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# GUINEA-BISSAU

## Country Economic Memorandum

### TERRA RANCA! A FRESH START

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Global Practice:  
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**ABBREVIATIONS AND ACRONYMS**

AfDB	African Development Bank
AIDS	Acquired Immune Deficiency Syndrome
ANP	National People's Assembly
APR	Annual progress report
AQIM	Al Qaeda in the Islamic Maghreb
ASECNA	Agency for Aerial Navigation Safety in Africa and Madagascar
ASYCUDA	Automated System for Custom Data
BCEAO	West African States' Central Bank
BEE	Business-enabling environment
BFA	Burkina Faso
BOAD	West Africa Development Bank
BPC	Business Plan Competition
CAIA	<i>Celula de Avaliacão de Impacte Ambiental</i>
CBOs	Community-Based Organizations
CCIA	Chamber of Commerce Industry and Agriculture of Guinea-Bissau
CDD	Community-Driven Development
CDM	Clean Development Mechanism
CEM	Country Economic Memorandum
CENFA	National Center of Training and Administration
CET	Common External Tariff
CFAA	Country Financial Accountability Assessment
CFAF	African Financial Community Franc
CFE	Center for Business Registration
CoM	Council of Ministers
CPAR	Country Procurement Assessment Review
CPLP	Community of Portuguese Language Countries
CPU	Central Procurement Unit
CPV	Cabo Verde
CRW	Crisis Response Window
CSO	Civil Society Organization
DB	Doing Business
DFC	Directorate of Financial Control
DGGM	Directorate General of Geology and Mining
DGO	Directorate of Budget
DENARP II	Guinea-Bissau's Second Poverty Reduction Strategy Paper
DRC	Domestic Resource Cost
DRRP	Demobilization Reinsertion and Reintegration Program
DTIS	Diagnostic Trade Integration Study
DBT	Dulombi, Boe, and Tchetché

EAC	East Africa Community
EAGB	Electricity and Water Company of Guinea-Bissau
ECF	Extended Credit Facility
ECOMIB	ECOWAS Mission in Guinea-Bissau
ECOWAP	ECOWAS Agriculture Policy
ECOWAS	Economic Community of West African Countries
EEWRP	Emergency Electricity and Water Rehabilitation Project
EFA	Education For All
EGRG	Economic Governance Reform Grant
EITI	Extractive Industries Transparency Initiative
ENA	National Administration School
EPA	Economic Partnership Agreement
EPCA	Emergency and Post-Conflict Assistance
EU	European Union
FAO	Food and Agriculture Organization
FBG	BioGuinea Foundation ( <i>Fundacao BioGuinea</i> )
FCPF	Forest Carbon Partnership Facility
FCS	Fragile and Conflict-Affected States
FDI	Foreign Direct Investment
FFEM	<i>Fonds Français pour l'Environnement Mondial</i>
FIAL	Fund for Local Environmental Initiatives
FIAS	Foreign Investment Advisory Services
FSF	Fragile State Facility
FSU	Universal Service Fund
FUNPI	Fund to Promote Industrialization of Agricultural Products
GDP	Gross Domestic Product
GEF	Global Environment Facility
GHA	Ghana
GNB	Guinea-Bissau
GNI	Gross National Income
HDI	UNDP Human Development Indices
HFO	Heavy Fuel Oil
HIP	High-Impact Program
HIPC	Heavily-Indebted Poor Country
HIV	Human Immunodeficiency Virus
IBAP	Institute of Biodiversity and Protected Areas
IDA	International Development Association
IFAD	International Fund for Agriculture Development
IGAP	Public Administration Inspectorate-General
IGF	General Finance Inspectorate
ILAP	Light Survey for Poverty Assessment ( <i>Inquérito Ligeiro para Avaliação da Pobreza</i> )
IMF	International Monetary Fund
INE	National Institute of Statistics
INEP	National Institute for Studies and Research
IPSA	Integrated Poverty and Social Assessment
ISN	Interim Strategy Note
ISP	Internet service provider
IUCN	International Union for Conservation of Nature
LDC	Least-Developed Country
LDCF	Least-Developed Countries Fund

LDP	Letter of Development Policy
LIC	Low Income Countries
LPG	Liquefied Petroleum Gas
MAB	Man and Biosphere
MDG	Millennium Development Goal
MDRI	Multilateral Debt Relief Initiative
MFI	Microfinance Institution
MIRP	Multisector Infrastructure Rehabilitation Project
MLI	Mali
MNR	Ministry of Natural Resources
MoF	Ministry of Finance
MTO	Money-Transfer Organization
MW	Mega-Watts
NER	Niger
NGO	Non-Governmental Organization
NPL	Non-Performing Loans
NSDS	Strategy for the Development of Statistics
NSIA	<i>Nouvelle Société Inter africaine d'Assurance</i>
NSS	National Statistical System
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OMVG	Gambia River Development Organization ( <i>Organisme de Mise en Valeur du fleuve Gambie</i> )
PA	Protected Area
PAIGC	African Party for the Independence of Guinea and Cabo Verde
PARAP	Public Administration Reform Support Project
PEFA	Public Expenditure Financial Accountability
PEMFAR	Public Expenditure Management and Financial Accountability Review
PFM	Public Financial Management
PIM	Public Investment Management
PNIA	National Program for Agricultural Investment
PITF	Political Instability Task Force
PPD	Public-Private Dialogue
PPGD	Public Procurement General Directorate
PPIAF	Public-Private Infrastructure Advisory Facility
PPP	Purchasing Power Parity
PPP	Public-Private Partnership
PRA	Procurement Regulatory Authority
PRGF	Poverty Reduction and Growth Facility
PRS	Social Renewal Party
PRSP	Poverty Reduction Strategy Paper
PSD	Private Sector Development
PSIA	Poverty and Social Impact Analysis
PSRDP	Private Sector Rehabilitation and Development Project
RCU	Reform Coordinating Unit
RDSS	Reform of the Defense and Security Sector
REDD	Reduced Emissions from Deforestation and Forest Degradation
ROC	Reform Oversight Committee
ROIS	Reform Oversight and Implementation Structure
SDR	Special Drawing Right

SEAT	State Secretariat for the Environment and Tourism
SEN	Senegal
SIGFIP	Integrated Public Financial Management System
SMP	Staff-Monitored Program
SNA	National Accounts System
SNAP	National System of Protected Areas ( <i>Sistema Nacional das Areas Protegidas</i> )
SOE	State-Owned Enterprise
SOPs	Series of Projects
SPF	State- and Peace-Building Fund
SSA	Sub-Saharan Africa
SSPER	Security Sector Public Expenditure Review
SSR	Security sector reform
SSU	Sector statistical units
SYGADE	Debt Management Analysis System
TA	Technical assistance
TCI	Trade Complementarities Index
TEUs	Twenty-Foot Equivalent Unit
TFP	Total Factor Productivity
TFSCB	Trust Fund for Statistical Capacity Building
TOS	Terminal Operating System
TSA	Treasury Single Account
TSC	Technical Steering Committee
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDC	UN Office on Drugs and Crime
UNDP	United Nations Development Program
UNWTO	United Nations World Tourism Organizations
WAEMU	West-African Economic and Monetary Union
WAGP	West African Gas Pipeline
WAPP	West African Power Pool
WARFP	West Africa Regional Fisheries Project
WDI	World Development Indicators
WDR	World Development Report
WFP	World Food Program
WGI	Worldwide Governance Indicators
WWF	World Wildlife Fund

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## EXECUTIVE SUMMARY

### 1. *Terra ranca! A fresh start*

1. **Guinea-Bissau is one of the poorest countries in the world. It is also one of the most fragile ones.** In 2013, Gross National Income per capita was US\$590 per capita. Poverty at PPP US\$2 day is above 70 percent and extreme poverty is about 33 percent. The economy is undiversified and dominated by the production of unprocessed cashew nuts. Annual average growth has barely kept pace with population growth, which is partly due to a difficult governance environment, frequently interrupted by political turmoil, including military coups. The latest coup occurred in 2012. Political fragility in Guinea-Bissau has hampered private sector-led growth and poverty reduction.

2. **Democracy returned to Guinea-Bissau in 2014 and the newly elected government now has the opportunity to make a fresh start and turn the page on anemic growth and poverty.** Guinea-Bissau experienced a recession in 2012, partly as a consequence of a resolute donor response to the coup which resulted in a considerable drop in aid, but partly also as an effect of the political rupture on the 2012 cashew harvest. Growth has only modestly recovered since and is unlikely to resume before political stability returns. In April and May 2014, Guinea-Bissau held elections which many observers considered the freest and fairest in the country's history. The development challenges the new government faces are daunting but not unsurmountable. This Country Economic Memorandum (CEM) provides an analysis of the country's constraints to growth. The policies it recommends can support the government in making a fresh start—*terra ranca!* in Bissau-Guinean Créole—to sustainably improve the lives of Bissau-Guineans.<sup>1</sup> The goal is to foster shared growth, for poverty reduction and shared prosperity.

3. **Fragility will continue to frame Guinea-Bissau's development trajectory.** The 2011 *World Development Report* defines fragility as a period 'when states or institutions lack the capacity, accountability, or legitimacy to mediate relations between citizen groups and between citizens and the state, making them vulnerable to violence.' A weak state, with associated poor service delivery to citizens, and frequent episodes of conflict, including a long independence war, a civil war, and several military coups and political assassinations have marked Guinea-Bissau's history. Even though the new government enjoys popular legitimacy, extrajudicial interference from political opponents, including from within the armed forces, can yet again derail the path toward prosperity. The Political Instability Task Force—hosted by the Center for Global Policy at George Mason University—estimates that the probability of a coup occurring in Guinea-Bissau in 2014 was about 20 percent. Fragility is an entrenched characteristic of Bissau-Guinean politics.

4. **But shared growth is possible in spite of fragility—and may indeed reduce fragility.** This CEM focuses on policies that unleash the potential of the private sector, strengthen the public sector, and deliver services to citizens. Rising incomes empower citizens to hold government accountable and demand better governance, while improved public policies strengthen the legitimacy of the state. A stronger social compact between the state and its citizens will increasingly consolidate the rule of law and shield the government from unlawful removal; on the other hand, increasing dividends from shared growth dampens elite competition for a more limited pool of rents and thus reduce incentives to oust the ruler. Shared growth should thus

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<sup>1</sup> A summary of all policy recommendations made in this CEM can be found in the appendix at the end of the document.

reduce fragility. However, given how entrenched fragility is in Guinea-Bissau, stability will not come over night. Neither will growth. But, as this CEM argues, boosting shared growth in Guinea-Bissau is possible, even in a fragile environment. The key lies in empowering Bissau-Guineans as citizens and entrepreneurs: they are the drivers of economic growth.

5. **This CEM argues for a turnaround agenda, tackling major constraints to growth simultaneously.** In Guinea-Bissau, the environment for private sector-led, shared growth is at a low equilibrium, as poor infrastructure, low levels of human capital and poor public services reinforce each other. They are compounded by elite competition for rents and a weak public administration. Jointly, they stifle private economic activity. In an environment where even the minimum conditions for growth are barely met, isolated policy interventions are likely to fail because most economic activities are complementary: a cashew farmer will not sell his produce if traders gain access to credit but no road connects the farmer to markets. The turnaround agenda proposed in this CEM has the potential to turn around the economy for a more prosperous future, through a comprehensive effort to remove the binding constraints to growth. Given the weak capacity to deliver even basic public services at the moment, the government should focus on strengthening its capability in core areas and return some agency to citizens in others, e.g. through social protection programs or a less constraining business environment. Moreover, it will be crucial to leverage support to avoid overwhelming the public sector, including from donors, regional organizations, NGO's, and the diaspora.

## 2. *Creating the conditions for growth, poverty reduction, and shared prosperity*

### *Strengthening the physical, legal, and financial architecture*

6. **Market failures in Guinea-Bissau are pervasive. Investing in the physical, legal, and financial architecture will be vital to enable private sector-activity.** If unleashing the potential of the Bissau-Guinean private sector is the key to growth, poverty reduction, and shared prosperity, including in a fragile state, a host of market failures will need tackling, as elaborated in chapters 2 and 3. In modern economies, electricity is a major input to production yet its availability in Guinea-Bissau is severely limited while its costs are high. Inadequate road and port infrastructure, an underdeveloped ICT sector, a restrictive regulatory environment, a largely unskilled workforce, and a shallow financial sector limit the effectiveness of goods, labor, and capital markets. Removing constraints in these areas will help to connect markets and market participants better, enabling economic activity.

7. **Poor infrastructure is a major bottleneck in Guinea-Bissau. Improving the supply of electricity is among the most pressing concerns.** Chapter 2 focuses on four areas for infrastructure investment, beginning with electricity. Entrepreneurship and private sector-led growth are severely limited by insufficient or unreliable access to power. Yet 60 to 80 percent of Bissau-Guineans do not have access to power. Donors are already supporting the government in enhancing generation capacity which is crucial. In addition, it will be important to enhance the financial sustainability of the sector, enhance its governance systems, and establish a cost-effective system to fuel power plants in the short-term, until the country can benefit from connections to regional power grids.

8. **Access to markets is severely limited by an ineffective port and inadequate road infrastructure.** Even though Guinea-Bissau's economy is driven by exports—of raw cashew nuts—the country's only port in Bissau is in a desolate state. Key policy interventions include dredging and the removal of numerous ship wrecks obstructing access to the quays, facilitating access for larger ships by increasing sea depth, investments in infrastructure and storage facilities,

improved governance of the port authority, and resolving a long outstanding legal dispute with a former private concessionaire, to attract new private investors. Roads, on the other hand, have been deteriorating dramatically in recent years, partly in response to a lack of donor support in the aftermath of the 2012 coup. Especially access roads to producers of cashew nuts but also other Bissau-Guinean products, such as rice, require considerable rehabilitation work to connect producers with markets.

9. **Telecommunications coverage is underdeveloped in Guinea-Bissau.** Landline telephony barely exists in Guinea-Bissau. Mobile phone coverage has been increasing dramatically over the past years. About 36 percent of Bissau-Guineans had mobile phones in 2012 (subscriptions were higher because users tend to have multiple SIM-cards). Few businesses and households have access to the internet: Guinea-Bissau is the only coastal African country without access to a deep-sea cable. Telecommunications are crucial for growth, as they can connect market participants—even where physical connectivity is limited by poor infrastructure, as in Guinea-Bissau. They improve the productivity of businesses, and they can channel financial resources, including remittances or cash transfers, to recipients even in the most remote areas. Improving telecommunications system in Guinea-Bissau is vital.

10. **Private sector development and finance are pillars of economic growth. They face severe constraints in Guinea-Bissau.** Chapter 3 points out that Guinea-Bissau ranks among the ten worst performers on the *Doing Business* indicators. Yet the constraints are not limited to a poor regulatory framework for businesses. They also include poor physical infrastructure (explained in chapter 2), a largely unskilled labor force, and a shallow financial market. These are key areas for policy interventions, including new laws and regulations that improve the business climate, investments in infrastructure, education and training, and strengthening financial intermediation, for example through micro-finance. One key challenge will be to re-define the relationship between the private sector and the government in order to minimize political interference in the private-sector and rent-seeking behavior from government officials. Private sector development interventions have the potential to boost existing growth sectors but also encourage the entry into new sectors, allowing the economy to diversify. If the conditions improve, FDI may play a transformative role.

#### *Strengthening governance and leveraging partnerships*

11. **Strengthening the public sector will be crucial to coordinate and implement the turnaround agenda. Several partners stand ready to support the government.** Addressing market failures and delivering public services requires the government to leverage resources, oversee large-scale investments, and overhaul the legal architecture, among a host of other activities. Weak governance, one manifestation of fragility, limits the government in its ability to carry out these activities. Investing in the capacity of the administration will be crucial to ensure effective policy-making and government ownership of the interventions proposed in this CEM. Growth and jobs as well as better service delivery as a consequence of improved governance will strengthen the legitimacy of the state, which is important in the context of fragility. Building state capacity takes time. In the meantime, several partners—international, regional, local, private and public—stand ready to support the government in building capacity and facilitating, and even help implementing, its policies.

12. **One key to moving to a more dynamic development lies with the public sector.** The government is both the policy-maker and the focus of military coups. Strengthening governance in a fragile country is vital, both for implementing the changes that are required to boost shared growth and for isolating it from outside interference. It is also important to have a capable public

administration to ensure macro-fiscal stability as a key condition for growth. Chapter 4 argues that the public sector agenda should focus on improving Public Financial Management in order to strengthen the government's fiduciary position, further align incentives with the public good and ensuring that revenue is spent on its intended purposes, but also to allow it to prepare a solid budget, the very foundation of policy. Strengthening human resources and statistics will allow the government to identify and monitor key policies and carry them out effectively. Since it takes time to build government capacity, chapter 4 proposes that social assistance programs, such as cash transfers, are one way of delivering support to the poor, especially in an environment where public policies fail. If implemented carefully and with sufficient integrity, such programs may also increase the legitimacy of the state, strengthening the government against outside interventions.

13. **The public sector agenda is ambitious, but the government can leverage several partnerships for support.** Among them is the donor community which can support the government both financially and with advisory services. To ensure that aid is effective, chapter 5 argues that improving donor coordination and in particular the government's leadership in it, is indispensable. Other partners include regional organizations like WAEMU and ECOWAS which provide a valuable framework for free trade, while ECOWAS in particular also provides political and military assistance. A third important partnership highlighted in chapter 5 is with NGOs. NGOs are highly active in Guinea-Bissau, filling some of the gaps that weak public policy creates. They can be important partners for the government in carrying out some policies, such as the construction of rural roads, in conjunction with communities through Community-Driven Development initiatives.

*Leveraging the impact of families and individuals*

14. **Bissau-Guineans are not only the beneficiaries of shared growth—they are the drivers.** Bissau-Guineans are entrepreneurs and workers, in other words, the agents of the market place; they are also citizens, holding government accountable. Supporting them beyond policies that unleash market forces will let them take agency and ownership in the quest for growth, poverty reduction, and better governance. Leveraging support from the diaspora through family networks, but also supporting the poor—who often do not have relatives abroad—through cash transfers would strengthen the contribution Bissau-Guineans themselves can make to boosting shared growth.

15. **Remittances and social assistance programs can be transformational in Guinea-Bissau.** Chapter 6 explores the effect such private or public forms of transfers can have for growth. Remittances are large in Guinea-Bissau and help to bolster consumption and smooth shocks to income. Remittances are also an alternative source of venture financing, especially where informality is high, as in Guinea-Bissau. Informality is a deterrent to banks but family trust can to an extent substitute for formal forms of contract enforcement. Attracting remittances by encouraging more Money-Transfer Organizations to enter the market, enhancing transfer channels through better telecommunications systems, but also government outreach to the diaspora can maximize the impact of remittances on growth. Like remittances, social assistance programs, including cash transfers, can also have effects on local income growth, even though they explicitly target the poorest members of society. Such programs can boost shared growth by encouraging the formation of human and physical capital, productivity gains, and spill-over effects to the local economy. Social assistance programs require the designing of an effective targeting system and, again, establishing bank accounts for the poor, and investments in telecommunications for mobile transfers to recipients.

### *Leveraging the natural resource wealth*

16. **Guinea-Bissau is rich in renewable and non-renewable natural resources which can support shared growth.** The Bissau-Guinean society is predominantly rural, dominated by cashew production. The country also has considerable potential in rice, fishing, horticulture, timber, and other areas. Mining is nascent in Guinea-Bissau but the country has considerable deposits of phosphate and bauxite, as well as petroleum. Almost all employment in Guinea-Bissau depends on natural assets and licenses both for renewable and non-renewable resources—fishing and mining—can result in a considerable stream of revenue for the government. Natural resources are thus key to shared prosperity as they facilitate employment and provide the government with revenue to finance its budget—including the policies suggested in this CEM.

17. **Sustaining and prudently investing the natural resource wealth is critical.** Chapter 7 demonstrates that Guinea-Bissau’s natural resource wealth is large. Yet the country’s wealth is declining as natural resources are depleted through unsustainable activities, such as slash-and-burn techniques in agriculture, illegal logging, and over-fishing. Underdeveloped mechanisms for sharing mineral wealth will pose a big problem when these resources are exploited. The chapter argues for a sustainable management and use of natural resources, investing the proceeds in other forms of capital (including infrastructure and education) to build the country’s wealth as a source of income. Given the centrality of natural resources in Guinea-Bissau, chapter 7 frames all following chapters on igniting the engines of growth.

### **3. *Igniting the engines of growth***

18. **Concentrating on growth sectors ensures that policy interventions are comprehensive yet focused.** Part I of this CEM identifies key constraints to growth, poverty reduction, and shared prosperity. The broad themes, especially market and governance failures, affect all economic sectors in Guinea-Bissau. Part II focuses on the sectors with the largest growth potential, the current and future engines of growth, to further elaborate on these key constraints and highlight specific interventions to remove key bottlenecks and support shared growth in these sectors. A sufficient degree of selectivity is particularly important in the case of weak governance and limited government capacity in order to direct public policies at the areas with the highest potential impact.

19. **Cashew is currently the single most important growth sector in Guinea-Bissau.** About 80 percent of the labor force are employed in the sector, most of them poor, and raw cashew is the country’s single most important export. The sector is globally competitive but the value added of raw cashew is low. The challenge will be to move into cashew processing which is more lucrative, and can create many jobs. Chapter 8 argues that, apart from the policy interventions identified in chapter 3—including roads and port infrastructure, training the workforce, and improving access to finance—strong efforts should be undertaken to attract FDI in the sector and to support communities in building small-scale cashew processing facilities.

20. **Guinea-Bissau used to be a net exporter of rice. Exporting once again is within reach.** Chapter 9 shows that the country has a comparative advantage in rice. Investing in the sector is important for broader and more diversified growth. The key challenge in the rice sector is a considerable upfront investment in the rehabilitation of rice plantations which is a central policy priority. However, the sector is plagued by numerous other constraints, including weak access to finance, poor roads, but also weak marketing channels, lacking extension services and research and dissemination of new seed varieties. These are important areas for policy. Finally, the chapter points out that the barter trade of cashew for rice provides a disincentive for farmers

to switch into rice production. Monetizing the economy through cash transfers would enable farmers to move away from cashew-for-rice barter and explore other areas of economic activity—including rice production.

21. **Fishing mainly provides revenue to the government through fishing licenses. However, the sector holds employment potential.** Fishing licenses currently account for about 10-15 percent of government revenue. Leveraging fishing agreements with trading blocs like the European Union could in fact increase this amount, providing valuable resources to the government for public policy. Guinea-Bissau is not a traditional nation of fishermen. Bissau-Guinean waters have considerable fishing potential, however, which could be tapped by larger parts of the labor force. Chapter 10 argues that for fishing to meet its full potential, both in terms of employment and revenue, it will be vital to achieve ecological sustainability of fish stocks and develop a strong governance framework of the sector to prevent overfishing and encourage employment.

22. **Mining and petroleum are potential sources of revenue for the government but can also generate employment to local communities.** Chapter 11 notes particular potential for the extraction of phosphate, bauxite, mineral sands, gold, and petroleum. The legal and institutional system is broadly adequate and new investors have already signaled interest. Local development could be enhanced if local communities provided services to the mines; on the other hand, protecting the livelihoods of local communities also implies that mining companies adhere to the laws that preserve the environment. Chapter 11 argues that natural resources should be used to build the country's total wealth, including human and physical capital, intangible capital, such as governance, but also support the budget to finance social assistance programs, such as cash transfers or public works programs. Especially in an already weak governance environment it will be important to guard against the "Resource Curse", where natural resource revenues further undermine institutions. Moreover, to avoid an appreciation of the real exchange rate, part of the resource wealth may be saved to avoid a loss in external competitiveness for other economic sectors and thus guard against "Dutch Disease."

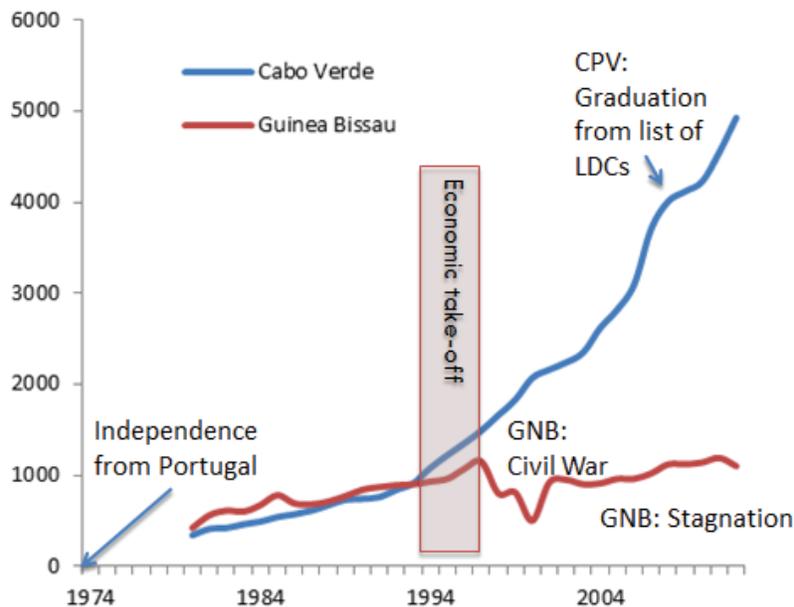
23. **Guinea-Bissau has considerable potential for tourism due to its pristine and well-conserved biodiversity.** Political stability will be a key precondition for tourism flows to increase considerably; however, a nascent tourism sector can already be observed. As the environment is of utmost importance for Guinea-Bissau, maintaining biodiversity is key, as chapter 7 argues. Forms of eco-tourism are commensurate with environmental stability. Chapter 12 highlights that the government of Guinea-Bissau already has a strong track-record of governance of its protected area: it is an area that provides grounds for optimism and which can point the way for extending good governance and economic opportunity to other sectors in Guinea-Bissau.

# CHAPTER 1: DEVELOPMENT CHALLENGES IN GUINEA-BISSAU AND THE CASE FOR A TURNAROUND AGENDA

## 1. INTRODUCTION

1.1 **Guinea-Bissau is a poor, small country of 1.6 million people with significant but largely unfulfilled development potential.** In 1974, the Portuguese colonies of Guinea-Bissau and Cabo Verde achieved independence, following a liberation struggle that lasted almost 20 years. It was among the longest and bloodiest independence wars in Africa. In 1981, Guinea-Bissau and Cabo Verde parted ways, following the first military coup in the history of Guinea-Bissau, ousting Luís Cabral—an ethnic Cabo Verdean—from the presidency. Since then, the development trajectory of the two countries could barely have been any more different. Starting out at roughly equal levels of gross national income (GNI) per capita (in purchasing power parity [PPP] terms), Cabo Verde is today more than four times as wealthy as Guinea-Bissau (Figure 1). While Cabo Verde graduated from the United Nations (UN) list of Least-Developed Countries (LDCs) in 2007, Guinea-Bissau remains one of the poorest countries in the world, with a GNI per capita of US\$ 590 (Atlas method).

**Figure 1: Different development trajectories of Cabo Verde and Guinea-Bissau**  
(GNI per capita, US\$, PPP)



Source: World Development Indicators (WDI), 2014, and World Bank staff.

1.2 **On several occasions, Bissau-Guineans' hopes for the dawn of a more prosperous future were dashed by force. The latest military coup occurred in 2012.** Following independence and their national separation, both Cabo Verde and Guinea-Bissau began a democratic opening in the 1990s, which coincided with an economic take-off. In Guinea-Bissau, however, growth came to a sudden halt in 1998 when civil war erupted. Although peace returned to Guinea-Bissau in 1999, economic dynamism did not. Fragility continues to mark the Bissau-Guinean landscape. The 2011 *World Development Report* defines fragility as a period 'when states or institutions lack the capacity, accountability, or legitimacy to mediate relations between citizen groups and between citizens and the state, making them vulnerable to violence.' Indeed,

political assassinations and numerous attempts to overthrow the government testify to a fragile political environment in which economic activity struggles to take hold and public service delivery does not even cover the minimum. A period of relative calm began after the assassination of Bissau-Guinean strongman Nino Vieira in 2009. In spite of occasional incidents in the wake of this event, the country experienced a rare period of stability and economic resurgence. But another intervention by the army during the run-off of presidential elections in April 2012 stifled optimism yet again and derailed a hopeful period of cautious progress.

**1.3 With the successful general elections of 2014 ending the latest transitional period, another opportunity emerges to make a fresh start and turn the corner on anemic growth and high poverty.** The magnitude of the policy challenges the new government faces cannot be understated. But by building on the achievements of the period of relative stability between 2009 and 2012, the resumption of progress is possible, for the benefit of all Bissau-Guineans and in particular the country's 1.3 million citizens getting by on less than US\$2 a day. Guinea-Bissau's development partners stand ready to support this effort. In accordance with the World Bank Group's twin goals, this Country Economic Memorandum (CEM) provides an economic analysis of the constraints to poverty reduction and boosting shared prosperity in Guinea-Bissau and provides policy recommendations that can support the government in harnessing the conditions for a better future. *Terra ranca!* is how Bissau-Guineans refer to a fresh start.

**1.4 This CEM argues that a turnaround agenda can be the catalyst for shared growth in Guinea-Bissau.** The CEM maintains that weak institutions and a frail private sector reinforce each other, hampering the prospects for economic activity and poverty reduction. Policy interventions would simultaneously address a host of binding constraints to break the vicious cycle of fragility and poverty. The remainder of this chapter will provide an overview of Guinea-Bissau's development challenges in Part I and introduce the logic of the argument for the turnaround agenda in Part II.

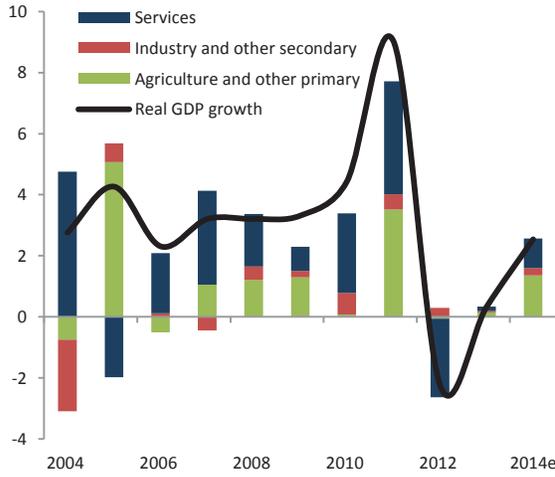
## **PART I: ECONOMIC, POLITICAL, AND SOCIAL OVERVIEW**

### **2. THE ECONOMIC CONTEXT**

**1.5 Guinea-Bissau is a rural economy, almost entirely dependent on a single cash crop: cashew.** Cashew nuts are also the main export, accounting for 85 to 99 percent of the country's total exports. The vast majority of the cashew crop is produced by small farmers, and virtually all small farmers are engaged in growing at least some cashew, underscoring the tight connection between incomes and movements in farm gate prices or production levels, especially for the poor.

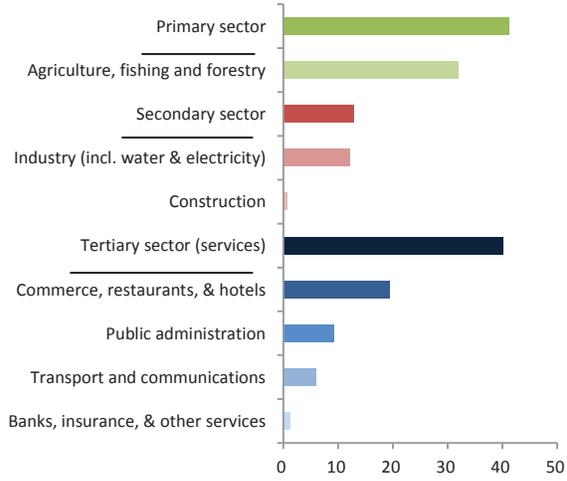
**1.6 Growth over the past ten years has been low, at an average 3.1 percent.** This is just over half the growth performance of Sub-Saharan Africa, at an average 5 percent. The economy is dominated by agriculture, which includes cashew cultivation but also a few other activities, including limited rice production and horticulture. In fact, rice is the main staple grain and was, for a time, an export product of Guinea-Bissau. Since the mid-90s, however, favorable cashew prices led many farmers to disregard rice, and its more intensive labor requirements, in favor of cashew. Rice still accounts for nearly two-thirds of the grain production in the country and three-quarters of consumption. However, all rice is now consumed domestically and rice exports have stalled. Many families engage in subsistence farming, including the growing of rice. Fishing is relatively underdeveloped in Guinea-Bissau. Agriculture and other activities in the primary sector account for over 40 percent of gross domestic product (GDP) (Figure 2), which is high by regional standards. Due to the significant share of agriculture in GDP, the sector has also been a main driver of growth, and it is the main source of employment in Guinea-Bissau, employing about 80 percent of workers (Figure 3 and Figure 4).

**Figure 2: Agriculture has been a major driver of growth**  
(real GDP growth and its sectoral contributions)



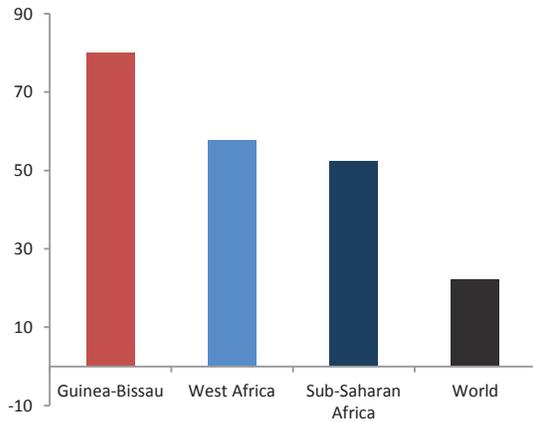
Source: IMF and World Bank staff calculations.  
Note: Contributions to GDP (bars); real GDP growth (line).

**Figure 3: The primary sector dominates economic production**  
(percent of nominal GDP in 2013)



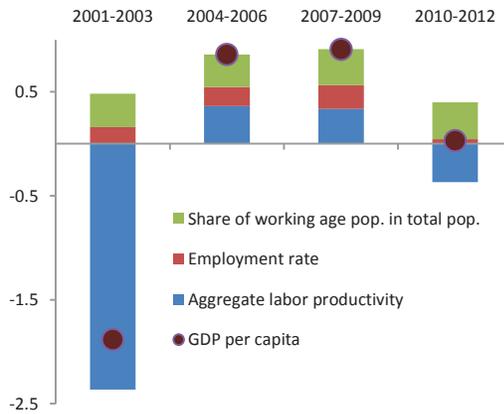
Source: IMF and World Bank staff calculations.

**Figure 4: The vast majority of Bissau-Guineans are employed in agriculture**  
(percentage of agricultural employment in total employment)



Source: World Bank estimates for Guinea-Bissau, WDI for all others, using latest available numbers.

**Figure 5: Guinea-Bissau has been benefiting from a demographic dividend, but weaker productivity gains**  
(GDP per capita growth and contributing components)



Source: WEO, WDI, and World Bank staff calculations.

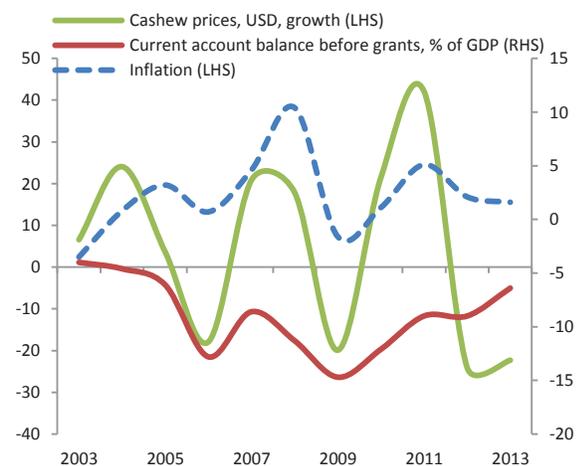
Note: Real GDP per capita growth is decomposed into growth of its following components: Aggregate labor productivity (or real GDP per employed person), the employment rate (employed persons as a share of the working age population), and the share of the working age population in the total population.

**1.7 Low productivity growth and moderate population growth have contributed to modest gains in GDP per capita, yet the country did benefit from a demographic dividend.** Guinea-Bissau has yet to experience a green revolution like those having spurred development in other regions—notably in East Asia—and accordingly productivity gains in agriculture, the engine of economic growth in the country, have been moderate (Figure 5). Commerce, another major sector in Guinea-Bissau, tends to be small-scale with little potential for productivity gains. While productivity growth has been relatively low and fragile, the demographic structure of the country resulted in a modest demographic dividend as the working age population grew, relative to dependents. However, at an average 2.2 percent, overall population growth over the past 10 years has only been 0.9 percentage points below average GDP growth, and accordingly GDP per capita has only grown by about 0.4 percent, a rate that is symptomatic of a stagnating economy.

**1.8 The balance of payments is dominated by cashew exports, as well as imports—especially of food and fuel. Other inflows include noticeable amounts of remittances and donor support.** The economy is open, with exports and imports by land and sea amounting to more than 70 percent of GDP; however, openness on the import side reflects necessity as much as policy. Guinea-Bissau has one major export, cashew nuts, and one main destination, India, where the raw nuts are further processed for local consumption and re-exported to other Asian and/or developed countries' markets.<sup>2</sup> Export earnings, along with remittances (an estimated 7–8 percent of GDP in recent years) and donor flows, allow Guinea-Bissau to import fuel and food—the two being equivalent to about 60 percent of total imports, albeit a share that has varied sharply with the recent large variations in world prices for both oil and grains—as well as construction material (e.g., cement) and manufactured goods, especially cars.<sup>3</sup> Foreign Direct Investment (FDI) has been relatively low, at about 2 percent of GDP over the past 10 years.

**1.9 Trade patterns reveal the country's dual vulnerability to external developments: a high dependence on a single export, and a high susceptibility to international price shocks.** On the exporting side, Guinea-Bissau's terms of trade are dominated by cashew prices. Shocks to cashew prices (shocks to volumes are rarer), have a considerable effect on the current account balance (Figure 6). Since the majority of the population is employed in the cashew sector, such shocks also have a noticeable

**Figure 6: Cashew prices are a strong determinant of the current account and also affect inflation**  
(annual percentage change)



Sources: WDI, IMF, and World Bank staff calculations.

<sup>2</sup> Significant volumes of fish are also exported from Guinea-Bissau waters, though fish exports do not show up in the official export statistics. EU vessels have fishing rights in Guinea-Bissau, paid for under an EU fisheries agreement, with receipts classified as a transfer in balance of payments statistics, and a government revenue. In fact, as discussed in Chapter 6 below, these fees constitute the main source of earnings on the country's fish resources.

<sup>3</sup> As documented in the 2009 Public Expenditure Management and Financial Accountability Review (PEMFAR), volatility in donor flows is a third source of external vulnerability, their high average level notwithstanding.

effect on inflation, as higher cashew earnings put pressure on local prices. Moreover, terms-of-trade shocks quickly translate into rising poverty and food insecurity; in the event of an adverse shock to cashew prices, poor farmers struggle to muster the necessary resources—through cash or barter—to purchase rice. The lack of export diversification is a major risk for Guinea-Bissau and the poor in particular.

**1.10 Inflation has been relatively low, partly due to Guinea-Bissau’s membership in the CFA franc zone.** By joining the West African Economic and Monetary Union (WAEMU) and the CFAF zone, the Bissau-Guinean authorities effectively adopted a set of modern institutions to conduct monetary and exchange rate policy. At its center is the regional Central Bank of West African States (BCEAO, *Banque Centrale des Etats de l’Afrique de l’Ouest*, French acronym), which has a long track record of exercising a cautious regional-based monetary policy focused mainly on consistency with a peg to the euro. For Guinea-Bissau, then, monetary financing of the fiscal deficit is all but precluded. The result, in the CFAF zone and in Guinea-Bissau alike, has been low and broadly stable inflation, although Guinea-Bissau does remain vulnerable to imported inflation. Being the member of a currency union also means that external competitiveness cannot be enhanced through exchange rate policies. Raising productivity is thus key both to boosting competitiveness and real wages.

**1.11 Fiscal policy management has been highly uneven in the past.** Following the end of the armed conflict of 1998–1999, attempts at stabilization in the early years of the 2000s faltered against a background of ongoing political instability and severe structural weaknesses in fiscal management. Public revenues were low and variable—the latter in part because of the large weight and variability of the payment under the fishing agreement with the EU—where fishing licenses account for up to 16 percent of domestic revenue. Expenditure control was weak, and expenditure policy was, in some years, inconsistent with the maintenance of stability—as in 2000 and 2003 when generalized public sector wage increases were granted despite a lack of cash to pay them.

**1.12 Significant progress was made on fiscal stabilization during 2009–11, further supported by debt relief.** Prudent fiscal policies allowed Guinea-Bissau to weather the impacts of the global financial crisis of 2007/08 and subsequent years relatively well. In 2009, strong revenue performance and exceptional budget support, coupled with tight control over current primary spending, led to the first overall budget surplus in a decade, equal to an impressive 3 percent of GDP. The recurrent spending-to-domestic-revenue ratio fell from 151 percent in 2008 to 107 percent in 2011, and the wage-bill-to-domestic-revenue ratio from 60 percent to 45 percent. Meanwhile, donor support allowed public investment to rise from 6.5 percent of GDP in 2008 to 9 percent in 2011. In a period of unprecedented stability and relatively sound policy performance, Guinea-Bissau was granted debt relief under the Heavily Indebted Poor Countries policy (HIPC) in 2010 and under the Multilateral Debt Relief Initiative (MDRI) in May 2011, although debt started to be written off earlier to support the good fiscal performance of the government. Between 2005—the peak of public debt-to-GDP—and 2011, public debt dropped from 228 to 49 percent of GDP, reducing the country’s debt burden significantly.

### **3. RECENT ECONOMIC DEVELOPMENTS**

**1.13 Following the military coup of 2012, GDP plummeted and may only pick up again in 2014, following the successful return to democracy.** Having grown at 9.0 percent in 2011, GDP contracted by 2.2 percent in 2012 and has not recovered since. In 2013, GDP is estimated to have grown by about 0.3 percent. Two main channels can be identified for the effect of the coup on economic performance: one through the withdrawal of donor finance, and one through domestic policy choices.

**1.14 Most donors instantaneously withdrew their financial support in response to the coup.** The international community strongly condemned the military intervention and reacted by suspending their activities. Guinea-Bissau has one of the lowest domestic revenue bases in the world and is highly dependent on official development assistance (ODA). Official grants almost halved between 2011 and 2013, from 6.6 percent of GDP to only 3.7 percent. Accordingly, expenditure had to be cut. Capital expenditure, which was almost entirely financed by donors, fell by 80.4 percent in 2012, but current expenditure also had to be cut, falling by 20.1 percent in 2013. The overall deficit was financed by depleting treasury resources at the central bank, through financial support from non-traditional donors (generally at non-concessional terms), and with the accumulation of arrears. As the transitional period came to an end, the World Bank stepped in to provide temporary support by financing wages in the education and health sectors, alleviating some pressure on the budget. Yet the fiscal situation remained dire and strikes among public sector workers continued to take place regularly.

**1.15 Feedback effects through other sectors have compounded the economic difficulty.** The lack of donor support and associated low investment negatively affected sectors such as construction and energy. The energy situation in the country is desperate and the deterioration in the provision of energy further weakened economic activity. Similarly, the lack of energy affected the provision of tap water—especially in the capital city, Bissau—posing serious risks to public health, in addition to having a depressive effect on businesses. In the financial sector, considerable weaknesses emerged as banks having provided financing for cashew traders witnessed disappointing cashew campaigns. Nonperforming loans increased, lending to traders slowed, and a vicious cycle was set in motion, undermining the success of the cashew campaign, even as international cashew prices reached another high in 2014.

**1.16 Policy mistakes have aggravated an already dire situation.** In 2011, when global cashew prices were particularly high, the government decided to support the private sector in moving toward cashew processing, which has a higher value-added than raw export, as well as other agribusiness activities, through an additional surcharge on cashew exports. However, this had a number of unintended consequences, as the weak governance environment of the fund fed by the surcharge, FUNPI (*Fundo para a Promoção da Industrialização dos Produtos Agrícolas*, Portuguese acronym), resulted in the misuse of the resources, while driving an additional wedge into the price structure. Cashew exporters refused to pay the FUNPI surcharge and bargaining over it resulted in serious disruption to the cashew campaigns of 2012, 2013, and—first indications suggest—2014 as well. The additional fiscal burden has had a negative effect on poor farmers, who have the weakest bargaining power and thus bear the brunt of the cost. But FUNPI also helped erode the budget, partly through the disruptive effect on the cashew campaign but also as it encourages the smuggling of raw cashew. Smuggling leads to lost tax revenue and port/freight charges. Using 2013 smuggling figures of approximately 65,000 tons, this could mean again losing over US\$6 million in tax revenues and US\$600,000 in port/freight charges.

**1.17 The effects on farmers have been devastating.** Weak cashew campaigns hit the poor disproportionately, as farm-gate prices have been falling (by 59 percent in 2013 alone). The terms of exchange between cashew and rice also worsened. With the fall in farm-gate prices, 1 kg of rice was traded for 3 kg of cashew nuts in 2013, up from an exchange rate of 1:1 in 2011. Consequently, food insecurity increased. A 2013 survey on food security by the World Food Program (WFP) found that the percentage of the rural population facing severe food insecurity increased from 20 percent in 2011 to 40 percent in 2013 (or 260,000 people).

**1.18 In 2014, the economy may begin to recover. On one hand, this is due to a return of donors, following the successful general elections.** All major donors are re-engaging with Guinea-Bissau and the country's suspension by the African Union was lifted. An estimated fiscal gap of about 9% of GDP in mid-2014 was expected to be financed with support of the World

Bank (paying salaries for teachers and health workers) and other multilaterals, the European Union, and bilateral partners, including increasing financial support from Timor-Leste. The IMF is availing a Rapid Credit Facility and local and regional commercial banks, with renewed faith in a democratic Bissau-Guinean government acquired government bonds over CFAF 15bn, helping to pay salaries and reduce arrears. Recovering public finances will support growth by re-establishing an operational government and re-launching the public investment agenda.

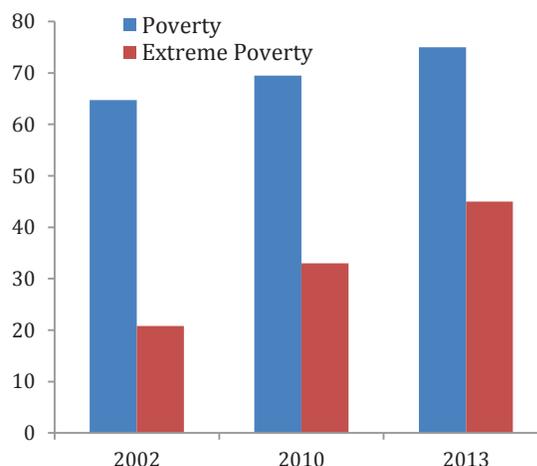
**1.19 The 2014 cashew campaign has been better than the 2013 campaign.** Adjusting for seasonality, recent estimates suggest that the volume of cashew exports remained relatively flat. This may partly be due to the FUNPI surcharge, and smuggling, but also potentially an increase in illegal export of timber which blocked access to the port for cashew exports. However, an increase in international prices suggests that overall the 2014 result was a modest improvement on prior years. The estimate for real economic growth for 2014 is thus about 2.5 percent, with a modest acceleration to about 4.0 percent in 2015. Restoring a sound macro-fiscal framework, including the recovery of revenue and a pick-up in growth will be vital, as acknowledged in the government’s 2014 *Programa de Estabilização e Desenvolvimento*. The conditions are relatively favorable, barring further political upsets. The recommendations of this CEM can further contribute to the economic and fiscal turnaround, and consequently the reduction of poverty.

#### 4. POVERTY IN GUINEA-BISSAU

**1.18 Poverty levels in Guinea-Bissau are high.** In 2010, about 70 percent of Bissau-Guineans fell under the US\$2-a-day line (Figure 7). About 33 percent of Bissau-Guineans survived on US\$1 a day—a considerable increase from an estimated 21 percent in 2002. These are the estimates for the national and extreme poverty lines. Using the extreme poverty line of US\$ 1.25 per day in PPP terms, the poverty incidence in 2010 was about 50 percent.<sup>4</sup> Rough estimates for 2013 suggest that extreme poverty (using the national definition) has further increased to well above 40 percent.<sup>5</sup>

**1.19 Poverty is somewhat lower in the capital, Bissau, than in the rest of the country.** Bissau is home to about 40 percent of the population and the area with the highest population density (Figure 8, based on data from 2009). The poverty incidence in Bissau is somewhat lower than the national average, with about 50 percent of residents getting by on less than US\$2 per day.

**Figure 7: Poverty and extreme poverty are high and rising**  
(percent of population living under the poverty Line)



Sources: INEC and World Bank.

Note: 2013 is a WFP estimate.

<sup>4</sup> Using the World Bank Group definition of extreme poverty of US\$ 1.25 per day in PPP terms, in Guinea-Bissau, boosting the incomes of the bottom 40 percent and ending extreme poverty are near-equivalent as more than 50 percent of Bissau-Guineans are extremely poor.

<sup>5</sup> This finding is based on a rapid survey supported by the WFP in 2013 and they data may not be fully comparable to the 2002 and 2010 data. The finding should be considered indicative, given the caveat about comparability.

**Table 1: Selected economic indicators**

	2011	2012	2013	2014	2015	2016
				Proj.	Proj.	Proj.
	(Annual percentage change, unless otherwise indicated)					
National accounts and prices						
Real GDP at market prices	9.0	-2.2	0.3	2.5	4.0	3.7
Real GDP per capita	6.5	-4.4	-1.9	0.3	1.7	1.4
GDP deflator	13.8	-3.9	-3.4	3.7	2.8	2.2
Consumer price index (annual average)	5.1	2.1	0.8	-0.8	3.3	2.3
External sector						
Exports, f.o.b. (based on US\$ values)	118.0	-39.5	5.1	14.8	4.9	3.3
Imports, f.o.b. (based on US\$ values)	22.1	-24.4	1.2	26.2	4.2	6.1
Export volume	34.3	-16.5	33.0	-9.3	4.9	3.3
Import volume	6.0	-25.9	2.0	30.9	7.4	6.7
Terms of trade (deterioration = -)	47.1	-29.6	-20.2	30.2	3.0	0.6
Real effective exchange rate (depreciation = -)	-4.7	4.9	-7.6	...	...	...
Nominal exchange rate (CFAF per US\$; average)	471.4	510.2	493.9	...	...	...
Government finances						
Domestic revenue (excluding grants)	16.3	-12.5	-10.6	39.5	-0.6	10.2
Total expenditure	9.4	-26.3	-2.1	58.2	-3.3	4.5
Current expenditure	14.6	8.6	-20.1	58.6	-6.8	4.6
Capital expenditure	2.1	-80.4	152.9	57.1	6.5	4.2
Money and credit						
Net domestic assets <sup>1</sup>	18.2	14.0	8.4	-1.1	7.3	7.9
Credit to government (net)	-4.5	16.8	0.2	8.2	0.0	0.0
Credit to the economy	12.9	7.9	1.4	2.2	2.4	4.2
Velocity (GDP/broad money)	3.0	3.0	2.5	2.5	2.4	2.4
	(Percent of GDP, unless otherwise indicated)					
Investments and savings						
Gross investment	5.3	7.1	7.1	7.1	7.1	7.1
<i>Of which:</i> government investment	2.6	1.9	1.9	1.9	1.9	1.9
Gross domestic savings	1.3	-2.7	-2.7	-2.7	-2.7	-2.7
<i>Of which:</i> government savings	-5.5	-2.9	-3.8	-8.0	-6.8	-6.1
Gross national savings	5.4	1.4	2.5	9.7	6.4	5.7
Government finances						
Budgetary revenue	10.1	9.4	8.7	11.4	10.6	11.0
Total domestic primary expenditure	11.2	12.8	10.4	15.3	18.4	13.3
Domestic primary balance	-1.1	-3.4	-1.7	-3.9	-7.8	-2.3
Overall balance (commitment basis)						
Including grants	-1.4	-2.3	-1.9	-1.8	-3.5	-2.8
Excluding grants	-8.0	-4.8	-5.7	-10.0	-8.7	-8.0
External current account (including official current transfers)	-0.2	-4.7	-4.1	-0.4	-3.9	-4.5
Excluding official transfers	-3.3	-6.6	-4.9	-6.7	-6.8	-7.4
<i>Memorandum item:</i>						
Nominal GDP at market prices (CFAF billions)	520.8	489.5	474.7	504.5	539.5	571.8

Sources: Guinea-Bissau authorities; and IMF staff estimates and projections.

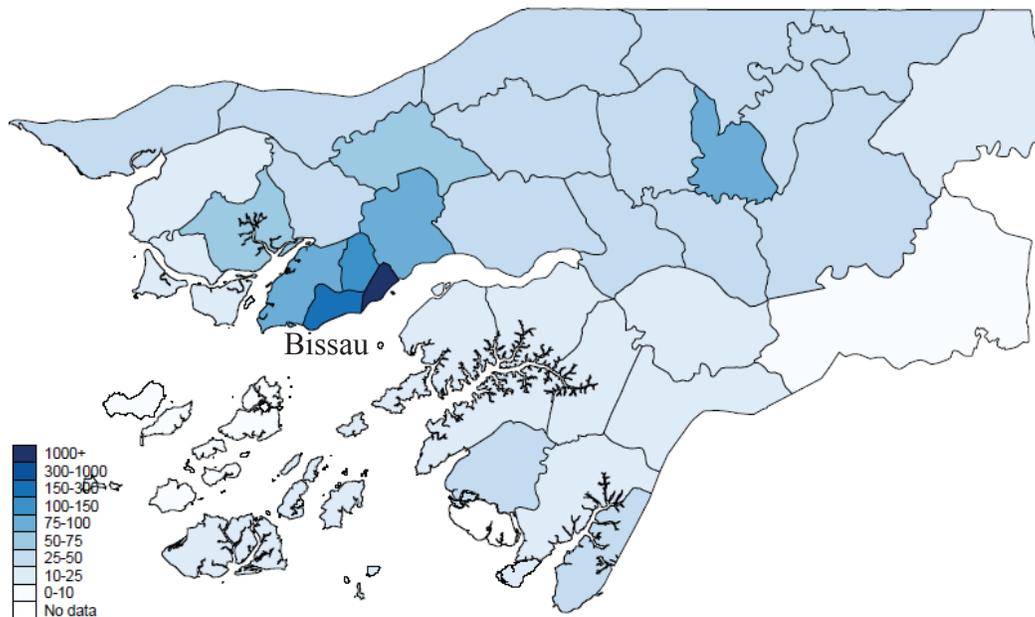
<sup>1</sup> Contribution to the growth of broad money in percent.

The rest of the population is concentrated in the north of the country, and since the rural poverty incidence is higher, it is where a considerable proportion of Guinea-Bissau’s poor live. In rural areas, Bissau-Guineans generally live off the land, harvesting cashews. While rice is also grown by many households, mainly for auto-consumption, rice farmers and cashew farmers tend to be equally poor.

1.19 **Most segments of the economy are informal.** Of the remaining 20 percent of the labor force not engaged in agriculture, the majority is employed in services, mostly in small, informal micro-enterprises or self-employed, in commerce and transport. Only a small fraction of the labor force—about 10 percent—represents salaried employment, half in a small, private urban services sector, half in the public sector.

1.20 **Malnutrition is a concern and food insecurity rose as a consequence of the 2012 coup.** The high levels of poverty translate into poor nutrition. Rice is the main staple and many Bissau-Guinean families struggle to complement their diet with other and more nutritious foods. In the case of poor cashew campaigns, food security becomes a serious concern, as witnessed both in 2012 and 2013 when donors intervened with food aid as many families could not muster the resources to buy rice. This is unusual for a country like Guinea-Bissau, which has fertile soils and does not experience major natural shocks such as droughts. Increasing family incomes, through better-managed cashew campaigns, lower cashew taxes, and diversifying into other activities, including rice cultivation, will be crucial in addressing the chronic threat of food insecurity.

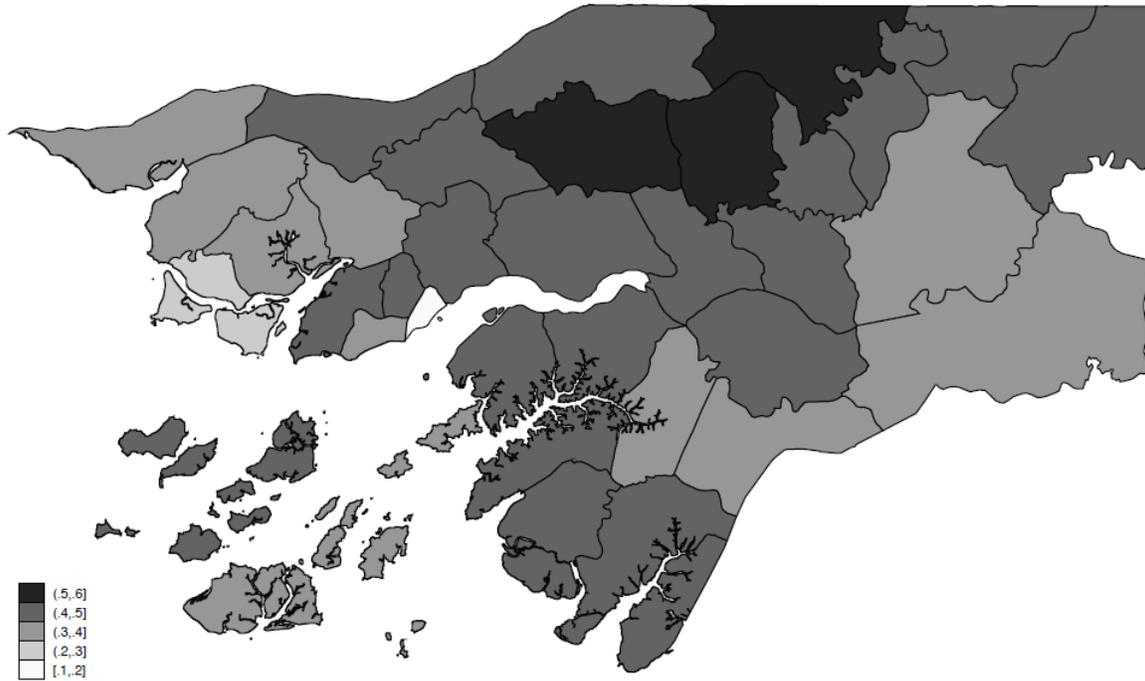
**Figure 8: Guinea-Bissau’s population is concentrated around the capital city of Bissau**  
(population density: people per square kilometer, 2009 data)



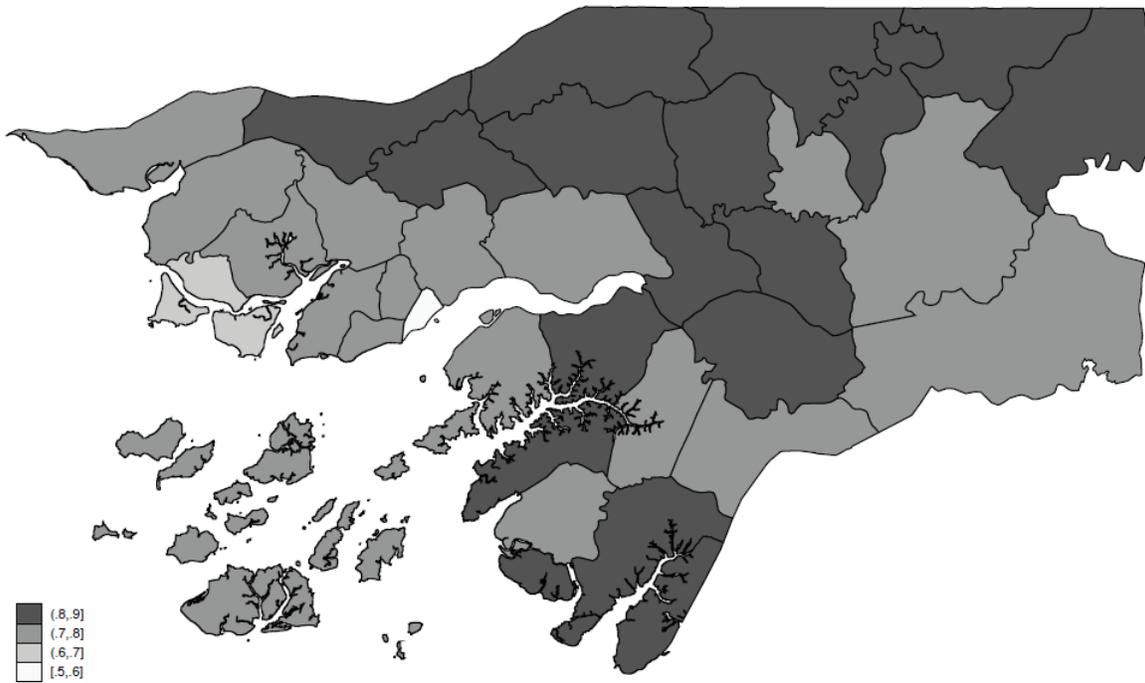
Source: Guinea-Bissau Census, 2009, and World Bank staff calculations

**Figure 9: Poverty is relatively evenly spread across Guinea-Bissau, albeit somewhat concentrated in the north**

a) poverty headcount ratios at \$1/day (PPP)



a) poverty headcount ratios at \$2/day (PPP)



*Source:* J. Montalvão., M. Hanusch, and J. Baez. 2014. 'Mapping Poverty in Guinea-Bissau' (draft), based on World Bank staff calculations and poverty data from the census (2009) and ILAP II (2010).

1.21 **Broader human development outcomes are generally weak in Guinea-Bissau:** out of 187 countries, Guinea-Bissau is ranked 177<sup>th</sup> in the 2014 Human Development Report, maintaining its rank of the previous year. It is unlikely that Guinea-Bissau reaches any of the Millennium Development Goals by 2015 given weak outcomes, or even deteriorations, with respect to poverty, nutrition, primary education, gender equality, health, and access to basic services.

**In 2014, concerns have been increasing over the spread of Ebola.** Guinea-Bissau borders Guinea-Conakry in the west and south and Senegal in the north. Both countries reported cases of Ebola, although the incidence was considerably higher in Guinea-Conakry. To protect its citizens from the spread of the disease, the government closed the border with Guinea-Conakry in August 2014. Health professionals have warned that the closing of the border might be counter-productive, diverting travelers to unofficial crossings of the country's porous borders and thus reducing the authorities' ability to monitor cross-border traffic for potential Ebola victims. A weak Bissau-Guinean health sector reduces the authorities' ability to both identify and treat Ebola cases. As of September 2014, no cases of Ebola have been confirmed in Guinea-Bissau, but the country remains on alert.

1.22 **The dual challenges of poverty reduction and shared prosperity are as pressing as they are daunting. However, the new government has the opportunity to turn the page on poverty in Guinea-Bissau.** Due to the very breadth and depth of poverty, faster economic growth, especially in agriculture, as well as greater economic diversification, have the potential to make a significant difference, even in the short to medium term. There is hardly a domain of economic, social, physical, or human development in Guinea-Bissau that does not bear the scars of a difficult legacy or does not constitute an enormous obstacle going forward. Reducing poverty and fostering prosperity will require considerable investments across the board, as outlined in this CEM. Given the breadth and depth of the required reforms, progress will not come overnight. The newly elected government faces an ambitious agenda, but with the right mix of policies and support from Guinea-Bissau's partners, making a difference in the lives of the poor is within reach.

## 5. POLITICS AND INSTITUTIONS

1.23 **During colonial times, formally from the 19<sup>th</sup> century until the mid-1970s, Guinea-Bissau was a largely neglected territory.** Unlike the other Portuguese colonies of Cabo Verde, Angola, and Mozambique, Guinea-Bissau was not considered fit for large-scale settlement. The colonial authorities introduced a system resembling apartheid, discriminating against Bissau-Guineans. Cabo Verdeans, originally Bissau-Guineans of mixed-race heritage, received preferred treatment, and by 1930 already constituted a local elite and occupied a number of important positions in the colonial government. Other Bissau-Guineans received virtually no provision of health care, education, or social services and were unable to access—much less participate in—any aspect of the public administration. Overall, colonial authorities made no significant investment in the country's physical infrastructure, human capital, or state institutions. At the time of independence in 1974, Guinea-Bissau's literacy rate was 1 percent, and it had only 60 kilometers of paved road.

1.24 **Independence was won after a long, violent struggle of several decades that ended in 1973, well after the wave of independence had washed over neighboring countries.** An armed rebellion had emerged in the late 1950s, but the colonial power had remained intransigent and a violent conflict ensued. In its effort to achieve sovereignty, Guinea-Bissau was one of the only countries in Sub-Saharan Africa to win independence—declared in 1973 and recognized by the international community on September 10, 1974—through violent conflict.

1.25 **The formal organization that inherited political dominance from its victory in the fight for independence was the Party for the Independence of Guinea and Cabo Verde (PAIGC).** When the Portuguese finally conceded independence in 1974, the colonial administration was purged, leaving an understaffed and under-resourced administration in which, having been designed for the management of occupied territory during wartime, military personnel were over-represented and now automatically—and heavily—integrated in its ranks. Not unlike many other countries, the party leadership endorsed a version of a socialist-inspired theory of development through command and control economics and a significant urban, “modern sector” bias. In the early years, the government increasingly focused its attention on the urban center, while rural areas were treated with a mix of political neglect and economic exploitation. The rural farming population, which had been the PAIGC’s base of support during the war, balked at the new taxes levied to finance urban development, while the PAIGC’s wartime administrative and service structure gradually dissolved, and the government eventually ceased to be a meaningful force outside the capital.

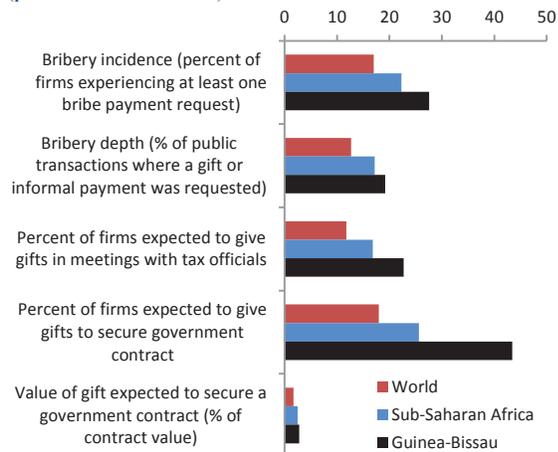
1.26 **An entanglement of political, ethnic and military issues was already apparent in the early years of the struggle for independence.** The PAIGC leadership was primarily comprised of ethnic Cabo Verdeans, the early intelligentsia, while the rank-and-file guerilla fighters were largely ethnic Balanta. The minority Cabo Verdeans were resented by many for their role in the colonial administration, especially by the Balanta, representing about 30 percent of Guinea-Bissau’s population, who shed a great deal of blood for the country’s independence. Accordingly, tensions rose, especially as President Luis Cabral, a Cabo Verdean and half-brother of Amilcar Cabral, increasingly consolidated his political power. In 1980, President Cabral was in Cabo Verde negotiating a potential secession from Guinea-Bissau. João Bernardo Vieira, a member of the Balanta-allied Papel tribe, advocating the country’s unity and provoked by Cabral’s interference in military affairs, staged a military coup, ousting Cabral in absentia.

1.27 **With corruption eating away at tax revenues and foreign aid, the government was left in a perpetual state of financial crisis.** This structural financial crisis encouraged individual ministers and ministries to seek resources from various domestic sources or from donors, with limited central accounting or accountability—a situation that has left a heritage that endures to this day, despite some recent progress on the fiscal front. Without an effective administrative structure, the business of government had to be conducted through personal networks, in which patronage and reciprocity became endemic.

1.28 **The economic situation failed to improve in the 1980s and 1990s, along with the exacerbation of patronage, ethnic rivalries, and deepening systemic corruption.** At first, Vieira’s military background and ethnic identity, as well as his effective termination of the bi-national plan, allayed fears of elitism and appeared to promise a more equitable division of power. He also courted the military more effectively, though promotions were still largely based on personal allegiance: Vieira tended to focus on Balanta officers, whose advancement was more popular than that of the Cabo Verdeans and members of other ethnic groups elevated by Cabral. Despite its clear recognition that its office was contingent on the support of the military, Vieira’s administration repeatedly failed to pay its soldiers, in one case even experiencing a shortage of rations. He survived numerous coup attempts, some likely fabricated, and remained in power for nearly 20 years, winning a multiparty election deemed broadly free and fair in 1994, and throughout placating key military interests and swiftly eliminating his enemies.

1.29 **The Guinea-Bissau Civil War of 1998-99 was a conflict of limited duration but high intensity, triggered by an attempted coup against President Vieira in June 1998.** Thousands of civilians are believed to have been killed during bouts of fighting over June-July between government forces, backed by a contingent of Senegalese and Guinean forces, and rebels drawn mainly from the ranks of the army. Following mediation by the Community of Portuguese Language Countries (CPLP), the conflict was quickly followed by a truce, then a cease-fire agreement in November 1998. A national unity government was formed and new elections were called for 1999. The situation remained indecisive and tense, with an outbreak of fighting ending in the departure into exile of Vieira in May 1999.

**Figure 10 : Corruption control is weak in Guinea-Bissau (percent of businesses)**



Source: World Bank Enterprise Surveys and World Bank staff calculations.

Note: 2009 for Guinea-Bissau, latest available data for all others.

1.30 **Between 1999 and 2009, although the civil war had ended, politics remained in turmoil.** During the first elections after the civil war, the PAIGC lost—for the first time in its history—to the new Social Renewal Party (PRS). PRS head Kumba Yala, another ethnic Balanta, won the presidential election. Under his administration, the process of ethnic balkanization of politics and state, already solidly entrenched by then, only grew worse, this time focused on the Balanta/Mandinka cleavage. Whereas Vieira had focused his efforts on the military in general, the new administration concentrated on Balanta ethnicity as its basis for support. Despite opposition, including through coups, to the administration’s attempt to advance the ethnic-identity agenda by appointing several Balanta junior officers to high-ranking positions, the process ultimately cemented the Balanta dominance of the military. Under Kumba Yala and successive heads of state, political chaos reached its height, corruption remained deeply entrenched (Figure 10), and Bissau-Guineans increasingly lost trust in their institutions.<sup>6</sup> Between 1999 and 2009, the country saw 11 prime ministers come and go, as well as four presidents. The last of them, Veira, having returned from exile and re-gained the presidency, was assassinated in 2009 in a revenge killing for his alleged assassination of army chief of staff Tagme na Wai.

1.31 **A period of relative calm beginning in 2009 was interrupted by yet another military coup in April 2012.** Malam Bacai Sanha won the presidency in 2009 and, together with his Prime Minister, Carlos Gomes Jr., oversaw a relatively orderly period in which Gomes Jr. became the longest-serving Prime Minister since the civil war. However, rivalry between the political and military elites continued, and Gomes Jr. grew more assertive about limiting the military’s influence. When Sanha died in 2012 and Gomes Jr. was set to win the second run-off of presidential elections, the army intervened and Gomes Jr. was forced into exile.

1.32 **In 2014, Guinea-Bissau experienced arguably the freest and fairest general elections in its history.** Following the coup, consultations held with all stakeholders in Guinea-Bissau led

<sup>6</sup> In the 2005 Integrated Poverty and Social Assessment (IPSA) surveys, when asked who they trusted most, only 1 percent of Bissau-Guineans indicated the central government and political parties and 0.3 percent the military.

to unanimous agreement on the need for peace and a return to constitutional order. The resulting transition roadmap aimed to pave the way for a return to constitutional order, culminating in general elections. With support from the international community, assisting with preparations in the lead-up to elections and overseeing them with over 400 observers, Guinea-Bissau experienced orderly, free, and fair elections in April, with a presidential run-off in May 2014. Both rounds of elections occurred without any major incidents and the defeated candidate of the presidential run-off conceded with dignity, and a new government came into office in July 2014. The conditions for a resumption of a calmer political period in which the government can press ahead with key reforms appear relatively good.

## 6. FRAGILITY, INSTITUTIONS, AND ECONOMIC DEVELOPMENT

1.33 **Fragility constitutes a major challenge to poverty reduction and boosting shared prosperity.** Social indicators demonstrate that people in fragile and conflict-affected states (FCS) are more likely to be poor, to miss out on schooling, and to lack access to basic health services. According to the 2011 World Development Report (WDR), poverty reduction in countries affected by major instability is on average nearly a percentage point slower per year than in countries not affected by violence, with estimates showing that, on average, countries that went through major periods of instability have a poverty rate 21 percentage points higher than countries that saw no violence. In addition, children born in a FCS are twice as likely to be undernourished and nearly twice as likely to lack access to improved water; those of primary-school age are three times as likely not to be enrolled in school; and they are nearly twice as likely to die before their fifth birthday. Estimates from the 2011 WDR also show that FCS, including those recovering from conflict and fragility, account for 70 percent of infant deaths, 65 percent of people without access to safe water, and 77 of percent of children missing from primary school. Low-income, fragile states are the least likely to achieve most Millennium Development Goals (MDGs) by 2015, and Guinea-Bissau is no exception.

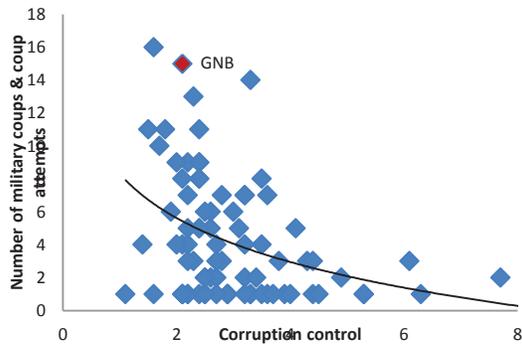
1.34 **Fragility and resulting development challenges are associated with weak institutions.** Strong empirical evidence suggests that institutions are key to development. According to path-breaking research by Acemoglu, Johnson, and Robinson, institutions in the developing world derive from countries' colonial history:<sup>7</sup> in countries where Europeans settled, they emulated European institutions, strongly based on property rights and checks and balances on political power, provisions that in Europe were a consequence of popular opposition to excessive rent-extraction by absolutist monarchs. In countries where colonial powers did not settle but only exploited their colonies' resource wealth—or even traded in slaves—, institutions were designed purely to extract rents (mainly in the form of resources). Newly independent governments tended to inherit the former colonial administration and the system of rent extraction remained in place—only now accruing to local elites rather than to colonial ones. The fact that Cabo Verde inherited relatively developed institutions from the Portuguese, who settled and intermarried in the archipelago, while Guinea-Bissau did not, is one possible explanation for the

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<sup>7</sup> D. Acemoglu, S. Johnson, and J. Robinson, "The Colonial Origins of Comparative Development: An Empirical Investigation," *The American Economic Review* 91(5):1369-1401 (2001); and D. Acemoglu, and J. Robinson, *Why Nations Fail: The Origins of Power, Prosperity, and Poverty* (Crown Publishers 2012). Further evidence corroborates that institutions play a primary role in development, e.g., D. Rodrik, A. Subramanian, and F. Trebbi, "Institutions Rule: The Primary of Institutions of Geography and Integration in Economic Development," *Journal of Economic Growth*, 9:131-165 (2004).

vastly different development trajectories of the two countries that were once united.<sup>8</sup> In an environment of weak institutions, competition over rents can result in fragility.

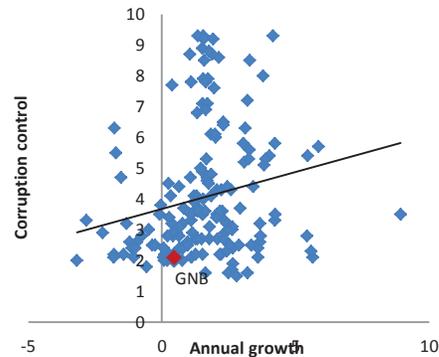
**Figure 11: Easier access to rents is associated with a higher incidence of military coups**  
(number of coups and corruption control index)



Sources: Transparency International, Center for Systematic Peace, and World Bank staff calculations.

Notes: Corruption control used as a proxy for the difficulty of extracting rents. Shows number of attempted and successful military coups; only includes countries that had at least one attempted or successful coup.

**Figure 12: Rent seeking is correlated with worse economic performance**  
(corruption control index and percentage growth)



Sources: Transparency International, WDI, and World Bank staff calculations, using latest available information.

**1.35 Military coups are often symptomatic of weak institutions, fragmented elites, and high rent seeking.** Together with Somalia, Guinea-Bissau has experienced the highest incidence of planned or actual coups recorded, pointing to severe institutional constraints. Public office is always associated with certain rents, ranging from the legal income from office, to “ego-rents”<sup>9</sup> (such as power), to less legal activities (i.e., corruption), in which elites abuse their authority for self-enrichment. When elites are fragmented and institutions limiting corruption are weak, competition can result in elites ousting each other, including through violent means, such as military coups (Figure 11). However, rent-extraction, and especially disruptive competition over rents, hurts economic activity, explaining the positive correlation between economic growth and corruption control (Figure 12).

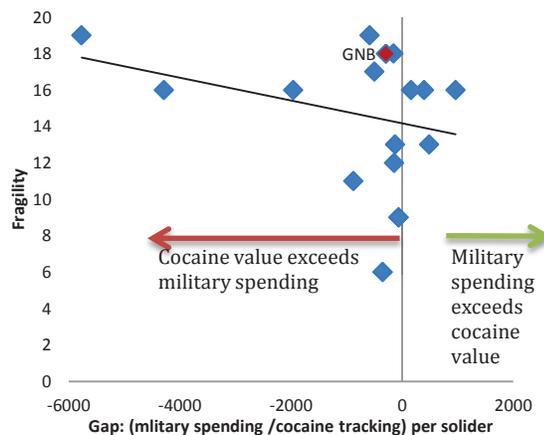
<sup>8</sup> Another reason can be sought in relation to the War of Independence which was mainly wrought on the mainland. Apart from the physical destruction it entailed, it also entrenched the army in politics, as the Heroes of the Revolution. Coups staged by the army are a major source of instability in Guinea-Bissau. The emergence of strong civilian institutions is limited by the army’s military might.

<sup>9</sup> The term “ego-rents” was coined by Rogoff in “Equilibrium Political Budget Cycles,” *American Economic Review* 80:21-36 (1990).

1.36 **In Guinea-Bissau, elite competition largely takes place between political and military elites, although there is also an ethnic dimension to the tension.** The elites in Guinea-Bissau can be roughly grouped into political and military ones, where the military still draws its legitimacy from the War of Independence. An ethnic dimension crisscrosses political elites additionally, while the military is relatively tightly controlled by members of the Balanta group, at least since Kumba Yala’s presidency. Even in the military, revolts from more junior officers have occurred, although less so in recent years. Political elites have been associated with embezzlement (including the misuse of FUNPI resources). The military has also been reported to misappropriate public revenue, especially when the government had insufficient funds to pay soldiers their wages. At times, political and military elites collude against other political elites. Overall, the political elites tend to be more fragmented than the military elites.

1.37 **The competition for rents has turned fiercer with the intensification of the international drug trade, which uses Guinea-Bissau as a transshipment location.** In recent years, the international drug trade between Latin America and Europe took hold in Guinea-Bissau, with the West African nation serving as an entry point from where drugs are trafficked onwards by land and air. Estimates of trafficked narcotics volumes are difficult to obtain. Based on international seizures reported by the UN Office on Drugs and Crime (UNDC), trafficked cocaine in Guinea-Bissau could be valued above US\$16.9 million (3.4 percent of GDP) in 2005 and is likely to have increased considerably in value since. In December 2013, Secretary-General Ban Ki-moon informed the UN Security Council that cocaine flows had surged in the aftermath of the 2012 military coup, with hundreds of kilograms of cocaine trafficked weekly. The considerable rents from the narcotics trade raise the pay-offs from elite competition.

**Figure 13: Fragility and disincentives for the army to engage in the drug trade are negatively correlated** (fragility index and gap between military spending and the value of trafficked cocaine per soldier)



Sources: Polity IV Fragility Index and UNODC (2011). Note: Only includes West African countries.

1.38 **There is considerable evidence of the military’s involvement in the drug trade.**<sup>10</sup> In April 2010, rear Admiral José Américo Bubo Na Tchuto and chief of staff of the air force, General Ibraima Papa Camará, were sanctioned as drug traffickers by the U.S. government. Na Tchuto was arrested by U.S. authorities in international waters in April 2013, following a seven-month-long drug sting operation. Given the high value of the drug trade, it can be concluded that rents accruing from it to the armed forces are substantial. Higher rents make competition fiercer and will make curtailing the power of the army more difficult. Figure 13 illustrates that, in cases where rents from drugs exceed rents from the military budget, fragility tends to increase. The government’s 2014 *Programa de Estabilização e Desenvolvimento* recognizes that dealing with the narcotics trade is an important measure to reduce fragility.

1.39 **There are few recipes for building institutions. Shared growth may be one of them, as it strengthens citizens.** Shared growth alters the relative power between the rulers and the

<sup>10</sup> D. O’Regan, and P. Thompson, “Advancing Stability and Reconciliation in Guinea-Bissau: Lessons from Africa’s First Narco-State,” Special Report (Africa Center for Strategic Studies 2013).

ruled: according to an influential study by Bueno de Mesquita *et al.* on the endogenous change of institutions, to secure their survival in office elites have a choice between a) devoting resources to oppressing the many or b) building a large political constituency by providing public goods to the many.<sup>11</sup> In other words, elites optimize the amount of rents they share with the population at large, based on the pay-offs from oppression versus public goods provision. Empowering the poor through financial means—poverty reduction and shared prosperity—may tilt the balance in favor of public goods provision, reducing the scope for rent-seeking and thus elite competition. Weakened elite competition, in turn, reduces the incentives for non-ruling elites to oust the incumbent unconstitutionally, dampening fragility.

**1.40 Better governance strengthens the social compact and the legitimacy of the state—thus reducing fragility.** As citizens benefit from better public policies, support for the state and the rules that govern it will grow. Citizens will accept the government’s authority and in return demand accountability: a social compact. As the rule of law strengthens, citizens will expect everyone to play by the rules of the game. Changing these rules bilaterally, for example through coups, will be ever less acceptable, especially as it threatens the provision of services citizens have come to expect from the state.<sup>12</sup> A more legitimate state fosters the rule of law and reduces fragility.

**1.41 Yet boosting shared growth is possible in spite of fragility.** Stability will not come to Guinea-Bissau overnight, and even shared growth is not guaranteed to eliminate fragility. However, experiences from other fragile countries show that, if given the opportunity, entrepreneurs can pursue business opportunities and create jobs even in fragile environments (Box 1). Providing Bissau-Guineans with these opportunities by removing major bottlenecks to economic activity and providing them with greater agency lies at the heart of this CEM.

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<sup>11</sup> B. Bueno de Mesquita, A. Smith, R. Siverson and J. Morrow, *The Logic of Political Survival*, (MIT Press 2003); and B. Bueno de Mesquita and A. Smith, “Leader Survival, Revolutions and the Nature of Government Finance,” *American Journal of Political Science* 54(4): 936–950 (2010).

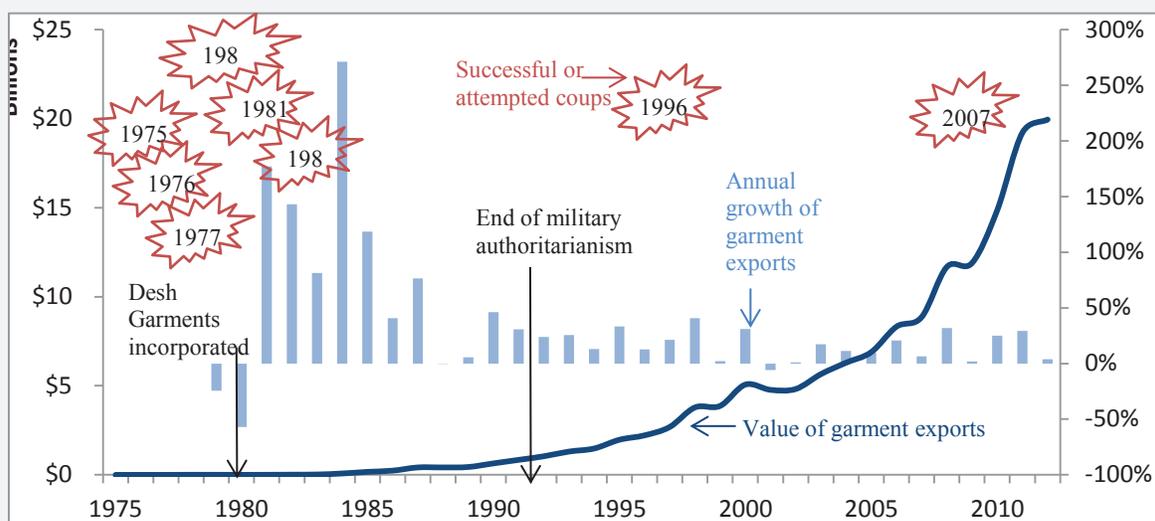
<sup>12</sup> For example, observers often note that the government of Gomes Jr. presided over relative stability because the government paid salaries on time which provided it with a certain degree of legitimacy.

### Box 1: Growth in spite of fragility: the case of garment manufacturing in Bangladesh

As Guinea-Bissau, Bangladesh has a history of conflict and fragility. After its independence from Britain in 1947 and its separation from Pakistan in 1971, Bangladesh faced similar problems as Guinea-Bissau. The country was poor: real GDP per capita was around US\$ 240 in 1980, compared to the equivalent of US\$ 380 in Guinea-Bissau. Politics in both countries has been marked by elite competition with governments of varying degrees of authoritarianism. Elites compete over rents and where powerful elites could not be accommodated, coups were a way for discontent elites to gain power. Bangladesh experienced six successful or attempted coups in the 1970s and 1980s (Box Figure 1).

#### Box Figure 1: Bangladeshi garments exports boomed in spite of political fragility

(value of garments exports, current US\$ (LHS); annual percentage growth of garments exports (RHS); year of successful or attempted coup)



Note: Years indicate successful or attempted coups as recorded by the Coup d'Etat database of the Center for Systematic Peace.

Sources: UN COMTRADE and WTO (Bangladeshi garment exports), and Center for Systematic Peace (coups).

**In an environment of political instability, the ability to make credible commitments is key to attract investment.** Bangladesh became a beneficiary of the 1973 Multi-Fibre Agreement, allotting the country preferential quotas for garment exports to the US. The country had a nascent garment industry, but large investors were loath to invest in the sector due to political uncertainty and the resulting effect on the ability to enforce contracts and protect investments. In 1979, a local Bangladeshi entrepreneur and former civil servant set up a joint venture called Desh Garments with Daewoo, a South Korean multinational. According to an analysis by Mushtaq Khan, an academic, the fact that the Bangladeshi side of the venture was represented by a former civil servant—who had close links with Bangladesh's president—signaled a sufficient degree of elite commitment to the project to make it worth taking the risk and invest.

**In Bangladesh, the Bangladesh Garment Manufacturers and Exporters Association (BGMEA), a private sector organization, enforces credible commitments.** Desh Garments was highly successful and garment exports from Bangladesh soared and new garment manufacturers entered the market. The political environment remained fragile as elites continued to compete. As the government remained a weak source for enforcing commitments, the BGMEA was set up by the garment industry. They served as an arbiter of disputes and enforced their decisions with soft power, including the issuance of certificates and the timeliness of the services they provided to members, thus making commitments credible.

**The BGMEA managed to accommodate elite competition.** As Khan points out, it helped that the government often did not attempt to interfere in the business of BGMEA, focusing on political rather than economic rents. When it did, members of the BGMEA managed to win over other elites to tilt the balance of elite competition in their favor, where it helped that garment producers benefited from a strong

organization like BGMEA which facilitated collective action in the interest of the garment sector. This insulation of BGMEA from fragility has allowed the garment sector to grow at a staggering pace, and as the sector grew, producers grew even stronger in defending the sector's business interests. Today, Bangladesh is one of the largest garment exporters in the world.

**The Bangladeshi success story holds interesting lessons for Guinea-Bissau.** Processed cashew would potentially be the Bissau-Guinean equivalent to Bangladesh's garment sector.\* First (as chapter 8 of this CEM describes) the processing of cashew nuts has considerable potential in Guinea-Bissau—as garments did in Bangladesh. The challenge is to attract foreign investors, and specific government commitment to attracting FDI in the sector may be one option. Guinea-Bissau's cashew association, ANCA, could play the role of BGMEA if it managed to sufficiently insulate itself from elite competition. Perhaps the most important lesson the Bangladeshi experience holds for Guinea-Bissau is that a vibrant growth sector—in this case the processing of cashew nuts—is possible in spite of political fragility.

\* However, one important difference is that the garment sector did not depend on farmers to provide inputs, and development of processed cashews could come at the expense of farmers unless their interests are well-defended.

Source: This box draws strongly on M. Khan (2013) 'Bangladesh: Economic Growth in a Vulnerable Limited Access Order', in D. North, J. Wallis, S. Webb, and B. Weingast (eds.), *In the Shadow of Violence: Politics, Economics, and the Problems of Development*. Cambridge: Cambridge University Press, pp. 24-69.

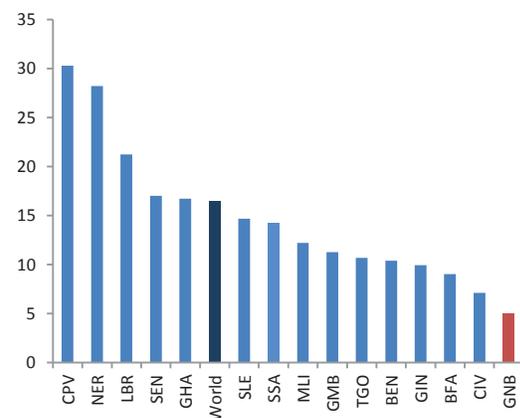
## PART II: THE LOGIC OF THE CEM

### 7. CONSTRAINTS TO DEVELOPMENT

1.42 **Poverty reduction and shared prosperity require improved earnings but will also entail a degree of redistribution.** Shared growth means that value added is shared by all active labor market participants to a relatively even degree. The main channel is through earnings, especially from labor income. If earnings increase sufficiently, this will allow the poor to lift themselves above the poverty line. However, especially in a country where poverty is as widespread and entrenched as here, this will be a long process. Redistribution, including through social assistance programs, can fill the poverty gap by transferring resources directly to the poor, while public services redistribute resources *de facto* if the poor are more likely to benefit from them. In a country with poverty levels as high as in Guinea-Bissau, redistribution will largely be between rich and poor nations in the form of ODA rather than through progressive taxation.

**Shared growth necessitates economic opportunities for the poor.** The better the conditions are for the poor to participate in markets, the more they will be in a position to lift themselves out of poverty. Apart from poor governance, Guinea-Bissau also exhibits a large number of market failures. One way to think about what inhibits growth is the analysis of binding constraints. Hausman, Rodrik, and Velasco developed what is by now a tried and tested analytical growth diagnostics framework

**Figure 14: Private sector investment is low in Guinea-Bissau**  
(private sector gross fixed capital formation in percent of GDP 5-year averages)

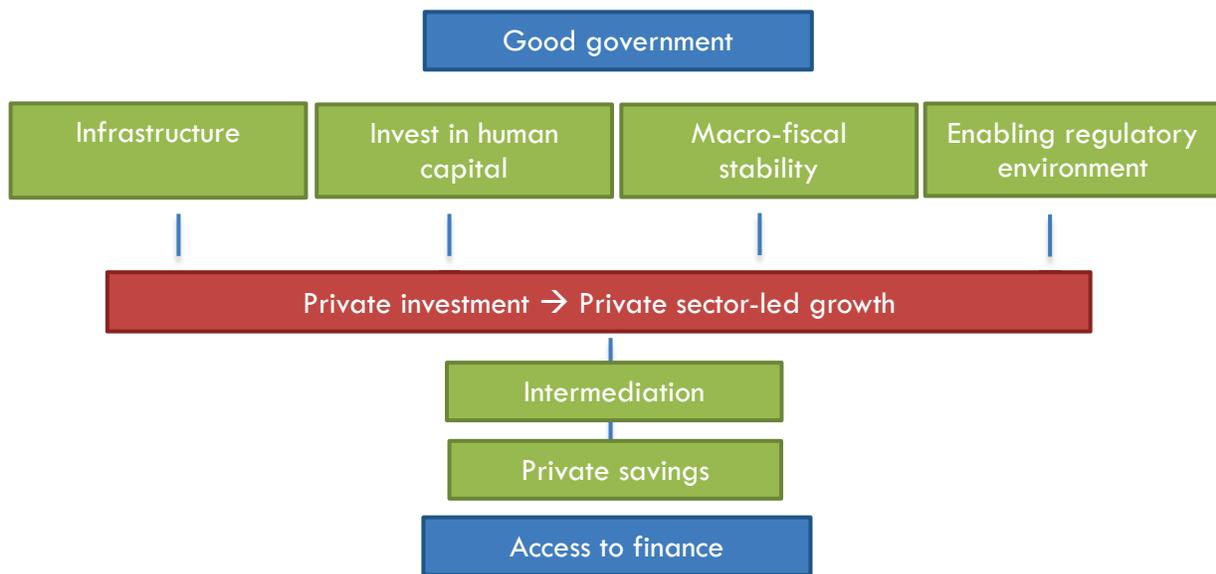


Source: WDI and World Bank staff calculations.

to identify binding constraints.<sup>13</sup> Grounded in neo-classical growth theory, the key reason for weak growth in the framework is underinvestment by the private sector. Indeed, private sector investment in Guinea-Bissau is exceptionally low, both by regional and global standards (Figure 14). Although binding constraints can only be given cursory treatment in this CEM due to a lack of data, an overview of individual factors in Guinea-Bissau affecting private investment provides a sense that constraints exist in most areas—which can be expected, given the economy’s poor performance since the country’s independence.

1.43 **Guinea-Bissau faces myriad constraints to economic development, which can be organized in a growth diagnostic framework.** The framework, adapted from Hausman *et al.* and illustrated in Figure 15, is framed by governance and an inclusive financial system. *Good government* supports private investment in two ways: it facilitates an environment for doing business, including a physical infrastructure connecting markets, human capital as an input to production, and a regulatory framework that enables the efficient flow of factors of production and fosters innovation and productivity. Through targeted monetary policy, good government supports price and exchange rate stability, to ensure that returns to investments can be fully appropriated. Fiscal policy is the main vehicle for the provision of public goods. Through counter-cyclical fiscal policy, governments can enhance output stability. *Access to finance* is important for private sector investment, as it efficiently channels domestic savings through financial intermediaries (largely banks) to the most productive investment opportunities.

Figure 15: A growth diagnostic framework



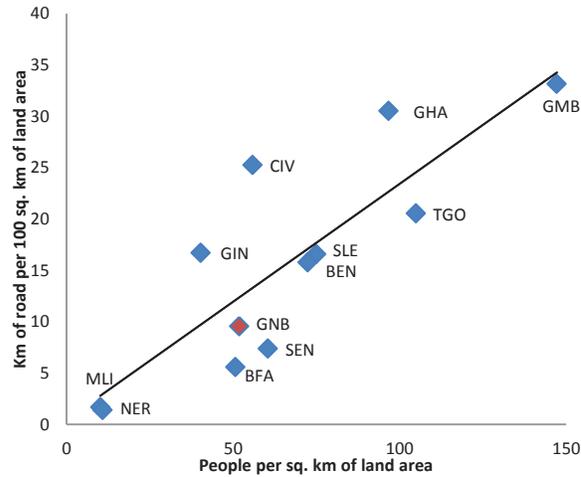
Source: Adaptation of Hausman et al. (2005) by World Bank staff.

<sup>13</sup> R. Hausman, D. Rodrik, and A. Velasco, *Growth Diagnostics* (Harvard University 2005).

**Figure 16 – Figure 19: Infrastructure**

**Figure 16: Guinea-Bissau’s road network compares to regional standards...**

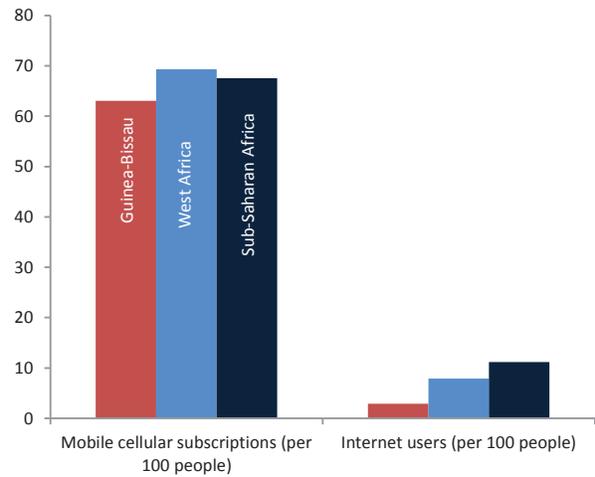
(km of road per 100 sq km of land area and population per sq km of land area, averages for 2001 – 2011)



Source: WDI and World Bank staff calculations.

**Figure 17: ... but the country is well behind others on ICT**

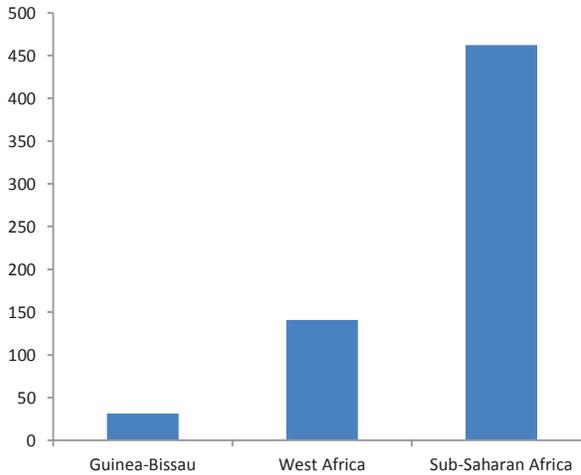
(per 1,000 people)



Source: WDI and World Bank staff calculations.

**Figure 18: Energy consumption is among the lowest in the world...**

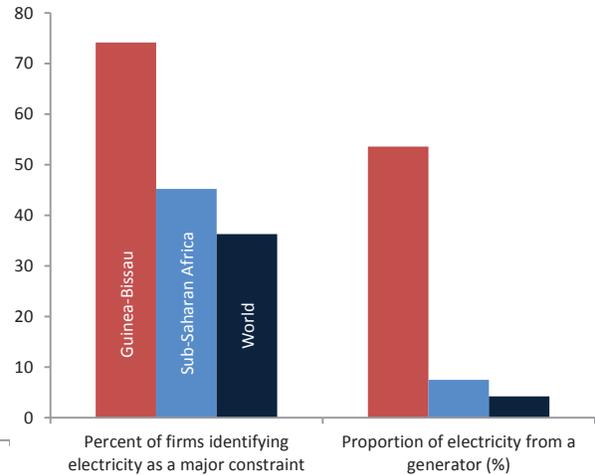
(kWh per capita)



Source: U.S. Energy Information Administration, WDI, and World Bank staff calculations.

**Figure 19: posing a major constraint to businesses**

(percent of businesses identifying electricity as constraint)

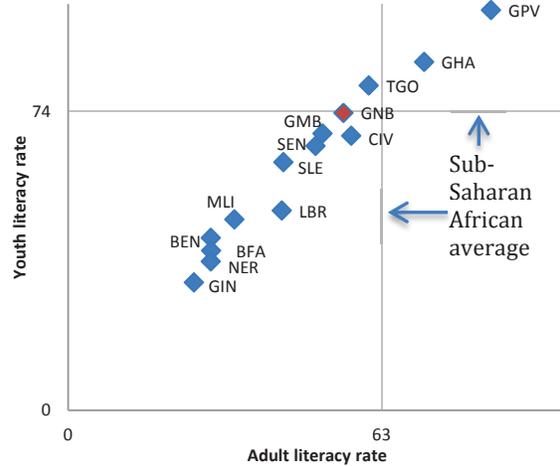


Source: World Bank Enterprise Surveys.

**Figure 20 & Figure 21: Human capital**

**Figure 20: Basic education outcomes in Guinea-Bissau are comparable to regional levels...**

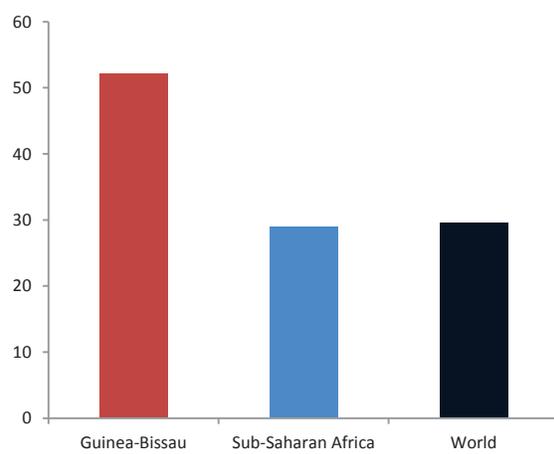
(literacy rates in percent of youth and adults)



Source: WDI and World Bank staff calculations.

**Figure 21: ... but shortfalls in vocational skills are pronounced**

(percent of businesses identifying skills as a constraint)

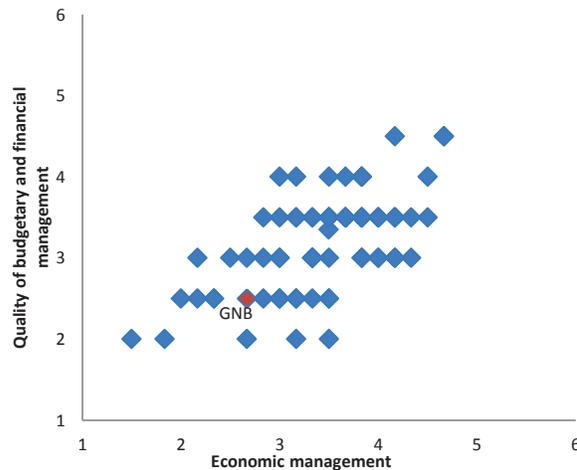


Source: World Bank Enterprise Surveys.

**Figure 22 & Figure 23: Macro-Fiscal stability**

**Figure 22: The quality budgetary, financial, and overall economic management are poor in Guinea-Bissau...**

(score, 1 (worst) to 6 (best))

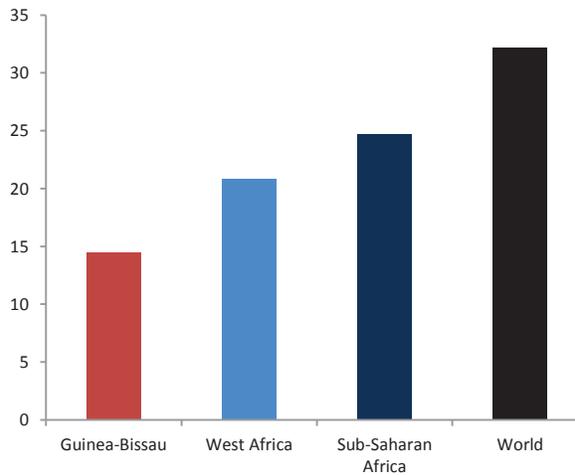


Source: World Bank Country Policy and Institutional Assessment (CPIA), 2012

Note: Figure only displays IDA countries.

**Figure 23: And the government has severely limited space to conduct fiscal policy**

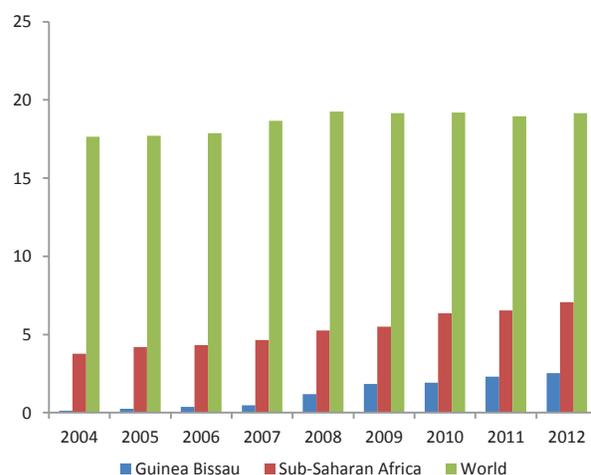
(general government revenue as percent of GDP)



Source: IMF, World Economic Outlook 2014 and World Bank staff calculations.

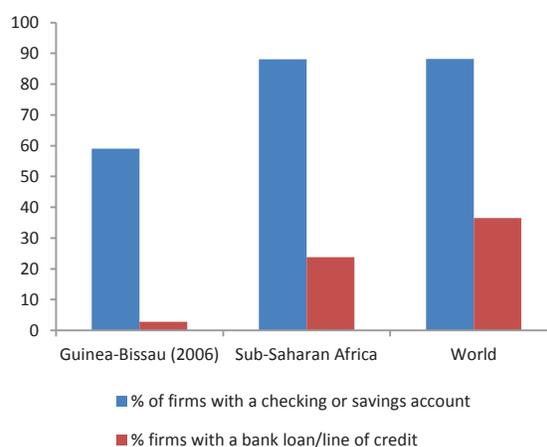
### Figure 24 & Figure 25: Savings and intermediation

**Figure 24: Bank penetration is low in Guinea-Bissau...**  
(commercial bank branches per 100,000 adults)



Source: IMF, Financial Access Survey.

**Figure 25: ... and few companies have access to banking services**  
(% of firms with a checking or savings account)



Source: World Bank Enterprise Surveys.

**1.44 Chronic underinvestment in infrastructure and human capital has been pervasive in many areas.** Given the considerable governance constraints Guinea-Bissau has been facing, it is no surprise that the country has underinvested. Infrastructure is in a dismal state. Although Guinea-Bissau's road network compares to regional standards (Figure 16), it is in poor condition. Information and communications technologies (ICT, Figure 17), energy (Figure 18 and Figure 19), and also the country's only international port have suffered from severe underinvestment. On basic education, Guinea-Bissau has made some progress and literacy rates are comparable to the Sub-Saharan African average (Figure 20). On vocational skills, however, the country falls short (Figure 21), limiting the potential to move into higher value-added activities outside the small-scale agricultural sector. Health outcomes in Guinea-Bissau are unsatisfactory but comparable to those of other poor countries; at 54 years, the life expectancy is only three years below the Sub-Saharan African average.

**1.45 Monetary policy benefits from WAEMU membership, but fiscal policy is limited by a low revenue and weak administrative capacity, limiting the government's ability to support macro-fiscal stability.** Being a member of the CFAF zone and outsourcing monetary authority to the West African States' Central Bank (BCEAO) has insulated monetary policy from political interference and given Guinea-Bissau access to an institution of outstanding capacity. Although WEAMU is not a perfect currency union, low inflation and a relatively stable exchange rate testify to an overall sound monetary policy. On the fiscal front, more challenges exist. Even by the standards of countries with access to concessional funding from the International Development Association (IDA), Guinea-Bissau's fiscal administration is weak (Figure 22). In addition, fiscal policy is severely limited by a small resource envelope: the level of revenue-to-GDP in Guinea-Bissau is among the lowest in the world (Figure 23). On the fiscal side, this considerably reduces the government's ability to maintain macroeconomic stability, as a key condition for economic activity.

**1.46 The investment climate in Guinea-Bissau is currently not conducive to doing business and firms and households struggle to obtain access to finance.** Guinea-Bissau has undertaken some notable reforms to improve the business climate over the past years. However, it still ranks 180<sup>th</sup> in the World Bank's Doing Business rankings. Only nine countries in the world

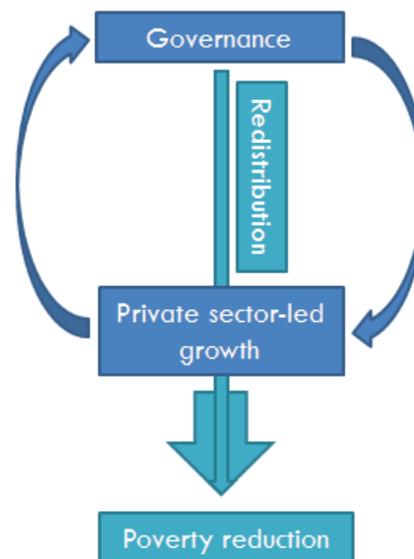
are ranked worse. With respect to access to finance, private savings are negligible, both a consequence of and reason for the sparse presence of commercial banks in the country (Figure 24). Obtaining credit is difficult (Figure 25), partly due to the lack of savings and partly due to other factors, such as the number and size of bankable projects, creditor identification, and the virtual lack of collateral.

## 8. AN AGENDA FOR GROWTH, POVERTY REDUCTION AND SHARED PROSPERITY

1.47 **This CEM is advocating for a turnaround agenda, simultaneously addressing key constraints to shared growth.** Given that constraints to economic activity are omnipresent, isolated policy actions will not necessarily unleash growth: for example, a cashew farmer will not sell his produce if traders gain access to credit but no road connects the farmer to markets. Table A1 in the appendix illustrates how issues are cutting across sectors. Policy initiatives will focus on a host of interventions in critical areas constraining the private sector. It will support the government in developing the capacity to carry out the necessary policies, but realistically, donors, regional partners but also civil society organizations, including NGOs, the diaspora and, not least, Bissau-Guineans themselves will need to be mobilized to make the policies succeed.

1.48 **The identified interventions can set in motion a virtuous cycle between private sector-led growth and better governance** (Figure 26). As this chapter has argued, kick-starting the economy can result in better governance by empowering citizens and reducing elite-competition. Better governance in turn, supported by robust revenue collection, will allow the government to carry out the policies needed to support the private sector. In this sense, the conditions for private economic activity and good governance reinforce each other. Better governance can then distribute the proceeds of growth through public services or even direct transfers such as cash transfers. Indeed, this CEM will argue that there may be an additional link, where social assistance programs support the social contract and thus, too, contribute to better governance and strengthen the virtuous circle between growth and governance. There are numerous examples from Guinea-Bissau’s history that may temper optimism—yet, with a fresh start, Bissau-Guineans can turn the current vicious cycle into a virtuous one.

Figure 26: Launching a virtuous circle for growth and poverty reduction



Source: World Bank staff.

1.49 **The following chapters will focus on high-payoff intervention areas for the turnaround agenda.** Using Figure 15 as a broad reference, the chapters will, in various places, focus on infrastructure (in particular energy, the port of Bissau, roads, and ICT), human capital (mostly skills formation), macro-fiscal stability (e.g., by strengthening the public sector and through WEAMU membership), the regulatory climate, and access to finance. In fact, many of these areas, including infrastructure, governance, and jobs more broadly, are also reflected in the DENARP II (Portuguese acronym), Guinea-Bissau’s Second Poverty Reduction Strategy Paper for 2011-2015, demonstrating that the plan remains relevant despite the 2012 coup. The government’s 2014 *Programa de Estabilização e Desenvolvimento* for the years 2014-2016

builds on the DENARP II and highlights four priority areas: (i) governance and state modernization, (ii) public finance and the restoration of a sound macro-fiscal policy framework, (iii) sustainable development, and (iv) social development. While the CEM is broadly aligned with the government's priorities laid out in these two documents, the focus on boosting shared growth means that, in this CEM, some areas are highlighted more than others.

1.50 **The CEM is divided into two parts.** Part I looks at the broader priorities of the turnaround agenda. It will focus on strengthening the physical, legal, and financial architecture that needs to be in place to enable private economic activity and on investing in the capacity of the government to enable it to carry out good public policies. Part I will also look at ways to leverage citizens and the diaspora, empowering entrepreneurs and the poor to play a more active role in boosting shared growth. The final chapter of Part I looks at natural resources which frame almost all economic activity in Guinea-Bissau, as a predominantly rural society. Part II turns to individual sectors that hold particular potential for achieving these goals, the engines of growth, zooming in on the core issues and the transformational policies in these sectors.

### **Part I: Creating the conditions for growth, poverty reduction, and shared prosperity**

#### *Strengthening the physical, legal, and financial architecture*

- **Chapter 2** will focus on infrastructure as one of the most important overall constraints for Guinea-Bissau, currently underproviding key inputs of production, such as energy, but also inhibiting the efficient flow of factors of production and linking Bissau-Guineans with markets and public services.
- Apart from the physical infrastructure, the country also needs a strong legal infrastructure to enable growth. **Chapter 3** focuses on improving the business climate, enabling entrepreneurs and raising the productivity of workers through skills and better regulation. In addition, it will also touch on the financial sector, a crucial sector to lubricate the economy, encourage investment, and support growth.

#### *Strengthening governance and leveraging partnerships*

- **Chapter 4** focuses on the public sector. Strengthening the capacity of the government is a necessary condition in seeking to improve public policy and service delivery for the benefit of Bissau-Guineans, but also in order for the government to take full leadership of the policy agenda recommended in this CEM.
- The new government can count on a large number of partners to tackle the development challenges of Guinea-Bissau. **Chapter 5** will survey the role of development partners, regional organizations, and civil society organizations in supporting the turnaround agenda.

#### *Leveraging the impact of families and individuals*

- **Chapter 6** focuses on the transformational impact of private and public cash transfers. The diaspora is often overlooked as a source of growth for a country, although one could well consider migrant families another partner in the fight against poverty. As Chapter 5 will show, remittances can be a catalyst for development. The chapter will also review the recent evidence that supports the notion that social assistance programs, including public cash transfers, can boost shared growth.

### Leveraging the natural resource wealth

- The final chapter of Part I will discuss the role of Guinea-Bissau's natural wealth for development. **Chapter 7** will frame the chapters of Part II because almost all economic activity in Guinea-Bissau is linked to natural resources. Therefore, the chapter will argue, managing the natural resources sustainably and making smart trade-offs between their uses is key to boosting prosperity in Guinea-Bissau.

### **Part II: Igniting the engines of growth**

- The chapters of Part II focus on the engines of growth with the largest impact on employment and thus poverty reduction, but also those that can support greater prosperity by sharing the wealth from natural resources. **Chapter 8** focuses on the currently single-most important economic sector in Guinea-Bissau: cashew.
- **Chapter 9** will focus on a sector with considerable economic potential that has crumbled in the aftermath of the war of independence and remained stagnant ever since: rice. This sector bears considerable potential for employment and export diversification. If grown for auto-consumption, rice also has considerable potential to reduce food insecurity.
- At the moment, Guinea-Bissau is not a nation of fishermen. **Chapter 10** will argue that the fisheries sector, however, bears considerable employment potential. In addition, fishing is an important revenue resource for the government by issuing fishing licenses.
- **Chapter 11** will focus on mining. Contrary to many observers' expectations, mining has the potential to generate employment in Guinea-Bissau, if communities can be linked to catering to the mines. A large potential of Guinea-Bissau's mines lies in the resources they will yield to invest in human and physical capital, intangible capital (such as governance), but also to finance social assistance programs with domestic resources.
- Finally, **chapter 12** will focus on tourism and biodiversity. Although the tourism sector is still nascent in Guinea-Bissau, the natural beauty of the country—coupled with the government's considerable efforts to preserve it through protected areas—has much to offer to tourists. If the turnaround agenda succeeds and growth and political stability come to Guinea-Bissau, the tourists are likely to follow.

1.51 **A summary of key policy recommendations and a proposed action plan can be found in the appendix.** The last pages of the CEM consider the practical implications of the analysis of the preceding chapters. One message that stands out is that the public sector has relatively low capability and an ambitious reform agenda can overwhelm the administration. Yet a comprehensive reform agenda is important because isolated reforms are likely to be drops in the ocean, in a low-equilibrium of interlocking constraints. The discussion thus suggests a reform agenda based on three principles: (i) select, (ii) strengthen, and (iii) share. The former focuses on selectivity, where the government ought to focus on providing core services and return some responsibility in other areas back to the citizens. This will release resources to build core capacity. Strengthening the government's ability to perform its duties involves strengthening public financial systems, civil service reform—including an efficient allocation of human resources and training—and raising additional revenue. Finally, sharing refers to partnerships which can be leveraged to share the workload. Partners include, amongst others, donors, regional organizations, NGOs, and the diaspora. The appendix also provides a suggested prioritization of reform as well as potential leading government agencies for each proposed reform.

## Appendix

**Table A 1: The turnaround agenda is multi-dimensional. Accordingly, there are considerable synergies across the following chapters**

Chapter	Energy	Port	Roads	ICT	PSD	Finance	Governance	Partner-ships	Remittances	Social assist. programs	Natural resources
2	Energy										
	Power the port										
	Power computers and mobile phones										
3	Power businesses	Import e.g. capital goods, export products	Connect businesses and customers	Connect businesses and customers; productivity gains	Bankable projects						
	Power banks and branches			Connect businesses and customers; productivity gains							
4	Power government offices; energy investment and management	Port investment and management	Road investment and management	ICT investment and management	Political stability for businesses & FDI; improve regulatory environment	Banks require political stability; regulate banks					
	Donor projects in energy, regional energy imports	Connect regional markets	Connect regional markets; NGOs supporting CDDs to rehabilitate roads				Leverage partnerships, partners support governance				
6	Power money transfer organizations			Transfer remittances to recipients	Venture investment	Link senders and recipients; encourage competition between money transfer organizations	Foster links with diaspora; encourage remittance flows				

Chapter	Energy	Port	Roads	ICT	PSD	Finance	Governance	Partner-ships	Remittances	Social assist. programs	Natural resources
	E.g. power mobile phones for transfers			E.g. Transfer cash transfers to recipients	Small-scale entrepreneurship	E.g. channel cash to recipients	Administer program; democracy dividends' and social contract	Donor grants for cash transfers	Complementary		
7	Sustainable power production				Maximize the impact of investments financed with natural resources on growth		Sustainably administer natural resources	Global environment partnerships (e.g. GEF)		Natural resource rents to finance social assistance programs	
8	Power cashew processors	Export	Transport cashew to market		Improve conditions for marketing and processing	Provide credit to cash traders and producers for investment in production and processing	Encourage cashew production and processing, minimizing tax burden		Potential venture investment	Financial resources for poor cashew farmers; monetize the cashew-rice barter trade	Facilitate cashew cultivation
9	Power irrigation	Export	Transport rice to market		Improve conditions for marketing and export	Provide credit to producers and traders	Oversee large-scale investments to re-habilitate rice	Regional rice market	Potential venture investment	Financial resources for poor rice farmers	Facilitate rice cultivation
10		Docking	Transport fish to market			Provider credit to fishermen	Ensure sustainability of fish stocks; revenue from fishing licences	Regional fisheries agreements	Potential venture investment	Financial resources for poor fishermen	Facilitate fishing, need for sustainable fish stocks
11	Power mines	Export	Transport minerals to market		Increase productivity of local services to mines	Provide credit to communities catering to mines	Negotiate mining contracts; direct dividend transfers		Potential venture investment (in mining services)	Finance cash transfers in long run	Build national wealth while mining resources depleted
12	Power hotels		Transport tourists to hotels	Connect hotels and tourists	Encourage investment in tourism-related services	Provide credit to tourism service providers	Political stability attracts tourists; preserve biodiversity		Potential venture investment	Potentially reduce illegal activities that can threaten biodiversity	Conserve biodiversity
Chapter	Energy	Port	Roads	ICT	PSD	Finance	Governance	Partner-ships	Remittances	Social assist. programs	Natural resources

**PART I:**

**CREATING THE CONDITIONS FOR  
GROWTH, POVERTY REDUCTION,  
AND SHARED PROSPERITY**

## CHAPTER 2: ADDRESSING KEY INFRASTRUCTURE CONSTRAINTS

### 1. INTRODUCTION

2.1 **Infrastructure gaps in Guinea-Bissau are a major obstacle to development. One key infrastructure constraint is the under-provision of energy.** Energy is a major ingredient of economic growth. Numerous empirical studies document that there is a strong relationship between energy consumption and economic growth.<sup>14</sup> In Guinea-Bissau, there is a severe electricity shortage, reducing most activities both for companies and households. The prolonged electricity crisis and a decade of ineffective remedial measures have led to a vicious cycle of regular blackouts; high operating costs, including fuel theft; poor billing and collection of revenues, including electricity theft through illegal connections; high retail tariffs to cover unsuccessfully these inefficiencies; a significant fiscal burden through direct and indirect subsidies; and very high consumer outlays for alternative self-generated electricity. This outlay represents a very high economic cost, through raising production costs due to the lack of reliable service, ultimately dissuading investment and reducing competitiveness. There is a critical need to invest in new-generation capacity and distribution.

2.2 **Improving the provision of electricity requires re-establishing the financial viability of the sector.** Repairing the income statement will be necessary to sustainably improve access to service and its quality. An ineffective billing system currently results in low payment rates and there is also a considerable degree of electricity and fuel theft, undermining the profitability of the Electricity and Water Company of Guinea-Bissau (EAGB), the public utility. The company does not break even, although rates are exceptionally high, even by regional standards. Improving collections and reducing losses due to theft would yield two benefits: (i) Electricity prices would likely fall as a stronger payment discipline would distribute the cost of electricity more broadly, and lower prices in turn would strengthen payment discipline. Sustainable access to electricity and lower rates are crucial for business development and growth. (ii) Without considerable government subsidies, EAGB would be bankrupt. Restoring financial viability will reduce the need for subsidies and will release public resources for potentially more productive uses.

2.3 **Moreover, it will be important to reduce the excessive dependence on imported gasoil fuel and maximize the benefits from regional trade.** A first step in reducing the excessive dependence on imported high-cost fuels is to complete the switch from gas oil to heavy fuel oil (HFO) for power generation. A second step is to ensure acceleration of the development of regional/bilateral electricity interconnections that would provide base-load power and reserve capacity through the Gambia River Development Organization (OMVG) and West African Power Pool (WAPP) interconnections. In this regard, Guinea-Bissau should take a proactive active role in the promotion of regional interconnections, especially within the OMVG power system, so that it can benefit from a secure and cheaper source of electric power to meet its needs at the earliest possible time. A third set of longer-term measures is the rational development of indigenous energy resources for domestic use and for exports. This concerns notably the development of hydropower (e.g., the Saltinho hydropower project) and solar resources for rural areas. The

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<sup>14</sup> Burkina Faso: I. M. Ouédraogo, “Electricity Consumption and Economic Growth in Burkina Faso: A Cointegration Analysis,” *Energy Economics* 32(3):524–531 (2010). Côte d’Ivoire: A.K. Kouakou, “Economic Growth and Electricity Consumption in Côte d’Ivoire: Evidence from Time Series Analysis,” *Energy Policy* 39(6):3638–3644 (2011). World: R. Ferguson, W. Wilkinson, and R. Hill, “Electricity Consumption and Economic Development,” *Energy Policy* 28:923–934 (2000).

country should ensure that the development of indigenous hydropower resources, such as the Saltinho hydropower project, costs less than imported electricity.

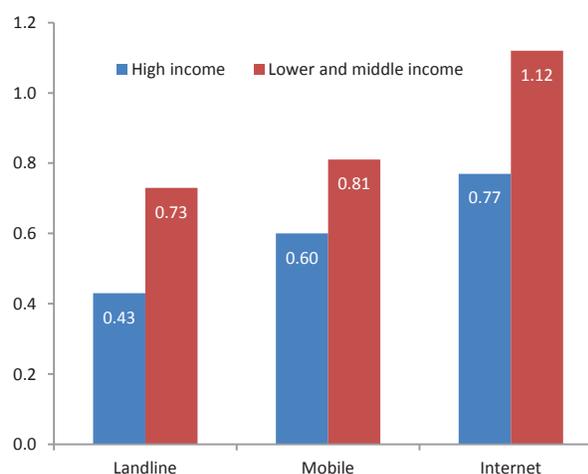
**2.4 A second key infrastructure constraint centers on the port of Bissau, which has considerable potential to propel the country's development.** In principle, Guinea-Bissau's position as a coastal country on the Atlantic Ocean is an asset. As such, it benefits for its trade from direct access to the Atlantic and its proximity to the main shipping lanes linking the American and European continents. Accordingly, its port system plays a key role in the overall competitiveness of its economy. Today, the port of Bissau is the country's main port, as it handles more than 85 percent of Bissau's recorded international trade, and it is the window to the world for Guinea-Bissau's main export: cashew. This port is thus a fundamental component of the country's physical capital, as well as the key to Guinea-Bissau's exploitation of the geographical asset that its position represents.

**2.5 The port of Bissau is in a woeful state, however, and requires considerable investments and reform.** The port suffers from a host of problems, managerial and physical, that include poor operational performance, high tariffs, decaying infrastructure and poor corporate governance. Loading and unloading delays for its container and bulk traffic are long, reflecting mainly the port's inadequate capacity; it is now handling annually close to 25,000 Twenty-Foot Equivalent Unit (TEUs), compared to a designed capacity of 5,000 TEUs. The port tariffs are unusually high. The infrastructure and cargo-handling equipment is in a state of disrepair, and a number of shipwrecks are significantly hindering port operations.

**2.6 Roads are arteries of every economy. Especially secondary and tertiary roads are in poor condition.** No thorough assessment could be undertaken for the roads sector. However, the sector is foregrounded in the DENARP II as a major constraint and area for public investment. While the road network appears broadly adequate for Guinea-Bissau (Figure 16 in Chapter 1), the quality of roads is not. For example, Chapters 8 and 9 identify the sector as a major constraint for cashew and rice farmers in delivering their produce to markets. Part III of this chapter will briefly touch upon the road sector and provide recommendations on future work to identify investment needs in the sector.

**2.7 Inadequate telecommunications systems are a third major infrastructure bottleneck.** Guinea-Bissau's economy is at the very early stages of development and to some observers it may not seem obvious that investments in the ICT sector are a priority. However, there is strong evidence suggesting that telecommunications, including landlines, mobile phones, and the Internet, are key drivers of development, including in low- and middle-income

**Figure 27: ICT is a catalyst for economic growth**  
(estimated impact on growth from a 10 p.p. increase in penetration of landlines, mobile phones, and Internet)



Source: World Bank 2009.

countries (Figure 27).<sup>15</sup> One reason is that communication via phone—and in Africa especially via mobile phones—connects market participants across distances and difficult-to-surmount terrains. Mobile phones are also increasingly used to channel cash to individuals, through official cash transfer schemes or remittances, which reduces poverty and can boost the local economy through household demand and even investment stimuli; the theme of such public and private cash transfers will be considered in more detail in Chapter 6. Regarding broadband, evidence shows that broadband infrastructure and services contribute directly to a country’s productivity, competitiveness, and ability to attract foreign direct investment (FDI), reducing transaction costs and helping countries diversify into more sophisticated sectors. Voice and data broadband communications enable faster service delivery and reduce unnecessary travel time, which is especially important in a country like Guinea-Bissau with underdeveloped transport systems.

**2.8 While this CEM focuses on energy, the port of Bissau, roads, and telecommunications, several other infrastructure bottlenecks must be acknowledged.** For example, serious constraints exist with respect to water and sanitation; indeed, the lack of water has resulted in a number of public health emergencies in Bissau in recent years. However, this is partly a consequence of the lack of energy required to guarantee the city’s water supply. The CEM’s focus in this chapter is justified as follows: energy is an indispensable input to production; the port of Bissau is the central link between Guinea-Bissau and the rest of the world and of utmost importance for an economy dependent on cashew exports; roads are crucial to connect producers and markets; telecommunications also connect market participants and are a key ingredient in raising competitiveness and productivity; they can also in channel financial resources to households, which reduces poverty and stimulates household income growth, as later chapters will argue. The following parts of this chapter will focus on these four areas in turn.

## PART I: THE POWER SECTOR

### 2. PROBLEMS AND SOLUTIONS IN THE ELECTRICITY SECTOR

**2.9 Guinea-Bissau faces an acute deficit of electric power.** An estimated 60 to 80 percent of all households in the capital Bissau lack access to electricity for technical reasons, but also due to affordability constraints. The situation is worse in the rest of the country (Figure 28). The overall electricity access rate is presently below 10 percent at the national level, one of the lowest in Africa. Average annual per capita consumption of electricity is extremely low, even by regional standards. Generation capacity is insufficient to meet the existing demand for electricity, and the transmission and distribution network is inadequate. The lack of generation capacity and the unreliability of power supply have technical, commercial, financial, institutional and, ultimately, policy roots.

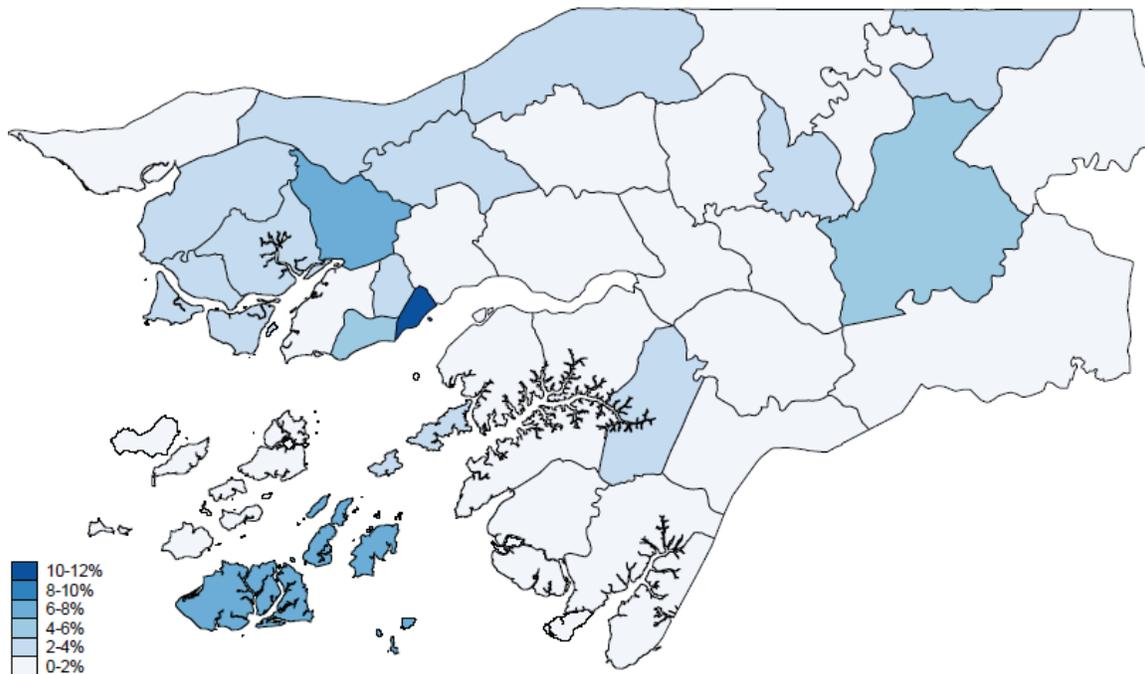
**2.10 On the technical side, the rated power of EAGB’s most recent generators is 11 megawatts (MW), of which only 5 MW are available**, due to breakdowns and frequent overload incidents created by the poor condition of protection equipment. Indeed, a small system such as Guinea-Bissau’s, which has opted so far for full self-reliance in power generation, can run only small-size units, with a corresponding efficiency and cost penalty compared to larger units. A major issue for the country is that its generating capacity is using mainly very high-cost diesel fuel. Diesel-fired units have a generating cost more than two times higher than that of HFO-fired units. The present generating system is therefore structurally high-cost.

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<sup>15</sup> S.H. Lee, J. Levendis, and L. Gutierrez, “Telecommunications and Economic Growth: An Empirical Analysis of Sub-Saharan Africa,” *Applied Economics* 44:461–469 (2012); World Bank, “Information and Communications for Development,” (Washington, DC: The World Bank, 2009).

2.11 Due to 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 800-1,000 small generators used in the residential sector, equivalent to about 10 MW. Small diesel generators are more costly and less energy-efficient than larger, utility-run plants. This private capacity is running on high-cost diesel fuel, with a generation cost typically above US\$0.60 to US\$1.00/kWh, which is high by most standards.

**Figure 28: Most households in Guinea-Bissau do not have access to electricity**  
(percentage of households with access to electricity, 2009 data)



Source: Census 2009 and World Bank staff calculations.

2.12 **The transmission and distribution system essentially only covers Bissau.** Its condition is very poor, due to inadequate maintenance and tolerated proliferation of illegal connections. Networks are in a state of disrepair, but important rehabilitation work has been undertaken with West Africa Development Bank (BOAD) financing. A second phase would finance network rehabilitation, but financing has yet to be identified. This would help reduce technical losses. Many low-voltage consumers are not metered. Although the level of technical losses is not known accurately, as there is no system for medium- and low-voltage metering, it is indeed high.

2.13 **The level of technical and commercial losses is extremely high.** It has recently been estimated at about 52 percent on average of energy produced. In the residential sector, losses could be as high as 60 percent. Some of the causes are illegal connections, faulty meters, unmetered consumption, and resale of electricity by a primary customer who is illegally connected, has a faulty meter, or is without a meter altogether. The level of illegal connections is high—making up perhaps as much as half of all electricity connections—and no serious actions to address this problem have been taken for years. Consumption meters are not reliable and encourage fraud; of EAGB’s estimated 27,250 customers, about half or more have either broken meters or none at all, and EAGB’s capacity to repair them is very limited. Therefore, designing and implementing a rigorous program to reduce technical losses and maintain meters is important for sector recovery.

2.14 **There are several private producers and distributors of electricity. Yet this parallel system is illegal.** Most private producers, which tend to be rather small, support electricity either through co-generation or stand-alone producers and distributors. Their technical standards are poor, with fire and other possible risks. Furthermore, private suppliers often use EAGB's poles and other installations to extend their wires. Private distributors of electricity clearly have a useful social and economic role, given the failure of the public supply system. Private supply also indicates that people are willing to pay high prices to obtain electricity, and this bodes well for the future of the sector. This system of private distributors is illegal, given current laws that permit only EAGB to distribute electricity, and is entirely unregulated. At the same time, it is clear that, should public supply be restored and economies of scale materialize, the public tariff would be significantly lower and customers would therefore switch back to a centralized supply. The best solution to the illegal supply of electricity is thus the restoration of a viable public supply.

2.15 **On the commercial side, the base of known customers is very small, largely reflecting the lack of commercial records; in a city of 400,000, there are only about 27,250 official electricity customers.** In reality, the number of consumers may of course be much higher, possibly up to 35,000, counting illegal connections.<sup>16</sup> The main commercial issue in Guinea-Bissau is the highly unreliable billing system, followed, but to a lesser extent, by the bill recovery issue. EAGB has no client records or files, and has no knowledge of whom and where its clients are. As most low-voltage clients lack meters, their consumption is simply estimated. The results are arbitrary and erratic billing, giving undue discretionary power to EAGB's employees, who often encourage the formation and the spread of fraud to their personal benefit. Furthermore, because of lack of financial resources, EAGB cannot respond to requests for connections by new consumers, who then look to illegal connections to satisfy their needs. The billing issue has a managerial dimension, and the establishment of a suitable billing system is a top priority, but it is mainly a governance issue, as low billing is the result of internal fraud in EAGB more than a question of individual actions by consumers. The installation of meters to replace estimated consumption may improve the situation, but the issues of tolerated illegal connections, the systematic destruction of meters, and meter bypass must be addressed as a pre-requisite to that entertaining that possibility.

2.16 **Non-payment, especially due to an ineffective billing system, is estimated to be high, both among public and private consumers,** where public sector electricity consumption accounts for about 50 percent of the total. The estimated bill collection rate, comparing billed electricity and collected revenues, is about 83 percent, suggesting that the main issue with EAGB is billing rather than collection, despite a very high tariff of about US\$0.45/kWh. Gains in bill collection can be made, however, with the development of pre-payment meters, particularly for large- and medium-size consumers.<sup>17</sup> Under future electricity sector reforms, and to address the governance issue resulting in low billing, the government of Guinea-Bissau may consider contracting the billing and collection activities to the local private sector, as has been done with interesting results in countries experiencing major sector governance issues, such as Nigeria.

2.17 **On the financial side, EAGB has negative equity and still incurs large operating deficits and a cash deficit, despite the high tariffs. This is largely due to under-billing, poor bill collection, and fuel theft.**<sup>18</sup> As a consequence, EAGB is unable to pay recurrent costs

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<sup>16</sup> There is no estimate of illegal connections in Guinea-Bissau. In countries with a comparable situation such as Guinea, illegal connections represented up to 100 percent of registered consumers.

<sup>17</sup> The maintenance of pre-payment meters in Guinea-Bissau will have to be organized as the meters are delivered and installed, and adequate training will have to be provided to EAGB's staff.

<sup>18</sup> Fuel thefts are estimated at US\$800,000 per year, for a total revenue of EAGB of about US\$5 million (US\$4 million collected) and a fuel bill of about US\$3 million.

including: (i) employees who have reportedly up to 40 months of salary arrears, which is troublesome from the perspective of governance of the utility; (ii) suppliers (particularly fuel suppliers); and (iii) maintenance; let alone renewing and expanding its generating assets and networks. Without state support, the company would have declared bankruptcy. Addressing issues related to billing and fuel theft will be crucial in restoring EAGB's financial viability.

**2.18 On the institutional side, the distribution of key responsibilities of sector institutions in investment decisions, financing, and debt management is not well defined.** The respective roles of entities such as EAGB, the Ministry of Energy, and other government departments (Economics and Planning, Finance, Environment) may be clear by law, but they are not clearly applied in practice. A crucial example is that of tariffs and how they are set or changed, which is very important to maintaining the sector cash flow as needed. There is currently no regulatory agency to set tariffs and to balance the interests of different stakeholders, such as the private sector or the government, or to protect the interests of consumers. Tariffs have been set at very high levels (CFAF 492/kWh) but have not been adjusted in 14 years.

**2.19 Strategically, the energy sector lacks a clear and selective strategy based on a limited set of priority objectives and dearth of resources.** In addition, the investments in the sector take place haphazardly and almost always on an emergency basis without the benefit of a framework for investment planning to ensure a balance between supply and demand and the minimization of generation and supply costs. This has led to a suboptimal investment policy and high production costs as the construction of emergency capacities was given priority over less-costly, longer-term solutions and short-term repairs of inefficient equipment were given priority over least-cost, longer-term solutions. As a framework for future sector reforms, the government of Guinea-Bissau may wish to develop and adopt a realistic strategic vision for the sector, and to develop a sector long-term plan, including sector investment and institutional development in the short and longer term. A first step is to decide who will be in charge of developing the energy sector vision and development plan. This could be done either by the Ministry of Energy or the Prime Minister's office, at least in the short run while emergency reforms are implemented, depending upon the level of priority granted by the government to addressing the electricity sector issues.

**2.20 Under the present emergency situation, the recommended priorities for the government of Guinea-Bissau can be summarized as follows:**

*Ensuring reliable and low-cost energy supply*

**2.21 From the present situation of shortage, at least 40 MW in new generation capacity will be needed by 2016. The OMVG power system holds particular potential.** BOAD is currently financing a 15MW thermal plant, in addition to supporting the update of some of the distribution lines. In addition, Guinea-Bissau should take an active role in the promotion of regional inter-connections, especially through the OMVG power system, so that it can benefit from a secure and cheaper source of electric power to meet its needs. OMVG is planning to develop the Kaleta hydropower project, which is physically located in neighboring Guinea-Conakry and would have a capacity of 240 MW, out of which Guinea-Bissau could obtain about 40 MW, saturating its medium-term energy needs.

**2.22 Another approach is to increasingly draw on indigenous energy resources for domestic use.** This concerns notably the development of hydropower and other renewable resources for rural areas—one priority of the government's 2014 *Programa de Estabilização e Desenvolvimento*. The authorities could promote the development of indigenous hydropower resources, such as the Saltinho hydropower project. Both approaches, importing electricity through the OMVG power system and developing local renewable power, would considerably mitigate the environmental impacts of power production in Guinea-Bissau and increase the country's reliable energy supply.

**2.23 Leveraging existing power sources by partnering with self-producers can result in some quick wins.** On the supply side, EAGB may envisage entering into contracts with selected self-producers to complement its own generating capacity—yet for that, these entities would need to be legalized. In Guinea-Bissau, it may be difficult to improve the quality of supply across the entire power system simultaneously. The government and EAGB may consider improving the reliability of supply on a geographical basis, one district at a time, coordinated with actions to enhance billing and collections: consumers are more likely to comply with payment obligations when quality of service improves

**2.24 Demand management would increase the efficiency of available electricity.** Government action should consider implementing energy-efficiency programs, including the generalization of high-efficiency lighting systems for public buildings, street lighting, as well as private power users; systems to discourage electricity use during peak times (load management) may also be considered.

**2.25 Fuel switching would result in major savings, reducing the cost of electricity that is currently produced domestically.** Fuel switching will be discussed in one of the following sections. The OMGV power system, however, arguably holds the greatest potential for cost savings. Importing electricity is an approach adopted by a number of small countries in Africa.<sup>19</sup> Under suitable contracts, this strategy can reduce generation costs by 50 percent or more.<sup>20</sup>

#### *Restoring sector cash flow*

**2.26 Restoring financial viability will be key to sustainably providing access to electricity at affordable prices.** The measures necessary to reestablish the financial viability of the sector are: (i) the establishment of a rigorous loss reduction program coordinated with improvement in quality of service, including metering, elimination of illegal connections through actions with clients, and within the public utility EAGB; (ii) investments in generation, transmission, and distribution to improve the quality of service in areas where the loss reduction program is implemented and satisfy future demand; (iii) investments in HFO storage tanks; (iv) a reduction in fuel expenses, including putting a stop to theft of gasoil for use in private cars and trucks; (v) a financial recovery plan that would address both short-term liabilities and long-term debt, including a plan to reduce public and private arrears and mechanisms to prevent them from accumulating again; (vi) an effective corporate governance framework, introducing disclosure and corporate governance principles and setting the framework for efficient state oversight. A seventh ingredient, a review of tariffs that would provide economic signals for efficient consumption, is already under way.

**2.27 In the medium term, EAGB will also need to establish a reliable accounting system as a precondition to implementing its financial recovery plan and to monitor the implementation of the cost-cutting and revenue-enhancement actions.** EAGB's balance sheet restructuring is a challenge, given the absence of accounting. Only now are auditors trying to reconstitute the accounts of the last five years. In this context, the liquidation of EAGB has certain advantages, including a clean slate for a new start on all aspects of the business. The real problem is how to treat the current debt of EAGB. Although EAGB's statutes limit the company's liability to what it owns, the government may be called in to take care of part of the debt, particularly the

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<sup>19</sup> For example, Benin depends 90 percent on regional electricity, Botswana 66 percent; Namibia 53 percent; Niger 60 percent; Swaziland 66 percent, and Togo 82 percent.

<sup>20</sup> Considering that the generation cost of diesel-fired units with a load factor of about 50 percent is no less than US\$0.25/kWh under optimal conditions, and most likely in excess of US\$0.60-1.00/kWh in the present context (due to high diesel fuel cost and purchase and maintenance costs in Bissau), the cost of electricity based on the LRMC of neighboring countries in WAPP is about US\$0.12/kWh.

overdue salaries and contributions to social security, which EAGB has not been making for years. Viewed in this light, liquidation appears to be a lower-cost and therefore a better option.<sup>21</sup> The financial recovery plan contains two sets of measures: first, those aimed at paying off a portion of EAGB's short-term liabilities (arrears to suppliers and bank overdraft in particular), as these pose the greatest danger to the utility and weigh most heavily on its income statement. The second set of measures is aimed at restructuring those of EAGB's liabilities that cannot be paid off (essentially converting their maturities from short- to longer-term), in order to improve its balance sheet and restore financial equilibrium. The measures to pay off liabilities over the short term include actions targeted at reducing receivables on the asset side of the balance sheet to induce a one-off injection of funds; an important step in this process is the introduction of a system of budgeting and payment of bills by the government to reduce receivables from the public sector.

#### *Improving Power Sector governance*

**2.28 Governance in the power sector has several aspects, including participation of EAGB in power thefts, fuel thefts, overstaffing, and poorly prepared investment decisions.** The improvement in governance is a pre-requisite to any sector reforms and improvement in EAGB's performance. Corporate governance provides a coherent and tested framework for addressing key weaknesses of State-Owned Enterprises (SOEs) that is consistent with indefinite government ownership or continuing privatization. The *OECD Guidelines on the Corporate Governance of State-Owned Enterprises* outline the principles of such a framework and what SOEs and governments need to do to ensure good corporate governance (Box 2).

**2.29 In some of these areas, progress is under way, with the support of Guinea-Bissau's partners.** The World Bank has mounted a major effort to help the government implement its strategy for the energy sector with the Multisector Infrastructure Rehabilitation Project (MIRP), which was approved in May 2006 and was recently restructured, and the Emergency Electricity and Water Rehabilitation Project (EEWRP), which was approved in July 2010. In addition, two regional organizations, the Economic Community of West African Countries (ECOWAS) and WAEMU, are providing \$10 million to EAGB to purchase fuel for power generation. The EEWRP will finance three main contracts for the electricity sector to: (i) purchase 5 MW of power generation capacity using heavy fuel oil and a reservoir to store the fuel; (ii) buy and install about 15,000 pre-payment meters; and (iii) pay for technical assistance to improve the management of the sector and start the reform of EAGB. These actions, combined with the US\$10 million for fuel, are expected to restore a minimal level of generation capacity of about 10 MW for the city of Bissau, improve cash flow in parallel through the use of prepayment meters, and improve management through technical assistance. This is expected to lead to a return of some institutional customers, who were relying on auto-generation, to EAGB and to an improvement in both quantity and quality of service to all customers. However, there will still be a gap between peak demand, estimated at 30 MW, and available supply from EAGB.

#### **Box 2: OECD Guidelines on Corporate Governance of State-Owned Enterprises (SOEs)**

According to the OECD, key principles on SOE governance include the following pillars:

##### *I. Ensuring an Effective Legal and Regulatory Framework for SOEs*

The legal and regulatory framework for SOEs should ensure a level playing field in markets where SOEs and private sector companies compete to avoid market distortions. The framework should build on, and be

<sup>21</sup> H. Farine, « *Reforme Institutionnelle des Secteurs de l'Eau et de l'Electricité, Rapport Provisoire de Diagnostic et Recommandations sur les Options de Reforme et la Mise en Place de Partenariats Public-Privé* » (Mimeo 2010).

fully compatible with, the OECD Principles of Corporate Governance.

#### *II. The State Acting as an Owner*

The state should act as an informed and active owner and establish a clear and consistent ownership policy, ensuring that the governance of SOEs is carried out in a transparent and accountable manner, with the necessary degree of professionalism and effectiveness.

#### *III. Equitable Treatment of Shareholders*

The state and SOEs should recognize the rights of all shareholders and, in accordance with the OECD Principles of Corporate Governance, ensure their equitable treatment and equal access to corporate information.

#### *IV. Relations with Stakeholders*

The state ownership policy should fully recognize the SOEs' responsibilities towards stakeholders and request that they report on their relations with stakeholders.

#### *V. Transparency and Disclosure*

SOEs should observe high standards of transparency, in accordance with the OECD Principles of Corporate Governance.

#### *VI. The Responsibilities of the Boards of SOEs*

The boards of SOEs should have the necessary authority, competencies, and objectivity to carry out their function of strategic guidance and monitoring of management. They should act with integrity and be held accountable for their actions.

*Source:* OECD Guidelines on the Corporate Governance of State Owned-Enterprises.

### **3. PROBLEMS AND SOLUTIONS IN THE PETROLEUM SECTOR**

**2.30 Petroleum is the key input for electricity production. The heavy dependence on petroleum imports presents a challenge.** The petroleum sector was privatized in 2003. The largest existing storage facility is now privately owned and operated, but is in state of disrepair, and the private consortium has thus far failed to undertake the rehabilitation work to which it had committed as part of the privatization process. The main issues related to the petroleum products sector are the following: (i) The supply chain is inefficient and an audit to improve the transit of petroleum products could determine useful avenues for cost reduction. (ii) The existing storage of petroleum products is in disrepair and insufficient. In fact, to cater to future HFO-based power generation, new dedicated storage capacity needs to be built. (iii) The subsidy on gasoil oil/diesel for power generation: part of the gasoil/diesel is stolen and used for private cars and trucks. (iv) The sector has a negative impact on the environment and an environmental impact assessment of the unloading facilities, storage, transportation, and distribution must be carried out to determine which mitigation measures could be taken to reduce or eliminate the negative environmental impact. (v) The pricing structure needs to be rationalized. In particular, contributions to the road fund should be proportional to the damage done to the road network. Finally, (vi) the lack of a regulatory framework for the downstream petroleum sector is problematic, as there are no clear rules on procuring, importing, unloading, storing, transporting, or distributing petroleum products in Bissau or in the rest of the country.

**2.31 The government sets maximum retail prices, which are high by regional standards.** Prices are set on the basis of a periodic recommendation of a multi-stakeholder commission, which includes the oil companies operating in the country. In April 2010, prices were CFAF 565 (US\$0.93) per liter of diesel oil for general use and CFAF 430 (US\$0.86) per liter for power generation, CFAF 677 (US\$1.35) per liter of gasoline, CFAF 474 (US\$0.95) per liter for kerosene, and CFAF 549 (US\$1.10) per liter of mixed gasoline. These prices are about 20 to 40 percent higher than the cost of petroleum products in comparable West African markets. Price formation of petroleum products in Guinea-Bissau is inflated, in part due to problems with the water canal

(sunken ships and other debris), which affect the passage of tanker vessels and significantly increase shipping costs, but also due to deficient product off-loading facilities, damaged storage facilities, and local market structural and non-structural distortions. The improvement of the supply system, including the port of Bissau (discussed below), including the improvement of governance and transparency, constitute vital conditions for the improvement of the power sector.

**2.32 Guinea-Bissau’s petroleum product sector has negative environmental and social impacts**, especially in Bissau, where current operations continue to cause harm from off-loading to storage and distribution. The sector also has a negative social impact, affecting the living conditions of the communities in its areas of operation. The authorities lack the rules, laws, and funds needed to fulfill their missions. In addition, enforcement is lax and some companies are not abiding by commitments they made during the privatization process. Developing a clear legal framework on environmental protection that permits sustainable development of the oil sector in Guinea-Bissau, in consultation with all stakeholders—including the people at large and especially those affected, local governments, and the companies—is essential. Such a framework could be based on successful experiences in other countries with similar environmental and cultural characteristics.

**2.33 The main policy recommendations for the petroleum sector can be sketched along the following lines:** (i) devise a legal and regulatory framework that promotes the transparency and efficiency of import supply and distribution, and promote safe environmental and social practices; (ii) eliminate the subsidy to gasoil/diesel oil for EAGB; (iii) review and enforce current contracts with petroleum product distribution companies; (iv) review the supply chain for all products with a view to fostering cost reduction; (v) review and rationalize the current price structure of oil products; (vi) develop a strategy for the promotion of Liquefied Petroleum Gas (LPG) use for urban and rural areas; and (vii) assess environmental damages of the petroleum products distribution chain and identify remedial measures, in particular developing a plan to manage the environmental and social impacts of LPG use.

**2.34 Although challenging, reform of the energy sector is critical.** A steady and affordable supply of energy to households and businesses, without the need for subsidies, and without externalities for the environment and communities, is what Guinea-Bissau should strive for. It is difficult to understate the importance of energy for development and poverty reduction. Progress can be observed in the sector, supported by Guinea-Bissau’s development partners, and it will remain the key sector in which to focus investment and reform efforts.

## PART II: THE PORT OF BISSAU

### 4. BACKGROUND AND KEY ISSUES

**The port of Bissau is a very small port, with a container throughput of only about 30,000 TEU.**<sup>22</sup> The port is located on the northern estuary of the Geba River and the only major port in Guinea-Bissau, frequented mostly by fishing and container vessels (Figure 29) although it was originally designed for liners and conventional freighters. On one side it is well protected against the heavy swell of the Atlantic Ocean by the *Arquipelago dos Bijagós*. On the opposite side, it is surrounded by the densely built neighborhood of the city of Bissau, which hinders the implementation of any extension measure of the port or the adjacent areas. Its small size notwithstanding, the port is and will remain one of the country’s key infrastructural assets, as the

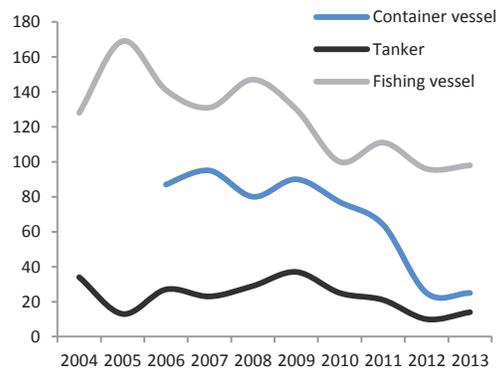
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<sup>22</sup> It is classified a “small port” under the international classification of the United Nations Conference on Trade and Development (UNCTAD).

majority of imported and exported cargo is handled there. In 2013, rice accounted for over a quarter of imports (Figure 30) and cashew for over 80 percent of exports (Figure 31) handled at the port. Although other cargo, including consumer goods, had increased steadily, this trend came to an abrupt halt and reversed with the coup in 2012 and the associated economic downturn.

**2.35 The current condition of the port infrastructure and equipment can only be described as woeful.** Numerous infrastructure deficiencies have been identified. These include critical issues with maritime access, surfaces, warehousing, port buildings, and other infrastructure systems—in short, with virtually every constituent part of the port.

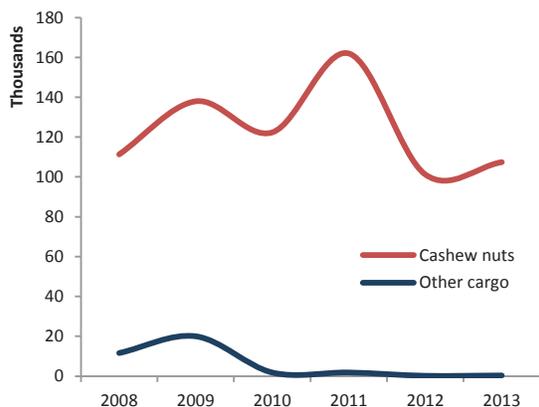
**Figure 29: The port mainly hosts container and fishing vessels**  
(number of vessels)



Source: APGB.

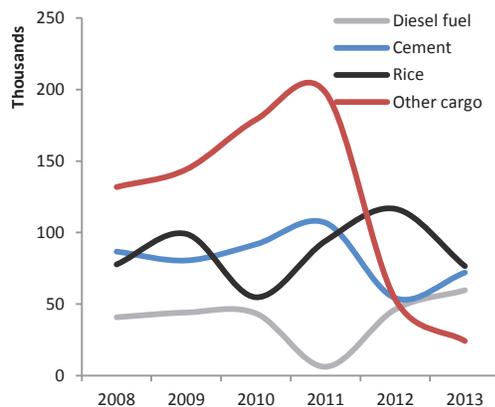
- *Access:* access to the port is very difficult due to the limited water depth of the approach channel and the port basin. Navigation aids (i.e. beacons and buoys) in the approach channel between Caio Island and the port are either completely lacking or are in a very poor condition. Maritime traffic thus only occurs during the daytime and with the rising tide; the approach channel only allows one-way traffic and the passage takes about four hours. Berthing maneuvers in the port are impeded by numerous shipwrecks. Moreover, the water depth in front of the quay, whether old or new, is insufficient.
- *Surfaces:* a surface of 1.5 ha is currently being used as a main container storage surface, most of which has not yet been paved. The paved portion of this surface, however, already shows damages. Three additional surfaces for container storage (5,500 sq m and 6,600 sq m) have also been left unpaved.
- *Warehousing and other port buildings:* eight warehouses (i.e., warehouses A to H), with a surface of approximately 780 sq m each, are being used for the storage of rice and other bagged goods. All of the warehouses show signs of advanced degradation. Most of the buildings and structures also show damages, some of which are severe.
- *Other infrastructure systems:* the lack of a sewage disposal and drainage system, combined with the lack of paved surfaces, pose major constraints for water flow-off, because most of the limited existing drainage channels are actually blocked. Furthermore, there is a serious problem with the electrical network, and eventually the non-functioning lighting prevents any night work; consequently, maintenance works are not very efficient.
- *Handling equipment:* the handling operations and cargo transport are negatively affected by the poor state of cargo-handling or transport equipment for container and non-containerized cargo alike; by the lack of control system and of a terminal operating system (TOS); by inadequate workshop facilities, equipment, and tools; by the lack of spare parts and consumables; and by a general lack of maintenance system.

**Figure 30: Cashew dominates exports handles at the port (metric tons)**



Source: APGB.

**Figure 31: Diesel, cement, and rice have taken over other imports handled at the port (metric tons)**



Source: APGB.

2.36 **In addition, there is a range of institutional and organizational issues that impact on the port's operational performance and its financial viability.** The port entity, APGB, must contend with both redundant and unqualified personnel, and there is no master port planning or port investment strategy to guide its efforts. More importantly, it is currently functioning outside a clear legal and regulatory framework and under an inadequate institutional arrangement. The existing framework, however, is all but simple, involving a large number of entities and reporting relations, and creating a complex web of stakeholder interests in the reform of the port.

2.37 **Reflecting the port's small scale and poor physical shape, but also the regulatory context in which APGB operates, port costs are high.** The structure of terminal handling charges shows tariffs up to ten times higher than in other ports of the region, including those that are in fact becoming credible competitors to the port of Bissau for trade into Guinea-Bissau (Table 2). As an additional result, port operations generate revenues equivalent to about 2 percent of GDP, making APGB one of the country's biggest enterprises. However, with such high handling charges, the port will not be competitive regionally, even if it was expanded to handle additional traffic.

2.38 **Private sector participation in the port failed in the 1990s.** Apart from the protracted political, economic, and financial instability in Guinea-Bissau since the late 1990s, the unsettled institutional arrangement of APGB and the lack of progress on the reform front result in part from the failed attempt in 1991 to concession the port operations to a private operator, TERTIR, as part of a joint venture with a local interest group called GUIPORT. Following the cancellation of the concession contract in 1999, APGB was forced to take over the management and operations of the Port of Bissau, a responsibility it was not structured to handle and for which it had no mandate.

2.39 **As a result, APGB is today in charge of managing all the country's ports under the oversight supervision of the Ministry of Transport and Communications, yet it is *de facto* self-regulated.** This is mainly due to the fact that its personnel are the only ones with sufficient technical capacity to oversee the country's port system. Moreover, the failed concession has left the government with a US\$9.5 million liability, as the original concessionaire was awarded this amount under an international arbitration court's settlement decision. Although this judgment is technically not enforceable in the country since Guinea-Bissau has not ratified the UN Convention on the Recognition and Enforcement of Foreign Arbitral Awards, its mere existence is a powerful deterrent to any foreign private operator interested in investing in the port system. At some point, the government will need to settle this dispute if it wants to maximize the chance of ensuring a

successful future privatization of its port network, unless it limits the private participation to a management contract.

**Table 2: The port of Bissau is the most expensive in the region**

Containers	Terminal handling charges			
	Bissau	Banjul	Dakar	compared with SEAPA (a)
<b>Import</b>				
20' stuffed	\$330	\$28	\$163	\$72
20' unstuffed	\$70	\$28	\$82	\$72
40' stuffed	\$510	\$56	\$325	\$111
40' unstuffed	\$140	\$56	\$163	\$111
<b>Export</b>				
20' stuffed	\$330	\$28	\$163	\$72
20' unstuffed	\$70	\$28	\$82	\$72
40' stuffed	\$510	\$56	\$325	\$111
40' unstuffed	\$140	\$56	\$163	\$111

Sources: APGB websites, Banjul and Dakar Port Authorities, and (a) Saudi Arabia Port Authority.

## 5. INVESTMENT AND INSTITUTIONAL REFORM

2.40 **The economic costs associated with the current situation are significant.** Despite poor infrastructure and a dysfunctional institutional situation, the port manages to operate at four times its original design capacity, and it is the source of a major portion of government revenues through customs, and a not insignificant cash flow to APGB. Yet, for all economic actors and observers in Guinea-Bissau, the poor state of the port is one of the main constraints to the promotion of trade and economic growth in the country, and in the city of Bissau as the country's main urban economic center.

2.41 **Moreover, the port of Bissau is likely to remain the country's only major port for some time to come.** Although there has been great interest from successive governments to develop a deep-sea port at Buba, a secondary town located in the southern part of country, the authorities have thus far been unable to mobilize the needed resources for the financing of such a major undertaking as an entirely new port, and are unlikely to for a long time. Accordingly, the existing port in Bissau continues to play an almost exclusive role in the country's trade logistics chain, even if that position can be contested by leakages of international traffic to and from Guinea-Bissau through neighboring countries (Senegal and The Gambia) via land and sea. And indeed, the tax and customs duties and cargo-handling charge revenues generated directly and indirectly by the port activities fall below those that an efficient port of even a small but growing economy would generate, even if their existence explains in part why the push for port reform has so far been unsuccessful.

2.42 **Nevertheless, only limited progress has been made so far in devising a reform strategy.** Fortunately, during a workshop organized in early 2010 to disseminate the findings of the port reforms study, a consensus emerged between APGB, the Ministry of Transport and Communications, as well as other stakeholders regarding the need to launch necessary port reforms under a collaborative and participative approach to ensure swift progress. While this

represents a step in the right direction, all parties involved do realize that, due to the dire situation of the port of Bissau, a set of emergency measures should be considered and agreed upon, as a first step, to mitigate as much as possible the negative impact on Guinea-Bissau's economy resulting from the current situation.

**2.43 A viable strategy for the port must address both the sizeable physical investment and the institutional needs.** This will require nothing less than the development, adoption by the government, and implementation of a comprehensive transformational approach. Significant investment, at a high cost, will be required to make the port functional and efficient, and mitigate—if not remove altogether—the binding constraint to growth that poor port performance constitutes now and would continue to represent in the future. For this investment to produce economic and financial returns, however, port operations and financial management also need a dramatic overhaul, which in turn calls for deep institutional reform. Yet, such a comprehensive approach, to be feasible, needs to recognize the specific challenges associated with implementing reform in the port sector, as well as, more generally, the weak capacity to support it. The core of the proposed strategy is a sequenced approach, articulated around a multi-phase investment plan and an institutional reform strategy.

**2.44 It will be crucial to remove the shipwrecks and create a sufficient surface for the storage and handling of the forecasted cargo volumes—especially containers, but also conventional cargo.** A secondary objective has to do with the adaptation and improvement of facilities for the most optimal cargo handling and dispatch of operational restrictions.<sup>23</sup> An investment plan could be structured in several phases, with the first one focused on addressing the critical infrastructure of the existing port facilities mentioned above and future phases geared toward the gradual port expansion that is expected to be needed to meet projected growth in import and export activities. More specifically, Phase 1 would involve:

- Dredging of shipwrecks;
- The rehabilitation of quays and deepening of sea depth in front of the quays and in the approach channel;
- The rehabilitation of the currently used container terminal surface for container import and export;
- The rehabilitation of infrastructure facilities, such as sewage system, pressure booster station for potable water, and electric power station;
- The development of the storage surface for reefers, unstuffed containers, and hazardous goods; and
- The development of security walls and a security gate system according to ISPS standards.

**2.45 Preliminary estimates place the costing of investment under this phase at about US\$35 million, with about US\$15 million on quays and access channels and the rest on ground infrastructure.** Subsequent phases, extending over a 20-year period, could then include the construction of a new container terminal to handle projected import activities; the construction of additional storage surface for conventional cargo, including warehouses; and the construction of a new container terminal to accommodate the projected growth of export activities.

**2.46 Private sector involvement would be beneficial for the rehabilitation and operation of the port.** Since Phase 1 of the investment plan represents a sizeable amount that cannot be financed solely by port resources or the government, the latter will have to make sure that

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<sup>23</sup> An increase of the number of berths has not been projected, due to the current number of vessels.

institutional, regulatory and corporate governance reforms are put in place, at a minimum to enable APGB to present to potential financiers a bankable project, including a credible set of financial accounts. Thus, in conjunction with the implementation of these investment phases, solutions to develop a workable public-private partnership (PPP) will need to be devised. At the same time, considering the time required to structure and tender a PPP, and given the urgency in addressing the infrastructure problems which calls for the rapid launch of Phase 1, an interim arrangement will need to be put in place.

**2.47 The risks to the proposed port reform are considerable.** At the most general level, political instability in Guinea-Bissau will remain a significant factor, though one that will afflict the implementation of any reform configuration. Identifying within the government a reform champion with enough staying power is also paramount. Overall, the political and institutional risk to reform is therefore bound to remain very high for the foreseeable future.

**2.48 Likewise, the risks to a private operator involved in port operations and financing are also high.** Not only would a potential concessionaire have to contend with vested management and labor interests, but it would also have to deal with the risk related to the capacity of the government to stay the course of reform for several years in order to provide enough time to turn around the port operations.<sup>24</sup> Lastly, as is always the case for a quasi-public monopoly, there is a considerable risk that, in the absence of an effective regulator and well-crafted concession agreement, a public monopoly could transform itself into a private one. It is important, therefore, that all port stakeholders reach an agreement on the detailed scope, responsibilities, and objectives of the reform.

**2.49 In this vein, the key step needed and likely to produce rapid and visible improvement in business operations at the port would be the introduction of a technical assistance management contract at APGB.** The primary goals of this arrangement would be to strengthen the core business functions of APGB, provide capacity building to personnel and in areas that would outlive Phase 1, and improve the availability and credibility of critical operational data. The areas for assistance would need to include port business planning, financial management, operating and technical efficiency, and human resource management, supported by the introduction of modern management tools and other needed institutional strengthening activities. In addition, the contractor could be tasked with the full development of a coherent port investment and rehabilitation strategy and a detailed plan for management reform.

**2.50 Subsequent investment phases should be left to follow the signing of a concession contract under which a potential private operator would take on significant commercial and financial risks as port operator, including the financing of the proposed new infrastructure.** Under this approach, APGB would eventually relinquish its operator role in favor of a regulatory one under a “landlord model.” The concessionaire would obtain the right to use the defined premises and assets, but would be responsible for the entire structure, including all investments, operations, and maintenance works. In addition, the concessionaire would pay rental charges to APGB for the rented land, the buildings and the existing equipment, as well as a revenue-based concession fee that has been negotiated in advance. APGB, for its part, being released from its function as an operator, would then be able to concentrate on activities such as price surveillance, service quality monitoring, etc.

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<sup>24</sup> Moreover, unless the issue with TERTIR is addressed rapidly, a new concessionaire would also view additional risks in the potential legal liabilities associated with the earlier attempt to concession the port.

**2.51 At least three critical steps would need to be undertaken in making the transition to this new regulatory and institutional structure:**

- First, the basic legislative documents that will enable the government to implement this reform will cover both the establishment of a PPP legal framework and the adoption of revised port economic and technical regulations.
- Second, a bottom-up review of the port tariff structure will be needed in order to adopt a proper financing transfer mechanism between the concessionaire and the landlord, Port Authority, and secure the financial solvency of both.
- Third, the concession of the port may require a personnel right-sizing exercise that will need to be carefully assessed, adequately financed, and implemented ahead of the actual tendering of the concession to lower the perceived level of risk associated with this operation.

**2.52 Although the challenges are formidable, rehabilitating the port of Bissau is possible and promises considerable economic gains.** A study conducted in 2010 has confirmed that both investments outlined above would yield financial and economic rates of return sufficient to justify both government and donor financial support to the port rehabilitation process (including through on lending to APGB) and also generate private sector interest. For an exporting nation such as Guinea-Bissau, having access to a functioning and cost-efficient port is critical.

### **PART III: ROADS**

#### **6. BACKGROUND AND KEY ISSUES**

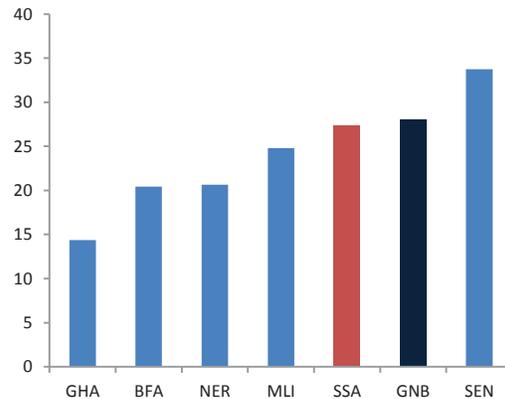
**2.53 Guinea-Bissau has a road network spanning 2,755 km.** Most of the road network is located on the mainland, while the islands have only 79 km, less than 3 percent of the total. There is no railway system in the country, so roads are the main infrastructure enabling transport. Cashew is produced across the country and the ability to deliver cashew kernel to the port of Bissau for export is critical for farmers' ability to sell their produce and earn a living. The same holds for producers of other traded commodities, including rice, timber, and others. The ability to ship goods across the country and especially to the port of Bissau is crucial for the market to function. A poor road network hampers the efficient flow of goods but also labor, distorting the market. It also inhibits people's ability to access basic services, including schools and hospitals. Finally, if access to other parts of the country, especially the port of Bissau, is limited, producers have an increased incentive to trade their goods across the borders with Senegal or Guinea. In the case of cashew, this can result in an increase in an already noticeable propensity to smuggle, resulting in considerable revenue loss to the government.

**2.54 Only 28 percent of roads are paved.** The road network of Guinea-Bissau roughly compares to regional standards. In terms of the coverage of paved roads, the country is at the sub-Saharan African average (Figure 32). However, this information is based on DENARP II and thus is over five years old. The DENARP II refers to a number of road rehabilitation projects in the period 2004-2009, including strategic connections with neighboring countries (with Ziguinchor in Senegal and Banjul in The Gambia), including the construction of bridges. However, the quality of roads is likely to have deteriorated over the past years and farmers report considerable constraints in marketing their goods, especially during the rainy season when roads are flooded or even washed away. This is especially true for secondary and tertiary roads, which are in particularly bad condition. Yet these are the roads that connect rural areas, and in particular the poorest populations, to markets.

**2.55 Underinvestment in the road network is a major problem.**

Traditionally, the Bissau-Guinean government has had limited resources to invest in roads. Most investment in this sector is supported by donors. As Official Development Assistance (ODA) collapsed in the aftermath of the 2012 coup, no resources were available to invest in roads, be it for new investments or maintenance. Although the exact extent of this recent underinvestment is currently unknown, experience suggests that this has taken a major toll on roads and their vital role as economic arteries. As donor assistance resumes following the successful election of 2014, roads should be a key area of engagement, covering both strategic corridors and rural roads. Through a Community-Driven Development (CDD) project, the World Bank is already supporting selected communities in rehabilitating roads. By November 2013, an additional 11,250 people in participating communities gained access to an all-season road as part of the project. While investment in the primary network is better left to professional companies, CDD projects have considerable potential for rehabilitating secondary and tertiary roads.

**Figure 32: The amount of roads paved compares to the Sub-Saharan African average, however they have deteriorated in recent years**  
(roads paved as percent of total road network)



Source: DENARP II, WDI and World Bank staff calculations.

## 7. RESEARCH AND INVESTMENT

**2.56 Establishing the need for investment in the roads sector is an urgent priority for the new government.** It will be important to establish the effect on the road network of underinvestment since the latest coup and prioritize investments. Donor support will be vital for the construction and rehabilitation of roads, while the case is likely to be particularly strong for rehabilitation. In the meantime, CDD projects can make a considerable difference to communities, identifying and removing key infrastructure constraints in the roads sector, in cooperation with donors and NGOs.

**2.57 Guaranteeing domestic financing for road maintenance will be crucial going forward.** Guinea-Bissau's budget is small and almost all capital expenditure has traditionally been financed by donors. However, to make the sector sustainable, it will be important to devise a system that will allow the government to become fully responsible for maintaining the country's road network. A road fund already exists, collecting as much as CFAF 1 billion (approximately US\$2 million) per year. The road fund is fed by a share of the tax on fuel products, as well as by charges to vehicles using roads and bridges in the country. However, in the past there was evidence of financing of current expenditures unrelated to roads. The road fund will thus likely need to be strengthened. Finally, institutions in charge of road maintenance are likely to need strengthening to ensure better monitoring of construction and rehabilitation works.

## PART IV: TELECOMMUNICATIONS

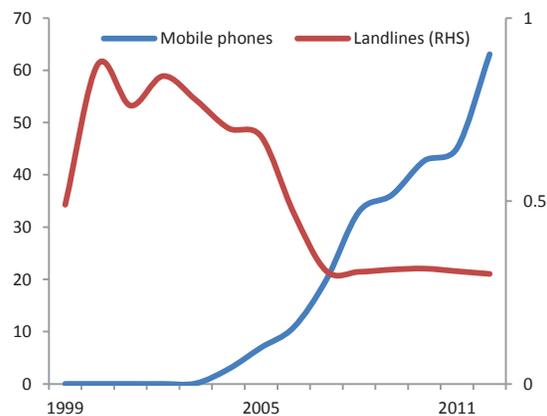
### 8. BACKGROUND AND KEY ISSUES

**2.58 With a low penetration rate, the potential of telecommunications as an engine of economic growth remains largely untapped.** In 2012, the contribution of the telecommunications sector revenue to GDP was only 1.7 percent, compared to an African average

of about 7 percent.<sup>25</sup> The small contribution of the telecommunications sector to economic growth comes from the fact that the telephony (fixed and mobile) and broadband markets remain underdeveloped (Figure 33). The penetration rate of landlines is low by any standard, while mobile coverage is only slightly below the regional average.<sup>26</sup> The case of broadband Internet is of particular concern, lying in the range of 0.1 percent, while it is estimated that less than 3 percent of the population used the Internet in 2013 (Figure 34). The main factors explaining the underdevelopment of the telecommunications sector include: (i) the energy problems that result in high production costs for operators; (ii) the lack of fiber connectivity at the national and international level; and (iii) the technical and financial bankruptcy of the incumbent, Guine-Telecom, and its mobile subsidiary, Guinetel, which ceased all activity in early 2014, thus reducing the level of competition in the sector (only two private mobile operators in the market place).

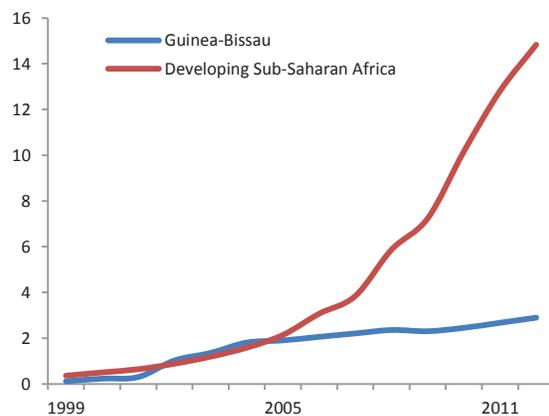
**2.59 Development of the telecom sector has been slow.** In recent years, the provisional government of Guinea-Bissau had initiated measures to develop the telecom sector and it remains a priority under the new government’s 2014 *Programa de Estabilização e Desenvolvimento*. However these measures have not been implemented. First, in 2008, the government initiated a restructuring process of the incumbent operator with technical assistance and financial support from BOAD and Ecobank, with a loan of US\$14 million. This funding was mainly used to finance wage arrears, lay-offs of a number of officials (some of whom have since returned), and tax arrears, but it failed to finance investments to revive the company’s activities. This technical assistance led to the publication of a call for tenders in preparation for the privatization of Guinetel and Guine-Telecom, but was interrupted after the coup of 2010. Second, while Guinea-Bissau is the only country on the African coast not connected to a submarine cable, the government contacted the ACE consortium in 2011 to initiate a connection project and construction of a landing station. However, the lack of funding and political uncertainty that has long weighed on Guinea-Bissau are factors that have hindered the realization of such a project, which is currently in abeyance.

**Figure 33: Mobile phone subscriptions increased dramatically while landlines are rare**  
(mobile phone subscriptions and landlines per 100 people)



Source: World Development Indicators.  
Note: Due to multiple SIM-cards per user (1.97), the actual penetration rate for mobile phones is closer to 36 percent.

**Figure 34: The Internet revolution has not yet taken off in Guinea-Bissau**  
(internet users per 100 people)



Source: World Development Indicators.

<sup>25</sup> World Bank Bank staff estimates drawing on data from on GSMA, 2014 and MTN Bissau.

<sup>26</sup> See Figure 17 of chapter 1.

2.60 **Landlines are almost non-existent.** The fixed telephony market—very limited due to the gradual deterioration of the copper infrastructure—came to a standstill following the technical and financial bankruptcy of the incumbent Guine-Telecom and its mobile subsidiary Guinetel in January 2014, reported four months ago. The last inventory provided by the management of Guine-Telecom and Guinetel in May 2014 indicates:

- A copper network of 4,000 lines, including 2,000 active lines (compared to 11,000 lines in 2000);
- A mobile network of 27,000 subscribers (which has now been picked up by MTN and Orange-Bissau) served by 47 sites;
- A staff of 170 employees (two employees per site, with the remaining staff in the administration);
- A net loss registered for six years;
- Government arrears estimated at US\$45 million, accumulated since 1997.

2.61 **The restructuring process of the incumbent, initiated in 2008 and supported by a US\$14 million loan from BOAD, did not yield any structural improvement but increased government indebtedness (to US\$20 million today).** The privatization scheme under consideration included the sale of 80 percent of the incumbent’s stake to the private sector, strict pre-selection criteria (e.g., recognized expertise in managing a network of more than 500,000 subscribers), and required the adoption of a decree authorizing the privatization of the group. The decree was adopted in early May 2014, but the outcome of the restructuration process is unpredictable in the current political context.

2.62 **The mobile telephony market concentrates most of the telecommunications sector activity, with 1.04 million subscribers at the end of 2013.** This corresponds to a 66 percent penetration rate, where 99 percent of subscriptions are prepaid. After the bankruptcy of Guinetel, partly caused by the high operational cost of electric generators on its 49 sites (27,000 mobile subscribers), the mobile telephony market now comprises only two operators: MTN and Orange-Bissau entered the market in 2004 and 2007, respectively. The two companies’ market shares are about equivalent today. There is a certain degree of competition (lower prices, increasing demands, and investment programs) between the two operators, which contest the first place, recently obtained by Orange following the capture of part of MTN’s subscribers.

2.63 **Today, the growth of the mobile telephony market is stalled by problems of quality of service caused by a critical energy situation.** They translate into high operational and investment costs, and in turn lower affordability. This results in a paradoxical situation whereby, despite good geographical coverage of the country (90%), some regions record very few subscribers.

- **High operational and maintenance costs of sites.** Despite an up-to-date legal and regulatory framework (a 2010 law), infrastructure sharing is not widespread. Orange-Bissau (with 95 sites) and MTN (with 110 sites) do not share any common sites and support significant operating costs related to power supply and security (one security guardian per site) of their respective installations. Electricity accounts for 60 to 70 percent of operating costs for operators; it is produced by power generators that require fuel (purchase and transport of fuel) and regular maintenance (including imports of spare parts). For these reasons, sites located in the most remote regions, where customer density is the lowest, face maintenance problems that affect their functioning and the quality of the network.
- **Affordability.** Outside Bissau, the purchasing power of households is lower, and electricity problems are exacerbated (the state-owned enterprise EAGB only operates in Bissau, and costs of fuel transport are higher outside of this city). Under these conditions, the mobile phone is less widespread in the country’s rural regions than in the capital. In fact, Guinea-

Bissau is characterized by a relatively high number of SIM cards per user, meaning that there are only 527,000 unique subscribers (i.e., a 36 percent penetration rate), most of whom are based in Bissau.

2.64 **The prices of mobile subscriptions are too high for most Bissau-Guineans.** As an illustration, in 2012, the country's gross national income (GNI) per capita was US\$510. Given that the average monthly revenue per subscriber of the telecommunications sector (all operators included) was US\$8.1 in 2013, this means that subscribers spent 19 percent of their monthly income on telecommunications services. This proportion is very high when compared to that of other countries in the region: the same ratio is 14 percent in Côte d'Ivoire, 12 percent in Senegal, 9 percent in Ghana, and 4 percent in South Africa.<sup>27</sup> In Guinea-Bissau, the high price of telecommunication services is mainly due to significant operation costs supported by operators and caused by critical electricity problems. Telecommunications operators do not rely on the electricity produced by EAGB and have to develop their own power network by relying on very costly generators (due to fuel, maintenance, and security costs). Any improvement in the power sector in Guinea-Bissau would significantly reduce the operation costs of telecommunications operators, which would allow for price reduction and higher levels of investment, eventually increasing penetration of services.

2.65 **The broadband market, concentrated in the capital, is nascent, with a penetration rate of around 0.1 percent and a usage rate of less than 3 percent in 2013.** Orange-Bissau enjoys a virtual monopoly since 2011, despite the presence of MTN and Eguitel (a local Internet service provider [ISP] licensed in 2001 relying on satellite connectivity). While Orange-Bissau uses WiMAX technology to provide its services, MTN essentially uses the GPRS (i.e., 2.5 G), but started developing Wi-Fi access that offers better quality of services.

2.66 **Orange-Bissau owes its lead in the broadband market to its connection to the terrestrial optical fiber networks owned by Orange's other subsidiaries in Guinea (via Conakry) and Senegal (via Ziguinchor).** Despite the presence of MTN in both countries, terrestrial connections are not as developed as those of Orange and rely on less reliable and more expensive microwave networks (more than 20 connecting points [BTS] per regional corridor) compared to Orange's optical fiber networks. MTN is also partly relying on expensive satellite connectivity. Today the operator aims to strengthen its presence in the broadband market and is considering an investment plan for 2015.

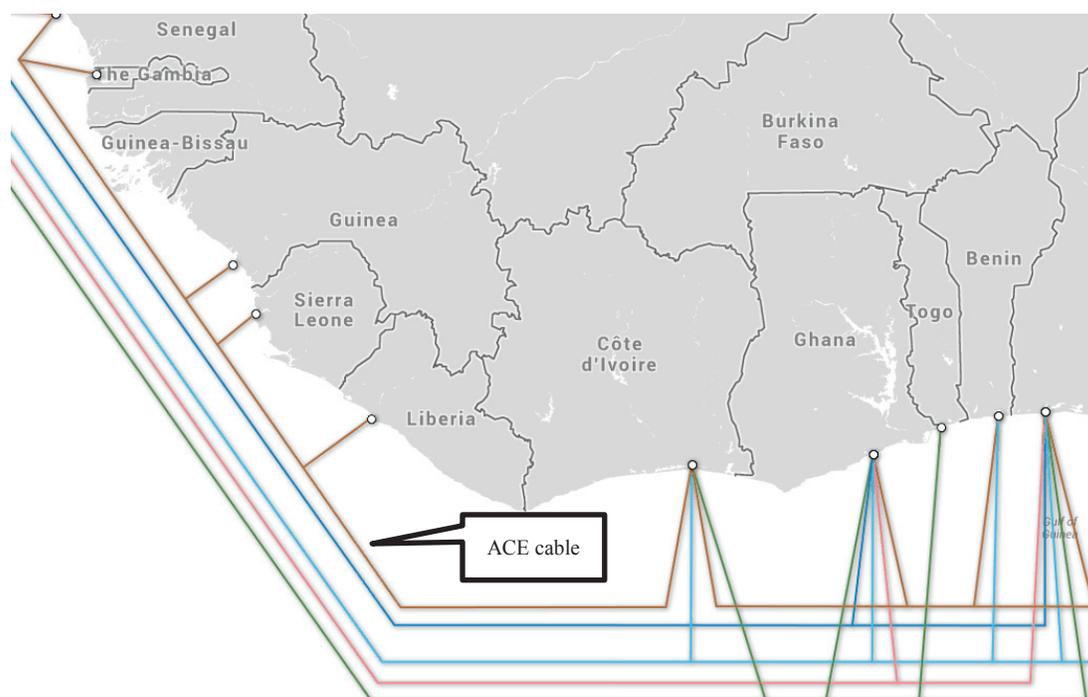
2.67 **Guinea-Bissau is the only country on the African coast not connected to a submarine cable** (Figure 35). The government is in contact with the ACE consortium, which estimates the investment cost at around US\$35 million, depending on the geographic location of the landing station. However, the lack of funding and the political uncertainty in Guinea-Bissau hinder the project's materialization.

2.68 **Building a submarine cable station in Guinea Bissau could be considered as an expensive option for international connectivity** compared to terrestrial cross border connections with neighboring countries having already such infrastructure in place. The connections could be set up through a combination of private sector investment and access to excess fiber capacity deployed alongside the electricity grid.

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<sup>27</sup> Source: GSMA, "Sub-Saharan Africa Mobile Economy2013," online publication accessed 2013.

**Figure 35: Guinea-Bissau is the only coastal country in the region not connected to a submarine cable**



Source: TeleGeography, Submarine Cable Map.

**2.69 Without improved access to international connectivity, Guinea-Bissau cannot expect substantial improvement in the quality and price of broadband services.** Improved access to broadband services is essential to enhance public service delivery and promote the key productive sectors of the economy, such as the power, the port, and the cashew sectors. Today, neither EAGB nor APGB use IT and broadband services in their production process, which creates a significant shortfall in terms of productivity gains. Computerization and the use of the Internet are also key to improving governance and easing the transition towards a digital society. E-government services, open-data initiatives, and social networking tools have the potential to enhance citizen engagement, promote social inclusion, and create opportunities for employment, entrepreneurial activities, and social development.

**2.70 Regulation of the telecom sector is performed by ARN (formerly ICGB), which has initiated a number of policy actions to promote the development of the telecom sector:**

- A law was enacted in 2010 to encourage infrastructure sharing (of sites) between operators. Despite this positive development, MTN and Orange-Bissau do not share any site and do not intend to. Today, operators are not willing to share sites, fearing anti-competitive behavior on the part of their competitors, and pretext difficulties of a technical and managerial nature. The use of tower companies, a common practice in more and more countries, is an option in which operators in Guinea-Bissau have a real interest.
- Following requests from operators, the regulator authorized MTN and Orange-Bissau to launch, in January 2014, 3G pilot projects through the attribution of experimental licenses. This initiative aims at progressing toward the introduction of 3G, which will require that the government defines and launches a 3G license award strategy.
- The regulator asked operators to record the identity of their subscribers within a year (whereas, to date, SIMcards could be purchased without presenting personal identification).

- The Universal Service Fund (FSU) was created three years ago and has received financial contributions from operators who pay 1 percent of their annual turnover for the operation of the Fund and 1 percent for the financing of projects. To date, the FSU has funded: i) the feasibility study (US\$100,000) of the ACE cable connection; and ii) the development of nine cyber cafés (operated by Orange-Bissau) in public schools (Bissau and elsewhere) through the financing of connection, equipment, maintenance, and electricity.

## 9. INVESTMENT AND INSTITUTIONAL REFORM

2.71 **There is considerable room for improvement.** Paradoxically, in spite of energy problems, lack of infrastructure and need for incumbent restructuring, the ICT sector is moving at a relatively fast pace, and citizens seem generally satisfied with the services. The introduction of competition has contributed to the improvement of service delivery, but the absence of sector strategy limits the development of connectivity, service diversification, and affordability. These are important areas of reform.

2.72 **The government adopted a plan for stabilization and development in May 2014 that provides for the following measures in the ICT sector:** i) Strengthening the institutional capacity of the Ministry of Transport, Communication, and ICT; ii) Development of a Master Plan for the ICT sector; iii) Rehabilitation, restructuring, and privatization of Guine-Telecom and Guinetel; iv) Rehabilitation, restructuring, and privatization of the Post Office in Guinea-Bissau; v) Installation of submarine optical fiber cable; vi) Installation of a national optical fiber backbone; vii) Transition from analogue to digital; viii) Transition to 3G and 4G.

2.73 **Most of these measures converge with the main recommendations of the World Bank.** In order to enable Guinea-Bissau to catch up to its neighbors, a series of measures could boost—quickly and at low cost—the development of the ICT sector and thus promote economic growth, employment, and poverty reduction while diversifying the structure of the economy.

**Today, the absence of a strategy defining the key policy reforms in the years to come limits the ability to unleash sector growth. Such reforms include:**

### Infrastructure development:

- Promote cross-sector synergies between electricity, water, and transport sectors in cases where projects aimed at rebuilding the infrastructure stock are being prepared or implemented. This implies considering developing reliable regional backbone networks by allowing access to excess fiber capacity deployed alongside the electricity grid under the regional power project WAPP/OMVG<sup>28</sup>.
- Revisiting the technical and financial feasibility of a connection to a submarine cable via a consortium of operators supported by international donors, and compare it to the WAPP/OMVG option;
- Setting up the right conditions to increase investments in national terrestrial infrastructure networks including when appropriate through PPPs between private operators and the public sector;

### Dialogue, diagnosis, and strategy:

- Establish a dialogue with operators to: i) identify the main challenges for the development of the ICT sector; ii) produce a mapping of existing networks; and iii) discuss possible solutions

<sup>28</sup> French acronym for *Organisme de Mise en Valeur du fleuve Gambie*.

to improve access to existing infrastructure and deploy new infrastructure in underserved areas (including through PPPs). This dialogue, which has two dimensions, should be coordinated by the Ministry of Transport and Telecommunications and facilitated by the ARN: multi-sector (road, water, electricity) and regional (by integrating regional networks and projects, including the power OMVG project).

- Conduct a survey to identify the main obstacles to providing broadband access to households and businesses.
- Conduct a review of the existing taxation system in the ICT sector (including telecommunications and broadband).
- Develop a national plan for the development of telephony and broadband, specifying the objectives and proposing an action plan for the next five and 10 years.

#### **Regulation and competition:**

- Increasing competition through the restructuring of the incumbent (GuineTelecom / GuineTel) initiated in 2008.
- Consider a capacity-building program for ARN, including the establishment of a sector observatory;
- Implementing an up-to-date legal and regulatory environment: the all legal-regulatory-institutional framework needs to be strengthened
- Enforce the regulation for infrastructure sharing between operators (Bitsream, local loop unbundling);
- Award new licenses: infrastructure operator (e.g., tower companies) licenses; fixed licenses, ISP, 3G licenses.

**2.74 Developing the ICT sector in Guinea-Bissau holds considerable promise.** Reform of the energy sector will be critical to facilitate the growth in ICT. In a modern world, mobile phones and Internet have become indispensable, both to households and businesses. In many African countries, mobile phones enhance the welfare of households by channeling cash, be it from the diaspora or the government. They connect business people even across the most difficult physical environments. The Internet connects companies to suppliers and consumers and enhances the efficiency of their operations. It has empowered people around the world, with social media services being the main coordination tool for democratic movements, as witnessed during the Arab Spring and elsewhere. Guinea-Bissau has much to gain from boosting ICT. Considerable investments and reforms of the ICT sector will be necessary. One of the main constraints, however, lies in having an insufficient supply of electricity.

**2.75 Restructuration and investment needs in the telecommunications sector also exist in the port and power sectors.** While these three areas are interdependent and are equally vital for economic development, the coordination between their programs of restructuring and investment should be maximized. EAGB could allocate an increasing proportion of its electricity production to APGB and Guinetel (and Guine-Telecom), so as to lower the energy costs of these two companies, improving their added value and generating margins required for investment in the rehabilitation of existing facilities. Guinetel could provide ICT services to APGB and EAGB to improve their administrative management and streamline the chain of production, distribution, and billing of these two companies to enable them to increase and expand their business activities. Trade agreements could be established between these three public entities, which offer services to one other. This chapter has provided recommendations on how to address constraints, and others, to plug the infrastructure gaps that can propel the country onto a more dynamic development path.

2.76 **Donors that are preparing to re-engage in Guinea-Bissau should maximize synergies and strengthen multi-sector coordination.** In this sense, it seems urgent to provide the Coordinating Unit, which operates under the aegis of the Ministry of Infrastructure, with the necessary means for supporting infrastructure projects (mainly energy and water), enabling it to liaise with the transportation and telecom sectors. In addition, the establishment of a centralized file listing planned civil works associated with infrastructure projects seems essential in promoting sector synergies.

## CHAPTER 3: PRIVATE SECTOR DEVELOPMENT AND FINANCE

### 1. INTRODUCTION

3.1 **Enabling the emergence of a dynamic private sector in Guinea-Bissau is a necessary condition to reignite economic growth, reduce poverty, improve food security, and reduce the risk of political instability.** Fostering robust private-sector development in the productive is critical for reducing extreme poverty. Ensuring private sector driven growth is a fundamental challenge to reduce the risk of conflict resurgence. Promoting a private sector that can reach external markets can be an enabler of job creation, especially for the youth. In a small country with current limited space to expand local consumption, it is critical to diversify into nearby sub-sectors with potential to reach external markets.

3.2 **The country's private sector is yet to be developed.** The economy is largely informal with a considerable degree of subsistence farming. The challenge will be to enable investments that can generate value-added to the economy, more jobs, and higher wages. As chapter 1 argues, and especially in a fragile state, a more vibrant sector is important for the poor to move out of poverty where little support can be provided by the government. In addition, a stronger private sector will be in a better position to hold government accountable, resulting in partnership between the public sector and the private sector. This may, in turn, foster stability.

3.3 **Guinea-Bissau's economy is very dependent on the agriculture and public sectors.** The country is reliant on natural resources, principally agriculture and fisheries, and within agriculture, exports of raw cashew nuts are the dominant sector. Chronic poverty is most entrenched in rural areas. Agriculture represents the primary source of income for 85 percent of the population, and provides the livelihood for the overwhelming majority of the poor. Thirty percent of the extreme poor self-report as being unemployed. Even for the economically active, incomes are low and volatile. Of the 30 percent of the labor force not engaged in agriculture, the majority is in services, mostly self-employed in commerce and transport. Only a small fraction of the labor force - about 10 percent - is in wage employment, half in small urban services, and half in the public sector. With a small domestic market and limited export-oriented ventures, the localized private sector is highly dependent on the public sector's consumption and investments. This factor has had significant effects on the structure and dynamism of the private sector.

3.4 **The country needs to take a set of actions in developing the financial and private sectors.** Part I of this chapter will provide an overview of the main constraints impacting private sector investment in Guinea-Bissau and will identify policy recommendations for unleashing the potential of these investments.<sup>29</sup> Part II of the chapter focuses on the financial sector, a critical component for spurring economic development and integrated growth. It will provide policy recommendations for the deepening of the financial sector with a particular focus on access to credit, highlighting the potential role of micro-finance institutions.

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<sup>29</sup> It should be noted that data availability for this chapter is relatively scant, with the most recent data often only available for 2006. However, there is little evidence that the messages drawn from the analysis of these data have changed dramatically in recent years.

## PART I: PRIVATE SECTOR DEVELOPMENT

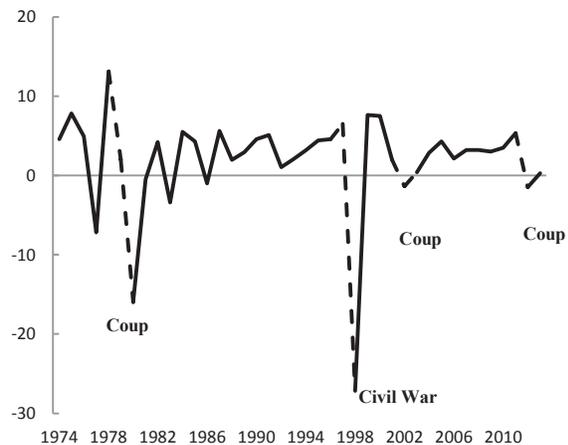
### 2. CHALLENGES AND SOLUTIONS

3.5 **The challenges to private sector development in Guinea-Bissau are considerable.** They can be grouped into six areas: (i) political instability; (ii) poor infrastructure; (iii) a poor regulatory environment; (iv) limited access to finance; (v) low productivity and relatively high labor costs; and (vi) the lack of economic diversification. Removing these challenges will be key for entrepreneurs to pursue economic opportunities, creating jobs and paying better wages. Removing them is crucial for shared growth.

3.6 **Political instability has been responsible for large drops in output.**

Attempted and successful military coups, political assassinations, and civil strife have marked Guinea-Bissau's history. Figure 36 shows that successful coups and the 1998-1999 civil war account for the majority of periods of recession in Guinea-Bissau. The associated loss in output, and at times production capacity, has considerable longer-term consequences. A simple thought experiment suggests that if the country had not experienced these episodes of political instability, GDP per capita would today be at least twice as high in real terms.<sup>30</sup> The uncertain—or even physical destruction—political turmoil creates, increases risk aversion of local entrepreneurs and foreign investors alike. Donors, on the other hand, withdraw their support, as in 2012. Since donor support has been vital to finance both public investment and a portion of public sector wages, the effect of donor disengagement on the economy is considerable. As chapter 1 has argued, it will take time for stability to take hold in Guinea-Bissau. Strengthening the private sector, as suggested in this chapter, is one way of supporting Bissau-Guineans in improving their livelihoods in spite of fragility.

**Figure 36: Major episodes of political turmoil have had the largest negative impacts on growth**  
(per capita GDP growth and major political shocks)



Source: WDI and World Bank staff.

3.7 **Poor infrastructure is a second major challenge for Guinea-Bissau's private sector.** As chapters 1 and 2 have shown, energy supply is a major constraint for businesses. According to the World Bank's Enterprise Surveys, about 69 percent of Bissau-Guinean firms have to rely on generators for energy<sup>31</sup>, and energy is expensive. However, poor roads, an ineffective international port, and a weak ICT infrastructure are also constraints. Chapter 2 provides recommendations that would considerably address the market constraints associated with poor infrastructure.

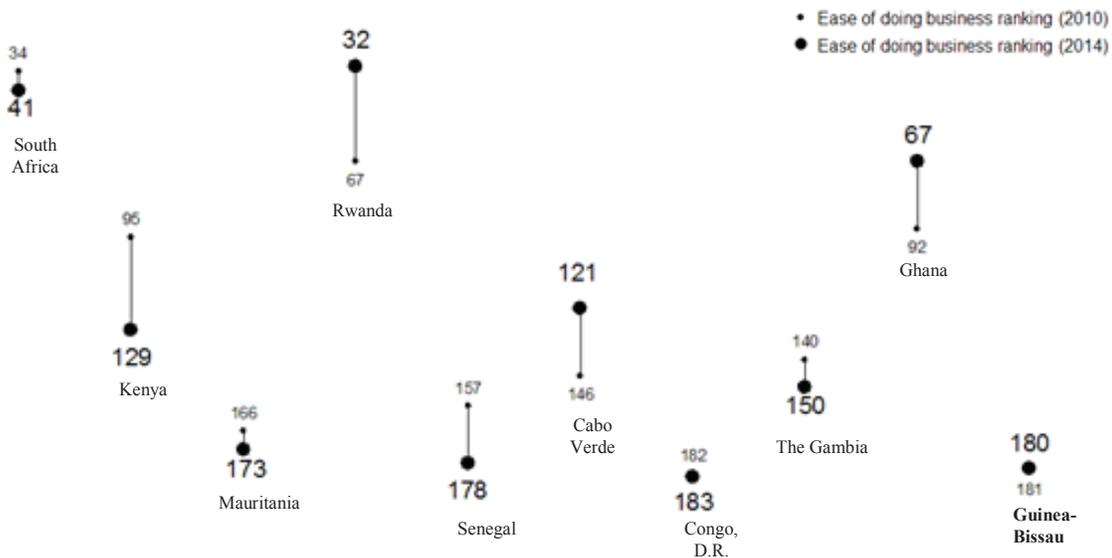
3.8 **Guinea-Bissau also has one of the worst regulatory environments worldwide for doing business.** The latest *Doing Business* report of 2014 classifies Guinea-Bissau among the world's most difficult places to do business (Figure 37). In all areas, including starting a business, dealing with construction permits, getting electricity, registering property, getting credit,

<sup>30</sup> This is based on average per capita growth of about 1 percent per year from 1982 (excluding the years of political turmoil depicted in Figure 36 from the calculation of average per capita growth).

<sup>31</sup> Latest available data are from 2006.

protecting investors, trading across borders, enforcing contracts, and resolving insolvency, Guinea-Bissau ranks among the 50 worst countries for doing business. The highest rank the country achieves is with respect to construction permits (rank 119) and trading across borders (125)—in spite of the inadequacies of the port. In addition, overall progress has been almost nonexistent: the country ranked 181 in 2010, and 180 in 2014. In contrast, during the same period Rwanda moved from rank 67 to 32, and Cabo Verde from 146 to 121.<sup>32</sup> Although the Bissau-Guinean government has made some efforts to improve the business climate before the coup in 2012, progress remains modest and given the faster pace at which other countries reform, a paradigm shift will be needed toward a more decisive reform agenda.

**Figure 37: Guinea-Bissau has barely improved its regulatory environment between 2010 and 2014—as opposed to notable progress in some other countries in Sub-Saharan Africa**



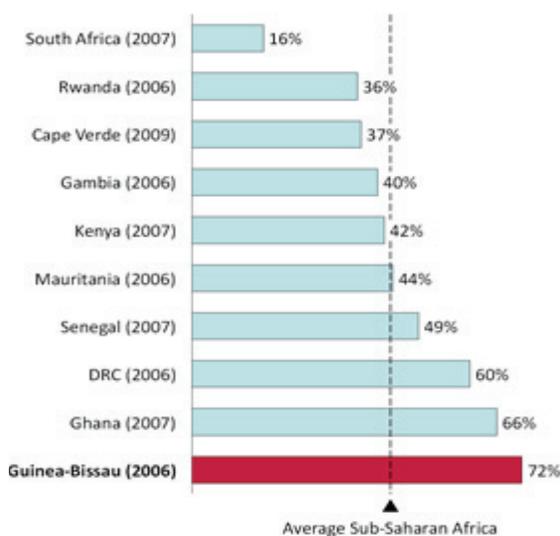
Source: World Bank, Doing Business, 2010 and 2014.

**3.9 Access to finance is a significant constraint.** Seed capital and debt financing are fundamental resources for the development of a promising business idea. In their absence entrepreneurs cannot invest, and the business idea will not grow into a viable enterprise. As explained in Part II of this chapter, the financial sector in Guinea-Bissau remains highly underdeveloped,<sup>33</sup> making access to finance—especially starting capital—a key obstacle facing entrepreneurs. In fact, the latest data from the World Bank Enterprise Surveys (from 2006 for Guinea-Bissau) show that 38 percent of surveyed firms in Guinea-Bissau report access to finance as their major investment constraint. This figure is 44 percentage points higher than that observed for an average Sub-Saharan African economy, and more than 60 percentage points higher than that in neighboring Senegal and Guinea. If asked whether access to finance is an important obstacle (but not necessarily the major one), the figure jumps from 38 to almost 72 percent, among the highest values in the world.

<sup>32</sup> See Box 5 in chapter 4 on the strong vision of the Rwandan government for development, which partly manifests itself in the considerable progress on improving the regulatory environment for doing business.

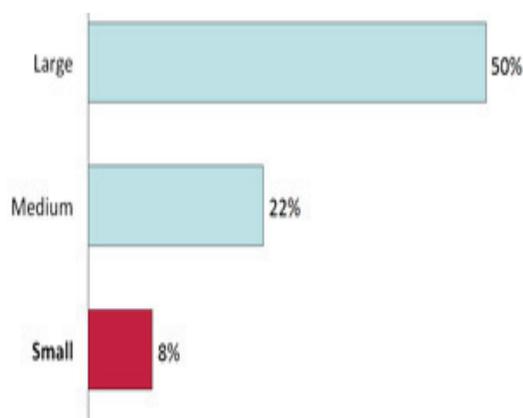
<sup>33</sup> Also see Figure 24 and Figure 25 in chapter 1.

**Figure 38: In Guinea-Bissau, access to finance is a severe constraint for businesses**  
(percentage of firms identifying access to finance as a major obstacle to doing business)



Source: World Bank Enterprise surveys.

**Figure 39: Access to finance is particularly a constraint for small businesses**  
(percentage of firms having requested a loan, by firm size)

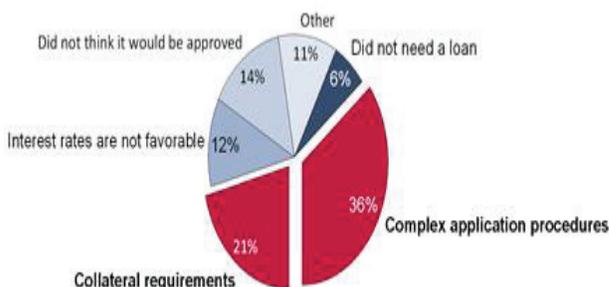


Source: World Bank Enterprise surveys (2006).

**3.10 Financing is a constraint especially for small firms.** The lack of access to capital in Guinea-Bissau affects mostly small companies: according to the data from the Enterprise Survey, only 8 percent of them requested a loan (Figure 39). This percentage is significantly lower than the one observed for large companies (50 percent), and seems to be explained by the lack of capacity of small companies to navigate through the complex application procedures and to have the required collateral. Indeed, the lack of collateral was the main reason given by financial institutions to deny credit in two-thirds of the situations (Figure 41).

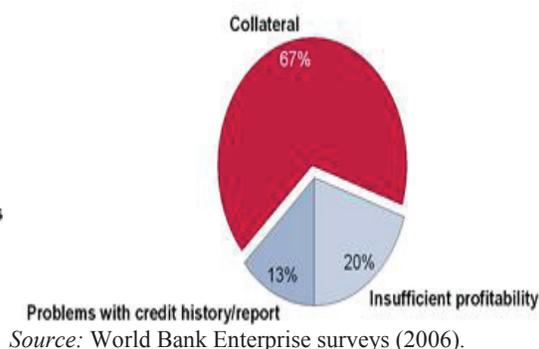
**3.11 Guinea-Bissau's labor market is characterized by low productivity and relatively high labor unit costs.** In spite of the low wage levels (Figure 42), relative unit labor costs are high when compared with other countries (Figure 43). Labor cost amount to 54 percent of value added for the median firm in the country, higher than the level observed in South Africa (41 percent), and much higher than the levels in Kenya (24 percent) and the DRC (32 percent).

**Figure 40: Complex applications procedures are among the main reasons as to why firms do not apply for credit in Guinea-Bissau...**  
(reasons for firms not to apply for a loan, percent)



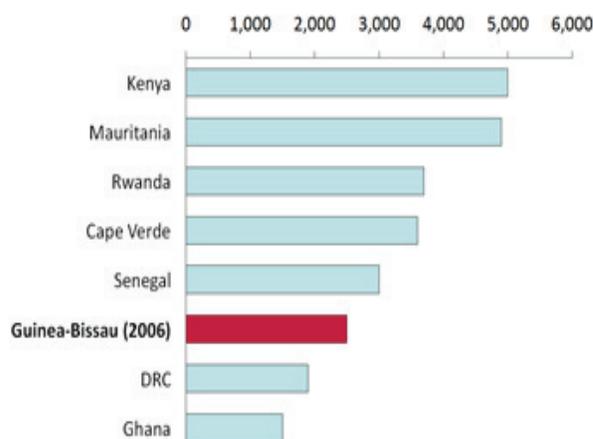
Source: World Bank Enterprise surveys (2006).

**Figure 41: ... and a lack of collateral is the main reasons for their applications being turned down**  
(reasons for loans to be rejected, percent)



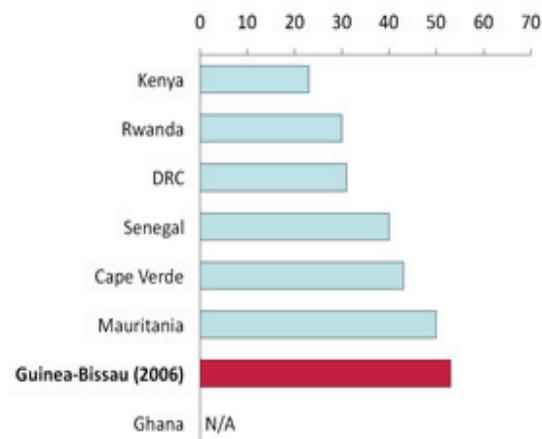
Source: World Bank Enterprise surveys (2006).

**Figure 42: Median wages are relatively low in Guinea-Bissau...**  
(median wages per worker, in PPP terms)



Source: World Bank Enterprise surveys (2006).

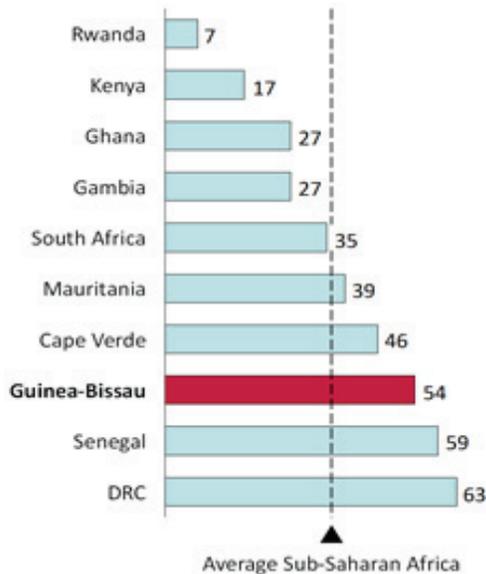
**Figure 43: ... but due to low productivity unit labor costs are high**  
(unit labor costs, ratio of wages to value added)



Source: World Bank Enterprise surveys (2006).

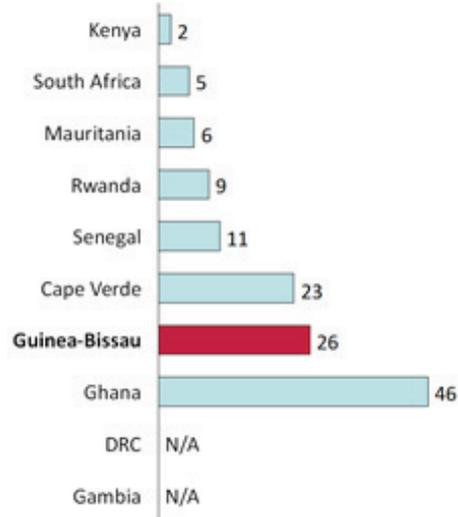
3.12 **One reason that may help explaining the low productivity in Guinea-Bissau is that the country's labor markets tend to be among the most rigid in Africa** (Figure 44). Low productivity implies a relatively high unit labor cost; even though wages in Guinea-Bissau are low by many standards, they are relatively high measured by the amount of value added produced per worker. The government sets minimum wage rates for all categories of work and a maximum 45-hour working week has been introduced. Fixed-term contracts are not allowed for permanent tasks, and the maximum length of fixed-term contracts (including renewals) is just 12 months. Severance pay for redundancy dismissal, at 26 weeks of salary, is among the highest in the region (Figure 45).

**Figure 44: The Bissau-Guinean labor market is relatively rigid...**  
(rigidity of employment index (higher is more rigid))



Source: World Bank Doing Business.

**Figure 45: ... with high firing costs being one disincentives for firms to hire into formal jobs**  
(severance pay for redundancy dismissal, weeks of salary)



Source: World Bank Doing Business.

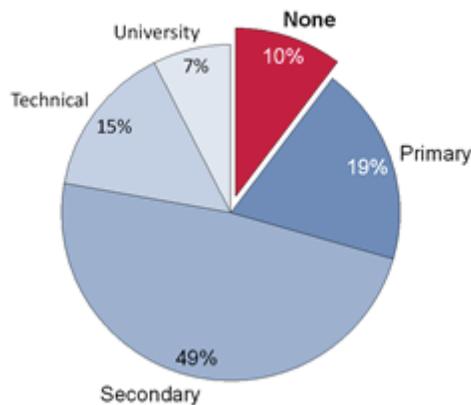
3.13 **Rigidity in the labor market affects companies' decisions to hire but also whether or not to restructure**, thus reducing incentives for formally hire workers and also for enhancing firm productivity through restructuring. It is important to note that several firms do not declare a large percentage of their workers to the government and that there is weak capacity to enforce regulations. In fact, according to data from the Enterprise Survey, firms in the manufacturing sector declare only about 72 percent of the workforce; in the retail sector the figure is 70 percent and in other sectors is 68 percent. This is to avoid the heavy burden imposed by regulation, presenting a case for the law to “catch up” with practice.

3.14 **A major cause for the rigidity of the labor market is obsolete laws.** These laws represent a heritage of the past: the current labor law is 22 years old and predates even the Constitution. Labor laws are overly restrictive, with some of the most problematic issues being (i) obligatory registration of workers with the labor inspection directorate; (ii) obligatory annual submission of a personnel list to the government; and (iii) obligatory review of all employment contracts by the government. Other aspects include (iv) conditions regulating fixed-term work contracts; (v) the need for prior authorization before implementing lay-offs; and (vi) conditions that regulate performance payments (linked to individual workers' output). It will be vital to overhaul the labor laws for a more modern legal code to govern the labor market.

3.15 **A second reason that helps to explain the low productivity and the relatively high labor unit costs in Guinea-Bissau is the low skill level among workers.** Education levels in Guinea-Bissau are low, and companies provide limited training. For example, the proportion of workers with medium level education or with any kind of technical or vocational training is low. The figures presented in Figure 46 are only based on formal enterprises in the manufacturing sector—in agriculture, where most Bissau-Guineans work, education levels are even lower. In addition to low levels of education, the country also faces a lack of investment by companies in technical training, even though the World Bank Enterprise surveys suggest that about 50 percent of firms believe that there is a considerable skills gap. In fact, only 12 percent of the firms surveyed in Guinea-Bissau offer formal training to their workers, compared to over 43 percent in Cabo Verde, and around 31 percent on average in Sub-Saharan Africa. The existence of various

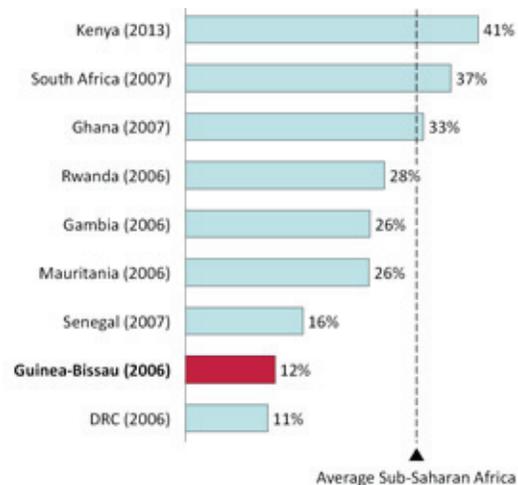
market failures, such as externalities and free-rider problems, reduce the ability to ensure that, once workers are trained by a firm, they are not “poached” by competitors. In addition, existing micro, small, and medium enterprises (MSMEs) have limited knowledge about the benefits of investing in training programs, and hence are unwilling to pay for the market value of such programs.

**Figure 46: Most Bissau-Guinean workers have a secondary education—or less...**  
(percent of employees in Guinea-Bissau by education level)



Source: World Bank Enterprise surveys (2006).  
Note: Manufacturing firms only.

**Figure 47: ... yet only few firms provide training to their employees**  
(percentage of firms providing training)

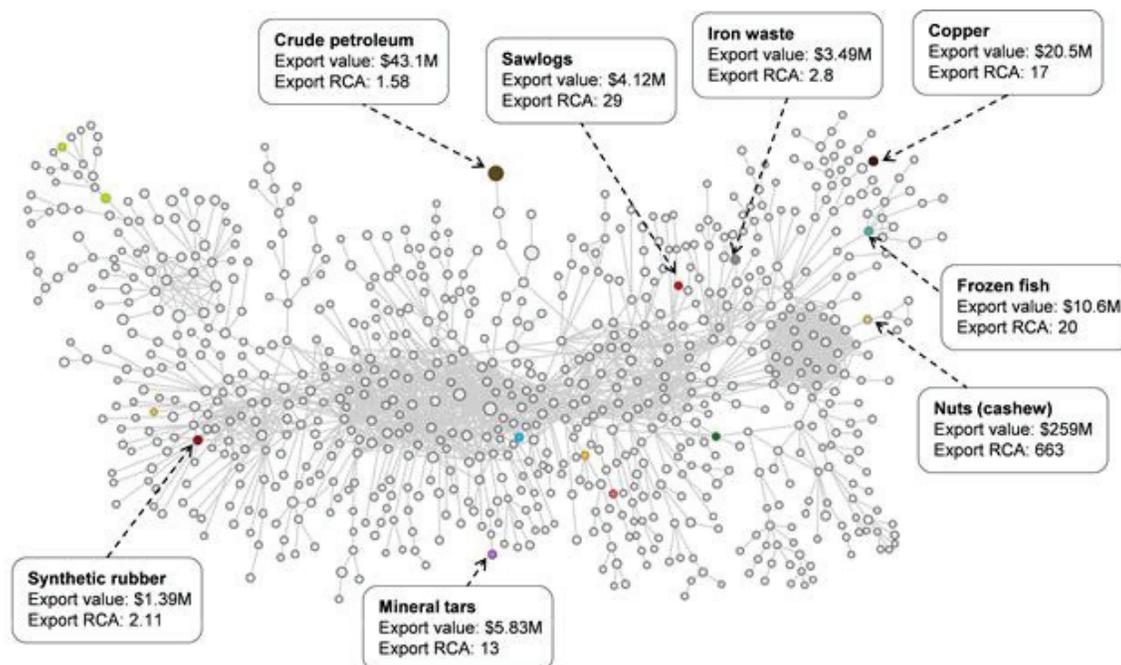


Source: World Bank Enterprise surveys (2006).

**3.16 Finally, private sector development is constrained by a relatively low level of economic diversification.** The main driver of economic growth in Guinea-Bissau is the cashew sector, which is internationally competitive and has put the country in the top five of the world’s largest exporters. The dependence on one export crop makes the country vulnerability to terms-of-trade shocks, or large-scale natural shocks such as pests. In 2012, unfavorable weather conditions negatively affected cashew production. However, in addition, Bissau-Guinean products are essentially raw materials, in other words the first rung of the value ladder. This is illustrated in Figure 48: almost all of Bissau-Guinean exports are at the fringes of the product space, serving as raw inputs to more sophisticated value chains. This makes it difficult to diversify into other products and to leverage forward and backward linkages from other sectors. Cashew is an important example in Guinea-Bissau for a raw material with considerable potential to add value through processing (see chapter 8). In fact, recent developments suggest that not only the processing of the cashew nut but also of the cashew apple for the production of beverages may become a lucrative option for export. Cashew wine is already consumed domestically in Guinea-Bissau; yet international companies, including Pepsi and Tropicana, are probing into the production cashew-based soft drinks.<sup>34</sup>

<sup>34</sup> Strom, S. (2014) Cashew Juice, the Apple of Pepsi’s Eye, *The New York Times*, August 8.

**Figure 48: There are no major linkages between economic activities in Guinea-Bissau**  
(product space: nodes represent export products and lines indicate potential linkages between products)



Source: The Observatory of Economic Complexity, 2014.

Note: Based on 2011 goods export data.

3.17 **This CEM explores some potential areas for diversification. Yet the private sector is best suited to identifying new opportunities.** Part II of this CEM looks at rice, fishing, extractive industries, and tourism as potential growth poles in addition to processing of cashew sector. However, there may be other opportunities. Incentivizing entrepreneurs to venture into new sectors by improving the conditions for economic activity—including a better infrastructure and a more business-friendly regulatory environment, less rigid labor market law, matching training programs with needs of employers, improved access to finance, and investments in skills—can encourage the emergence of new business sectors and enhance economic diversification. Attracting foreign investors, including from the region (see chapter 5), holds the promise of financing as well as new technologies and expertise.

3.18 **Some progress on the private sector development agenda was made before the 2012 coup.** In January 2010, the Council of Ministers approved a declaration emphasizing the importance of simplifying the business environment in order to promote private sector development. A process of consultations and discussions followed the declaration, in order to generate a consensus about a roadmap to simplify the formality to register a business. Two decrees approved in March 2010 set the institutional basis to create a one-stop-shop, with the goal of simplifying the process to create a business. With the implementation of the one-stop shop in 2011, the time to register a business was reduced to nine days in 2013 from the estimated 213 days in 2010 and, in the same period, the cost dropped from 183.3% to 45.5% of GNI per capita. In 2011, the government devised an action plan identify and remove further impediments to private sector development. Yet the momentum of reform was interrupted by the coup of 2012. The new government now has an opportunity to resume the private sector development reform agenda. Rwanda may serve as one example of a country, also affected by fragility, which became the top reformer captured by the World Bank's Doing Business rankings (Box 3).

### **Box 3: Rwanda: Champion of private sector development reform**

The 1994 genocide in Rwanda caused the death of up to one million people—around 15 percent of the population—and the dislocation of up to two million people to neighboring countries. During that year, economic growth decreased by 50 percent. By 1997, 70 percent of all households had fallen under the poverty line, compared to 53 percent in 1993. The government that came to power in the wake of these events faced the difficult task of rebuilding the country almost from scratch.

Yet, despite these tremendous challenges, Rwanda has made remarkable progress over the last 20 years. Life expectancy has doubled to more than 60 years. The under-five mortality rate has decreased from 230 to 55 per 1,000 children. Economic growth has averaged approximately 8 percent a year.

This progress has been achieved through the implementation of sound macro-economic policies and ambitious public sector reforms. Significant progress has been made in laying the foundations of a private sector-led economy, and to position Rwanda as an emerging services and logistics hub in the region. In fact, according to the 2013 DB report, “Rwanda is among more than 35 economies where the executive branch has made private sector development a priority by establishing institutions whose main purpose is to design and implement business regulation reforms.”

A few examples illustrate the measures taken by the government to develop the private sector:

- **Involvement of business leaders in the definition of policies and strategies to achieve the country’s vision.** For instance, a National Leadership Retreat is institutionalized whereby one week every year, governmental and business leaders pool their competencies in an effort to reflect on how development strategies can be realigned to achieve more tangible results in reducing poverty.
- **Improvement of access to credit.** According to several Doing Business reports:
  - In 2005, the public credit registry expanded its database of financial institutions and improved the content of its credit reporting system.
  - In 2010, the legislature passed a law regulating the distribution of information from credit bureaus. This led to the creation of the country’s first private credit bureau, which provides wider coverage than the public registry because it includes information from utilities. In addition, the public registry expanded coverage to loans of all sizes.
  - In December 2011, the public registry stopped issuing credit reports, and now only the private bureau shares credit information. The public registry still collects information from regulated financial institutions but only for supervisory purposes.
- **Reduction in the time to start a new business.** In 2006, hundreds of new notaries were introduced to make starting a business faster. In 2009, entrepreneurs no longer needed to use the services of notaries; an overhaul of company law allowed the use of standard forms instead, and an online system for publishing a company’s registration notice replaced requirements for physical publication
- **Facilitation of trade between borders.** Electronic customs declarations were introduced in 2005 and the customs authority reduced the waiting time for submission by introducing more acceptance points for customs declarations in 2007. Furthermore, the Rwandan government extended operating hours for border posts in 2008 and implemented an electronic data interchange system and risk-based inspections.

3.19 **The development of the private sector in Guinea-Bissau would benefit from a focus on three pillars:** (i) implement reforms to improve the business-enabling environment, including access to finance and mitigating the impact of political instability; and (ii) introducing interventions that can help develop the export capacity of a diversifying economy.

3.20 **First, the country would benefit by focusing on implementing reforms to achieve a business-enabling environment.** One crucial entry point for private sector development in many fragile states like Guinea-Bissau are Business Enabling Environment (BEE) measures targeting regulatory reforms, public sector capacity building, access to finance, legal setting enhancement, and trade facilitation. Improving the BEE means reforming the interface between public administration and private sector. These reforms have a double role of spurring private sector investment while reinforcing the “political capital” of public institutions vis-à-vis the general population, currently at a low level. Private sector investment should be targeted at sectors in which the country is already a strong exporter (for example, cashew), but should also encourage investment in other sectors of the economy.

3.21 **Second, economic growth should be promoted by improving productivity with a focus on exports, and by increasing the breadth of sectors that make significant contributions to the economy.** In a context of limited skills and weak entrepreneurial capacities, the reforms and simplification of the business environment suggested in the point above are necessary but not sufficient conditions for promoting the development of the private sector. Indeed, the existence of large distortions and important needs in terms of regulatory reforms at the macro level should not overshadow the need for micro-interventions to improve the technical, managerial, and entrepreneurial skills of the country, as well addressing problems in accessing finance and other constraints to firm development. These types of interventions have the additional benefit of being relatively insulated from political instability. In addition to focusing on improving productivity, the country would also benefit by seeking an increase in economic diversification, as this would create more room for growth, and would hedge the risks associated with relying on a single agricultural product.

### 3. RECOMMENDATIONS

3.22 **Improving infrastructure and investing in government capacity will be important.** Interventions in these areas are described in more detail in chapter 2 and 4 respectively. While infrastructure can be improved, especially by leveraging donor resources (chapter 5), the yields for political stability from improving governance will take time. As chapter 1 has argued, in fact, enhancing private sector activity and improving governance can be mutually reinforcing.

3.23 **A program of business environment reforms can facilitate investments.** To improve the investment climate, there is a need for increasing the sustainability of the one-stop, and regulations need to be further simplified and made more transparent, especially regarding import/export procedures. To achieve the latter, the country should review and rationalize documentary requirements, import/export/transit procedures, international trade monitoring systems, regulations on industrial investment, and internal trade barriers (security checkpoints). It should also make sure new regulations such as those supervising foreign trade pre-licensing are fully implemented notably by making more visible the dissemination of the information. In addition, a proper and functioning tax administration should be re-established, and the taxation system simplified and made less burdensome, especially for MSMEs.

3.24 **The involvement of the private sector in the definition of the reforms is crucial, and therefore reinforcing the institutional forum for public-private dialogue and continuous feedback should itself be part of the reform agenda.** More concretely, the role of private sector associations as key stakeholders at the table when reforms are being discussed should be

underlined for two key reasons. First, the reforms agenda will involve trade-offs, and certainly will be opposed by some constituencies. For this reason, building a large coalition behind the reforms is crucial in maximizing their chance of success. Second, the private sector will be a key beneficiary of this reform agenda, and even if not every entrepreneur benefits as a consequence of each reform, it is certain that taking into account their opinions provides an important reality check about the reforms' potential impact.

**3.25 The legal environment should be made more business-friendly.** Strengthening the rule of law, in general, and more specifically improving the mechanisms to solve commercial disputes, is a priority due to its spillovers. In fact, the problems related to the enforcement of commercial disputes have multiple consequences across different areas. First, they reduce the incentive to invest or enter into contracts that involve any risk of dispute. Second, they have a very negative influence on the development of the financial system, as they drastically reduce the willingness of banks to borrow. Third, they increase the cost of every transaction by making it less competitive for doing business in Guinea-Bissau, therefore reducing the incentives to invest. The creation of a commercial tribunal and an arbitration center has been discussed and planned. In 2009, the new commercial tribunal was opened in order to deal exactly with this problem. Four judges were trained and the new tribunal was well equipped in terms of office space and equipment. Unfortunately, because of the lack of administrative services and limited support personnel, the tribunal is not yet fully operational. Some relatively small investments in this area could have important returns if these were able to make the tribunal fully operational.

**3.26 Access to finance should be improved.** This is discussed in the second part of this chapter.

**3.27 There is a considerable need to improve learning outcomes and build skills. This implies investments in the education and vocational training sector.** In addition to the work on formal education, there is a need to identify the size of the demand for technical skills in the coming years in the critical sectors of growth. There is certainly good opportunities to develop vocational training in cooperation with large businesses. The extractive resource sector (chapter 11), if developed, may be one area for such cooperation. The labor market should be reformed to reduce rigidities, enhance firm productivity, and encourage the formation of jobs. A highly rigid labor market is a key constraint for companies. In Guinea-Bissau, many companies do not declare their workers, thus circumventing the official labor regime. It will be important for the law to “catch up” with practice and adopt a more modern labor code.

**3.28 Skills training for entrepreneurs will help overcome an important constraint in firm development.** The entrepreneurial capacities of existing companies are particularly low. A recent Census of Enterprises in Guinea-Bissau reported that only 199 out of 8,665 companies interviewed declared that they maintain organized accounts. A combination of training and Business Plan Competitions can foster entrepreneurship. Such a competition would attract business ideas in sectors of activity that can potentially generate substantial added value to the economy and create a significant number of new jobs. This type of competition has been successfully developed in countries like Nigeria and Côte d'Ivoire. Business plan competitions would be open to existing entrepreneurs interested in developing new ideas. However, it should give priority to young entrepreneurs for two main reasons. First, the youth in Guinea-Bissau lack economic opportunities in general, and jobs in particular. Second, in the current market structure, they are the most affected by constraints in access to finance, as the absence of credit history and collateral makes it difficult to demonstrate their trustworthiness to financial institutions. Selected business plans would receive seed grants and personalized training.

**3.29 Diversifying the economy will be vital.** This CEM covers in its second part a number of sectors that could become potential engines of growth in Guinea-Bissau, in addition to the

dominant cashew sector: rice, fishing, extractive resources, and tourism. Some of these areas have scope for considerable forward and backward linkages (such as the extractive resource sector, see chapter 11). At some point, Guinea-Bissau will need to move into production with higher value-added in order to climb up the income ladder. Improvements to the business climate, access to finance and skills development, as explained in this chapter, will enable entrepreneurs to venture into new areas. Especially foreign investors should be attracted, for their know-how and financing. ECOWAS is one potential region to attract FDI from (see chapter 5).

**3.30 Cooperatives, including consumer cooperatives, may be further explored as catalysts for local economic development** (Box 4). Cooperatives pool resources, leveraging their impact. They can also help overcome market constraints, including poor access to finance. Cooperatives already exist in Guinea-Bissau yet their potential may not be fully exploited. Donors and NGOs can further support the development of cooperatives in Guinea-Bissau.

#### **Box 4: Fostering local economic development through cooperatives**

**Cooperatives have a track record of mobilizing community resources in pursuit of economic opportunity.** Since the first cooperatives were formed in local communities during the Industrial Revolution in northern England, they have spread across the globe, conquered different economic sectors, and become remarkably sizeable. In the United States, for example, cooperatives can today be found in sectors ranging from agriculture to financial services, health care, housing, food retailing, and utilities, employing more than 850 thousand people, controlling over US\$ 3 trillion in assets, and generating over US\$ 500 billion in annual revenue. Guinea-Bissau too is home to a number of cooperatives—some of which, in the cashew sector, are supported through a World Bank Group-financed project. The key to success of the cooperative model lies in its ability to pool and leverage community resources, ranging from assets, to labor, knowledge, and training.

**Cooperatives hold particular potential for economic development in countries like Guinea-Bissau.** In general, cooperatives exhibit the following principles: (i) they are businesses owned by their members; (ii) all members have equal voting rights; (iii) membership is voluntary; (iv) they are capitalized by the members and through retained earnings of the business; (v) parts of the profits are distributed to members, based on their contribution to the cooperative's profits. Point (v) is self-explanatory in the case of producer cooperatives, which are common in Africa. However, there are also consumer cooperatives, which are less common, and which include businesses like community grocery stores. In this example, profits would be distributed proportionally to the amount a member spent on groceries at the store. Cooperatives have considerable potential in Guinea-Bissau for two reasons: they can help overcome market failures at the community level and support entrepreneurship by establishing self-regulating business networks. Addressing market failures and boosting entrepreneurship hold considerable development potential for Guinea-Bissau, as chapters 2 and 3 of this CEM argue. This is especially true in an environment of weak governance, where enabling communities can partly compensate for weak national institutions.

**Market failures abound in Guinea-Bissau. Some of them can be addressed through the cooperative model.** One such failure is the very limited availability of credit. Cooperatives are businesses formed by members who pool their resources—even if they may be limited. Cooperatives expand as members invest retained earnings of their business back into the cooperative. This way, the business can grow organically even without access to bank credit. Apart from financing, it is also thinkable that cooperatives address other market failures. For example, if feeder roads are in a condition that hurts the cooperative business, members may invest in

rehabilitating the road even without the assistance of government—Community Driven Development projects are already in the process of improving rural roads. Cooperatives could engage in similar activities, yet not with donor resources but independently with the community's own resources.

**Cooperatives can boost entrepreneurship and improve the business culture.** As ordinary citizens, including workers, producers, and/or consumers can become members of a cooperative, and thus its owners, they have a vested interest in understanding the way the cooperative conducts its business—with a view to maximize profits. After all profits are partly distributed back to members. In this sense, especially in a rural, agricultural, and often subsistence economy like Guinea-Bissau's, cooperatives would provide a primer in the modern economy to its members and foster entrepreneurial instincts: profit maximization. Secondly, cooperatives create business networks through which transactions are made, regulated by the rules of the cooperative. In this sense, members hold each other to account, which can partly compensate for a weak judicial system in the presence of a fragile state. The enforcement of commitments of transacting parties is a crucial foundation of a thriving business culture.

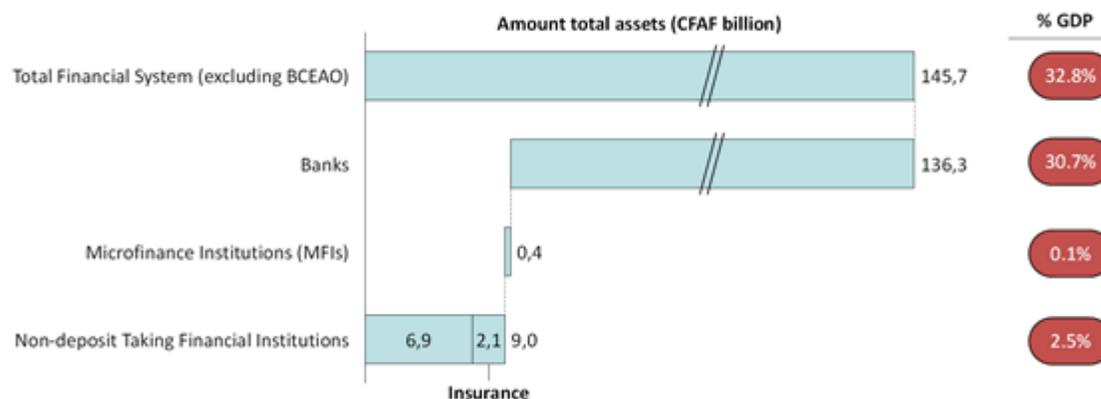
**Consumer cooperatives hold particular potential when combined with cash transfers.** There are already a number of producer cooperatives in Guinea-Bissau. However, this is not the only type of cooperative. Consumer cooperatives are open to all consumers—which in principle includes all (adult) members of a community. Chapter 6 argues for the need to implement social assistance programs in Guinea-Bissau. Any form of cash transfer, be it as a conditional or unconditional cash transfer or a cash-for-work program, would inject additional financial resources even in remote and especially poor areas of Guinea-Bissau. This would provide Bissau-Guineans with purchasing power, which would allow them to shop in local businesses—including cooperatives. Establishing consumer cooperatives would ensure that this spending builds wealth and creates economic opportunities in the community, as profits accrue to community members and are invested to expand the business and create further income and jobs for community members.

*Sources:* Majee, W. and A. Hoyt. 2011. 'Cooperatives and Community Development: A Perspective on the Use of Cooperatives in Development' *Journal of Community Practice* 19(1):48-61; Woolcock, M. and Narayan, D. 2000. 'Social Capital: Implications for Development Theory, Research and Policy' *World Bank Research Observer* 15(2):225–251; Birchall, J. 2004. *Cooperatives and the Millennium Development Goals*. Geneva: International Labor Organization.

## PART II: THE FINANCIAL SECTOR

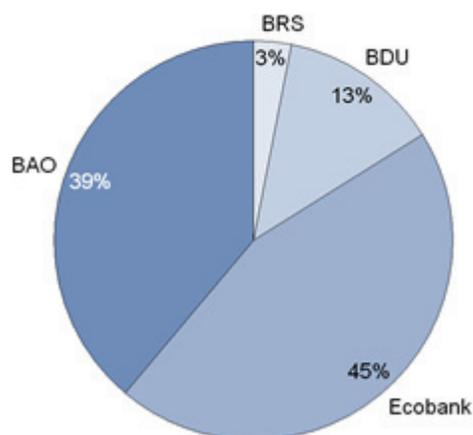
3.31 **The financial system is shallow, and mostly limited to the banking sector.** The 4 commercial banks operating in Guinea-Bissau (3 of which started operating within the last eight years) hold about 94 percent of the financial system's assets (Figure 49). Ecobank, in late 2009, was the largest bank of the four, banking loans (Figure 50). The financial system is dominated by subsidiaries of pan-African banks and non-residents' stakes in majority private-owned banks (Figure 51).

**Figure 49: Four commercial banks hold about 94 percent of the financial system’s assets**  
(assets in CFAF billion and percent of GDP)



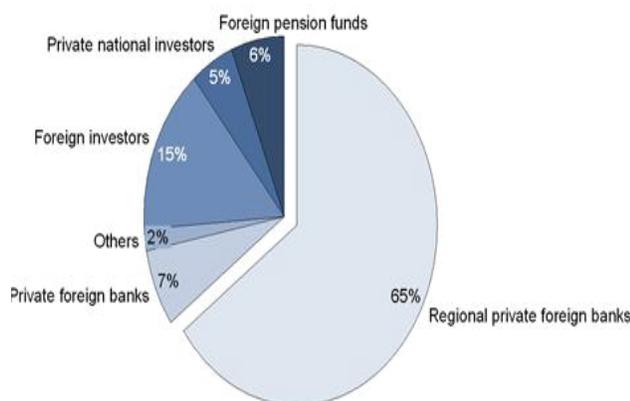
Source: BCEAO, Commercial Banks, INPS, Insurance CIAS, and IMF estimates.

**Figure 50: Ecobank is responsible for almost half of credit provided to the economy**  
(percentage of total loans in 2009)



Source: World Bank.

**Figure 51: Subsidiaries of Pan-African banks dominate the financial system in Guinea-Bissau**  
(percentage shares, 2012)



Source: BCEAO, commercial banks and IMF estimates.

## **Banks**

**3.32 Banks’ core business consists of collecting deposits, lending to medium-size firms, and dealing with government securities.** One bank (BRS) has been lending to microfinance activities, but at very limited levels. No new bank has entered into the Guinea-Bissau market since 2007, when Ecobank, a regional African banking group, started operations in Bissau. Only five microfinance institutions (MFIs) provide financial services in the country, and only on a limited basis and concentrated in Bissau.

**3.33 Banking penetration is very low, at less than 1 percent of the population.** Bank loans are expensive and there are few clients. For example, interest rates for small enterprises were around 12 percent in 2010, compared to 8 percent average in the WAEMU countries. The total number of bank accounts serving the population is below the totals from comparator countries.<sup>35</sup> A

<sup>35</sup> See Figure 24 in chapter 1.

few years ago, the authorities tried to foster an increase in the number of bank accounts by obliging civil servants to open a bank account in which their salaries would be directly deposited. However, the low level of income among most public servants did not allow them to hold balances in those accounts.

**3.34 At the end of 2012, banks were well capitalized, relatively liquid and modestly profitable.** According to the IMF, the average capital adequacy in 2012 was 22 percent.<sup>36</sup> Although this was the largest capital adequacy buffer in the WAEMU region, Guinea-Bissau's banking sector makes up a very small part of WAEMU's banking sector; together, the four commercial banks account for only 0.7 percent of WAEMU balance sheets. Liquidity in 2012 was at 44.6 percent, expressed as liquid assets to total assets, which is solid. The return on assets (ROA) was about 2.6 percent and the return on equity (ROE) was about 18 percent in 2012. Thus banks are relatively profitable and the banking system can broadly be considered sound.

**3.35 Yet asset concentration is high and non-performing loans (NPLs) have been increasing.** A high exposure to cashew—loans to the sector represented about 25 percent of total loans—means a relatively high degree of risk. This sector is also responsible for a high share of NPLs, at about 9.7 percent in 2012, having increased further since. The high NPLs are one major reason as to why banks have been reluctant to lend in recent years, especially to cashew traders. This has aggravated the weak performance of recent cashew campaigns.

**3.36 Financial deepening has improved recently, but still lags behind that of WAEMU countries.** The M2 to GDP ratio, a proxy of financial intermediation, increased from about 24 percent in 2009 to 38 percent in 2012, but still remains below that of other countries in the WAEMU. Lending to the private sector has inched up from around 2 percent of GDP in 2005 to just under 10 percent in 2008 and 15 percent in 2012, but this is well below the figures countries such as Senegal, Cabo Verde, and Mauritania have been presenting. Domestic bank deposits as a percentage of GDP, at 18 percent, are considerably below the rates in Senegal (33 percent) and The Gambia (41 percent). In spite of a steady increase in access to credit, it is still equal to 15 percent of GDP at the end of 2012, which compares with 31 percent in Senegal. However, this represents an increase of six percentage points of GDP in just three years.

**3.37 The international financial crisis and the slowdown in emerging markets affected Guinea-Bissau's banks through delays in export trade receipts and lower remittances.** However, the impact has been rather limited because banks do not have access to European lines of credit: most banks are funded locally. This also increased the opportunity for African banking groups to expand in the region, counterbalancing some of the negative effects of the global crisis.

**3.38 There are a large number of constraints to further deepen the financial sector.** A sizable cash-based informal sector, relatively high-interest margins, scarce access to financing, insufficient collateral, and poor financial accounting practices pose significant obstacles to the development of the financial system. Moreover, weak infrastructure, a rudimentary payments system, weak legal and judicial systems, lack of a credit reference system, and political instability hinder the financial sector's ability to provide adequate support to the private sector. Access to finance is frequently cited as a key barrier to the growth of the private sector. Doing Business 2014 ranks Guinea-Bissau at 130 from among 186 countries on the “getting credit” indicator, with low scores on both the “depth of credit information” and “strength of legal rights” indices.

**3.39 On the supply side, financial intermediation in Guinea-Bissau is severely constrained by a risky business environment, an inability to price that risk accurately due to significant information gaps, and a weak choice of legal mechanisms when the risk materializes.** At the

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<sup>36</sup> This discussion is based on the IMF's 2013 Article IV report.

same time, the demand for finance is constrained by the scarceness of bankable loan applications and viable investment opportunities. This demand is further undermined by the absence of a savings culture and the general lack of awareness about financial products and services among the general public. Weak physical infrastructure impedes the expansion of the banking system (despite an increase in the number of bank branches from five to 13 between 2007 and 2009) and limits the range of financial services, especially in rural areas.

**3.40 On the demand side, access to credit is hampered by weak capacity at the firm level and a and other constraints to business demand for credit.** These include the business-unfriendly investment climate, marred with political and economic insecurity, the predominance of the informal sector, and weak market and institutional infrastructures, including contract rights and enforcement, credit bureaus, accounting and disclosure standards. As shown in Part I of this chapter, according to banks, the main reasons for rejecting loan applications are the lack of collateral/guarantee, poor feasibility studies, and the lack of basic accounting systems at the firm level.

**3.41 The segment of non-bank financial institutions is underdeveloped and entirely dominated by insurance companies, especially automobile policy and civil responsibility.** All other products, including life, health, and crop insurance are largely missing. There are three insurance companies registered with the Ministry of Finance, including *Guineebis*, the national insurance company privatized in 1997; *Alliance Bissau*, a subsidiary of Alliance Senegal registered in Bissau in 2004 (its license was revoked in 2010 following the bankruptcy of the parent company in Senegal); and *Nouvelle Société Interafricaine d'Assurance (NSIA)*, registered in Bissau in 2007 and headquartered in Abidjan, with operations in nine countries in West and Central Africa. None of these companies has branches outside the capital city, however. The overall insurance market in Guinea-Bissau is about CFAF 1 billion (or about 1 percent of the market size of Senegal). NSIA has 45 percent of market share against 35 percent for *Guineebis* and 20 percent for *Alliance*.

**3.42 Several factors constrain the growth of the insurance sector:** weak economic activity; lack of institutional and human capacity within insurance companies; lack of awareness about insurance products; and weak enforcement of legislation.

**3.43 MFIs activities are negligible within the Guinea-Bissau financial system.** They focus on basic sector services, such as savings accounts and micro-credit. The activities of MFIs are not well understood and not many people have accounts with such institutions. MFIs' loans amount to less than 1 percent of bank credit (CFAF 340 million). Some MFIs are operated by Non-Governmental Organizations (NGOs) and have a social mandate (for example, to lend to women and farmers in remote regions) but they do not report their operations. Moreover, since the initial MFIs were established by NGOs based on grant financing, there has been an entrenched concept that MFIs should provide loans without the need to repay. This has negatively contributed to a high level of NPL, and, eventually, to the disappearance of a large number of MFIs.

**3.44 Despite its negligible status, the sector had a promising start, and has recently gone through a consolidation phase.** The sector made encouraging progress from 2005 to 2010, with the active support of UNDP, the establishment of an oversight committee at the Ministry of Finance, the creation of a microfinance association (RECOP), and the high demand for microfinance services. But the microfinance culture is weak in Guinea-Bissau, and uneven recovery rates (especially in Bissau) have raised doubts about the sustainability of MFIs without donor funding. In 2010, the sector went through a process of consolidation, and oversight in the sector has tightened. As a result, the number of branches has decreased from 135 in 2007 to 41 in 2009, from 18 in 2010 to just five in 2012. A low loan repayment rate, weak contract enforcement, high administrative costs, and depleted cash balances caused the closing of most MFIs.

3.45 **Despite an improvement in 2011, the quality of MFIs' portfolios has deteriorated recently.** NPLs made up about 25 percent of total loans during 2011, and reached 51 percent of the MFIs portfolio at end-2012. Moreover, data and financial statements from the MFIs are unreliable and are not produced within the timeframe mandated by WAEMU regulations. The sector is in need of capacity improvements. Additionally, the supervision activities provided by the Ministry of Finance need to be strengthened. Financing from both local and international sources to the MFIs has also plummeted substantially. Thus, Guinea-Bissau's microfinance sector continues to be the least developed in the WAEMU region. For instance, in Senegal, MFIs provide services to about 20 percent of the population and supply roughly 10 percent of bank credit.

3.46 **Given the structure and scale of private enterprise in Guinea-Bissau, microfinance can play an important role in the financial sector. However, a number of factors impede further development of this sector.** First, BCEAO regulations impose a cap of 27 percent on microfinance interest rates, which does not take into account country-specific circumstances on the risk and return mix. CADESPC is ill equipped to conduct sector oversight and its effectiveness is weakened by the lack of budget allocations from the government and poor implementation of oversight recommendations by the Ministry of Finance. The government has not yet approved the development action plan of the microfinance sector finalized in 2008. Second, there is limited capacity within the MFIs themselves. Most MFIs depend on donor contributions and cannot meet the sustainability threshold because of weak governance, low service and product diversification to meet the needs of the micro, small, and medium businesses; weak institutional capacity to assess and monitor risks; and weak internal control systems. Finally, sector organization is too weak to effectively conduct policy dialogue, promote the development of the sector, or share information and best practices. RECOP sustainability is a source of concern. Its outreach is limited because most MFIs are concentrated in the capital city.

#### 4. POLICY IMPLICATIONS

3.47 **A financial sector that meets the financing needs of a growing private sector is simultaneously an outcome of and an input for economic stability.** This section advocates a two-level strategy to achieve this outcome: (i) a quick-wins tactic that takes into account the *status quo* and identifies specific focal points that are likely to pay off in the short term, namely on microfinance and support to the cashew sector; and (ii) a broader financial sector development agenda that looks to creating an enabling environment for the provision of a wide range of financial products and services.

- **There is the potential to implement quick wins to support the development of the microfinance sector.** Some key recommendations to improve the role of the MFIs could include: strengthening the promotion, authorization, inspection, and supervision of the MFIs by the ministries of economy and finance along with the BCEAO; strengthening capacity building and training of MFIs; mobilizing financial resources from domestic and international resources, and wholesaling such resources to MFIs on a competitive basis; supervising MFIs in accordance with international best practices; and creating a bureau of credit and risk similar to that of the BCEAO for banks.
- **In addition, there is also the potential to implement quick wins to support the development of the cashew processing sector.** Potential processors compete with exporters to procure raw cashew, and the latter have a distinct financing advantage. For banks, a loan to exporters presents a much lower risk proposition, in part because this is high-return, short-term credit. Ensuring that processors have timely access to credit at the beginning of the cashew campaign, when there is abundant supply, will be challenging. Conversations with commercial banks indicate that their reluctance to lend to processors

stems primarily from a very high-risk perception. Over and above the inherent risk associated with a fragile state, banks are also deterred by the inability of many processors to put together a bankable loan application or a sound business plan. Development partners and/or the government can play a critical role in this context. A risk-sharing arrangement with commercial banks, either by way of a matching grant or guarantee fund or some other scheme, is one way to channel commercial bank credit at reasonable prices to cashew processors. However, the success of such a scheme also depends on the delivery of skills development to cashew processors so that they are able satisfy basic criteria for bank loans.

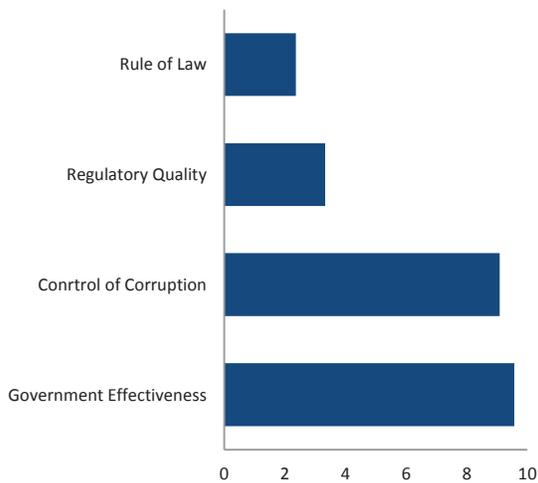
- **In addition to the quick wins described above, efforts should be put in place to start a broader and more structural financial sector development agenda**, namely around improving access to savings and finance through the provision of term resources for SMEs and microfinance, as well as capacity building for financial institutions. It will be important to set up programs encouraging Bissau-Guineans to open a bank account in order for them to enter the financial system and access banking services—including the transmission of remittances and cash transfers or other forms of public financial assistance (see chapter 6). Mobile banking in particular should be encouraged and MTN and Ecobank are already planning to extend mobile banking services through *MTN Mobile Money* across Western African countries, including Guinea-Bissau.

## CHAPTER 4: AN AGENDA FOR THE PUBLIC SECTOR—DELIVERING DEMOCRACY DIVIDENDS WHILE (RE) BUILDING INSTITUTIONS

### 1. INTRODUCTION

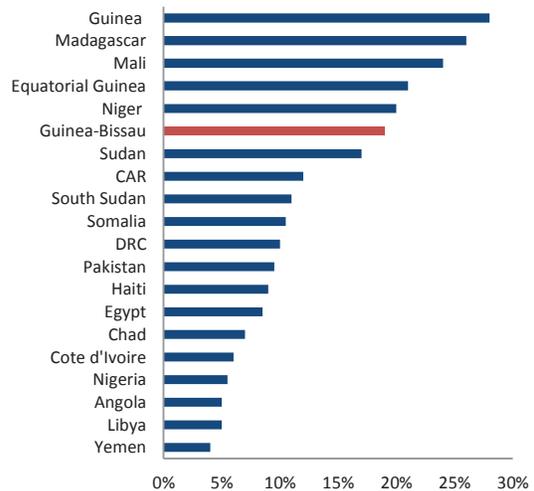
4.1 **Decades of instability and poor governance more broadly have undermined the public sector in Guinea-Bissau.** On the World Bank’s Worldwide Governance Indicator (WGI) Guinea-Bissau scores in the bottom 10<sup>th</sup> percentile on all indicators measuring public sector capacity (Figure 52): control of corruption, government effectiveness, regulatory quality, and rule of law. On the latter two it even only ranks in the 3<sup>rd</sup> percentile. What this means is that, according to the WGI, more than 90 percent of the countries have higher government capacity than Guinea-Bissau. This assessment is supported by other rankings. For example, Transparency International ranks Guinea-Bissau 163<sup>th</sup> out of 175 on corruption control and the Mo Ibrahim Index of African Governance rates Guinea-Bissau 47<sup>th</sup> out of 52 on safety and the rule of law.

**Figure 52: Guinea-Bissau ranks among the bottom 10 percent globally on the quality of governance.** (percentile rank, 0 worst, 100 best)



Source: World Bank Worldwide Governance Indicator

**Figure 53: In 2014, Guinea-Bissau was among the countries most likely to experience a coup** (probability of a coup occurring in 2014, percent)



Source: PITF 2014

4.2 **The newly elected government of Guinea-Bissau has the chance to make a fresh start and improve the governance environment. Challenges, however, are considerable.** Given Guinea-Bissau’s history of fragility, the new government remains vulnerable. Figure 53, for example, shows coup probabilities for selected countries based on the Political Instability Task Force’s (PITF) coup prediction model.<sup>37</sup> According to the model, in 2014, Guinea-Bissau was one of six countries in the world most likely to experience a coup. The estimated probability for a coup in Guinea-Bissau is approaching 20 percent. These probabilities persist and the possibility that the governance reform agenda will be derailed by ousting the government yet again remains real.

<sup>37</sup> This model successfully forecasted the coup in Mali and the previous one in Guinea-Bissau. The PITF comprises a group of academics from several U.S. universities and hosted by the Center for Global Policy at George Mason University.

**4.3 Favorable external conditions may reduce the possibility of a coup over the next few years. This provides a window of opportunity to speed up and consolidate governance reforms.** ECOWAS is becoming more involved in security due to a growing threat posed by non-state actors in the region, particularly Al Qaeda in the Islamic Maghreb (AQIM) and Boko Haram. These organizations pose a substantial threat to many countries in the region, primarily Mali, Niger, and Nigeria. As a result, regional governments are unlikely to tolerate military efforts that further increase instability in the region, such as a coup. In addition, after years of acting with relative impunity, the international community in general, and the United States armed forces in particular, are cracking down on the military's involvement in narcotics trafficking and a former head of Guinea-Bissau's naval forces is currently sitting in a US prison. US targeting of narcotics perpetrators who are also associated with the 2012 coup may dampen incentives to take risks like the overthrow of government.

**4.4 The associated breathing space gives the government a chance to concentrate on public sector reform and improving public policies for the benefit of Bissau-Guineans.** Even in a fragile state, improving governance outcomes is possible, as Box 5 describes. It will require considerable political commitment to ensure that the return to democracy will yield dividends to Bissau-Guineans. This CEM argues that priorities for government reform are threefold: i) Strengthen Public Financial Management (PFM) systems to ensure that all public funds are spent on their intended purposes to maximize the efficiency of public policies. Increasing the fiduciary environment and minimizing leakage will also be a key condition for donors to provide financial support—especially budget support—through country systems (chapter 5 elaborates on this point in more detail). As public resources are used more responsibly, it will also be important to raise the revenue-to-GDP ratio to provide the government with the means to carry out its policies. ii) Build the capacity of the civil service to carry out the government's mandate and improve the quality of public policies. iii) Set up a social assistance scheme to deliver immediate benefits to poor Bissau-Guineans and allow them to take agency in areas where public policies are yet to provide solutions. iv) Build statistics systems that can allow the government to identify areas of intervention but also monitor the effect of its policies for more evidence-based policy-making. These issues are elaborated in the remainder of this chapter.

## **2. REBUILDING AND ENHANCING PUBLIC FINANCIAL MANAGEMENT AND MOBILIZING DOMESTIC REVENUE**

**4.5 Stronger processes for budget execution, including fiduciary safeguards, are necessary both to administer both ODA and domestic revenue.** The first priority for the government is to put systems in place that enables it to administer public resources while minimizing fiduciary concerns. This will be crucial for donors to gain the confidence of donors to channel their resources using country systems. Once the systems are in place, the government will need to strengthen its revenue base. Revenue-to-GDP is currently among the lowest in the world and the government will need resources, including domestic ones, to carry out its policies, including those under the turnaround agenda. However it is important to bear in mind that in Guinea-Bissau where poverty is widespread, many types of taxes are likely to worsen poverty. The benefits of public policies will have to exceed the cost of increasing the burden on the poor. Thus, raising new revenue should be conditional on progress in the PFM area.

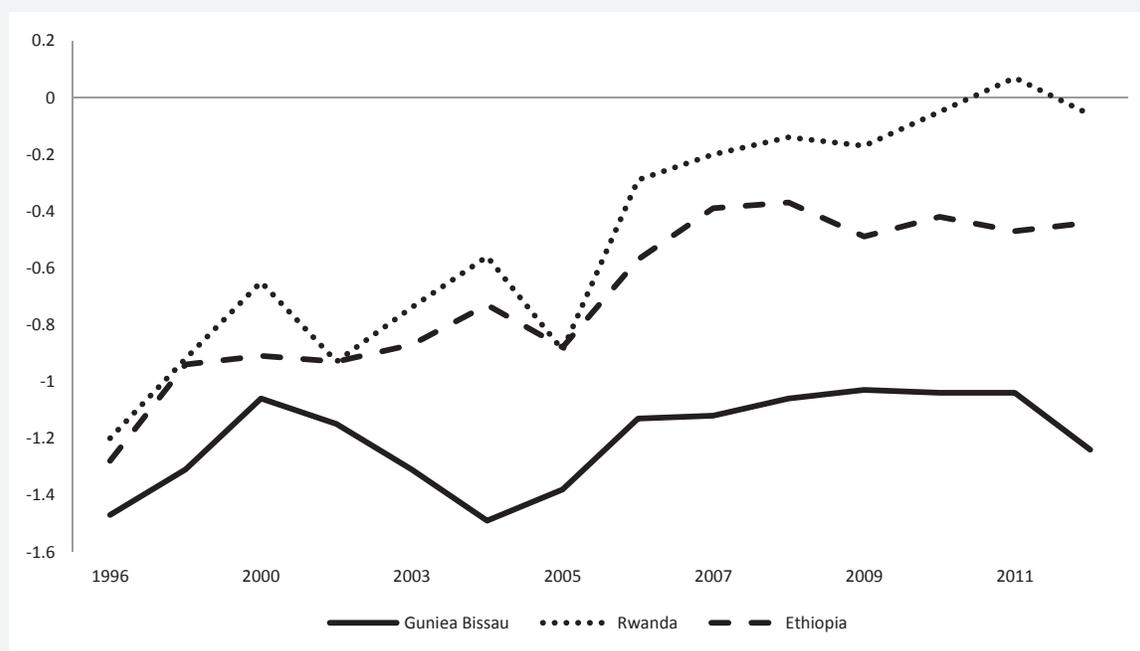
**4.6 PFM priorities include the establishment of a credible budget process with sufficient commitment controls, the reduction of off-budget expenditures, procurement reform, and a credible set of internal and external controls.** In the medium term, it will be important to help the government increase its tax revenues from one of the very lowest rates on the continent. The section draws on the 2009 Public Expenditure Management and Financial Accountability Review (PEMFAR) report and the recently finalized Public Expenditure Financial Accountability

(PEFA) document (2013), as well as the government’s medium-term priorities as laid out in the government’s 2014 *Programa de Estabilização e Desenvolvimento*. The medium-term goal is to build a PFM system able to manage the government’s own resources as well as donor funding with reasonable fiduciary integrity.

**Box 5: Strengthening governance in a fragile environment**

**Rwanda and Ethiopia are two African countries who emerged from a periods of conflict and took decisive actions on improving governance.** Civil war in the two countries varied in length and intensity, but the human and physical damage caused was substantial. Rwanda’s civil war ended only 6 years before Guinea-Bissau’s. Ethiopia’s civil war (and its war with Eritrea) lasted for 30 years and between the 1970s and early 1990s the country experienced numerous attempted and successful coups—not unlike Guinea-Bissau. However, both Rwanda and Ethiopia managed to make considerable investments in their governance systems (Box Figure 2). Having started out at similar governance quality in Guinea-Bissau, they have been amongst the fastest reformers in Sub-Saharan Africa. The results have been remarkable: real GDP growth in both countries exceeded an average of 8 percent over the past 15 years, compared to about 2 percent in Guinea-Bissau.

**Box Figure 2: Improving governance is possible, as exemplified by the experiences of Rwanda and Ethiopia**  
(World Bank Governance index, -3 (worst) to +3 (best))



Source: WGI.

**Decisive government commitment to reform is the basis for improvements to governance.** Meles Zenawi of Ethiopia and Paul Kagame of Rwanda ruled their countries with an iron fist and their record of upholding civil liberties is often criticized. Yet both men had visions for their countries, and keeping their eyes fixed on reform they were the engineers of a more effective public sector. The Bissau-Guinean politicians now have a chance to become the reformers that will turn the page for Guinea-Bissau and improve government effectiveness.

4.7 The latest PEFA assessment shows that many of the modest gains that had been made in the 2009-11 period have subsequently been lost. Regaining these achievements is a first priority. Whereas improvements had been made in budget credibility and reporting, and a

new electronic public financial management software was put in place, these advances have largely stalled and some were in fact reversed, as PFM institutions have been regularly circumvented since the coup of 2012. Re-establishing some measure of control will be an essential first step, which can then be built upon to put in place a basic-level PFM system that can then be gradually strengthened to meet the standards necessary for donors to use country systems in delivering their financial assistance. The remainder of this section will first provide an outline of reforms necessary on the PFM front and then turn to potential reforms on the revenue side.

### **Strengthening Guinea-Bissau's PFM systems**

4.8 **While some important progress had been achieved in public financial management between 2009 and 2012, many of these improvements have been reversed, and as a result the remaining agenda is vast and will realistically require a number of years in order to be implemented in a comprehensive manner.**<sup>38</sup> The section below summarizes some of the advances and reversals since 2009:

- The legal and institutional framework for public financial management was about to be strengthened, with the adoption by the Council of Ministers of a number of key laws aimed at bringing the legislation in the area of public finances into conformity with WAEMU directives.<sup>39</sup> These laws still have to be fully promulgated and enforced.
- Budgetary preparation and execution has been supported since late 2008 by the entry into effect of the budgetary software system SIGFIP, and the adoption of a budgetary nomenclature in line with WAEMU standards. The system is still potentially operational, but most expenditure has been bypassing it since the coup.
- The monitoring of budgetary execution had improved through the preparation of quarterly budgetary execution reports, which were regularly compiled since mid-2009 and communicated to the National Assembly and the public. This practice was abandoned in June 2012.
- Budgetary control procedures were revamped: in early 2010, the financial controller office was separated from the directorate of the budget and placed under the direct supervision of the minister. This reform was not pursued after the coup.
- Exceptional budgetary procedures that some had attempted to rein in beginning in 2010 have since been used on a regular basis, therefore preventing any reliable budget execution reporting.
- A significant step forward was taken in addressing shortcomings in accounting, with the coming on stream in September 2010 of a new accounting system at the Treasury. This

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<sup>38</sup> This agenda has been identified and described in detail in the June 2009 PEMFAR report and updated in the 2013 PEFA exercise. These reports describe at length weaknesses in public financial management concerning all key areas, namely (i) the legal and institutional framework; (ii) budgetary preparation; (iii) budgetary execution, including controls on the expenditure process and budgetary reporting; (iv) treasury accounting and payment procedures; (v) procurement; (vi) internal and external controls by the financial inspectorate and Audit Court (Tribunal das Contas); and (vii) oversight of budget execution by the National Assembly.

<sup>39</sup> In June 2010, the National Assembly approved (i) the new organic law on public finances (*lei organica das finanças publicas*), in line with WAEMU directives; (ii) the law on the public accounting regime (*regulamento geral das comptabilidade publica*), also consistent with WAEMU directives; (iii) the framework law on public procurement (*lei quadro dos concursos publicos*), establishing an independent public procurement regulatory agency and a central purchasing unit; and (iv) a number of laws on the reorganization of the military and security forces, including the establishment of a dedicated pension fund.

system has not been used to produce reliable reports since the disorganization following the coup.

- The Audit Court does not receive any budget execution reports and would, in any event, be unable to audit them due to low capacity.
- Weaknesses in civil service payroll procedures had been addressed, with the publication in July 2010 of the results of the civil service census; all personnel data were to be entered in the new system by the end of 2011, setting the basis for a more rational management of the civil service. As part of World Bank support to cover salaries of teachers and health workers in early 2014, the so-called Folha Unica has been updated in these sectors.
- The customs administration computerized system ASYCUDA ++ has been installed in the three main customs offices with external technical assistance. A new debt management system, SYGADE, has also been installed with external technical assistance. Both of these systems are now reasonably accurate.

#### 4.9 **Progress in these areas should be achieved in a coordinated and gradual manner.**

Progress in these different functions is self-reinforcing. For instance, more focused budget preparation requires a solid database on civil service allocation and unit costs. Efficient allocation of budgetary resources must rely on careful controls of the effectiveness of services rendered, and on a rigorous procurement policy, reinforced by incisive ex post controls by external auditing units. Greater allocation of resources to priority sectors would hopefully lead to a discussion of the fiscal implications of continuing to spend 16 percent of the national budget on national defense. The financial and operational performance of state owned enterprises in Guinea-Bissau will also need to be closely monitored and measures taken to reduce continued losses. In what follows, the recommended actions in these areas are presented in a sequence, based on the PEMFAR and PEFA assessments, key recommendations, and actions taken since then.

#### 4.10 **The coordination of reform actions in the Ministry of Finance (MoF) would benefit from the establishment of a structured reform committee with externally funded technical assistants.**

Indeed, over the last two years the group of consultants at the MoF funded by the World Bank under the State and Peace-Building Fund (SPF) had played a leading role in the reform process. They were responsible for the computerization master plan of the ministry, covering budget and treasury operations, customs, debt management, and the civil service database, and were also spearheading the preparation of legislation to support the reform process. It would be important to revive this group, possibly under a more structured organization, and ideally with real political and technical leadership from the government's side.

4.11 **The government may also wish to establish a PPP unit.** This unit should be based in the MoF and would be responsible for all PPP-related activities, including developing new partnerships and monitoring existing ones. Chapters 2, 5, and 9 provide examples of areas in which PPPs might be beneficial, ranging from the infrastructure, such as the port, roads, and energy, to farming services. PPPs would be promising because the government could partner with private companies that have the expertise and resources that the government—especially in such a low-capacity environment—does not have. However, the flipside of this argument is that the PPP unit would have to be staffed with highly qualified civil servants in order to ensure that the dividends from PPPs are shared fairly between the public and the private partners.

#### 4.12 **A comprehensive action plan for the next three years could be based on the following elements:**

- a) Making the budget a credible policy instrument through better Budget elaboration, Expenditure Control, Procurement, Accounting and Reporting.*
- b) Legal and regulatory framework, expenditure chain and payroll*

4.13 **The Government budget is the instrument through which the state implements its program and policies.** For it to be useful as a policy tool, it must be realistic, comprehensive and clearly linked to government priorities, and its implementation must be closely monitored and enforced. Additionally, all relevant actors must be consulted and must be part of the process of negotiating budget allocations, they must understand and accept the process and the final decisions that are made, and they must be ready to implement their programs in line with these decisions. The 2013 PEFA for Guinea-Bissau shows that the budget exercise has become void of meaning and generally an academic exercise, which essentially just repeats prior years' allocations without consideration of policies and government programs. Spending units and ministries in turn ignore the budget and find ways to implement their priorities through a variety of means, including off-budget sources of financing and unreported expenditures. This is a process that undermines the usefulness of the budget.

4.14 **It is therefore of some urgency to ensure that the budget exercise is filled with substance and relevance, and one way to achieve this would be to make the annual budget forum a meaningful exercise.** But this would require some prior planning and strong technical leadership to pull together individual ministries' contributions, lead negotiations and function as the ultimate arbiter. Another element is to ensure that budget units or ministries enforce the budget priorities, and this means ensuring that planned expenditures are in line with the budget. Proper commitment controls need to be in place for this to happen and senior managers will need to be ready to reject expenditures that do not fit with priorities as outlined in the budget. Once budget units realize that the budget is a credible policy instrument with which to guide priorities and control expenditures, the incentive to monitor it will be stronger, and regular monitoring reports should be produced and used as a tool to follow progress on program implementation, as was the case in the past.

4.15 **Guinea-Bissau has officially adopted the 2009 WAEMU PFM directives.**<sup>40</sup> These directives have not yet been transposed into national law and this should be done as soon as the political context permits it. Without waiting for this important legal step, these WAEMU directives will provide the framework for PFM reforms and specifically for renovation of the expenditure chain, from budget preparation to the financial reporting of budget execution. However, the more advanced provisions in the WAEMU directives will not be implemented until a sufficiently functional PFM system is in place.

4.16 **This will require action on the following issues:** (i) improving the reliability and timeliness of macroeconomic forecasts for better annual and multi-year budgeting; (ii) budget and financial control to improve budget preparation, commitment management, control and accounting, as well as timely and accurate budget execution reports; (iii) improving payment management and control, more timely and reliable in-year financial execution reports and their reconciliation with the budget execution reports published by the Directorate of the Budget (DGO).

4.17 **Internal controls, including financial and organizational audits, are an important element of fiduciary control.** Internal controls, unlike ex-post financial audits, can provide important corrective action during budget execution. In Guinea-Bissau, an inspection service exists within the Ministry of Finance (Inspectorate General of Finance [IGF/MoF]), but its mandate and scope is very limited, and awaiting the promulgation of new draft legislation, its

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<sup>40</sup> In 2009, the West African Economic and Monetary Union (WAEMU) adopted six new public financial management (PFM) regulations (Directives) covering transparency in public finances, budget preparation and execution laws, government accounting, budget classifications, central government chart of accounts, and central government operations *tableau des opérations financières de l'Etat* (TOFE).

activities are limited and subject to ministerial and Council of Minister approvals. Yet some capacities exist within IGF. In 2011 and 2012, this service conducted an internal audit to identify weaknesses in controls of the payroll and ghost workers, which resulted in significant savings (CFAF 122 million per month). Approving the statute of the Public Administration Inspectorate-General (IGAP) would be an important step in ensuring greater institutional independence and more systematic and effective internal controls. Re-instituting the defunct Treasury Committee (which closed down in 2012), could be an effective way to ensure such controls. The previous committee, which lasted from around 2003 to 2012 and which was co-chaired by the MoF and the Central Bank, was at times very effective in imposing both cash-management and fiduciary controls and an instrument of policy control (Box 6).

**Box 6: The Treasury Committee: An instrument of transparency and control**

Following the ousting of President Kumba Yala in September 2003 an emergency economic recovery program and emergency fund was created and financed by several donors to ensure a continuation of basic social services. The emergency fund financed the salaries of core personnel in the health and education sectors, some medicines and basic equipment. Several thousand teachers, nurses and doctors were financed through this program in the 2004-08 period.

The new government wanted to regain control over public finances which had been managed by a high degree of opacity and informality during the previous regime, which resulted in a deadlock in the public sector, strikes related to unpaid salaries and the inability of the government to ensure basic social services due to significant cost overruns, an unsustainable debt burden and weak resource mobilization. A decision was made to impose a strict cash rationing program through the strengthening of the Treasury Committee (*Comite de Tesouro*). The Committee was chaired jointly by the Ministry of Finance and Central Bank (national branch of BCEAO) and met twice a week (one of which was a preparatory meeting) to examine and take decisions on expenditure commitments from all government entities, including the President's office and even the Military. Every single expenditure proposal was scrutinized by the committee to ensure that it was consistent with the government's strategy and annual budget, and that funds were available to finance it.

As a measure to regain confidence and build trust with donors, the government invited the EU and UNDP, as the main financier and administrator of the emergency fund respectively, to participate in the committee as observers. The committee's performance and impact varied over time, but many donors felt that the committee played an important role in imposing greater control in periods when the committee had strong political backing and the necessary technical support. In addition, it helped ensure a measure of transparency *vis-à-vis* the donors. There is some evidence that this strict cash management measure helped instil discipline on expenditure management and rebuild donor confidence in the government's reform program, and it eventually led to a resumption of budget support from the EU.

Over time, some important institutions, like the armed forces, ceased to participate in the committee and its decision making were undermined. During the transition period donors were not invited to participate as observers. The Treasury Committee was functional until August 2008 and fully ceased to operate in 2012.

Re-establishing a working Treasury Committee promises a number of desirable consequences, including better government oversight of the public finances but also build confidence of donors—a key requirement for financial support and budget support in particular. The key function of the Treasury Committee should be to monitor expenditures, although more executive powers as under its older version might be considered. Donor representatives, reporting to the donor community on a monthly basis, would enhance transparency and build trust with donors. A re-instated Treasury Committee should have the following responsibilities: (i) approve the annual projections of the Treasury and the budget execution report; (ii) approve the priority of expenditures when encountering financial bottlenecks; (iii) authorize expenditures that circumvent the usual process, e.g. in emergencies (so-called *despesas não titulares*); (iv) monthly approval of reconciliations of payment orders the Treasury sends to banks, cross-checked with the banks' records of payments made.

4.18 **Specific attention should be paid to the human resources and payroll system.** This currently represents a very large portion of operating expenditures and the last PEFA demonstrated that improvements made in the past may have been lost since the coup. It should be extended, political context permitting, to defense and security forces that are currently not covered under the scope of the payroll application (payroll is discussed in more detail in the following section).

#### *Procurement*

4.19 **The procurement system in Guinea-Bissau had benefitted from effective technical assistance (TA) in the pre-coup period.** The institutions created at this time (Public Procurement Regulatory Agency, Procurement Directorate, and Central Purchasing Unit) are still officially in place, but are understaffed, with very weak capacity and limited operational means, which leaves them ineffective. Procurement institutions would need to be equipped and there is a need to develop new procedures manuals and national standard bidding documents for the procuring organizations, creation of electronic tools to monitor procurement transactions and statistics, and design procurement performance review mechanisms. When this basic capacity is actually reinforced, training on a simplified Public Investment Management (PIM) system could be considered.

#### *Operationalization of the integrated FMIS*

4.20 **The Guinea-Bissau financial management information system (FMIS) is SIGFIP.** This software is widespread in French-speaking Africa. The system is operational from Budget preparation to payment of vouchers. However, there is significant evidence that a large proportion of actual current expenditure is not being captured in this system. Instead, direct payment vouchers authorized by political authorities are highly prevalent, which impacts fiscal discipline and undermines the reliability of accounting.

4.21 **There is an urgent need to restore the use of SIGFIP for all budgetary expenditures.** This should help the government design improved procedures for the interfacing of SIGFIP with all other systems in the MoF (Accounting, Payroll, Debt Management, Taxes and Customs) and with the Central Bank. Once the central level is back on line, the roll out of SIGFIP to line ministries should be implemented, in order to facilitate the progressive and measured devolution of budget authority to line ministries. This would need to be based on an assessment of the quality of internal controls within each line ministry and agency.

#### *External audit and parliamentary control*

4.22 **The Supreme Audit Institution or Court of Accounts (*Tribunal de Contas*) has not audited government accounts since 1989.** It has few resources, needs capacity reinforcement and training in order to be able to effectively audit the government's accounts and play its advisory role to the National Assembly. Government financial statements must be produced in time for it to review them and issue a report based on its review. The National Assembly and its parliamentary commissions are not in a position to exert their oversight over budget execution. However, the capacity reinforcement of both the Court of Accounts and the National Assembly should be carried out only when acceptable yearly accounts are produced by the government.

4.23 **Together with a reform action plan, a Reform Oversight and Implementation Structure (ROIS) should be set up to anchor the reform and capacity-building efforts.** This structure should coordinate the use of external technical assistance, ensuring that reports are channeled through the relevant national authorities.

A PFM Reform Oversight Committee (ROC) should meet regularly at the ministerial level and politically endorse the main decisions of the reforms. Depending on the political situation, it

should report either to the Prime Minister or to the President of the Republic. A Technical Steering Committee (TSC) should meet every month and gather the General Managers responsible for the actual implementation of the reform. A Reform Coordinating Unit (RCU) would be responsible for the day-to-day management of the reforms.

### **Raising the revenue base and improving tax administration:**

**4.24 Guinea-Bissau should consider abandoning export taxes on cashew in the medium term.** Given the weaknesses of the tax collection system, Guinea-Bissau relies on taxing exports which is a relatively simple procedure, concentrating tax collection efforts on transactions at the port. In addition, given that cashew is Guinea-Bissau's most successful economic sector, it appears sensible at first sight for the government to derive revenue from it. Yet there are only few countries that tax their exports since this a policy making the sector less competitive internationally. In addition, cashew farmers are predominantly poor, making the cashew tax highly regressive and anti-poor. Guinea-Bissau has one of the lowest revenue-to-GDP ratios in the world and urgently needs to increase public revenues. However, to boost shared growth, it will be important to look into new sources of taxation.

**4.25 FUNPI should be abolished.** FUNPI, an off-budget fund, was created to finance technical assistance, and establish lines of credit and guarantee funds to expand access to finance for cashew processors and other agribusiness products. Since FUNPI's introduction, its objectives, activities, and governance have been under controversy—due to fiduciary concerns and because none of the FUNPI resources appear to have been used for their intended purpose.<sup>41</sup> Instead, there is some evidence that FUNPI increases smuggling, due to the fiscal burden it implies for the official cashew market, undermining government revenues. Both 2012 and 2013, FUNPI created policy uncertainty, as the government changed its rate several times. This affected exporters' willingness (and timing) to buy cashew from traders and negatively affected prices. FUNPI should thus be abolished because its resources have not been spent on their intended purposes, it undermines budgetary revenue, and it can significantly distort cashew prices due to the policy uncertainty it can create. Maybe the strongest argument against FUNPI, however, is that it increases poverty.

**4.26 A 2014 World Bank study suggests that FUNPI drives a wedge between international prices and farm-gate prices, reducing farm-gate prices by about 20 percent (Box 7).**<sup>42</sup> This implies that 80 percent of the cost of FUNPI is borne by cashew farmers—most of whom are poor. The reduction in farm-gate prices translates into an increase in absolute poverty by 2 percentage points and extreme poverty by 3 percentage points, and a reduction in consumption of 8 percent for poor households. FUNPI is thus highly regressive. In 2014, FUNPI was set at 40 CFAF/kg to somewhat mitigate its negative effects. However, a dysfunctional FUNPI might better be abolished altogether. Attracting FDI to promote cashew processing and other sectors is a promising alternative to FUNPI.

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<sup>41</sup> The funds have been used so far for acquiring means of transport for judges, buying 3,500 tons of cashew nuts from one single seller at the very high price of \$1,200/ton with the objective of putting to work existing processing plants, financing the payment of arrears of teachers in 2013, etc.

<sup>42</sup> This effect is based on a FUNPI rate at the original 50CFAF/kg.

### **Box 7: The impact of FUNPI on farm-gate prices, and on poverty**

In 2014, the World Bank studied the effect of FUNPI on farm-gate prices and poverty. The analysis models the relative power of agents along the cashew supply chain—from cashew farmers to traders to exporters—estimating to what extent they are likely to absorb the effect of changes in cashew prices, and to what extent they can be expected to pass on these changes to other agents in the supply chain. The larger agents' individual market shares are the more concentrated and powerful they are. Calibrated for Guinea-Bissau's economy, the analysis shows that concentration across the supply chain is relatively low. The about 39 intermediaries active in Guinea-Bissau's cashew sector are the most concentrated, followed by the 49-51 exporters. Since 85 percent of cashew farmers are very small production units, individual market shares too are small. This means that cashew producers are least concentrated and thus have the least bargaining power.

Cashew farmers bear the brunt of FUNPI. The results are simulated for 2013. A FUNPI tax of 50CFA/kg (106.38 US\$/ton) is paid by exporters. Yet the price traders receive for the cashew they sell to exporters falls by 92.88 US\$/ton, which implies that exporters assume 13.50 US\$/ton (13 percent) of the cost of FUNPI and pass the rest on to traders. Farmers receive 84.95 US\$/ton less, meaning that traders assume 7.93 US\$/ton (7 percent) and pass the rest on to farmers. Traders assume the lowest share of cashew because they are most concentrated. Farmers, who are least concentrated, assume 80 percent of the cost of FUNPI as farm-gate prices fall by nearly 20 percent (Box Figure 3).

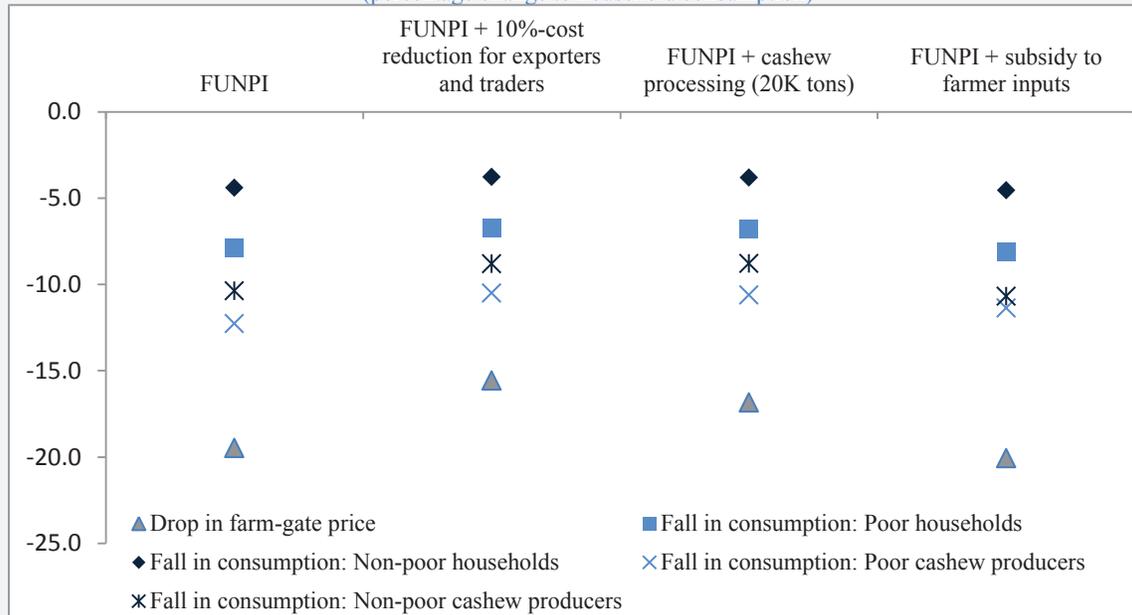
FUNPI results in a fall in consumption of 8 percent for poor households. The results are calibrated based on data from the ILAP II. The results correspond to a 2 p.p. increase in the absolute poverty rate (and a 3 p.p. increase in extreme poverty). The strong effect on consumption is due to the fact that FUNPI especially affects cashew farmers and most cashew farmers are poor. In fact, for poor cashew farmers, FUNPI results in a drop in household consumption of 12 percent. This means that for every dollar spent on consumption, households of poor cashew farmers can only spend 88 cents after the introduction of FUNPI. This is a very large effect, especially in a situation where food is the largest item in the consumption basket. FUNPI thus most likely aggravates food insecurity in Guinea-Bissau.

There is limited scope for policy to counter-balance the negative effect of FUNPI on poverty. The most effective policy would focus on reducing the cost for exporters and traders. Reducing the cost of traders and exporters includes measures that aim for reductions in transport and transaction costs. Some examples, covered in other chapters of this CEM, are improvements in roads, communications, measures that reduce banking and credit costs for traders, or measures that reduce border costs for exporters. Reducing the costs of doing business in the cashew sector raises competition among both exporters and traders, weakening their bargaining power. Assuming a 10 percent reduction in costs to exporters and traders means farm-gate prices would drop by 16 percent, about 4 p.p. less than without the intervention. Yet consumption for poor cashew farmers would still drop by 11 percent. The study estimates that costs to exporters and traders would have to be halved to offset the effect of FUNPI.

Developing a domestic cashew processing industry will not offset the effect of FUNPI on poverty. The objective of FUNPI is to support the development of a domestic cashew processing industry. The World Bank is supporting Guinea-Bissau in setting up 4 processing plants with a capacity of 200 tons each. The study shows that such a small increase in demand for cashew would barely affect the impact of FUNPI on poverty. Using FUNPI resources for a more ambitious increase in production capacity, reaching a total of 20,000 tons (as envisaged by the National Council for Cashew in the longer term) would make a small difference. The new demand of raw cashew for processing would induce additional production but mostly substitute for export opportunities. The

reduction of supply formerly available for exports, would reduce exporters' market share and reduce their bargaining power. Yet the difference would be small and the farm-gate price would still fall by 17 percent and consumption of poor cashew farmers would still decline by 11 percent.

**Box Figure 3: Effect of the introduction of FUNPI tax and complementary policies on farm price and household consumption.**  
(percentage change to household consumption)



Source: G. Porto and W. Cont, "Measuring the Impact of a Change in the Price of Cashew Received by Exporters on Farm-Gate Prices and on Poverty in Guinea-Bissau," World Bank Policy Research Working Paper (2014).

Subsidies will not offset FUNPI either. Finally, the study simulated an interaction between FUNPI and price support measures for farmers, such as subsidies for seeds or fertilizers. Subsidies would induce a positive supply response. Higher quantities result in lower prices, so the effect of FUNPI on farm-gate prices would be magnified. However, this magnitude is small, at about 0.6 p.p. in addition to the drop in farm-gate prices directly attributable to FUNPI. However, the additional quantities sold would benefit farmers. This, however, first assumes that farmers can easily sell all additional cashew they harvest, which is not necessarily the case in Guinea-Bissau. In addition, even if subsidies reduced cashew farmers' input costs by 10 percent, poor cashew farmers would still see their consumption decline by 13 percent in response to FUNPI.

Abolishing FUNPI is the most pro-poor policy available. Especially since FUNPI has not been used for its intended purpose to develop the agribusiness sector, it can be considered to have failed, at a huge cost to the poorest Bissau-Guineans. Abolishing FUNPI would return those resources to cashew farmers, to feed their families and invest in their farms, which are better ways of spending the resources that currently feed a dysfunctional FUNPI.

**4.27 While scoping for new sources of revenue, improving the efficiency of collections at the port will be crucial.** The streamlining of import/export procedures should be accompanied by a renovated customs administration framework. This will help the government strengthen customs laws and administration for more predictable taxation and increased revenue. Priority should be given to establishing a simple and transparent system that could fit the needs of such a small country and encourage foreign private investment. It could include streamlining of the current information system SYDONIA++ and interface it with Treasury.

4.28 **Fishing licenses are a potential source of additional revenue.** Revenue from fishing licenses is comparatively low in Guinea-Bissau, contrasting significantly with other West African coastal countries such as Cabo Verde, Senegal, and especially Mauritania. One key reason for the low value of individual fishing licenses issued by the authorities is that fishermen know that Guinea-Bissau does not have any enforcement mechanisms to deter illegal fishing. Should the authorities decide to increase the price of individual licenses, they are fully aware that this would create a strong incentive to fish without a license, at little or no risk of being caught. Even the national artisanal fishermen have a purely informal activity generating no revenue for the government. Another reason is the strong bargaining power of major international fishing fleets. Both building the capacity to enforce the legal fishing regime and supporting the government in negotiating revenue from fishing fleets will be important. On the latter, reforms strengthening the PFM system will be complementary as major fishing blocks, such as the EU, will be more willing to pay higher fees for licenses if it can be ensured that the revenue will not leak but rather be used for the benefit of Guinea-Bissau's citizens.

4.29 **There is an urgent need to strengthen tax laws and improve administration in order to increase revenue.** Apart from revenue from licenses, the government will need to both diversify its tax base and collect taxes more efficiently. Improved business processes can increase total tax revenue without increasing the tax rate by collecting actual tax payables more efficiently. Priority should be given to establishing a simple and transparent system that could fit the needs of such a small country, where the private sector is still in its infancy. Reducing the burden associated with tax payments for companies will not only help the private sector grow but also provide weaker incentives to avoid paying taxes. This would strengthen the collection effort.

4.30 **The government should enforce the Treasury single account (TSA),** so as to ensure that all receipts (including small, internally generated revenues from Education, Health, and other sector institutions) are collected by Treasury agents and transferred without delay to the TSA. This would facilitate cash forecasts and cash management, avoid additional borrowing costs for the government, and restore control over public resources for better service delivery.

### 3. IMPROVING PUBLIC ADMINISTRATION

4.31 **Enhancing the ability of Guinea-Bissau to improve its economic, social, and political situation rests, in part, on its ability to manage and develop an effective public administration.** The World Bank's experience in fragile states suggests that, irrespective of the investment that is made in infrastructure, the growth impact of a boost to sector hardware will only be short-lived, as Guinea-Bissau's experience itself evidenced in the past decade, if that boost is not accompanied by a rapid upgrade in the essential software of effective public institutions.

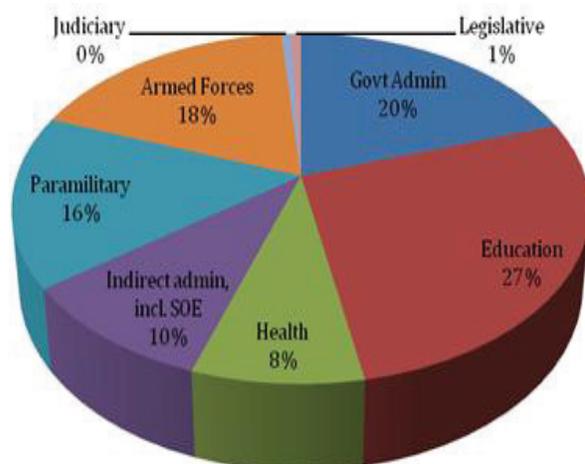
4.32 **Improving public administration and ensuring a positive impact on governance requires a two-fold effort in Guinea-Bissau.** On one hand it implies developing a functioning public administration management infrastructure able to track the evolution of the workforce over time. Additionally, it requires a fundamental change of culture, away from a clientelistic and personal approach to personnel management and towards a more professional and results- and service delivery-oriented one.

4.33 **In 2009/2010, the government completed, for the first time in recent memory, a full-fledged audit of its public administration, which has revealed important information about its composition.** The cleanup exercise identified 3,378 ghost workers and double dippers, or 15.2 percent of the total employment for the government of Guinea-Bissau. This data is consistent with similar exercises undertaken around the world. After the cleanup exercise, the total size of the public administration is estimated at 18,317 employees, excluding the armed forces, and 22,317 including the armed forces. Of these, 12,450 are considered civil servants.

4.34 **By sub-regional standards, Guinea-Bissau's public administration is large.** At just 1.45 percent of the population, public employment in Guinea-Bissau is above that of Senegal (1.1 percent) and comparable to some of the largest in the region, such as Ghana and Mauritania. All of these countries are lower-middle income countries with much larger revenue bases. There are more workers in the public sector than there are in the private formal sector.

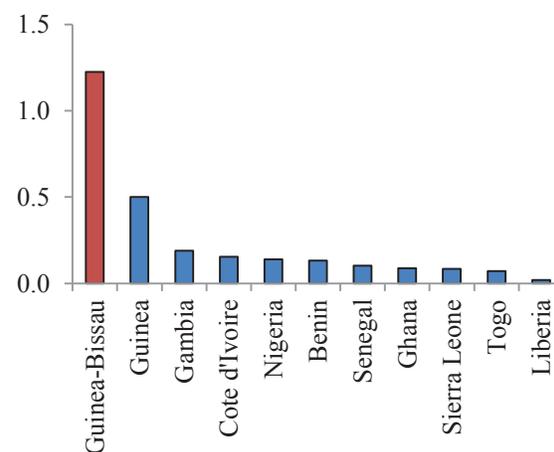
4.35 **Although the administration is large, some crucial areas are understaffed while others may be overstaffed.** The efficiency of public administration in Guinea-Bissau is hindered by the composition of the civil service. Sectoral disaggregation of data highlights the large relative size of the military and paramilitary sectors compared to overall public employment, while it clearly demonstrates the relative inadequacy of the size of the education and health sectors in Guinea-Bissau (Figure 54)—just 35 percent of total public employment against a worldwide average of 45 to 55 percent and a regional one of 40 to 50 percent. While there are too few civil servants in health and education, there are many in the armed forces, but also in other sectors, such as customs. Figure 55 suggests that the number of customs officials in Guinea-Bissau is disproportionate to the country's trade volume, raising broader questions of the allocation of human resources in Guinea-Bissau's public service.

**Figure 54: The armed forces and paramilitaries account for a large part of public employment**  
(percent of total employment, 2010 data)



Source: *O Recensamento Biometrico da Administracao Publica da Guiné-Bissau*, 2010, Ministerio da Funcao Publica, Trabalho e Modernizacao do Estado. For Military Data, *The Military Balance*, 2010 (International Institute for Strategic Studies).

**Figure 55: Given modest trade volumes in Guinea-Bissau, the number of customs officials is large**  
(customs officials per million US\$ imported or exported)



Source: World Customs Organization (2013) and World Banks staff calculations.

4.36 **According to publicly available data, the paramilitary and military sector employs over 7,000 or 35 percent of total public service employment.** About 4,000 of these are active military personnel, while another 3,551 are paramilitary. Although this size is similar to the average in WAEMU, the number of security personnel per population remains very high: there are almost 5 soldiers per 1,000 inhabitants in Guinea-Bissau, compared to a regional average of 1.23. This compares to one physician and 2 nurses per 10,000 inhabitants, 146 magistrates for a population of about 1.6 million people and 9 judges per 100,000 people. In the long-run, lowering the ratio of the military in total employment will be necessary—as well as a re-organization of the military to recalibrate the highly disproportionate number of senior officers to lower ranks. However, in an environment of fragility, curtailing the rents of the army without its consent is highly risky. While providing ‘carrots’ to soldiers for leaving the armed forces and either pursue a

civilian profession or retire may be possible, restructuring the armed forces against their will is only likely to prompt another coup.

4.37 **Some public employees are not officially registered as civil servants.** The size of unofficial employment—i.e. not validated by the *Tribunal de Contas* and the Ministry of Public Administration—is not known. However, available information suggests that the number is large and almost fifty percent of these employees without a remuneration code are in the education and health sectors. These employees receive a bonus only, and are only paid occasionally, often thanks to contributions from development partners. Formalizing workers in sectors which are currently understaffed should be a priority.

4.38 **Viewed over the span of the last 15 years the size of the civil service has grown dramatically. Adjustments may be necessary.** Employment in public administration over the past fifteen or so years in Guinea-Bissau has risen by an average increase in excess of 4 percent per year—well outpacing population growth or revenue growth. The information that is available indicates that there has been a large and dramatic increase in the ranks of general administration and education, especially, and a moderate increase in the health sector. These increases can in part be explained by government attempts to cope with a dramatic rise in primary education enrollment, for example. Despite these explanations, and given the generally inadequate service delivery on the part of public administration, the sheer size of these increases in employment are difficult to explain, as service delivery has only marginally improved. An inefficient public service does not justify the tax revenue that finances it. The resources channeled toward financing the public sector might in this case be used by the private sector more productively. It will be vital to adjust the structure of the civil service to meet public policy needs, by filling positions in the right places, building the skills of civil servants, but also downsizing where inefficiencies persist.

4.39 **The public sector wage bill needs to be contained.** Salaries represented about 50 percent of current expenditures and about 35 percent of total expenditure in 2013. This corresponded to about 60 percent of domestic revenue and 41 percent of revenue including grants. In percent of GDP, public wages are in excess of 5%. This is slightly below the WAEMU average of about 6 percent. However, the WAEMU average is quite high by international standards. It will be crucial to contain the wage bill, especially against low revenue performance, and improve the efficiency of the public sector.

4.40 **Given the current age profile of the civil service, reform of the civil service can partly be managed through attrition or voluntary retirement schemes and through a very careful and targeted hiring policy.** Bissau-Guinean civil servants are uncharacteristically old by developing country standards, with almost 65 percent of civil servants being 40 years of age or older. This, however, presupposes the ability of the government to enforce mandatory retirement rules, on one hand, and on the other the public sector's ability to plan its hiring carefully. Focus should be placed on contractual and non-confirmed employees. Insofar as they are non-tenured and they do not bring a significant value added to the delivery of services in the public sector, this class of employees may be scrutinized further for rightsizing. In future, the government should refrain from employing civil servants unofficially.

4.41 **Better planning tools for human resource management will be important to ensure that the right civil servants are in the right job.** This includes (i) the development of systems and processes capable of accurately tracking civil servants from the time they enter public administration to the time they pass away; (ii) development of forward-looking tools to inform the discussion about human resources planning within a realistic and well-defined budgetary envelope. With regards to the first objective, the key to ensuring tight management of the wage bill lies in the development of a sound transaction-based system to track personnel actions. With regards to

the second objective, each ministry must develop a recruitment policy in line with its policy priorities and cognizant of the government's constraints in the area of public finances.

**4.42 Better hiring procedures would raise the suitability of civil servants for their jobs.** Testing requirements for the hiring of new public servants should be put in place and enforced for all new hiring. Developing such new testing procedures and applying them is a sophisticated task that at first could be outsourced to an external, independent, and international company. Outsourcing the hiring process would also reduce clientelistic involvements in the hiring process that often get in the way of hiring people purely based on suitability of the job.

**4.43 There is also a considerable need to strengthen the capacity of civil servants.** The latest civil service census confirmed the widely held belief that civil servants in Guinea-Bissau lack the necessary formal education to capably undertake the required functions of a modern civil service. Only 14.2 percent of public employees hold a bachelor degree or above, while over 24 percent have six years of formal education or less. Almost as many employees indicated that they do not know how to read or write as those that hold doctorates. Rightsizing and better hiring procedures will only work up to a point. It is important to bear in mind that education is relatively low overall in Guinea-Bissau and hiring the right people from a pool of relatively low-skilled applicants along will not necessarily increase quality. On-the-job training will have to be provided.

**4.44 The training of public servants requires a multi-pronged approach.** The National Institute of Public Administration (ENA) was set up as a means to provide the administration with suitable higher-level administrators with specific skills, such as public budgeting, auditing, and management. It is important to maintain a very narrow scope and mission of the ENA, and that is to develop the skills of a select number of civil servants who will have the opportunity to staff the administration at the levels of Head of Service and higher. In order to maintain the system's effectiveness, the training of the lower grade will require the development of different instruments and institutions, perhaps even using the public university as a vehicle for such training. A comprehensive development strategy—a synthesis document—capable of defining both the technical and general requirements of specialized civil servants will need to be developed and costed.

**4.45 For all civil service reform, it is crucial to have an updated database of all civil servants.** Recently, the government made some progress on centrally registering all civil servants. The *Folha Unica* is one major achievement, partially a consequence of World Bank support to pay education and health workers, which was conditional on a complete *Folha Unica*. However, in August 2014, a computer containing this register of civil servants, including biometric information, was stolen and no back-ups were available. An important first step of civil service reform is to re-build this database—and to back it up thoroughly.

#### **4. SOCIAL ASSISTANCE PROGRAMS: ADDRESSING IMMEDIATE NEEDS IN A WEAK INSTITUTIONAL SETTING**

**4.46 Building public sector institutions will take time, and putting too much pressure on weak institutions could overpower administrative capability.** Reforms take time and even in fastest reforming countries in Africa (see Box 1), improvements to government effectiveness have taken decades. Placing too many demands on the government too early on can result in set-backs. Being too ambitious on the reform agenda can result in a capability trap where demands become unrealistic, resulting in resistance to change and derail the reform effort.<sup>43</sup> In the worst case

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<sup>43</sup> Lant Pritchett, Michael Woolcock, and Matt Andrews, "Capability Traps," Working Paper 234. (Washington, DC: Center for Global Development, 2010).

scenario, too ambitious reforms will have serious, negative unintended consequences. Thus, reforms will need to be paced.

**4.47 Social assistance programs, such as cash transfers, can encourage private sector solutions to public policy failures.** While public administration is being reformed, the government could transfer cash to the poorest to address immediate needs, but also to place agency in the hands of those without resources to find solutions to their own problems. For example, there will be no need for (generally inefficient) energy subsidies if the poor can pay the market price for transportation due to cash transfers. Chapter 6 will provide additional ways in which social assistance programs empower the poor. Setting up such a program could be one way for the government to deliver immediately on its social protection goals without overwhelming the public sector. The advantages of social assistance programs in Guinea-Bissau are many:

- ***Addressing immediate needs and ensuring stability.*** While in the longer-term the government would optimally aim to deliver poverty targeted services across a range of areas, in the short-term it needs to be selective. Research has shown that social assistance programs, such as cash transfers or public works programs, are an effective mechanism for reducing poverty very quickly (Box 8 provides but one example). In particular, it shows that families tend to use them to meet immediate demands, rather than for unnecessary luxuries. Crucially, they provide assistance that vulnerable children and the elderly would otherwise struggle to secure, and can also help facilitate disarmament, demobilization and reintegration. Cash transfers have also been shown to promote social cohesion, a sense of citizenship and reduce conflict.<sup>44</sup> In this sense, such programs can provide a Democracy Dividend which clearly and immediately shows the benefits of a return to democratic rule and raise the bar for further disruptions. Indeed, the government's 2014 *Programa de Estabilização e Desenvolvimento* recognizes the need for rapid assistance for the poor (especially with respect to food). Cash transfers can be an efficient way of achieving this, by providing families with the financial resources to buy basic necessities through existing distribution networks.
- ***Social assistance programs are relatively easier to administer, more effective and less prone to wastage (better targeted and hence more effective) and capture than some other policy options such as subsidies.*** Nevertheless care must be taken to manage proper targeting and administration to avoid elite capture, especially in a setting of weak institutions. But, with the appropriate technical support, low capacity governments can effectively implement cash transfers programs. The challenges relate to identifying and enrolling the target population, setting conditions (if any) and the size of the transfers, setting and enforcing exit and entry rules, and deciding on complementary services. In countries where complementary services such as education and health are scarce or of poor quality, unconditional cash transfers – or cash transfers with “soft” conditions that encourage families without penalizing – may be the best starting option.
- ***Social assistance programs can be a building block for developing greater government capacity in the longer term.*** Designing and implementing a cash transfer program will require public sector involvement in design and implementation. Any reform program requires data for determining the problem, establishing baseline values, and setting progress benchmarks. Registration for a cash transfer program is perhaps one of the simplest ways the government can collect detailed demographic information on its poor and vulnerable population, which can be used to plan and monitor impact of its programs, and to target other programs. Also, as citizens get access to funds, they will likely increase their demand for complementary services such as education and health, which the government will need to

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<sup>44</sup> Source: OECD (<http://www.oecd.org/development/povertyreduction/43280571.pdf>).

provide, and this virtuous cycle can help create the right incentives for better public service provision.

**4.48 Social assistance programs can provide immediate assistance to the poor while providing the government with space to build core competencies.** Providing the poor with resources will reduce the government's need to address their needs. This would make room to build capacity in the areas in which cash transfers are not the solution, including large infrastructure investments such as the port or energy), regulation, policing, and health and education—even though with sufficient resources, private sector-solutions could be found in these latter areas as well. As the government focuses on delivering specific services well, its legitimacy will increase which, as argued in chapter 1, can strengthen the rule of law and reduce fragility.

**Box 8: Providing immediate relief to the poor: Cash transfers in Ethiopia**

**The Productive Safety Net Program (PSNP) in Ethiopia is a good example of a successful cash transfer program in a poor and unstable country.** The catalyst for the program were recurrent food crises in the 1980s and 1990s, which subsequently led to considerable social unrest. At that time, donors tended to respond to the situation on an ad-hoc annual basis, often providing aid in the form of food. The Government of Ethiopia asked the donor community to fund a multi-year cash transfer program that would allow local communities flexibility in responding to food crises by providing a social safety net. The project has received substantial assistance from the World Bank, the World Food Program, and also bilateral aid agencies from Canada, the United Kingdom, and the United States.

**The PSNP has been a well-targeted program.** It began in 2005 and has cost about US\$ 400 million per year, of which donors finance about 75 percent and the Government of Ethiopia funds the balance. The program has two components, cash transfer for food insecure households – mostly through cash-for-work activities, and a smaller capacity building element. Because the purpose of the program is to target the most food insecure households and because the Government of Ethiopia believes that communities are the best positioned to identify the poorest households, the program was highly decentralized. The Government of Ethiopia designed a system that ensured the targeting of regions and communities were constantly revised, depending on patterns of vulnerability and shocks

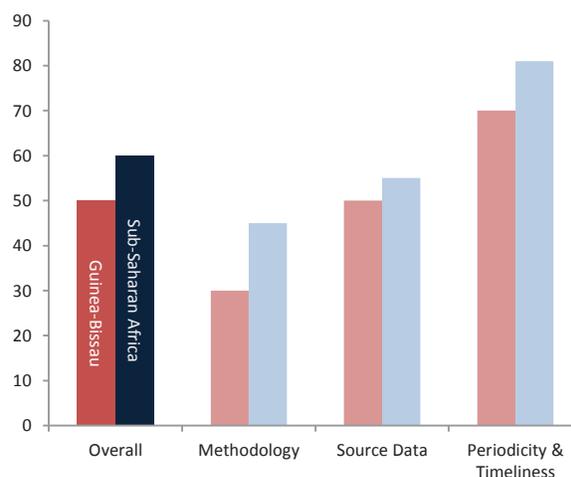
**The program has been successful both in reducing household vulnerability to food shortages and in improving local infrastructure, such as schools, health clinics, roads, and irrigation.** The program has also evolved from providing emergency assistance to taking a more preventative approach, including developing contingency funds that are triggered when the early warning system indicates a looming food shortage, thereby providing households with support ahead of the shortage. According to the World Bank's Independent Evaluation Commission, the "PSNP has formed the backbone of safety net activities in Ethiopia...[it] demonstrates what can be achieved in a low income country with limited capacity and high levels of poverty."

## 5. STATISTICS FOR EVIDENCE-BASED POLICY MAKING

4.49 **Investing in statistical development is a core public investment in improving governance.** Policy design and planning in Guinea-Bissau has taken place without accurate data, and oftentimes with no data at all. International experience has demonstrated that the availability of accurate data improves the administration's capacity to develop better policies. Data enables: (i) situational analysis and an improved understanding of the underlying developmental mechanisms; (ii) improved policy, program, and project design, and the development of more tangible quantitative targets to specific policy objectives; (iii) improved policy impact analysis; (iv) strengthened monitoring and evaluation capacity for policies and programs, and in the management of sector ministries; and (iv) improved access to information for policymakers and the public.

4.50 **The World Bank Statistical Capacity Score for Guinea-Bissau is 50** (Figure 56), which is considerably lower than the average score of 60 for Sub-Saharan African countries, placing Guinea-Bissau among the lowest-scoring countries in the region and in the world. Serious efforts have been made in recent years and scores have improved somewhat, indicating that there has been progress on the administration's capacity to gather data, especially in those areas supported by donors.

**Figure 56: Statistical capacity is weak in Guinea-Bissau.**  
(statistical capacity score, higher is better)



Source: The World Bank, Statistical Capacity Indicators

4.51 **The Guinea-Bissau Statistical System is anchored in a solid institutional framework, but one that has yet to be fully implemented.** A statistics law<sup>45</sup> of September 2007 defines the objectives and institutions of the National Statistical System (NSS – *SEN*) and their composition, domains of intervention, and attributions. The overall NSS is under the authority of the Prime Minister, with delegation to the Minister of Planning. The NSS includes three main institutions: the Superior Council of Statistics, the National Institute of Statistics (INE), and INE-Delegated Institutions (For a detailed description of the NSS, see Bilan de l'existant,<sup>46</sup> INE, March 2010). INE is the main institution in charge of the production of statistics in Guinea-Bissau. This framework is consistent with general international practice and, as such, could be considered effective. Yet to date, the government has not submitted the decree of application, and as such, the law has not been effective.

4.52 **Individual ministries also produce data, but its quality is uneven.** There are in fact 23 statistical units within ministry agencies, each operating under the direct control of its respective ministry. The mission and objectives of these units are not well-defined and, predictably, cooperation within ministries is poor. For this reason, improving collaboration among all statistics producers in Guinea-Bissau is a priority, to ensure the harmonious application of methodology and standards.

<sup>45</sup> Law N° 6/2007 of 10 September 2007.

**4.53 In terms of data production, a review of the survey activity of the past ten years reveals an over-reliance on the support of development partners, which has led to a lack of capacity development and a haphazard collection of key data.** Over the past decade, a significant number of statistical surveys have been conducted in Guinea-Bissau,<sup>46</sup> backed by donor support, both in funding and through the provision of technical assistance. Predictably, the selection of topics surveyed, the calendar and implementation, and the methodologies and questionnaires of the surveys and censuses were determined by development partners' interest and funding availability. Accordingly, while useful one-off data was produced, it has neither led to an increase in national statistical capacity, nor does it allow systematic reviews of the situation of the country over time.

**4.54 Regular data collection enables reliable time series, which in turn can provide significant information for policy formulation.** In Guinea-Bissau, this is not the case. Population censuses, for example, are usually conducted after 12 years, and again after 19 years. Poverty data, usually collected every three years, was collected for the first time in 2002 and again in 2010, making time-series analysis difficult. For the MICS survey, the situation is better, the dates of data collection being 2002, 2006, and 2010. The statistical production of the national statistical system of Guinea-Bissau by general domains can be found on INE's website.<sup>47</sup>

**4.55 The production of routine administrative data remains incomplete, unreliable, and haphazard.** It is produced by the 23 sector statistical units (SSU) within each ministry and covers a large number of socio-economic domains. In some critical fields, such as civil registration, governance, and environment, information has not been routinely collected, while in certain fields where the information is collected, statistical reports have not been produced.<sup>48</sup> The time lag between the year of data collection and the publication of the report varies from sector to sector and is frequently excessive, but there has been some progress in certain sectors.

**4.56 Storage, management, and dissemination of statistical information is neglected and poor.** Existing survey reports are not usually disseminated, there is no calendar of publication release, and no outreach activities are undertaken to let users and the public know about NSS data production. Moreover, rarely are national or sectoral databases or yearbooks developed to take advantage of the available information and disseminate it. Finally, no policy currently exists concerning access to data, which means that there is no defined responsibility for storing relevant information, nor a precise procedure to ensure the systematic access to data from users. Beyond technical constraints, the lack of dissemination is directly related to the absence of a "statistics culture" within the public sector. Statistics are currently mostly used by donors. Making data accessible to both public sector employees and also civil society at large has the potential to improve public policy.

**4.57 Like the rest of public administration, the statistical sector has limited qualified capacity and few financial resources to undertake this fundamental development task.** The

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<sup>46</sup> Mainly focused on population, poverty, and living conditions, health and demography, firms, etc.

<sup>47</sup> The information included in the INE website comes from different sources, and probably should be revised and completed. It should also be noted that if the administrative data are focused on one sector, survey data provide statistics on a wide range of sectors, so the breakdown by domains is not mutually exclusive. For instance, it is possible to find data on education in every survey, whatever the topic. These domains have yet to be normalized and adapted to Guinea-Bissau's specificity in order to normalize statistical production itself. An attempt at such normalization is proposed in the paper "*Annexe au Bilan de l'existant*" and will be discussed during the NSDS process.

<sup>48</sup> This is the case of Employment, Social Security, Transportation, Telecommunications, and Tourism.

statistical sector is composed of 447 staff for the entire NSS,<sup>49</sup> of which only a handful are considered “cadres.” Out of the 447 staff, only 4 percent have an academic background in statistics, demographics, or computer science—well below the staffing levels needed to begin delivering quality information.

**4.58 Four axes of development have been proposed to strengthen Guinea-Bissau’s National Statistical System:**

- Strengthen the institutional framework and coordination by: (i) improving the institutional and organizational framework, and (ii) strengthening statistical coordination.
- Increase the data production capacity of NSS actors by: (i) engaging qualified personnel in statistics and demography, and (ii) improving the working conditions of statisticians across NSS.
- Improve data production by: (i) producing socio-demographic and economic data disaggregated, for 2011-2015, (ii) producing administrative data—reliable and frequent—for the 11 priority domains of DENARP, and (iii) improving the overall quality of NSS production.
- Promote, disseminate, and use statistics by: (i) improving archiving and dissemination of statistical data, and (ii) advocating the use of statistics.

**4.59 Building sustainable, efficient, and relevant statistical systems will require addressing four key challenges: (i) strengthening and making explicit the demand; (ii) mainstreaming statistics development; (iii) giving NSDS the reference role; (iv) disseminating; and (v) making the statistical system efficient:**

*Strengthening and making explicit the demand*

**4.60 In many cases, there is a demand for data such as for DENARP II or the MDG indicators, but it is not translated in statistical operations and support to the statistical system.** It is essential to make every user or potential user aware of the statistical operations necessary to produce the data, and to facilitate the dialogue between the two groups as a means of anchoring the statistical system in the overall development environment. International experience suggests that bringing objective data into the discussion has had positive repercussions in labor negotiations, as well as strengthening the constructive oversight of the legislative branch and civil society.

*Mainstreaming statistics development*

**4.61 Statistical development should be considered a regular part of the development agenda.** It is often considered as a technical, ad hoc matter. Considering the use of statistics, it should be discussed at almost every step of the development process, from overall development strategies such as DENARP II to sector policies and programs. A systematic reporting on statistical capacity and results from the NSS should feed this mainstreaming. In addition to that, just like for most other capacity development concerns, the development partners and the government should focus on developing sustainable capacity to undertake statistical data production, analysis and dissemination.

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<sup>49</sup> On several occasions, an attempt has been made to propose benchmarks about the number of statisticians per capita, without any convincing results.

### *Giving NSDS the reference role*

4.62 **The national strategy is a key element of the renewal of statistics in Guinea-Bissau.** It will define the country vision of statistical development, presenting an overall picture that will enable all participants in this agenda to clearly define their areas of intervention in the context of a broader plan. Improved planning and coordination between different government agencies and with the donors will ensure the most cost-effective and efficient statistical development.

### *Dissemination*

4.63 **The dissemination of statistics coupled with public access to data should be the cornerstone of statistics production.** In fragile countries, where data production is less prevalent, dissemination is even more vital. An urgent objective could be to make all existing data accessible using international standards, such as the ones developed by the International Household Survey Network (IHSN) and Accelerated Data Program (ADP), and to develop and enforce an open data access policy. A national database and an updated web site are the key outputs of a renewed dissemination policy. Use of the Internet, and availability of data in public places, such as libraries, government buildings (municipal buildings, ministries and embassies, for example), or the creation of information offices should be considered in the context of an overall framework to improve dissemination and availability of data.

### *Making the statistical system efficient*

4.64 **The statistical development and data production in fragile countries face several harsh constraints, including the low human resource capacity and limited financing.** It is therefore imperative that both resources be used in the most efficient way possible. Based on past performance and international comparators, benchmarks on statistical production could be established for each participant in the statistical development and dissemination process. Moreover, it is essential that a framework for the systematic review of statistical information be set up.

## **6. POLICY IMPLICATIONS**

**Building public sector capacity in a fragile environment requires a careful balancing of needs and priorities with expectations, while considering available resources and capacity.** Overburdening a weak public sector can lead to significant setbacks, while not delivering can create frustrations and undermine good will. Proper controls are crucial to build confidence, both domestically and with partners. The following policy recommendations are crafted with these elements in mind:

- **Make the budget the main policy instrument which determines expenditure priorities.** This will require an investment in the budget elaboration, including a real consultation and negotiation process, led by someone with the competence and authority to assess proposals, negotiate with spending units, arbitrate amongst competing priorities and take final decisions on budget priorities. The incoming government has the opportunity to do so with the 2015 budget exercise. Technical assistance may be required.
- **Strengthen PFM.** Regain the advances made on the PFM reform agenda by (i) promulgating and enforcing WAEMU related legislation (ii) using SIGFIP to capture all approvals, commitments, expenditures and produce relevant reports (iii) ensure timely budget monitoring through quarterly budget execution reports (iv) ensuring the full functioning of the budget controller's office (v) significantly limit the use of exceptional budget procedures
- **Put in place proper expenditure controls.** Line managers must be willing to control and reject expenditures which are not in line with policy priorities as outlined in the national

budget. The defunct Treasury Committee could be a useful instrument to impose such control, help to screen expenditures from a policy angle and to ensure effective cash management and fiduciary controls, all of which are necessary in Guinea-Bissau. Inviting donors to participate as observers in such a committee would also help re-build trust. All budgetary expenditures and timely budget reporting should be done through SIGFIP.

- **Increase tax revenues:** There is room for significantly increasing domestic revenues through more effective tax collection. Options include improved business processes and establishing a simpler and more transparency tax system. Fishing licenses, and improved tax collection on large enterprises, including SOEs are other areas of potential improvements. Enforcing the Treasury Single account (TSA) is essential for a close monitoring of receipts. Government should avoid regressive taxes which negatively impact the poor.
- **Right-size the public sector over the medium term:** The current wage bill, which is at 137% of domestic revenue, compared with a WAEMU standard of 35%, is clearly unsustainable. The public sector is unbalanced, over-sized and underpaid. While some crucial social sectors are lacking staff, others are over-staffed. Government should urgently examine different scenarios and options for reforms given current needs, including staff reductions through attrition, reallocation of staff, targeted hiring, a revision of wages and benefits, including benefits to former top civilian and military personnel, and improved payroll management,
- **Deliver services while avoid overburdening the public sector.** Government should use targeted social assistance programs, including cash-transfer schemes which can be implemented in a weak institutional environment, and which is effective way of providing alternative solutions where public policy has failed. They have the benefit of addressing immediate social needs without overloading a weak public sector, all the while delivering benefits to the population, building trust, stability and legitimacy and reducing poverty, while taking the time needed to slowly build public institutions.
- **Prioritize the timely collection, treatment and production of statistics to guide and measure national policies for development and poverty reduction** through (i) Strengthening and making explicit the demand for statistics; (ii) Mainstreaming statistics development; (iii) Giving NSDS the reference role; (iv) Disseminating; and (v) Making the statistical system efficient.

## CHAPTER 5: PARTNERSHIPS FOR GREATER IMPACT

### 1. INTRODUCTION

5.1 **Guinea-Bissau's development and governance challenges are formidable, but the freshly elected government can count on a large number of partners ready to assist.** Partnerships beyond national borders, with donor organizations, civil society groups, and also regional organizations are vital in supporting efforts to stabilize the economy and promote economic development. Contributions from bilateral and multilateral donors play an enabling role in helping developing countries to finance parts of their expenditures, and to service their public debt. Apart from traditional ODA from multilateral institutions and developed countries, civil society organizations also play an increasingly prominent role in providing basic services to vulnerable and excluded segments of the population; partnerships through regional trade agreements can also be beneficial for regional infrastructure and attracting FDI, and even initiatives to strengthen governance.

5.2 **Donors are important partners for Guinea-Bissau as they provide both financing and technical assistance. Strong fiduciary safeguards and donor coordination are vital to maximize their development impact.** Domestic revenue is weak in Guinea-Bissau and the country depends on external financing to make key investments, including those envisioned under the turnaround agenda. However, aid can undermine institutions, which is particularly dangerous in an already fragile environment. This chapter will thus reinforce the point made in chapter 4: a strong PFM system is vital to ensure that donor resources are used for their intended purposes. Before the PFM system is adequate, donors should refrain from using country systems. The second key ingredient to ensure that donor assistance is effective is that donors strongly coordinate their efforts, both in the areas of financing and technical assistance.

5.3 **Regional organizations have a track record in Guinea-Bissau for supporting governance.** Empirical studies suggest that countries that are better integrated economically are more stable and less likely to experience civil conflict.<sup>50</sup> Regional integration can create trade flows (although it can also divert trade), it can encourage regional FDI and intra-regional infrastructure. Through WAEMU, Guinea-Bissau has gained a stable monetary and exchange rate policies. Yet regional organizations can also play an important political role. Both the African Union and ECOWAS, but also language and culture-based organizations like the CPLP, have been vital in negotiating the transition to democracy after the 2012 coup, for example.

5.4 **Civil Society Organizations (CSOs) are important partners for the government and donors alike.** CSOs are critical in the transition from fragility to stability, usually filling the gaps where there is a lack of political willingness or inability by government to provide basic services to excluded populations. Non-governmental organizations (NGOs), for example, are vital partners in community-driven development (CDD) projects. The government often implements these with financing from donors and implementation in close partnership with NGOs. CSOs are also often key advocates for the peace and reconciliation process, a particularly important role in the context of a fragile state like Guinea-Bissau. The following sections will explore in more detail, how the

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<sup>50</sup> De Soysa, I. and A. Wagner (2003), "Global Market, Local Mayhem? Foreign Investment, Trade Openness, State Capacity, and Civil War, 1989–2000", paper presented at the Joint Sessions of Workshops of the ECPR, Edinburgh; Barbieri, K, and Reuveny, R,.. (2005). 'Economic globalization and civil war'. *The Journal of Politics* 67:1228-47; Ibrahim, E, and H. Hegre (2008.) 'Globalization, Economic Shocks, and Armed Conflict', *Defence and Peace Economics* 19(1): 37-60

Government of Guinea-Bissau can leverage partnerships in order to boost shared growth, with sufficient assistance to avoid the capability trap.

## 2. DONORS AND OFFICIAL DEVELOPMENT ASSISTANCE

### *Aid, institutions, and growth*

**5.5 The empirical evidence on the effectiveness of aid flows on growth has been mixed.** Various studies show that the effect of aid on growth is inconclusive. Positive outcomes of aid's effect on growth have been found especially in the areas of human development and welfare improvement among households.<sup>51</sup> A sound economic environment, coupled with good economic policy to promote trade openness and high trade volumes, low levels of inflation, and fiscal and monetary discipline have all been shown to foster aid effectiveness and spur growth, while aid provided in a strong institutional environment has proved more effective. The strength of the institutional environment, a function of the state's capacity to absorb aid, has been estimated to increase aid effectiveness in countries such as Botswana and Mozambique, while greater civil liberties among the population are found to promote a positive correlation between aid and growth in countries hosting World Bank projects.<sup>52</sup> Other studies, however, have found less positive effects on growth and institutions.

**5.6 It is important to bear in mind that aid can have negative effects on growth.** Aid provides incentive for governments to cut investment when aid declines and to expand government consumption when it resumes unexpectedly.<sup>53</sup> Governments may spend aid money for unintended purposes and foster corruption. If fiduciary controls are weak, aid can constitute another source of rents for elites and increase elite competition. As argued in chapter 1, elite competition is at the heart of fragility. Aid may thus even undermine institutions and inadvertently intensify fragility.<sup>54</sup> There are a number of empirical studies that indicate that aid can have a negative effect on political institution.<sup>55</sup> One study finds that the negative of aid on institutions is comparable in magnitude to that of oil in light of the 'natural resource curse.'<sup>56</sup> In these studies, aid has a negative effect on growth, by undermining the strength of local institutions.

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<sup>51</sup> E.g. Owens, T., and J. Hoddinott, (1999) 'Investing in Development or Investing in Relief: Quantifying the Poverty Tradeoffs using Zimbabwe Household Panel Data'. Centre for the Study of African Economies Working Paper 99-4. Oxford University. Clemens, M. A., S. Radelet, R.R. Bhavnani, (2004) 'Counting Chickens When They Hatch: The Short-term Effect of Aid on Growth', Working Paper 44. Washington, D.C.: Center for Global Development.

<sup>52</sup> Isham J., D. Kaufmann and L. Pritchett (1997) 'Civil liberties, Democracy, and the Performance of Government Projects'. *World Bank Economic Review* 11(2): 219-242; Dollar D., and C. Burnside (2004) 'Aid, policies, and growth: Revisiting the evidence'. *World Bank Policy Research Working Paper* 3251.

<sup>53</sup> Celasun, O. and Walliser, J. (2008) 'Predictability of aid: Do fickle donors undermine aid effectiveness?' *Economic Policy*, 23: 545-594.

<sup>54</sup> Grossman, H.I and M. Kim (1996), 'Predation and Accumulation', *Journal of economic Growth* 1:333-351. ;Boone, P. (1996) 'Politics and the Effectiveness of Foreign Aid', *European Economic Review*, vol. 40, 289-329. ; Remmer, K. (2004) 'Does Foreign Aid Promote the Expansion of Government?' *American Journal of Political Science*, vol. 48, 77-92. ; Knack, S (2004) 'Does foreign aid promote democracy?' *International Studies Quarterly* 48: 251-266.

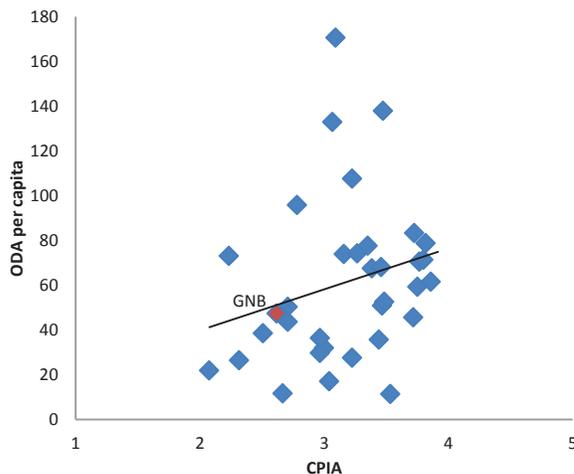
<sup>55</sup> E.g. Reinikka, R. and J. Svensson (2004) 'Local Capture: Evidence from a Central Government Transfer Program in Uganda.' *Quarterly Journal of Economics*, 119 (2): 679-705.

<sup>56</sup> Djankov, S., J. G. Montalvo, M. Reynal-Querol (2008) 'The Curse of Aid.' *Journal of Economic Growth* 13(3): 169-94;

**5.7 The absorptive capacity of fragile states is low, affecting their returns on aid and its impact on growth.** Fragile states may be over-aided, as they lack the capacity to effectively absorb higher aid levels—the capability trap described in Chapter 4. Countries that lack the capacity to carry out basic governance functions tend to have poor accountability and limited service. Estimates suggest that, with a lack of strong institutions, the effectiveness of aid in fragile states declines about seven years following the end of a conflict, with evidence from Mozambique, Uganda, and Sierra Leone showing that aid can in fact support growth for rebuilding following a civil conflict, even in the absence of strong institutions.<sup>57</sup> Providing technical assistance to strengthen governance, along the lines suggested in chapter 4, executing projects through Project Implementation Units (PIUs), leveraging the support of NGOs, but also providing resources to the poor through social assistance programs, as argued in chapters 4 and 6,<sup>58</sup> may limit the risk of falling in the capability trap.

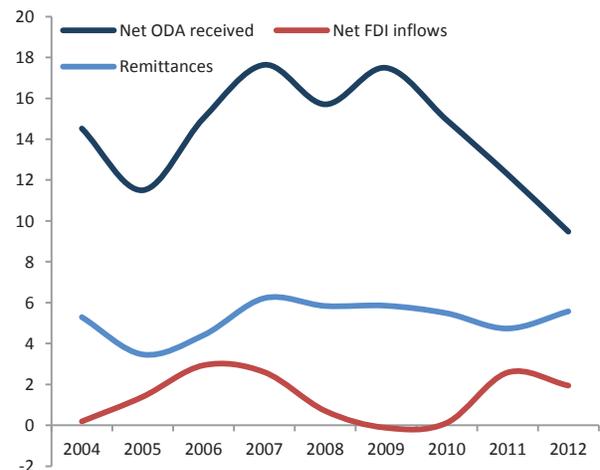
**5.8 Aid is often allocated based on the strength of institutions.** Consistent with the notion that countries with good policies and institutions are better able to attract and utilize aid effectively, Guinea-Bissau’s CPIA rating and ODA per capita (Figure 57) reflect the fact that donors tend to reward governments with quality institutions by allocating resources to countries based on their institutional quality. The donors’ response to the 2012 military coup was consistent with this policy, as coups are among the strongest manifestations of a failure in governance: ODA plummeted (Figure 58).

**Figure 57: Stronger institutions are associated with more ODA**  
(CPIA score and ODA per capita)



Source: World Development Indicators.  
Note: The Country Policy and Institutional Assessment (CPIA) is a World Bank index measuring the institutional strength of developing countries.

**Figure 58: ODA remains the most important financial inflow in Guinea-Bissau; it plummeted in 2012 in response to the coup**  
(percent of GDP)



Source: World Development Indicators.

<sup>57</sup> M. McGillivray, S. Feeny, N. Hermes, R. Lensink (2006) ‘Controversies over the impact of development aid: it works; it doesn’t; it can but that depends ...’ *Journal of International Development*, 18 (7) : 1031–1050.

<sup>58</sup> See also Harvey, P. (2007) ‘Cash Based Responses in Emergencies’. HPG Report 24, Humanitarian Policy Group, Overseas Development Institute.

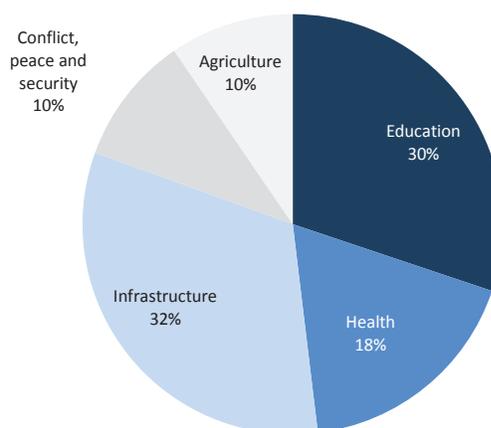
**5.9 Donors reward investments in institutions.** In Guinea-Bissau, donors are likely to be unwilling to channel aid through country systems, as envisaged by the Paris Declaration on Aid Effectiveness. However, if the government implement key reforms to strengthen fiduciary safeguards, donors will be more likely to provide aid through country systems, including non-earmarked support such as budget support. In addition, with public sector reforms, as outlined in chapter 4, donors are likely to be willing to increase their commitments for Guinea-Bissau as leakage is less likely and the government’s capacity to implement critical public policies has increased. Donors also stand ready to provide technical assistance to support the government with these reforms.

*Leveraging donor resources and coordinating donors*

**5.10 Guinea-Bissau is highly dependent on ODA to finance capital expenditures and implement its development policies.** In 2011, it ranked 20<sup>th</sup> among the world’s most aid-dependent countries, and the proportion of aid to GDP is ranked among the highest in Africa. Domestic revenues for the period 2007-2012—mostly financed by grants—were lower than the West African average and those in the rest of the sub-region. Grants to Guinea-Bissau made up almost 10 percent of GDP in 2012. However, declines in external financing owing to the withdrawal of aid by many donors in 2012 and 2013 following the political crisis of 2012 led to a reduction in ODA.

**5.11 The largest share of aid in Guinea-Bissau goes to the education and infrastructure sectors, followed by health** (Figure 59). Education, health, agriculture, infrastructure, and peace and security are considered to be critical for the achievement of the MDGs, enhancing human capital and promoting long-term growth. Spending in these areas is critical for building human capital and improving service delivery efforts, which are expected to increase the productivity of labor in Guinea-Bissau in the long run. Aid flows to the education sector more than doubled from 2009 (US\$9.1 million) to 2010 (US\$18.4 million), then declined sharply in 2012. Portugal, the World Bank, Spain, and France are the leading donors to the education sector in Guinea-Bissau. The infrastructure sector is mostly financed by multilateral donors, especially the European Union and the World Bank. Aid to the infrastructure sector peaked in 2007 as a result of large disbursements made by the EU to support the construction of two bridges along the main road connecting Guinea-Bissau to Senegal, as well as for road maintenance. In 2009, aid flows to this sector accounted for 13.2 percent of total aid but began to decline in 2010 due to political instability and the global economic downturn. Aid to the infrastructure sector picked up again in 2011, increasing from US\$5.8 million to US\$8.9 million, and fell slightly in 2012 to US\$8.5 million.

**Figure 59: Infrastructure and education are the main areas supported by ODA in Guinea-Bissau** (ODA by sector, in percent of total in 2012)



Source: OECD DAC.

The infrastructure sector is mostly financed by multilateral donors, especially the European Union and the World Bank. Aid to the infrastructure sector peaked in 2007 as a result of large disbursements made by the EU to support the construction of two bridges along the main road connecting Guinea-Bissau to Senegal, as well as for road maintenance. In 2009, aid flows to this sector accounted for 13.2 percent of total aid but began to decline in 2010 due to political instability and the global economic downturn. Aid to the infrastructure sector picked up again in 2011, increasing from US\$5.8 million to US\$8.9 million, and fell slightly in 2012 to US\$8.5 million.

**5.12 The primary bilateral and multilateral donors in Guinea-Bissau are the EU, the United States, IDA, Portugal, and Japan, which provide the bulk of total aid.** The largest financial contributor, the EU, contributed a total of US\$14.74 million in 2012 to Guinea-Bissau, representing a 75 percent decrease in aid flows from the EU from 2009 following the global financial crises. The largest increases in aid flows occurred from 2009-2012 and came from the

United States, with aid increasing from US\$1.14 million in 2009 to US\$7.4 million in 2012. Aid from Development Assistance Committee (DAC) donors follows a similar pattern; having reached its peak in 2003 at US\$98 million, it began to decline during the presidency of Kumba Yala. Aid flows from DAC donors once again began to increase in 2006, reaching \$US54.3 million in 2010, before falling to US\$37.2 million in 2012. Donor commitment has been picking up again in 2014, following the elections, and the IMF prepared to re-launch a program, beginning with a Rapid Credit Facility, to be followed by an Extended Credit Facility. Moreover, in recent years, less traditional bilateral donors have begun supporting Guinea-Bissau, including Timor-Leste. Extending partnerships beyond traditional donors is promising.

**5.13 Guinea-Bissau's development partners provide substantial amounts of assistance in many areas. Coordinating them effectively is crucial.** Donor coordination is important for a number of reasons. First, coordination is needed to ensure that the disbursement of donor funds is in line with the government's objectives. Second, it is needed to take capacity constraints into account and avoid the overburdening of authorities with different administrative processes. Third, improved donor coordination can ensure consistency among the programs of different donors. One example to illustrate this is the electricity sector (see also chapter 2). Improving access to electricity is a priority for the government. Yet while one donor may support generation capacity, electricity coverage will not increase if the network cannot absorb additional capacity. Finally, any reforms in the sector would be bound to fail if EAGB's capacity to administer them would not be enhanced. Donors can provide support in all these areas but they need to be well coordinated for a comprehensive and sustainable reform of the sector.

**5.14 Yet aid coordination among donors in Guinea-Bissau remains a challenge.** In addition to decreasing aid flows, there have been few monitoring and coordination activities in Guinea-Bissau, which results in unnecessary waste of scarce resources due to delays, duplication, and overlapping implementation and M&E mechanisms. While donors in Guinea-Bissau tend to coordinate quite well among themselves, it is crucial for the government to take the driver's seat and lead the coordination. A lack of coordination ultimately limits the country's ability to successfully implement the development policies that will allow it to provide public services and achieve the MDGs. At the government level, no clear institutional framework for aid coordination exists among the different ministries, leading to overlaps and hampering information sharing.

**5.15 Guinea-Bissau needs sufficient institutional capacity for regular dialogue between the government and its partners, and discussions with donors are primarily bilateral.** There is a severe shortage of suitable, qualified human resources in the public sector, including in coordinating official development assistance, as also recognized by Guinea-Bissau's report on piloting the Principles for Good International Engagement in Fragile Countries. Government officials involved in development planning and aid coordination have little training or experience dealing with donors. Many of them have not been exposed to the new aid paradigm. In order to address this situation, training in Aid Effectiveness was provided before the 2012 military coup, to develop capacities among government staff, and more training and workshops are to be organized in the near future. It is important to build on these efforts. An effective donor coordination system, led by the government, will be crucial in leveraging support from Guinea-Bissau's development partners. Creating a strong donor coordination system may be one of the most important investments of the new government in order to leverage external resources for maximum impact.

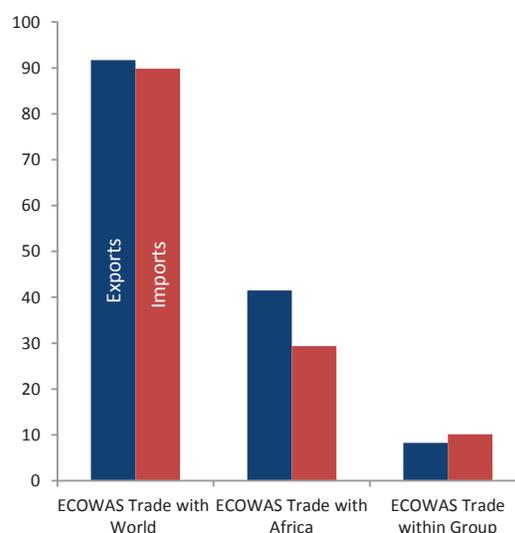
### **3. REGIONAL ORGANIZATIONS AND REGIONAL INTEGRATION**

**5.16 Cooperation with regional partners can provide critical support to Guinea-Bissau.** Regional integration has the potential to increase the country's trade within the region and in global markets, allowing it to achieve greater competitiveness and fostering strong growth. Cross-

border trade between countries increases economic activity and fosters trade and economic competitiveness.<sup>59</sup> In particular, trade across borders has been identified as a potential instrument for boosting growth across countries, alleviating poverty, increasing national competitiveness, and reducing food insecurity in highly vulnerable regions. In addition, regional integration has proved effective in promoting peace and security among neighboring countries, as increased trade may decrease the opportunity costs of war and improve security across countries. Small countries can benefit from regional integration by using trade agreements to strengthen their bargaining position vis-à-vis other countries and to increase their technological capacity.<sup>60</sup> This section focuses in particular on ECOWAS as a partner for Guinea-Bissau not only through economic links but also political support. However, notwithstanding, the African Union is an important political partner, while WAEMU benefits Guinea-Bissau with a strong central bank, governing inflation and exchange rate policies, but also promoting common fiscal rules to strengthen public finances.

**5.17 Intra-regional exports and imports in ECOWAS account for less than 20 percent of total trade** (Figure 60). This means that ECOWAS members trade more outside the economic grouping than within it. An agreement on a common external tariff (CET) for ECOWAS members was reached in 2013, driven by ongoing negotiations with the EU on an Economic Partnership Agreement (EPA), which may encourage intraregional trade. Yet non-tariff barriers (road checks, corrupt customs officials) continue to hinder trade. Moreover, poor infrastructure and weak institutional capacity remain constraints that hinder trade facilitation in ECOWAS. A study on the impact of regional road infrastructure in ECOWAS reveals that improving roads alone has the potential to increase intra-regional trade by 5.3 percent relative to its rate in 2012.<sup>61</sup>

**Figure 60: Intra-regional trade is low in ECOWAS.**  
(trade share as percentage of total ECOWAS trade)



Source: WDI and World Bank staff calculations.

**5.18 Guinea-Bissau’s exports to ECOWAS are the lowest in the regional grouping, accounting for less than one percent of the total share of the country’s exports.** Guinea-Bissau’s share of exports to ECOWAS was at 0.1 percent in 2001, 2003, and again in 2007. Compared to the smallest country in the EAC, whose share of exports to the region is about 15 percent, this value is small. The bulk of exports from Guinea-Bissau to ECOWAS is destined for Nigeria, which takes about 27 percent of the total share of exports to ECOWAS, and Togo (about 6 percent). Guinea-Bissau exports fish to Côte d’Ivoire, Ghana, and Nigeria; vegetables and non-alcoholic beverages to The Gambia; re-exports manufactured goods to Mali; and ships rice to Senegal. In 2011, Togo accounted for about 2.5 percent of Guinea-Bissau’s total exports, while Côte d’Ivoire, The Gambia, Cabo Verde, Nigeria, and Ghana account for less than 1 percent of its

<sup>59</sup> Estimates find that regional cooperation increases jobs and labor productivity among ECOWAS members to varying degrees (Von Euxell 2013) and provides food security and income for rural populations (Afrika and Ajumbo 2012).

<sup>60</sup> Andriamananjara and Schiff 2000; Verdier 2012.

<sup>61</sup> Akpan, U., (2013) ‘Impact of Regional Road Infrastructure Improvement on Intra-Regional Trade in ECOWAS’, Working Paper, African Development Bank

exports to ECOWAS. Europe is the number one source of Guinea-Bissau's imports and India is the main importer of Bissau-Guinean goods (almost exclusively cashew) followed by Vietnam and China.

**5.19 However, ECOWAS holds considerable potential for Guinea-Bissau, both economically and politically.** Apart from the yet largely unexploited potential for regional FDI and greater trade—with the immediate benefits for growth through exports, but also increasing productivity due to competition and technology adaptation—ECOWAS is an important political partner in the areas of security and governance. Moreover, by partnering with neighbors, regional policies in infrastructure, agriculture, and other areas, Guinea-Bissau can leverage resources with increasing returns to scale and harness positive regional spillovers.

*a) Security and Governance*

**5.20 ECOWAS can play an important role in stabilization, governance, and institution building.** Although ECOWAS was established with the objective of fostering economic integration among its members, the organization's role has evolved to include promoting governance, restoring peace, and reducing the threats of political instability among its member states. The changes were spurred by the role ECOWAS played in maintaining peace and stability during the protracted civil wars in Liberia and Sierra Leone. Following the adoption of the Mechanism for Conflict Prevention, Management and Resolution, Peacekeeping and Security by member states in 1999, ECOWAS's mandate widened to include conflict prevention, management, and resolution; peacekeeping and security; humanitarian support; peace building; control of cross-border crime; and the proliferation of small arms.<sup>62</sup> Recognizing that economic integration can only be achieved in the presence of peace, security, and political stability, it has become crucial for ECOWAS to assist member states in preventing, preparing, and responding better and faster to issues that could challenge security and stability.

**5.21 Guinea-Bissau has benefitted from the presence of ECOWAS in organizing dialogue, mediation, military missions, and assisting with the organization of elections.** The organization has been vocal in encouraging member states to embrace democratic values and in protecting citizen's rights. Following the military coup of 2012, ECOWAS, along with other international organizations, provided leadership in meeting with and mediating between key stakeholders in the Guinea-Bissau government to end the gridlock that ensued. ECOWAS has provided technical assistance in the implementation of the Security Sector Reform (SSR) program, which includes plans to restructure the military. Financially, ECOWAS committed about US\$60 million to the reform of the military sector, including US\$2million in pension funds for retired members of the army prior to the military coup, which stalled the process of adopting SSR. In 2009, the organization made it possible for salary arrears to be paid to the members of the army with a US\$3.5 million grant. In 2014, ECOWAS has renewed its efforts in supporting the newly elected Bissau-Guinean government with army reform.

**5.22 Perhaps the greatest benefit accruing to Guinea-Bissau from its ECOWAS membership in terms of security and governance has been the role of the ECOWAS Mission in Guinea-Bissau (ECOMIB) in stabilizing the country.** Following the withdrawal of the Angolan Security Mission in 2012, ECOMIB deployed about 630 soldiers and police officers to manage peace, security, and help with the transition process, including overseeing the recently held elections. The mandate of the ECOMIB was extended and a 120-member observer mission

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<sup>62</sup> Thierry Verdier, *Regional Integration, Fragility and Institution Building: An Analytical Framework Applied to the African Context*, (European Report on Development, 2010).

was deployed to monitor the 2014 elections and run-off, while military personnel patrolled vulnerable vicinities and polling centers.

### ***b) Pooling Policies***

**5.23 Pooled policies are arguably the closest form of partnership. Infrastructure is one area where Guinea-Bissau can benefit from regional cooperation.** Regional infrastructure in ECOWAS is guided by the goal of developing and improving infrastructure to promote regional integration, support growth, and establish a competitive trade environment. The regional infrastructure sector within the ECOWAS sub-region is fraught with problems related to inadequate investment finance for infrastructure development. The inability of governments to provide the budget for infrastructure improvements or involve the private sector in PPPs to take on infrastructure development constrains growth in the sector within ECOWAS, in addition to poor policy and planning, uncoordinated institutional, legal, and regulatory frameworks, which discourage FDI. Estimates suggest that members of ECOWAS would need to spend only 1 percent of their GDP to improve regional infrastructure, although smaller countries (including The Gambia, Guinea-Bissau, and Liberia) would need to commit around 5 percent of their GDP (about US\$20-30 million annually) to regional spending requirements alone to bring regional infrastructure up to par.<sup>63</sup>

**5.24 Trade along major corridors and through hubs in ECOWAS relies heavily on road networks.** Despite the fact that 73 percent of road networks in ECOWAS are in good or fair condition compared to other regional economic groupings in Africa,<sup>64</sup> road networks are uneven across countries and vary in terms of maintenance and quality. The absence of a regional rail network, a poorly developed domestic air transport system, and other transportation alternatives in the region increases the cost of transporting goods via road networks. In addition, non-tariff barriers, including random and numerous check points, bribes collected by custom officials, and the lack of harmonization of procedures for goods and passengers across countries, as well as missing and undeveloped links along major regional infrastructure networks, further increase transport costs.

**5.25 Despite these challenges, recent developments reveal the potential for regional infrastructure growth within ECOWAS, with tremendous gains for Guinea-Bissau in the power, road, and regional infrastructure sectors.** Infrastructure improvements were estimated to have increased growth in the ECOWAS by one percentage point per capita per year during 1995–2005, primarily due to growth in the ICT sector alone.<sup>65</sup> Two energy cooperation projects have been launched by ECOWAS to provide reliable, cost-effective, and sustainable energy to its members. Current energy resource distribution within ECOWAS is low and uneven, with severe shortages in several member countries due to the under-exploitation of resources to finance energy. The power sector currently only meets about 30 percent of the demand and reaches about 50 percent of the population. The WAPP project has the potential to integrate the national power systems of ECOWAS member states into a unified regional electricity market for ECOWAS members by encouraging trade in energy among member states, while the West African Gas Pipeline (WAGP) is expected to provide cheaper and cleaner energy for industrial development.

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<sup>63</sup> Ranganathan and Foster; *ECOWAS's Infrastructure; A Regional Perspective*. World Bank Working Paper (2011).

<sup>64</sup> About 73 percent of roads in ECOWAS are considered to be developed.

<sup>65</sup> Ranganathan and Foster; *ECOWAS's Infrastructure; A Regional Perspective*. World Bank Working Paper (2011).

5.26 **Guinea-Bissau would stand to benefit from the import of energy and natural gas to meet its domestic demand if WAPP is successfully implemented.** Estimates suggest that Guinea-Bissau would be able to reduce power costs between 11 and 44 percent and would save a figure equivalent to one percent of GDP on energy. The country would become a net importer of energy, importing more than 80 percent of its power to cover domestic demand.<sup>66</sup> Guinea-Bissau already was one of the first countries within ECOWAS to benefit from the regional emergency energy program launched in 2010, which provided grants to ECOWAS countries enabling them to undertake significant improvements in their energy generation and supply. Plans are in place to expand the WAGP to Guinea-Bissau in addition to Côte d'Ivoire, Liberia, Sierra Leone, Guinea, Gambia, Senegal, Niger, Burkina Faso, and Mali.

**Box 9: Guinea-Bissau: Potential Gains from the Agricultural Policy (ECOWAP) in Supplementing Rice Imports**

***Reliance and Growing Demand for Rice in Guinea-Bissau***

Rice imports to ECOWAS were estimated to be about 39 percent of food imports in 2010. Total imports in 2009 were estimated at US\$5.2 million tons. They increased to roughly US\$7 million tons in 2010. By 2011, rice imports to ECOWAS had reached a staggering US\$3.6 billion. As chapter 9 explains, rice in Guinea-Bissau is also largely imported—although the country has a comparative advantage in rice.

***Role and Potential of ECOWAP***

The rice market in ECOWAS has proved to be quite integrated. Regional rice is typically supplied mostly through the port of Dakar, where about 70 percent of imported rice is linked. Imported rice from Asia and South America is also routed through the same channels, even though production and marketing constraints hinder the movement of goods across borders.

Three potential areas of intervention have been targeted to increase rice production under ECOWAP:

1. Intensifying production: rice production in ECOWAS has increased significantly over the past 10 years, particularly in 2008 and 2010. The regional supply increased by 30 percent between 2008 and 2009, due to efforts by individual countries to increase production and to good climatic conditions in the Sahel regions. Burkina Faso, Mali, Senegal and Côte d'Ivoire collectively recorded an average increase of 25 percent in rice production in the 2012/2013 year.
2. Enhancing the value of rice production: including (i) developing different value chains for exports, (ii) developing product processing, (iii) strengthening support services provided to operators, and (iv) promoting national, regional, and international trade.
3. Promoting an enabling environment for rice, including monitoring the effects of the customs union on the regional market, and playing an advocacy role with countries to remove technical obstacles to the movement of rice.
4. Coordinating rice policies among ECOWAS member states.

Increasing agricultural production is only one step in increasing trade within ECOWAS. A 10 percent increase in agricultural production, for example, leads to roughly a 72 percent increase in agricultural exports among ECOWAS member states. However, a poor regulatory

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<sup>66</sup> Ibid., p. 47-49.

environment, caused by weak institutions and poor trade infrastructure, hampers trade across ECOWAS member states. Evidence suggests that policies that improve the conditions for trade can enhance agricultural production and increase agriculture exports to members of the ECOWAS sub-region. Services infrastructure, in particular mobile telephone coverage increasing to 100 percent, was estimated to lead to a 4 percent increase in agriculture exports in ECOWAS. Similarly, the reduction in days required to process documents for exports by 100 percent could lead to a 7 percent increase in agriculture exports. The potential from ECOWAP for Guinea-Bissau, with a comparative advantage in rice, is considerable.

Sources: ECOWAS Commission (2010); Olayiwola and Ola-David (2013); ICTSD.org.

**5.27 Additional potential gains accruing to Guinea-Bissau from its ECOWAS membership have been identified in the area of domestic air transportation, which is poorly developed despite a fairly liberalized transport sector.** Estimates suggest that international connectivity in ECOWAS is fair, but the domestic air market for ECOWAS countries, which includes infrequent connections to the regional hubs, does not encourage the free movement of goods and services. Liberalization of the sector, encouraged by the Yamoussoukro Declaration,<sup>67</sup> has been fully implemented in ECOWAS. The declaration supports the liberalization of intra-African air transport services in terms of access, capacity, frequency, and tariffs to increase regional and intercontinental trade. As a result of liberalization, ASKY, a new private airline established by West African investors and based in Togo, is now serving most cities in West Africa, including Bissau. In addition, major carriers from East Africa, including Kenya Airways and Ethiopian Airlines, have begun to establish their presence in West Africa. Regional cooperation could help develop the transport sector in ECOWAS and improve standards, safety, and oversight, if members pool their resources.

**5.28 Finally, the ECOWAS Agriculture policy (ECOWAP) was established to address the constraints facing agriculture and to promote exports and food security in the region.** The goal is to supplement and coordinate all initiatives and regional development strategies for increasing food production, so that production systems are modernized, household incomes are improved, member states' food dependence is curbed, and the region can achieve regional food security. Box 9 describes the significance of rice production under ECOWAP for Guinea-Bissau.

#### **4. CIVIL SOCIETY ORGANIZATIONS**

**5.29 CSOs are important in addressing the short-term needs of fragile states.** In the long term, they are also important in the development of capacity in fragile states. They are formed based on a wide range of values and interests, often bringing together both domestic and foreign CSO workers. Their activities in fragile states revolve around the provision of public services and humanitarian aid where the state fails or is unable to implement its policy agenda effectively due to weak infrastructure and systems. They can be promoters and facilitators in the policy debate that leads to good governance process by reducing tensions among social, economic, and political groups. They also have a role to play in strengthening the domestic accountability of the state by serving as a check and balance on government.

**5.30 CSOs have a large presence in Guinea-Bissau, often complementing the activities of donors.** Aid by private voluntary organizations involves the activities of religious groups, charity organizations, foundations, and private companies and individuals. Data on the contributions of

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<sup>67</sup> 44 African countries in 1999 committed to deregulate air services and promote regional air markets open to transnational competition.

civil society groups in Guinea-Bissau is limited; however, both local and international non-governmental organizations have a strong presence in the social sectors where government services do not exist. Evidence suggests that NGOs in developing countries tend to complement development assistance and work in areas where bilateral donors are most active, assisting in the provision of basic services for smaller groups of the population on a short-term basis.<sup>68</sup> NGOs are also often active in the micro-finance sector (see chapter 3), supporting local entrepreneurs.

**5.31 CSOs in Guinea-Bissau were officially recognized by government laws in 1992, and had a strong presence during the political crisis of 1998-1999.** Their activities are primarily focused on health, education, productive activities, protection of vulnerable groups, and advocacy. Their categories include: NGOs set up by external donors, which provide basic service delivery in mostly health and education in rural areas; community-based organizations (CBOs) founded by communities to address their social needs; and religious organizations, consisting of churches and Islamic institutions, which have a large presence in the education and health sectors where other CSO activity is weak, and which play an active role in reconciliation and peace-building.<sup>69</sup> Others support democratic institutions, independent media, and governance. More recently, some have taken up efforts to stem the flow of illicit drugs in Guinea-Bissau.

**5.32 NGOs in particular have been known to partner with multilateral institutions and other donors to provide services in Guinea-Bissau.** National NGOs were recruited and trained by the World Food Program (WFP), based on their knowledge of the local context to distribute food and monitor the activities of its projects, including the school-feeding program and food-for-work programs.<sup>70</sup> NGOs were additionally involved in the implementation, data collection, and monitoring of the program, and the training offered by international organizations provided opportunities for them to improve their capacity to provide services. In a currently ongoing World Bank-financed project, NGOs are supporting rural communities in implementing CDDs.

**5.33 CSOs in Guinea-Bissau are confronted with challenges related to financial support, capacity constraints, and the lack of harmonization in their activities.** Financial support of CSOs comes primarily from international donors, local partners, and some fee-based activities for their development activities, which are short-term, sporadic, and unsustainable. In addition, they lack the technical capacity to implement their development activities, which undermines their institutional impact, as they cannot afford to employ technical staff or to seek specialized training. Their activities also tend to be duplicated across several similar organizations and groups, and they remain uncoordinated in their efforts due to weak coordination mechanisms, which sustain partnerships among other groups.

**5.34 There is a case to be made for engaging CSOs in Guinea-Bissau more effectively, given the central role they play in the reform process.** These organizations make significant contributions in the provision of services, in the promotion of human rights of vulnerable groups, and in promoting government accountability. In the absence of strong institutions and in light of the reliance on CSOs in Guinea-Bissau, it is important for donors to work closely to mobilize resources, both technical and financial, to strengthen the capacity of CSOs so that they can more effectively plan and implement their activities. It is also important for CSO networks in Guinea-Bissau to strengthen their capacity to manage donor funds and ensure their own accountability vis-à-vis the communities they serve.

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<sup>68</sup> R. J. Utz, *Will Countries that Receive Insufficient Aid Please Stand Up*. CFP Working Paper Series No. 7. (World Bank, 2011).

<sup>69</sup> See: *Engaging Civil Society Organizations in Conflict-Affected and Fragile States: Three African Country Case Studies* (Washington, DC: World Bank, 2005).

<sup>70</sup> World Bank, *Guinea-Bissau - Emergency Food Security Response Project*.

## CHAPTER 6: REMITTANCES AND SOCIAL ASSISTANCE PROGRAMS

### 1. INTRODUCTION

6.1 **Private and public cash transfers can make a vital contribution to poverty reduction and economic growth.** On the one hand, remittances are private cash transfers from the diaspora to relatives in the home country. They tend to reach families who are often better educated and thus less poor, which allowed some of their members to migrate in the first place. Remittances are also often limited by the financial infrastructure linking the diaspora to recipients. This again puts poorer households at a disadvantage since they tend to have worse access to financial intermediaries. Public social assistance programs, on the other hand, are designed to focus the poor and vulnerable. There are different types of social assistance or social safety net (SSN) programs, ranging from cash or near-cash transfers, to food transfers, cash-for-work programs (labor-intensive public works), or fee-waivers. Social assistance or SSN programs sometimes apply some conditions in terms of the behavior of households, often related to investments in nutrition, health, education, or training, or participation in specific activities. Remittances and social assistance programs can smooth fluctuations in consumption and help to reduce poverty, while promoting investments in human capital, as well as productive farm and non-farm enterprise activities.

6.2 **Remittances and social assistance programs hold considerable development potential for Guinea-Bissau.** Part I of this chapter focuses on remittances and demonstrates how they can contribute to poverty reduction and consumption smoothing while also offering the possibility to encourage investments and private sector-led growth. Fostering an environment that reduces the costs of diaspora transfers and other measures to further encourage remittance flows are likely to yield considerable gains for households and Bissau-Guinean entrepreneurs. Part II will turn to social assistance programs. The primary role for such programs in Guinea-Bissau, as chapter 4 argues, is to address immediate poverty needs and contribute to investments in the human and productive capital of the poor and vulnerable. However, as Part II of this chapter will show, social assistance programs can also contribute to modest income gains at the local level.

6.3 **Remittances and social assistance programs could also contribute in some aspects to the broader objective of financial market development.** Especially in countries where informality is high, as in Guinea-Bissau, formal channels for entrepreneurship and finance are limited. Venture investment through remittances builds on family ties between the diaspora and local counterparts, where trust substitutes for a strong legal environment that could otherwise govern the enforcement of contracts. However, remittances require a functional, efficient, and cost-effective system enabling financial transfers. Strengthening financial services, through banks or Money-Transfer Organizations (MTOs), could help encourage remittance flows. The implementation of social assistance programs can also encourage financial institutions to develop their networks of payment points or Point-of-service, which could benefit the population more generally for other types of transactions.

### PART I: REMITTANCES

#### 2. OVERVIEW AND BACKGROUND

6.4 **Migrant remittances can play a substantial role in promoting economic development and poverty reduction in Guinea-Bissau.** Total remittances worldwide more than tripled from approximately US\$120 billion in 2002 to approximately US\$400 billion in 2012, with more than 75 percent of that total going to developing countries. In Guinea-Bissau, remittances also tripled from approximately US\$17 million in 2002 to about US\$50 million in 2012. Remittances

represent the largest private capital inflow into Guinea-Bissau, exceeding the U.S. dollar value of foreign direct investment.<sup>71</sup> Remittances are second in value only to ODA to Guinea-Bissau. Moreover, remittances show a steady upward trend, with less fluctuation due to local or broader international economic shocks. Thus, they are substantial, increasing, robust private capital inflows that Guinea-Bissau can exploit for economic development and poverty reduction. The primary use of remittances is household consumption and there is considerable evidence that remittances are key to smoothing consumption shocks.<sup>72</sup> There is also evidence that remittances provide relief that can strengthen stability in post-conflict and fragile states, which is particularly relevant for Guinea-Bissau.<sup>73</sup> Yet remittances can also play a significant and increasingly important role in funding the creation and growth of new ventures, particularly in countries with more severe capital constraints and a substantial informal economy, as this chapter will show.

**6.5 In the 2000s, the worldwide migrant population tripled, from approximately 70 million to more than 200 million. If migrants constituted a country it would be the fifth-largest in the world.**<sup>74</sup> An increasing percentage of this growth has been in so-called South-South migration, that is, migration from one to another developing country.<sup>75</sup> Developing country migrant populations—diasporas—vary in size absolutely and relative to their origin country population. Mongolia has only a few thousand migrants, comprising less than 1 percent of the total population, while migrants from Mexico exceed 10 million, or about 8 percent of the population. Migrants from Moldova number only 1.2 million but comprise more than 35 percent of the total population. The World Bank estimates that there were 111,374 Bissau-Guinean migrants in 2010, or about 7 percent of the country's population

**6.6 Bissau-Guinean migration is particularly strong during periods of economic and political disruptions.** Historically, international migration patterns in Guinea-Bissau prior to independence occurred primarily between Guinea-Bissau and Senegal; and involved the temporary migration of unskilled workers to Southern Senegal to work in agriculture, including groundnut plantations, rubber tapping—and temporary domestic employment.<sup>76</sup> These groups of workers, primarily of the Manjaco ethnic group, later gained employment on merchant vessels and migrated to France to work in the manufacturing and industrial sector.<sup>77</sup> The fight for independence, led by the PAIGC further fuelled migration to Senegal and also to Guinea-Conakry, where the headquarters of the PAIGC was located.<sup>78</sup>

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<sup>71</sup> See Figure 58 in Chapter 5.

<sup>72</sup> E.g. Bettin, G., A.F. Presbitero, and N. Spatafora. 2014. Remittances and Vulnerability in Developing Countries. IMF Working Paper WP14/13 William, J. and S. Tavneet. 2014. Risk Sharing and Transaction Costs: Evidence from Kenya's Mobile Money Revolution. *The American Economic Review*, 104:1: 183-223.

<sup>73</sup> Boston University. 2013. Remittance Flows to Post-Conflict States: Perspectives on Human Security and Development. Boston University.

<sup>74</sup> Vaaler, P. 2011. Immigrant Remittances and the Venture Investment Environment of Developing Countries. *Journal of International Business Studies*, 42: 1121-1149.

<sup>75</sup> World Bank, 2013a. Migration and Development Brief 19. April 19. Washington, DC, World Bank. World Bank, 2013b. Migration and Development Brief 21. October 3. Washington, DC, World Bank.

<sup>76</sup> Gable, E. 2000. The Culture Development Club: Youth, Neo-Tradition, and the Construction of the Society in Guinea-Bissau. *Anthropological Quarterly* 73:4: 195-203; Joao, M. 2003. Oirgem Étnica e Migração entre os Manjaco da Guiné-Bissau. *Sodonda – Revista de Estudos Guineenses*, 6: 107-120.

<sup>77</sup> International Organization for Migration. 2013. Avaliação do Potencial de Desenvolvimento da Diáspora da Guiné-Bissau em Portugal e França. International Organization for Migration.

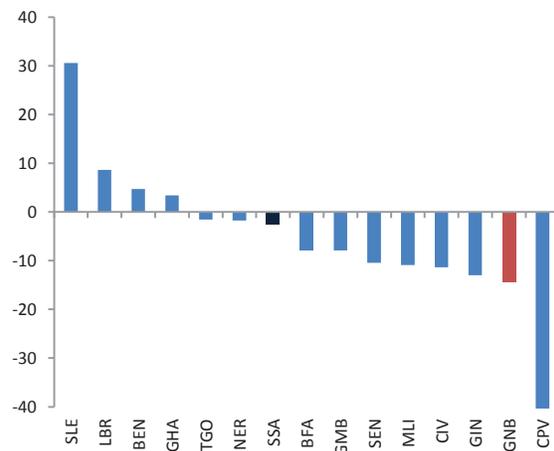
<sup>78</sup> Abreu, A. 2012. Mobilidade e Migrações na Guiné-Bissau: Dinâmicas Históricas e Determinantes Estruturais. *Revista Internacional em Língua Portuguesa*, 24: 145-161.

6.7 **Beginning in the mid 1970's following independence, migration patterns began to increase towards Portugal.** Migration to Portugal was facilitated by less restrictive regulatory controls and due to the increased demand for unskilled workers in construction and civil works, as a result of Portugal's accession to the EU and a tightening of migration policy to France.<sup>79</sup> Migrants from Guinea-Bissau were primarily made up of young and unskilled males working in the construction sector. An additional wave of migration from Guinea-Bissau at the time, involved students who migrated to Russia, Germany, Portugal, Brazil and Cuba as part of bilateral agreements between the government of Guinea-Bissau and these countries. Beginning with the civil war of 1998-99, citizens of Guinea-Bissau, mainly the wealthy located in the capital, Bissau who had the resources to flee the country left for Portugal. This later group included skilled migrants including doctors and engineers.

6.8 **Although not all migration is skilled, the country experiences a considerable brain drain. This is partially compensated for with remittances.** In 2012, about 10,000 Bissau-Guineans left the country. Migration includes low-skilled workers but also those with high skills. According to the World Bank's Migration and Remittances Factbook, among the tertiary-educated population, migration for Guinea-Bissau is estimated to be about 24.4 percent, with 71 percent of physicians and 25 percent of nurses leaving the country. Guinea-Bissau thus experiences a considerable brain drain. By regional standards, net emigration from Guinea-Bissau is only exceeded by Cabo Verde (Figure 61). Although migration of skilled labor constitutes a considerable loss to Guinea-Bissau's economy, migrant Bissau-Guineans share part of the higher wages they earn abroad with their families at home. Remittances to Guinea-Bissau are strongest from Portugal, Senegal, The Gambia, and France, accounting for the bulk of the Bissau-Guinean diaspora (Figure 62 and Figure 63). On a per-migrant basis, remittances are highest from European countries, especially France, Spain, and Portugal, reflecting higher earning potential in these countries.

6.9 **Guinea-Bissau's remittances relative to GDP are higher than the average for developing countries of Sub-Saharan Africa.** Even though Guinea-Bissau has a smaller migrant population than, say, neighboring Guinea-Conakry, remittances from Guinea-Bissau's diaspora contribute more to GDP: 5.4 percent versus less than 1 percent for Guinea-Conakry. However, other countries in the region have even higher remittances-to-GDP ratios, including The Gambia, Senegal or Mali. Reducing the cost of transmitting remittances could help Guinea-Bissau harness even stronger remittance flows.

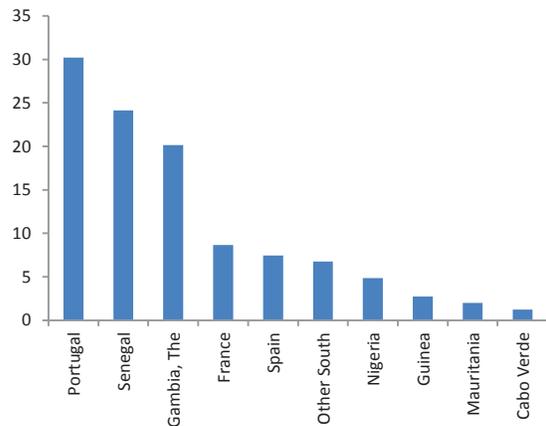
**Figure 61: In West Africa, Guinea-Bissau and Cabo Verde experienced the largest outward migration** (net migration in thousands, average of three waves between 2002-2012)



Source: WDI and World Bank staff calculations.

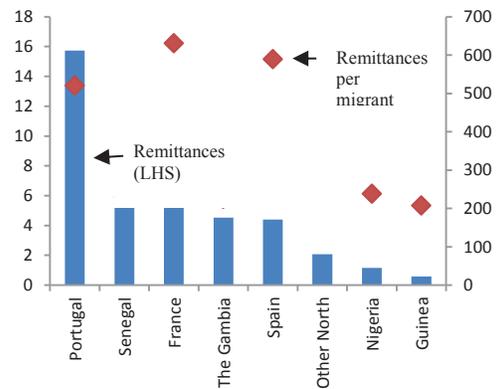
<sup>79</sup> Ibid.

**Figure 62: Portugal, Senegal, and The Gambia are the top destination for Bissau-Guinean migrants**  
(estimates for Bissau-Guineans in selected countries, in thousands)



Source: World Bank Migration and Remittances Factbook.

**Figure 63: Migrants from Europe send the largest amount of remittances in relative terms**  
(remittances in million US\$, LHS, and remittances in US\$ per migrant, RHS)



Source: World Bank Migration and Remittances Factbook 2011 and World Bank Remittance Database, 2013.

Note: The estimates for remittances for migrants are only broad approximations.

**6.10 The mix of remittance channels in more intensive remitting countries neighboring Guinea-Bissau favors cheaper, more effective electronic channels.** Channels for remittances include bank transfers but also MTOs. Traditional hand-transfers of remittances from migrants to local recipients are still the simplest channel, but are also expensive and time-consuming, thus limiting growth potential. Postal service and private courier-based transfers are also time-tested but expensive, given the relatively small dollar value of each transfer. A third traditional remittance channel uses *hawala* agency networks familiar to countries with substantial Muslim populations.<sup>80</sup> Remitters abroad will contact a local *hawala* agent and transfer cash. The remitter's agent will then contact another network agent in the recipient's country and instruct that agent to transfer the cash less a fee. The remitter and recipient agents settle their accounts at a later date. *Hawala*-based remittance channels are substantial in Africa, particularly in North and East Africa, the Middle East, and South Asia. These traditional remittance channels continue to be important in the 2000s. In many African countries, they still carry the majority of remitted funds,<sup>81</sup> though fees for using these channels tend to be expensive, reaching as much as 20 percent of the total amount remitted in Sub-Saharan Africa.<sup>82</sup>

**6.11 The 2000s have seen the rise of cheaper and more scalable commercial remittance channels exploiting electronic, often mobile technologies; Guinea-Bissau's government can and should encourage their growth.** Other new channels promise lower costs, greater ease in transacting, and more scalability, all of which should increase remittances to countries such as Guinea-Bissau. These new channels are also easier to observe and regulate for policy oversight

<sup>80</sup> Qorchi, M. Munzele-Maimbo, S., & Wilson, J. 2003. Internal Funds Transfer Systems: An Analysis of the Informal Hawala System. IMF Occasional Paper 222. Washington, DC: International Monetary Fund.

<sup>81</sup> Geo Poll. 2013. How the Money Flows: International Remittances in Tunisia. Denver, Colorado: Geo Poll (and Inter Media)..

<sup>82</sup> World Bank. 2013c. African Migrants Could Save US\$4 Billion Annually on Remittance Fees, Finds World Bank. Washington, DC: World Bank.

purposes. Yet, each new channel also presents technological and policy challenges that will need addressing in the near term.

**6.12 An important recent development in remittance channels in Africa during the 2000s is the so-called “mobile remittance” technology.** Remittances abroad use mobile phone technology to transfer cash via text message. A remitter abroad sends a credit via text message through his or her local mobile phone carrier, who then relays this credit to a financial institution in the recipient’s country and thence to the recipient via text message from the recipient’s mobile phone carrier. This new remittance channel promises low-cost, easily scalable transfers effected in minutes. Many countries in Africa are now exploiting such mobile remittance technologies and reaping these benefits. East African countries such as Kenya and Uganda are leading this trend, but other countries such as Nigeria and Congo are also adopting these technologies. Their success depends on the ubiquity of three factors in the recipient’s country: 1) mobile phone carriers; 2) domestic credit availability to the private sector; and 3) direct or indirect access to bank account services. In Kenya, for example, mobile phone penetration, local access to credit, and direct access to bank account services are all high, since more than 70 percent of Kenyan adults have a bank account.<sup>83</sup>

**6.13 Of the three factors necessary for growth in mobile remittance channels, Guinea-Bissau is making progress on mobile phone coverage but a weak financial sector remains a constraint.** Mobile phone coverage has been increasing rapidly in Guinea-Bissau, as chapter 2 demonstrates. However, the rate at which coverage expands is promising. As mobile phone coverage increases so is the number of potential recipients of mobile remittances. Yet Guinea-Bissau still lags on the other two factors: private sector domestic credit and access to bank account services. As chapter 3 has shown, private sector domestic credit is low, although it is about comparable to that of neighboring countries, such as Guinea-Conakry and The Gambia. In 2012, private sector domestic credit reached approximately 15 percent of GDP. But this is still only half the size of nearby Senegal’s rate and well below the Sub-Saharan African average of more than 50 percent of GDP. Private sector domestic credit matters, since it allows individuals and businesses to finance transactions, including remittance transactions.

**6.14 Guinea-Bissau lags far behind other African countries in terms of access to bank accounts and related services.** The World Bank’s Global Financial Inclusion (“Global Findex”) Database does not include data on access to bank accounts, but it does note that Guinea-Bissau is one of the “least-banked” countries in the world. Neighboring Guinea is part of the Global Findex database. Less than 2 percent of Guineans have bank accounts, a stark contrast to Kenya and other East African countries, where individual bank accounts are increasingly the norm. Getting Bissau-Guineans access to bank accounts and related services is critical to increasing their use of mobile remittance channels. Such accounts will also facilitate other electronic remittance channels related to bank transfers and transfers via MTOs such as Western Union or MoneyGram. Indeed, one promising recent development has seen mobile phone carrier Vodafone and MTO MoneyGram ally provide mobile remittance services to nearly 16 million users of M-Pesa, a mobile cash and credit service in Africa.<sup>84</sup> This innovation lets prospective unbanked recipients benefit from mobile remittances by setting up accounts with MTOs rather than directly with local banks. Recipients now enjoy indirect (through MTOs) access to bank account services. Bissau-

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<sup>83</sup> Demirguc-Kunt, A. & Klapper, L. 2012. Measuring Financial Inclusion: The Global Findex Database. World Bank Policy Research Working Paper 6025 (April). Washington, DC: World Bank.

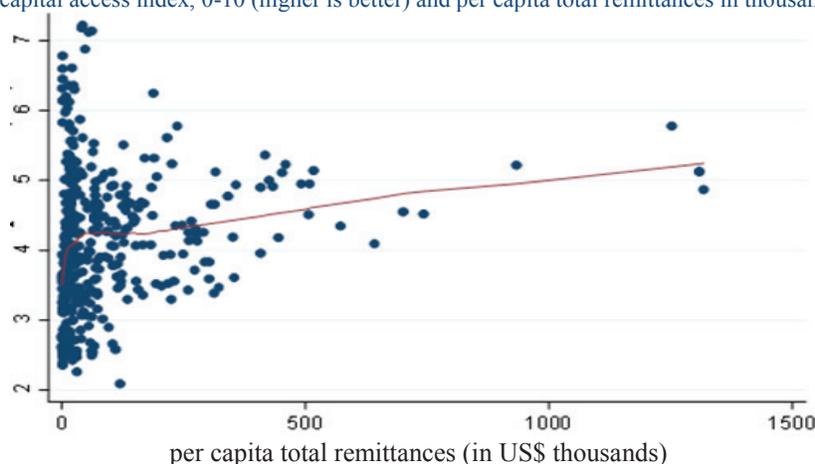
<sup>84</sup> Moneygram. 2014. Vodafone and MoneyGram Global Agreement: Agreement Will Allow Consumers to Transfer Funds from 200 countries to All M-Pesa Users. Press Release, February 11. Moneygram International: Minneapolis.

Guinean-based MTOs, including MoneyGram, could innovate similarly with local mobile phone carriers and banks on behalf of unbanked prospective recipients.

### 3. REMITTANCES AND VENTURE INVESTMENT

**6.15 Remittances tend to improve capital access in developing countries similar to Guinea-Bissau, fostering private investment.** Figure 64 illustrates the relationship between remittances and capital access in developing countries from 2002-2007. The horizontal axis measures the U.S. dollar value of remittances divided by the population of the recipient developing country. The vertical axis measures the availability of capital for new and existing businesses in that same developing country based on survey data from the Milken Institute in Los Angeles, California.<sup>85</sup> Each dot plots the relationship between remittances (per capita) and capital availability from 2002-2007. A locally-weighted and smoothed trend line runs through these data points, which include observations from 61 developing countries.<sup>86</sup> The upward trend line indicates a clearly positive relationship between remittances and capital availability, particularly as remittances increase from nil to the first US\$75 per capita. Guinea-Bissau's remittance experience in the 2000s is well within that range. In 2002, remittances were equivalent to approximately US\$13 for each Bissau-Guinean; by 2012, that same number reached approximately US\$30. Thus, remittances to Guinea-Bissau are likely to have quite a substantial positive impact on capital availability vital to new business creation and growth.

**Figure 64: Remittances improve access to venture capital**  
(general capital access index, 0-10 (higher is better) and per capita total remittances in thousands of US\$)



Source: Vaaler (2011).

Note: The line is a locally weighted smoothed scatterplot (LOWESS).

<sup>85</sup> A. Apinard, J. Barth, C. Lee, T. Li, W. Lu, S. Malaiyandi, D. McCarthy, T. Phumiwasana, S. Sui, S. Trimbath & G. Yago, *Capital Access Index 2001-2007* (various annual issues written by combinations of co-authors listed above and published from 2002-2008) (Los Angeles, CA: Milken Institute, 2001-2007). Vaaler, P. 2011. Immigrant Remittances and the Venture Investment Environment of Developing Countries. *Journal of International Business Studies*, 42: 1121-1149. Vaaler, P. 2013. Diaspora Concentration and the Venture Investment Impact of Remittances. *Journal of International Management*, 19: 26-46. Martinez, C., Cummings, M., & Vaaler, P. 2014. Economic Informality and the Venture Funding Impact of Migrant Remittances to Developing Countries. Working Paper. University of Minnesota: Minneapolis, MN.

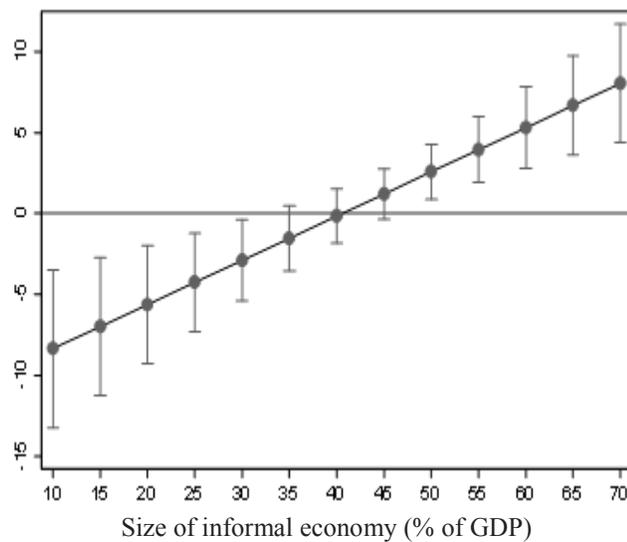
<sup>86</sup> Vaaler, P. 2011. Immigrant Remittances and the Venture Investment Environment of Developing Countries. *Journal of International Business Studies*, 42: 1121-1149.

6.16 **Remittances improve new business funding and founding rates to a greater extent in countries with more severe capital constraints and larger informality; Guinea-Bissau has both.** Research on remittance use in developing countries<sup>87</sup> indicates that remittances serve as economic “insurance” for households that occasionally face local economic shocks due to, say, famine, or global economic shocks, such as the recent recession in 2008-2009. In these instances, remittances help smooth household consumption of basic goods and services—notably food and medical care—but they also help fund secondary “insurance” businesses, particularly in rural areas. Farmers worried about occasional droughts use remittances to purchase capital goods, such as trucks, that can serve both farming purposes and a separate business purpose (*i.e.*, as a commercial transport or taxi service available to others in the community). Thus, developing countries with substantial rural populations vulnerable to shocks are more likely to use remittances to fund new business ventures. With nearly half its population living outside of urban areas, and with considerable vulnerability to local and international economic shocks, Guinea-Bissau fits the secondary “insurance” profile well. Remittances are more likely to fund new ventures there.

6.17 **Another factor shifting remittances from household consumption to investment is informality**, that is, economic transactions outside the local government’s capacity and or willingness to observe and regulate. Many developing countries have limited resources to account for and regulate commercial activity, particularly small-scale activity, in more remote rural areas. Thus, economic activity exists and can grow in the “informal” or “shadow” economy. In the 2000s, such economic informality in developing countries reached as high as 66 percent of GDP (Bolivia), with many African countries, including Guinea-Bissau, around 40 percent or higher.<sup>88</sup> In rural areas of such countries, the percentage tends to be particularly elevated.

6.18 **Economic informality is a double-edged sword for investors.** On one hand, they can operate free of government regulation and taxation. On the other hand, they lack legal and regulatory protections when transacting in the informal sector. On balance, this context likely deters many foreign investors from risking portfolio or plant, property, and equipment capital investments. Remittances, however, are different. They are small transfers, usually between overseas and home-country family or related community members. Thus, there are informal means of overseeing and assuring the intended use of such remittances. Higher

**Figure 65: Remittances increase capital availability especially in informal economies**  
(marginal impact of each additional US dollar from remittances on capital availability)



Source: Martinez, Cumming, and Vaaler (2014)

<sup>87</sup> Yang, D. 2011. Migrant Remittances. *Journal of Economic Perspectives* 25(3), 129-152. Yang, D. & Choi, H. 2007. Are Remittances Insurance? Evidence from Rainfall Shocks in the Philippines. *The World Bank Economic Review* 21, 219-248.

<sup>88</sup> Schneider, F. & Enste, D. 2002. *The Shadow Economy*. Cambridge, UK, Cambridge University Press. Schneider, F., Buehn, A., & Montenegro, C. 2010. New Estimates for the Shadow Economies All Over the World. *International Economic Journal* 24, 443-461.

informality is less likely to deter remittances. Indeed, higher informality seems to induce a shift in remittance use to capital investment purposes, as Figure 65 illustrates. The Figure follows from a recent study of economic informality, remittances, and venture investment in 48 developing countries observed from 2001-2009.<sup>89</sup>

6.19 The horizontal axis of Figure 65 measures the percentage of the country's GDP deemed to be informal. The vertical axis indicates the marginal impact of an additional dollar of remittances on yet another survey-based indicator of country capital access, this time the World Economic Forum's Global Competitiveness Report (2002-2010).<sup>90</sup> The dots represent the simulated impact—positive or negative, more or less so—of an additional dollar on a country's ranking in the Global Competitiveness Report for 2001-2009. Brackets representing 95 percent confidence intervals above and below each dot are also included. The results suggest that when the informal economy exceeds 40 percent of GDP, then remittances may increase venture capital availability. At 46 percent or higher levels of economic informality, remittances almost certainly increase venture capital critical to new business creation and growth. Since the informal economy Guinea-Bissau exceeds 40 percent, it is well within the range where remittances can enhance venture investment. Given higher rates of economic informality in Guinea-Bissau's rural areas, remittances will almost certainly enhance venture investment.

**6.20 Structural attributes of the migrant diaspora also affect the likelihood that remittances will be used for venture investment purposes; Guinea-Bissau's migrant diaspora exhibits such attributes.** As Figure 66 illustrates, one important structural attribute concerns the concentration or diffuseness of a country's migrant diaspora. Some migrant diasporas are concentrated within a specific country or geographic region (Mexicans in the US; Bangladeshis in the oil-producing countries of the Middle East, etc.) Others are more dispersed: Romanian and Polish migrants spread across European Union countries in the 2000s; Lebanese and Armenian diasporas spread across the world for centuries.<sup>91</sup> Recent research suggests that such contrasts are not coincidental, but reflect the cumulative decisions of migrants, particularly less-skilled migrants, seeking lower-cost information and services affordable only in geographically-concentrated communities with similar ethnic heritage.<sup>92</sup> Concentration in one or a few countries permits these migrants to discover and exploit more easily opportunities for venture investment in their country of origin.

6.21 Figure 66 follows from a recent study of diaspora concentration, remittances and venture capital availability;<sup>93</sup> the horizontal axis again represents annual remittances divided by the country's total population, except these remittances are limited to those coming from resident migrants only (workers' remittances). The vertical axis represents the availability of capital for new and existing businesses in that same developing country, based on survey data from the

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<sup>89</sup> Martinez, C., Cummings, M., & Vaaler, P. 2014. Economic Informality and the Venture Funding Impact of Migrant Remittances to Developing Countries. Working Paper. University of Minnesota: Minneapolis.

<sup>90</sup> World Economic Forum, 2002-2010. Global competitiveness reports for years 2001-2009. Davos, Switzerland: World Economic Forum.

<sup>91</sup> M. Botticini, "Commercial and Trade Diasporas," In *Oxford Encyclopedia of Economic History*, Mokyr, J. (ed.). (Oxford, UK: Oxford University Press, 2003).

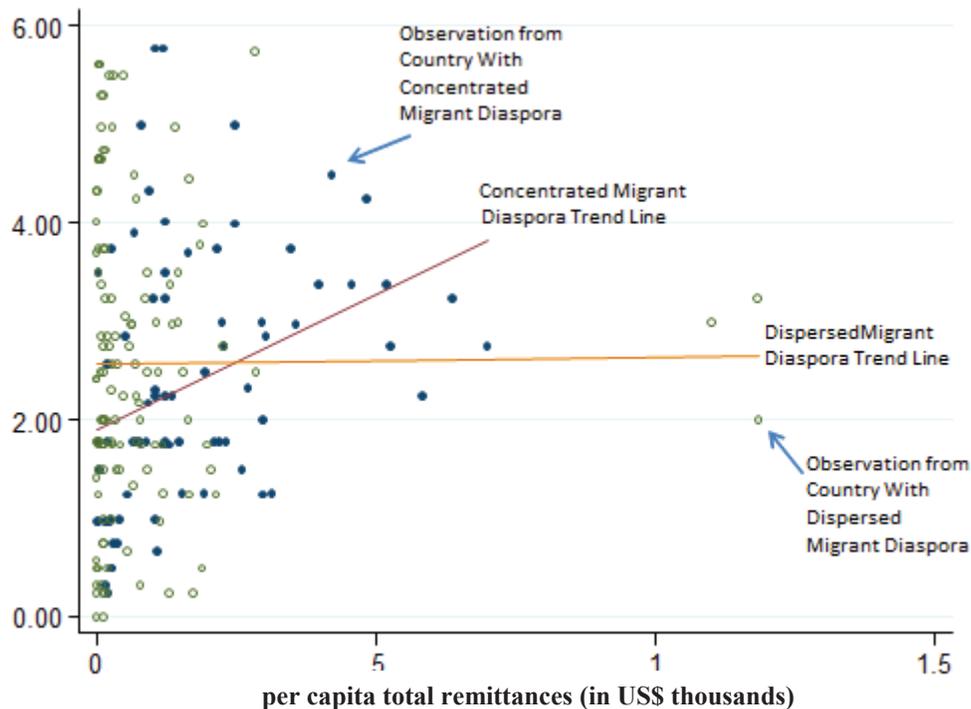
<sup>92</sup> Beine, Docquier & Özden, "Diasporas," *Journal of Development Economics* 95: 30-41 (2011). M. Botticini & Z. Eckstein, "Path Dependence and Occupations," In Durlauf, S. & Blume, L. (eds.), *The New Palgrave Dictionary of Economics*. New York, NY: Palgrave MacMillan, 2008). Parsons, C., Skeldon, R., Walmsley, T., & Winters, T. 2007. Quantifying International Migration: A Database of Bilateral Migrant Stocks. World Bank Policy Research Working Paper 4165. Washington, DC: World Bank.

<sup>93</sup> Vaaler, P. 2013. Diaspora Concentration and the Venture Investment Impact of Remittances. *Journal of International Management*, 19: 26-46.

Milken Institute in Los Angeles, California.<sup>94</sup> Each dot plots the relationship between remittances (per capita) and capital availability from 2002-2007 for migrants living in a “concentrated” diaspora. Data on the location of migrants around the world<sup>95</sup> permits calculation of a concentration index similar to a Herfindahl-Hirschman industry concentration index (0-1) used in industrial organization research. Herfindahl-Hirschman index values above 0.48 are deemed to be “concentrated” diasporas, the highest third of diasporas in the sample of 50 developing countries analyzed from 2002-2007. Each x plots the same relationship but for diffused (not concentrated) diasporas. Linear trend lines run through both sets of data points.

6.22 The upward-sloping trend line in the figure indicates that remittances from concentrated migrant diasporas increase capital availability. Remittances from diffused diasporas do not, consistent with the notion that they instead finance household consumption. The structure of Guinea-Bissau’s migrant diaspora likely falls within the “concentrated” category, with the largest migrant shares in Portugal and France. Thus, again, remittances from this diaspora are more likely to fund venture investment undertakings and promote economic development and poverty reduction in the process.

**Figure 66: Remittances support venture capital access especially when diasporas are concentrated**  
(venture capital access, 0-10 (higher is better))



Source: Vaaler (2013).

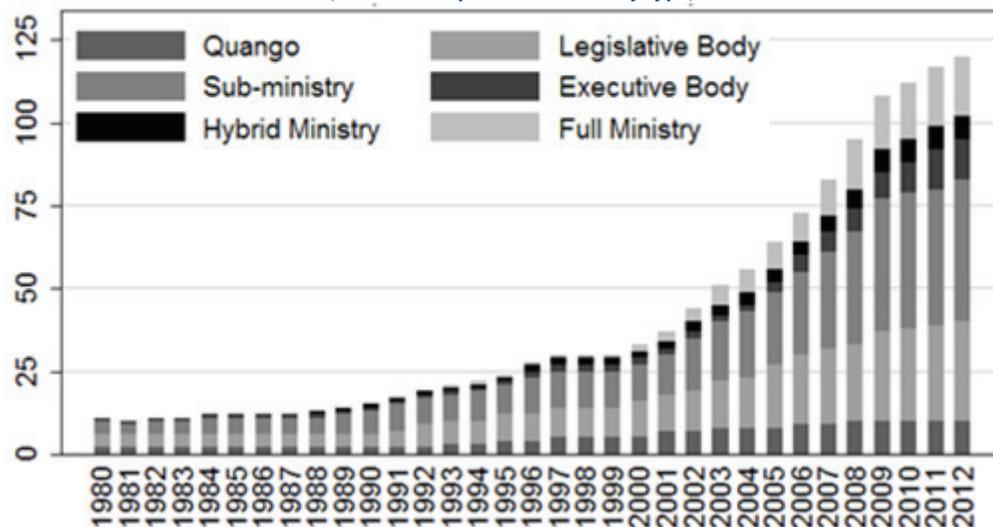
6.23 **Governments dedicated to diaspora issues can coordinate oversight of migration and related remittance policies and trends; Guinea-Bissau has had an existing “hybrid ministry” that can provide such coordinative oversight.** The analyses above indicate the value of

<sup>94</sup> A. Apinard, J. Barth, C. Lee, T. Li, W. Lu, S. Malaiyandi, D. McCarthy, T. Phumiwasana, S. Sui, S. Trimpath & G. Yago, *Capital Access Index 2001-2007* (various annual issues written by combinations of co-authors listed above and published from 2002-2008) (Los Angeles, CA: Milken Institute, 2001-2007).

<sup>95</sup> Parsons et al. 2007.

understanding, monitoring, and, if possible, influencing through public policy factors related to migrant location, education, and experience, along with remittance patterns and intended uses in the origin state. To do this, many countries have established government-sponsored organizations or government agencies to engage their diasporas. By 2012, more than 80 countries globally had such diaspora engagement institutions, sometimes more than one. Figure 67 illustrates the growth of such diaspora engagement institutions in home countries since 1980, and follows from a recent study of diaspora engagement institution emergence determinants in 144 countries, including Guinea-Bissau.<sup>96</sup> The vertical axis shows the count of different diaspora institution types in each country studied. These types include: 1) *quasi-governmental organization* (quango), a state-sanctioned organization that is partially-funded or led by the private sector (e.g., New Zealand’s Kiwi Expats Association, established in 2001); 2) *legislative agency*, an agency housed within the legislative branch of government, often to represent migrant groups (e.g., the High Council of Malians, founded in 1993); 3) *sub-ministry*, a formal office housed within a wider government ministry (e.g., the Irish Abroad Unit established in 2006 and since 2008 housed within the consular division of Ireland’s Department of Foreign Affairs); 4) *executive agency*, an organization housed within the office of the head of the executive branch of government (e.g., the Presidential Office for Mexicans Abroad, established temporarily in 2000); 5) *hybrid ministry*, a ministerial portfolio that is split between responsibility for diaspora affairs and some other cabinet duty or duties (e.g., Algeria’s Ministry of National Solidarity, Family, and the National Community Abroad established in 1996); and 6) *full ministry*, a full, single ministerial portfolio dedicated to the diaspora (e.g., the Ministry of Overseas Indian Affairs established in 2004).

**Figure 67: The number of diaspora institutions worldwide has been increasing.**  
(count of diaspora institutions by type)



Source: Gamlen, et al. (2013).

**6.24 Legislative agencies and sub-ministries comprise the largest shares of diaspora engagement institutions.** Countries may have from one to six institution types in a given year. Diaspora engagement institutions located in legislative agencies typically specialize in migrant policies and trends related to overseas voting and political representation in home-country legislatures. Diaspora engagement institutions in quangos or in executive branch agencies typically

<sup>96</sup> Gamlen, A., Cummings, M., Vaaler, P., & Rossouw, L. 2013. Explaining the Rise of Diaspora Institutions. IMI Working Paper 78, International Migration Institute, University of Oxford: Oxford, UK.

specialize in migrant economic development issues, including the promotion of FDI, portfolio investment, and remittances to fund new business ventures in the origin state.

**6.25 Guinea-Bissau’s primary diaspora engagement institution in the 2000s has taken the form of a hybrid ministry in the executive branch,** styled alternatively as the Ministry of Foreign Affairs, International Cooperation, and the Diaspora or as the Minister of Foreign Affairs and the Diaspora. This history likely means that the newly-elected president and prime minister can draw on politicians and bureaucratic staff with some previous experience analyzing current migrant and remittance trends and their implications for economic development and poverty reduction. In this context, a re-constituted version of this hybrid ministry in the new government is likely better positioned to formulate and implement policy initiatives intended to enhance the venture-investment impact of remittances and broader economic development and poverty reduction effects from adroit diaspora engagement.

**6.26 In addition, Guinea-Bissau’s national legislature allocates two seats to citizens living abroad:** one seat to represent Bissau-Guineans living in Europe and another to represent those living elsewhere in Africa. Citizens living abroad can vote in person at embassies or at central (Bissauan) election offices in Guinea-Bissau, if visiting at the time of elections. Past legislative elections in 2004 and 2008 have left these two seats unfilled and citizens abroad “exempted” from voting. These policies undermine efforts to engage migrants politically and attract greater participation in the home-country economy through remittances and other foreign capital inflows. The most recent legislative election in 2014 did fill these two seats, though voter participation rates by citizens abroad did not match the 76 percent rate of domestic voter participation.

#### 4. RECOMMENDATIONS

6.27 Analyzing remittance trends and uses for developing countries generally and Guinea-Bissau specifically leads to several policy recommendations, which are summarized below:

- **Guinea-Bissau’s government should treat migrants like other potential foreign investors and provide them with financial and related legal and regulatory incentives to increase the size and frequency of their remittances, and encourage them to use new, electronic, mobile remittance channels.** Migrant investors can provide the foundation for new business investment in an environment that might otherwise deter other conventional (non-migrant) foreign firms and individuals reliant on formal legal and regulatory institutional protections. Migrants have other informal extended family and community relationships to assure the intended use of their remitted investments. Migrants and their remittances are, thus, a natural starting point when it comes to re-building foreign investment and foreign investor confidence in the Bissau-Guinean economy.
- **The government should permit new international banks and MTOs to enter and do business in Guinea-Bissau in an effort to promote more competition in this remittance channel, lower remittance transfer costs, encourage new remittance transfer technologies—including mobile remittance technologies—and increase domestic credit to the private sector.** Currently only two major MTOs operate in Guinea-Bissau: Western Union and MoneyGram. Other major MTOs are interested in entering Guinea-Bissau (*e.g.*, Ria Financial) but have been deterred by government regulations apparently enforcing the current duopoly. Reversing this policy and permitting new entry will decrease remittance fees and prompt faster adoption of mobile remittance technologies. A more welcoming and streamlined entry by MTOs will also stimulate banking activity, as MTOs promote mobile remittance technology. This, in turn, will stimulate more private sector domestic credit.
- **The government should consider permitting dual or multiple citizenship for Bissau-Guinean migrants, their immediate family members, and descendants, to promote**

**easier movement of people and remittances to Guinea-Bissau.** Currently, Guinea-Bissau does not permit dual or multiple citizenship. This policy increases the cost of travel to and from Guinea-Bissau for migrants, migrant family members born abroad, and their descendants, who may have taken citizenship in their host countries, but retain important family, community, or other ties to Guinea-Bissau. These same ties likely prompt their interest in remitting and in doing so for new business purposes. The Bissau-Guinean government should make it easier for these investors to be “connected” to and invest in their homeland via dual or multiple citizenship grants. At a minimum, the government should implement a long-term visa program targeted at these same individuals, again, to allow their ease of movement and investment.

- **The government should consider delegating authority to formulate and implement such policies to a re-constituted hybrid ministry (e.g., Ministry of Foreign Affairs and the Diaspora).** Such a hybrid ministry is likely to have more experience and expertise than other ministries in this domain and can address such policies thoughtfully and with due concern for related issues, such as money laundering and drug-trafficking. These policy initiatives do not necessitate the creation of additional government agencies. Indeed, they would benefit from the relaxation of certain regulations, such as those constraining MTO entry.
- **The Guinea-Bissau hybrid ministry charged with oversight of such policies should establish a database tracking the size, location, and demographic attributes of the diaspora, as well as remittance totals and their composition and uses within Guinea-Bissau.** International organizations<sup>97</sup> as well as academic researchers sponsored by international organizations<sup>98</sup> have already created global, regional (Africa), and country-specific (Guinea-Bissau) data such as these in electronically accessible formats and with periodic updates.<sup>99</sup> This data would facilitate the evidence-based formulation and implementation of policies designed to enhance the venture-investment impact of remittances and broader diaspora engagement promoting economic development and poverty reduction in Guinea-Bissau. Reaching out to migrants even has the potential to somewhat counterbalance the brain-drain Guinea-Bissau experiences, if migrants invest some of the resources and expertise they acquire abroad back in their home country.

## PART II: SOCIAL ASSISTANCE PROGRAMS

### 5. OVERVIEW AND BACKGROUND

6.28 **In Guinea-Bissau, social assistance programs can be effective tools to reduce poverty.** As chapters 1 and 4 have argued, poverty is widespread in Guinea-Bissau, government capacity to deliver urgently needed public services is limited, and addressing critical structural bottleneck to unleash the country’s growth potential will take time. Once put in place, social assistance programs can be an effective way to deliver relief to the poorest, potentially avoiding many of the risks inherent in other types of public policy. The terms “social safety nets” or “social assistance” is used to refer to noncontributory transfer programs targeted in some manner to the poor or vulnerable. In social policy, SSN programs are meant both to help catch those falling downward

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<sup>97</sup> IMF. 2009. *International Transactions in Remittances: Guide for Compilers and Users*. Washington, DC.

<sup>98</sup> Parsons et al. 2007. Docquier, F. & Marfouk, A. 2006. International migration by education attainment in 1990–2000. In C. Orden & M. Schiff (Eds), *International migration, remittances and the brain drain*. Washington, DC: World Bank.

<sup>99</sup> Parsons et al. 2007. Docquier & Marfouk 2006.

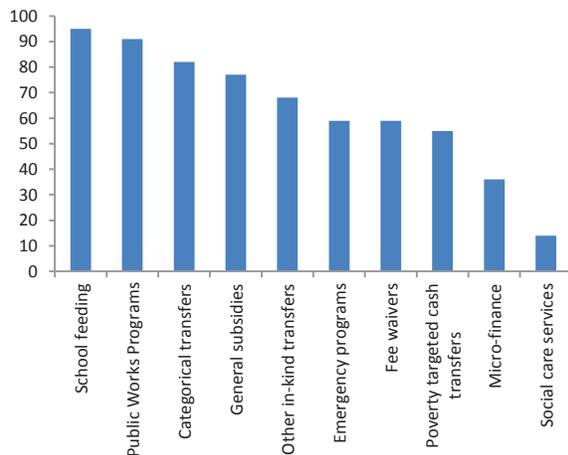
economically before they land into destitution and to provide assistance or a minimum income to those more permanently poor. The following programs are common elements in a safety net:<sup>100</sup>

- Cash transfers or food stamps, whether means tested or categorical as in child allowances or social pensions;
- In-kind transfers, with food via school feeding programs or mother/child supplement programs being the most common, but also of take-home food rations, school supplies and uniforms, and so on;
- Jobs on labor-intensive public works schemes, sometimes called cash-for-work or workfare;
- In-cash or in-kind transfers to poor households, subject to compliance to specific conditionalities on education or health; and
- Fee waivers for essential services, health care, schooling, utilities, or transport.

**6.29 In recent years, SSN programs have increasingly been adopted across the developing world, including in African countries, with measurable impacts on the poverty level of targeted households.**

A recent review of 22 African countries shows the current mix of programs (Figure 68), and highlights that programs still focus mostly on emergency relief or particular demographic groups. However, cash transfers are also on the rise, focusing more strongly on chronic poverty. Overall, some estimates suggest that transfer programs in developing countries extend to up to a billion people worldwide.<sup>101</sup> Social assistance programs can have important impacts on poverty – for instance, cash transfers reduced the poverty gap by 45 percent in South Africa and by 11 percentage points in Zambia, while overall poverty has also fallen by 13 percentage points as a result of cash transfer programs in Kenya.<sup>102</sup>

**Figure 68: Social safety net programs, of different types, are pervasive in many African countries (percent of countries surveyed)**



Source: Monchuk, V. 2013. Poverty Reduction and Investing in People: The New Role of Safety Nets in Africa, Experiences from 22 Countries. Social Protection & Labor Policy Note 16. The World Bank.

**6.30 Most social assistance and SSN programs place agency in the hands of the poor by giving them the resources to make the right decisions regarding the use of resources in their households.** And evidence shows that the poor spend the cash they receive responsibly, focusing on important consumption good, health and education related expenses, and productive investments. A recent review of the empirical evidence suggests that 82 percent of relevant studies find no increase in expenditure on so-called temptation goods, such as alcohol and cigarettes, by

<sup>100</sup> Grosh M. C. del Ninno, E. Tesliuc, and A. Ouerghi, 2008. *For Protection and Promotion: The Design and Implementation of Effective Safety Nets*. World Bank, Washington, DC.

<sup>101</sup> Haushofer J. and Shapiro J. (2013) Policy Brief: Impacts of Unconditional Cash Transfers; Monchuk, V. 2014. *Reducing Poverty and Investing in People: The New Role of Safety Nets in Africa*. The World Bank.

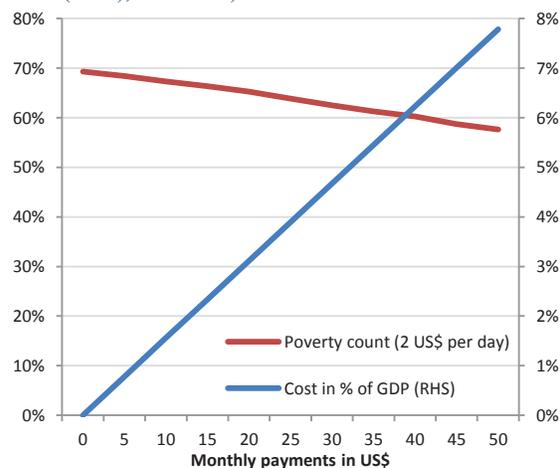
<sup>102</sup> *Project Appraisal Document (PAD) on a Proposed Credit in the Amount of SDR 26.20 Million to the Republic of Senegal for a Social Safety Net Project* (2014), World Bank.

cash transfer beneficiaries.<sup>103</sup> Another mechanism is the shift in relative power within households, as many programs target women who are often reported to focus more on children-related expenditure.

**6.31 While social assistance programs’ main objectives are to reduce poverty, under some conditions they can also promote investments in capital which can result in increased productivity.** This chapter highlights evidence that some SSN programs can have positive effects on economic activity, especially on lower income households, through the following channels: (i) human capital; (ii) physical assets; (iii) productivity; and (iv) economic multiplier effects through spill-overs to the local economy. Evidence comes mostly from cash transfer programs. Moreover, if the programs are effectively targeted to poor beneficiaries, these impacts can contribute to shared growth by providing economic opportunities to households that may typically be marginalized.

**Figure 69: A transfer equivalent to 1.5 percent of GDP could reduce *absolute* poverty by two percentage points.**

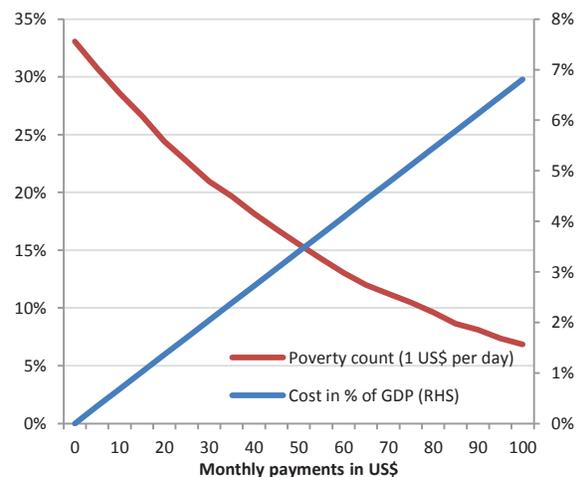
(poverty count at US\$ 2 per day in percent and percent of GDP (RHS), 2010 data)



Source: ILAP II and World Bank staff simulations.

**Figure 70: A transfer equivalent to 1.5 percent of GDP could reduce *extreme* poverty by ten percentage points.**

(poverty count at US\$ 1 per day in percent and percent of GDP (RHS), 2010 data)



Source: ILAP II and World Bank staff simulations.

**6.32 In Guinea-Bissau, a cash transfer scheme equivalent to 1.5 percent of GDP could reduce extreme poverty by up to 10 percentage points (Figure 70).**<sup>104</sup> A transfer to the poor under the absolute poverty line of the same amount would reduce poverty by about two percentage points (Figure 69). To achieve a similar reduction of absolute poverty, of 10 percentage points, a transfer equivalent to seven percent of GDP would be needed. To put these amounts in perspective, in 2010, for which these results are simulated, Guinea-Bissau received donor grants equivalent to 9.7 percent of GDP (7.4 percent in project grants and 2.3 percent in budget support). A cash transfer program, especially when targeting extreme poverty, would be comparatively inexpensive—yet the results in terms of poverty reduction promoting income growth of the poor could be considerable.

<sup>103</sup> Evans, D., (2014) *Do the poor waste transfers on booze and cigarettes? No.*, World Bank.

<sup>104</sup> The simulations assume that households spend 100 percent of the transfer on consumption; they also assume perfect targeting and no leakage of resources.

## 6. THE IMPACTS OF SOCIAL ASSISTANCE PROGRAMS

### Human capital

**6.33 SSN programs have contributed to increased use of education and health services among recipients.** The ability of cash transfers to bring the poor to a minimum level of well-being allows them to take advantage of economic opportunities, particularly human capital investments. Communities in neighboring Senegal, for example, showed a positive impact on the health and education of children targeted by the Children Nutrition and Social Transfer Program (*Projet Nutrition Ciblée sur l'Enfant et Transferts Sociaux, NETS*). Participation in the program predominantly led to increases in the number of meals reported and reductions in negative coping strategies.<sup>105</sup> The intervention led to a reduction in infant mortality, particularly from diarrheal disease, improved vaccination coverage, more diverse diets for children aged up to 23 months old, the adoption of better eating habits for children under the age of 5 and the recommended number of meals for children aged between 6 and 23 months. Similarly, participants enjoyed improved educational outcomes, with increased primary and secondary school enrollment in Kenya, Zambia, Malawi, Ghana and South Africa. In addition, Kenya enjoyed higher schooling completion, while programs in Ghana and South Africa witnessed reductions in grade repetition and absences respectively, amongst beneficiary households.<sup>106</sup> Finally, a recent study of Tanzania's Community-based conditional cash transfer program found that the greatest improvements were registered among the poorest beneficiaries. The benefits of the program were widespread however, with participating households healthier and more educated than the control group after two and a half years.<sup>107</sup> These experiences are confirmed internationally, where participation in Brazil's *Bolsa Familia* resulted in long-run enrollment rates rising by 13 percent.<sup>108</sup>

**6.34 Public works programs can also engender increased investment in schooling and health services and have been successful at targeting the poor.** Liberia introduced public works in direct response to the conflict and then subsequent food price crises, which had contributed to high poverty, food insecurity and underemployment rates. The project assessment found that 80 percent of beneficiaries were from poor households. This relatively high rate of targeting poor households through public works has also been witnessed in India, Argentina, and Ethiopia. In the Liberia case, even despite the background of severe need, beneficiaries invested roughly 30 percent of the public works wages in education and another 16 percent in farm, non-farm enterprise, and household investments.<sup>109</sup> Evaluation of the Ethiopian Productive Safety Net Program (PSNP), a large-scale public works program, also shows that beneficiary households reported higher initial and more sustained school enrollment for their children following a year of participation in the program (also see Box 8 in chapter 4).<sup>110</sup>

**6.35 Imposing conditions to cash transfers, under which transfers are contingent on specific behaviors by beneficiaries, can further increase investments in human capital.**

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<sup>105</sup> Insitut Fondamental d'Afrique Noire (2012) *Impact Evaluation of Cash Transfers in the NETS Program of Social Transfers Targeting Children*, Laboratory of Research on Social and Economic Transformations, University of Dakar.

<sup>106</sup> *PAD Senegal*, 2014.

<sup>107</sup> Evans, D., Hausladen, S., Kosec, K., Reese, N. (2014) *Community-Based Conditional Cash Transfers in Tanzania: Results from a Randomized Trial*, World Bank.

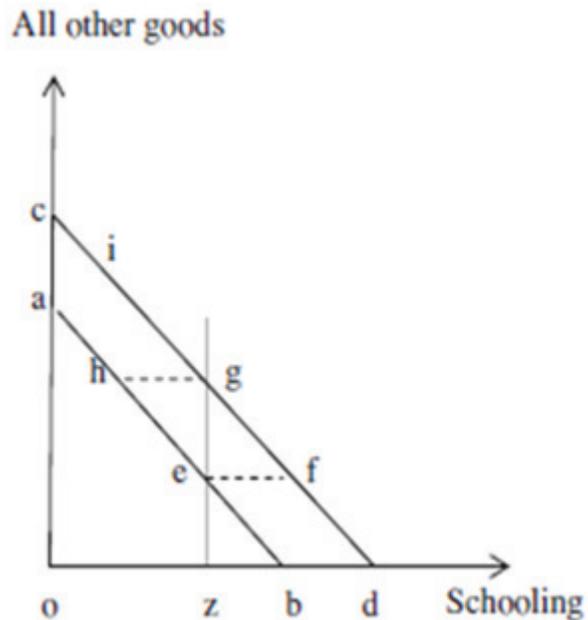
<sup>108</sup> *Ibid.*

<sup>109</sup> Grosh, M., C del Ninno, E. Tesliuc, and A. Ouerghil., 2008. *For Protection and Promotion: The Design and Implementation of Effective Safety Nets*. World Bank, Washington, DC.

<sup>110</sup> The World Bank. 2010. *Designing and Implementing a Rural Safety Net in a Low Income Setting; Lessons Learned from Ethiopia's Productive Safety Net Program 2005-2009*. The World Bank.

Research suggests that programs that include conditionalities linked to education and healthcare can result in higher uptake of these services than unconditional transfer programs, by adding to the income-effect of the transfers themselves.<sup>111</sup> Enforcement of compliance with such conditionalities increases both school enrolment and the rate of attendance at health centers; even ‘soft conditioning’, for which payments are not strictly linked to compliance with conditions, can enhance investments relative to the income effect alone.<sup>112</sup> As Figure 71 demonstrates, *cd* represents a participating household’s new budget constraint after receiving the cash transfer.<sup>113</sup> In order to encourage beneficiaries to increase their level of schooling rather than increasing consumption of other goods, i.e. simply moving from *h* to *i*, program designers require *g* consumption of schooling in order to qualify for the transfer. In practice, however, in countries where the supply of basic services is limited, it is likely less desirable to impose hard conditions, since the poorest are also often the least likely to have effective access to basic health care or education. In addition, while imposing conditions can result in greater human capital investments, monitoring respect of the conditions can be costly and require capacity. For example targeting, conditioning and monitoring account for roughly 60 percent of the administrative costs of PROGRESA in Mexico. Moreover, these conditions are more easily enforced in middle-income countries where stronger institutional capacity makes supervision feasible.

**Figure 71: Cash transfers have both income and substitution effects**



Source: Barrientos (2012).

**6.36 Increased demand for basic social services by the beneficiaries of social assistance programs, through greater uptake of school, nutrition and health services, would be difficult to address in Guinea-Bissau given the current public capacity in these sectors.** For this reason, decisive action to turn around the economic fate of Guinea Bissau would also need to ensure that adequate health, nutrition and education services are provided to the poorest and most vulnerable. As discussed in chapter 3, the accumulation of arrears in the wage bill of public teachers prompts frequent strikes, which also occurs among health workers. Often, there is so little schooling that school years are annulled. A social assistance program, particularly if introduced with some form of conditionality, would therefore require concomitant investments in the provision of services, which requires addressing the issue of payment of teachers and health care workers. In some countries, where the government was unable to provide this support, NGOs and other CSOs

<sup>111</sup> Alderman H. and Yemtsov, R. (2014) ‘How Can Safety Nets Contribute to Economic Growth?’ in *World Bank Economic Review*, 28(1): 1-20.

<sup>112</sup> Alderman and Yemtsov, 2014. Ozler, B. and Ferreira, F. (2011) *Conditions work! But are they a good thing? Part I*, World Bank.

<sup>113</sup> Barrientos, A. (2012) ‘Social Transfers and Growth: What Do We Know? What Do We Need to Find Out?’ *World Development* 40(1) 11–20.

contributed to temporarily filling some of the gaps in services (see chapter 5), however, in the medium term, it is one of the core responsibilities of the government to finance said services.

### **Physical assets**

**6.37 New evidence suggests that SSNs have a positive effect on asset formation.** A randomized controlled trial of the unconditional cash transfer program in Western Kenya conducted by the NGO *Give Directly* has witnessed significant reductions in poverty and food insecurity among recipients, as well as a rise in asset accumulation.<sup>114</sup> *Give Directly* beneficiaries, who represented a general population sample, received unconditional cash transfers. Between 2011 and 2012, participating poor households increased their consumption and investment in livestock and small businesses, and experienced reduced hunger and psychological distress.<sup>115</sup> Beneficiaries witnessed their asset holdings rise by 58 percent compared to the control group, primarily through home improvements and increased livestock, while demonstrating particularly strong increases in spending on food and medical and social expenses with no evidence of increased expenditure on temptation goods; rather there was a 42 percent reduction in the number of days children went without food.

**6.38 Social assistance, both through cash transfers and public works, can also help families maintain assets.** For example, when adverse shocks to incomes materialize, the poor are often forced to sell assets in order to absorb the shock. If the shock is systemic and a large number of households are forced to sell assets in distress sales, asset prices plummet, increasing the amount of assets that will need to be sold to cover consumption needs. This magnifies the severity of shocks and has a detrimental effect on the poor. Cash transfers provide a buffer that reduces the effect of shocks. A study examining Ethiopia's PSNP, for example, finds that beneficiaries under the program experienced fewer distress sales, resulting in a statistically larger increase of assets over time than households without cash transfers.<sup>116</sup>

**6.39 The effect of social assistance on asset formation enhances local incomes sustainably.** Although the productivity of the assets in which the poor invest differs (e.g. shelter vs livestock), there is evidence that revenues increase due to asset accumulation. In the Kenya study, total revenue from small businesses in which recipients invested part of their transfers increased by 38 percent. On the other hand, revenue from animal husbandry rose by 48 percent among transfer recipients. Indeed, livestock appears a common area for asset creation among cash transfer recipients, as illustrated by other experiences from Zambia and Malawi.<sup>117</sup> Physical asset accumulation increases revenue which in turn can be invested in further assets, thus setting in motion a virtuous cycle. While the amounts remain modest, this can raise local incomes moderately, but sustainably.

**6.40 Through a public works model, SSNs can contribute to building or rehabilitating small-scale infrastructure.** Public works programs can help achieve the longer run welfare of households or communities through a different investment channel—the construction or maintenance of infrastructure that yields services to households. The Ethiopian PSNP finances labor-intensive public works that investment in social services infrastructure (water supply, health posts, and schools) and provide a broader public good, beyond to the well-being of direct

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<sup>114</sup> Haushofer and Shapiro, 2013.

<sup>115</sup> Ibid.

<sup>116</sup> Berhane, G., J. Hoddinott, N. Kumar, and A. Seyoum Taffesse. 2011. "The Impact of Ethiopia's Productive Safety Nets and Household Asset Building Programme: 2006-2010." International Food Policy Research Institute, Washington, DC.

<sup>117</sup> *PAD Senegal*, 2014.

beneficiary households. In the highlands of Ethiopia, 65 percent of households report that their households have benefitted from PSNP work on local schools and 62 percent report that they have benefitted from PSNP work on local health posts.<sup>118</sup> Public works have also been employed to help rehabilitate access roads, particularly through labor-intensive methods. Improved feeder roads can help households get their products to market or to access more easily existing health, education, or other government services.<sup>119</sup>

## **Productivity**

**6.41 There is evidence that the poor invest part of the received transfers in improved production inputs and activities with higher value-added, which had the potential to raise productivity.** Similar to the case of physical assets, program evaluations suggest that beneficiaries also may invest part of a cash transfer in better inputs, including seeds and fertilizers which enhance the overall productivity of their land. In addition, the additional resources allow the poor to invest in activities with higher value add. In Zambia, for example, cash transfers led to a rise in the use of agricultural inputs, particularly among smaller households, as well as a shift to higher-value agricultural production (from cassava to maize and rice).<sup>120</sup>

**6.42 Programs that adopt a public works model can encourage further productive investments.** As noted above, public works activities can contribute to improving agricultural land, such as building terraced fields, and opening or rehabilitating road networks. For example, a 2008 assessment of the PSNP activities found that these investments had positive returns to household productivity in agriculture, particularly in regards to soil and water conservation, and expanding livestock holdings.<sup>121</sup>

**6.43 SSNs can mitigate the risks associated with exploring new—and more productive—economic activities.** Cash transfers provide a form of social insurance that allows the poor to take risks in pursuit of activities with higher value-add and higher associated incomes.<sup>122</sup> Indeed, there is evidence from South Africa, that cash transfers finance migration and job search.<sup>123</sup> This suggests that cash transfers may encourage the flow of labor, as a key factor of production, to more productive activities, thus supporting economic growth.

**6.44 Cash-based SSN programs would facilitate monetary transactions outside the dominant cashew-rice barter system. This could encourage new forms of economic activity, with potentially higher productivity.** In Guinea-Bissau, the main staple, rice, is often acquired in exchange for cashew. This barter system is well established but it is largely limited to the rice-for-cashew trade. Moving into other economic activities, including the sale of fertilizer, seeds, and other investment—or indeed consumer—goods is discouraged by the barter system which is

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<sup>118</sup> Berhane, G., J. Hoddinott, N. Kumar, and A. Seyoum Taffesse. 2011.

<sup>119</sup> Grosh et al., 2008.

<sup>120</sup> *PAD Senegal*, 2014.

<sup>121</sup> MA Consulting Group and Prospect Development Consult (2009). *Impact Assistant of the PSNP Public Works Program*. Vol. II, Main Report. Submitted to the World Bank, Washington, DC and the Government of Ethiopia, Addis Ababa; Lieuw-Kie-Song M. (2011). *Integrating Public Works and Transfers in Ethiopia: Implications for Social Protection, Employment and Decent Work*. IPC-IG/ILO Working Paper No. 84 Brasilia and Geneva, International Policy Centre for Inclusive Growth and International Labour Organization.

<sup>122</sup> Hanlon, J., A. Barrientos, and D. Hulme (2013) *Just Give Money to the Poor: The Development Revolution from the Global South*. Kumarian Press.

<sup>123</sup> Ardington, C., A. Case, and V. Hosegood (2009) “Labor Supply Responses to Large Social Transfers: Longitudinal Evidence from South Africa.” *American Economic Journal: Applied Economics* 1(1): 22–48.

limited to two commodities: cashew and rice (see also chapter 9). Money on the other hand is fungible and broadens the market to include the trade of all goods and services. Monetizing the economy is thus key to unleash market mechanisms, allowing for a better match of supply and demand, encouraging new economic activities, and thus, jointly, raising the economy's productivity. Cash injections under SSN programs tend to be relatively small, but with time they can contribute to monetizing the economy.

### **Spill-overs and economic multiplier effects**

- **Additional cash injected into local economies raises consumers' purchasing power, which can stimulate local economies.** Social assistance programs increase the purchasing power of beneficiaries, increasing their consumption of goods and services ranging from food, education, health, locally-produced goods, as well as goods from other regions or countries. Therefore, cash transfers can have an indirect impact on the wider local economy, particularly local farmers and businesses who profit from the increased demand among recipient households. In Ghana, for example, recipients of the LEAP program spend roughly 80 percent of their transfers inside the local economy, which then launched a new round of income increases for the community.<sup>124</sup>

#### **6.45 Multipliers for SSNs indicate that the overall impact of these programs for the wider community is significantly greater than the amount of cash given to recipient households.<sup>125</sup>**

Benefits accruing to secondary beneficiaries must also be taken in consideration when measuring the full impact of cash transfers on communities. Non-recipient households can gain from the broader effects of the program, for example through wages generated in part by beneficiaries' spending or via inter-household gifts. Periodic markets and purchases outside of villages in turn shift these income effects to other communities and in the long run, as cash transfer programs are scaled up, transfers can have wider direct and indirect effects. It is for this reason that some evaluations have used a multiplier approach to analyze the impact of cash transfer programs on local markets. Analysis of the DECT program in rural Malawi, for example, estimated a multiplier of between 2.02 and 2.45 within affected communities.<sup>126</sup> While building on small amounts, and therefore of limited size, these impacts are nonetheless important to consider.

**6.46 Social assistance programs are unlikely to result in inflation.** Inflation in Guinea-Bissau is largely imported and due to strong monetary policy from the BCEAO, inflation in Guinea-Bissau tends not to be a concern. Social assistance transfers are relatively small, so there is no evidence that they cause inflation.<sup>127</sup> Finally, when paired with a broader policy agenda, social assistance would be part of a package of both supply-side and demand-side interventions, thus limiting the risk of inflation.

## **7. POLICY RECOMMENDATIONS**

**6.47 A social assistance program – which supports the consumption of the poor and vulnerable while providing incentives for greater investments in human capital – should be an integral part of the turnaround agenda.** There is a vast pool of regional and international experience that can inform the development of such program in Guinea Bissau and a wide array of

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<sup>124</sup> PAD Senegal, 2014.

<sup>125</sup> Brewin, 2007.

<sup>126</sup> Davies and Davey, 2008.

<sup>127</sup> Bruni, L. and Eddy, M. (2012) *Reversing the State: The Role of a Local Public Goods Transfer in Promoting Stability and Alleviating Poverty in South Sudan*, Harvard University.

design options that can be tailored to fit the country context. This CEM suggests the following policy recommendations to implement a social assistance program in Guinea-Bissau:

- **Conducting a diagnostic analysis and needs assessment to inform the choice of program, as well as its design.** The choice between different types of programs – cash transfers, near-cash or food transfers, cash-for-work labor intensive public works, fee waivers, etc. – will depend on a series of elements. The implementation capacity, structure of the local economy, consumption patterns, state of the infrastructure, nature of markets, etc. all come into play when selecting the type of program to be put in place. Once a type of intervention is selected, in-depth analysis will be required to define the priority objectives of such a program, target beneficiary groups, existing implementation capacity and gaps that require technical assistance, and costing of program options.
- **Establishing transparent targeting criteria and mechanism will be vital.** Irrespective of the type of program selected, it is critical to define a clear and transparent targeting mechanism to reach the target population. Indeed, this is a critical element for the effectiveness of the program, and its impact on poverty.<sup>128</sup> As is the case for the choice of program, there are alternative mechanisms to target the intended beneficiaries, and the ultimate choice will depend on the objective of the program, as well as the local conditions. One of the critical elements is to ensure objectivity and transparency, so as to promote accountability and limit corruption.
- **Investing in robust operating and monitoring mechanisms.** The development of a social assistance program requires investment in the tools and instruments used to identify beneficiaries, organize services, implement payments, etc. In addition, accountability mechanisms can help ensure the flow of funds reaches its intended beneficiaries.
- **Designing a thorough impact evaluation.** Experiences from other countries, highlighted in this chapter, suggest that SSN programs can raise local incomes sustainably. However, every country is different and some expected effects will not be realized in certain contexts while other will. A thorough impact evaluation should be designed in conjunction with the SSN program to gauge the impact of the program on household investments in human and physical capital, productivity, and local spill-overs. Since some of the impacts of such programs are likely to only materialize with time, such impact evaluation should be conducted repeatedly.

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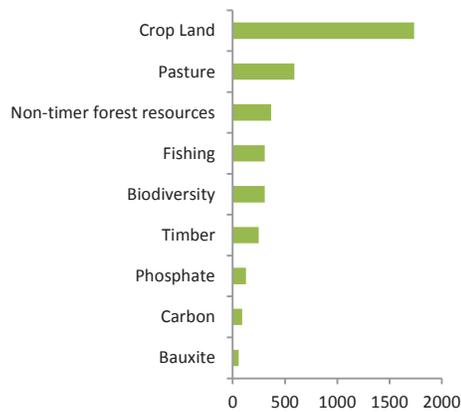
<sup>128</sup> PAD Senegal, 2014.

## CHAPTER 7: HARNESSING THE NATURAL RESOURCE WEALTH

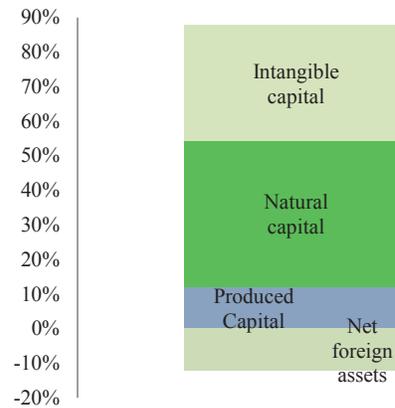
### 1. INTRODUCTION

7.1 **The bulk of Guinea-Bissau’s wealth lies in its natural endowments, especially the country’s renewable natural resources.** Wealth accounting methodologies suggest total natural wealth in Guinea-Bissau could be up to US\$ 3,874 per capita (Figure 72).<sup>129</sup> Renewable natural resources account for over 90 percent of this wealth, including agriculture land (crop and pasture land), fisheries, forests (timber, non-timber forest resources, carbon), and natural habitats and ecosystems protected in national parks. They provide a multitude of goods and services, contributing directly to the wellbeing of the country’s citizens. Natural capital is Guinea-Bissau’s most important form of capital (Figure 73).

**Figure 72. Guinea-Bissau has considerable renewable and non-renewable resources....**  
(US\$ per capita, 2010 prices)



**Figure 73. ...accounting for the largest share of the country’s total wealth.**  
(in percent of total wealth, 2010)



Source: Optimizing Guinea-Bissau’s Natural Wealth, 2014

Source: Optimizing Guinea-Bissau’s Natural Wealth, 2014

7.2 **Renewable natural resources are essential for the livelihoods of local communities.** Agriculture accounts for over 80 percent of official employment – a figure that may even be higher in rural areas where 56.5 percent of the population lives.<sup>130</sup> Cashew and rice are the main crops, although horticulture farming is increasing and livestock remains important. Rural household income and thus poverty reduction is dependent on the sales of the country’s cash crops (cashew and rice) and on the productivity of subsistence farming. The country’s diverse and largely healthy ecosystems both within and outside protected areas, provide multiple services (food, water, shelter, income, resilience to climate change) and are critical to the survival strategies of the poorest members of society, as well as the country’s future prosperity. Similarly, the country’s forests provide valuable ecological services, such as the maintenance of the hydrological cycle, preservation of soil quality, and protection against erosion, also serving as a buffer against desertification, a carbon sink, and a refuge for biodiversity. Mangrove forests are particularly rich in resources, providing neighboring villages with important flood defense from rising sea levels and acting as an essential breeding and nursery ground for the country’s fishing stock. These

<sup>129</sup> See “The Changing Wealth of Nations”, 2011, World Bank for an overview of the methodologies used to calculate natural wealth.

<sup>130</sup> ILAP II data.

fishing stocks provide an alternative source of income for many coastal dwellers, especially women.

**7.3 Harnessing the natural resource wealth can also support the government in enhancing the country's intangible and produced capital.** Intangible capital (e.g. education and health) and produced capital (e.g. infrastructure) is relatively small in Guinea-Bissau, which squares with the conclusions in previous chapters pointing to considerable shortfalls in these areas. Natural wealth can be transformed into other forms of capital, for example by exploiting the country's mining potential and investing the proceeds in physical and human capital. However, natural wealth, especially from renewable resources can also generate a constant stream of income. Investing such income in other forms of national wealth increases the base for income generation—an investment in future prosperity. It is the government's responsibility to capture the proceeds from natural wealth and invest them wisely to grow the country's capital which will eventually allow its citizens to escape poverty and embark on a path toward greater and shared prosperity.

**7.4 This chapter will look at the role natural wealth plays in Guinea-Bissau. It will explore how natural wealth frames they country's economic activity, setting the stage for the following chapters in Part II of this CEM.** It will also consider the revenue that can be generated from natural wealth, which the government could use to support the country's development. The last sections will shed light on how natural wealth ought to be managed for maximum effect and will conclude with some implications for policy.

## **2. NATURAL WEALTH AND ECONOMIC ACTIVITY**

**7.5 The chapters covered in Part II of this CEM illustrate the opportunities that Guinea-Bissau's immense natural wealth represents.** Natural resource-based sectors are the drivers of growth and are Guinea-Bissau's largest employer. They have the potential to contribute even more to the economy, helping to lift people out of poverty. Agriculture, specifically the cultivation of cashew and rice, is the country's dominant sector. It is practiced by most Bissau-Guineans and is a form of income, especially cashew (chapter 8), and food, especially rice (chapter 9). Together with fishing (chapter 10), these sectors account for 49 percent of GDP and employ close to 80 percent of the workforce. Mineral exports and increased activity in mining-based towns could act as a new and important source of growth (chapter 11). Tourism, while still in its early stages has the potential to bolster the services sector, particularly nature based tourism (chapter 12).

**7.6 This CEM focuses on the sectors with the largest potential for growth and employment. The list is not exhaustive. Horticulture, for example, offers productivity-enhancing opportunities in the agriculture sector.** The oft little discussed horticulture sector offers rural inhabitants an alternative source of income. Profit margins on tropical fruits can be higher than traditional food staples.<sup>131</sup> Mangoes are one particular fruit that could become an export for Guinea-Bissau. A large number of subsistence and more modern farmers are familiar with mango cultivation, including grafting and other practices that are needed to scale up mango production and meet external market quality requirements. Neighboring countries (e.g. Mali and Burkina Faso which have inferior climatic conditions to those of Guinea-Bissau, and Côte D'Ivoire, whose conditions are similar) are already exporting mango to Europe. Diversifying agriculture related income sources would diversify the risk farmers face in relying on cashew. Improving farming productivity may also free up time and create resources so that farmers can

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<sup>131</sup> E.g. Maertens, M. and E. Verhofstadt. 2013. "Horticultural Exports, Female Wage Employment and Primary School Enrolment: Theory and Evidence from Senegal." *Food Policy* 43: 118-231.

engage in other economic activities such as rural enterprises, a trend seen in China in the wake of its 1970-89 agricultural reforms.

**7.7 Livestock, too, has economic potential.** As Figure 72 illustrates, pasture land is Guinea-Bissau's second-largest natural asset. Indeed, Guinea-Bissau has about 1.3 million heads of cattle—some 305,000 sheep, 646,000 goats, and 330,000 swine—and the livestock subsector can play a potentially important role in complementing agricultural production. However, the livestock subsector is extremely undeveloped in terms of total production, marginal productivity and processing capacity. In the case of cattle, the same breeds are used to produce milk and meat, yielding on average about ½ to 1 liter of milk per day, per cow, and a 48 percent carcass yield, with animals taking up to five years to reach a live weight of 200 kg. In terms of processing facilities, Bissau has one slaughterhouse, which only slaughters between 20-30 head of cattle/day (around 100 during festival periods) and does not meet minimum sanitary conditions. Some 60 percent of the animals slaughtered come from neighboring Guinea-Conakry, not from Guinea-Bissau itself, and the country imports meat, milk, and other dairy products. There is need for further economic analysis of the sector, but to exploit the natural—renewable—wealth from pasture land, livestock is likely to hold considerable economic potential.

**7.8 The country's forests have potential for timber production.** However, this area too requires additional analysis. Forests represent a significant opportunity for income generation for the government and are an important source of income and resources for the country's poor. The country's forest timber is in high demand among international players. Emerging evidence on illegal logging however suggests this demand is being met without due respect for the country's laws and regulations (Box 10). The economic rents from this sector are not being properly captured and, more worryingly, timber is leaving the country in raw form (an illegal activity) rather than being processed by the country's saw mills. Guinea-Bissau is therefore missing out on three types of income. First, logging permit fees, which allow for legal logging activities, second, economic rents from timber-based products, which are not currently being manufactured domestically, and third associated budgetary revenue. The forest sector is also of critical importance to local livelihoods and biodiversity, both of which are threatened by the forest loss and degradation arising from the prevailing illegal, unselective felling techniques. Non-timber forest resources provide *inter alia* food, medicine, construction materials, shelter, and fuel. Fuel wood and charcoal, together with agricultural biomass, make up 80 percent of the country's energy consumption; the poor spend 15 to 20 percent of their income on energy alone. At a subsistence level, the collection of fuel, largely by women, absorbs considerable time and effort. Improved, sustainable forest management would therefore bring about multiple benefits, as well as potentially freeing up time and energy among the rural poor for diversification into alternative income-generating opportunities.

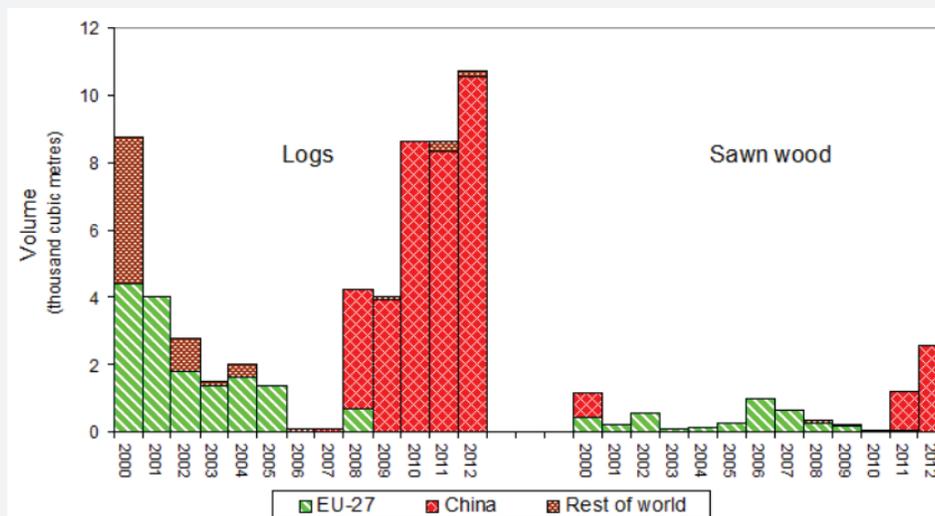
**Box 10: Halting the plunder of Guinea-Bissau's forests**

**Timber is an important natural resource in Guinea-Bissau. National forests are of crucial importance for the poor.** The World Bank estimates that timber resources may constitute up to US\$ 304 per capita in wealth accounting terms, making it the third to fourth largest natural resource of Guinea-Bissau. Combined with other forest resources, the value is about twice the size. Forest resources are important for local communities, providing fire wood, construction materials and non-timber forest products including medicinal plants and one of the few sources of protein for poor families who hunt animals inhabiting the forests. Forests also provide a refuge for biodiversity more generally, as well as multiple ecosystem services, including increasing climate change resilience. Timber can also be an important source of income. If managed sustainably, timber may be harvested to process into furniture and other consumption goods. To strike a

balance between preserving forests, protecting local communities, and felling, a licensing regime is in place that governs the harvesting of timber, including a requirement for environmental assessments and potential replanting.

**Timber is also a prized commodity abroad. Poverty and poor governance have resulted in an increase in illegal logging and export.** Bissau-Guinean timber, especially rosewood, is sought after in international markets, especially in China which has increasingly been importing logs—and some sawn wood—from the country (Box Figure 4). Following the 2012 military coup, governance deteriorated, weakening enforcement mechanisms of the licensing regime for timber. This resulted in an increase in illegal logging. According to GlobalTimber.org.uk, an NGO, Chinese of logs from Guinea-Bissau increased by about 70 percent in 2013 and accelerated dramatically in the first half of 2014. Desperation among the poor as a consequence of poor cashew harvests in 2012 and 2013 and increasing food insecurity— but also reported incidents of bribery and intimidation by loggers and the national security forces—further supported illegal logging. According to IRIN, loggers paid young villagers US\$ 2-6 to cut a tree in 2013, compared to about two US cents/kg for raw cashew and a container-load of wood was traded at two to three times the value of a container-load of cashew. There are also reports about foreigners from neighboring countries participating in illegal logging in Guinea-Bissau.

**Box Figure 4: Guinea-Bissau's wood exports are dominated by raw logs**



Source: GlobalTimber.org.uk, based on data reported by importing countries.

**Illegal logging destroys natural capital and has a lasting negative effect on the livelihoods of the poor.** Incentives for the poor to support illegal logging provided short-term income—in desperate times—but endangered their longer-term livelihoods by destroying their natural habitats, with concomitant effects on ecosystem function and resilience to climate change. This not only affects nutrition, health and the availability of firewood and construction materials, but also future income streams from the natural forests: although timber is a renewable resource, one of the most targeted timber species, *Pterocarpus erinaceus*, also known as Pau de Sangue or rosewood, take around 50 years, equivalent to two generations, to mature.

**It is crucial to halt illegal logging and export. This requires the strengthening of the state.** On paper, Guinea-Bissau has an adequate regime in place that governs the harvesting and export of timber. However, the regime needs to be enforced. The freshly elected government already took steps in the right direction by suspending the export of wood in July 2014. This decision was partly motivated by a prioritization of cashew exports which began to compete with wood exports. Stronger enforcement at the port and at the terrestrial border posts is one way in which the

government can enforce the export ban on unprocessed timber, likely to be logged illegally. In addition, the General Directorate for Forests and Fauna, as well as the border control officers, need to be strengthened further to enforce the licensing of logging activities with more rigor and integrity. A stronger state, enforcing its laws through licensing and surveillance, will be able to put an end to the plunder of Guinea-Bissau's resources.

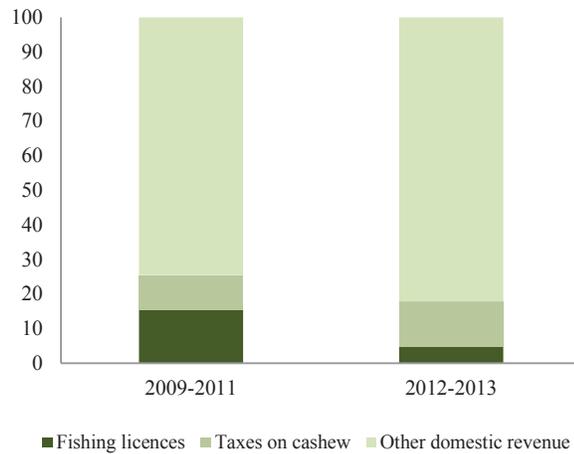
Sources: IRIN, GlobalTimber.org.uk, and World Bank.

### 3. NATURAL WEALTH AND GOVERNMENT REVENUE

#### 7.9 If managed sustainably, natural assets could generate significant public revenue streams.

In addition to providing the multiple ecosystem goods and services, essential to subsistence livelihoods of the poor and underpinning local income opportunities, the goods and services supported by the country's natural endowments could support government finances. Exports of agricultural produce bring in much needed foreign exchange. They are also an important source of government revenue, averaging 10-15 percent in recent years). Fishing licenses, on average, accounted for 15.5 percent of government revenue between 2009 and 2011 (dropping to only 4.9 percent in 2012-2013 in the aftermath of the 2012 military coup). This stream of income could be even higher if license fees were increased to reflect the catch capacity of foreign vessels entering Guinea-Bissau's waters. The country's forest land and

**Figure 74. Revenues from fishing and cashew sales**  
(percent of total government revenues)



Source: International Monetary Fund and World Bank.

protected areas hardly contribute to government finances at the moment. Improvements in forest governance and tax collection could result in greater tax revenue from the sales of timber and timber related products. Moreover, forests have the potential to provide the country with carbon credits to sell in international carbon markets. The national system of protected areas and the Bolama-Bijagos Man and Biosphere Reserve also present significant economic resource potential both indirectly through their contribution to the protection of productive ecosystems as well as directly for their potential to bring in nature based tourism revenues.

#### 7.10 Several of Guinea-Bissau's renewable natural resources have regional and global benefits, which may also attract a form of income.

At a regional level, Guinea-Bissau's mangroves are an important breeding and nursery ground for most of the fish off the West coast of Africa. Disruption to this ecosystem would therefore harm the entire region. At a global level, the country is home to rare and endangered biodiversity and ecosystems, including forests. The "blue carbon" trapped in mangrove forests is particularly important. These benefits are recognized and valued by the international community. A variety of international funding mechanisms exist specifically to provide financial support to countries providing stewardship of these regional and

global resources (for example, GEF, FFEM, LDCF, Adaptation Fund, CDM, FCPF and others).<sup>132</sup> The importance of Guinea-Bissau's ability to manage these resources is recognized by the international community, reflected by the increased financial flows specifically allocated for management of these globally-valued and endangered resources. In addition to targeted international funding mechanisms, emerging international markets, such as that for carbon, also present opportunities for revenue generation. Guinea-Bissau is currently developing its first Reduced Emissions from Deforestation and Forest Degradation (REDD) project in two coastal protected areas, Cacheu and Cantanhez. This innovative project intends to sell "blue carbon" credits in the voluntary international market, using the proceeds to reinforce government and local community efforts to conserve and sustainably use these resources. By so doing, the forests will not only continue to provide their multiple goods and services but will also generate revenues for government coffers and provide a revenue stream for local stakeholders, directly contributing to poverty alleviation and shared prosperity.

**7.11 The country's exhaustible natural resources, while not currently exploited, could provide the government with another form of income.** Phosphate and bauxite sit unmined in Guinea-Bissau's soils. Further afield in the coastal waters of relatively large petroleum reserves lie in wait of exploration (see chapter 11). Rising commodity prices are helping make Guinea-Bissau's minerals more attractive to foreign investors. Despite poor infrastructure (access roads, electricity, water) mining companies are scouting the country and engaging the government about future investment possibilities. The opportunities are vast, as are the risks. If managed well, mineral dividends could be captured and transferred to the population, providing potentially transformative income to kick-start growth, (see chapters 4, 5, and 11). Mineral rents could also be channeled into a pre-designed fund for investment in other forms of capital (infrastructure, education, health, environmental management). These measures would ensure net wealth creation for current and future generations. Poor management or mismanagement could, however, see precious local areas adversely affected by environmental damage and a break up of social cohesion.

#### 4. MANAGING RISKS FOR SUSTAINABLE DEVELOPMENT

**7.12 Preserving the country's natural wealth is essential for growth, jobs, poverty reduction, and shared prosperity.** Natural resource management is at a critical juncture. Guinea-Bissau is relatively unique in that it is among the last of the countries in West Africa where development has had a limited impact on the environment. It could be one of the few countries avoiding the environmental 'Kuznets Curve', often captured by the portentous motto 'grow now, clean up later.' However, things are changing. Guinea-Bissau's resources are coming under threat, and so too therefore are people's livelihoods and the country's drivers of economic growth. Investment in natural resource management is essential if the country's natural assets are to be preserved and allowed to contribute to economic growth.

##### *Renewable natural resource management*

**7.13 Existing institutions for natural resource management are under resourced and face severe capacity constraints.** The government is aware of the importance of the country's natural wealth and has put in place a number of bodies and agencies to oversee the management of these resources. Since the early 1990s, a number of plans and visions have been developed to protect

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<sup>132</sup> Global Environment Facility (GEF); *Fonds Français pour l'Environnement Mondial* (FFEM), French acronym; Least Developed Countries Fund (LDCF); Adaptation Fund; Clean Development Mechanism (CDM); Forest Carbon Partnership Facility (FCPF).

and promote sustainable use of the natural environment. More recently a network of five coastal national parks and one community protected area (Urok) was established to preserve the country's rich biodiversity and rural livelihoods. The establishment of an additional terrestrial protected area complex is underway. These initiatives are well placed, but not well financed. Channelling scarce resources towards management of fisheries, timber and biodiversity may be difficult for government to justify in the short-term when several other areas are competing for public monies. In the medium to long-term however, investment in resource management could result in higher economic rents and higher revenues.

**7.14 As a fragile state, aid flows have fluctuated widely, making budgeting for resource management—which largely relies on official grants—difficult.** This challenge is currently being felt by the agencies set up to manage the country's protected areas. Conserving biodiversity and critical natural habitats is not a one-time effort but something that needs to be sustained over time. Access to a stable, sustainable flow of funds is essential to planning and executing biodiversity conservation and park management activities. Currently, the country's efforts remain entirely dependent upon external, time bound project funding, with fund allocation driven by donor rather than local priorities. This renders the significant biodiversity and habitat conservation gains of the past fourteen years vulnerable to reversal. In turn, this puts at risk the opportunities to develop a nature based tourism industry, with its attendant job creation and revenue flows. Efforts are ongoing to put in place and capitalize a conservation trust fund, the BioGuinea Foundation, as a means to secure minimum flows. The endowment of this fund has not yet been capitalized.

**7.15 The country's weak capacity to manage its natural resources is being taken advantage of, especially in forests and fishing.** The indiscriminant felling of forests so as to extract the remaining valuable species has resulted in both the loss of valuable natural wealth and significant damage to the forest ecosystem. This has had an adverse effect on local livelihoods, species conservation and ecosystem services. In the fishing sector, weak institutional capacity to monitor and enforce licensing agreements is undermining the country's ability to manage its fish stocks. Illegal fishing is widespread, with some particular species coming under threat.

**7.16 At a domestic level, some agricultural and forest-dwelling practices are threatening local ecosystems.** Slash and burn techniques, and overgrazing of livestock are not uncommon and expansion into new areas can lead to land degradation and habitat fragmentation. Rapid expansion of the area planted under cashew, to a large extent the cumulative impact of small holder farmers' attempts to boost their income, are similarly displacing natural forest ecosystems and traditional agricultural systems. Moreover, the emergence of a cashew "monoculture" not only threatens ecosystem integrity but also increases individual and national economic vulnerability in the event of a pest or disease attack. The poor state of the country's energy infrastructure has increased the county's reliance on basic fuels such as charcoal. Deforestation for this source of light, and cooking is starting to have a destabilizing effect on the country's forests, while also no doubt causing respiratory illness from indoor air pollution. In less rural settings, electrical power generation is also giving rise to environmental concerns (see chapter 3).

**7.17 Climate change adds extra pressure on the need to preserve natural habitats.** The country's low lying coastal areas are highly vulnerable to rising sea levels. These areas host approximately 80 percent of the population and much of the country's limited existing infrastructure. Increased risks of flooding and coastal erosion could lead to the disappearance of biodiversity reserves and agricultural land on which the local economy is based. Guinea-Bissau is also highly vulnerable to changes in rainfall patterns. The recent NAPA (2011) identifies a reduction in rainfall of 11.7 percent by 2100 as the most serious climatic risk facing the country. Increasing irregularity of rainfall and a temperature rise of 1.95 °C are forecast to result in low-yielding agriculture and soil degradation due to evapo-transpiration. Collectively, the country's climate change documents highlight Guinea-Bissau's high vulnerability and underline the urgent

need for the government to mainstream climate change issues into local and national development plans.

### *Mineral-based management*

**7.18 Governance and capacity to manage rents from minerals is also weak.** Experience in other countries has shown that resource extraction can lead to significant local environmental degradation, to the detriment of local populations. The poor are the most vulnerable to the mismanagement of the country's natural wealth, as they are most directly dependent upon natural resources for daily subsistence. With this in mind, legal infrastructure has been built up to protect both the environment and the local communities that would be affected by mining interests in Guinea-Bissau. The capacity to enforce these laws and regulations is however weak. In 2008, for example, Bauxite Angola upgraded part of an existing road through the Cufada national park (widening and improving), in addition to clearing 113 hectares of land to make room for a larger port. No environment impact assessments accompanied the construction, and calls to halt the developments by the Institute of Biodiversity and Protected Areas (IBAP) were not respected. Since these events, capacity and resource constraints have remained and local concerns continue that the works will be resumed without the appropriate safeguards measures in place.

**7.19 Ideally, institutions to manage minerals should be built up before extraction commences.** Guinea-Bissau's subsoil assets could produce economic rents that can be invested in other forms of wealth or directly transferred to boost the incomes of the poorest members of society, spurring growth through greater shared prosperity. However, if appropriate governance arrangements are not put in place, sustainable growth will not ensue. At a macroeconomic level, governance arrangement are needed to manage resource flows—to reduce the volatility from resource rents, and to prevent an appreciation of the real exchange rate. A strong push towards transparency arrangement such as the Extractive Industries Transparency Initiative (EITI) would help promote buy in to mineral extraction and create incentives for government to manage resources to the benefit of local communities and national interests alike.

## **5. POLICY IMPLICATIONS**

**7.20 It will not be possible to maximize natural resource rents across all sectors; important trade-offs will need to be made.** There are three main areas where trade-offs exist.:

- **Mineral extraction and biodiversity.** Mineral and petroleum extraction, plus the construction and operation of associated infrastructures, is likely to cause significant stress on at least two national protected areas and their wildlife corridors. Similarly, areas of the Bolama-Bijagos Biosphere Man and Biosphere Reserve, a key weapon in the country's tourism arsenal, lie in the area of future petroleum exploration.
- **Rice production and mangrove forests.** Policies to promote the expansion of low land and bolhana rice cultivation, with a view to improving agricultural productivity and boosting food security, could come at the cost of mangrove forest. This would negatively impact fish breeding and nursery grounds, along with climate change resilience.
- **Carbon credits and timber rents.** Recent planning for a REDD project could bring many benefits including carbon sequestration and access to carbon credit revenues; improved forest management; and diversified non-timber forest products and ecosystem services. However REDD policies are also likely to impose restrictions on logging activities and hence reduce timber revenues. Local livelihoods reliant on charcoal as a source of heat and cooking could also be affected.

**7.21 There is also a trade-off between immediate costs, and sustainable future returns.** Investing in institutions and resource management bears an immediate cost – both financial and

human. In a resource constrained environment this can be difficult to justify, especially if the returns from this investment do not materialize until some future date. This tension is amplified in a fragile state where governance is weak and transparency is lacking. Citizen engagement is therefore essential so that policy makers can understand local concerns. A rationale and case for investment in natural resource management needs to be made. Based on the potential of the country's natural wealth to generate significant revenues, growth, and employment opportunities, this should not be a difficult case to make. Trade-offs are unavoidable. Policymakers will want to take into account the sustainability trinity, composed of economic, social and environmental considerations. Careful national planning will be required to optimize the use of natural resources, especially where decisions are difficult to revert, for example because the resource is non-renewable.

**7.22 To empower both the government's and the resource users' capacity to evaluate these types of trade-offs and make informed choices about management of the country's natural resource wealth at both the national and local levels, there is a need to improve the knowledge base, governance and the decision making systems.** Priority should be given to fishery, forest and mineral sectors, all of which present considerable immediate economic opportunities if well managed, and for which the potential economic, social and environmental repercussions of mismanagement are significant. Securing the ongoing conservation efforts for the National System of Protected Areas is also critical if the ecosystem services and economic opportunities presented by the tourism sector are to be preserved for the future.

- **In the short term, efforts should focus on (i) better understanding and monitoring the dynamics affecting the resources to enable more informed decision-making and (ii) strengthening the governance capacity.** This also echoes the priorities set out in the government's 2014 *Programa de Estabilização e Desenvolvimento*. There is a need to review, update, and disseminate the legislative framework (as necessary); strengthen the institutions responsible for enforcement; and increase transparency of information and decision-making. Approaches should include not only strengthening the responsible government agencies, but also increasing transparency and civil society partnerships.
- **In the medium to longer term, the government should integrate natural capital accounting approaches into its financial management and planning systems.** In so doing the costs and benefits of natural resource exploitation and management decisions will become more explicit, and the true gains/losses in the country's wealth can be tracked and managed.
- **Lastly, in light of the threats presented by global climate change, there is a need to explicitly mainstream climate change risks into planning and decision making.** Resilience to climate change can be enhanced by both capitalizing on the country's natural 'green' infrastructure (e.g. biodiversity, forests, agro-ecosystems) as well as ensuring that future capital investments are climate proofed (e.g. port, roads, etc.) to reduce social and physical risks associated with external shocks.

## **PART II:**

# **IGNITING THE ENGINES OF GROWTH**

## CHAPTER 8: CASHEW—MOVING UP THE VALUE CHAIN

### 1. INTRODUCTION

8.1 **The cashew sector is the most important agriculture sector in Guinea-Bissau, and plays a significant role in the country's economy.** Cashew occupies around 50 percent of the area under cultivation and is grown primarily by small-scale farmers who plant an average of 2-3 hectares of land. Cashew accounts for at least a third of average incomes in most areas throughout the country. For many years, the export of raw cashew nuts has also been responsible for more than 90 percent of Guinea-Bissau's exports earnings.

8.2 **Two challenges are of outmost relevance from the perspective of growing the size of the cashew value chain and reducing poverty:**

- **Farmers are trapped in a low-income/low-opportunities environment** constrained in accessing better economic outcomes. Producers largely depend on the sale once a year of cashew to meet their needs, and at harvest time are typically trading 3 kg of cashew for 1 kg of rice to feed their families.
- **Most of Guinea-Bissau's cashew crop is exported as raw nuts**, mainly to India and Vietnam. There is a small installed processing capacity of 13 percent of production. This translates to substantial foregone revenues. By exporting raw nuts, Guinea-Bissau is: (i) in a position of dependence vis-à-vis its two main buyers; and (ii) depriving itself of the value added and jobs created by the processing industry. Raw cashew nuts (RCN) are sold for US\$0.5 per kg, while processed nuts packaged in a plastic bag commands a price of US\$7.0 per kg. Three tons per year of processed RCN represent three new jobs.

8.1. **Addressing these issues will help reduce extreme poverty while increasing the participation of Guinea-Bissau in the world market.** Tackling these challenges requires addressing severe constraints for cashew producers and (potential) processors. These constraints include:

- (i) *Information issues.* Small-holder subsistence farmers (80 percent of production) follow weak husbandry practices. As a result, yields are below their potential level. Information on prices also flows imperfectly in rural communities.
- (ii) *Limited bargaining power.* In the absence of better rural-community organization, producers have very limited bargaining power at time of harvest, which when combined with other disruptions impacting information flows has severe effects on incomes.
- (iii) *Capital constraints.* Both producers and potential processors encounter binding capital constraints in expanding their businesses. Buying RCN involves large capital disbursement over a short period of time. This may prevent the entry of new players, in the current absence of well-functioning capital markets.
- (iv) *Coordination issues.* As individual small-holders do not have technical and financial means to support the coordination between local producers, the sector is not well organized and ends up being oriented by buyers.
- (v) *Disruptive policies.* Past interventions by the government – notably the instability in policies like the sector's strategy, reference prices, and taxes – have reduced the likelihood of investing in the sector. This in a country already impacted by severe political instability.

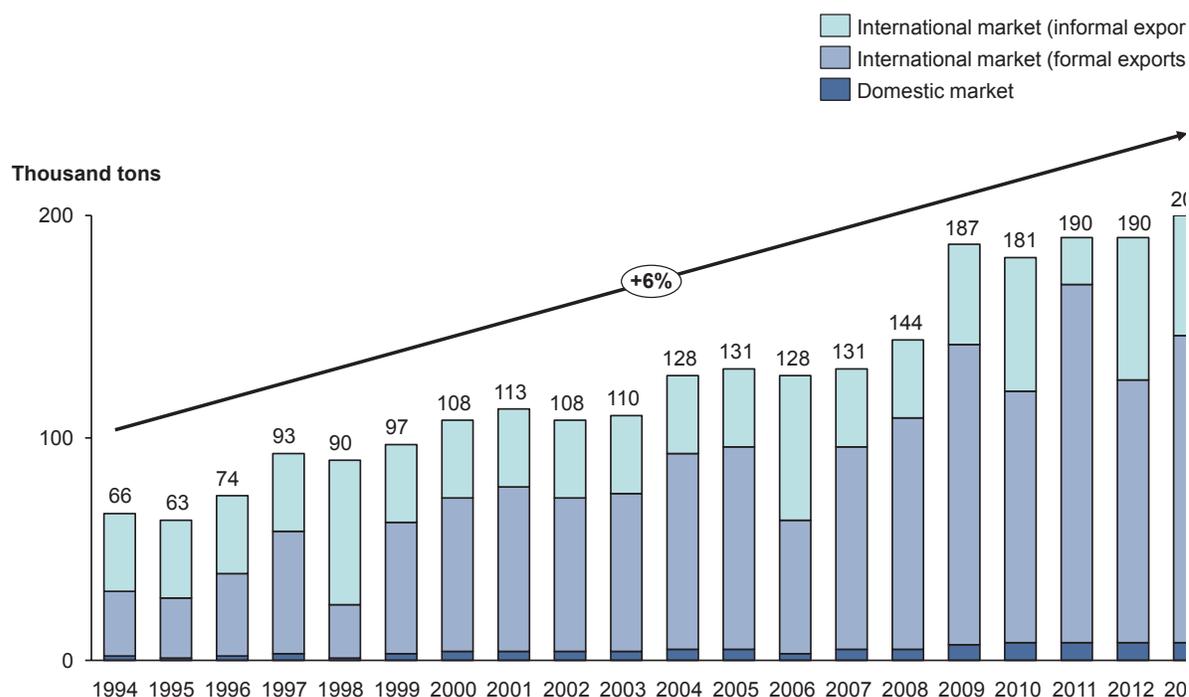
8.3 **Processed cashew implies higher value-added if done efficiently, and could generate a substantial number of jobs while expanding the small industrial base.** As chapter 3 has argued, cashew is the driver of growth but it is important to move up the value chain. This could boost

shared growth, if farmers' interests are protected, and develop the economy from one based almost entirely on the production of raw materials to one with more opportunities in the value chain. There is considerable potential for processing in Guinea-Bissau, but also important challenges and risks. This chapter provides an overview of the main issues and constraints and provides policy recommendations that would support the processing of cashew nuts in the country.<sup>133</sup> It also provides recommendations on mechanisms of improving the productivity of cashew farms, as well as increasing the diversification and bargaining power of cashew farmers.

## 2. OVERVIEW AND BACKGROUND

8.4 **Cashew exports have grown rapidly.** Exports have been growing at almost 6 percent a year from 1994 to 2013 (Figure 75). This increase in exports has been fuelled by additional production, largely due to expanding areas under cultivation. Although the vast majority of cashew is transported through the port of Bissau, some is sold across domestic borders—often illegally through smuggling to avoid domestic taxation.

**Figure 75: Cashew exports have grown at an average 6 percent per year**  
(exports and sales in tons)



\* Through the country's land borders

\*\* Through the port of Bissau

Sources of data: IMF, 2013; ANCA, 2014; Pal, Mota, 2010;

8.5 **Cashew nuts have extremely low production requirements, but trees in Guinea-Bissau are aging, which will soon be impacting productivity.** Investments in improved inputs or irrigation are scarce at best, given the characteristics of the local variety. Current cashew orchards are wild, farmers plant randomly and do not thin or prune trees. With aging, trees become less

<sup>133</sup> As mentioned in chapter 3, in future there may also be potential to move into the processing of the cashew apple for the production of beverages.

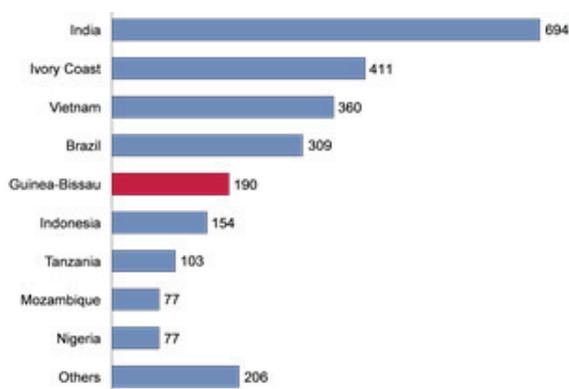
productive because of interlocking and overcrowding of canopies. Rehabilitation of plantation is therefore needed, especially in the case of orchards that are more than 20 years old, in regions such as Biombo. Following the best practices, farmers could re-plant older plantations according to proper farming recommendations. Local agronomists agree that thinning trees and maintaining a spacing of 8m by 10m or 10m by 12m would substantially improve yields since the increased sun exposure would make trees more productive. Evidence from the Africa Cashew Alliance (ACA) indicates that pruning has the most direct correlation to nut yields. Pruning is essential at the initial growth stage to obtain the proper shape. Selective thinning of low-yielding trees is also suggested. Fortunately, the production of raw cashew nuts in Guinea-Bissau has so far not suffered from disease to the same extent as East Africa or India. But urgent attention to varietal development is needed to avoid widespread disease, which would be a disaster for the sector and the country.

**8.6 In the current status of the value-chain where all sales of cashew are oriented towards exports,** farmers have a very limited bargaining power. International price volatility is largely transferred on them by buyers. In 2013, for each ton of RCN sold, farmers only received 35-42 percent of the reference price. In contrast, between 2010 and 2012, farmers were able to receive between 72-85 percent of the reference prices, suggesting that there are ample margins to increase their revenues. Lack of information about the reference price compromise farmers' ability to negotiate better deals. Moreover, lack of access to community-level warehouse facilities limits the farmers' ability to sell part of their production at a better rate.

**8.7 Combined with this, although Guinea-Bissau is a major exporter of raw cashew nuts, its processing capacity is very small.** Guinea-Bissau is a major international player in the production and export of raw cashew nuts, despite the country's small size. In 2012, Guinea-Bissau was the fifth-largest producer of raw cashew nuts, after India, Côte d'Ivoire, Vietnam, and Brazil (Figure 76). However, Guinea-Bissau exports almost all of the raw cashew nuts it produces, and the local processing industry is small and underutilized. From 1994 to 2014, Guinea-Bissau exported around 95 percent of the raw cashew nuts it produced, the majority of it to India. The informal export over land borders has historically been significant. For example, there are reports that 50,000 to 75,000 tons of raw cashew nuts from Guinea-Bissau were exported through Senegal in both 2013 and 2014.

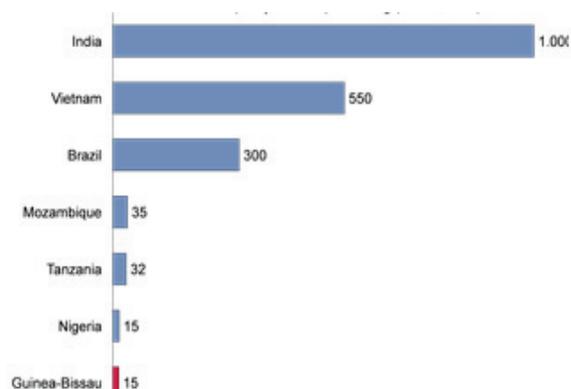
**8.8 Overall, this means that, despite being the large producer of raw cashew nuts, Guinea-Bissau is an insignificant player in the production of cashew kernel.** In 2010, the country had the capacity of processing less than 15,000 tons of raw cashew nuts a year, far from the largest player in the sector (Figure 77). Since 2010, the installed processing capacity has increased, and in 2013 reached around 40,000 tons of raw cashew nuts, which could produce almost 10,000 tons of kernel. However, the capacity utilization has remained low; in 2013, the country produced less than 250 tons of cashew kernels (<4 percent of capacity utilization), of which 118 tons were exported to Portugal, Russia, Turkey, and the United States, while 99 tons still await a buyer. Clearly it is a more challenging task in practice than one might imagine.

**Figure 76: Guinea-Bissau is the fifth biggest exporter of raw cashew worldwide...**  
(production of raw cashew nuts, thousand metric tons, 2012)



Source: World Bank.

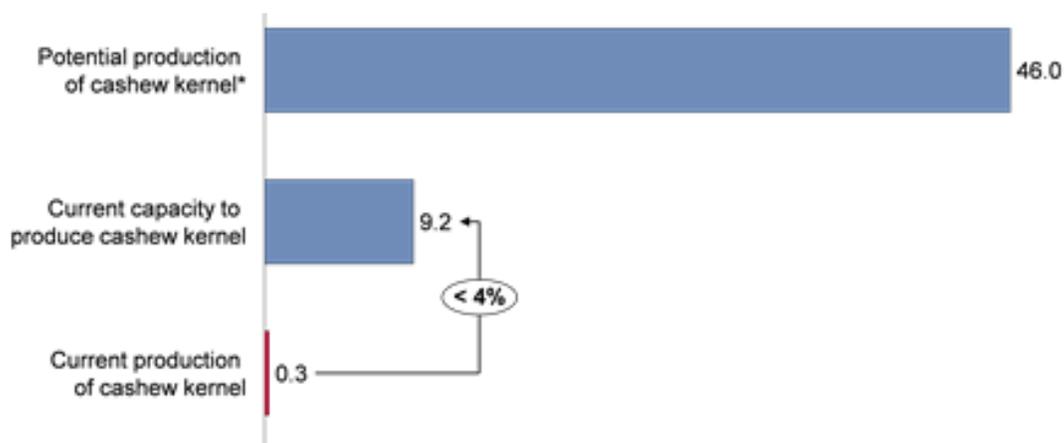
**Figure 77: ... yet the country hardly produces processed cashew (kernel)**  
(installed capacity for cashew processing, thousand metric tons, 2010)



Source: Pal and Mota (2010).

8.9 **Against this backdrop, Guinea-Bissau is far from achieving its potential.** The conditions are favorable for developing a cashew processing industry: the country boasts a plentiful supply of good quality raw cashew nuts, labor is available, and the infrastructure problems are not insurmountable. The country is now the fourth-largest producer of raw cashew nuts (having recently surpassed Brazil), and with the current supply of around 200,000 tons of raw cashew nuts, it could in theory increase the size of its processing industry from less than 250 tons to almost 50,000 tons of kernel. In addition, the quality of the raw cashew nuts in Guinea-Bissau is among the highest in the world. Nonetheless, significant challenges need to be addressed in tandem.

**Figure 78: Guinea-Bissau has considerable potential to produce cashew kernel**  
(thousand tons, 2013)



\* 200 thousand of raw cashew could be processed into 46 thousand tons of cashew kernel (23% in the production of kernel from raw cashew nuts)

Source: World Bank.

8.10 **Financing may pose the most significant constraint.** A successful enterprise will need to operate throughout the year, but the cashew harvest only lasts for three months. Therefore, it is

necessary to secure financing to buy sufficient stocks of raw material and store them<sup>134</sup>. Still, local banks are generally risk-averse and have already observed several failed attempts at cashew processing in Guinea-Bissau. The cost of local financing is also fairly high. One advantage of foreign investors is that they may bring access to cheaper financing. Partnerships with farmers may help if they are willing to store raw cashews until the processing plant is ready to use them.

**8.11 An example of a measure taken to ease financing constraints is the establishment, in 2013, of a guarantee program for the cashew sector.** While such a guarantee program had the potential to increase the access to finance and to promote the industrialization of the sector, it has faced three major problems that have limited its impact. First, the volume of credits covered - \$2.6M in 2013 - has been small, due to the utilization of the majority of the funds for purposes other than guaranteeing credits. Second, the management of the fund has been weak, and a permanent management team would be needed with adequate technical skills and a strong mandate to drive change. Third, at the moment the guarantee fund is only directly benefiting the commercialization of the cashew nuts. The industrialization of the sector would benefit from having the guarantee fund allocate part of its funds to guarantee credits that directly support the processing of raw cashew nuts, through an adequate credit model.

**8.12 Despite the country's small size, there is no shortage of labor availability,** and most of the population (70 percent) is dispersed in rural areas, within or near cashew-producing areas. Women fill most of the positions available. However, factories have suffered in the past from high labor turnover and absenteeism, due in part to the working conditions<sup>135</sup>. This requires acting in terms of information, recruitment, contracts and compensation to enable increased participation, longer tenure and reduced absenteeism.

**8.13 There are also minimum scale and quality requirements.** Typically, it is considered that one must have the capacity to export one container per month in order to satisfy overseas buyers. The size of the cashew nuts must also be fairly uniform, meaning that many nuts will have to be rejected at least for the export market. Small-scale village-level projects, of which there have been several, cannot survive unless they cooperate to achieve this level of volumes, quality and regularity.

**8.14 Infrastructure is a major impediment to businesses attempting to operate in Guinea-Bissau** (see chapter 2). In fact, the cashew processing industry would benefit from an increase in the availability and reliability of electricity, an improvement in road infrastructure (especially of secondary roads), and improvements at the port of Bissau. Still, the processing industry could benefit from the production of electricity at the factory level, which could be done by using cashew nut shells, one of the byproducts of processing. Therefore, while still an obstacle, the poor infrastructure should not be an impediment to the development of the cashew processing industry.

**8.15 Spurring the development of the cashew processing industry could bring significant benefits to the economy and to the rural population of Guinea-Bissau.** First, the economy would be expected to grow, fueled by an increase in the size of the industry sector. Second, employment would increase: it is estimated that cashew agro-processing creates about one full-time job for every three tons of processed raw nuts. Processing 30,000 tons of nuts a year could therefore create around 10,000 jobs, mostly in rural areas. As described later in the chapter, minimizing the distance between the factories and the local production facilities is important, and production is distributed across the rural areas of the country. This increase in jobs would

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<sup>134</sup> This is one of the major advantages enjoyed by India, which is able to import raw cashews from different sources throughout the year and thereby minimize inventory requirements.

<sup>135</sup> The work is fairly tedious and smaller plants can be hot and suffer from poor air circulation.

particularly benefit women, who make up the majority of factory workers. Organizing rural communities and upgrading the value chain could significantly raise incomes, address food security, and reduce poverty. The relationship between buyers and producers could become more equitable as processors should have a stronger incentive to establish a constructive partnership with farmers to ensure reliable supply, with mutual benefits for both. Finally, the risks in the value chain could potentially be reduced, given that the sector would reduce its dependence on the Indian market. Figure 79 shows these benefits, as well as others that the country could reap with a move towards the industrialization of the cashew sector.

**Figure 79: Developing the cashew processing industry would have a considerable impact on the economy**

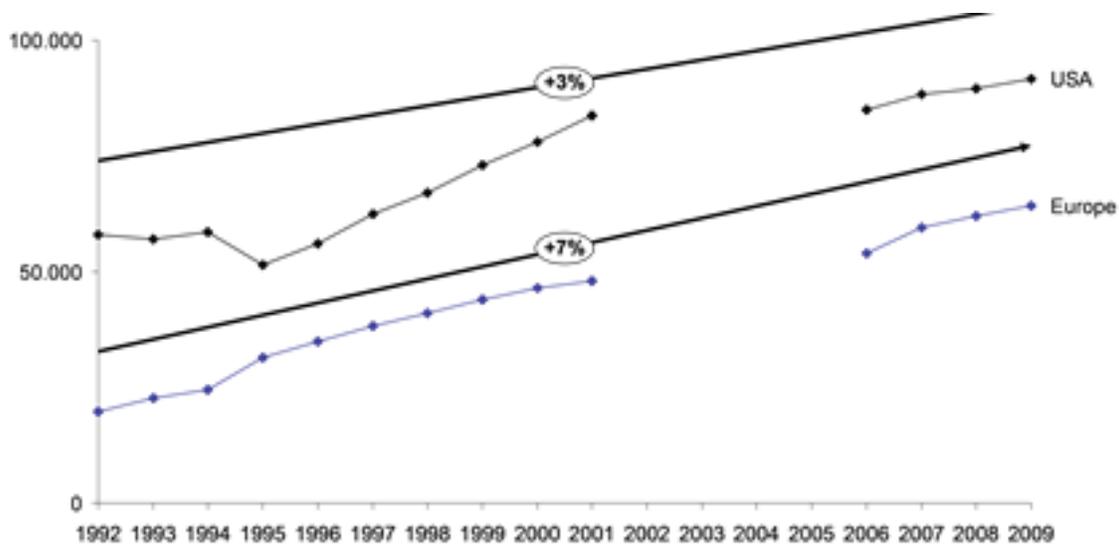
	Economic value	Potential impact of processing industry	Potential benefits and (potential losses)
<b>Producers</b>	Income from cashew production	Higher producers' share of export prices due to increased competition for raw nuts	Higher income due to increased share of export price
<b>Processing factories</b>	Operating profits	Factories operate in rural areas, thus creating employment in local communities	Profits earned
<b>Factory workers</b>	Wages and benefits		Wages earned
<b>Government</b>	Tax revenue	Shift in tax revenues from raw exports to factory-related tax	Tax revenue from cashew factories (Foregone tax revenue from exported raw nuts)
<b>Local communities</b>	Activity within local economy	Factory wages spent on consumer goods	Development and diversification of local economy

**8.16 While addressing this potential is desirable, it is also likely to become increasingly necessary, for two reasons: the demand for raw cashew nuts from Guinea-Bissau might decrease, and the competition for the cashew kernel market might become fiercer.** On one side, India, which is currently the main destination of raw cashew nuts from Guinea-Bissau, is increasing its internal cashew production and has a stated policy of moving towards self-sufficiency. To the extent that India continues to import raw nuts, rising producers, such as Indonesia, can benefit from their proximity to compete with Guinea-Bissau for that market. On the other side, the opportunity to tap into the increased international demand for cashew kernel might not last forever. In fact, countries such as Mozambique, Côte d'Ivoire, and Tanzania have been steadily developing their processing. The longer Guinea-Bissau waits to develop its own processing industry, the harder it might be to get a slice of that market, given increased competition from other countries on the continent. For all this, the transition from being an exporter of raw cashew nuts to one of mainly processed kernel represents not only an opportunity Guinea-Bissau should seize, but also one that the country might not be able to afford to pass-up, especially in a context in which cashew continues to play such an important role in the economy, and where diversification towards other potential economic engines will take many years.

8.17 **It is important to evaluate whether the country could compete in the international cashew kernel market since the domestic and regional markets are very limited.** The domestic market for cashew kernel, at around 20 tons a year, is small. In spite of some space for domestic marketing, this market is not expected to grow significantly, both for cultural reasons (cashew consumption in Guinea-Bissau is not common), and because of lack of affordability (it is unlikely that the population would see a significant boost in purchasing power over the short term). The sub-regional market, mainly made up of Senegal and Guinea, is bigger than the national market. Still, in 2010 it did not exceed a few hundred tons. The same reasons that hinder domestic market growth also limit the significant expansion of the sub-regional market. As domestic and sub-regional markets are small (less than 1,000 tons per year) and unlikely to grow significantly in the near future, Guinea-Bissau should focus on exporting to the international market, where North America, Western Europe, and China are the biggest players.

8.18 **The international market, on the other hand, is attractive.** World demand for kernels has grown strongly (7-8 percent per year) from 2000 to 2010, and is expected to increase by 5-8 percent a year from 2010 to 2020, mainly driven by a rise in demand from Asia. Figure 80 shows the evolution of imports of cashew kernels in the USA and Europe. The retail and service industry would be good markets for selling whole cashew kernels, whereas the food industry would be a good market in which to sell pieces and broken cashew kernels.

**Figure 80: Demand for cashew kernels from the United States and Europe has been increasing steadily**  
(imports of cashew kernels, metric tons)



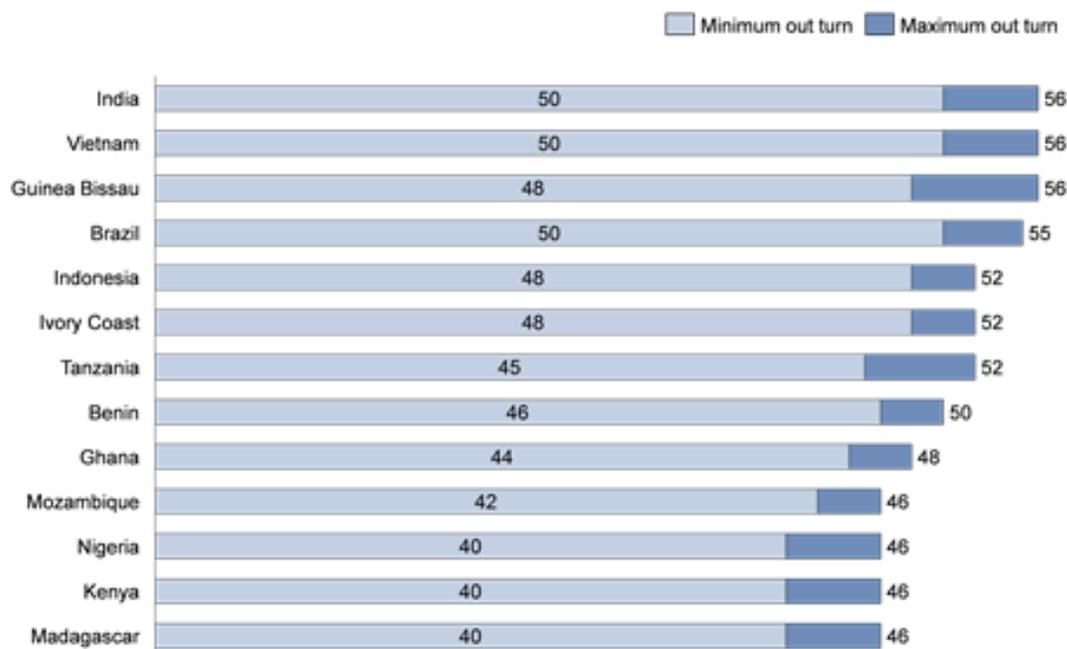
Source: Pal and Mota (2010).

8.19 **Competing in the international market would require Guinea-Bissau to satisfy three requirements: quality, volume, and price:**

- **In terms of quality, the international market is demanding.** International markets demand quality in terms of hygiene and certification (for example, a certificate of origin and aflatoxin certificate), and also in terms of taste. They also demand a constant product experience (i.e., the taste and quality of product should not vary in geography and time). Guinea-Bissau produces high-quality raw cashew nuts (Figure 81) with a sweet flavor. The development of plants with adequate scale can produce kernels with high and constant quality, having adequate hygiene and certification standards. The recent exports to the North American and European markets, although in very small volumes, should at least supply a proof of concept

that Guinea-Bissau is able to reach the quality standards demanded by the international market.

**Figure 81: The quality of Bissau-Guinean cashew is high by global standards**  
(outturn)



Source: Pal and Mota (2010).

- In terms of quantity, Guinea-Bissau is well placed to satisfy the volume requirements of the international market.** The international market usually requires high volumes and a separation of the different quality grades. It also demands a constant supply of cashew kernel throughout the year. As described above, Guinea-Bissau produces enough raw cashew nuts to assure a high volume of kernel production once (and if) processing plants with adequate scale are in place and capacity is met. Raw cashew nut production yields are 500-600 kg/ha, comparable to those in India and Brazil, although below those achieved in Vietnam. Given the aging of the tree plantation, significant work needs to be done in the process of re-planting. Given the attractiveness of the trading market including the smuggling of raw cashew nuts through the borders with Senegal, it is important to identify mechanisms of ensuring stable sale of raw material to future processing plants.
- Finally, Guinea-Bissau would have to be able to export cashew kernel to the international market at a profit margin, above the one obtained from the export of raw cashew nuts.** Analysis from 2010 shows that this is possible. However, it is important to update these cost analyses and to assess whether Guinea-Bissau remains competitive in terms of price. This is not only because, since 2010, the market and the costs along the value chain might have changed, but also, and most importantly, because a new processing technology was recently made available internationally, which disrupted the sector by significantly increasing the productivity of cashew processing. According to the National Association of Processors, these new machines, already used in the region (for example, in Burkina Faso), allow the de-shelling of 350 kg per *hour*, versus the 200–300 kg per *day* achieved with traditional equipment. New peeling machines now allow the peeling of tons of cashew per day. Given the competitive nature of this technology, it seems inevitable that Guinea-Bissau

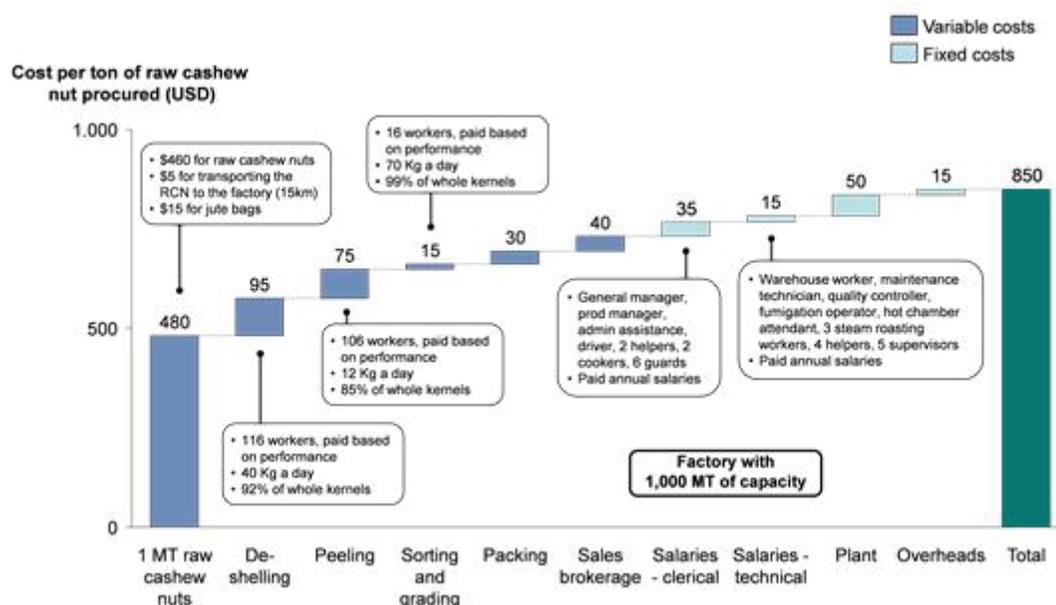
would need to adopt it in order to prosper in this market. However, it may reduce the advantage of cheap labor and raise the importance of access to capital.

### 3. ESTABLISHING GUINEA-BISSAU’S POTENTIAL TO PROCESS CASHEW

8.20 **This section will examine Guinea-Bissau’s potential to process cashew in more detail.** It will use 2010 data—which assumes the use of traditional technology—to demonstrate that (i) Guinea-Bissau is able to be price-competitive in the international market; (ii) such competitiveness is more easily achieved if some key decisions are made, especially in terms of the location of the factory; (iii) the profit margin for enterprises would be greater by exporting kernel rather than raw cashew; and (iv) there is still space to increase the profitability of the cashew processing business.

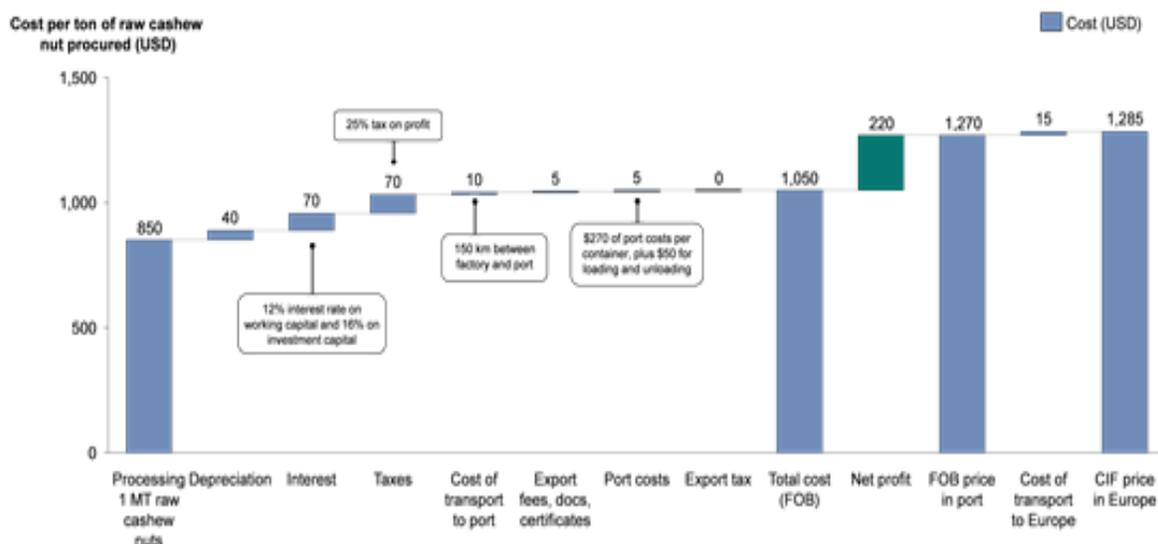
8.21 **Guinea-Bissau is able to compete in price in the international market for cashew kernels.** Figure 82 shows that a factory with a capacity of 1,000 metric tons would spend US\$850 to process 1 ton of raw cashew nuts. Figure 83 continues the building up of costs leading to export. Considering the market prices of 2009, the export would have a profit of around US\$220 per metric ton of raw cashew nut procured. Figure 84 shows how the annual profit of a factory with a capacity to process 1,000 metric tons would vary according to changes of the international CIF price and the domestic raw cashew nut farm-gate price.

**Figure 82: The total cost of processing for a factory of 1,000 tons capacity is estimated at US\$ 850 per metric ton (cost per ton of raw nut procured (US\$))**



Source: Pal and Mota (2010).

Figure 83: Exporting cashew kernel is estimated to result in US\$ 220 per metric ton processed (cost per metric ton of raw cashew processed)



Source: Pal and Mota (2010).

Figure 84: Profits from processing would vary both with CIF export prices and farm-gate prices (net profit per one thousand metric tons of raw cashew processed)

Kernel average CIF price (USD per Kg)	Raw cashew nut farm gate price (USD per ton)												
	301	370	394	417	440	454	463	472	486	509	532	556	625
3.75	24,637	-42,386	-67,465	-92,544	-117,622	-132,670	-142,701	-152,733	-167,780	-192,858	-217,937	-243,016	-318,252
4.61	164,647	108,220	89,411	70,602	51,793	40,507	32,984	25,460	14,175	-6,179	-31,258	-56,336	-131,573
4.90	211,317	154,890	136,081	117,272	98,463	87,177	79,654	72,130	60,845	42,036	23,227	4,417	-69,346
5.19	257,987	201,560	182,751	163,941	145,132	133,847	126,323	118,800	107,514	88,705	69,896	51,087	-7,120
5.48	304,656	248,229	229,420	210,611	191,802	180,517	172,993	165,470	154,184	135,375	116,566	97,757	41,330
5.65	332,658	276,231	257,422	238,613	219,804	208,519	200,995	193,472	182,186	163,377	144,568	125,759	69,332
5.77	351,326	294,899	276,090	257,281	238,472	227,187	219,663	212,140	200,854	182,045	163,236	144,427	88,000
5.88	369,994	313,567	294,758	275,949	257,140	245,855	238,331	230,807	219,522	200,713	181,904	163,095	106,668
6.05	397,996	341,569	322,760	303,951	285,142	273,857	266,333	258,809	247,524	228,715	209,906	191,097	134,670
6.34	444,666	388,239	369,430	350,621	331,812	320,526	313,003	305,479	294,194	275,385	256,576	237,767	181,340
6.63	491,336	434,909	416,100	397,291	378,482	367,196	359,673	352,149	340,864	322,055	303,246	284,437	228,009
6.92	538,006	481,579	462,770	443,961	425,152	413,866	406,342	398,819	387,533	368,724	349,915	331,106	274,679
7.78	678,015	621,588	602,779	583,970	565,161	553,876	546,352	538,828	527,543	508,734	489,925	471,116	414,689

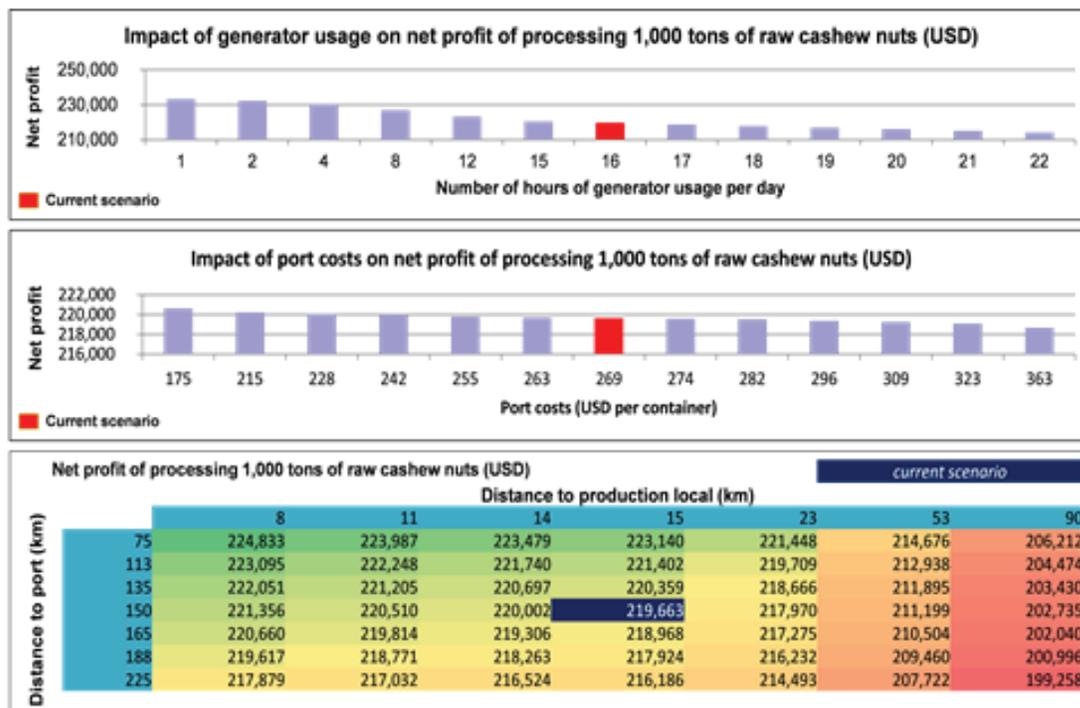
Source: Pal and Mota (2010).

8.22 The estimated profitability can be more easily achieved if the following aspects are taken into consideration: (i) transport infrastructure is more relevant to net profit than electricity and port costs, and (ii) minimizing the distance to local production—even if at a cost of an increased distance to port—is key. Figure 84 shows the analyses that support these conclusions. As

can be seen, the net profit varies considerably more with the location of the factory than with the extent of generator usage or port costs. Regarding the location, minimizing the distance of the factory to the source of raw cashew nuts is more advantageous than minimizing the distance of the factory to the port. Doing so would also carry the social benefit of establishing an industry in rural areas. Fortunately, the areas of higher production and best quality are near the coast (Figure 86), so a profitable balance between close proximity to the production local and relatively proximity to the port can be established.

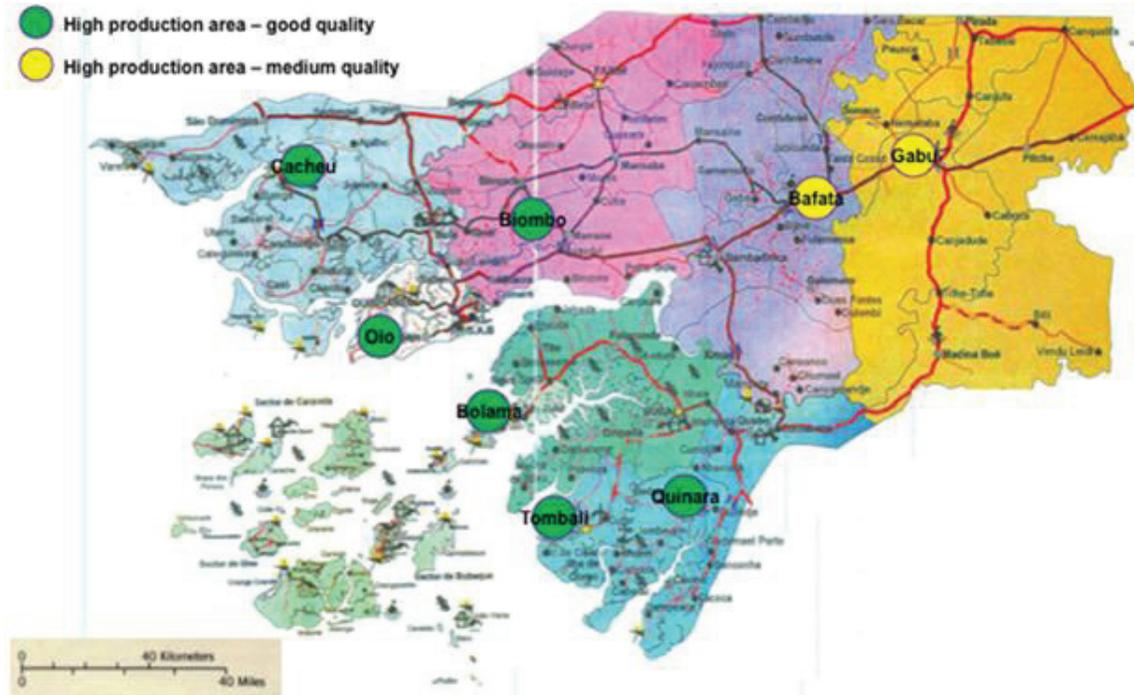
**8.23 The profit margin for enterprises would be greater by exporting kernel rather than raw cashew.** As seen above, buying, processing, and exporting 1,000 tons of raw cashew nuts would bring a profit of US\$220,000 for a factory operating at full capacity. If those 1,000 tons of raw cashew nuts had been exported, the profit would have been US\$13,000, considering 2009 market prices (Figure 87). All costs remaining the same (including the 250 XOF per kg on farm-gate cost), the FOB value would have to be around US\$850 per ton for the profit to match the one achieved with the exporting of cashew kernel. From 1998 to 2013, that only happened on a consistent basis in 2010–2012.

**Figure 85: Distance from the processing plant to the source of raw cashew nuts is a key determinant of net profits**  
(net profits of processing one thousand metric tons of raw cashew nuts, in US\$)



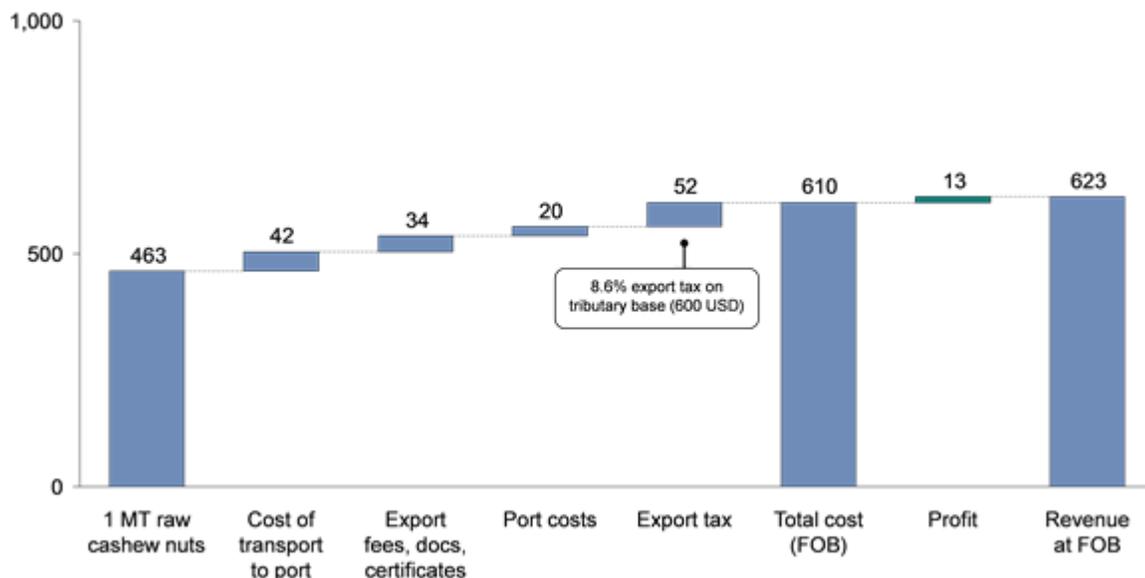
Source: Pal and Mota (2010).

Figure 86: Cashew of the highest quality is harvested near the sea



Source: Pal and Mota (2010).

Figure 87: If those 1,000 tons of raw cashew nuts had been exported in 2009, the profit would have been US\$13,000 (cost per ton of raw cashew nut procured, US\$)



Source: Pal and Mota (2010).

8.24 There is still space in which to increase the profitability of the cashew processing business, by improving the productivity and quality of the work done by processing workers, and by decreasing the percentage of worker turnover. In 2010, workers in Guinea-Bissau were de-shelling an average of 11 kg/day, compared with 12 kg in Côte d'Ivoire, 13 kg in Tanzania, 16 kg in Vietnam, and 17 kg in India. With this level of productivity, the profit for kernel would be

about US\$220/ton of raw cashew processed. If Guinea-Bissau's de-shelling productivity were raised to the level of Côte d'Ivoire's, the profit would rise to US\$237/ton; reaching that of India would mean an increase to US\$252/ton. Benefits would also accrue to workers. If Guinea-Bissau were to reach the benchmark of Côte d'Ivoire, average annual workers' salaries could increase from US\$813 to US\$899 (11 percent). If de-shelling productivity rose to the level of that in India, average annual salaries could increase to US\$1,273 (57 percent). There is also room for productivity improvements in peeling and grading. It is important to note once again that the adoption of the new technology would completely change the economics of processing.

**8.25 Another important lever for increasing profitability is the decrease of worker turnover, which in 2010 was around 30 percent.** For example, according to the simulations, an increase in the workers' monthly wage from US\$65 to US\$75 (+15 percent) would have a *positive* impact on the net profit of the company, if that increase in salary would change the workers' turnover rate from 30 percent to below 10 percent. Working conditions may also need to improve. Pilot programs on mechanisms of decreasing labor turnover and absenteeism are needed to ensure the sustainability of the sector.

**8.26 The potential, attractiveness, and need to develop the cashew processing industry in Guinea-Bissau described above, are not new, and recommendations have been presented in the past urging the industrialization of the sector.** For instance, a FUNPI surcharge has been introduced to create a fund to support processing, and recently it has been suggested that Guinea-Bissau could require from 2016 that businesses that aim to export raw cashew nuts have at the same time a minimum processing capacity of 500 tons a year. However, imposing a minimum processing capacity, besides not affecting the *actual* volumes processed, may have negative consequences to the sector. It will likely affect the negotiation power of producers, by reducing the number of buyers; it will also promote smuggling of raw cashew nuts to other countries – a practice that is growing in the absence of control of borders and increasing costs to exports; and it will likely also hinder the industrialization of the sector, by limiting the possibility to create a cluster/satellite model of small processing units. Most importantly, such efforts to support processing typically lead to a reduction in the welfare of poor farmers. As Box 7 in chapter 4 explains, most of the FUNPI surcharge has undoubtedly been passed to the farmers through lower farm-gate prices. Restricting the option to export raw cashews will likely drive down this price even further, since it will inevitably protect inefficient processors who would otherwise be unable to compete with the price offered by exporters of raw nuts. Any policy to promote processing must not come at the farmers' expense.

#### 4. POLICY RECOMMENDATIONS

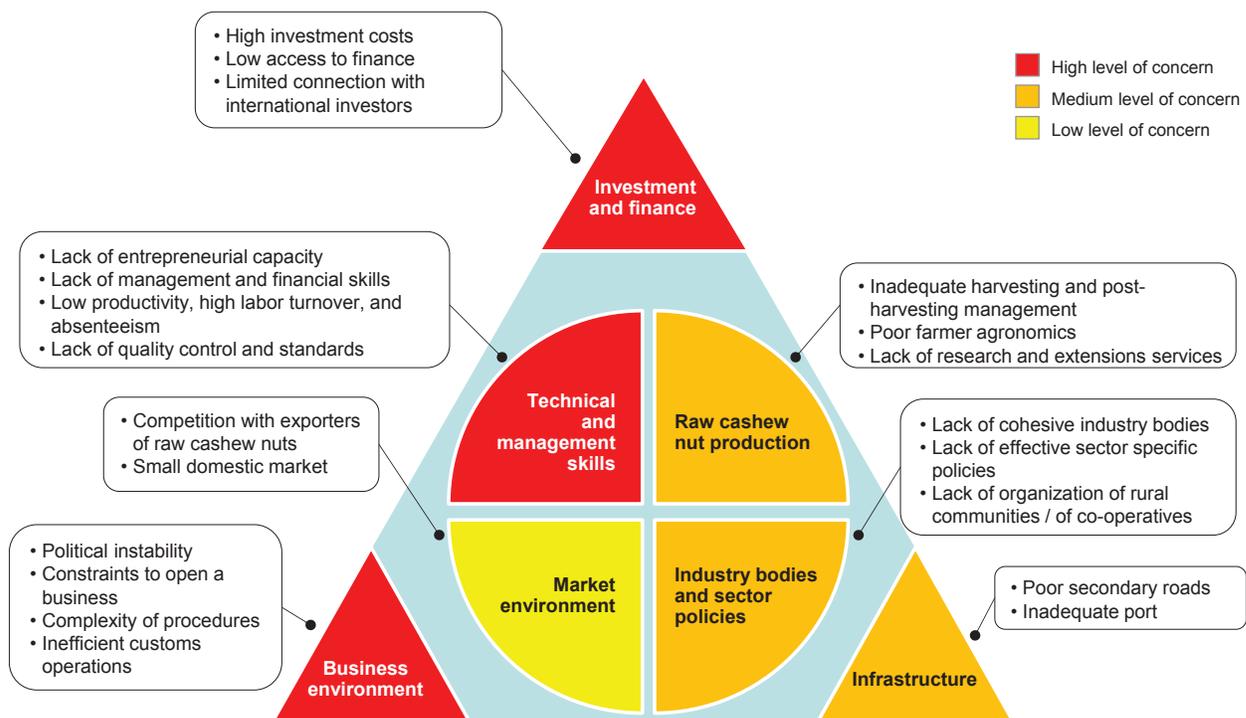
**8.27 In spite of its relevance in the country, Guinea-Bissau's cashew sector only represents 4 percent of the world market of cashew, which totals US\$4.3 billion.** In order to gain an increased share in the world market, Guinea-Bissau needs to invest to upgrade the value chain and promote the processing industry. The interventions need to be informed by past failures and recent successes of other international development agencies in order to put in place a system that (i) is sustainable and operates at a profitable scale; and (ii) favors the currently most disadvantaged groups through more equitable growth.

**8.28 The value chain requires an integrated approach in its development, complemented by activities to promote diversification.** The integrated approach to developing the sector is critical to address emergency food security issues, increase the resilience of farmers to external shocks, obtain buy-in from rural communities on working throughout the value chains, develop sustainable and new economic opportunities in agriculture, and inform future policies on structural change.

8.29 **In agriculture, it is important to secure the long-term sustainability of the cashew sector by improving productivity, while seeking to smooth incomes and promote diversification, notably into rice.** It is critical to promote improved farming practices including addressing issues such as tree density, as well as intercropping cashew trees with staple crops such as upland rice. The work requires also improving cashew farmer’s bargaining power, setting up a price information system and communal storage facilities. The storage facilities serve the double purpose of improving farmers’ bargaining power and strengthening linkages with local processors. Farmers will not be forced to sell their entire harvest at once and thus will be able to negotiate better prices. By linking with processing plants, farmers will be able to participate in the returns from those investments while securing a fair price for their raw cashew.

8.30 **On cashew agro-processing, the key question is why Guinea-Bissau continues to export almost all of its cashew crop in the form of raw nuts, unlike most of the world’s other major cashew producers, despite such favorable agro-ecological conditions, high quality of cashew, and the promising financial and economic advantages of processing?** For external investors, the main constraints have been the lack of political stability and the poor investment climate. For local investors, besides the factors that affect external investors, the most important binding constraints are the lack of credit, labor challenges, the absence of an institutional structure with sufficient resources and a mandate to promote the processing of cashew, and the lack of entrepreneurial capacity. Figure 88 shows these and other issues hindering the development of the cashew processing industry.

**Figure 88: A number of constraints are hindering the development of a cashew processing industry**



8.31 **Improving the business environment will be crucial to develop cashew processing.** These areas were partly explored in chapter 3. Political stability, especially in terms of policies and vision for the sector is critical to attract foreign investment. A comprehensive strategy, underpinned by institutional measures, will be essential to bring about the transition to increasing processing in the country. Achieving this would involve two actions in parallel. First, a clear vision and strategy for the industrialization of the sector should be established, answering questions such as “What is

the percentage of raw cashew nuts that the country wants to process by 2020?"; "How to arrive from where the industry is now to where it wants to be by 2020?"; "What would be the ideal number, size, and location for the processing plants?"; "What incentives must be put in place to support this?"

**8.32 An effective consultation should be done across the sector to ensure that all relevant stakeholders are involved to answer these questions.** It is particularly important to increase the cohesiveness of the associations related to the cashew sector, and ensure that these bodies speak in one voice and are committed – and made responsible – to implement the defined strategy. In other words, it is as important to define a strong vision and strategy, as it is to ensure that the relevant stakeholders are involved in the process, and feel ownership and responsibility regarding the implementation of that strategy. This is particularly challenging in the case of producers. It will take several years to develop further the producers representation. In the meantime, the government may need to step in on their behalf.

**8.33 Measures should be taken to attract foreign investment.** First, the investment case and marketing materials dedicated to the potential returns for investors into industrial cashew processing should be prepared and presented to the right international investors. This could promote large foreign investment into the economy. In addition, national authorities (such as the DGPIP and ANCA) should map and target specific international investors and attend trade shows and investment conferences to promote investments in the Guinea-Bissau cashew agro-processing. These round tables include the African Cashew Alliance, an important source of leads for potential investors. Organizing this event in Guinea-Bissau would also facilitate attracting attention from the players in the market.

**8.34 In addition to attracting investment in medium-scale cashew processing facilities, there is also considerable scope for organizing community processing facilities.** Concurrent investment in both levels of scale is at this stage beneficial, in that it would increase the visibility of Guinea-Bissau in agro-processing, and thus help to establish long-term relationships with buyers. The EU/SNV recent experience in establishing community-level processing plants has shown that connecting farmers with processors helps to alleviate capital constraints and facilitates the development of a processing industry. Experiences from India, Vietnam, and Mozambique have shown that small cashew processing units established at the village level can operate competitively if working together. The Gates Foundation has been investing with some success in the development of processing plants in other countries in the country, such as Côte d'Ivoire, Ghana, and Benin. The small decentralized units are not viable or competitive by themselves; instead they must be organized as part of a cluster of primary units around a central unit, which provides services and facilitates access to markets. These units are of a small size but the procedure for transforming RCN into a good quality kernel is highly labor-intensive and thus can be a large employer of primarily female labor in low-income rural communities.

**8.35 Tackling access to finance, particularly in buying raw cashew nuts will be critical.** The banking system in Guinea-Bissau is quite risk-averse, preferring to finance the export of raw cashew nuts, which has a very quick turnaround, over the financing of medium-term investment (of two to three years) and providing working capital for whole-year periods. Banks are also deterred by poor past experience in financing cashew processing, caused partly by the practice of extending working capital to factories only for the final few months of processing, when prices are higher, rather than from the beginning of the harvest season, when prices are lower, and by their own difficulties in analyzing the entrepreneurial capacity and creditworthiness of potential borrowers. Increasing access to finance will facilitate investment in the sector, but addressing this requires tackling its underlying constraints. While government actions along the lines of some of the recommendations given in chapter 3 can go a long way towards easing financing constraints and helping to spur an immediate private sector response by both larger entrepreneurs and small farmers, sustaining the results will require stable macroeconomic conditions, continual improvements in the investment climate, and vigorous attention to good governance, as described in chapter 3. These issues are inextricably related to the depth of the financial system and, hence,

to availability of credit. International markets often may not afford to bypass larger producer and consumer countries, despite business climate issues, but they can be unforgiving to small economies that do not create attractive, transparent and predictable conditions for investment.

**8.36 The sector needs also to improve its quality standards and management.** It would be important to improve quality. Currently, majority of the factories lack certifications that would be essential to sell to the international market, and there is no laboratory specializing in the quality control of exported kernels. Furthermore, the entrepreneurial and managerial level issues are common to the ones that other sectors face. Is it not uncommon for factory managers to lack adequate management and financial skills, and for many factories to lack adequate accounting systems and procedures.

**8.37 There is a need for improvement of the technical skills of the operational staff working in the factories, as well as address the issues of labor turnover and absenteeism.** The high rotation and the low skills of the workers cause low productivity compared to the rates achieved by other countries. Public Vocational training programs could be set up in this area, potentially with support from donors and NGOs (see chapter 5). Moreover, if large foreign investors were to be attracted in the sector, it may also be possible to set up in-house training systems where companies train their employees. To address labor participation issues, there is scope for experimenting different mechanisms. A few questions are worth asking and testing: on the recruitment process, which mechanisms of promotion are most effective? Should recommendations from other workers be used? On the initial phase of learning, should information of performance be publicized internally? On the work environment, should workers be in teams or work individually? Should workers be paid a fixed wage, piece rate tied to productivity, or a combination of the two? What are other effective ways of increasing the productivity of workers? Identifying the best answers to these questions will facilitate promoting mechanisms of ensuring productive labor settings.

**8.38 Finally, improving infrastructure will be crucial** (see chapter 2). During the rainy season, some areas, especially in the south of the country, have no road access at all, a particularly problematic issue given that the cashew is harvested at that time. An interesting point is that the infrastructure sector would benefit from the industrialization of the cashew sector. In fact, a shift from exporting raw cashew nuts to exporting cashew kernel would decrease cashew-related volumes at the port by a factor of four. It would also open the possibility of producing energy from the cashew nut shells, which could be used not only to provide electricity to the factory, but potentially also to neighboring villages.

## CHAPTER 9: REVITALIZING THE RICE SECTOR

### 1. INTRODUCTION

9.1 **Rice is the single-most important grain crop in Guinea-Bissau.** It is the main staple food and it is widely grown, although currently largely for auto-consumption. About 40 percent of the domestic demand for rice is met by imports. Rice is a major barter good for cashew growers. It is a crop with considerable potential to enhance food security and incomes, especially in poor, rural areas where rice is grown. The government is keen to further develop its production. The World Bank is already providing assistance in the development of the rice sector in Guinea-Bissau.

9.2 **The cultivation of rice in the country started in the pre-colonial period over 500 years ago.** Abundant rain and high soil fertility encouraged mangrove rice cultivation in the Mansoa River valley in the north of the country. The traditional Balanta farmers claimed fields from the sea, desalinated them by constructing dykes around them, allowing leaching by rain water before cultivating rice. Rice production was for domestic use, with rice often bartered for other commodities and imported items.

9.3 **The colonial war of 1915 worsened the rice-growing situation, as whole villages were burnt, and the maintenance of rice-growing systems was compromised.** Forced labor that followed the wars establishing the territory as a Portuguese colony aggravated the rice-growing crisis in the north. Labor was reassigned to the construction of buildings and houses for the colonial civil servants, as well as bridges and roads. Because of the repressive conditions imposed by the colonial regime in the north, there was massive migration to new areas in the south, in the area of Catio, Tombali Region, where the immigrants established rice-growing systems in suitable agro-ecological conditions. In these systems, rice was produced for commercial purposes, in addition to subsistence production. As a result, national rice production rose between 1930 and 1960 and the country exported small quantities, with a peak between 1940 and 1955. Average annual production was estimated at 45,000 tons of paddy or 30,000 tons of clean white rice, out of which 7,000 tons of white rice were exported.

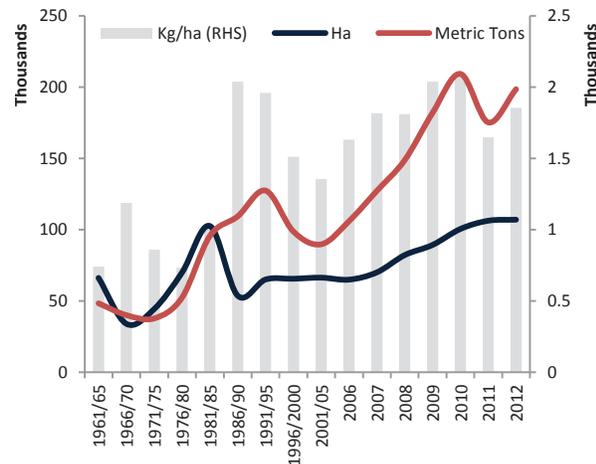
9.4 **During the national liberation war, rice production again declined.** Rice fields were bombed by the Portuguese military, destroying hydraulic infrastructures (bridges and anti-salt dykes) in order to cut off food supplies to the rebel-held zones. Also the relationships of authority between elders and youths, one of the pillars on which rice-growing sustained itself, was eroded with the consequent migration of mangrove rice cultivators, ending in total abandonment of many mangrove swamp rice perimeters. Urban centers under the control of the colonialists had to import rice and in zones controlled by the PAIGC, the producers were forced to develop subsistence rice cultivation on the much less productive uplands (Mpam-pam).

9.5 **The early years of independence were characterized by a program to re-launch agricultural production.** One of the main pillars in the attempt to reach food self-sufficiency was to expand the area of mangrove swamp rice cultivation by the rehabilitation of sea dykes, construction of sluice gates and mangrove swamp rice perimeters. Thirty-nine dykes and sluices were constructed during this period, with nine more after 1988, totaling 48 anti-salt sluices protecting more than 100,000 ha with an average investment per sluice estimated by the United Nations' Food and Agriculture Organization (FAO) at around US\$40,000. However, it is estimated that rehabilitated areas served by 23 of the sluice gates were not cultivated, which corresponds to 50 percent of the area of abandoned mangrove swamp cultivation in the country. Lowland rice cultivation in small valleys was also encouraged in the east, with women predominating in the activity and an estimated 29,400 ha being put under cultivation by 1995.

9.6 **The area under cultivation recovered from the destruction of the War of Independence by 2011.** Investments in rehabilitating land for rice cultivation stalled during the civil war and only proceeded in the mid- to late 2000s. Production of rice collapsed during the civil war but rebounded in the 2000s, partly due to the rehabilitation of rice plantations and partly to a recovery in yields (Figure 89). However, by most standards, yields remain very low in Guinea-Bissau.

9.7 **This chapter provides an assessment of the potential of the rice sector and develops policy recommendations for its revival.** The following sections will demonstrate that Guinea-Bissau has a comparative advantage in rice production: with the right policy mix, the country may yet again become a net rice exporter. Section three will look at the policies required to achieve this goal. Raising incomes of rice farmers and diversifying the reliance on cashew are the main rationale for revitalizing the rice sector. Since rice is also the main staple food in Guinea-Bissau, special attention will be given in section four to the likely effect on food security if rice is to become an export good again. Moving from a subsistence model of rice production to a market oriented and export will imply policies that promote productivity of farmers it will also mean that rice prices will be determined by the international market. The chapter will conclude with policy recommendations for the rice sector.

**Figure 89: Rice production has recovered from the destruction of the war of independence** (ha, metric tons of production and yield in kg/ha)



Source: FAOStats.

Note: Production of paddy rice only.

## 2. THE POTENTIAL OF GUINEA-BISSAU'S RICE SECTOR

9.8 **Guinea-Bissau is a low-lying estuarine country, which is very suitable for all types of rice cultivation. The south is particularly suited for mangrove swamp rice.** In coastal areas, the numerous river estuaries and their tides play an important role providing major channels for transport and irrigation. In the interior, the fresh watercourses diminish substantially during the dry season. Groundwater sources are abundant and of variable quality. The southern zone comprises the regions of Tombali, Quinara, and Bolama/Bijagos and is characterized by a humid subtropical climate. This is the agro-ecological zone with the greatest agricultural potential in Guinea-Bissau, particularly for mangrove swamp rice. It contains Cumbidja River Valley, which is considered the main mangrove swamp rice-growing area, with an estimated potential of 22,000 ha.<sup>136</sup>

9.9 **The north has potential for mangrove and lowland rice production and the east for irrigated rice.** The northern agro-ecological area comprising Oio, Cacheu, and Biombo is characterized by a Guinean maritime climate. The zone has good agricultural potential for mangrove as well as lowland rice production. The Mansoa River valley represents the main rice-growing potential, estimated at 19,000 ha. The eastern agro-ecological zone is characterized by a

<sup>136</sup> For a detailed description of hydrology and suitability for rice cultivation see Spencer, Dunstan, and Rui Djata (2008), Rice Sector Report for Diagnostic Trade Integration Study.

Sudan climate with two distinct seasons: a dry season between November and May, and a rainy season from June to October. Due to the irregularity of precipitation, this zone has the lowest potential for rainfed upland rice, but there is great potential for irrigated rice with an estimated potential of more than 25,000ha of irrigable lowland in the Geba River Valley alone.

9.10 **Rice is currently produced in three ecosystems: rainfed uplands, lowlands (rainfed and irrigated), and mangrove. The traditional slash and burn system of upland rice production is practiced in all agro-ecological zones.** The usual practice is multiple cropping of rice, maize, grains, leguminous cultures, fruits and roots, etc. After one year of cultivation, the land is either planted to cashew or left fallow for five to 15 years, depending on population density and availability of arable land in the community. The system has a negative impact on the environment, causing loss of vegetation cover and biological diversity. It is estimated that there are less than 40,000 ha upland rice farms cultivated annually in Guinea-Bissau, covering about 26,000 ha with yields of 400–600 Kg per ha, and normally producing about 10 percent of national paddy production with no purchased inputs used by farmers.

9.11 **Lowland or inland valley rice production systems predominate in the eastern agro-ecological zone, although they can be found in all agro-ecological zones.** Rice is grown in depressions that have hydromorphic conditions during part of the year. It is estimated that there are more than 200,000 ha potential suitable for rainfed and irrigated lowland rice production, out of which about 27,000 ha are cultivated under rainfed conditions by small farmers with yields ranging between 800 and 1,200 kg/ha.

Some of the lowlands and river terraces in the east—particularly of the Geba River—have been developed further into irrigated perimeters, usually with government or foreign donor funding and divided into 0.25 ha plots, which are leased to farmers on a long-term basis. Irrigation is almost exclusively done by motor pump and improved varieties and purchased inputs are used. Land preparation is often handled by tractors. Presently, irrigated production centers are in Bafata (154 ha), Carantaba (35 ha), and Contubuel (135.5 ha). With proper management, two crops are taken a year with yields ranging from 3-5 tons in each crop season and up to 7 tons/ha in the dry season. This production system has the highest yield (Table 3) and accounted for about one-third of total production in recent years.

9.12 **Mangrove Swamp Rice is the most extensive system of rice cultivation in Guinea-Bissau and is widely practiced in coastal regions.** Rice paddies are established by building anti-salt dykes along the banks and parallel to the estuaries with sluice gates. These anti-salt dykes prevent salt water intrusion into the rice fields and retain fresh water from rain necessary for the process of rice growth. Dykes are usually constructed by manual labor. Mechanical construction has also taken place using a service provided in the past by the government but is currently unavailable. It is estimated that there are more than 106,000 ha potentially suitable for mangrove rice production, out of which 50,000 ha have been reclaimed and are partially managed by the farmers. Fields are puddled and rice transplanted. No mineral fertilizers are applied. Mangrove swamp rice has historically provided about 80 percent of production in the country, however due to lack of repair and maintenance of infrastructure, especially following the civil war in the late 1990's, it now accounts for less than 25 percent.

**Table 3: Irrigated rice has the highest yield**

Rice crop type	Yield Range (bad year - good year)	Mean yield
	Tons/ha	Tons/ha
Mangrove – North	1.8-2.6	2.2
Mangrove – South	1.8-2.6	2.2
Lowland - irrigated	5.0-6.0	5.5
Lowland- rainfed	0.8-1.2	1.0
Upland-rainfed	0.4-0.6	0.5

*Source:* National Statistics Service.

9.13 **Guinea-Bissau has a comparative advantage in rice production.** Traditionally, many of the ethnic groups comprising the majority of the population have been centered on rice cultivation, meaning that the human capital inherent in long-term cultivation of a crop is well developed. Rice is well known, and the “tricks of the trade” useful in cultivating it in traditional ways are well known. This means that adoption of improved rice-growing technologies should be relatively easier to promote than in areas where the crop is unknown. Recent measures of comparative advantage were provided in the Diagnostic Trade Integration Study (DTIS) for Guinea-Bissau, completed in 2010. While these estimates were of necessity based on extremely sparse data and only very limited surveys of production areas, the results were nevertheless strong enough to make very clear that Guinea-Bissau has a significant comparative advantage in rice production. Table 4 shows that both lowland irrigated rice and traditional mangrove production systems have attractive Domestic Resource Cost (DRC) estimates. DRCs are generally accepted as reasonable empirical indicators of comparative advantage. Although comparable data are relatively old, Table 4 suggests that, in the West African region, Guinea-Bissau’s DRCs compare very favorably with those of competitors.

**Table 4: Domestic resource costs are particularly low for mangrove swamp and irrigated rice**  
(rice production systems in a normal rainfall year with 2007 rice prices)

INDICATORS	Mangrove Swamp North	Mangrove Swamp South	Irrigated Rainfed	Irrigated Pump	Lowland	Upland
Farm/Plot Size (ha)	2.62	4.20	0.62	0.70	0.50	1.20
Family Labor per ha (person days)	319	184	1,755	923	1,148	906
Hired Labor per ha (person days)	74	29	29	29	29	23
Paddy Yield (Kg per ha)	2,200	2,200	3,500	5,500	1,000	500
Returns to Fam Lab per farm (CFA)	490,212	805,625	202,707	159,334	14,150	-2,392
Returns to Fam Lab per ha (CFA)	187,104	191,815	326,946	227,620	28,301	-1,994
Returns to Fam Lab per day (CFA)	587	1,045	186	247	25	-2
Private Profits (CFA/kg) (PP)	189	249	204	205	104	76
Social Profits (CFA/kg) (SP)	100	161	130	127	45	-47
Private Cost Ratio (PCR)	0.19	0.15	0.16	0.24	0.30	0.37
<b>Domestic Resource Cost (DRC)</b>	<b>0.45</b>	<b>0.33</b>	<b>0.35</b>	<b>0.43</b>	<b>0.65</b>	<b>2.40</b>

Notes:

- PP = (Private Revenue - Overall Costs @ market prices)  
 SP = (Social Revenue - Overall Costs @ social prices)  
 PCR = (Non-Tradable Costs) / (Revenue - Tradable Costs) @ market prices  
 DRC = (Non-Tradable Costs) / (Revenue - Tradable Costs) @ social prices

Source: Guinea-Bissau: Diagnostic Trade Integrated Study 2010.

**Table 5: In the region, Guinea-Bissau has a comparative advantage in rice**  
(DRC estimates for latest years available)

Country	Côte d'Ivoire (1996)	Mali (1996)	Senegal (1996)	Sierra Leone (2003)		Guinea-Bissau (2007)	
Rice System	Irrigated	Irrigated	Irrigated	Irrigated	Mangrove	Mangrove	Irrigated
DRC	0.73	0.4	1.12	0.2	0.68	<b>0.33</b>	<b>0.43</b>

Source: Spencer and Djata 2008.

### 3. BOOSTING RICE PRODUCTION

9.14 **In terms of farm-level interventions, the rice sector would benefit tremendously from introducing improved varieties of seed adapted to local conditions and improved crop management.** This is a clear case of “low hanging fruit” in that Guinea-Bissau has not had a significant agricultural research capacity for a period of decades. This means that there are significant “off the shelf” improvements that could be readily adapted for introduction at the farm level. While this is obviously not something that can be done from one year to the next, it is equally clear that the potential gains are very large, and will help lift production to higher productivity curves. Research and input supply are areas where a concerted effort is needed to achieve minimum conditions for an output response in terms of marketed rice. For research in improved seeds, the Africa Rice Center (formerly the West African Rice Development Association) is the most obvious point of contact for this and the relationship between this body and the Guinean research establishment should be funded and promoted as a matter of the first priority. Guinea-Bissau could also potentially benefit from research results in the region conducted under the West Africa Agriculture Productivity Project, mainly related to seeds of suitable varieties and crop husbandry.

9.15 **In addition, on-farm infrastructure is a key necessity for the reestablishment of the domestic rice production capacity.** This could be achieved by rehabilitating or constructing dikes for mangrove rice and drainage channels and anti-erosion banks for lowland rice. Dykes and sluiceways in the mangrove production system as well as improvements in irrigated perimeters already envisioned in existing project proposals can make a significant long-term difference to Guinea-Bissau’s food balance. It is important to note that labor availability is a very important constraint to realizing this potential. This is particularly so with respect to initial infrastructure works, where project assistance can do much to help create adequate initial conditions for the reactivation of production.

9.16 **Particular attention should be paid to improving irrigation and drainage in lowlands and improving management and maintenance through PPPs.** The rehabilitation of irrigation schemes in lowland can improve the crop intensity to two harvest per year. Public Private Partnerships could potentially be promoted with the aim to increase the intensity of rice cultivation and achieve two harvests per year, enhance rice yields through the use of improved rice technology (seeds of modern rice varieties, fertilizer), improved agronomic practices, and improved water management, while increasing the sustainability of the system in long term. Low land irrigated rice tends to be more profitable than other rice ecosystem. PPPs would potentially increase the linkages of smallholder rice producers with markets.

**Box 11: How to Confirm the Viability of Cashew/Rice Cultivation by Farm Households**

**It has come to be an accepted “fact” in Guinea-Bissau that rural households have abandoned rice cultivation in favor of cashew due to the higher labor requirements of rice.**

However, economic theory tells us that it is perfectly possible for two crops to be profitable for a given household and for both of them to be cultivated at the same time. Indeed, it is quite common in many rural economies for the dominant cultivation pattern to include both a staple grain and a cash crop. Such diversification can help protect a household against fluctuations in prices or weather that might affect one or the other crop.

**It is important to note that there is virtually no problem of competing demands for land between cashew cultivation and rice.** The traditional mangrove rice production system takes place in low-lying areas and along rivers where water control for rice production is possible. Cashew does not grow well in such areas, preferring dryer lands. Some irrigated perimeters already exist and there is currently no proposal for a large expansion of these.

**One of the limiting factors in any farming system is the labor allocation problem faced by the households;** the limited available labor must be allocated among the various productive and household activities subject to the overall constraint on the number of workers and hours available for them to work. In Guinea-Bissau, previous studies<sup>137</sup> have confirmed that both mangrove and irrigated rice cropping systems are profitable under most conditions, while cashew is similarly profitable, as evidenced by the huge growth in production over recent decades. However, rice production has stagnated at the same time due to the high cost of rehabilitating rice infrastructure (dykes, sluiceways, gates, etc.) much of which was destroyed or not maintained during the civil war of the 1990s.

**Thus, the labor allocation problem really has two separate parts. One is the labor required to rebuild infrastructure for rice cultivation and the other is labor for rice cultivation.** The former is a one-off investment of both labor and capital needed to enable rice cultivation to proceed on an annual basis. The analogous investment for cashew is the propagation and planting of new cashew trees. While the rehabilitation of irrigated rice perimeters has been appraised for project purposes, little information is available for the traditional mangrove rice system long used in Guinea-Bissau. Similar to irrigated perimeters, there is a large initial cost, followed by subsequent annual maintenance costs.

**As noted above, the analogous expense for cashew is propagation and planting of trees.** Again, this is a one-off input of labor and capital, which then requires (minimal) annual maintenance during each tree’s lifetime. An important point with regard to both rice and cashew is that this initial expense is the type of thing that an appropriate project could easily help with. It is a one-time expenditure, too large for farmers to finance on their own, but which provides an ongoing productive asset that can then be taken over and maintained by the farmers. Normal project appraisal methods can determine the viability of such projects in either rice or cashew.

**An important prior question is whether the labor allocation problem is soluble on an ongoing basis.** That is, after the initial investment in infrastructure and/or plantings has been made, is there a conflict between the labor requirements of cashew and those of rice? While there is a strong presumption that the answer is no, more information is needed to confirm this.

In other Sub-Saharan African countries where cashew is grown by smallholders (see particularly Mozambique), cashew is quite routinely grown as an adjunct to a cropping system based on a staple grain. In northern Mozambique, to take one example, many households grow maize

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<sup>137</sup> E.g., Spencer and Djata 2008.

while at the same time maintaining a small orchard of cashew trees, which are often harvested by children and do not require either a major input of labor nor a conflict with maize cultivation.

Would the same be true in a mangrove or irrigated rice production system? Currently there are no existing studies of the sequence of labor inputs for a mangrove rice system in Guinea-Bissau. Prior to making the investments required to enable rehabilitation of the rice system (which would seem to be a good idea on the grounds of both diversification and potential profitability), we would need to execute such a study focused on the labor inputs needed on a recurrent basis for cultivation and maintenance of both rice and cashew in the systems commonly in use in Guinea-Bissau. Such a study would need to encompass the different agro-ecosystems extant in Guinea-Bissau as well as the different rice and cashew growing systems in the country.

**One additional note should be borne in mind. Cashew enjoys an existing marketing system comprised of traders that travel through the country purchasing raw nuts for export. Rice does not.** Rice does not have a similarly dedicated trading system, though cashew traders do barter imported rice for raw nuts. A viable rice production/marketing system should be viewed from a system-wide perspective, not only the farm-level perspective taken in this brief note. One important intervention that could be brought to stimulate the rice production and improve the linkages with the markets is to connect the smallholder farmers with the private sector through PPP or contract farming arrangements.

**Important summary points:**

1. It is wrong to conflate labor required for initial investments in infrastructure and rehabilitation with the recurrent labor requirements of annual cultivation. Initial investments are a one-time investment that can be assisted by project-based aid, while the real issue going forward is the question of whether the annual requirements of each crop compete or are complementary with one other.
2. Given the basic profitability of both crops, as shown in studies of Domestic Resource Cost in the case of rice, and strong export demand for cashew, together with the fact that land conflict is minimal between the two crops, it makes sense to perform a labor allocation study of the recurrent annual requirements for each. This would allow us to assess the viability of a mixed cashew/rice cultivation model that would provide substantial benefits of diversification and income to rural areas of Guinea-Bissau.

**9.17 There are also heavy labor requirements in any of the favored rice production systems (mangrove, lowland-, and upland).** It is not clear whether the allocation between cashew and rice production is zero-sum. Indeed, cashew is grown in many other sub-Saharan African countries in conjunction with staple grains and nowhere else is this tradeoff seen to be a major problem. Therefore, it is worth looking at Guinea-Bissau's situation a bit more closely to determine what the real constraint is. It is important to recognize that there are two separate labor allocation issues. The first is the one-off labor inputs needed to reconstruct the various dykes, sluiceways, and other infrastructure needed for rice production. Cashew similarly requires one-off labor inputs to establish plantings, but in neither case do these inputs recur on an annual basis. The second question is whether the two crops compete with each other for labor inputs. Rice is a labor-intensive crop, as grown in traditional systems in Guinea-Bissau and elsewhere, while cashew is able to be produced with minimal labor inputs once trees are established. Though some cultural practices are recommended (pruning, etc.) they are not required for low levels of productivity. Box 11 provides an overview of how a study on the allocation of labor between cashew and rice could be designed.

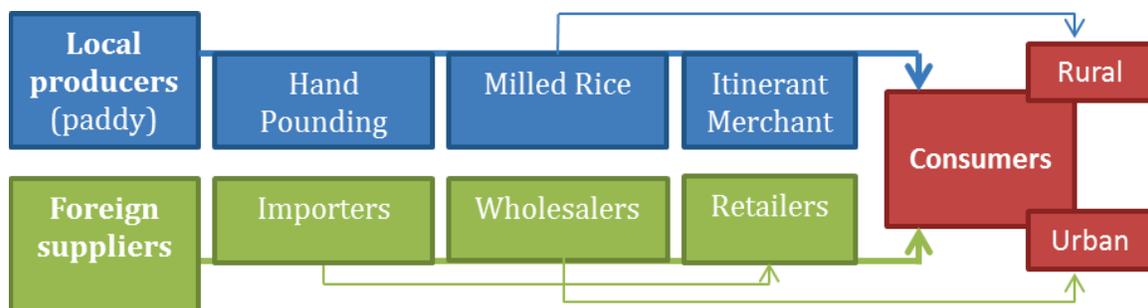
**9.18 NGOs can support providing extension services.** Given the fact that interventions and improvements are needed along virtually the entire supply chain, from infrastructure through seed,

cultivation, and marketing (as explained below), there is a likelihood that coordination of all of these efforts would require an implementing organization capable of encompassing them all, since failure of any one of the links could render (and in the past probably has rendered) the whole effort a failure. To deliver extension services, there is reason to promote the use of NGOs with experience in performing these kinds of functions, given the government’s capacity constraints.

9.19 **In terms of off-farm interventions, establishing a functioning marketing system is a priority in order for rice to reach markets.** Currently, rice in Guinea-Bissau is supplied through two channels (Figure 90): over 40 percent of domestic rice consumption is currently covered by imports (Table 6). Rice imports into Guinea-Bissau are controlled and licensed by the government. In recent years, four government-licensed merchant houses (Gomes and Gomes, Cogequi, Socobis, and Agencia Bijagos) sourced most of their supplies from China, Vietnam, and Thailand. There is no reliable estimate of the number of rice retailers/traders around the country. Anecdotal information indicates that the majority of them are foreign nationals, (e.g., Mauritians, Guineans) although this information is difficult to verify. Rice imports mostly supply urban areas, and to a lesser extent, rural areas. Locally produced rice is almost exclusively consumed in rural areas, although some is supplied to urban areas through itinerant merchants. The local rice market suffers from considerable shortfalls in marketing mechanisms.

9.20 **Although there is substantial domestic production—most of which is consumed by the producers themselves—output for sale often does not reach local markets.** It is estimated that the majority of rural households engage in rice production. Of these, less than a third market any of their production. Essentially, the local rice economy functions much as it has for centuries: rice is produced through mainly traditional methods with little or no purchased inputs, and is eaten by those who grow it. However, some small amounts are sold, usually in provincial market towns. It is reported that some of this output finds its way to the city of Bissau, but amounts are very small. There are very few traders engaged in rice trade, apart from those who use it to barter for cashew. Much of what output is marketed is brought to market by farmers themselves, who rarely travel very far from their homes. This lack of basic infrastructure is a major constraint to connect markets and link producers and consumers.

Figure 90: There are two separate distribution chains for local and imported rice



Source: World Bank.

**Table 6: Over 50 percent of rice for domestic consumption is imported**

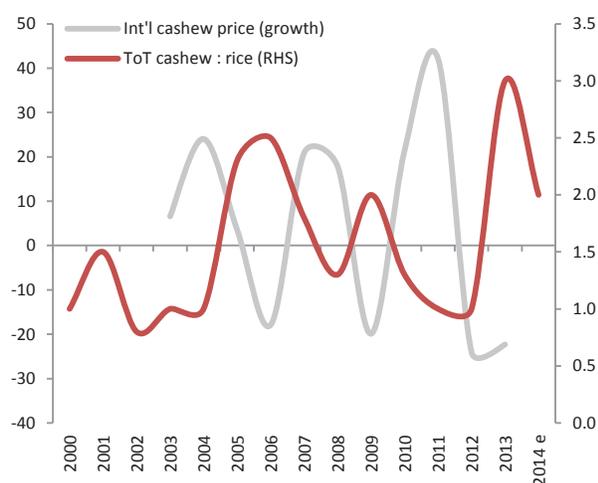
2012/2013 (estimates)	Rice	Wheat	Millet/sorghum corn/other	Total
	Tons	Tons	Tons	Tons
<b>Domestic availability</b>	<b>122,602</b>	<b>656</b>	<b>43,363</b>	<b>166,621</b>
Gross production	198,504		50,276	248,780
Net production	119,102		42,735	161,837
Initial Stocks	3,500	656	628	4,784
<b>Needs</b>	<b>229,508</b>	<b>15,864</b>	<b>64,023</b>	<b>309,395</b>
<b>Gross surplus/deficit</b>	<b>106,905</b>	<b>15,208</b>	<b>20,660</b>	<b>142,774</b>
<b>Balance of imports and exports</b>	<b>101,291</b>	<b>9,203</b>	<b>5,131</b>	<b>115,625</b>
Foreseen imports	<b>100,055</b>	<b>9,203</b>		<b>109,258</b>
Foreseen aid	1,236	0	5,131	6,367
Foreseen exports	...	...	...	...
<b>Total surplus/deficit</b>	<b>-5,614</b>	<b>-6,005</b>	<b>-15,529</b>	<b>-27,149</b>

Source: Harvest Evaluation Mission 2012/2013, GoGB/CILSS/ PAM/FAO 2013.

**9.21 The role of cashew traders in bartering for product with rice rather than paying for it with cash reduces producers' marketing incentives.** Why would a trader looking to buy rice from farmers for resale in towns or other rural areas risk damage to his or her own transport equipment, much less take the risk of an uncertain marketing margin in a situation where demand has already been satisfied by cashew traders bartering rice for raw nuts? Furthermore, bartering for raw cashew with rice rather than paying for it means that the rural economy is, to a large extent, non-monetized—i.e., there is no scope for selling other items, such as small consumer goods, agricultural inputs, etc. if the rural population has no cash to buy them with. Furthermore, the natural market that would be supplied by local producers, including the city of Bissau and provincial market towns, are precisely the areas where importers' distributors are active in retail markets.

**9.22 Investments in key infrastructure, governance, access to credit, and a monetized economy are key requirements for a functioning marketing system (should consider including improved linkages between smallholder farmers with the private sector through PPP or contract farming).** On a basic physical level, the truly awful condition of much of the

**Figure 91: The Cashew/Rice barter terms of trade mirror international cashew prices**  
(terms of trade (ToT) in kg of cashew : kg of rice, and year-on-year growth in international cashew prices)



Sources: WFP (2013)<sup>138</sup> and IMF.

<sup>138</sup> World Food Program, Synthesis of Rapid Food Security Assessment in Guinea Bissau – June 2013.

secondary and tertiary rural road network makes it literally impossible to access large parts of the countryside through many months of the year. Even in the dry season, access is difficult and the physical transport of goods that would result in actual price changes does not occur. The PNIA (National Program for Agricultural Investment, Portuguese acronym) concluded in 2010 by emphasizing the importance of this problem. Until the road system is improved, it can be taken for granted that many areas in the southern “breadbasket” will remain isolated through the rainy season and accessed only with difficulty the rest of the year. Isolation implies that producers cannot respond to price incentives and cannot integrate the larger national economy. Moreover, potential marketing agents face not only adverse physical conditions, they also face rapacious police and local authorities at every major intersection who exact rents before allowing passage. Reducing rent-seeking behavior by local authorities will be key in allowing a local rice market to flourish. Finally, monetizing the economy through measures such as cash transfers will allow producers to switch away from the cashew barter trade to a modern marketing system.

#### 4. RICE, FOOD SECURITY, AND EXPORT DIVERSIFICATION

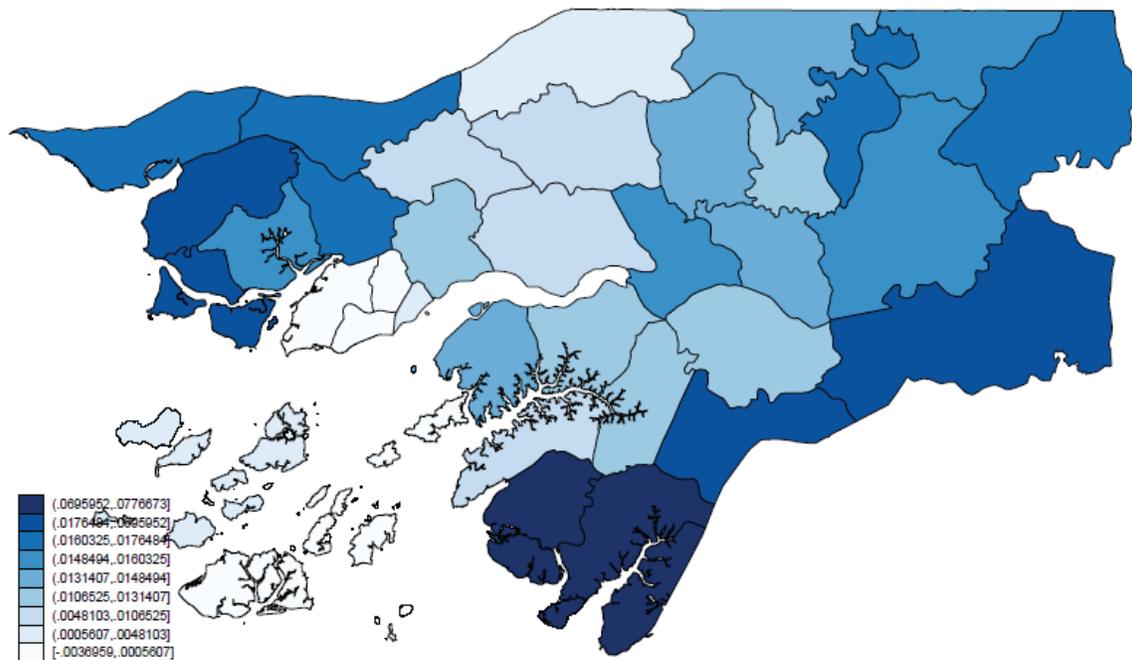
9.23 **Rice is the most important staple grain grown in Guinea-Bissau.** Table 7 shows the current situation in terms of food production in Guinea-Bissau. Rice is by far the most important staple grain, followed by Sorghum which, however, is only equivalent to 11 percent of total rice production. Although there are considerably fewer commercial rice producers than cashew producers. Figure 92 demonstrates that rice accounts for a considerable share of household income in some rural areas.

**Table 7: Rice is the main produced staple crop in Guinea-Bissau**

Crop	Average 2007-11	Campaign 2012/2013	Net Production 2012/2013 (accounting for lost production/seed retention)	
	Tons	Tons	Tons	(% difference from gross)
Rice Plateau	49,735	53,915		
Rice valley and <i>Bolanha</i>	68,808	97,083		
Rice mangrove	48,292	43,506		
Rice (produced in Bissau)	3,760	4,000		
<b>Total Rice</b>	<b>170,595</b>	<b>198,504</b>	119,102	<b>-40%</b>
Corn	8,339	7,195		
Sorghum	17,066	23,547		
Millet	18,055	16,954		
Fonio	478	580		
Dry cereals (produced in Bissau)	1,474	2,000		
<b>Total Dry cereals</b>	<b>45,412</b>	<b>50,276</b>	<b>42,735</b>	<b>-15%</b>
<b>Total Rice and Cereals</b>	<b>216,007</b>	<b>248,781</b>	<b>161,837</b>	<b>-35%</b>
Cassava	44,197	20,755	15,774	-24%
Sweet Potato	18,253	13,340	11,459	-14.1
Peanut	34,695	45,214	45,214	0
Bean <i>Mancanha</i>	1,531	565	565	0

*Source:* Harvest Evaluation Mission 2012/2013, GoGB/CILSS/WFP/FAO 2013.

Figure 92: Rice contributes to household incomes, especially in coastal areas



Source: World Bank staff, based on ILAP 2010.

**9.24 The rice price is not suitable for addressing food insecurity.** As a consequence of a disappointing cashew harvest in 2013, food insecurity and hunger increased in Guinea-Bissau. The price of rice is often blamed for this, arguing that a lower price of rice would improve the barter terms of trade of poor cashew farmers. While this is true, it would worsen the barter terms of trade of local rice farmers, who are also poor. Figure 93 shows the current situation in which rice is imported at two different prices set by the government based on their ability to alter taxes, fees, and also to impose requirements on rice importers.<sup>139</sup> At a high import price, domestic production is at point A, while domestic consumption is at point B. If, as proposed, the government were to impose a lower import price, then production would be lower at point C while consumption would rise to point D. The important aspects to note are that, while consumers would clearly gain (consuming more rice at a lower price) producers would lose, selling less rice and getting a lower price for it. Government intervention to artificially lower the price of rice would hurt poor rice farmers. Alternatively, government intervention to subsidize rice would have to be financed by taxes, which would hurt taxpayers—most of whom are poor as well.

<sup>139</sup> The retail price of rice is set by the government in consultation with the importers, and is the same throughout the country. In negotiating the retail price, importers arrive at a cost-per-bag ex-warehouse in Bissau by adding a markup on the CIF cost per bag. From information supplied by one of the importers, this totaled about 18 percent of the CIF value in the first quarter of 2008, made up of customs duty (12.5 percent in 2007, reduced to 2.5 percent in March 2008 to cushion the effect of global rice price increases on consumers), port charges (CFAF 2,800/ton), cost of Letters of Credit and suppliers fees (5 percent), transfer fee (1.25 percent), stevedoring (CFAF 110 per bag), transport from the port to importer's warehouse (CFA 100 per bag), administrative costs (3 percent), SGS import inspection fee (1.7 percent), transportation to retailers (1 percent), and shortage (1 percent). The importers usually transport milled rice from their warehouses to those of their retail customers located in most urban areas of the country in their own fleet of trucks at no additional cost to the retailers. This situation is acceptable by the importers, as they are all exporters of cashew and the trucks usually return to Bissau loaded with cashew.

Figure 93: The rice price in the short run

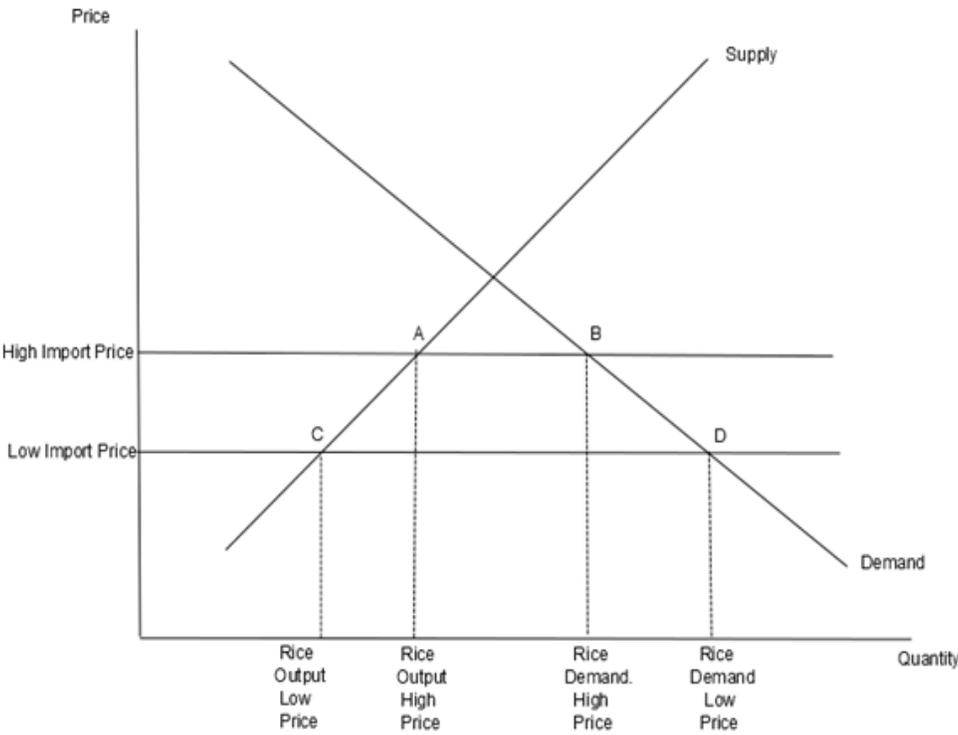
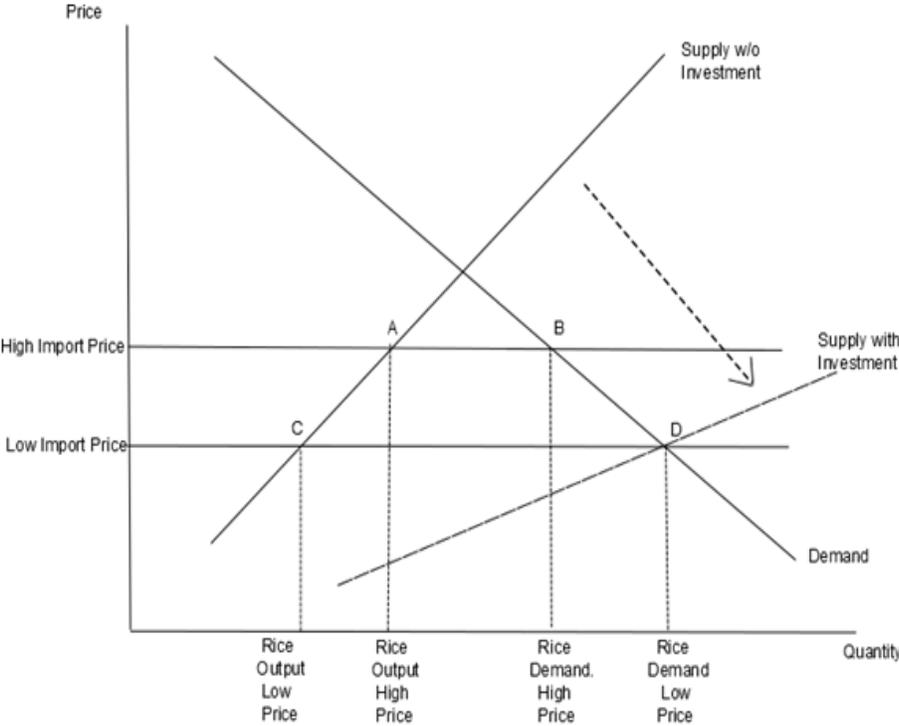


Figure 94: The rice price in the long run



9.25 **Boosting rice production will initially enhance food security for rice growers.** In a closed economy, increasing production would result in a lower price, without making producers worse off. However, Guinea-Bissau is an open economy and the price of rice is externally given by the international price, meaning that the price does not respond to increased supply. Figure 94 illustrates this point graphically. Investment in increased production shifts the market supply curve to the right. The graph, as drawn, shows supply expanded to the point where domestic production can satisfy all domestic requirements at the lower of the two prices from Figure 94. It is important to note that all during the traverse from the initial production point A (or C, at the higher import price) to the production point D (or B, at the higher price) internal prices are still governed by the world market price, the only adjusting mechanism is the quantity imported, which will depend on the difference between domestic supply and domestic demand at the world price. Indeed, the world price would continue to be the operative domestic price even if the domestic supply expands sufficiently to generate exports to the right of point D (or B, at the higher price) with the quantity still performing the role of adjustment, though via export quantities rather than imports.

9.26 **The main purpose of rice production is to boost incomes of rice farmers and diversify Guinea-Bissau's export base.** The government's 2014 *Programa de Estabilização e Desenvolvimento* recognizes the dangers of relying on cashew as a monoculture. This chapter shows that Guinea-Bissau can become a rice exporter once again. The rice sector could become the second engine of growth, diversifying the economy away from cashew, helping to smooth income volatility from cashew prices. Rice farmers would benefit from higher incomes among farmers of both rice and cashew—as well as the government—and would see their income stabilize with more diversification. There may be merit in encouraging cashew farmers to start growing rice in addition to cashew. More research is needed to establish whether rice and cashew are complementary in terms of labor requirements (see Box 11). Apart from potentially encouraging cashew farmers to grow rice, the best way to reduce food insecurity among poor cashew farmers is to increase and stabilize the return from cashew.

## 5. POLICY RECOMMENDATIONS

9.27 **With the right policy mix, there is considerable scope to harness Guinea-Bissau's potential in rice.** The strong comparative advantage that has been estimated in recent studies in Guinea-Bissau and demonstrated over the course of history suggests that a longer-term policy based on comparative advantage could well start to yield positive returns sooner than many might imagine. Among the initiatives that could be considered are:

- **An ambitious investment program implemented over the next five years could substantially increase the per-acre productivity and overall production volume of rice, allowing the achievement of close to national self-sufficiency.** The core of this program would be to develop about 10,000 ha of irrigated rice in alluvial soils according to a model similar to that already utilized successfully in Guinea-Bissau by the Chinese government's cooperation program. The Ministry of Agriculture, through its Department of Rural Engineering, in cooperation with INPA and the Department of Crop Production, would identify publicly-owned lands in the low areas along major rivers (particularly the Geba and Corubal), and would contract out and supervise the preparation of lands for irrigation and the purchasing of irrigation equipment to rent to small farmers (sufficient for 0.25 ha per family), together with the provision of technical assistance by the private sector. The program could also be opened to private investors willing to rent land and commit to following recommended practices in terms of using new varieties and inputs.
- **Required investments would include the preparation of the irrigated perimeters—including topographic surveying, construction of rural roads, land leveling, and the construction of dikes and pump stations—at an estimated cost of about US\$2,500/ha, or a**

**total investment of about US\$25 million.** About US\$8.6 million for a revolving fund would be needed to finance the first year of inputs and private technical assistance for each irrigated perimeter, and an additional US\$260,000 would be needed annually by the Ministry of Agriculture for coordination and supervision of program implementation. With double-season cropping—irrigated during the dry season and rain-fed during the rainy season—the expected annual production increase at full implementation in all perimeters would be around 90,000-100,000 tons of paddy, equivalent to around 68,000-75,000 tons of clean rice. If restricted to small farmers, the proposed program would benefit about some 40,000 households or around 250,000 people.

- **Given existing institutional and credit limitations, carrying out this kind of high-impact program in the short-term will require that the government—supported by donors—be the main actor in terms of financing investments for the development of the irrigation system, so that the new paddies are ready for planting.** However, planning and execution of the works themselves would be contracted out to experienced private national or international firms. In addition, resources will be needed for investments in improved seeds, fertilizers, and pesticides, and technical assistance for the management of the planting areas. Although the increase in rice production will generate sufficient earnings to pay for these inputs and technical assistance, cost recovery will not be possible until after the first year. The startup costs could be met by matching grants, with community labor as counterpart, with no repayment obligations, or through revolving funds with repayments made to a community-managed account in order to create a reserve for future operational and maintenance costs, minor investment requirements, and/or other community improvements.
- **Finally, agricultural research and technical assistance to farmers will also be essential for implementing and sustaining the program.** Although high-yield varieties of rice have been tested and proven suitable in Guinea-Bissau and improved seed can be imported in the short-term, national agricultural research will have to play a key role in seed production and the continuous adaptation of high-yield varieties (see paragraphs. 4.57-4.60 below). Regarding technical assistance to farmers, the proposal is to improve the linkages between smallholder farmers and private firms to provide these services. This linkage could also improve the production and marketing. With the necessary support, INPA would be able to produce about two-thirds of the seed required, but the role of the private sector will also be fundamental in providing inputs, technical assistance, processing, and marketing. Given the positive results with seed-market liberalization in other African countries, a similar route could be followed in Guinea-Bissau, with the objective of having the private sector supply at least the remaining third of seed required. Guinea-Bissau could also consider becoming part of the Bank-funded West Africa Agricultural Productivity Program, currently involving 14 West African countries.

9.28 **Growing cashew instead of rice is a rational choice for most farmers.** If the primary goal of rural households is to ensure adequate food availability, then there really is no mystery why labor is allocated to cashew but not to rice: (i) cashew traders are a reliable source of rice supplies and demand raw cashew as payment for it while—in a non-monetized economy—there is little scope to move away from the barter trade; (ii) rice production systems are in a state of disrepair; (iii) inputs for rice production (including seed) are often unavailable and/or not available in a timely manner; (iv) marketing systems for the sale of on-farm surplus rice are rudimentary at best and non-existent in many areas. All of these considerations make it clear that allocating labor to cashew and not to rice is very possibly a perfectly reasonable response to the high cost of reestablishing rice infrastructure, coupled with the relative difficulty in marketing rice surpluses, together with the ready availability of a crop—cashew—which requires much less in terms of up-front inputs of labor and capital to establish viable production systems.

9.29 **However, a critical mass of farmers can be expected to switch back to rice with sufficient investment in the sector.** Overcoming the considerable upfront physical investments and reviving the rice sector, providing research and extension services as well as efforts to improve the linkages with the smallholder, the private sector could improve the availability of credit and other services and increase market linkages. The World Bank is already supporting the government in rehabilitating land for rice production and will also support the provision of improved agricultural inputs for smallholder farmers to increase agricultural production, particularly rice.

## CHAPTER 10: FISHERIES, EMPLOYMENT, AND REVENUE

### 1. OVERVIEW

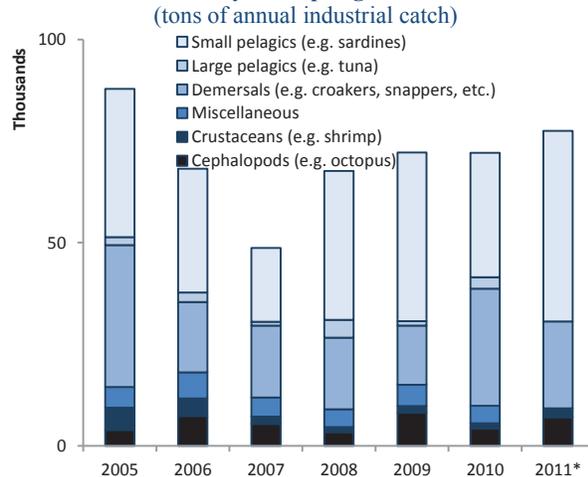
10.1 **Fishing is one of the major economic activities undertaken in the western coast of Africa.** The importance of this activity is evident in its contribution to employment, poverty alleviation, and food security in the coastal states, including Guinea-Bissau.

10.2 **Guinea-Bissau has a relatively small coastline, 270 Km long (excluding oceanic islands).** The coastline is deeply carved by a dozen of estuaries and a vast archipelago according to it with one of West Africa's largest continental shelves. The fisheries waters of Guinea-Bissau are very rich in terms of fish species abundance and diversity, sustained mainly by an influx of nutrients from the country's many estuaries which provides 3,400 km<sup>2</sup> of mangrove cover, nearly 10 percent of the national territory. The prevalent active upwelling system in the country facilitates mixing and exchange of nutrients throughout the water column for enhanced productivity of the marine waters. The occurrence of these phenomena is enhanced by the large expanse of the continental shelf (more than 45,000 km<sup>2</sup>), shallow depths, and of different nature providing sanctuary and breeding grounds for many marine fish species.

10.3 **The geographical configuration and the humid tropical climate offer important productive fisheries conditions for demersals and small pelagics** (Figure 95). Demersals are bottom-dwelling species such as fish, shrimp, and cephalopods, while small pelagics are species living in the water column, e.g., ethmalose and sardinella. Due to data paucity (fishery-dependent and independent data), the true fisheries potentials of Guinea-Bissau and its variation over the years is not known. The latest demersal fisheries resources survey and assessment jointly conducted by IMROP and CIPA in September-October 2011 (IMROP-CIPA, 2011) confirms that the country has significant fisheries potentials, as indicated in the previous biomass estimates (2004, 2008, and 2008). Table 8<sup>140</sup>

presents the latest (2011) fish biomass and fisheries potentials estimates of Guinea-Bissau. The demersal fish biomass is estimated at 126,531 tons, while fishing potential for demersal fish, cephalopod and crustaceans is 47,139 tons. FAO estimates that the available potential of small pelagics is more than 100,000 tons per fishing season and the exploitation level of these migrating

**Figure 95: Industrial fisheries production is dominated by small pelagics**



Source: Government of Guinea-Bissau 2010 Fisheries Management Plan. \* 2011, CIPA - Industrial Fisheries Catch Statistics, 2011

<sup>140</sup> Biodynamic models are used to calculate fishing potential estimates. These models are based on a set of assumptions relating to the ability of different fish species to reproduce, for example, a ratio of less than 40 percent of biomass for all types of fish is assumed, except for elasmobranchs, where a ratio of less than 10 percent is assumed, due to their longevity, tardy reproduction, weak fecundity and slow growth rate. The model used to calculate Guinea-Bissau's fishing potential is based on Diop, M., Abdallahi, I., Bouzouma, M., Sidina, E., Hamady, B., Meissa, B. and N. Abdoulaye, 2004. Rapport de la Campagne d'Evaluation des Ressources Demersales de la ZEE de la Guinee-Bissau. p.90.

species depends on the catches outside the Guinea-Bissau EEZ. It also indicates that the global fishing effort can increase in artisanal fisheries, with the possibility of increasing in the small pelagics industrial fishery. The Secretariat of State for Fisheries estimates the fishing potential of small pelagic fish to be approximately 73,000 tons against standing biomass of 200,000 tons, bringing the total fishing potential for the demersal and small pelagic fish to just over 120,000 tons.

**Table 8: Biomass and fishing potential estimates for demersal fish, 2011**

Type	Biomass (tons)	Fisheries Potential (tons)
Bony Demersal fish	90,932	36,373
Crustaceans	13,149	5,260
		of which 2.3 percent are coastal shrimp and 6.4 percent are Gamba ( <i>Parapenaeus longirostris</i> )
Cephalopods	8,308	3,323
		of which 32 percent are octopus and 15 percent are cuttlefish
Gasteropods	2,567	1,027
Elasmobranches (rays and shark)	11,575	1,156
<b>Total</b>	<b>126,531</b>	<b>47,139</b>

*Source:* The Secretariat of State Fisheries.

## Fisheries production

**10.4 Like almost all African coastal states, fisheries resources are extracted by two main fishing industries in the waters of Guinea-Bissau: artisanal and industrial.** The two industries employ different techniques in their fish capturing operations; the artisanal fishing fleet uses motorized and non-motorized boats, while the industrial fleet uses trawlers and purse seiners. The fishing boats and gears have evolved over the last two or three decades, becoming bigger and more efficient. The estimated total number of artisanal fishing boats operating in Guinea-Bissau in 2013 is 1,159. Of this figure, 730 are owned and operated by Bissau-Guineans and 429 by foreign migrant fishermen (217 from Guinea Conakry and 212 from Senegal). Also in 2013, 106 industrial fishing vessels fished these waters through joint venture or some sort of agreement. There were four national vessels fishing in the country. Though estimates of the number of artisanal boats are available, catch and effort data are not collected. The fisheries data collection system in Guinea-Bissau has become dysfunctional since the cessation of EU support to the CIPA statistics unit in 2010. The socio-economic assessment of artisanal fisheries, undertaken in 2011 by the Secretariat of State of Fisheries (CIPA 2011), is the latest report on the artisanal sector. This report estimates that almost 22,000 tons of fish were landed by the artisanal fishing sector in 2011, an 8 percent increase from 2009. However, these estimates could be grossly underestimated due to the fact that the assessment does not take into account vessels operated by non-residents in Guinea-Bissau or vessels based in Guinea Conakry or Senegal that are operating in Guinea-Bissau's waters and the limited actual statistical coverage (not all landing sites are covered and non-boat fishers are not also included in the assessment). Industrial production reported from 2005 to 2011 is presented in Figure 95 above. The average annual catch is about 70,000 tons. The actual production trend is a gradual increase in industrial landings from 2008.

**10.5 The estimated annual production does not include catches taken illegally from waters of Guinea-Bissau.** Although the volume of fish extracted due to illegal, unregulated and unreported (IUU) are not known, IUU fishing is considered very high in the country due to the weak institutional capacity to effectively control fishing activities in its waters. With the present status quo, the estimated catch from waters off Guinea-Bissau may vary from reality. This situation is

expected to change with implementation of the West Africa Regional Fisheries Project (WARFP, Box 12).

**Box 12: Licensing as a tool to sustainably manage Guinea-Bissau's fish stocks**

**Currently, Guinea-Bissau's licensing system is weak.** Access to aquatic resources for small scale fisheries remains largely free and open to any Bissau-Guinean with the necessary equipment to enter the fishing sector. Entry into industrial fishing is regulated; fishing vessels operate in Bissau-Guinean waters either with compensatory fishing access agreements, bilateral agreements or through joint ventures where the Bissau-Guinean party is responsible for obtaining the license/permit. In order for the country to protect and rebuild its fish stocks and to capture the wealth that is generated from the exploitation of this resource it has to introduce an effective and sustainable access control and management system for small scale fisheries as well.

**Poor regulation leads to overfishing which erodes the livelihoods of local fishermen.** Due to the common pool resource problem—where fishermen have a tendency to out-compete each other for exhaustible fish stocks—it is critical to manage access to the fishing sector to avoid overfishing. Yet, whilst industrial fishing is regulated and licenced, the small-scale fleets—of both local and regional fishermen—are mostly operating under open access regimes with no controls. This is not only a problem in Guinea-Bissau but in the region as a whole. The open access practice leads to overexploitation of fish stocks, and the decrease in catch rate, while eroding social and economic effects off the fishing communities and the nation at large. In 2013, it was estimated that 1,159 fishing units providing direct employment to some 20,862 fishermen were accessing the resources without a fishing permit or license; they were and are still operating under an 'unregulated' open access system, contributing to the decline in catch rates.

**Poor regulation also results in below-potential revenue for the government.** Assuming that catch rates of fishing units do not vary, applying the licensing fee (US\$13 per ton per year) levied by fisheries authorities in Mauritania on Senegalese small scale fishermen suggests that the Bissau-Guinean government may have lost about US\$115,000 on catches landed by foreign small-scale fishing fleets in 2013. However, these estimates could be grossly underestimated due to many factors, especially due to data limitations on foreign small-scale vessels as well as on non-boat fishing. Foregone revenue is in fact likely to be in excess of the estimated US\$115,000 per year.

**Both licensing and enforcement are crucial.** Going forward, the government of Guinea-Bissau should design a registration and licensing system for access into artisanal fishing for foreign and national fishing units. The use of this tool should take advantage of a robust and sustainable monitoring, control and surveillance system supported by the WARFP. Under component 2 of the project (reduction of illegal fishing), the institutional and technical capacities of the fisheries surveillance agency (FISCAP) will be enhanced in term of institutional and legal reforms, training and provision of requisite equipment (including patrol boats, radar, vessel monitoring system, etc.) and materials to effectively discharge its duties. The system could be sustained by the use of part of the revenue generated by the licensing system and fines for infractions (both industrial and small scale fishing) to sustain activities of FISCAP.

**Empowering fishing communities can help reduce illegal, IUU fishing.** Fishing communities could be involved through well-defined co-management systems, such as Territory Use Rights Fisheries (TURFs). Legally empowered local fishing communities co-managing fisheries resources in an allocated zone has had positive impacts on the rebuilding of fish stocks elsewhere. For example, in Ngaparou, a coastal fishing village 64 kilometers south of Senegal, a local fisheries committee controls and manages access to fishing zone under their responsibility in partnership with the fisheries authorities. This arrangement resulted in the return of certain key fish species in the area, and increased both the catch rate and the size of fish caught. Legally established co-management systems are key to success of any small scale fishing licensing system to be established in Guinea Bissau: giving Bissau-Guinean fishermen a stake in managing their own fish resources provides them with a sense of ownership and agency, empowering them to manage and enhance their own livelihoods.

Source: World Bank.

## 2. ACTION(S) TO BRING THE OFFSHORE ECONOMY ONSHORE

**10.6 In Guinea-Bissau and in the West Africa region in general, marine fisheries resources are enduring excessive fishing pressure in an essentially unregulated environment, leading to the overexploitation and underperformance of the resource base.** Fisheries resources are renewable and represent a form of wealth that, if rationally and sustainably managed, can continue producing a constant stream of economic and social benefits for many years. With this vast resource base, the fisheries sector of Guinea-Bissau has the potential to make a much greater contribution to the attainment of key development objectives, such as economic growth and poverty alleviation, but only if better managed to prevent overexploitation. Studies and field observations indicate that fisheries stocks are dwindling in size due to (a) insufficient capacity in Guinea-Bissau to govern and manage the use of the resources at sustainable levels and to prevent their overexploitation; and more specifically (b) the country's inability to prevent illegal fishing; as well as (c) the fact that the resources are largely taken in an offshore economy by foreign or industrial vessels that rarely land their fish catch in the region or participate in the local economy, so that the countries only capture a fraction of the value. These challenges are real and are affecting the country's ability to capture the wealth that could be generated from proper extraction of the fisheries' resources.

**10.7 Pursuing policies that will ensure sustainable exploitation of these assets and the maintenance of a healthy and productive ecosystem requires commitment and will.** To address the deficiencies and constraints of resource management in the West Africa region including Guinea-Bissau, the World Bank is supporting the implementation of the WARFP. The overall objective of the program is to sustainably increase the wealth generated by the exploitation of West Africa's marine fish resources and the portion of that wealth captured by the region. The WARFP consists of a series of Series of Projects (SOPs, formerly APL), each with two phases of five years each. The program is expected to span 10 years, at the end of which period it will have covered all seven member countries of the CSRP (Cabo Verde, the Gambia, Guinea, Guinea-Bissau, Mauritania, Senegal and Sierra Leone) plus Liberia and Ghana. The West Africa Regional Fisheries Program has a shared objective and approach, meaning that each APL in the series would have the same framework, i.e. the same components and sub-components, but would be applied to different countries (with some different specifics for each country). This overlapping design addresses three key considerations: (i) encourage regional collaboration in the management and development of the region's marine fish resources; (ii) offer long-term support (10 years) to progressively implement actions aimed at strengthening collaborative efforts to manage shared fisheries and fish resources; and (iii) give flexibility to groups of countries to participate in the WARFP as they become eligible, rather than wait for the end of the first phase of the initial APL to participate. The objective of the initial phases of the SOPs in Guinea-Bissau is to build the government's capacity to more sustainably govern the use of the marine fish resources, to reduce illegal fishing, and to increase local value added to fisheries products.

### **Current economic and social status**

**10.8 Most of the West African coastal states (e.g. Mauritania and Senegal) have since capitalized on the dynamism of fisheries as a market-driven and dynamic food industry by reorienting their development priorities to include the fisheries sector.** The diversification of fishing operations and employment opportunities created by this move has led to the improved contribution of the fisheries sectors to the various national economies. Guinea-Bissau has not realized the full potential of its fisheries, though these resources are being extracted on a daily basis (legally or illegally) and landed in foreign ports, due mainly to weak management and lack of infrastructure. The gross estimated cost of fish caught by industrial vessels from waters off Guinea-Bissau in 2011 using landing prices (without value addition) of the *Centre de Recherches Oceanographiques de Dakar-Thiaroye*, Senegal for the same year is US\$109,124,230 (Table 3).

These are landed directly in foreign ports with very little contribution to national coffers; some estimates reveal that only about 25 percent of these revenues are captured at the national level. The estimated cost values should be viewed as indicative.

**Table 9: Indicative gross cost of fish caught by industrial fisheries in 2011 in Bissau-Guinean waters**

Species Group	Catch (ton)	Cost (US\$/ton)	Est. Value (US\$)
Cephalopods (e.g., octopus)	7,038	4,105	28,890,990
Crustaceans (e.g., shrimp)	2,166	1,400	3,032,400
Demersals (e.g., croakers, snappers, etc.)	21,349	3,000	64,047,000
Small pelagics (e.g., sardines)	46,978	280	13,153,840
<b>Total</b>	<b>77,531</b>		<b>109,124,230</b>

10.9 **The contribution of fisheries to GDP in Guinea-Bissau as estimated by the Sub-Regional Fisheries Commission at less than 4%**, despite the huge fishing potential. This contribution could be much higher if appropriate governance and management structures were in place. For example, in Mauritania with a minimum of control and infrastructure, fisheries contribute significantly to domestic production at about 10–12% of GDP. Given the relatively small size of Guinea-Bissau and the abundant and diverse fish stocks, fisheries have considerable potential to drive economic growth. Properly managed, the country could generate surplus economic rents to develop or grow productive and intangible capital, as discussed in chapter 7.

10.10 **According to the Ministry of Fisheries, the fisheries sector employs about 24,586 people in 2013 but it did not disaggregate them into the different socio-professions associated with fishing.** In Senegal, boats of 18 m or more are propelled by 40 HP engines carrying a crew of 18 fishermen. The same types of boats are also found in Guinea-Bissau and in other neighboring countries, such as The Gambia and Mauritania. Assuming that all boats operate in the same manner, the estimated number of artisanal fishermen working in the waters off Guinea-Bissau in 2013 is about 20,862; those in Bissau-Guinean boats (13,140); those in Guinean boats (3,906); and those in Senegalese boats (3,816). The rest (3,724) may be involved in fisheries-associated activities, such as fish processing, marketing, and distribution, boat building, etc. Taking as a conservative estimate 60 percent of fishermen as heads of household with an average of five dependents, 12,500 households and about 62,500 people can be assumed to be directly or indirectly dependent on the income of fishermen in Guinea-Bissau. The estimated number of people depending on fisheries in 2013 is about 87,000. This figure could be higher if those in other fisheries-associated socio-professions are included in the estimates. In this region, it is not surprising to see more than 10 household members living together. The lack of data means that economic and social benefits accruing from fisheries will not be adequately captured. There are no recent data on the artisanal fisheries, nor is it possible to estimate the extent to which fisheries are impacting the country's other economic sectors. Fishermen procure goods and services from other sectors and invest in them as well.

#### **Potential economic and social benefits**

10.11 **The outcomes of the WARFP include: improved governance and sustainable fisheries management frameworks with corresponding institutions, sustainable fisheries monitoring, control and surveillance systems and functional fish quality control and inspection facilities.** The impact of these outcomes will be reflected in reduced IUU fishing, an increase in the catch-per-unit effort, and an increase in economic and social benefits, including employment. Assuming the targets are achieved, the catch-per-unit effort of all target fish species will increase by 3–6 percent; using 2011 catches as the baseline and assuming constant prices, the

gross estimated cost of fish that will be caught and landed by the industrial fleet is US\$113,414,945 (Table 10). This assumption is premised on good governance and sustainable fisheries management, as well as on the installation of an effective surveillance system. The increase in the fish catch rate is a driver for employment creation and wealth generation; these may follow the same trends as the increase in catch-per-unit effort. The lack of data does not permit estimation of these parameters.

**Table 10: Projected gross cost of fish by industrial fisheries in 2015**

Species Group	Catch (ton) 2011	% increase	Catch (ton) 2015	Cost (US\$/ton)	Est. Value (US\$)
Cephalopods (e.g., octopus)	7,038	4.8	7,377	4,105	30,282,585
Crustaceans (e.g., shrimp)	2,166	5.2	2,278	1,400	3,189,200
Demersals (e.g., croakers, snappers, etc.)	21,349	3.0	22,000	3,000	66,000,000
Small pelagics (e.g., sardinella)	46,978	6.0	49,797	280	13,943,160
<b>Total</b>	<b>77,531</b>		<b>81,451</b>		<b>113,414,945</b>

**10.12 Any increase in employment and income will most likely result in more households emerging and an increase in the number of people that will be positively impacted by fisheries in Guinea-Bissau.** Though Bissau-Guineans are mainly farmers, the rate of turnover may cause many to enter the fisheries industry. The fisheries sector has great potential to contribute to the economic growth of Guinea-Bissau if there are good governance and sustainable fisheries management frameworks in place, including an effective surveillance system. It is imperative to note that the trickledown effect is significant in fisheries and can play a part in fueling the country's economic engine.

### 3. POLICY IMPLICATIONS

**10.13 While Guinea-Bissau tries to sustainably increase the rents the fisheries can generate for the public sector, the country has begun through the WARFP to lay the foundation for a gradual transition from an offshore to onshore economy over the longer term, in order to add more value locally to fish products and encourage the development of associated services.** To attain this vision and these high-value objectives, including economic and social development, the fisheries authorities of Guinea-Bissau should:

- Aim to achieve ecological sustainability by minimizing potential adverse impacts and pressures related to fisheries activities;
- Allow the recovery of overexploited stocks or populations;
- Extract resources prudently and guard against encroachment and poaching in the country's waters by putting in place an effective and sustainable monitoring, control, and surveillance system, thus reducing incidences of illegal, unregulated, and unreported fishing;
- Strengthen the knowledge base for the sustainable exploitation and management of the fisheries resources and their associated ecosystems including information sharing;
- Participate in collaborative efforts for sustainable fisheries management and development in the West Africa region;
- Continue building government enforcement capacity under the WARFP;
- Explore drawing on surveillance vessels or aircraft from neighboring countries;
- Carry out institutional and legal framework reforms, accompanied by best practice governance and sustainable use/management of fisheries resources, conducted in a participatory and transparent manner;

- Include principles of ecosystem-based approaches to fisheries in management processes;
- Partner with NGOs to introduce potential fishermen to the fishing trade.

## CHAPTER 11: THE MINING AND PETROLEUM SECTORS TRANSFORMING NATURAL CAPITAL INTO SUSTAINABLE DEVELOPMENT

### 1. INTRODUCTION

**11.1 Historically, the mining and petroleum sectors of Guinea-Bissau have been non-existent, with the exception of some quarrying and a small amount of artisanal mining.** While it has been known since the 1970s that there are potentially significant deposits of bauxite and phosphates, due to quality and infrastructure concerns, low international prices, and political instability, these were never fully explored. However, in recent years, both the bauxite (2007) and phosphate (1997) areas have entered long-term exploration leases. In the case of phosphate, in 2014 new owners began putting together a bankable feasibility study on the development of a large mine, which would be the largest investment in the history of Guinea-Bissau. There also have been several offshore discoveries of heavy oil deposits, the most recent of which in late 2013 is in relatively shallow water and shows promise of being the first economically exploitable oil deposit, although there is long way to go before that will be known with any certainty. Several other companies are currently active in the field and are working on further assessment of other promising resources.

**11.2 Recent interest of foreign investors in the extractive industries (EI) sector holds considerable promise.** If any of the above opportunities are realized, it would have a profound impact on national income, fiscal revenues, and foreign exchange revenues for Guinea-Bissau. The calculations in this chapter suggest that, if the bauxite and the phosphate mines went into production, extractions could be in the order of 13 percent to 26 percent of GDP, 77 percent to 121 percent of fiscal revenues, and 90 to 102 percent of foreign exchange revenues. Of course, a major oil strike would have a much larger impact. The potential for the Bissau-Guinean economy and Bissau-Guineans undoubtedly is large.

**11.3 Nevertheless, there are numerous examples of countries in which the large majority of the population not only did not benefit but was eventually left worse off after the discovery and exploitation of large oil or mineral deposits.** Specific policies and programs will need to be undertaken along the full length of the extractive industries value chain to ensure that the benefits of resource exploitation are widespread and the new developmental opportunities are realized. Moreover, given the heavy reliance of the large majority of the people of Guinea-Bissau on agriculture and fishing, it is essential that the environmental impact of any developed and associated infrastructure be minimized and restricted to the operation's footprint, with land reclamation being undertaken to the fullest extent possible during operations and after mine closure. In short, resource exploitation will only lead to sustainable socio-economic development in Guinea-Bissau if policies and programs are implemented to ensure that natural capital is turned into human capital, infrastructure, or intangible capital such as better institutions.

**11.4 By fostering local linkages with the economy, mining can support local incomes.** Experiences from other countries suggest that working in mines and supplying them can be a considerable source of income for local communities, including in the low-skill sector. Mining companies often support such community development, and their potential investments in skills and education can raise the human capital level of the country. Although mining is a highly capital-intensive activity, the spill-overs from the mining sector need not be negligible.

**11.5 Rents from the EI sector can make cash transfer schemes sustainable.** As previous chapters in this CEM argued, in the short-run social assistance programs would need to be financed by donors. Donor finance, however, is not sustainable. Rents from EI revenues could

partly support the budget and partly be saved—for the use of future generations and to avoid ‘Dutch Disease’ with an appreciation of the real exchange rate. If social assistance programs are ring-fenced in the budget and mining rents are a stable source of government revenue, then social assistance programs can become sustainable, financed from domestic resources. There is even an argument, reviewed toward the end of this chapter, that direct dividend transfers, going beyond traditional, targeted cash transfer programs, could enhance governance: if EI rents are distributed to the population, all citizens have an incentive to ensure transparent governance to ensure that rents do not leak but are distributed as stipulated under the direct dividend scheme. Distributing the EI rents, either through cash transfers or direct dividend transfers can also help to ensure that the majority of Bissau-Guineans benefits from the extraction of the country’s non-renewable wealth.

**11.6 This chapter analyzes the opportunities arising from Guinea-Bissau’s EI sector.** The next section provides an overview of the current state of the EI sector. In section 3, the legal and institutional aspects of mining and petroleum in Guinea-Bissau are discussed and analyzed with respect to the fiscal framework, social and environmental impacts, local community and national development, and attractiveness to investors. In section 4, the potential impacts of the mining sector are estimated, assuming that the phosphate and bauxite deposits are developed, followed by a discussion of how such effect could be further enhanced through a number of interventions. The last section provides a number of policy recommendations.

## **2. OVERVIEW AND BACKGROUND**

**11.7 Currently, the only producing extractive industries in Guinea-Bissau are small quarries for construction materials, such as granite, limestone, clay, and sand, although a relatively small mineral sands mine is near production at Varela, in the northwest of the country.** There are not and have never been any medium-scale or large-scale mines or oil wells in Guinea-Bissau, and the sector’s current contributions to GDP and employment consist only of a small number of individuals involved in exploration and quarrying. Nevertheless, the future of the country’s extractive industry sector is promising, albeit filled with uncertainty with respect to the commercial viability of the main prospects—phosphate, bauxite, and petroleum.<sup>141</sup> If exploitation of any of these deposits is commercially viable, it would immediately result in the largest industry in the history of the country, as well as have a significant impact on foreign exchange and fiscal revenues. Moreover, there has recently been an increase in gold exploration in the eastern part of the country, reportedly by Russians and Chinese, although details are scant.

### **The Farim Phosphate Deposit**

**11.8 The resource that is the closest to realizing its potential is phosphate.** The project is located near the northern town of Farim, with a population of 10,000, located 25 kilometers from the border with Senegal and 100 kilometers from Bissau. The main exploration site is a few kilometers north of the Cacheu River in an area comprised of small farms and bush, from which local residents harvest various products. The land area covered by the exploration license crosses the Cacheu River, so there could potentially be mining very close to the river which could affect the environment and local communities. Nevertheless, the first stage of mining (lasting approximately 12 years) does not entail any resettlement. If mined, the cleaned phosphate rock (beneficiated phosphate rock concentrate) would be trucked on a mostly existing high-quality 80

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<sup>141</sup> West Africa Mining Holding AG, based in Switzerland, has found some evidence for potential gold deposits in the central and eastern parts of the country’s northern region, but work is still at a very preliminary stage.

km road to a new, dedicated port at Chuque, 20 km east of Bissau on the Geba River, for shipping to export markets.

**11.9 The deposit was first identified by the United Nations Development Program (UNDP) in 1978, and Sofremines prepared a positive pre-feasibility study in 1986.** However, due to market conditions and infrastructure concerns, there was no movement on the deposit until Champion Resources of Canada took over the lease in 1997. Champion's assessment of the property was highly positive, indicating reserves of about 100 million tons of high-quality clay-bounded ore, which makes beneficiation easy, with 30.1 percent raw phosphate rock. Moreover, they estimated an additional 400 million tons of lower-quality calcium-bounded rock. Exploitation of the higher-quality reserves would last about 40 years, with an additional 200 years if the lower-quality deposit is commercially viable.<sup>142</sup>

**11.10 Champion Resources never developed the property.** In 2006, the government of Guinea-Bissau cancelled the contract and eventually awarded the lease to an international consortium, GB Phosphate Mining Limited. In May 2008, it hired a local firm, Alskon, to evaluate technical problems associated with high water-table levels, which can lead to continuous flooding of the open pit mine during exploitation. In early 2009, the government revoked this license for the second time due to contract violations, the most important of which was that the company was still not working the claim.<sup>143</sup> However, in November 2009, GB Phosphate's license was restored, albeit under a new name: Guinea-Bissau Minerals. It was soon after bought by a Canadian company, Plains Creek, which changed the name back to GB Minerals a year later, but was subsequently majority bought out by another group with Russian backing. Plains Creek conducted a type of SEA of the site, although it was more of an identification of what needed to be done in an environmental and social impact assessment. The new owners are near completion of such an ESIA. They are actively drilling and have a work plan with an investment of approximately US\$170 million. They are currently seeking funding and have recently had some success, but are still considerably short of the required amount.

### **The Boe Bauxite Deposits**

**11.11 There are five bauxite deposits closely situated to one another in Boe, in the southeast of the country.** These were first identified by the Dutch in the early 1950s, with additional exploration by the Soviets in the 1970s and early 1980s. There are an estimated 113 million tons of reserves with average alumina and silica content of 44.9 percent and 3.7 percent, respectively.<sup>144</sup> Although marginally feasible at the average historic real price for bauxite (US\$10 to US\$15 per ton), at today's price of between US\$30 and US\$50 per ton they should be commercially viable. Of course, the real viability of the mine will depend on the long-run price of bauxite. It would also be necessary to build a road through the bush to Buba, 106 kilometers from Boe, and a deep-water

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<sup>142</sup> The most recent assessment by GB Phosphate Mining (2006) largely restates the results of previous work by Champion Resources.

<sup>143</sup> GB Phosphate itself did not have the technical capability to exploit the deposit. It had indicated that it would contract exploitation to another company. However, for a mine of this size, it is very rare that another (senior) company would take on the work on a contract basis, so it is more likely that GB Phosphate would have eventually sold its rights.

<sup>144</sup> Bauxite is refined to extract alumina, which in turn is smelted into aluminum. The higher the alumina content, the better; however, as silica is difficult and costly to remove, the lower the silica content the better.

port in the same town.<sup>145</sup> In fact, some work on the road and significant work on the port began in 2008, anticipating the mine's future development.

**11.12 In 2007 a lease to the bauxite region was granted to Bauxite Angola.** The company announced an investment of US\$321 million in the region, including US\$200,000 for the construction of local infrastructure before activities begin. The mine would be owned by Bauxite Angola (70 percent), the Government of Angola (20 percent), and the Government of Guinea-Bissau (10 percent). While the company announced that full-scale production would begin in 2011, three years later considerable work still remains to be done in assessing the overall viability of the deposits before any significant portion of these funds are actually invested.<sup>146</sup> Moreover, some of the deposits are located in an area that is located in the national parks “pipeline,” and the road from Boe to Buba would have to traverse an existing national park.

**11.13 Most of the new 106 km road would go through an area that is currently almost inaccessible, which would open up a large area of the country but also would cross through a proposed new protected area.** The port would provide Guinea-Bissau with a long-sought additional avenue to the ocean, but it lies within the Cufada protected area, so it would impact fishing and biodiversity in the area as well a large nearby lagoon, important for fish breeding. In 2008 Bauxite Angola upgraded the main road through the park—which in that part of the park has a substantial (grand-parented) population—built a wide, good-quality road along the 8 km to the planned port area, and cleared 113 hectares where the port would be built. All this work was done without an environmental impact assessment, never mind any special clearance for development in a protected area. The infrastructure work was stopped in April 2009 and shortly afterwards Bauxite Angola ceased its activities. In late 2010, Bauxite Angola renewed exploration activities, but this completely ceased when the coup took place. The company intended to wait for the results of the election before making a decision about the future of its holdings.

**11.14 While the mining operation in Boe, if developed and managed properly, would not be likely to have a significant environmental impact, clearly the road and port of Buba would. If the port was to be built, there will be risk associated with any spill into the bay and surrounding lagoons.** As a rough approximation, if the port was capable of handling Handymax vessels—150 to 200 meters in length with a deadweight tonnage of 52,000 to 58,000 tonnes—there could be 40 or 50 ships a year. In addition, the bauxite operation would need to build a thermal power plant and have the requisite fuel shipped in via the port.

## **Other Minerals**

**11.15 The Russian company Poto signed a contract in February 2014 for exploitation of 1 million m<sup>3</sup> of sand, which is expected to result in about 119,000 tons of mineral sands (ilmenite, zircon, rutile).** The project will last four years, although exploration is expected on nearby areas that could extend the project life. While a small project by global standards, it would result in about US\$10 million to US\$20 million of output per year, depending on the mix of the three products.

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<sup>145</sup> Alternatively, the bauxite could be transported to the recently expanded port at Kamsar in Guinea. While farther than Buba, it would only be necessary to build a new road or rail line to the Boke bauxite area of Guinea and use existing infrastructure.

<sup>146</sup> There is a good deal of mystery concerning this arrangement. Bauxite Angola paid the government of Guinea-Bissau US\$ 13 million for the lease, which is considerable for an exploration lease, although not unreasonable for an exploitation lease for proven reserves. The company seems to have received something in between. Little is known about the ownership of Bauxite Angola or its mining capacity, although it seems to have been established with funding from the government of Angola.

11.16 **In the medium or long term, the prospects from gold could be much more significant.** Although details are scant, there are reportedly Russian and Chinese companies exploring in the east of the country, which geologically is an extension of the gold fields of Mali that crosses through Guinea. Even a modest discovery of, for example, 60,000 ounces, would have a gross value more than ten times that of the mineral sands project.<sup>147</sup>

## **Petroleum**

11.17 **There have been several finds in exploratory offshore drilling for petroleum in Guinea-Bissau, but to date no commercially viable discoveries.** The petroleum areas are divided into the northern and southern areas, the first of which is shared with Senegal. Several operators—including Eni (Italy), Sterling Energy (UK), and Marmore (Malaysia)—have carried out exploratory drilling in the northern area. Substantial deposits of heavy oil have been found but further tests are necessary to determine whether these deposits can be commercially developed.

11.18 **In the southern area, 14 blocks are licensed to six companies—Svenska (Sweden), Black Star Petroleum (UK), Supernova (Netherlands), Lime Petroleum (Norway), SHA (Angola), and Larsen Oil and Gas (Dubai).** They have been undertaking exploration in joint ventures with Petrolifera da Guiné Bissau (Petroguin), the state-owned petroleum company. There has been significant turnover of licenses over the last eight years, as several companies have decided not to renew their claims. Some oil industry experts believe the country could produce 30,000 to 60,000 barrels per day, which, assuming an average price of US\$80 per barrel, could earn between US\$1 billion to US\$1.5 billion in annual exports, three or four times the country's GDP. The most important "prospective resources" were announced early in 2014 by Far Ltd., an Australian company, in three blocks situated in relatively shallow waters off the northwest coast of the country. While the company announced a potential of nearly one billion barrels, several years of work will likely be needed to confirm and exploit an economically feasible deposit. Drilling is expected to begin in late 2014. In addition, Petroguin has hopes for several deep-water resources based on preliminary findings.<sup>148</sup>

### **3. LEGAL AND INSTITUTIONAL ASPECTS**

11.19 **Both for mining and petroleum new laws have been in the process of being enacted for several years and they are currently waiting for promulgation by Parliament.** The new Mining Law will replace the Mining Law of 2000, which was a fairly competent law, albeit with gaps, some but not all of which have been filled. The new Petroleum Law will replace the 1982 Petroleum Law, which has been amended several times through the years. The new laws and the institutions supporting them are discussed in this section.

## **Mining**

11.20 **Mining in Guinea-Bissau is currently covered by the 2000 Mining Law.** The main agency in charge of mining is the Directorate General of Geology and Mining (DGGM), which is a department of the Ministry of Natural Resources. A new mining law is under development and went to Parliament in late 2010. It has yet to be promulgated. The 2000 Mining Law had several shortcomings, some of which were attributable to developments in the industry in the 2000s, particularly in the areas of EI-related fiscal revenues and local community development. A further

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<sup>147</sup> In February 2014, the Russian ambassador to Guinea-Bissau announced a program of exploration for minerals in the country by Russian companies. However, no further details were given.

<sup>148</sup> Source: [http://www.upi.com/Business\\_News/Energy-Resources/2014/02/05/FAR-Ltd-sees-huge-oil-potential-in-Guinea-Bissau/UPI-39491391601067/](http://www.upi.com/Business_News/Energy-Resources/2014/02/05/FAR-Ltd-sees-huge-oil-potential-in-Guinea-Bissau/UPI-39491391601067/)

weakness of the law was related to the lack of a modern Environmental Law and the complete absence of legislation on environmental impact assessments. However, a base Environmental Law was passed in 2011 and a law and regulations on environmental impact assessments were passed in 2009. An institution in charge of implementing these assessments, *Celula de Avaliacão de Impacte Ambiental* (CAIA), has also been developed, and is now part of the State Secretariat for the Environment and Tourism (SEAT). Its first terms of reference for an environmental impact assessment were issued to the potential developers of the phosphate deposit in 2009.

**11.21 Similar to the 2000 law, the 2010 Mining Law contains most of the elements that investors are looking for: security of ownership, a predictable, stable, and relatively generous fiscal structure, the ability to transfer ownership, and the ability to repatriate profits.** The main drawback for mining companies is that the exploration licenses are granted through an act of the minister in charge of the sector (Article 22), who has up to 60 days to make the decision. Royalties range from 2 percent (bauxite, iron ore) to 5 percent (precious minerals) to 7 percent (uranium), with most other minerals being assessed at 3 percent. This is comparable to royalty levels around the globe, although the recent trend is to have some type of sliding scale in which royalty levels rise when prices are particularly high (or well above trend levels). In addition, a three-year profit tax holiday goes into effect once production begins. Given the depreciation provisions, this could mean that a company does not pay profit taxes for five or six years.<sup>149</sup>

**11.22 The main weaknesses of the 2010 Mining Law (like those of its predecessor) have to do with issues related to increasing the local and national socio-economic benefits of a mining operation.** While an environmental impact assessment is required, there is no mention of a social impact assessment. Nevertheless, DGGM stated that in Guinea-Bissau an environmental impact assessment is defined as including both environmental and social impacts. There is no mention of local regional employment in the mine, and employment and training of nationals is limited to Chapter 4 (Articles 58 and 59), the shortest chapter in the Law, containing only three sentences, which are quite vague with respect to the obligations of the mining company. Moreover, the description of what should be included in a mining contract does not refer at all to employment, training, or community development (Article 70). However, in its request for authorization to develop the mine, the company should include a social program for national citizens, which refers to hiring, professional formation, and conditions of employment, including measures on housing, schooling, and medical assistance for employees and their families (Article 33). The only reference to local sourcing says that domestic goods and services should be bought if they are competitive (Article 18). There is no reference to training or to increasing the amount of domestic procurement over time. Upstream and downstream linkages are not mentioned in the Law.

**11.23 There is very little on community development in the Law**—in contrast to almost all mining laws developed since the turn of the century—with only a short reference to the effect that what remains in the National Mining Fund once the DGGM meets all its obligations will be used for sustainable development projects in the region of the mine (Article 63). The social program above is intended for national citizens and does not give any special preference to local community members. In fact, if a local community family member does not work in the mine, the family has no entitlement to any of the health or education benefits according to the law. In addition, there is no requirement for stakeholder consultations, particularly tripartite discussions involving representatives of the local community, government, and the company.

**11.24 In sum, the focus on the mining law is heavily on the first two (of five) stages of the extractive industry value chain, which focus on increasing investment and building the**

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<sup>149</sup> The current agreement between GB Minerals and the government on the Farim phosphate deposit calls for a 10-year profit tax holiday.

**capacity to monitor and regulate this investment.** Very little attention is given to using or leveraging the opportunities afforded by the sector—through new entrepreneurial activities and infrastructure—to increase the benefits that mining operations can bring to the country.

**11.25 Even with the best mining laws and regulations, the sector would still face significant problems in Guinea-Bissau. The DGGM has very few resources with which to meet its mandate.** All its equipment was destroyed in the civil war, and its staff of ten professionals were left with inadequate resources to carry out their duties. Nevertheless, the situation for the DGGM is improving. The government of China built new modern office quarters for the Ministry of Natural Resources (and several other ministries). The government of Romania has bought equipment for digitalizing the geological maps as well as computers for the entire staff. It is now providing training on the equipment. The World Bank is about to launch a major program of assistance (US\$3.1 million) to modernize the DGGM, which will simultaneously modernize processes and equipment and build human capital.

## **Petroleum**

**11.26 The main Petroleum Law was introduced in 1982, with small revisions in 1985 and 2006.** A new law has been prepared, but it has been waiting to be promulgated by Parliament for over three years.

**11.27 As oil discoveries in GB have all been offshore, the community development issues are not as complex as in hard rock mining, and the linkage opportunities are much fewer.** However, some potential areas of exploitation are in the national parks surrounding the offshore islands. Among other benefits, these waters are important for fishing and the beaches contain important sea turtle nesting areas. Moreover, there is a nascent tourism area in these picturesque islands, one with a strong potential for expansion in the long run. Before undertaking any significant action, the oil company has to prepare an EIA-type study and present it to Petroguin, the state-owned petroleum company, which will distribute it to concerned stakeholders and will have CAIA undertake an assessment.

**11.28 The new petroleum law allows for auctioning of blocks, service contracts, and profit sharing contracts.**<sup>150</sup> All licenses go to Petroguin or those in association with Petroguin. Competitive bidding for licenses is the preferred modality, but direct negotiation with Petroguin is also allowed.

**11.29 Investors are obliged to recruit and train national workers, but the requirements are quite vague.** Other than reference to “good oilfield practice” there is nothing specific regarding adherence to safety standards. There are no special articles on community development in the Petroleum Law, largely as exploration and potentially viable deposits have always been offshore. Given the size of the Bissau-Guinean economy, it does not seem likely that there will be significant upstream and downstream linkages in the industry, even if commercially viable deposits are discovered.

**11.30 The most notable shortcoming of the new Law is in establishing and authorizing the institutions responsible for managing the sector.** International best practice normally calls for the establishment of three entities: a ministry with overall responsibility for the sector, an independent regulator, and a national oil company. The law does not authorize a minister to act in setting policy, negotiating contracts, approving development plans, and other normal responsibilities. The role defined for Petroguin in the Law is very broad and includes

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<sup>150</sup> The rest of this subsection was prepared by David Santley, Senior Petroleum Specialist in the Oil, Gas, and Mining Division of the World Bank.

responsibilities normally reserved for a ministry or a regulator. This combined role is reminiscent of the one originally set for Petrobras in Brazil. In recent years, Brazil has recognized the problems related to having a monopoly licensee set the rules for its own operations and has enacted legislation segregating Petrobras' roles and breaking its monopoly on holding licenses. Petroguin's mission, as defined in its Statutes, is appropriately oriented towards commercial matters. However, Article 11 of the Statutes sets Petroguin up as its own de facto regulator. Licensees deliver in-kind royalties to Petroguin, but there is nothing explicit about Petroguin's responsibilities to the State in managing this stream of production.

**11.31 The transparency requirements under the law are limited to disclosure of licensing data, taxes received, and expenses of the State.** These should be expanded to include the volume of petroleum produced, transported, refined, consumed, etc. Beyond data disclosure, the new Law would benefit from inclusion of a broad statement declaring that the sector will be managed with transparency as its guiding principle.

#### 4. BOOSTING SHARED GROWTH

**11.32 There is potential for the EI sector to play an important role in Guinea Bissau's socio-economic development.** If just the two known large mineral deposits were to be developed, the sector would have large macroeconomic and microeconomic impacts on the country. The constraints facing both operations currently are a mix of international prices for the commodities, global finance, and the inexperience of the exploration companies. The mining law and regulations are not an impediment; the affected communities would support the developments if enough benefits were channeled in their direction, and most environmental stakeholders are not opposed to mining per se, but simply want to ensure that it is properly managed. In this regard, civil society is already pushing for Guinea-Bissau to become a member of the EITI. In this section, calculations are made of the impacts on several macroeconomic variables of the development of the two known large deposits. Government actions that would expedite these developments in a sustainable manner are analyzed. Finally, potential reactions of the various stakeholders are discussed.

**11.33 Table 11 indicates the results from scenarios conducted for the Farim phosphate deposit and the Boe bauxite deposit.** The direct employment numbers include 20 foreigners working at each deposit. The remaining three rows include direct and indirect affects for the contributions of each deposit.

**Table 11: Mining could have a large impact on employment and government revenue**  
(employment in persons, all other in million US\$).

	Farim (phosphate)			Boe (bauxite)			Total**
Product Price (US\$/t)	100	125	150	30	40	50	125/40
Direct Employment*	1,000	1,000	1,000	1,000	1,000	1,000	2,000
Total Employment	1,2696	15,052	18,391	7,903	9,570	11,274	24,622
Fiscal Revenues (US\$m)	37.0	46.2	60.3	19.4	26.1	32.9	72.3
GNI Contribution (US\$m)	48.0	58.0	71.2	29.3	35.9	42.7	93.9
Corporate Profits (US\$m)	31.	51.0	71.3	10.9	27.3	44.2	78.3
GDP Contribution (US\$)	73.7	105.1	141.5	40.1	63.3	86.9	168.4
Balance of Payments (US\$)	60.1	65.6	75.2	37.2	40.5	43.9	106.1

\* 20 assumed to be foreigners; includes workers at port and in shipping to the port.

\*\* Sum: of middle product price case for each deposit.

Source: World Bank staff estimates.

**11.34 To estimate the multiplier effects of these deposits on Guinea-Bissau's economy, certain official data and assumptions were used.** These include: (i) corporate sales tax is 15 percent, corporate profits tax is 25 percent, and there is a tax holiday on the latter of three years; (ii) 50 percent of government revenues generated by the mines are spent on employment, with 50 percent of the remainder being spent on domestic goods; (iii) a fiscal multiplier effect of 2 is applied to goods and services spending; (iv) 14 percent of mine procurement is made to domestic companies (adjusting for local content) and their revenues have a multiplier effect of 1.67; (v) for domestic employees, low-skill workers are assumed to earn US\$1,200 per year, medium-skill workers earn US\$2,400 per year, high-skill workers earn US\$4,800 per year, and management workers earn US\$12,000; domestic employees are assumed to save 10 percent of their income and their spending has a multiplier effect of 1.67; (vi) employees earning more than US\$4,000 per year pay a 10 percent income tax, while those earning above US\$15,000 pay a 20 percent income tax; (vii) both mining operations include a 5 percent transportation cost, which is added to estimated operating costs; and (viii) the contribution to GDP is the sum of estimated corporate profits and the estimated GNI contribution.

**11.35 The assumptions for the Farim deposit include a US\$170 million capital investment in the mine, a dedicated port, and 10 km road.** One thousand direct employees work in the mine and port. In these scenarios, Farim produces 1,000,000 tons of phosphate per year and world prices for phosphate vary between US\$100 and US\$150 per ton. At the mid-price of US\$125 per ton, Farim's gross revenues would be US\$125 million per year. Total estimated fiscal effects related to the Farim deposit are US\$46.2 million per year (which includes the proposed 3 percent royalty on phosphate, among other fiscal contributions). The estimated annual contribution to GNI is US\$58 million and the estimated contribution to employment is 15,052 jobs. With an assumed price of phosphate at US\$125 per ton, the estimated total increase in GDP is US\$105.1 million, or an increase of about 12 percent.

**11.36 The assumptions for the Boe deposit include a US\$321 million capital investment in the mine, dedicated port, and 106 km road.** One thousand direct employees work in the mine (700 mine employees and 300 port employees). In the scenarios, Boe produces 2,000,000 tons of bauxite per year and world prices for bauxite vary between US\$30 and US\$50 per ton. At the mid-price of US\$40 per ton, Boe's gross revenues would be US\$80 million per year. Total estimated fiscal effects related to the Boe deposit are US\$21.6 million per year (which includes the proposed 2 percent royalty on bauxite, among other fiscal contributions). The estimated annual contribution to GNI is US\$35.9 million and the estimated contribution to employment is 9,570 jobs. With an assumed price of bauxite at US\$40 per ton, the estimated total increase in GDP is US\$63.3 million, or a step increase of over 7.5 percent of GDP.

**11.37 In sum, the opening of these two mines would have significant impacts on Guinea-Bissau's economy.** Although it is assumed that 86 percent of goods and services needed by the mines are sourced internationally, the calculations still suggest that employment would increase by approximately 24,000—and this does not include any externalities associated with the improved infrastructure. Moreover, fiscal revenues would increase by approximately US\$56 million to US\$93 million—a range of about 77 percent to 121 percent of revenues (using 2010 numbers). There would be a net increase in foreign exchange revenues of between US\$97 million and US\$119 million; GDP would increase by an amount ranging from approximately US\$114 million to US\$223 million, representing between 13 percent and 26 percent of GDP. These estimates are relatively conservative. The remainder of this section describes how the effects could be further magnified.

### **a) Fostering linkages with the local economy**

**11.38 Many countries have benefited from major spinoff opportunities from their mining sectors, particularly from domestic sourcing and beneficiation.** While the latter is the most obvious, the big gains in value added, employment, and learning by doing are likely to come from the former, particularly as many of the skills needed by companies selling goods and services to mining operations—such as machine repair and servicing, tubing, construction, industrial clothing, catering—are easily transferrable to other industries. In Chile in 2011 there were 720,000 jobs in the mining service industry and another 40,000 jobs in mining related construction, over 10 percent of the entire workforce (Box 13).

**11.39 On a smaller scale, mining companies often work with local and regional governments to provide greater benefits, both economic and social, to the local communities in their area.** Given the relatively small number of jobs in new mining operations, most companies, either voluntarily or due to government legislation or pressure, provide other benefits to local communities. These mainly come via corporate social responsibility programs, local infrastructure development, foundations, and targeted tax payments. In general, however, what the communities mostly want are more jobs and programs to increase local employment are almost becoming compulsory for larger operations in order to obtain their ‘social license’ to operate. The Newmont Abofo Linkages Program in Ghana (Box 13) is one of the most successful examples in Africa of a mining company reaching out to communities to increase local benefits.

**11.40 In addition, mining projects often bring infrastructure with them, which then can be used by other industries.** This is particularly the case for bulk minerals that need rail or good roads and ports to export their products. Nevertheless, mining companies may have strong cost reasons to prefer dedicated rather than shared transport infrastructure. It is important that there is an ongoing dialogue about transport infrastructure developments to see if there are possibilities for the public sector to leverage private sector developments.

**11.41 All large mines need substantial power and many mines develop their own power supplies which may benefit communities.** Given the very low availability of power in Guinea-Bissau (see chapter 2), there should be good possibilities for leveraging power generation developed by mining operations to at least provide power in the local community area. For example, in Farim, where there is a sizable population, the power lines are intact but there is no operating power plant. A small increase in size of the power plant required by the mine would generate enough electricity for the SME sector as well as households.

#### **Box 13: Fostering linkages with the local economy: experiences from Chile and Ghana Mining cluster development in Chile**

**Region II in Chile is one of the world’s most successful examples of an industrial cluster built around the mining industry.** In the development of this cluster in the city of Antofagasta, mining companies and governments worked together to maximize the positive linkages from mining for local development. In 1992 the Corporation for Productive Development was established by a consortium of 10 large companies and 2 universities to provide support services for the productive and technological growth of SMEs in Antofagasta. Until 1995, the dominant incentive to create new linkages was through financial instruments such as long-term credits and co-financing from CORFO, the Chilean Economic Development Agency. In 1995 CORFO and the European Union provided funding for a new initiative, The Program to Develop Suppliers for the Industrial Growth of Region II, which would further integrate SMEs in the supply chain of large companies. The core of this program was a subsidy to large companies in Region II that participated in supplier development, requiring the companies themselves to take responsibility for the training and integration of local suppliers. In 1997 this initiative took a big step forward when the Association of Antofagasta Industries (AIA) and the Service

for Technical Co-operation (SERCOTEC), a subsidiary of CORFO, joined together to construct a program designed to address the qualification needs of SMEs supplying the mining industry. SERCOTEC provided credit programs, technical consultancy, subcontracting exchange, management training, and marketing and export assistance. AIA provided the organizational structure, including programs and specialist training courses, including ‘The Program to Evaluate and Qualify Suppliers to the Mining Industry’. The objective was to increase the competitiveness of regional suppliers such that they are able to maintain and strengthen productive linkages with mining companies.

**A Public-Private Partnership is supporting the development of mining suppliers.** In 2002 Antofagasta established an executive committee to encourage the development of a mining cluster in the region. This public-private partnership deliberately targets and fosters local suppliers, helping them adjust their practices in accordance to the needs of mining companies operating in Chile and overseas. In 2007, a public-private committee—the Strategic Council for the Mining Cluster—was created to identify the needs of the mining sector. It indicated the need to promote suppliers’ associations and to improve Research and Development (R&D), human capital and the business climate. Since then the government has introduced various measures to support mining suppliers’ expansion, including a R&D center focusing on mining at the University of Chile and a scientific park in Antofagasta. In April 2011 the Ministry of Mining joined BHP Biliton and CODELCO in a new program entitled “Strategy for the Development of World Class Mining Suppliers”. The goal is to transform 250 Chilean-based firms into world-class suppliers by 2014. CORFO has committed to invest US\$45 million over 3 years with additional funding from other partners.

#### **The Newmont Ghana Gold Ltd (NGGL) Local Procurement Program**

**NGGL is a major contributor to Ghana’s economy, generating nearly 10% of its exports and 4.5% of its FDI in 2010. Since the mid-2000s NGGL has made deliberate efforts to procure most of its inputs locally.** It does so by increasing its own awareness of goods/services offered in Ghana; developing link-up opportunities for potential suppliers; using open tendering more frequently, and applying preference in assessing tenders, giving preference all else being equal to local-local companies followed by Ghanaian owned companies, Ghanaian participation companies, Ghanaian registered companies, and international companies in that order.

**In parallel, NGGL, with financial support from the IFC, launched in 2007 the Abafo Linkages Program, which is made up of three elements:**

1. *Local Suppliers and Contractors Development:* Builds capacity of selected micro-, small- and medium-enterprises so that they can competitively win contracts with NGGL and other regional/national companies.
2. *Local Economic Development:* Supports non-mining activities to help ensure diversified/sustainable economy.
3. *Institutional Capacity Building:* Supports local business associations and consulting services to address the absence/low availability of business support. It also helps set standards regarding local procurement with NGGL and encourages other institutions such as Accion Microfinance to provide help to local businesses.

In just two years, the Abafo Linkages Program supported 99 companies, successfully tendered contracts valued at almost \$6 million and created 439 jobs.

*Source:* McMahon, G. and S. Moreira (2014), ‘The Contribution of the Mining Sector to Socioeconomic and Human Development,’ Extractive Industries for Development Series #30, Washington, D.C.: The World Bank.

## b) Financing social assistance programs

11.42 **Revenues from the EI sector could easily finance social assistance programs.** Building on the costing of a cash transfer scheme of chapter 6, about 15-20 percent of EI revenue would be needed to finance a cash transfer scheme equivalent to about 1.5 percent of GDP, which would reduce extreme poverty by 10 percentage points. To put the resource wealth in perspective, a hypothetical thought experiment suggests that spending all EI-related fiscal revenue on a cash transfer program (about 8.5 percent of GDP) could reduce absolute poverty by up to 13 percentage points and almost eradicate extreme poverty entirely (to about 3-5 percent). Naturally, only a fraction of natural resource revenue should ever be spent on cash transfers in order to leave sufficient room for other expenditures—especially public investment—to build the national wealth—taking into account future generations—and to safeguard macro-fiscal stability. Yet the desirable properties of social assistance programs, including a reduction in poverty and potential catalyzing effects on local income growth, make EI-related fiscal revenues an expedient source of financing for such programs.

## c) Direct dividend transfers

11.43 **Cash transfers financed with mining revenues could be extended to the broader population, moving toward a program of direct dividend transfers.** Direct dividend payments are controversial but have recently found new advocates.<sup>151</sup> Direct dividend payment schemes have been implemented in some developed, resource-rich regions, such as Alberta and Alaska, where citizens receive a fixed portion of resource revenues uniformly and universally. Yet Mongolia, too, piloted such a program. Direct dividend payments go beyond cash transfers because they are not poverty targeted: all citizens have a right to an equal share of the EI-related fiscal revenues.

11.44 **There is an argument that direct dividend transfers can improve the quality of governance—an attractive feature for fragile states.** A scheme in which all citizens regularly receive a portion of EI-related fiscal revenues can help to solidify the fiscal contract between citizens and the government by creating a broad-based constituency with a vested interest in how the government manages public finances.<sup>152</sup> As citizens come to expect and rely on dividend payments, they will demand more transparency in how the government is managing the EI-fiscal revenues. Moreover, the likelihood of rentier behavior—a common feature of resource-rich, institutionally-weak countries—is significantly diminished because, by allocating a publicized share of resource income to the general population, the government is also sharing more specific information with the public on the resource revenue itself. More public information, in addition to citizens feeling a stake in public decision-making, will generate better oversight by the public, which will in turn improve accountability and efficiency of public spending. This is not to say that direct dividend payments are meant to substitute efforts to improve the institutional capacity of government. Indeed, such a scheme would enhance these efforts as they trigger additional demand

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<sup>151</sup> See McGuirk, E., Rajaram, A. and Giugale, M., (2014), Devarajan, S. and Giugale, M. with Ehrhart, H., Le, T. and Nguyen, H. (2013), Devarajan, S. et al (2011) ‘Direct Redistribution Taxation and Accountability in Oil-Rich Economies: A Proposal’ in *Center for Global Development Working Paper 281*, Moss, T. (2011) ‘Oil to Cash: Fighting the Resource Curse through Cash Transfers’ in *Center for Global Development Working Paper 237*, Gillies, A. (2010) ‘Giving Money Away? The Politics of Direct Distribution in Resource-Rich States’ in *Center for Global Development Working Paper 231*, Sala-i-Martin, X. and Subramanian, A. (2003) ‘Addressing the Natural Resources Curse: An Illustration from Nigeria’ in *NBER Working Paper*.

<sup>152</sup> McGuirk, E., Rajaram, A. and Giugale, M., 2014.

from a broader base of citizens for public accountability.<sup>153</sup> Recent IMF research suggests that the positive properties of distributing EI revenues (including both social assistance programs and direct dividend transfers) may even justify earmarking these expenditures—which is normally not considered good practice—in order to “ensure that these programs are sustained over time, elicit the support of the population, and increase government accountability for the use of resource wealth.”<sup>154</sup>

**11.45 Household income from direct dividend transfers and potential improvements from governance can enhance shared growth.** Some estimates for Equatorial Guinea suggest that direct dividend payments of just 10 percent of extractive revenues would be equivalent to US\$600 per person.<sup>155</sup> Just 10 percent of Equatorial Guinea’s natural resource revenues would be one and a half times larger than the average poverty depth, the amount necessary for a poor person to escape poverty—in a country where three-quarters live below the poverty line.<sup>156</sup> In a country like Guinea-Bissau, direct dividend transfer payments would benefit the poor disproportionately given the pervasiveness of poverty. Applying the arguments for cash transfers and local income growth to direct dividend transfers would suggest that such a scheme, too, could boost local incomes. In addition, a virtuous circle between improved governance and economic activity could result foster shared growth, as argued in chapters 1 and 4. While direct dividend transfers theoretically have attractive features, more research will be necessary to explore whether they can fulfill their promise. A key concern will center on striking the right balance between making the transfers meaningful enough to encourage citizen oversight while avoiding the risk of inflation and disincentives to work. However, given that it will take years for the EI sector to yield significant revenues to Guinea-Bissau there is sufficient time for further analysis.

#### **d) Investing and saving for the future**

**11.46 To build the national wealth, it will be important to invest EI fiscal revenues prudently.** As chapter 7 argues, there is particular danger to exhaust natural resources, depleting one source of the national wealth, without building other forms of wealth. Ideally, EI fiscal revenues should not finance consumption. This means that the operational fiscal balance (revenue minus current expenditures) should be positive, *without* the revenue contribution from the EI sector. This would mean that revenues are invested in capital expenditure, building physical assets. However, this is only a rough rule of thumb. For example, paying teachers or health workers (a recurrent expenditure) is an investment in education and thus the country’s human capital stock. Social assistance programs, as chapter 6 argues, can enhance human capital and also have an effect on household investment. Direct dividend transfers can help build so-called intangible wealth by improving institutions.

**11.47 Some EI fiscal revenues should be saved.** Investing the entire amount of these revenues in other forms of capital is not easy. On the one hand, the government has limited capacity, as shown in chapter 4. Investing the resource wealth—especially for non-renewable resources—is sophisticated and more government capacity correlates with better public investments. Saving EI fiscal revenues for a time when the government is in a better position to make investments that build the national wealth is one option to ensure that the natural resource wealth is not depleted. On the other hand, overwhelming the economy with natural resource-fuelled expenditure could result in “Dutch Disease”, where prices of non-tradable goods and service rise faster than those of

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<sup>153</sup> Devarajan, S. and Giugale, M. with Ehrhart, H., Le, T. and Nguyen, H, 2013.

<sup>154</sup> Gupta, S. Segura-Ubierno, A. and Flores, E. (2014) ‘Direct Distribution of Resource Revenues: Worth Considering?’, IMF Staff Discussion Note SDN/14/05.

<sup>155</sup> Ibid.

<sup>156</sup> Ibid.

tradable ones, making local exports less competitive. The stronger real exchange rate would hurt the cashew sector and make it more difficult to develop the rice and tourism sectors, or any other export-oriented sectors. “Dutch Disease” would have a highly damaging effect on employment and, most likely, poverty. It would certainly reduce the potential for shared growth. To prevent “Dutch Disease”, the government could consider establishing a sovereign wealth fund in the future—this is especially acute should the exploitation of petroleum commence where associated fiscal revenues will be particularly sizeable.

## 5. POLICY IMPLICATIONS

11.48 **The government of Guinea-Bissau has five main areas of concern with respect to the development of extractive industries:** (i) Policies are in place that will motivate EI companies towards exploration and extraction; (ii) the country receives a fair share of the natural resource rents (through fiscal revenues and infrastructure development) and these revenues are managed in a transparent manner; (iii) the resources are exploited in an environmentally sound manner; (iv) there are a significant and growing number of linkages from the developments; and (v) local communities receive a fair share of benefits as compensation for hosting the developments.

11.49 **With respect to EI policies, the new mining and petroleum laws and regulations are sufficiently investor friendly to attract exploration and exploitation firms.** Given the secular rise in mineral prices over the last ten years, it could be argued that they are too investor friendly. The bigger challenge on this point is building up the capacity of the DGGM to be able to implement laws and regulations, develop an efficient cadaster and provide potential investors the basic geological information of the country, which is currently at least 25 years out of date. The provision of part of the royalties to the DGGM is a good first step in this direction.

11.50 **The fiscal regime for EI is similar to that of many other countries, with the exception of the draft law’s proposed three-year profit tax holiday, which most countries no longer include.** The government could consider a sliding royalty or tax to capture a larger percentage of rents when the prices of its commodities are very high, although given the nascent state of the industry it has to be careful not to scare off investors. More importantly, the Ministry of Finance needs to have the capacity to accurately account for the amount that is due to the government. Until it gains enough experience, the government may need to rely on foreign accounting firms. It should also push Guinea-Bissau toward becoming a member of the EITI, with donor assistance if requested. In the meantime, the legal and regulatory provisions for bidding processes and allocation of exploration permits, including minimum expenditure rules by permit holders, should be reviewed to ensure fairness and transparency.

11.51 **The laws are in place with respect to environmental aspects of EI, including closure rules when the resource is exhausted.** The main challenge will be to build up the capacity of SEAT and CAIA so that they can properly monitor and enforce environmental laws and regulations. The World Bank is already supporting CAIA with capacity building activities. This type of capacity building is a long-term challenge, particularly as there will likely be significant leakage to industry and emigration of people with these skills. The legal provisions with respect to mine closure should also be reviewed and detailed regulations be developed.

11.52 **Given the very small industrial base that currently exists in Guinea-Bissau, it will take some time before the country can move further down the value chain and develop a large number of linkages, mostly local procurement related.** However, this is where most of the jobs are, especially in mining, with anywhere from 2 to 10 jobs in mining supply industries for every job in a mine. Both the phosphate and bauxite mines, if developed, would likely spend between \$50 million and \$100 million per year on goods and services, most of which currently would be imported (86 percent in the simulations above). Stakeholders in Guinea-Bissau have

become aware of the challenge of increasing the ‘domestic spend’, as is demonstrated by the development of the Young People’s group in Farim and the WGPEI. The latter wants to extend the work undertaken in Mali (with FIAS support) and Burkina Faso and Ghana (with World Bank support) on the procurement needs of the (mostly) gold mining industry to Guinea-Bissau’s specific mineral potential, phosphate and bauxite. In the short-run much can be done with respect to preparing international standard training programs in areas for which there will be a large demand if the EI sector is developed (e.g. welding, large truck repair, pipe-fitting, electricians, etc.). The mining companies, the government, and donor agencies of all types would need to work closely on the various training programs required to work in and supply the mining industry. It is equally important that stakeholders, both in nearby communities and at the national level, are fully aware of the opportunities afforded by extractive operations and what they need to do and is required more generally to be able to take advantage of them.

**11.53 The competitiveness of domestic mining supply firms is seriously hampered by the poor state of infrastructure, including power, road transport and port access.** In this regard, the infrastructure required for the EI activities should be integrated with the infrastructure planning of the government. While it is important not to put too many demands on the mining operations, with relatively small expenditures infrastructure often could be increased in size or extended to provide access for SMEs, particularly with respect to power (see chapter 2).

**11.54 Local communities bear the brunt of negative externalities generated by EI, whether these are environmental, migrant inflows, or health impacts, particularly sexual diseases.** Around the world they are demanding more of the benefits from EI. These can come from the transfer of more of the fiscal revenues generated by operations, but they are usually not nearly as important, especially for mining, as the increase in employment and income that operations can bring.

**11.55 The government can undertake a number of important initiatives, at times with the assistance of other stakeholders, to increase the benefits of EI operations accruing to local populations:**

- Investments in infrastructure are vital to generate linkages between potential suppliers and mines and provide an adequate provision of power (see chapter 2)
- It will be important to build the capacity of the government (see chapter 4) to engage mining companies efficiently and for the greater benefit of the country; building capacity is also necessary to ensure that EI-related fiscal revenues are invested in a way that builds the national wealth
- Adequate resources must be provided to agencies (such as CAIA) with the mandate to monitor enforce environmental and social obligations; this would include funds for training of EI inspectors and environmental specialists from donor agencies
- A significant, well-defined part of the EI-related fiscal revenues should support the budget to guarantee the financing for social assistance programs, which should be ring-fenced in the budget (see chapter 6). Through appropriate targeting, social assistance programs can also help mitigate potential negative impacts of EI activities
- The large majority of low skilled jobs should go to qualified local community members; this will likely entail literacy training (also see chapter 3)
- Efforts, including training programs, should be required by mining companies to increase over time the number of local community members in more skilled employment in the mines and, more importantly, to increase the capacity of local SMEs to sell goods and services to the mine (also see chapter 3). The government—supported by donors—may also wish to set up vocational training programs with a focus on the EI sector

- In general the obligations of the company and national government to the local communities should be better-defined, including participatory mechanisms to discuss crucial issues such as resettlement, employment, training, etc.
- A mediation system should be set-up for the inevitable disputes that arise
- Provisions should be made in the environmental and/or EI laws that would provide a space for civil society to have access to and monitor the environmental and social performance of EI operations
- The posting of a financial surety for environmental reclamation should be obligatory for all medium-scale and large-scale EI operations—currently it is at the discretion of the Minister of Energy and Natural Resources
- In the longer run, it will be important to provide a framework for saving of EI-related fiscal revenues, potentially through a sovereign wealth fund
- In the longer run, the government should also reconsider the tax holiday for mining companies

## CHAPTER 12: BIODIVERSITY, PROTECTED AREAS, AND TOURISM-LED SUSTAINABLE SHARED GROWTH

### 1. INTRODUCTION

12.1 **Over the past fourteen years, Guinea-Bissau has invested substantially in conserving its biodiversity and important ecosystems.** Recognizing the vital role that these play in sustaining local subsistence livelihoods, underpinning national and regional economic activities, and in contributing to the health and diversity of the global environment, the country has embarked on a process of establishing and implementing a National System of Protected Areas (*Sistema Nacional das Areas Protegidas* - SNAP) as well as building the institutional framework and human and financial capacity to sustain it. The protected areas under SNAP are envisioned to act as local development poles, supporting local populations and sustainable-use economic activities as well as conserving biodiversity and ecosystems. These areas directly support a population of over 70,000 and indirectly support national and regional economic activities and bring global benefits. Currently, the SNAP comprises five coastal and marine national parks and a community marine protected area and covers 470,000 ha, equivalent to about 15% of national territory. Five terrestrial areas are expected to be added as part of the Dulombi, Boe and Tchetché (DBT) complex, increasing total coverage to approximately 26% of national territory. In addition, the Bijagos Archipelago has been recognized *inter alia* as a UNESCO Man and Biosphere (MAB) Reserve. While significant advances have been made towards the management and conservation of these areas and their assets, Guinea Bissau still faces a challenge to ensure that progress is maintained and is sustainable in the long run.

12.2 **As a result of this investment, and in light of the unique cultures found in the country, sustainable tourism and ecotourism in Guinea-Bissau has the potential to become a source of economic growth and employment.** The country's biodiversity and protected areas provide multiple goods and services, underpinning various productive sectors, as described in chapter 7. However, one area with considerable potential that has yet to be properly explored is tourism, specifically sustainable tourism and ecotourism. Ecotourism, a subset of sustainable tourism, includes tourism experiences that embrace the four pillars of sustainability: economic, financial, social/cultural, and environmental. Ecotourism focuses on both nature- and culture-based activities and highlights the unique environments and cultures of a destination. Already, some small, private ventures (Varela beach) and demonstration projects by NGOs (Orango and Cantanhez) are emerging in key locations. By building on the country's unique biodiversity, network of protected areas, and culture, Guinea-Bissau has the potential to create a one-of-a-kind West African ecotourism destination that will at once bring economic benefits to the country, contribute to poverty alleviation and shared prosperity, and increase opportunities for small-scale business development.

12.3 **Tourism can also play an important role in giving economic value to the ecosystem goods and services that protected areas provide, generating direct income for the conservation of protected areas and creating livelihood options for local communities.** Most stakeholders, including the government, the Bank, and other partners, such as the World Wildlife Fund (WWF), MAVA Foundation and the International Union for Conservation of Nature (IUCN), support leveraging natural capital assets for development by protecting the natural environment, engaging local communities, and safeguarding local cultures. When done properly, sustainable tourism development builds a tourism sector that embraces ecologically sustainable, ethical, and socially equitable business practices and enterprises that are economically and financially viable. This type of tourism can include ecotourism, community-based tourism, or pro-

poor tourism. The term *ecotourism* is used here to imply small- rather than large-scale tourism activities, and a focus on environmental, social, cultural, and economic issues.<sup>157</sup>

**12.4 This chapter seeks to explore the opportunity to harness the power of biodiversity conservation through ecotourism development in order to achieve poverty alleviation, shared prosperity, and wide-reaching environmental benefits.** The following sections address: the status and challenges facing Guinea-Bissau's biodiversity and protected areas; the opportunities and constraints facing the tourism sector; and, lastly, a proposal for the way forward.

## **2. BIODIVERSITY AND PROTECTED AREAS**

**12.5 Although a small country, Guinea-Bissau houses exceptional biodiversity (i.e., an abundance and variety of living organisms) and ecosystems of both local and global significance.** This natural capital results from the country's unique geographic position: a coastal country lying in a transition zone between the Sub-Saharan arid savannah in the northwest and humid tropical forest ecosystems in the south, which benefit from substantial rainfall and rivers. This unique region is largely coastal, characterized by a dense mesh of small river basins, as well as the Bijagos Archipelago, rising from a wide continental shelf of roughly 70,000 km<sup>2</sup>. These areas are home to a large diversity of ecosystems and habitat types, including mangroves, sandbanks and mudflats, shallow estuarine waters and sub-humid Guinean forests, all of which are known to be among the most biodiverse on the West African coast. Inland, in the south and southeast areas of the country, a forest belt region comprised of dense and open patches of forest, interspersed with woodland savannahs also hosts significant biodiversity and provides a refuge for many migratory species traversing the West African savannahs.

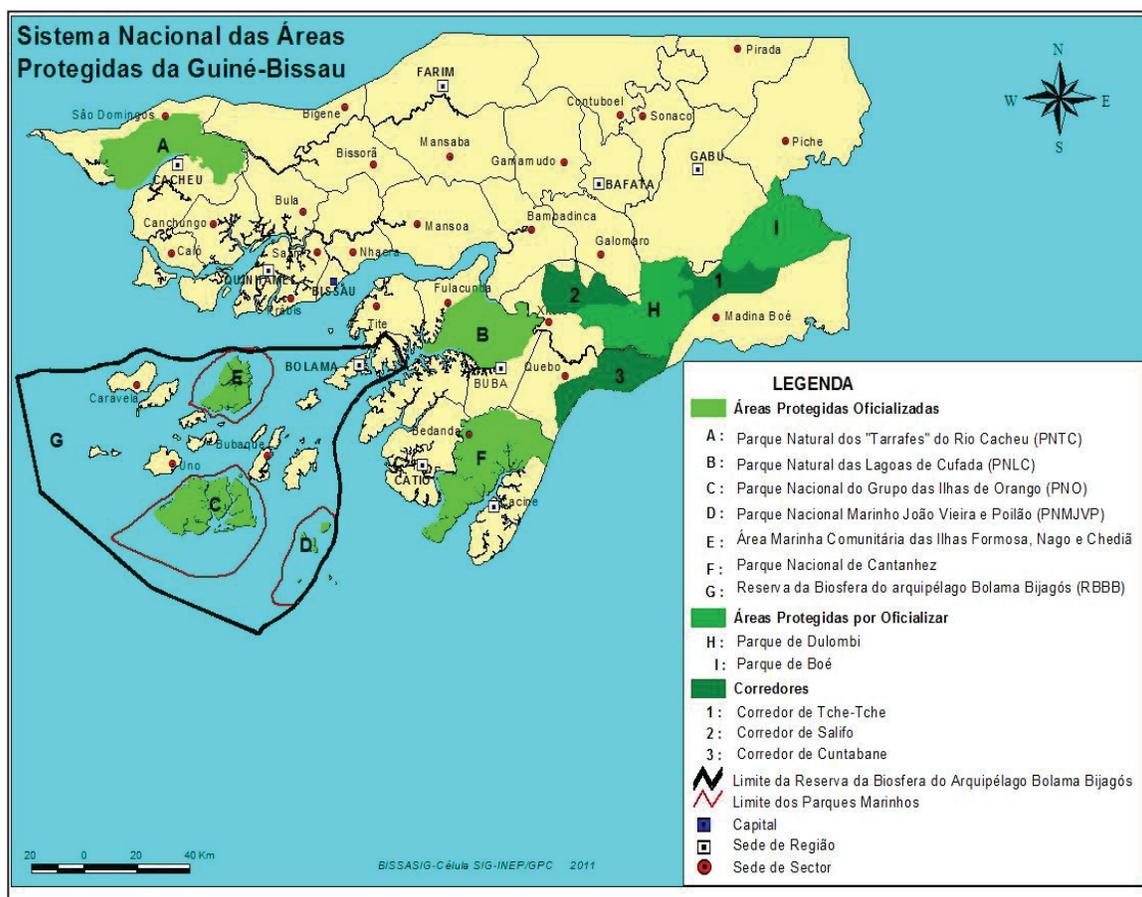
**12.6 Guinea-Bissau is somewhat unique in that it is among the last countries in West Africa where development has had limited negative impact on the environment and, consequently, its biodiversity has not yet been significantly degraded.** While this is due in part to limited economic development to date, it also reflects a recognition by the government and its partners of the current and future social and economic importance of the country's biodiversity.

**12.7 The country's ecosystems not only support a wealth of biodiversity but also provide valuable services to the country's population.** The coastal zone, in particular the 338,652ha of mangrove ecosystems -second only to Nigeria in terms of total mangrove area in Africa-, serves as nursery and breeding grounds for commercially valuable fish stocks, provides carbon stocks that could potentially be sold on the global market, and buffers against potential sea level rise and storm surges resulting from climate change. These together with terrestrial forest and savannah woodlands also provide a variety of goods and services to local populations, such as food, shelter, traditional medicinal plants, and fuel. They also contribute to ensuring supplies of clean water and resilience against climate change. The biological and ethnic diversity characterising the country have given rise to the emergence of rich cultural traditions, notably in the Bijagós Archipelago, and these biodiversity, ecological and/or cultural characteristics are recognised to be of both national and international significance.

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<sup>157</sup> In the past, the term "ecotourism" has been used widely and without discrimination by organizations seeking to "green wash" their unethical and unsustainable practices. However, tourism industry professionals are seeking to reclaim the word and restore its original definition of tourism that supports the four pillars of sustainability: economic, financial, social/cultural, and environmental.

**Figure 96: Most of the protected areas in Guinea-Bissau are or will be in the south of the country, as well as the islands**  
(official protected areas [*áreas protegidas oficializadas*], areas to be protected [*áreas protegidas por oficializar*], and corridors [*corredores*])



Source: BISSASIG-Célula SIG-INEP/GPC 2011.

**12.8 Several animal species found in Guinea-Bissau are globally significant and identified on the IUCN's Red List as globally endangered or threatened.** The country's coastal zone is home to *inter alia* five species of sea turtles, manatee, goliath grouper, bottlenose skate, large mouth and common sawfish, ocean-going hippos, chimpanzees, and a substantial number of species of migrating birds. Notably, the João Viera and Poilão Marine Protected Area in the Bijagós Archipelago (Figure 96) is the largest green turtle nesting site in West and Central Africa, and the third-largest in the Atlantic. Additionally, the inland forests host several endemic and rare and threatened species of birds, plants, reptiles and mammals, including African wild dog, African dwarf crocodile, lion, African elephant, large ungulates such as African buffalo, hippopotamus, chimpanzees, sooty mangabey, west African red colobus and king colobus.

**12.9 The Bolama-Bijagós Archipelago is a recognized UNESCO MAB Reserve due to its exceptional combination of biological and cultural assets.** This area, which comprises 88 islets and Bissau, includes three protected areas (João Vieira and Poilão, Orango Marine National Parks, and the Urok Community Marine Protected Area) and is the second-most important area in West Africa for migratory water birds (after the *Banc d'Arguin* in Mauritania). It is recognised as a Wetland of International Importance under the RAMSAR convention, as well as an Important Bird Area by Birdlife International, and is a proposed UNESCO World Heritage Site. Other protected areas are similarly significant: Cufada Lakes Natural Park is a designated Convention on Wetlands

of International Importance (RAMSAR) site, and Cachéu Forest National Park and the Vendu Tcham lagoon in the proposed Boe National Park have also been proposed as RAMSAR sites. In the south, Catanhez National Park is recognized by WWF as representing one of the world's 200 most important ecosystems. This wealth of biodiversity and the rich cultural traditions these areas support constitute a significant natural asset for the country that, if protected, has the potential to serve as the backbone of a future tourism industry.

**12.10 Recognizing the critical importance of these biodiversity, ecosystem and cultural assets, the government together with national and international partners, has over the past 15 to 20 years worked to develop an approach and institutional framework for their conservation and sustainable use.** Key achievements to date include: (i) establishment and operationalization of a SNAP, comprised of six protected areas,<sup>158</sup> covering 15 percent of national territory and providing tangible benefits to over 70,000 people (area to be expanded to 26 percent of national territory in 2014); (ii) establishment of a financially, administratively, and patrimonially autonomous Institute of Biodiversity and Protected Areas (IBAP), with a mandate and evolving capacity for managing these protected areas, working in partnership with local government and civil society (NGOs, local communities); and (iii) piloting a Fund for Local Environmental Initiatives (FIAL), a benefit-sharing mechanism that aims to alleviate pressure on biodiversity and ecosystems while simultaneously helping local communities improve their wellbeing.

**12.11 Together, these instruments have demonstrated growing success at reducing pressure on the protected areas' biodiversity and ecosystems, the main driver of which is the unsustainable subsistence activity of the rural poor, although future threats potentially include development of the extractive sector.** These successes have been achieved despite the chronic political instability having beset the country. A key factor in this success is that protected areas are viewed not only as conservation areas, but also local development poles, where adoption of participatory approaches towards sustainable use and conservation of resources can encourage development and poverty alleviation. National NGOs play a key role and are active in the country to safeguard cultural and environmental assets, and effectively partner with IBAP to manage protected areas and promote good governance.

**12.12 The government also recognizes the need to secure stable financing for biodiversity conservation and management of the SNAP over the long term.** To date, establishment and management of the protected areas have relied exclusively on external donor financing, which leaves the country's considerable conservation and protected area achievements vulnerable to reversal. In light of the competing demands for limited national budget, a key element of the government's strategy for ensuring the sustainability of these efforts lies with the establishment of a conservation trust fund, the BioGuinea Foundation (*Fundacao BioGuinea* – FBG), with a capital endowment sufficient to provide regular and stable revenue flow to sustain core protected areas and biodiversity management activities in perpetuity, safeguarding them from the chronic public budget shortages and reducing their reliance on unpredictable donor financing.

**12.13 The FBG is the product of a dynamic and participatory effort initiated in 2007 and supported by diverse national and international partners, including *inter alia* government,**

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<sup>158</sup> Currently the SNAP comprises five coastal and marine national parks: Cachéu Mangrove Forest National Park, Catanhez Forest National Park, Cufada Lakes National Park, João Vieira and Poilão National Marine Park, and Orango National Marine Park; and the Urok Community Marine Protected Area, the country's first community marine protected area and a regional model for participatory and community management. An additional five terrestrial areas are expected to be formally protected in 2014 as part of the Dulombi, Boe, and Tchetche (DBT) complex.

**GEF, World Bank, European Union, UNDP, MAVA Foundation, IUCN, FIBA, WWF, local NGOs, and civil society.** Legally established in 2011 under English and Welsh law, it is a “private foundation with public utility” and was recognized in 2012 by the United Kingdom and Guinea-Bissau as a charity.<sup>159</sup> The overarching objective of the FBG is to manage endowment, sinking, and revolving funds, with a view to securing stable and sustainable financing for the conservation of Guinea-Bissau’s biodiversity and ecosystems and to promote socio-economic development of the communities, depending on these resources and services they provide. The FBG is currently being operationalized and fundraising is underway to secure its initial seed capital. Although the priority focus is on securing endowment capital (for example, via direct donations or debt-for-nature swaps) the Foundation is also designed to manage sinking funds and recurrent revenue. The government will continue to seek assistance from the global community to establish the endowment fund, but it will also seek to generate its own revenue, as, for example, through tourism concessions in protected areas, the sale of carbon credits, park entry fees, and potential fiscal revenue from extractive industries (chapter 11).

### **3. TOURISM: AN UNTAPPED POTENTIAL**

**12.14 Guinea-Bissau’s comparative advantage in tourism rests with its natural resources and cultural assets.** The rich biodiversity found throughout the country can be combined with strong cultural resources, such as the natural hospitality of local people and the country’s cultural diversity, to create a unique tourism offering. Cultural resources in Guinea-Bissau include an interesting and diverse cuisine, many cultural festivals, traditional dance and music, and authentic handcrafts. In addition to its potential nature- and culture-based tourism products, the country is well positioned to receive tourists from Europe. Guinea-Bissau is roughly in the same longitude as Europe, meaning no changes in time zones and short flights. When direct flights are available from Lisbon, the travel time is just a little over four hours. In terms of marketing, the country has already created an international image based on its natural environmental and ecosystems. This existing reputation can be leveraged and refined to include both nature- and culture-based attractions and truly showcase the distinct and unique destination that is Guinea-Bissau.

**12.15 Despite several small-scale private sector initiatives, Guinea-Bissau has not yet begun to tap into its potential for tourism.** The country has had a violent past, suffering considerable political unrest, and it is one of the poorest and most fragile on the planet. While at first glance these conditions may not seem conducive to tourism, a number of countries have successfully leveraged tourism to rise out of poverty. Notably, Mozambique and Rwanda have built up their tourism sectors in the past ten years in spite of earlier civil strife. Box 14 illustrates the fledgling state of the tourism sector in Guinea-Bissau today.

**12.16 Guinea-Bissau has a remarkable range of assets for creating interesting tour packages.** Some of the country’s wildlife is quite rare (such as the sea-going hippos in Orango or the chimpanzees in Cantanhez National Park). Guinea-Bissau’s marine and river environments offer opportunities for adventure tourism, such as kayaking and canoeing. Sports fishing, bird-watching, and turtle-viewing attract tourists who typically are high-income individuals willing to pay a premium for the opportunity to catch specific types of fish or see a bird they have never seen before. Both sport fishing and bird watching (Bijagós) have the potential to be interesting tourism activities. There are three major viewing centers for migratory and nesting birds in West Africa: Senegal, Mauritania, and Guinea-Bissau, and as yet none has really taken advantage of its potential.

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<sup>159</sup> The FBG has been designed in compliance with the key conservation trust fund recommendations of the GEF and Conservation Finance Alliance.

#### Box 14: Investigating the state of tourism in Guinea-Bissau

**Tourism statics for Guinea-Bissau are scarce and of inconsistent quality.** The most recent year for which full United Nations World Tourism Organizations (UNWTO) data is available is 2007. From the existing data, it is clear that tourism is currently not an important economic activity or significant source of income in Guinea Bissau. International arrivals to Guinea Bissau were just over 35,000 travelers in 2012, tourism revenue amounted to US\$2.8 million in 2006, and average visitor expenditure was estimated at US\$546, also in 2006. In 2004, tourism expenditure's contribution to GDP was only 0.8 percent, while the average contribution of tourism to GDP across the whole Sub-Saharan African region is 5.9 percent.<sup>1</sup> There are no international statistics currently produced on tourism employment in Guinea Bissau, but proxy indicators (0.2 workers per arrival) suggest there may be 3,600 jobs in the country's tourism businesses. There are seven hotels of international standard in Bissau and five in the Bijagós islands. In 2004, the number of lodging units in the country was 3,533 and does not appear to have changed much in the interim.

**The lack of full tourism data limits the ability to identify real target markets, recognize trends in arrivals and spending, detect access barriers for specific markets, and gain knowledge on other key tourism measurements.** Existing data indicates that international arrivals have increased in recent years, but this is likely due to peacekeeping forces and related travel. Since detailed data is over seven years old, it is not possible to verify trends regarding the purpose of travel to Guinea. However in 2007, the number of leisure visitors (11,700) marginally exceeded business travelers (9,300). This could point to potential in leisure travel or indicate travelers misrepresenting their purpose of visit due to confusing immigration forms or strict visa polices. Other purposes of visits include visiting friends and relatives, which represents 30 percent of travelers to the country in 2007 (9,100).

**The top five long-haul source markets for Guinea Bissau are: Portugal, France, Sweden, Italy, and Spain.** Portugal is the most important long-haul market and notably attracts visitors who have either family or historical ties with the country. France is the second-largest source market, with French visitors attracted to the Bijagós Archipelago for fishing. Most visitors travel along a north/south axis with little or no time-zone change to reach Guinea Bissau.

12.17 **Guinea-Bissau's culture offers a valuable opportunity for cultural experiences that can add variety and depth to a visit,** as with Mali's *Pays Dogon* or as part of Senegal's or Mali's tradition of song, for example. There are numerous festivals that offer the potential for creating interesting visits. The classic case of Bali in Indonesia where tourism and culture have grown together can be replicated on a smaller scale in Guinea-Bissau. In Bali, the traditional Hindu culture has adapted to tourism and tourism has derived much benefit from the Hindu culture and religion in the form of dances and music, facemasks, and sculpture. The ambition to achieve such a symbiosis may seem unrealistic in Guinea-Bissau's current context, but it will take form over time as tourism grows.

12.18 **Table 12 provides comparative data illustrating results that Guinea-Bissau can expect in the medium to long term, with a commitment to tourism grounded in sustainable management practices.** Rwanda and Cabo Verde are smaller than Guinea-Bissau in terms of landmass, but each has managed to develop an international tourism industry. Following civil strife, the Rwandan tourism industry now directly employs 66,500 people and indirectly employs 174,500 people. Guinea-Bissau's neighbor, Senegal, has built a tourism industry based on large resorts and around its traditional music and culture. It now hosts over 1 million tourists annually with a remarkable 10 percent annual growth rate. Tanzania is an example of a country that, much like Guinea-Bissau, has made a huge investment in its terrestrial and marine biodiversity conservation; its tourism represents one of the best natural resource and cultural product offerings

in Africa, with over one million tourists visiting annually and direct and indirect employment for almost 1,200,000 across the tourism industry economy.

**Table 12: Currently, Guinea-Bissau is well behind potential competitors on tourist flows**

	Botswana	Cabo Verde	Guinea-Bissau*	Rwanda	Senegal	Tanzania
International arrivals (000s)	2,145	336	3.5	504	900	754
Growth rate for tourism (arrivals)	3.94%	8.89%	62.5%	18.39%	2.05%	1.2%
Tourism contribution GDP (direct + indirect) (%)	8.2%	42.3%	n/a	8.6%	10.9%	13.1%
International tourism receipts (US\$ million)	78	278	13**	202	453	1,255
Hotel rooms	6,693	5,891	3,533	4,232	20,000	n/a
Room occupancy (%)	48.1%	49.99%†	n/a	n/a	n/a	n/a
Total tourism employment (direct + indirect) (000s)	56.4	72.0	n/a	147.4	268.5	690
Landmass (sq km)	566,730	4,030	36,120	26,338	196,190	945,087
Note: Years considered for growth rates	2008-10	2008-10	2005-08	2009-11	2008-10	2008-10
* Data from 2007, the latest year for which tourism data is available.						
** Data from 2010.						
† Occupancy rate per bed-places.						
<i>Source:</i> Africa Tourism Database, UNWTO, WTTC.						

**12.19 Developing tourism around natural and cultural resources will undeniably impact these assets, but the rewards of growing tourism are greater than the risks.** Tourism will impact Guinea-Bissau's natural and cultural resources, and this impact can be either positive or negative. The positive impacts include environmental protection; income generation for protected areas; the conservation of historic, cultural, and archeological sites and resources; the enhancement of the environment; and sound infrastructure design. However, if tourism development is unmanaged, the natural, cultural, and social asset base on which tourism depends is likely to deteriorate. Coastal forests may be cleared to make way for hotels, and habitat for endangered species can be lost. With an increase in tourism, hunting, fishing, and game watching will need to be regulated to order to control the number of tourists and their impact. Poorly managed tourism has been associated with a variety of social and cultural ills, such as increased crime, the spread of disease, increased income inequality, prostitution, and the mistreatment of women and children. A focused approach to tourism development will ensure that the existing resources are converted into economically productive assets while mitigating negative impacts.

**12.20 Tourism cannot grow sustainably without coordination and support.** Tourism development is considered by the government as one of the tools for reaching the Millennium Development Goal (MDG) of poverty reduction and environmental sustainability, and is one of the main sectors discussed in the DENARP. However, there is no Ministry of Tourism, and tourism development is relegated to Secretary of State and Environment and Tourism under the Ministry of Natural Resources and Industries. Enabling services for tourism such as planning, marketing, regulatory frameworks, and monitoring are inadequate. There is no focused strategy for the sustainable growth of the sector and no clear and implementable policy framework. Additionally, the current business environment is not conducive to developing a vibrant tourism private sector. The statistics available for the sector are limited and of inconsistent quality; it is impossible to build tourism in the absence of data on which to base both public and private decisions. The government's primary role in tourism development should be to create a policy framework that encourages private sector development while ensuring economic, environmental, and cultural sustainability.

**12.21 Tourism has real potential to be a source of shared growth in Guinea-Bissau. However, a number of challenges must be addressed in order for tourism development to be initiated.** Ongoing efforts to create a basis for tourism in protected areas must be complemented by work that addresses larger-scale constraints to tourism development. There remain several fundamental challenges that cut across the tourism sector as a whole, including increasing both the reality and perceptions of security, safety, and health in the country.<sup>160</sup> With respect to the security and safety issue, in spite of political instability in Guinea-Bissau, it is a safe destination compared to many other Sub-Saharan African countries, and tourism-related crimes are minimal. However health issues—such as malaria, cholera, and HIV/AIDS—remain a concern while the recent outbreak of Ebola in the region adds to this list.

**12.22 Essential Tourism Services are also a challenge in Guinea-Bissau.** There are currently only four airlines serving the country, none of which provide a direct link to Europe. (Although, following the recent elections, it is anticipated that TAP will resume its Lisbon-Bissau route.) The country has benefited from several donor funded road rehabilitation initiatives over the past five to ten years. However, these have been focused on the main routes linking regional centers with the capital, Bissau. The connections to the protected areas remain poor. Similarly maritime access to and between the islands is limited and often dangerous. The Ferry to Bubaque, the main tourism asset of the country, only runs weekly, and service is frequently interrupted for months at a time. Another challenge includes poor infrastructure, particularly electrical power, which is self-provided by most enterprises primarily by generators. This significantly increases the operational costs for most tourism service providers, which are then passed on to customers. Further, there is a critical lack of lodging, food and beverage, and shopping services, particularly in the interior of the country. The lack of infrastructure is also matched by low tourism and hospitality skills of front-end staff, who act as the main point of contact for tourists. Finally, the administrative environment for businesses remains challenging, despite recent progress in the area of registration and telecommunications (internet and mobile phones—see chapter 2) and payment services with the introduction of the Visa credit card network and ATMs.

**12.23 There is a need to transform tourism assets into tourism products through product development.** Despite the wealth of nature- and culture-based resources, there are very few formal tourism products. Hotels have their own advertising programs and some activities, such as sport fishing, rely on direct contacts through the Internet. In successful and sustainable tourism destinations, product development is at the heart of building a vibrant tourism sector. By packaging products creatively and keeping ahead of market trends, countries multiply their chances of succeeding. Tour operators and other intermediaries drive this activity in collaboration with other players in tourism, such as airlines, excursions, and cultural activities, for example. At present, there are about eight tour operators/travel agents in the country. In developed destinations, tour operators usually provide dynamic and creative packaging of products, however most of the tour operators in Guinea-Bissau only issue tickets and have not focused on creating integrated packages.

**12.24 Efforts to support the sector have been emerging.** In 2012 an Ecotourism project, funded by MAVA and implemented by IUCN together with IBAP, was launched to support ecotourism development in the national parks. Among project activities a diagnostic of the potential opportunities and constraints of each of the protected areas was prepared. The project seeks to develop, through a highly consultative process, a National Strategy for Marketing of Ecotourism in the protected areas. In parallel, on the ground, several NGOs have begun working

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<sup>160</sup> Twining-Ward, L. (2009) Sub-Saharan Africa Tourism Industry Research, Unpublished Draft Final Report, The World Bank.

with local communities on developing small scale ecotourism initiatives, cultural activities such as community theatre, revitalization of traditional bijagos carnival events and the production of local handcrafts. While tourism may increase demand for local products and services and provide a range of formal and informal income-generating activities to communities (Box 15), the sector is faced with the challenge of how to extend the benefits to the poor and local communities while ensuring that cultural traditions and rights are protected.

**Box 15: The Impact of Tourism Employment on Village Income**

In the 1990s, villagers around the newly established Madikwe Game Reserve in the northwest Province of South Africa earned roughly US\$2.6 million from all economic activities, excluding commercial farming. By 2003, when bed capacity in the new reserve had reached 386, residents were earning US\$1.3 to US\$1.6 million per annum from tourism. Their total village incomes had increased by between 50 and 62 percent from tourism, even while the reserve and the tourism-linked economy were still developing. Local tourist wages are about three times the average household incomes in the area, and women receive 50 percent of the wages.

*Source:* Mitchell, J. and Ashley, C. (2010) *Tourism and Poverty Reduction: Pathways to Prosperity*, ODI and Earthscan Publications, London.

**12.25 In this context, while a modern tourism industry could represent a dramatic source of growth in Guinea-Bissau’s future, it is easy to be overwhelmed by the constraints and lose sight of the opportunities for development.** The constraints to date can be viewed as opportunities: poor infrastructure has curtailed access to PAs, thus protecting fragile environments; seasonality means that management and staff benefit from a down season to be used for vacations, training, and major maintenance. The tourism industry, as represented by the national parks, can be a magnet not only for tourists but also for local businesses and suppliers— for example, there are many linkages between agriculture and tourism—and tourism is considered an invisible export, since it brings foreign exchange. Infrastructure investments in sustainable tourism development would also address the needs of local populations, add to their welfare, and likely encourage decentralization.

**12.26 Guinea-Bissau still has the possibility of taking advantage of these strategic approaches from the early stages of development, before tourism grows;** for after development and private investment take off, it will be too late for the government to make even reasonable changes. Guinea-Bissau now still holds most cards, and it should use them equitably and efficiently.

### **Identifying niches**

**12.27 Most studies have pointed to three to five areas in Guinea-Bissau or niches where tourism seems to be emerging, and, with one notable exception (Bissau), they are in and around the existing protected areas.** Criteria for selection of the niches to be retained include: the intrinsic value of the asset for tourism; potential activities and itineraries for tourists in the area; environmental impact and proximity of protected areas; carrying capacity of the site; the deficit of current facilities and infrastructure; ease of access and potential for growth; and local social issues. The leading sites are:

- *Bijagós Archipelago.* This is clearly Guinea-Bissau’s crown jewel. Many of the emerging resorts are located in the Bijagós Archipelago (seven small-scale tourism lodges with a total of 89 rooms). The archipelago’s Biosphere Reserve was established in 1996 to protect mangroves, fisheries, and a unique land tenure system. The Reserve has over 80 different islands and 240,000 inhabitants, of which 70 percent are of Bijagós. The Bijagós people have

their own elaborate system of land management, and they consider many of the islands sacred.<sup>161</sup> Tourism today is based mainly on sport fishing. Most international visitors to the island are French, many of whom fly directly to the islands from Cap Skirring in Senegal. The archipelago has three protected areas, each of which offers unique attractions and great potential as an organizing principle for tourism.

- *Cantanhez National Park* in the southeastern part of the country offers potential for viewing wildlife, including chimpanzees, forest elephants, buffalo, and other smaller ungulates. Buba is the biggest town in the region and offers access to bird watching in the nearby Cufada National Park lagoons, as well as to Cantanhez National Park. Cantanhez is about six hours from Bissau on a dirt road promising a difficult drive, at the best of times. Also, due to the flat nature of the terrain, wildlife is difficult to observe. Still, Cantanhez represents a pole in the eastern part of the country that could be developed as a tourism destination.
- *Varela/São Domingos/Cachéu*. This region, contiguous with Senegal's Cap Skirring, is emerging as a destination for sun, sea, and beach and some ecotourism, mainly in the northern part of the park. The villages of Elia, Djobel and Bolol, and a part of the community forest of cobiana in south of the Park are potential ecotourism attractions identified during the diagnosis performed on the potential and constraints of ecotourism in protected areas; some small establishments (hotels) have been already built. The region naturally covers the frontier town of São Domingos and the Cachéu protected area, which conserves the extensive mangroves along the Cachéu River and also wildlife, including rare species (hippos, antelope, warthogs, etc). A bridge has recently been built across the Cachéu and the road upgraded, both of which greatly facilitate access to Varela from Bissau. Already there have been investments in lodging capacity in proximity of the beaches, costing a reported US\$9 million. However, they are already steadily eroding and disintegrating into the sea because there were not suitable building restrictions in place (in many countries construction is not permitted within 25-50 meters of high water marks). This highlights the need for regulations at an early stage, ideally before private construction of lodging facilities starts. A site/regional development plan would be necessary for the area to determine carrying capacities, land use planning, zoning, and infrastructure requirements. An integral part of the planning process would be the regulations governing the region's use as well as training for the public officials charged with management of the area.
- *Bissau, the capital city*. Most tourists arrive via Bissau, making it in effect the hub for tourism in the country. The major international airport is located in Bissau, as are the major hotels, and it has the potential to become the focal point for tourism. Most tourism sites outside Bissau can be accessed from the capital, with surface trips lasting up to six hours. The city would need to develop tourism services, such as information on the countries sites; a range of accommodation services; restaurants and bars/cafes; a general store (with post office, and possibly currency exchange and ATMs); excursion reservations; possibly a conference center; and an advocacy group/association to support tourism's interests.

### Guarding against risks

12.28 **Although the benefits from developing Guinea-Bissau's tourism potential can be substantial, it will be important to contain negative externalities.** Especially in a country with weak governance, lax enforcement of the law can result in undesirable forms of tourism, including sex tourism. Prostitution—and also drug consumption—can increase if the tourism is not well

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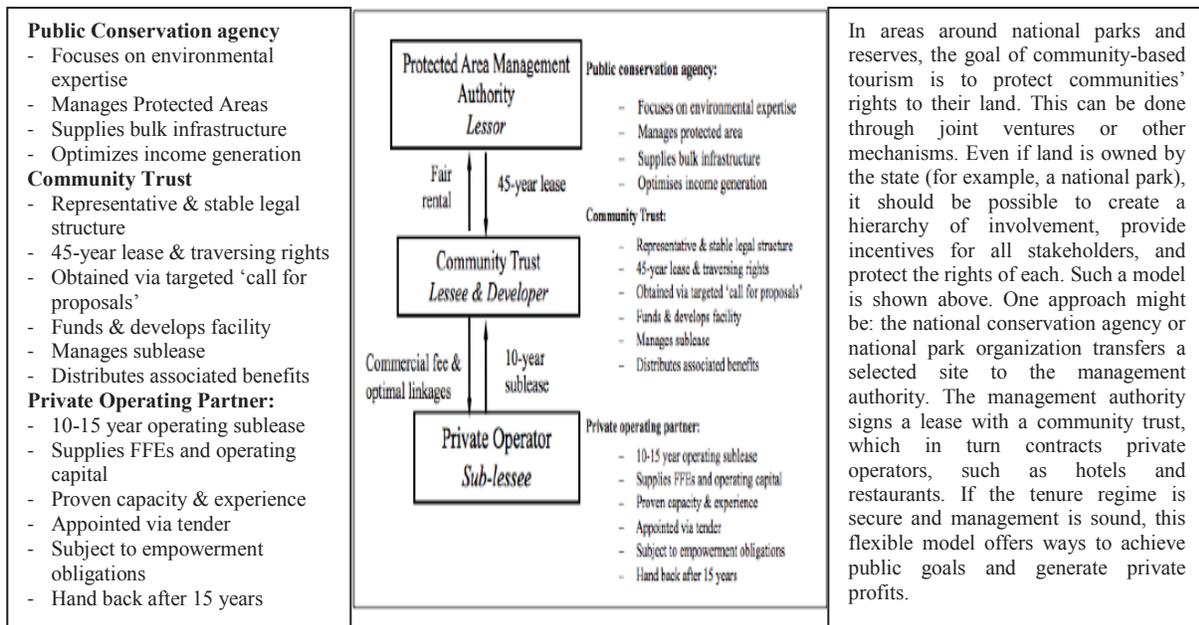
<sup>161</sup> Curiously, most of the Bijagós' residents are farmers rather than fishermen. This is an important opportunity to develop linkages between local agriculture production and tourism.

managed. Moreover, tourism can result in other negative effects of society as tourists ‘outcompete’ locals for products from food to real estate, increasing prices for locals. Careful planning and strengthening law enforcement agencies will be important to ensure the maximum possible benefit from tourism development.

**Piloting a success**

12.29 It would be beyond the state’s budget to undertake development of all the sites suggested above, and so prioritization according to stakeholders’ criteria is critical. Focus on one site would provide a pilot framework through which to evaluate the potential of tourism and a model for other sites to follow. It is advisable to focus on adding value (and expenditure) to a limited flow of visitors, rather than simply maximizing visitation numbers. The benefit of a value-added focus is demonstrated in successful tourism development in other destinations, such as Tanzania. Assuming the goal is to use national parks as the anchor for future development and increase tourism as a source of growth and poverty alleviation while generating direct income for the conservation of protected areas, a pilot would include an integrated site master plan for a key destination (covering the national park and surrounding areas); determination of the market and feasibility of the proposed activities (sport fishing, turtle viewing, bird watching, sun and sand, wildlife watching, walking tours, etc.); as well as a tariff study for parks’ fees (if applicable) and model concession arrangements (lodges, restaurants, etc.).

**Figure 97: Securing community rights in national parks is possible and important**



**12.30 An important part of the proposal would be to outline the project’s organizational structure;** a suggested model is presented in Figure 97. With that in hand, the pilot approach would determine the best access mode, land uses and zoning, infrastructure, and regulations. Part of the pilot would be to train IBAP and the Directorate of Tourism staff to plan tourism and put in place the institutional measures needed to implement and ultimately manage the public portion of the project. If feasible, the government should seek to provide the regulatory framework but, ideally, should tender the tourism works to the private sector. As the pilot progresses, other sites could be added in line with the Ministry’s capacity to absorb them.

#### **4. POLICY IMPLICATIONS**

**12.31 Guinea-Bissau has a national endowment of cultural and natural resources that can support tourism development, if the process is managed effectively.** Progress on the management of its national parks and biodiversity is evidence of what can be achieved in a short time. If the effort can be maintained, developing a modern tourism industry in Guinea-Bissau on the basis of its rich biodiversity and culture could represent a dramatic source of economic growth in the future and, importantly, provide a secure source of funding for the country’s biodiversity conservation efforts and the protected areas system.

**12.32 Rather than impose a top-down approach, harnessing the potential of biodiversity and protected areas for tourism should be more of a bottom-up activity, building organically on incipient activities already under way.** In effect, the short-term approach would be less one of “developing tourism” and more one of encouraging ongoing efforts and ensuring that they are responsible, equitable, and sustainable. While tourism is predominantly a private sector activity, the government has a key role to play as policymaker, regulator, and provider of infrastructure, and, in this case, as a manager of the natural capital base of the potential industry.

**12.33 The key to building a viable tourism industry in Guinea-Bissau is to start by identifying both the assets and the problems and breaking them into manageable bites.** In terms of assets, it is important to examine how a comparative advantage can be turned into a competitive one—namely, how can the biodiversity, protected areas, and cultural heritage of the country be turned into a productive asset. The challenge can be broken down into two inter-related parts: (i) preserving tourism assets: how to maintain and strengthen the management and conservation of the natural and cultural assets, focusing on biodiversity and the SNAP; and (ii) capitalizing on the assets: how to strengthen the enabling environment and catalyze the emergence of a sustainable and successful tourism sector. To this end, the strategy for moving forward on Guinea Bissau’s tourism agenda has three main axes:

- (i) Protecting and conserving the country’s natural and social/cultural capital;
- (ii) Putting in place the enabling environment and institutional capacity for tourism development;
- (iii) Identifying a pilot project and developing and testing models for participatory tourism development.

#### **Protection and conservation of the natural and social/cultural capital:**

**12.34 Efforts made to conserve and manage Guinea-Bissau’s biodiversity, as well as its ecological and cultural assets have resulted in significant achievements.** The decision to focus on ecotourism is based on the current protected area management systems that the government has put in place. The natural and cultural assets form the backbone of future tourism development and must be managed and protected. Government efforts to manage the protected areas in the country have been exemplary. Over the past 14 years the government, with the support of its partners, has gone a long way towards putting in place the legal, institutional, and physical foundations necessary to protect this resource base. The establishment of IBAP; sequestration of valuable

biodiversity, ecological, and cultural assets within the SNAP; development and application of participatory management approaches, as well as a community incentive and benefit-sharing mechanism; and the steps taken towards establishing a long-term sustainable financing mechanism have all been achieved in a remarkably short timeframe, despite chronic political instability. Guinea-Bissau's approach to protected area management shows potential to emerge as a best practice example for West Africa and should be integrated into all future tourism development.

**12.35 Maintaining and strengthening this rhythm of improving natural resource management within the protected areas is critical if current and future pressures are to be contained and achievements sustained over time, and if their role in supporting a future tourism industry is to be realized.** Biodiversity conservation and park management activities are not one time activities, nor can they be intermittently put on hold and then easily resumed at a later stage. It is critical that IBAP and its partners' efforts to manage the biodiversity and protected areas on the ground are sustained and strengthened. Over the past 10 years, IBAP has evolved rapidly from a new born to a fully-fledged protected area agency. While management of the protected areas system has been consistently improving as measured by the GEF's Management Effectiveness Tracking Tool, there is an ongoing need for further capacity building of its staff and protected area monitoring and management systems as well as improvement of its infrastructures and equipment. Capacity building of IBAP's protected area partners is similarly important; efforts to incentivize behavior change and share benefits with local communities would be greatly enhanced if FIAL-type activities were to be resumed (instigation of new activities was suspended in 2011 due to the end of project financing). These challenges will be magnified by the extension of the SNAP to include the proposed DBT Complex; IBAP will require support to meet this challenge.

**12.36 Guinea-Bissau's National Strategy for Protected Areas and Conservation of Biodiversity 2014-2020, clearly recognizes the challenges before it and identifies three key pillars for action:** (i) consolidating IBAP and strengthening its partnerships in line with future evolution of the SNAP, including reinforcing IBAP's institutional, human resource and legal capacity for biodiversity conservation, creating conditions for sustainable financing of biodiversity conservation and SNAP management over the long-term, and implementing a participatory management model for the Bolama-Bijagos Biosphere Reserve; (ii) strengthening the management of the SNAP, including improving the participatory management of protected areas and promotion of sustainable development; and (iii) strengthening the monitoring and conservation of priority species and habitats, including improving the scientific knowledge base and public awareness of the value of species and ecosystems. The chronic underlying threat to these three pillars is the challenge of securing stable, ongoing financing.

**12.37 The critical challenge is to develop a means to gradually shift to sustainable, stable, and flexible funding sources that are able to adapt to the SNAP's evolving priorities while strengthening IBAP and its NGO and community partners' capacities to manage these resources on the ground.** The FBG endowment is the linchpin in the government's sustainable financing strategy. Recent estimates<sup>162</sup>, based upon the 6 existing protected areas and the soon to be formalized DBT Complex, suggest an endowment target of USD 50 million (Euro 37 million).<sup>163</sup> Clearly reaching this target is a long term prospect, to be achieved in stages over time.

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<sup>162</sup> Estimates presented in this chapter are based upon the draft financing strategy for the expanded SNAP and FBG. The figures represent a scenario in which all basic recurrent and investment costs are met; however, funds for community initiatives are excluded. These figures should be taken as indicative.

<sup>163</sup> Returns on the endowment capital are estimated at 5.9% and are intended to meet 50% of recurrent operating costs, with the rest to be provided via sinking and revolving funds drawn from a variety of sources (government budget, donors, debt for nature swaps, tourism, mining concessions, etc.).

In the interim it will be necessary to secure technical and financial support to; (i) ensure IBAP and its protected area partners (including local communities) have the resources and capacity in the short- and medium- term to sustain and strengthen on-going management of the SNAP on the ground; (ii) ensure full operationalization of the FBG, including enabling the identification and exploration of innovative funding opportunities; and (iii) secure initial seed capital for the endowment fund.

**12.38 The total financing needs for protecting and conserving the protected area network, and its associated tourism potential, over the next 5 years are estimated to be in the order of USD 23 million (Euro 17 million).** Of this, approximately USD 11 million (Euro 8 million) will be required to finance the core management costs of the soon to be expanded SNAP. A further US\$ 1.8 million (Euro 1.4 million) will be required to fully operationalize the Bioguinea Foundation and support fund raising efforts targeting not only the endowment fund but also other innovative sources of revenue generation. Lastly, a minimum of US\$10 million (Euro 7.5 million) will be required to meet the first 5-year endowment capital target; an amount estimated to be sufficient to ensure the core recurrent management costs of the two priority marine national parks in the Bijagós Archipelago.

**12.39 While current prospects for securing financing for biodiversity conservation and SNAP management efforts exist, significant short-, medium-, and long-term financing gaps nevertheless remain.** Several project-based financing initiatives are in the pipeline, including a pilot VCS REDD “blue carbon” project focused on Cacheu and Cantanhez National Parks; as well as EU GCCA+ and GEF 5 operations, all under preparation. If realized, these would provide support across all three axes, however both potential amounts and the geographic targeting mean that significant financial gaps would remain.

#### **Putting in place the enabling environment and institutional capacity for tourism development:**

**12.40 Successful tourism development in Guinea-Bissau will depend on a supportive policy and regulatory environment, protection of the country’s natural and cultural resources, and attention to local communities and their aspirations—all of which are achievable.** Tourism is a private sector activity but requires a responsive public sector and public financing of infrastructure. There are few trained professionals in the field and a program to build capacity in tourism planning and policy formulation may be needed to kick-start the process. Specific attention will be paid to building the capacity of public institutions, such as DGT and IBAP, as well as that of local NGOs and community implementation partners, each of whom will be a key player in the development and management of a sustainable tourism industry. NGOs are critical to tourism development in countries such as Guinea-Bissau, where the goal of such efforts is to accrue increased benefits to local communities. In addition to building public institutional capacity and that of key civil society partners (NGOs and communities), it is essential to also build the capacity of private sector tourism associations, which will facilitate effective private sector development. This would also include putting in place a reliable system of data collection, since financial and economic data is an essential element of tourism policy. Thus, this intervention will identify overall capacity development needs, find appropriate capacity development tools, and provide technical assistance to vocational institutions to assure educational advancement.

**12.41 The state should reinforce its role of policy and regulation while guiding the private sector to develop and invest in tourism-related interventions.** This axis of the development of tourism in Guinea-Bissau focuses on establishing this enabling environment. It would include *inter alia* developing of inter-ministerial and public-private fora to establish the tourism vision for the country going forward, refine the policy and regulatory framework, and strengthen the existing institutional and human resource base to improve good decision-making and policy-making. The government should ensure proper legislation to ensure community rights through strategic and

participatory planning. The examination of options to institutionalize exchange through a standing public private dialogue (PPD) among government agencies and the private sector to address policy issues (standards, licensing, taxation, incentives, and training) will all be fertile areas to explore.

**12.42 With the multiplicity of public and private agencies and the evolving integration of tourism and biodiversity, a more formal framework for communication, exchange of ideas, and clarification of goals and policies would be helpful.** In the absence of this, a climate of uncertainty and even mutual suspicion may result and can generate a bias toward very short-term private investment and firms migrating to the informal sector. On the other hand, consultation enables participants to take joint responsibility for policy choices and should encourage long-term investment. Guinea-Bissau should create an inter-ministerial committee to address immediate issues and facilitate the flow of information between agencies (e.g., IBAP, Directorates of Forestry, Tourism and Fisheries, Public Works, and Finance). Such a committee could also have a working group to analyze topical problems and provide solutions for ministerial decision-making

**12.43 A vision for tourism and tourism promotion plays a key role in disseminating and creating awareness of the destination and of the country's tourism assets.** In the short-run, the government may wish to identify a vision for tourism in Guinea-Bissau focusing on prioritized aspects that are emerging, rather than attempt a full strategy for the whole country. A number of African countries have viable tourism strategies based on 150,000 to 200,000 annual visitors. Starting small is simply recognizing the limited budgetary resources available for investment, and also the country's inability to absorb too many major assignments. In whichever site is chosen, the objective will be to develop tourism as the tool to ensure sustainability of the protected areas by integrating natural resources and cultural endowments with participation of local communities to provide a sustainable tourism experience.

12.44 The total financing needed to put in place the key elements of an enabling environment over the next five years is estimated to be in the order of US\$5 million.

### **Identifying a pilot project and developing and testing models for participatory ecotourism development**

**12.45 The pilot project intervention will develop and test replicable approaches to ecotourism development.** It will focus on implementing an ecotourism initiative in one of the nature-based niche areas, such as the Bijagós archipelago, while supporting key enabling activities in Bissau, as the national tourism entrance point to the country. Specific interventions would include (i) preparation of an integrated site master plan, including identifying the site with the most potential (land use, zoning, infrastructure, etc.) and feasibility study (product assessment, market, and feasibility of potential activities) for the chosen sites; (ii) establishment of site-specific enabling environments and infrastructure; and (iii) piloting a framework for tendering infrastructure works to the private sector (i.e., naming the rules of the game). The pilot should focus on creating added value to the existing natural and social/cultural capital by promoting high-value/low-volume tourism and linkages through value-chain development. Lessons learned from the pilot will provide a framework for future tourism site development. Special attention will be given to approaches that promote community inclusion, generation of local revenue, and retention of benefits locally. It will also be important to examine lessons learned and best practices from other ecotourism development in Africa before initiating the pilot project.

## APPENDIX: A PLAN FOR REFORM

1. **A fresh start—but where to begin?** This CEM has argued that the conditions are favorable for Guinea-Bissau to try a fresh start and turn the page on anaemic growth and poverty: a new government is in place, through free and fair elections, voted into office by a sizeable majority; the country has been fully re-admitted to the international community and development partners are resuming their support; yet again, there is a sense of optimism in the air and the hope that the country can build on the cautious but noticeable progress it made between 2009 and April 2012. *Terra Ranca!* Yet the challenges are daunting. Constraints to development abound, as this CEM has shown. Many of these are institutionally entrenched, and powerful interests jealously guard their rents. Bottlenecks across sectors interlock and isolated reforms are likely to be drops in the ocean, with the system reverting back to a low-equilibrium of political instability, weak governance, a stagnating economy, and poverty. This CEM provides a large number of policy recommendations that can help break the vicious cycle that underlies this low-equilibrium trap. The following sections provide a number of suggestions for a potential turnaround agenda.

2. **It is crucial for the government to build confidence.** A functional government, efficiently and reliably delivering public services, is something that most Bissau-Guineans will not have experienced. In turn, the legitimacy of the government of the day tends to be low, which increases its vulnerability to extrajudicial removal by potentially small but organized interest groups. A history of frequent military coups pays testimony to this. As the 2011 WDR argues, building confidence is key in a fragile state and Guinea-Bissau is no exception. There are a number of measures the government can take to build confidence—and increase its legitimacy. One of those is the timely payment of civil service salaries, which reduces strikes in the public sector, keeps schools and hospitals open, and thus gains the trust not only of civil servants but the population as a whole. Another is the swift implementation of social assistance programs which would assert the State's presence, even in remote, rural communities, and demonstrate the government's resolve to enable the poor to escape poverty.

3. **As important as building confidence is avoiding disappointment.** An ambitious agenda is necessary to break the vicious cycle of fragility and stalling prosperity, but ambitions raise expectations; and expectation can quickly result in disappointment. In a fragile country like Guinea Bissau, with weak governance and low capacity, such disappointment appears unavoidable. It would be detrimental to the legitimacy of the government and further undermine the State. The risk of disappointment can be contained by a strategy informed by the three *S*'s: (i) Select, (ii) Strengthen, and (iii) Share.

4. **Selecting implies a review of what the government is best at doing.** Where resources are limited and capacity is weak, it is better to do a few things well than many things badly. This builds confidence and avoids disappointment. The government should thus evaluate what its core business is and what can be left to others. Clearly, the government needs to provide basic services—as acknowledged in the government's 2014 *Programa de Estabilização e Desenvolvimento*. Such services include security, justice, education, and health, but also basic physical infrastructure, such as energy, roads, an operational port, and ICT. Where fixed costs are prohibitively high for private investors—such as in the rice sector—, government also has a role to play.

5. **More agency should be returned to the citizens.** Focusing on core areas means that the government will have to limit its reach in others. In fact, in a country where clientelism and corruption often hinder the forces of the market, limiting the hand of the state may breathe new life into private enterprise. Limiting state involvement means, for example, to cut red tape with leaner business regulations and a friendlier investment climate. It also means that more resources should

be available to private individuals. Encouraging the flow of remittances is a win-win situation where additional financing flows into the country at no cost to the government. Indeed, the venture-element of remittances in a country like Guinea-Bissau may raise domestic revenues in the long-term as new businesses take hold. Social assistance programs, on the other hand, would provide resources to the poorest, providing them with a chance to take a more active role in working their way out of poverty. Chapter 6 has surveyed evidence from other countries demonstrating that the poor make smart decisions and cash transfer schemes can sustainably raise local income growth. Taxes are only justified if the government uses them productively. FUNPI is an example of a tax that does not appear to benefit the public good. Dropping FUNPI would restore cashew farmers' modest disposable income, which they need to feed their families, invest in their farms, and work their way out of poverty.

6. **Strengthening the ability of the government to carry out its mandate is indispensable.**

To be able to provide core public services, it is important to muster the necessary resources and ensure efficient spending. On the former, PFM reforms can support the government in budgetary planning but also reduce financial leakage, safeguarding resources for their intended use. At the same time, however, expenditures ought to be done in the most possible efficient way. A review of the allocation of civil servants in all sectors—as well as of hiring and training policies—will allow the government to recalibrate its manpower to provide the best attainable level of public services given the resource envelope. Finally, increasing this resource envelope will be important to guarantee a functioning public sector. Fishing licenses and, in the future, mining revenues are progressive forms of domestic revenue that do not have adverse impacts on poverty as other fiscal measures, such as FUNPI. A capable government is able to enforce the law, including the protection of fish stocks and timber resources; a capable government can finance all budgeted current expenditures, including civil service salaries, but also other expenditures such as vaccines, school books, or road maintenance; a competent government is able to invest in physical infrastructure; and a competent government can finance its debt obligations. A competent, efficient, and stable Bissau-Guinean government appears utopic in the current state of fragility and poor governance. Yet perseverance and a strong will to reform—as witnessed by other African experiences—can slowly but surely improve governance, build confidence and legitimacy, and make a decisive—and sustainable—contribution to breaking vicious cycle.

7. **Sharing the work means leveraging resources.** While governance is being strengthened and capability enhanced, Bissau-Guineans can count on a large number of partners ready to support them. Donors not only provide financing for the government's projects but can also provide advice, especially through TA. To an extent, this can compensate for capacity gaps—ideally, donor support will also help reduce those gaps. Yet the government can only fully harness those benefits if it coordinates donor actions well. Donor coordination should be one of the government's key investments to ensure that it can leverage donor resources for maximum impact. Coordination matters not only for donors though. Engaging NGOs and coordinating their actions can provide the government with considerable clout to implement important social policies, including in relatively remote areas. Other support can come from regional organizations, such as ECOWAS, with whom Guinea-Bissau can pool its policies and thus leverage important regional initiatives, including in infrastructure, farming, and even security and governance. Finally, it is important to note that foreign investors have expertise and resources that the government often lacks. For example, foreign investors may be the best equipped to develop the cashew processing industry. Industrialization may best be left to the private sector, so long as the government guarantees a level playing field.

8. **This CEM suggests a work agenda for most public agencies.** All recommendations in the preceding chapters are important, although some are more important than others. Table A1

provides a list of policy recommendations with a suggested prioritization. Given the nature of the low-equilibrium status quo, it is important to tackle a number of constraints simultaneously. For this, the rule of three S's, can leverage resources in a way that would avoid overpowering the government. The table also suggests the lead agency for the reforms, although some of these reforms will be relevant for multiple agencies. Picking a handful of high priority areas for reform in their respective areas would allow ministries to focus, depending on their level of capacity. Sharing the work with donors and other organizations, but also across public agencies, can result in an effort that breaks the vicious cycle, reduce poverty, and boost shared prosperity; and it can let Guinea-Bissau experience the economic take-off of other countries in Africa—currently the fastest growing continent on the planet.

**Table A2: Policy recommendations by priority and leading agency**

Area	Recommendation	Chap	Priority	Lead agencies
<b>1. Governance/ public sector</b>				
<i>Governance/ public sector: core recommendations</i>				
Public Financial Management	Revitalize the Treasury Committee	4	High	Ministry of Economy & Finance
	Anchor reform and capacity building efforts in a Reform Oversight and Implementation Structure (ROIS)	4	High	
	Transpose the WAEMU PFM directives into national law	4, 5	High	
	Improve the reliability and timeliness of macroeconomic forecasts for better annual and multi-year budgeting	4	High	
	Strengthen internal audit	4	High	
	Strengthen the Court of Accounts	4	Medium	
	Enhance budget and financial control to improve budget preparation, commitment management, control and accounting, as well as timely and accurate budget execution reports	4	High	
	Improve payment management and control, more timely and reliable in-year financial execution reports and their reconciliation with the budget execution reports published by the Directorate of the Budget	4	High	
	Strengthen procurement institutions, including adequate staffing and procedure manuals	4	High	
	Operationalize the SIGFIP (IFMIS)	4	High	
	Establish a Public Private Partnership unit in the Ministry of Finance and Economy	4	Low	
Revenue	Abolish FUNPI	4	High	
	Explore less regressive taxes	4	Low	
	Improve collection efficiency at the port	4	High	
	Improve tax administration and tax processes	3, 4	Medium	
	Negotiate more favorable fishing license agreements	4	Medium	
	Enforce the Single Treasury Account	4	Medium	

Area	Recommendation	Chap	Priority	Lead agencies
Expenditure	Pay civil servants on time and full amount due	3, 4	High	
	Contain current expenditures	4	High	
	Eliminate the subsidy to gasoil/diesel oil for EAGB	2	Medium	
Administration	Strengthen monitoring and enforcement capacity of DGGM, SEAT, CAIA, and IBAP	11, 12	High	Ministry of Civil Service and Admin. Reform/ Ministry of Economy & Finance/ Escola Nacional da Administr. Pública
	Re-allocate civil servants, where possible, to re-balance areas that are understaffed vs. those that are overstaffed	4	Medium	
	Formalize unofficial civil servants, especially in understaffed areas	4	Medium	
	Improve human resource management tools and hiring processes (considering outsourcing public service hiring to an independent contractors)	4	Medium	
	Provide training to strengthen the capacity of civil servants	4	Medium	
	Consider downsizing the public sector through voluntary attrition and selective hiring practices	4	Low	
Statistics	Strengthen the institutional framework and coordination by: (i) improving the institutional and organizational framework, and (ii) strengthening statistical coordination.	4	Low	Ministry of Economy & Finance/ Secretary of State for Planning & Regional Integration/ INE
	Increase the data production capacity of NSS actors by: (i) engaging qualified personnel in statistics and demography, and (ii) improving the working conditions of statisticians across NSS.	4	Low	
	Improve data production by: (i) producing socio-demographic and economic data disaggregated, for 2011-2015, (ii) producing administrative data—reliable and frequent—for the 11 priority domains of DENARP, and (iii) improving the overall quality of NSS production.	4	Low	
	Promote, disseminate, and use statistics by: (i) improving archiving and dissemination of statistical data, and (ii) advocating the use of statistics.	4	Low	
<i>SOEs and PPPs</i>				
PPPs	Devise the basic legislative documents to enable facilitate PPPs	2, 4	Medium	Ministry of Economy & Finance/ Ministry of Energy & Industry/ Secretary of State of Transports & Commun./ Petroguin
	Establish a PPP unit	4	Medium	
SOEs	Implement an effective corporate governance framework for all SOEs, especially EAGB and APGB	2	Medium	

Area	Recommendation	Chap	Priority	Lead agencies
	On energy, devise a legal and regulatory framework that promotes the transparency and efficiency of import supply and distribution, and promote safe environmental and social practices	2	Medium	Ministry of Energy & Industry/ CAIA/ Secretary of State of Tourism
<b>2. Infrastructure</b>				
Energy	<i>Ensuring reliable and low-cost energy supply</i>			
	Invest in new generation capacity	2	High	Ministry of Energy & Industry/ EAGB/ Ministry of Natural Resources/ Secretary of State or Environ't
	Develop regional/bilateral electricity interconnections that would provide base-load power and reserve capacity through the OMVG	2	High	
	Invest to prepare distribution networks for additional electricity supply	2	High	
	Implement energy-efficiency programs	2	Medium	
	Consider using cashew nut shells for generating power	8	Low	
	<i>Restoring sector cash flow</i>			
	Establish a rigorous loss reduction program coordinated with improvement in quality of service, including metering, elimination of illegal connections through actions with clients, and within the public utility EAGB	2	High	Ministry of Energy & Industry/ EAGB
	Invest in generation, transmission, and distribution to improve the quality of service in areas where the loss reduction program is implemented and satisfy future demand	2	High	
	Invest in HFO storage tanks	2	High	
	Reduce fuel expenses, including putting a stop to theft of gasoil for use in private cars and trucks	2	Medium	
	Implement a financial recovery plan that would address both short-term liabilities and long-term debt, including a plan to reduce public and private arrears and mechanisms to prevent them from accumulating again	2	Medium	
	Implement a reliable accounting system	2	Medium	
	<i>Petroleum</i>			
	Develop a strategy for the promotion of Liquefied Petroleum Gas (LPG) use for urban and rural areas	2	Medium	Ministry of Energy & Industry/ EAGB/ Petroguin
	Review and enforce current contracts with petroleum product distribution companies;	2	Medium	
	Review the supply chain for all products with a view to fostering cost reduction	2	Medium	
	Assess environmental damages of the petroleum products distribution chain and identify remedial	2	Low	

Area	Recommendation	Chap	Priority	Lead agencies
	measures, in particular developing a plan to manage the environmental and social impacts of LPG use			
	Eliminate the subsidy for gasoil/diesel oil	2	Low	Ministry of Economy & Finance / Ministry of Energy and Industry / Petroguin
Port of Bissau	<i>Rehabilitation</i>			
	Dredging and removal of shipwrecks	2	High	Ministry of Transport & Comm./ APGB
	Rehabilitate quays and deepen sea depth in front of the quays and in the approach channel	2	High	
	Settle legal dispute of former concessionaire TERTIR to attract new investors.	2	Medium	
	Rehabilitate the currently used container terminal surface for container import and export	2	Medium	
	Rehabilitate infrastructure facilities, such as sewage system, pressure booster station for potable water, and electric power station	2	Medium	
	Develop security walls and a security gate system according to ISPS standards.	2	Medium	
	Develop storage surface for reefers, unstuffed containers, and hazardous goods	2	Low	
	<i>Financial sustainability</i>			
	Conduct a bottom-up review of the port tariff structure will be needed in order to adopt a proper financing transfer mechanism between the concessionaire and the landlord, Port Authority, and secure the financial solvency of both	2	Low	Ministry of Economy & Finance
Conduct a personnel right-sizing exercise that will need to be carefully assessed, adequately financed, and implemented ahead of the actual tendering of the concession to lower the perceived level of risk associated with this operation	2	Low	Secretary of State of Transport & Comm./ APGB	
Roads	Rehabilitate existing road infrastructure, including feeder roads	2	High	Ministry of Public Works & Urban Planning / Secretary of State of Transport & Comm.
	Strengthen institutions in charge of monitoring of construction and rehabilitation works	2	Low	
	Strengthen the institutional structure of the road fund and ensure that funds are only used for intended purposes	2	Low	
Telecoms	<i>Infrastructure development</i>			
	Promote cross-sector synergies between electricity, water, and transport sectors in cases where projects aimed at rebuilding the infrastructure stock are being prepared or implemented. This implies considering developing reliable regional backbone	2	High	Ministry of Economy & Finance / Ministry of Energy &

Area	Recommendation	Chap	Priority	Lead agencies
	networks by allowing access to excess fiber capacity deployed alongside the electricity grid under the regional power project WAPP/OMVG			Industry / EAGB/ ARN/ Secretary of State of Transport and Comm./ Ministry of Natural Resources / Ministry of Public Works & Urban Planning
	Revisit the technical and financial feasibility of a connection to a submarine cable via a consortium of operators supported by international donors, and compare it to the WAPP/OMVG option	2	High	Ministry of Public Works & Urban Planning/ ARN/ Secretary of State of Transport & Comm.
	Increase investments in national terrestrial infrastructure networks including when appropriate through PPPs between private operators and the public sector	2	High	ARN/ Secretary of State of Transport & Comm.
	Dialogue, diagnosis, and strategy			
	Develop a national plan for the development of telephony and broadband, specifying the objectives and proposing an action plan for the next five and 10 years	2	High	Secretary of State of Transport and Comm./ ARN
	Establish a dialogue with operators to: i) identify the main challenges for the development of the ICT sector; ii) produce a mapping of existing networks; and iii) discuss possible solutions to improve access to existing infrastructure and deploy new infrastructure in underserved areas (including through PPPs). This dialogue, which has two dimensions, should be coordinated by the Ministry of Transport and Telecommunications and facilitated by the ARN: multi-sector (road, water, electricity) and regional (by integrating regional networks and projects, including the power OMVG project	2	Medium	
	Conduct a survey to identify the main obstacles to providing broadband access to households and businesses	2	Low	
	Conduct a review of the existing taxation system in the ICT sector (including telecommunications and broadband).	2	Low	
	Regulation and competition			
	Increase competition through the restructuring of the incumbent (GuineTelecom / GuineTel) initiated in 2008	2	High	Secretary of
	Implement an up-to-date legal and regulatory	2	High	

Area	Recommendation	Chap	Priority	Lead agencies
	environment			State of Transport & Comm./ ARN
	Award new licenses: infrastructure operator (e.g., tower companies) licenses; fixed licenses, ISP, 3G licenses.	2	High	
	Enforce the regulation for infrastructure sharing between operators (Bitsream, local loop unbundling)	2	Medium	
<b>3. Social assistance programs</b>				
	Conduct a diagnostic analysis and needs assessment to inform the choice of program, as well as its design.	6	High	Ministry of Women, Family, & Social Cohesion/ Ministry of Economy & Finance
	Establish transparent targeting criteria	6	High	
	Invest in robust operating and monitoring mechanisms.	6	High	
	Design an accompanying impact evaluation	6	High	
<b>4. Natural resources &amp; environment</b>				
	Improve the knowledge base, governance and the decision making systems, especially in the areas of fishery, forest, and mineral sectors	7, 10	High	Ministries of Agriculture & Rural Dev., Economy & Finance, Natural Resources/ Secretaries of State of Fisheries & Maritime Economy, Environ't./ Petroguin
	Review, update and disseminate the legislative framework for monitoring and enforcement	7	High	
	Strengthen transparency and cooperation with CSOs	7	Medium	
	Explicitly mainstream climate change risks into planning and decision making	7	Medium	
	integrate natural capital accounting approaches into its financial management and planning systems	7	Low	
	Consider setting up a sovereign wealth fund	11	Low	
<b>5. Private sector development</b>				
Private sector development	<i>Improve the business-enabling environment</i>			
	Ensure the sustainability of the One Stop Shop	3	High	Ministry of Economy & Finance / Ministry of Commerce & Art Crafts, Ministry of Interior
	Review and rationalize import/export/transit procedures, and regulations, including those supervising foreign trade, industrial investment, and internal trade barriers (security checkpoints)	3	High	
	Ensure new business environment regulations are implemented namely through dissemination of information (e.g.: foreign trade pre-licensing)	3	High	
	Establish structure dialogue with private sector in all reforms aimed at strengthening the private sector	3	Medium	
	Strengthen dispute settlement mechanisms, such as	3	Low	

Area	Recommendation	Chap	Priority	Lead agencies
	the commercial tribunal and the arbitration center			
	<i>Increase labor productivity and diversify the economy</i>			
	Improve teacher training and licensing	3	High	Ministry of National Education / Ministry of Civil Service & Admin. Reform
	Leverage support of NGOs in education sector	3, 5	High	
	Develop vocational training in cooperation with large businesses	3, 11	Low	
	Set up business plan competition and complement it with training to selected entrepreneurs	3	Medium	
	Modernize labor market regulations	3	Low	
	<i>Improve access to finance</i>			
	Strengthening the promotion, authorization, inspection, and supervision of the MFIs by the Ministry of Finance and Economy along with the BCEAO	3	Medium	Ministry of Economy & Finance / BCEAO
	Strengthening capacity building and training of MFIs	3	Medium	
	Mobilize financial resources from domestic and international resources, and wholesaling such resources to MFIs on a competitive basis	3	Low	
	Establish a credit guarantee fund that would make it possible for MFIs to lend without significant collateral requirements	3	Low	
	Supervise MFIs in accordance with international best practices	3	Low	
	Create a bureau of credit and risk similar to that of the BCEAO for banks	3	Low	
<b>6. Remittances</b>				
	Permit entry of new international banks and especially Money Transfer Organizations	6	High	Ministry of Economy & Finance/ Ministry of Foreign Affairs, Internat'l Cooperation & Commun's/ Ministry of Justice/ BCEAO
	Treat migrants like other potential foreign investors and provide them with financial and related legal and regulatory incentives to increase the size and frequency of their remittances, and encourage them to use new, electronic, mobile remittance channels.	6	Medium	
	Permit dual or multiple citizenship for Bissau-Guinean migrants, their immediate family members, and descendants	6	Medium	
	Delegate authority to formulate and implement diaspora-related policies to a re-constituted hybrid ministry (e.g., Ministry of Foreign Affairs and the Diaspora).	6	Low	
	Establish a database tracking the size, location, and demographic attributes of the diaspora, as well as remittance totals and their composition and uses within Guinea-Bissau	6	Low	

Area	Recommendation	Chap	Priority	Lead agencies
<b>7. Partnerships</b>				
	Strengthen donor coordination, ensuring government ownership and leadership	5	High	Ministry of Economy & Finance / Ministry of Foreign Affairs
	Strengthen coordination mechanisms with CSOs	5	High	
<b>8. Cashew</b>				
	Attract foreign investment into processing plants	8	High	Ministry of Economy & Finance
	Attract foreign investment	8	High	Ministry of Foreign Affairs
	Improve access roads for cashew fields	2, 8	High	Ministry of Public Works/ Ministry of Agriculture
	Improve the technical capacity of the local labor force working in the processing facilities	3, 8	Medium	Ministry of Education
	Address the coordination and financial constraints in establishing community-level processing facilities	8	Medium	Ministry of Economy & Finance
	Extension services to farmers	8	Medium	
	Dissemination of price information system for farmers	8	Medium	
	Developing community level warehouses	8	Medium	
	Facilitating the introduction of warehouse receipts	8	Low	
<b>9. Rice</b>				
	<i>Investment program</i>			
	Identify publicly-owned lands in the low areas along major rivers (particularly the Geba and Corubal) for investment, to develop irrigated rice cultivation under PPP arrangements	9	High	Ministry of Agriculture and Rural Dev./ Cadastral
	Conduct topographic surveying to identify suitable land	9	High	Ministry of Public Works and Urban Planning
	Construct rural access roads for rice fields	2, 3, 5, 9	High	Ministry of Public Works & Urban Planning / Ministry of
	Conduct land leveling in identified areas and where necessary	9	Medium	
	Construct dikes	9	Medium	

Area	Recommendation	Chap	Priority	Lead agencies	
	Construct pump stations	9	Medium	Agriculture & Rural Dev. / Cadastro / Ministry of Economy & Finance	
	Contract out and supervise the preparation of lands for irrigation and the purchasing of irrigation equipment to rent to small farmers	9	Low		
	Involve private investors willing to rent land	9	Low		
	<i>Provide credit and extension services</i>				
	Invest in improved seeds, fertilizers and pesticides, and technical assistance for the management of the planting areas	9	High	Ministry of Agriculture & Rural Dev.	
	Implement matching grants for buying equipment to encourage rice production	3, 9	Medium		
	Conduct research on high-yield rice varieties suitable for Guinea-Bissau	9	High		
	Provide technical assistance to farmers, delivered by private firms	9	Medium		
<b>10. Fisheries</b>					
	Aim to achieve ecological sustainability by minimizing potential adverse impacts and pressures related to fisheries activities	7, 10	High	Secretary of State of Fisheries & Maritime Economy / Secretary of State of Environ't / IBAP / CAIA	
	Allow the recovery of overexploited stocks or populations.	7, 10	High		
	Participate in collaborative efforts for sustainable fisheries management and development in the West Africa region	10	High		
	Extract resources prudently and guard against encroachment and poaching in the country's waters by putting in place an effective and sustainable monitoring, control, and surveillance system, thus reducing incidences of illegal, unregulated, and unreported fishing.	4, 10	Medium		
	Continue building government enforcement capacity under the WARFP	10	Medium		
	Explore drawing on surveillance vessels or aircraft from neighboring countries	10	Medium		
	Carry out institutional and legal framework reforms, accompanied by best practice governance and sustainable use/management of fisheries resources, conducted in a participatory and transparent manner.	10	Medium		
	Partner with NGOs to introduce potential fishermen to the fishing trade	5, 10	Medium		
	Include principles of ecosystem-based approaches to fisheries in management processes	10	Low		

Area	Recommendation	Chap	Priority	Lead agencies
<b>11. Extractive industries</b>				
	Develop an efficient cadaster to provide potential investors basic geological information	11	High	Ministry of Natural Resources/ CAIA
	Strengthen the capacity of SEAT and CAIA to monitor and enforce environmental laws and regulations	11	High	
	Provide an enabling business environment for MSMEs catering to mining sector	3, 11	Medium	
	Invest in infrastructure to generate linkages between potential suppliers and mines and provide an adequate provision of power	2, 11	Medium	
	A significant, well-defined part of fiscal revenues from mining should support the budget to guarantee the financing for social assistance programs, which should be ring-fenced in the budget	6, 11	High	
	Require mining companies to train local employees	3, 11	Low	
	Better define the obligation of mining companies and the national government toward local communities	11	Medium	
	Establish a mediation system for disputes between mining companies, government, and communities	11	Medium	
	Provisions should be made in the environmental and/or EI laws that would provide a space for civil society to have access to and monitor the environmental and social performance of EI operations	11	Medium	
	Develop a mechanism to link EI-revenues to social assistance programs or basic service provision	11	Medium	
	The posting of a financial surety for environmental reclamation should be obligatory for all medium-scale and large-scale EI operations	11	Medium	Ministry of Economy & Finance
	Develop a framework for saving of fiscal revenues from EI activities, potentially through a sovereign wealth fund	11	Low	
	Reconsider the 5-year tax holiday for mining companies	11	Low	
<b>12. Tourism &amp; protected areas</b>				
	<i>Protect and conserve the country's natural and social/cultural capital</i>			
	Develop a strategy for the development of the tourism sector, taking into account the preservation of the country's natural, social, and cultural capital stock	12	Medium	Secretary of State of Tourism/ IBAP/ DGPIP
	Consolidate and strengthen IBAP and its NGO partners	12	Medium	Ministry of Agriculture & Rural Dev./ IBAP/ CAIA
	Strengthen the management of the SNAP, including improving the participatory management	12	Medium	

Area	Recommendation	Chap	Priority	Lead agencies	
	of protected areas and promotion of sustainable development				
	Strengthen the monitoring and conservation of priority species and habitats, including improving the scientific knowledge base and public awareness of the value of species and ecosystems	12	Medium	Ministry of Agriculture & Rural Dev./ Secretary of State of Environ't/ IBAP	
	<i>Put in place the enabling environment and institutional capacity for tourism development</i>				
	Develop inter-ministerial fora to establish the tourism vision for the country going forward	12	Low	Secretary of State of Tourism / DGPIP	
	Explore options to institutionalize exchange through a standing public private dialogue among government agencies and the private sector	12	Low	Ministry of Economy & Finance / Secretary of State of Tourism / Chamber of Commerce, Industry, Agriculture & Services/ Secretary of State of Tourism/ Ministry of Commerce & Art Crafts	
	Identify a pilot project and developing and testing models for participatory tourism development	12	Low	Secretary of State of Tourism / DGPIP / IBAP	
	Provide technical assistance to support vocational institutions	12	Low	Ministry of Economy & Finance / Secretary of State of Tourism	

(The order of the recommendations does not reflect the order of the chapters but follows an implicit prioritization)