist |
| | *Regional Office* | Training specialist |

## III. SIMILAR PROGRAMS IN OTHER COUNTRIES

The development of the SCs in Guinea will follow the experience conducted in other countries. No single model has been used everywhere. Some countries have created full-fledged SCs, while others have integrated some functions of a typical SC in other type of agencies. The variance in models is the result of different needs and different investment capacity.

In the table below, we provide a non-exhaustive list of SCs in five countries. In France and Belgium, the SCs have a status of "Public Utility Establishment" (*Etablissement d'Utilite Publique).* This means that the technical center is a private entity managing activities of public interest. Although the centers respond to the Ministry of Industry and Finance, they are managed with own resources from their members. In Tunisia and Morocco, the SCs are categorized as "public institutions with a private sector orientation". Management is shared with the private sector but control and validation of budget, investment, and recruitment is under government authority[49].

**Table 6. SCs in various countries**

| Domain | Sector | Tunisia | Morocco | France | Spain | Belgium |
|---|---|---|---|---|---|---|
| **1. Agribusiness** | | | | | | |
| | Fruits and vegetables | | | CTIFL | | |
| | Beet | | | ITB | | |
| | Oleaginous | | | CETIOM | | |
| | Medicinal and aromatic | | | ITEIPMA | | |
| | Wine and vineyards | | | ITV | IVV | |
| | Olive oil | Institut de l'olivier | | | | |
| | Citrus | CTA | | | | |
| | Cereal grains | CTC | | | | |
| | Animal fat and oil | | | ICG | | |
| | Sugar cane | | | ITICS | | |
| | Food processing industry | CTAA | CETIA | ACTIA | AINIA | |
| **2. Industrial** | | | | | | |
| | Leather and leather goods | CNCC | CMTC | CTC | | |
| | Construction materials | CTMCCV | CETEMCO | CTTB | | |
| | Mechanical industry | CETIME | CERIMME | CTDEC | | |
| | Textile and clothing | CETTEX | CTTH | IFTH | | CENTEXBEL |
| | Chemical industry and | CTC | CTPC | | | CTIB |
| | Wood industry and | CETIBA | CETIBA | CTBA | | |
| | Packaging | PACKTEC | | LEREM | | |
| | Foundry | | | CTF | | CRIF |

In Latin America, initiatives like this one include the research and technical assistance provided to farmers by the coffee federation in Colombia (*Federacion National de Cafeteros*), as well as

[49] - **Tunisia**: CTA: centre technique des agrumes; CTC: centre technique des céréales; CTAA : centre technique des industries agroalimentaires; CNCC: centre national du cuir et de la chaussure; CTMCCV: centre technique des matériaux de construction de la céramique et du verre: CETIME: centre technique des industries mécaniques et électriques; CETTEX: centre technique du textile; CTC: centre technique de la chimie et du caoutchouc; CETIBA: centre technique du bois et ameublement; PACKTEC: centre technique de l'emballage et du conditionnement.

**Morocco**: CETIA: centre technique de l'industrie agroalimentaire; CMTC: centre marocain des techniques du cuir; CETEMCO: centre technique des matériaux de construction; CERIMME: centre d'étude et recherche des industries métallurgiques et mécaniques; CTTH: centre technique du textile et de l'habillement; CTPC: centre technique de la plasturgie et du caoutchouc; CETIBA: centre technique des industries du bois et de l'ameublement.

**France**: CTIFL : centre technique interprofessionnel des fruits et légumes; ITB: institut technique de la betterave: CETIOM: centre technique des oléagineux; ITEIPMA: institut technique des plantes à parfum, médicinales et aromatiques; ITV: institut technique du vin et des vignobles; ICG : institut des corps gras; ITICS: institut technique interprofessionnel de la canne à sucre; ACTIA: association de coordination technique des industries agroalimentaires; CTC: centre technique du cuir; CTTB: centre technique de la tuile et de la brique; CTDEC: centre technique du décolletage; IFTH: institut français du textile et habillement; CTBA: centre technique du bois et de l'ameublement; LEREM: laboratoire de recherche en emballages; CTF: centre technique de la fonderie; IS: Institut de Soudure

**Spain**: IVV: instituto de la vina y el vino; AINIA: asociación de investigación de la Industria agroalimentaria;

**Belgium**: CRIF: centre de recherche des industries de fonderie; CENTEXBEL: centre technique du textile; CTIB : centre technique de l'industrie du bois.

the Peruvian center for vegetables and asparagus (*Instituto Peruano del Espárrago y Hortalizas*). In Peru, there's also a number of Centers funded by the government in other industries that have been operating with some degree of success for over 15 years.

In Sub-Saharan Africa, the model of a technical center is less commonly available. Nonetheless, a number of African countries host government agencies specialized in extension services that develop some functions that would be part of a technical center. In particular, Agriculture Research Institutes as those listed in the table below are common across countries in the sub-region.

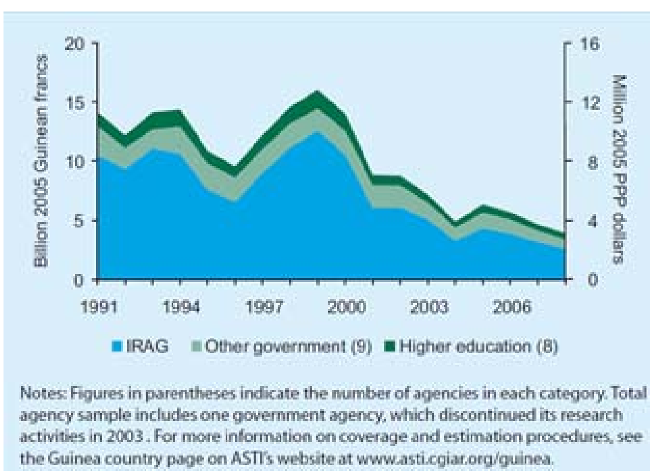
**Table 7. Agriculture Research Institutes in sub-Saharan Africa**

| **Country** | **Name of Institute** | **Website** |
|---|---|---|
| Senegal | Institut Sénégalais de Recherches Agricoles (ISRA) | www.isra.sn |
| Gabon | Centre National de la Recherche Scientifique et Technologique (CENAREST) including IRAF, IRT, and IRET | www.cenarestgabon.com |
| Burkina Faso | Centre National de Semences Forestières (CNSF) | www.cnsf.bf |

These agricultural centers are usually focused on developing new seeds and selecting new product varieties, as well as promoting, developing and operating scientific innovation in agriculture. These objectives are reached through the promotion of scientific research, training, and dissemination of results. However, these centers often lack the focus on the final client – farmers, cooperatives and SMEs – that a full-fledge SC would make part of its main mission.

The constraints faced by the players in the relevant clusters are not necessarily addressed by just conducting research and disseminating knowledge. Emerging firms will require hand-holding in terms of technical assistance on critical aspects such as processes, equipment acquisition, organization of structures, information and quality systems, testing, technical training of staff, technical studies on specific sector, documentation and information, etc. Therefore, this project will seek to develop for Guinea a structure that is adequate for the local capacities but sufficiently ambitious to promote the competitiveness of local players. It will thus share functions with existing models in Sub-Saharan Africa, but will not just be a copy of an existing structure.

**Figure 5. Agricultural R&D spending adjusted for inflation (1991-2008)**




Source: Béavogui et al., 2010

In Guinea, the Ministry of Agriculture manages currently the IRAG (*Institut de Recherche Agronomique de Guinée*) that has the objective of developing research on production techniques and new seeds. The IRAG is the "country's main agricultural R&D agency, employing two-thirds of the country's agricultural research staff and accounting for two-thirds of its national agricultural R&D expenditures" (Béavogui et al., 2010). The center investment in research has been decreasing significantly in real terms (as per the figure above from Béavogui et al., 2010), which is associated with a reduction in international aid to this institute.

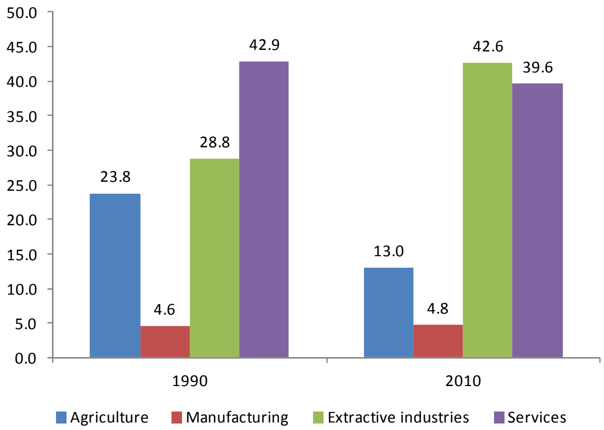
The main differences between IRAG and the SCs planned under this project include:

- SCs are created with the general objective of rendering technical services to SMEs, cooperatives and farmers. IRAG is supposed to be a Research Center not necessarily in tight relation with economic operators, but more with a focus in building local knowledge.
- SCs cover aspects of the value chain (production, processes, management, quality, marketing, specific studies, innovation, etc.). IRAG and in general research centers work with specific research programs fixed by the Ministry of Superior Education and Research.
- SCs cover a wide range of activities including technical support, information, and training. IRAG is mostly focused on research activities.
- Administration and finance of these two institutions are also different; in particular SCs' budget is partially financed by the clients, which is often not the case for research centers.

The IRAG will likely be a partner to the SCs to be established in Guinea and participate in their Steering Committee.

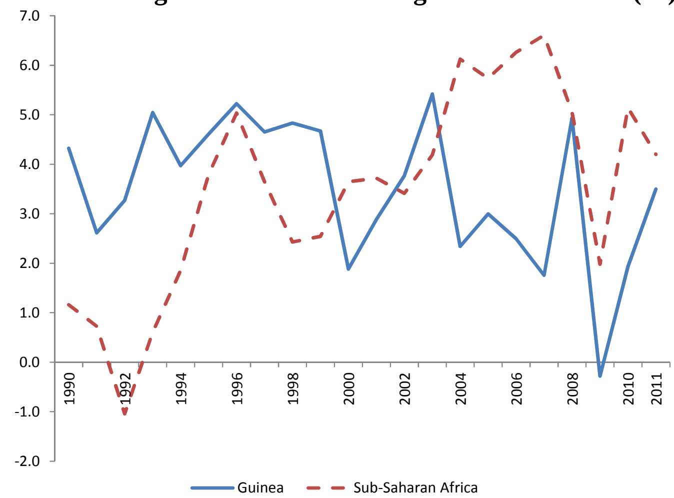
# ANNEX 7. BACKGROUND DATA

**Figure A.7. 1. Sectoral structure of GDP**



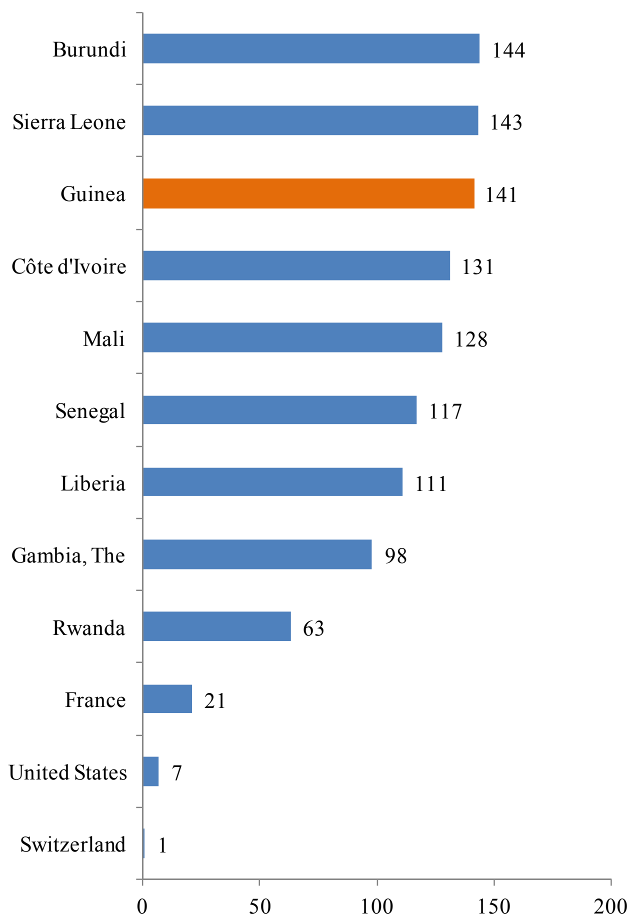

Source: DDP dataset, September 2012 update.

**Figure A.7. 2. Real GDP growth: 1990-2011 (%)**



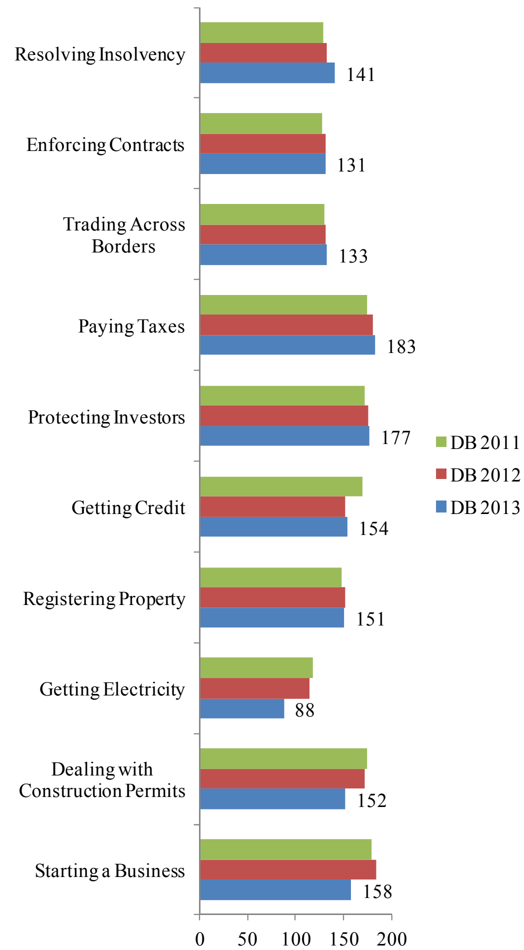

Source: DDP dataset, September 2012 update.

**Figure A.7. 3. Global Competitiveness Index (2013 ranking)**




Source: WEF (2012)

**Figure A.7. 4. Business Legal Framework – DB 2013 rankings**




Source: Doing Business 2013.

## ANNEX 8. ECONOMIC ANALYSIS

The project has two major components, the first aims to support directly the development of women-led enterprises and firms in targeted value chains, and the second seeks to prepare the institutional capacity of government systems and agencies. Success in component 2 will be assessed by regular and effective usage of the planned systems and regulations, as measured in the Annex 1's Results Framework. In the absence of an impact evaluation for this component – which would be difficult to design in any case – it will be challenging to attribute changes in firms and (international) investors' behavior to the project. The changes in quality of business entry and financial systems, coupled with targeting of investors, will in turn have effects on firm-level investment and performance but this causal link will be difficult to directly associate some of the project subcomponents. Therefore, an economic analysis was conducted only for the first component of the project, which directly targets MSMEs, and it was done specifically for the regional centers.

Component 1 of the project focuses on Support Centers (SCs) to assist on the development of value chains in targeted regions of Guinea, as well as the investment of female-owned MSMEs in non-traditional programs.

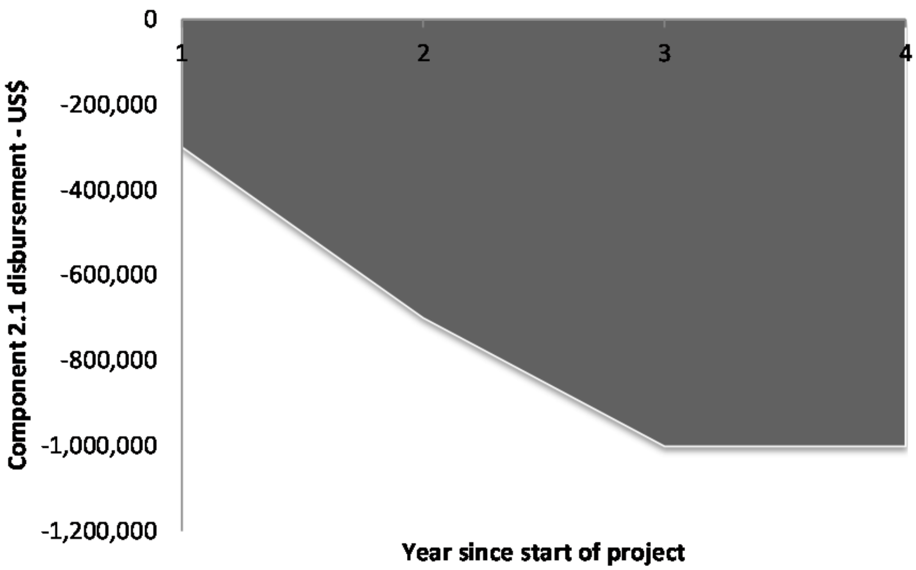
The first part of this program under Component 1 will invest US$ 3.2 million on two regional SCs. The main objective will be to improve the skills and information of the economic operators – farmers and cooperatives, SMEs focused in wholesale, agro-processors - in specific sectors and regions of the country. Through those, we expect changes in (i) farm-level yields, (ii) efficacy in crop selection, (iii) quality of the agricultural products resold (packaging, standards, etc.), with effects on access to new markets, and (iv) presence of agro-processing. The investment in the regional support centers in component 1 is estimated in this analysis to result in a net present value (NPV) of approximately US$ 0.3 million, using a discount rate of 17.5 percent to reflect the risk[50] of investing in Guinea. The economic rate of return (ERR) is estimated at 21 percent for this component.

The sub-activity on regional SCs – the largest in the project, representing thirty percent of the envelope – will focus on developing and operating two SCs during the four-year duration of the project. Each SC will provide support to two to three value chain sectors, including pineapple, mango, rice, potato, and palm oil.

The creation and operationalization of these technical centers will be implemented in sequence. We estimate the implementation process of operating centers listed in the chart and table below. Therefore, the majority of the investments will happen by year 2 and 3 and the firm-level support services will be back-loaded - over 80 percent of the clients are expected to be supported in the last two years of the project. This will be a phase when both of the technical centers are in place. The lag between the launch of the project and the opening of the two centers results from the need to prepare the necessary studies, building renovation and conditions to rollout the services.

[50] - The interest rate for bank deposits has been steadily around 15 percent in Guinea (EIU, 2012).

**Disbursement Component 1 – Regional centers**




We identify three groups of participants in the program: (i) household farmers and co-operatives, (ii) MSMEs mostly working on wholesaling fruits and vegetables and supplier industries (packaging, etc.) and (iii) food processors and other investors in new unexplored sub-industries. As shown in the table below, the majority of the participants in the program will be individual farmers. Although they represent the largest majority of potential clients, the services rendered to these clients will be less intensive and less expensive than those provided to the MSMEs and agro-processing industries; thus, their weight on the overall program will likely be considerably lower than the number of firms supported would suggest[51].

**Number of regional support centers and clients**

| | YR1 | YR2 | YR3 | YR4 |
|---|---|---|---|---|
| Operating centers | 0 | 2 | 2 | 2 |
| Number of firms supported | | | | |
| HH farming | 0 | 210 | 700 | 700 |
| Cooperatives | 0 | 12 | 40 | 40 |
| SMEs | 0 | 6 | 20 | 20 |
| Investors new sectors | 0 | 1 | 6 | 6 |
| Food processors | 0 | 3 | 10 | 10 |
| **Total** | **0** | **232** | **776** | **776** |
| *% of total* | *0%* | *13%* | *43%* | *43%* |

51 - Initial estimates by type of activity suggest that farming will be the target client for 10 percent of the laboratory analysis and testing, as well as for the technical assistance, and could represent approximately one third of the training and information activities.

We analyze the estimated effects of the SCs introduction for each of the three groups of firms. For household farming and cooperatives, the SCs should help addressing constraints in accessing knowledge, which will likely be converted into better usage of available inputs. This will lead to improvements in yield per hectare of cultivated land.

We use crop level data from West Africa[52] to assume that the typical farmer will focus on the median crop in terms of starting-level productivity and pricing - or a similar balance of different crops. We identify that plot size is around one hectare on average. Crops have typically one growing season per year and farmers sell usually 65 percent of what they produce, the remaining often being self-consumed. Inputs including fertilizers, seeds, pesticides and herbicides represent around 22 percent of costs and 17 percent of the value produced and sold. Productivity varies considerably by crop but typically is of approximately 1.5 tons per hectare. Farmers sell in the local market to intermediaries.

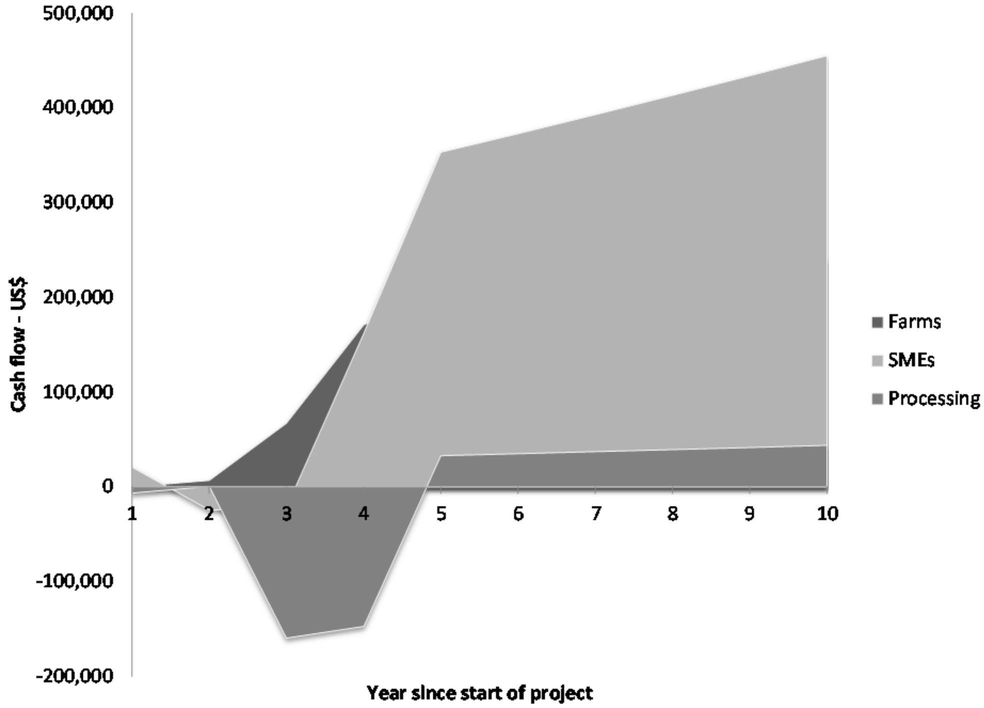
In this setting, we expect the introduction of the SCs to improve the volume produced by the farms and cooperatives supported by the project – in short, using the same volume of inputs, firms will achieve a larger output once incorporating the improved knowledge on mix of inputs, balance of crops, disease control, as well as price information. Our base case explores a 15 percent improvement in farm-level productivity assuming constant prices for farms supported by the program. We also estimate that the introduction of the SCs will create opportunities for new investors, including new farms and cooperatives, which will generate net positive returns for the economic value of this program.

Furthermore, the SCs will support the quality improvement and access to markets of SMEs. This is the type of enterprises where we see the largest potential of benefiting from the program, as per the graph of cash flows per type of firm below. These are firms mostly with Guinean ownership but sometimes linked to multinationals that are mostly concentrated on wholesaling local produce. The vehicles for this change include the following: SMEs will leverage on their improvement on conservation techniques, packaging, marketing, and logistics skills to reduce waste and reach new markets including increasing the share of exports – higher return market – in their sales. They will also leverage on the improvement of farm-level productivity to grow. Additionally, we are estimating approximately 10 percent growth in the number of SMEs operating in the market associated with improvement in opportunities.

Finally, the SCs will support other players in the value chains, including agro-processing industries such as processed palm oil, fruit juices, and processed cashew, as well as new investors operating in nearby supporting service industries like transport, warehousing, and packaging. The effects on this group will likely be seen only post-conclusion of the four-year project, as by year 4 they would still be co-investing in the opportunities arising from the technical knowledge.

[52] - Most of the analysis is based on farm-household level surveys for an agriculture extension impact evaluation for Benin (Plans Fonciers Ruraux, 2012) and from individual qualitative interviews in Guinea and Guinea-Bissau.

**Cash-flows by type of beneficiary of the regional support centers**




Under this base scenario, we estimate a NPV of this component of US$ 0.3 million and an ERR of 21 percent. These are net effects on the enterprises – the target of our interventions – but in the process other players will benefit including a number of workers and the tax authority.

The results are also sensitive to different scenarios notably:

- If there's an increase in productivity of farmers that are supported by the project of 20 percent the ERR would be of 25 percent. But if the change in farm productivity relative to a scenario of no project was only of 15 percent, the ERR would fall to 16 percent.
- If the price in the export market were to increase by 10 percent in the first year and kept constant after, the ERR would increase to 22 percent. If the price were to fall in the same period by 10 percent, the ERR would decrease to 19 percent.

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