1. Country and Sector Background

Country context

1. Guinea-Bissau, with a population of 1.6 million, is one of the world’s poorest countries, and a fragile, politically unstable state. In the ten years since the 1998-99 internal conflict\(^1\) - a conflict that is estimated to have cut national income by 25 percent - economic growth has barely exceeded population growth. Guinea-Bissau ranks 173rd out of 182 countries on the 2009 UNDP Human Development Index. Chronic poverty is deep and entrenched - 66 percent of the population was estimated to be living under the US$2 dollar-a-day poverty line in 2006 (the last time it was estimated), and 22 percent living in extreme poverty - with a higher incidence in rural areas. Infrastructure has decayed in several areas, notably energy and the port. The country’s entire public power system is operating on 5.5 megawatts of generation capacity - 25 percent of what it had been before the conflict, and equivalent to the capacity needed to supply less than 2000 people in the US.

2. Macroeconomic conditions - mainly fiscal ones in Bissau, since it is a member of the regional CFA zone - remain challenging, in spite of recent progress, with continued large domestic primary budget deficits, frequent arrears accumulation, and a massive debt overhang.

\(^1\) This conflict, which paralyzed the country for more than a year, led to only limited loss of life but significant physical damage to the capital city Bissau. It was sparked by a coup attempt and played out against a background of ethnic cleavages, military personnel discontent over their economic conditions, and regional involvement.
Overall, the achievement of most Millennium Development Goals is out of reach, and will remain so well beyond the 2015 horizon. More worrisome even, the country has, in recent years, become vulnerable to the influence of Latin American drug traffickers, with the potential for a major deleterious impact on social, economic, and security developments in the country and the sub-region.

3. At the heart of the country’s disappointing performance is a web of vicious cycles at the political, economic and sector levels that are locking the country in a low-equilibrium trap of instability, weak governance and low growth. There is little doubt about the role of political instability in undermining economic growth. Political instability, often marked by the intrusion of the military or paramilitary on the political scene, has undermined law and order and the successive governments’ ability to provide essential public services and infrastructure. It has further damaged already weak institutions, and contributed to high turnover in senior positions and to the exodus of qualified public personnel. Political instability has also increased the country’s vulnerability to macroeconomic shocks, and, for the last ten years, blocked exit from huge levels of external debt incurred mainly before the conflict. Overall, this has made for a hostile environment for both foreign and domestic private investment - with the possible exception of the kind of foreign private investment that thrives in hostile environments.

Electricity and water sectors situation

4. Electricity and water production and distribution in Guinea-Bissau have virtually collapsed since 2000. Only a small proportion of the population has access to public electricity and water supply, primarily in the capital Bissau, and only part of the time. Out of EAGB’s nine generating units, seven are out of order and their repair is not a least-cost option. The two operational units representing a total of 3 MW were co-funded under the MIRP and the recently closed Private Sector Rehabilitation and Development Project (PSRDP). To complement this capacity, a lease contract was signed with a private company to provide an additional capacity of 2.5 MW, bringing the current total generation capacity in Bissau to 5.5 MW. In contrast, the unrestricted demand for power in Bissau has been estimated at about 30 MW. EAGB is caught in a vicious cycle where widespread power cuts and poor commercial management have led to high levels of energy losses and low revenue collection, thus worsening EAGB’s financial position and its ability to operate and maintain its generation and distribution facilities.

5. Because of the failure of the public electricity supply, there is an estimated 20 MW of private capacity installed by large consumers such as embassies, international organizations, hotels and other institutions. There are also an estimated of 800-1000 small generators used in the residential sector. This is costly to the fragile economy of Guinea-Bissau in terms of competitiveness and has a negative environmental impact as small diesel generators are more costly and less energy efficient than larger utility-run plants. The customer base is very small because of the lack of public supply and there are only about 19,000 regular electricity consumers.

Consistency with Country Strategy (ISN)

6. The proposed additional financing and its associated parent project EEWRP are consistent with the Interim Strategy Note (ISN) for Guinea Bissau (Report No. 48466-GW of...
May 20, 2009) covering the period FY09-FY10. The ISN has identified as a key development challenge for Guinea Bissau the need to address the collapse of basic infrastructure services and in particular the collapse of the electricity sector and the ripple effect it has on the reliability and competitiveness of other sectors already beset by other difficulties (water supply and its effects on health outcomes, agricultural transformation industry, etc.).

2. Objectives

7. The project development objective of the proposed additional financing remains the same as for the original project (EEWRP), i.e. to assist the Government of Guinea-Bissau (GoGB) in the rapid restoration and improvement of electricity and water supply services in its capital city.

3. Rationale for Bank Involvement

8. The Government’s energy strategy in the short term consists in (i) increasing electricity generation capacity, which will directly improve water pumping in Bissau; (ii) enhancing EAGB’s operational performance, in particular commercial management, through the introduction of pre-payment meters and technical assistance; and in the medium-term in (iii) restructuring EAGB and setting up a new sector structure under a public-private partnership (PPP), including transformation of EAGB and a social plan for its employees. To a large extent, these actions will be undertaken in parallel, but sector restructuring and private sector participation will be implemented after the emergency needs of the sector have been taken care of and EAGB starts to break out of its current low performance trap.

9. The Bank financed Multisector Infrastructure Rehabilitation Project (MIRP) and Emergency Electricity and Water Rehabilitation Project (EEWRP) are helping the government with the implementation of this strategy by funding (i) 5 MW of generation capacity, (ii) the introduction of prepayment meters, (iii) the construction of a water reservoir and (iv) technical assistance to help with the management of EAGB and its transformation into a well-run privately operated utility. More donors are supporting this effort: two regional organizations, ECOWAS and WAEMU, are providing $10 million for EAGB to purchase fuel for power generation in 2011. The West African Development Bank is evaluating a $30 million project to purchase 15 to 20 MW of thermal power generation that may become operational in mid-2013. The European Union has undertaken to fund the rehabilitation of the distribution network and the regional interconnection of Guinea Bissau to the future power network of OMVG (Organisation de la Mise en Valeur du Fleuve Gambie – Gambia River Development Organisation).

10. In the short term, however, there is a serious shortage of funds and the current IDA allocation is insufficient to cover the country’s needs for emergency electricity and water supply. Efforts are under way to mobilize additional funding for the sector over the medium to long term through a donors’ meeting to be held in April 2011. There is therefore no alternative in the short term to an additional financing to meet the financing gap of the 5 MW generating unit, for which bid prices were well over appraisal estimates.

4. Description
11. The AF will cover an unanticipated cost overrun arising in the course of procuring power generators of 5 megawatt (MW) capacity.

5. Financing

<table>
<thead>
<tr>
<th>Source:</th>
<th>($m.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>International Development Association (IDA)</td>
<td>2.24</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2.24</strong></td>
</tr>
</tbody>
</table>

6. Implementation

12. The proposed AF will benefit from the same implementation arrangements as the original project (the EEWRP). The same Project Implementation Unit (PIU) will continue to handle the fiduciary, safeguards and monitoring aspects of the project and also in ensuring the compliance of the project with the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006, in coordination with the relevant government ministries, including the Ministry of Economy and Regional Integration which oversees the work of the PIU.

7. Sustainability

13. In addition to the rehabilitation and scale-up of generation in Guinea Bissau, the Bank is at the same time working to address both demand and supply constraints and EAGB’s financial distress through reform and investment. The EEWRP and the AF will be financing an additional thermal generation of 5 MW that will be using the cheapest fuel available to minimize costs and prepayment meters are being acquired to increase cash-flow in a sustainable manner. A public-private partnership is also promoted under this project and is expected to play a key role in the recovery of EAGB over the medium term.

8. Lessons Learned from Past Operations in the Country/Sector

14. The proposed project draws lessons from the World Bank’s operational experience with infrastructure investments in developing countries, and especially in the Africa region. These include:

- The process of rehabilitating utilities within a context of weak institutional framework and limited capacity constitutes a significant challenge and requires a gradual and medium-to-long term maturation horizon. Taking into account the particular context of Guinea-Bissau as a post conflict country and the poor situation of EAGB, the sector reform with private sector participation (PSP) will require a long preparation and implementation period, to be adjusted with the evolving country conditions. In that respect, the project has adopted a flexible approach allowing for a parallel implementation of the investment program and the institutional reforms;

- The rehabilitation of power systems and services cannot be done in isolation and without the rehabilitation and/or strengthening of their commercial management. Investing in
power generation alone is not sufficient to ensure the sustainability of the power system. Complementary investments have to take place to increase cashflow in a sustainable manner. The project funds the installation of pre-payment meters and their acquisition is underway; and

- Attracting a private investor in a company such as EAGB is not realistic in the short term, and a transition leading to increased private sector participation is necessary. The project establishes such a transition period during which a technical assistance is provided to: (a) implement technical, institutional, regulatory and financial measures to address EAGB’s difficulties; (b) manage EAGB during the transition period; and (c) prepare EAGB for full private sector participation.

9. **Safeguard Policies (including public consultation)**

15. The proposed AF retains the same environmental category as the original project (the EEWRP). There are no new environmental or social issues associated with the proposed AF and it does not trigger any additional safeguard policy. To mitigate the environmental and social liabilities at the power utility and to ensure the safety of power generation equipment at its only power plant, the Borrower prepared an Environmental and Social Audit (ESA) Report in January 2006 for the purpose of the Multisector Infrastructure Rehabilitation Project (MIRP). The same report was re-disclosed and its recommendations applied to the EEWRP’s relevant activities. The ESA report outlines specific technical and institutional mitigation measures which are being implemented under the EEWRP, and it proposes environmental and social monitoring standards (for industrial waste, water and soil contamination and emissions values). At the utility power plant, all dilapidated power generators are no longer in operation and all currently operating generators comply with Bank guidelines. Moreover, an environmental clean-up of the power plant site is planned under the MIRP.

16. The EEWRP has made provisions designed to strengthen the Borrower’s capacity to implement and monitor the environmental and social mitigation measures. To mitigate the potential negative environmental and social impacts of limited rehabilitation activities in the water sector, the Borrower has prepared, consulted upon and disclosed an Environmental and Social Impact Assessment/Environment Social Management Plan (ESMP) of the new water tower/reservoir of 700m3. In addition, the Borrower is including Environmental and Social Clauses/Guidelines for Contractors’ consideration in their bidding documents. The release of contractors’ payments will be contingent upon full implementation of defined environmental and social clauses.

10. **List of Factual Technical Documents**

17. Reports and legislation:
- Rapport provisoire de diagnostic et recommandations sur les options de réforme et la mise en place de partenariats public-privé, Hector Farina Avocats, November 2009;
- Carta de política sectorial sobre o approvisionamento das differentes formas de energia (Draft) - Government of the Republic of Guinea-Bissau, March 2010;
- Décret-loi nº 2/2007 sur la structure du secteur énergétique de Guinée-Bissau;
11. Contact point
Contact: Moez Cherif  
Title: Sr Energy Economist  
Tel: +221 338604166  
Fax:  
Email: mcherif@worldbank.org  
Location: Dakar, Senegal (IBRD)

12. For more information contact:  
The InfoShop  
The World Bank  
1818 H Street, NW  
Washington, D.C. 20433  
Telephone: (202) 458-4500  
Fax: (202) 522-1500  
Email: pic@worldbank.org  
Web: http://www.worldbank.org/infoshop

- Décret-loi n° 3/2007 réglementant la production, le transport et la distribution d’énergie en Guinée-Bissau;  
- Décret-loi n° 5-A/92 portant Code de l’eau;  
- Décret-loi de création d’EAGB et ses statuts.