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Guinea-Bissau is a country with enormous potential. It is a wealthy country. It is rich in natural resources and its tremendous biodiversity is unique. It is the fifth largest exporter of cashew nuts globally and the quality of Bissau-Guinean cashew is world class. Guinea-Bissau also has a comparative advantage in rice production and may become a net rice exporter once again. Finally, Guinea-Bissau is rich in its people whose ingenuity, perseverance, and resilience have been tested frequently, in times of war, hunger, and crisis. Yet it is one of the few African countries where poverty appeared to be increasing following many years of political instability.

Guinea-Bissau is once again emerging from a period of political instability. With a new democratic and inclusive government in place, and political stability being restored, the signs for a less fragile and more prosperous future appear promising. This will be a period of progress in Guinea-Bissau. There is opportunity for a fresh start—as captured by the Créole motto Terra Ranca!

Guinea-Bissau's great potential has so far barely translated into better livelihoods for its population. How can the country's wealth be harnessed for the good of all Bissau-Guineans? How can high rates of poverty be reduced? How can incomes be raised, including for the poorest and most vulnerable? How can Guinea-Bissau building on its rich biodiversity become a prosperous country? These are some of the questions that the World Bank Group’s 2015 Country Economic Memorandum discusses in this thorough analysis of the constraints to shared growth.

According to the Country Economic Memorandum, the key priorities for Guinea-Bissau to emerge as a stable and prosperous country are the following: Strengthening the public sector, including the timely payment of public wages, investing in public financial management, increasing the efficiency of the civil service, and mobilizing additional fiscal revenue. Improving the provision of basic public services, including in health and education, electricity and water, and through social assistance programs. Supporting the revival of the productive sectors, including cashew, rice, fisheries, and extractive industries, while carefully managing the natural resource wealth. Fostering private investment, focusing on the port, the investment climate, roads, Information and Communications Technologies (ICT), and others. Finally, climate change adds extra incentive to protect the environment.

Decisive and well-coordinated efforts in these areas can turn the vicious cycle of fragility, anemic growth, and poverty, into a virtuous one, unlocking the tremendous potential of Guinea-Bissau for the benefit of all Bissau-Guineans, especially its women and youth.

Vera Songwe
Country Director
Guinea-Bissau has suffered from continuous political instability and the absence of well-functioning institutions for more than two decades has made it one of the poorest and most fragile countries in the world. Guinea-Bissau has faced much adversity in the past. Its struggle for independence was one of the earliest, longest, and bloodiest in Africa. Once independence was won in 1974, building a viable and prosperous state presented many challenges: there had been little effort to develop either infrastructure or institutions during colonial times; and rising ethnic tensions resulted in civil war in 1998, taking a toll on human lives and however little physical assets existed. After decades of turmoil and instability, a period of calm and progress evolved in 2009. A military coup in April 2012 interrupted it. A fresh start is needed to alter the dynamics that kept Guinea-Bissau poor. In 2013, Gross National Income per capita was US$590. Average economic growth barely kept pace with population growth. In 2010, poverty at the national poverty line of US$2 a day was 70 percent; extreme poverty at US$1 a day was 33 percent. These numbers have increased from their 2002 levels—and they are estimated to have increased further since 2010.

It is time to make a fresh start and turn the page on anemic growth and poverty. Guinea-Bissau’s elections of May and June 2014 are described by many observers as the freest and fairest in the country’s history. Voter registration and turnout were at record-levels. The conditions for progress and stability are favorable. For example, Cabo Verde, following a joint struggle for independence with Guinea-Bissau, has shot ahead, making steady progress to the point where income per capita is now five times higher than in Guinea-Bissau (Figure 1). Since 2007, Cabo Verde is no longer regarded as a Least Developed Country. Today, success stories from Sub-Saharan Africa abound. The region is currently among the most dynamic ones in the world, which has resulted in better lives for many Africans, and over the past few decades growth has resulted in a considerable reduction in poverty (Figure 2). A fresh start—as captured by the Créole motto, Terra Ranca—holds the promise of bringing growth and prosperity to Guinea-Bissau as well.

Fragility will continue to frame Guinea-Bissau’s development trajectory, but it can be overcome. The World Bank’s 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, mediating between competing interests to advance the greater good is the core responsibility of government. Defining and upholding the rule of law ensures a level playing field for all interactions, including business
transactions: it is the basis for fair competition to ensure the most efficient allocation of resources, enhancing value for money for society as a whole. Where even competitive markets fail, governments enhance the nation’s welfare by levying taxes to provide public goods and services. In doing so, governments should focus especially on those who are economically most disadvantaged: the country’s poor. Strong governance and private enterprise are thus mutually reinforcing and jointly pave the way for growth, poverty reduction, and shared prosperity.

The newly elected government has already made significant efforts to enhance its legitimacy. Increasing government capacity and accountability will be vital next steps. The government was formed on an inclusive principle, with one-third of the cabinet made up of minority parties. This enhances the government’s legitimacy as it is representative of a broad cross-section of the population. Decisive steps to pay public wages, keep schools open, and improve access to much needed water and energy services, have shown that the government is committed to its mandate of addressing the population’s needs. Continued efforts to sustain and further enhance the government’s legitimacy will be a top priority. It will be further enhanced by making the government more accountable, and by enhancing its capacity to deliver public goods and services.

Focusing on (i) strengthening the public sector, (ii) improving the provision of public services, and (iii) unleashing the potential of the private sector are crucial for a fresh start to restore growth, a driver of poverty reduction and greater prosperity. Jointly, they will support the progress of state-building, by strengthening the social compact between the government and citizens. Competitive private enterprises will create jobs and pay taxes to a government that in turn delivers public services. A more effective government—competently mediating between citizens based on the rule of law and enhancing public welfare—will be in a better position to insulate itself from competing factions pursuing their interests at the expense of societies’. Leveraging the support of development partners—while investing in its own capacity to deliver public services—the government should focus on the key constraints to private enterprise to foster the conditions for growth. Supporting the productive sector and improving governance can be mutually reinforcing: rising incomes empower citizens to hold government accountable and demand better governance, while improved public policies play a crucial role for a functioning market economy. Guinea-Bissau started to make headway in 2009–12. Reviving and building on these achievements will lead the way out of fragility and poverty, moving toward a brighter future.
Overview

Guinea-Bissau is a rural economy, almost entirely dependent on a single cash crop: cashew. It is the main source of income for most of the country's poor. Cashew nuts are Guinea-Bissau's main export, accounting for 85 to 90 percent of the country's total exports. The vast majority of the cashew crop is produced by small farmers, three-quarters of whom are poor, and virtually all small farmers are engaged in growing at least some cashew. There is thus a close connection between poverty and farm gate prices and production levels. Since Guinea-Bissau is largely an agrarian society, poverty is relatively evenly spread throughout the country, although it is somewhat lower in the capital, Bissau (Figure 3).

Poverty reduction has been hampered by low growth, averaging 3.1 percent over the past 10 years (Figure 4). 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

FIGURE 3: Poverty is relatively evenly spread across Guinea-Bissau, albeit somewhat concentrated in the north (extreme poverty headcount ratios at US$1/day (PPP))

GUINEA-BISSAU: COUNTRY ECONOMIC MEMORANDUM SUMMARY

Cashew cultivation but also a few other activities, including 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 locally grown rice is now consumed domestically and primarily in rural areas, while urban residents depend on imports. Fishing is relatively underdeveloped in Guinea-Bissau, although foreign vessels catch and export substantial amounts. Agriculture and other activities in the primary sector account for over 40 percent of gross domestic product (GDP) (Figure 5), which is high by regional standards. Due to the significant share of agriculture in GDP, the sector has also been a main determinant of growth performance, and it is the main source of employment in Guinea-Bissau, employing about 80 percent of workers.

GDP per capita has stagnated, partly due to weak productivity growth and moderate population growth. 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 modest. 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, symptomatic of a stagnating economy.

The balance of payments is dominated by cashew, on the export side, and food and fuel, among imports. 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. Shocks to cashew, rice and oil prices have a considerable effect on the current account balance. More importantly, terms-of-trade and climate shocks can 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. Rice production was severely reduced in 2014 due to the late onset of the rainy season. Guinea-Bissau mostly imports fuel and food—the two being equivalent to about 60 percent of total imports, as well as construction material (e.g., cement) and
manufactured goods, especially cars. Foreign Direct Investment (FDI) has been relatively low, at about 2 percent of GDP over the past 10 years.

Official Development Assistance (ODA) makes a critical contribution to supporting the state budget. In 2011, Guinea-Bissau ranked 20th among the world’s most aid-dependent countries. 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 (Figure 6)—it is likely to pick up again following the recent restoration of constitutional order. Most donor organizations allocate more aid ODA to countries with stronger institutions (Figure 7). Decisive improvements to Guinea-Bissau’s governance arrangements will likely translate into a higher ODA allocation.

Remittances support household budgets. Guinea-Bissau’s diaspora is large and mostly concentrated in Portugal, Senegal, and The Gambia (Figure 8). Bissau-Guineans living abroad send home considerable amounts of resources, equivalent to 7 to 8 percent of GDP in recent years. On a per capita basis, migrants based in Europe, especially Portugal, France, and Spain, send the largest amounts of remittances (Figure 9), reflecting higher wages in their host countries. Remittances support households and evidence is also mounting that remittances are invested in small family businesses. This is especially the case in countries with large informal economies and shallow banking systems, as in Guinea-Bissau. Remittances are thus likely to make a contribution to consumption and poverty reduction, but also to private enterprise.

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), 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 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.
Significant progress was made on fiscal stabilization during 2009–11, further supported by debt relief. Following a period of uneven fiscal policy following the civil war, prudent fiscal policies allowed Guinea-Bissau to weather the impacts of the global financial crisis of 2007/08 and subsequent years relatively well. While the deficit (including grants) reached 8 percent of GDP in 2007, it fell to 0.8 percent in 2008. 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 and 2011, public debt dropped from over 200 percent to 43 percent of GDP, reducing the country’s debt burden significantly.

Recent economic developments
Following the military coup of 2012, GDP plummeted and only picked 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 grew by about 0.3 percent. Two main channels can be identified for the effect of the coup on economic performance, through the withdrawal of donor finance and domestic policy choices.

Most donors withdrew their financial support in response to the coup. The international community strongly condemned the military intervention and reacted by suspending their activities. 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.

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.

Policy mistakes 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 potentially has a higher value-added than raw exports, 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 FUNPI 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 and 2013. This had repercussions on the banking sector, as non-performing loans increased, lending to traders slowed, and a vicious cycle was set in motion, undermining the success of subsequent cashew campaigns, even as international cashew prices improved in 2014. FUNPI also helped erode the budget, partly through the disruptive effect on the cashew campaigns 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.

The effects on farmers have been devastating. The additional fiscal burden has had a negative effect on poor farmers, who have the weakest bargaining power and thus bore the brunt of the FUNPI tax and falling world prices. Farm-gate prices fell by 59 percent in 2013, and the terms of exchange between cashew and rice 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). It is estimated that the FUNPI tax has increased absolute poverty by 2 percentage points and extreme poverty by 3 percentage points.¹

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 Timor-Leste. The IMF has approved a Rapid Credit Facility, to counter the fall in international reserves of about 23 percent between 2011 and the year of the coup, 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.

The 2014 cashew campaign was been better than the 2013 campaign, and the prospects for a pick-up in growth have improved. 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 an increase in illegal export of timber which temporarily blocked access to the port for cashew exports. However, an increase in international prices suggests that overall the 2014 result will be a modest improvement on prior years. The estimate for real economic growth for 2014 is thus 2.5 percent, with a modest acceleration to about 4.0 percent in 2015. If further gains are made on restoring macro-fiscal stability, continuing the state building process, and enabling private enterprise, a more dynamic economy can be expected in the medium to longer term.

Fragility constitutes a major challenge to poverty reduction and boosting shared prosperity. Social indicators demonstrate that people in fragile and conflict-affected states 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, 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 fragile state 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 report also show that fragile states 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 by 2015, and Guinea-Bissau is no exception.

Institutions are key to development but Guinea-Bissau inherited weak ones. According to academic research, institutions in the developing world derive from countries’ colonial history: 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. In an environment of weak institutions, competition over rents can result in fragility as elites struggle for power in government and thus its authority over rents.

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 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 10). However, rent-extraction, and especially disruptive competition over rents, hurts economic activity, explaining the positive correlation between economic growth and corruption control (Figure 11). State-building is a process of strengthening institutions. It involves establishing clear rules for preventing illicit rent-seeking, and sharing a nation’s legitimate rents, providing a fair chance to all citizens to contribute to and receive a share of the national wealth. In Guinea-Bissau, this means special attention must be paid to the sustainable development of natural wealth.

State-building requires improved governance to strengthen 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 unilaterally, 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. A more legitimate state fosters the rule of law and reduces fragility.

Boosting shared growth is possible in spite of fragility by encouraging private enterprise. State-building takes time and stability will not come to Guinea-Bissau overnight. In fact, growth can precede good governance. Today, Bangladesh is one of the biggest garment exporters in the world. Yet the sector took off during a period of heightened political instability. Improving the conditions for private enterprise is thus as important as state-building.

A fresh start is more likely to succeed if improvements are made to governance, public service delivery, and the conditions for private enterprise. This can set in motion a virtuous cycle between private sector-led growth and better governance (Figure 12) jointly accelerating poverty reduction and boosting shared prosperity. 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 redistribute the proceeds of growth through public services or social assistance programs. These three areas should be the priorities for the government to escape persistent, anemic growth and endemic poverty.
Strengthening the public sector is an integral element of state-building. A government needs to be supported by a competent and efficient public administration in order to enjoy popular legitimacy, a precondition for its undisputed sovereignty and political stability. A functioning government needs to meet its obligations towards its employees, while avoiding unjustified hiring, administer with integrity the resources with which it is entrusted, and levy taxes in an equitable and efficient manner which does not discourage private initiative. Currently, the quality of governance in Guinea-Bissau is among the lowest in the world, according to the World Bank’s Worldwide Governance Indicators (Figure 13). According to the 2014 Ibrahim Index of African Governance of the Mo Ibrahim Foundation only four countries in Africa are ranked lower than Guinea-Bissau.

**Priority #1.1: Pay public wages**

The civil service executes government policy and provides public services. Government cannot function if civil servants are not paid. Guinea-Bissau has a history of strikes of public officials. Multiple school years have been annulled in the past due to teachers being on strike rather than in the classroom. Health workers, too, provide vital services—especially against the currently heightened threat of the spread of Ebola in the region. Paying civil servants properly (including timely) reduces incentives to take bribes and ensures an adequate level of morale and commitment for civil servants to properly carry out their public duties. The newly elected government has already managed to clear wage arrears, having accumulated to 4–7 months of salary delays over the past years. The government has also stepped up its efforts to include all civil servants in one database, the Folha Unica, to ensure that only contractually guaranteed payments are made.

Meeting its obligations toward civil servants provides a strong signal that the government is both functional and competent. Especially in a fragile state context, signaling competence is crucial to build legitimacy. If the government fulfills its contractual obligations it offers an example for citizens to meet their obligations toward both the state and other citizens. In this sense, it is a first step toward improving the rule of law. It may also encourage investment as the public sector builds confidence in its ability to honor its commitments to suppliers.

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2 The World Bank helped reduce arrears by paying salaries of education and health workers for the first half of 2014.
Priority #1.2: Strengthen public financial management

Stronger processes for budget execution, including fiduciary safeguards, are necessary to administer both domestic revenue and foreign aid. It will be crucial to put systems in place that enable the government to administer public resources while minimizing fiduciary concerns. Guinea-Bissau’s public financial management (PFM) system is currently weak, even by the standard of other IDA countries (Figure 14). On the one hand, this will ensure that the resources citizens entrust to the government are used for the intended purposes, with minimal leakage. This will increase the efficiency of public programs, and the legitimacy and accountability of the government. On the other hand, strong progress on improving PFM will be important for donors to provide aid through country systems. This is especially relevant for budget support. The government’s 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.

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. It is therefore of some urgency to ensure that the budget exercise is filled with substance and relevance, by making the annual budget forum a meaningful exercise. This would require some prior planning and strong technical leadership to pull together individual ministries’ contributions, lead negotiations and function as the ultimate arbiter. Also budget units or ministries must enforce budget priorities, 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. Once it is clear 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.

Guinea-Bissau has officially adopted the 2009 WAEMU PFM directives. They should be implemented quickly. These directives will provide the framework for PFM reforms and specifically for revision 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. This will require action on the following issues: (i) improving the reliability and timeliness of macroeconomic forecasts for better annual 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).

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 Ministry of Finance (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 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.

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*Figure 14: The quality of budgetary, financial, and overall economic management is poor in Guinea-Bissau (score, 1 worst, 6 best)*

Note: Figure only displays IDA countries.
Finally, internal and external controls, including financial and organizational audits, are important. Internal controls can provide important corrective action during budget execution. In Guinea-Bissau, an inspection service exists within the Ministry of Finance (Inspectorate General of Finance), but its mandate and scope is very limited, and awaiting the promulgation of new draft legislation, its activities are limited and subject to ministerial and Council of Minister approvals. 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. 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 is a good first step to ensure such controls. The previous committee, which lasted from around 2003 to 2012 and was co-chaired by the Ministry of Finance and the Central Bank, was at times effective in imposing both cash-management and fiduciary controls and as an instrument of policy control. A re-instituted Treasury Committee could go some way of alleviating fiduciary concerns, both of citizens and donors. External controls are seriously lacking, at both at the Court of Accounts and the National Assembly, but capacity reinforcement should be carried out only when acceptable yearly accounts are produced by the government.

Priority #1.3: Increase the efficiency and impact of the civil service

Legitimacy and accountability demand efficiency and results. An efficient government that uses the minimal needed level of public resources is more likely to be supported by the population as it does not tax more than necessary. Especially in a country as poor as Guinea-Bissau, raising domestic revenue often implies that the poor bear the fiscal burden (witness cashew taxes). Especially for the poor it is thus important that tax expenditures increase their well-being overall, through better public services or policies that remove obstacles for them to do business. Public efficiency means that civil servants are productive which means both that the right people are in the right job and that civil servants are doing their jobs competently and diligently. Building the capacity of civil servants can raise their productivity.

There is 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. Education is relatively low overall and hiring the right people from a pool of relatively low-skilled applicants will not necessarily increase quality. On-the-job training will have to be provided.
Civil servants need the tools and resources to carry out their responsibilities. Enforcing the country’s laws and executing the government’s policies means that civil servants have to be appropriately equipped. For example, illegal fishing is a widespread problem in Guinea-Bissau, reducing the country’s natural wealth. To prevent overfishing, the institutional and technical capacities of the fisheries surveillance agency (FISCAP) will need to be enhanced. Similar arguments apply to line ministries and also national agencies, such as the environmental administrative and enforcement agencies SEAD, CAIA, and IBAP. Ensuring the efficiency and efficacy of CAIA is of particular significance as it holds the environmental and social safeguards mandate.

While tasks abound, it is important to contain the size of the civil service. 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. Employment in public administration has increased from 12,100 civil servants in 1995 to a current level of about 22,000 to 23,000, an average increase exceeding 4 percent per year—well outpacing growth in population or revenue.

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. The military and paramilitary sectors as well as customs services are large compared to overall public employment, while the relative size of the education and health sectors in Guinea-Bissau is inadequate (Figure 15 and Figure 16). Adequate staffing is a broader problem for Guinea-Bissau and should be addressed, through re-allocation, where possible, and attrition—there is limited room to hire given the relatively high wage bill. Given the current age profile of the civil service, reform of the civil service can only partly be managed through attrition or voluntary retirement schemes.

Better planning tools for human resource management will be important to ensure that the right civil servants are in the right job. For new hiring 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. The key to ensuring tight management of the wage bill lies in the development of a sound transaction-based system to track personnel actions. 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.

Priority #1.4: Mobilize additional fiscal revenue

Revenue collections are low in Guinea-Bissau. Raising additional concessional revenue from donors would be the most pro-poor. Budgetary revenue lies between 10 and 11 percent of GDP, among the lowest ratios in the world. This is largely due to a limited tax base, given pervasive informality, but also to poor revenue administration. Given pervasive poverty, new taxes will likely worsen it, but there is potential to apply existing taxes more equitably. Before broadening the domestic tax base, there is room to leverage additional donor resources, especially if the government makes considerable progress on improving the PFM system and its institutional environment more generally. Guinea-Bissau ranks low on most governance indicators—and many large donor institutions allocate proportionately higher amounts of concessional resources to countries with
better governance. Official grants and other revenues, such as fishing licenses, can improve the government’s financial position without hurting the poor. To increase its envelope of donor finance, the government may consider approaching non-traditional donors, i.e. those that are not currently active in the country.

Guinea-Bissau’s natural resources constitute another important source of fiscal revenue, if managed properly and sustainably. Domestic revenues could be increased by enforcing existing regimes governing assets such as timber and fish. On paper, Guinea-Bissau has an adequate regime in place that governs the exploitation of these resources but in practice revenues are being lost through the failure to halt illegal activities. 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 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. Improvements in forest governance and tax collection could result in greater revenues from the sale of timber and timber related products. Moreover, forests have the potential to provide the country with carbon credits to sell in international carbon markets. Large revenue gains are likely from mining and oil, as elaborated below. While these can only be expected in a number of years, laying the foundations for their proper management should start today.

There is an urgent need to strengthen tax laws and improve administration in order to increase revenue. The country’s tax department needs to be strengthened considerably. 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 the streamlining of the current information system SYDONIA++ and its interface with Treasury.

Guinea-Bissau should abolish the FUNPI tax and consider abandoning all 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. 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 few countries that tax their exports since this discourages production in sectors where they are most competitive and therefore should be promoted. In addition, cashew farmers are predominantly poor, and since they are the ones who ultimately absorb the taxes through lower prices, cashew taxes are anti-poor. As noted above, the FUNPI surcharge has been particularly harmful. Guinea-Bissau needs to increase public revenues, but to boost shared growth, it will be important to look for alternative sources of taxation.
Priority #2: Improve the provision of basic public services

A government must provide basic public services to enjoy popular legitimacy. Where institutions and capacity are weak and revenue is low, the government should focus on the provision of the most basic services. Once it demonstrates that it successfully delivers those, it can expand into others, and having a sound track record of good public management can credibly justify the need for additional domestic revenue. The most basic services are health, education, security, justice, water, sanitation, and energy. Paying public wages and increasing the capacity of civil servants, elaborated above, are the most important priorities in this area. Additional effort will be required in the energy sector, which is a necessary condition for adequate access to water, especially in Bissau.

If given the means, citizens can take on additional responsibility, allowing the government to focus on a few key areas. While the government focuses on improving service delivery on the most basic services, social assistance programs would enable citizens to address other urgent needs. Social assistance programs, well targeted to the poorest of society, can provide them with resources to look after themselves. Especially where access to credit is limited, as in Guinea-Bissau, the lack of financial resources results in a poverty trap from which the poor can only escape through some form of external assistance. Relying more on citizens can release their initiative and spread the work across many hands. This can not only improve the conditions for growth and poverty reduction but also strengthen the social contract between the citizens and the state—and thus reduce fragility.

Priority #2.1: Enhance health and education outcomes

Economic growth and improved public services are preconditions for poverty reduction in Guinea-Bissau. Improving basic public services including health and education is necessary to protect the poor while increasing the human capital needed to realize the country’s growth potential. In particular, strengthening the education system is critical to further enhance the country’s human capital base and the productivity of its workers. Academic studies find strong evidence that the quality of education in developing a population’s cognitive skills is linked to economic growth. In addition, health is considered a key component of human capital in that workers with superior health are more productive. Furthermore repeated malaria episodes in high incidence and prevalence settings as in Guinea-Bissau decrease school attendance and learning through two main pathways; direct effect of the infection (illness) and the associated anemia, and indirectly through high maternal and child mortality.

While Guinea-Bissau was already facing poor basic service delivery in education and health, these critical areas were further stunted due to the recent crisis. Ranking 176th out of 186 countries on the 2013 Human Development Index, Guinea-Bissau is well below the Sub-Saharan African average. While the country has made great strides in primary education, challenges remain including low completion (only 62 percent of children completed primary education in 2010) and lack of learning, with one study finding only half of 8-year-olds recognizing single digits, and less than half of 9-year-olds recognizing letters of the alphabet. In the area of health, Guinea-Bissau has made significant progress in reducing child mortality in the past several years, however, this achievement risks being reversed in the event of continuing reduced funding to the health sector and increasing...
weak institutional capacity. Life expectancy is 54 years (three years below the Sub-Saharan Africa Average) and under-five mortality at 129 deaths per 1,000 live births, while having declined from 170 in 2000, remains one of the highest in the world according to UNICEF. Maternal mortality has improved slowly but ranks close to the bottom globally, however there is some indication that it has improved between 2010 and 2013, falling to 560 deaths per 100,000 live births (upper and lower estimates are 1,200 and 270 respectively). Spending in health is also the lowest among countries in the sub-region. Additional critical challenges in health include bottlenecks along the service delivery chain, cholera epidemics and regional inequities in health status and utilization of health services.

During the current period of peace and stability, there is a window of opportunity to prevent further detriment to human capital and help the government consolidate core institutions and provision of services. Gains on which the country can build include palpable progress in key health status indicators from 2009-2012, sustained growth in education enrollment between 1999–2010 and significant improvement in education coverage, and the presence of NGOs with considerable experience in delivering services at community level, among others. However, Guinea-Bissau must continue to address the non-payment of salaries and ensure the delivery of basic services. Furthermore, it will be necessary to address structural issues in the medium to long term in order to improve and sustainably provide such services. In-depth analysis will be needed to further understand the effects of the crisis on human development outcomes and the potential impact of government responses in order to help the government to make evidence-informed policy decisions and build a more resilient system.

In education, there is a considerable need to improve learning outcomes and build skills. Strategies must address the failure of the education system to build basic numeracy and literacy and persistent issues such as low internal efficiency. In addition to addressing strikes, teacher training and licensing urgently need to be improved. Solid fiscal accounts are important to ensure that teachers can be both paid and trained. Improving education quality also implies investments in the education and vocational training sector. NGOs can be valuable partners in the education sector; jointly with donors they can also support the government in setting up a strong system for vocational training. Finally, there may be opportunities to develop vocational training in cooperation with large businesses: the extractive resource sector, if developed, may be one area for such cooperation.

In health, it will be critical to address glaring inequalities which persist across regions. The most critical element crippling the health system is the shortage of qualified health staff, particularly in underserved areas and in some health disciplines such as midwifery, surgery, and gynecology and obstetrics. The few qualified health staff are on high demand and are unevenly distributed, resulting in low quantity and quality of services provided. The distribution of health staff is skewed towards urban areas and remote regions are left without a minimum health team. Given the fragility of the state and its high dependency on external aid, Guinea-Bissau will need sustained support for years to come to ensure the delivery of basic health services and reduce health inequalities.

Priority #2.2: Implement social assistance programs

Given the high level of poverty, the need for social protection in Guinea-Bissau is huge. Social protection refers to contributory or noncontributory ‘social safety nets’ or ‘social assistance programs’ to protect segments of the population against adverse shock. Their objective is both to provide assistance or a minimum income to the poor and provide a safety net to the vulnerable before they land in destitution. Such programs include pensions, school feeding, labor-intensive works, and cash transfers, among others.
In recent years, social assistance programs have increasingly been adopted across the developing world, including in African countries, with measurable impacts on the poverty level of targeted households. Social assistance programs empower the poor to make decisions regarding the use of resources, and evidence shows that the poor do so responsibly, focusing on important consumption goods, 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 cash transfer beneficiaries. 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. While social assistance programs’ main objective is to reduce poverty, they can also promote investments in capital which increase productivity. They can raise human capital, for example, with better nutrition and learning results through school feeding programs, or by conditioning cash payments on school attendance or vaccinations. Social assistance programs can also have a positive effect on asset formation, for example through road or irrigation maintenance.

Currently, Guinea-Bissau does not have a social protection strategy. The National Poverty Reduction Strategy includes a few social protection programs targeting war veterans, the handicapped and senior citizens. Other programs are small ad-hoc interventions with limited coverage and little coordination, financed by donors. The scope of these interventions has decreased in the aftermath of the April 2012 military coup and the suspension of donors’ assistance. However, with World Bank support, the Government has developed and implemented a community-driven development project in five of the nine regions of Guinea-Bissau whereby communities plan their micro-project priorities and one such micro-project is financed per community. Micro-projects typically consist of the extension or rehabilitation of schools, water points, or feeder roads. The new Government, with World Bank support, is considering expanding this approach to the remaining four regions. Also, with World Bank support, the new Government is considering to implement a labor-intensive public works program to provide temporary income to vulnerable groups including the youth and women.

In the short term, Guinea-Bissau should develop a Social Protection Strategy to inform the choice and design of social protection programs. Implementation capacity, the structure of the local economy, consumption patterns, the state of infrastructure, and the nature of communities are some of the considerations which could be taken into account. An in-depth analysis would be required to: (i) assess poverty and its characteristics as well as the vulnerability of the population, (ii) evaluate the existing community-based risk mitigation mechanisms as well the programs financed by both the government and donors, (iii) comparing the needs and the programs, define priority programs and beneficiary groups as well as cost the program options. Pilot social assistance programs should be accompanied by impact evaluations to ensure their maximum possible impact on poverty reduction and shared prosperity.

Priority #2.3: Improve access to affordable electricity and potable water

Electricity is a basic necessity. It is also important the production of potable water. Access to electricity is important for businesses and required for most forms of modern production. Yet it is also important to power a modern public administration and ensure the provision of basic services that require electricity. One of the key basic services requiring electricity is the supply of potable
water. In 2012 the water shortages caused by sustained power cuts almost triggered a cholera outbreak. Reliable and affordable electricity and water are thus also crucial from a public health perspective.

Under-provision of electricity is endemic in Guinea-Bissau and should be addressed urgently. Guinea-Bissau has one of the lowest consumption levels of energy. According to the EIA, energy consumption in Guinea-Bissau at 32 kWh per capita compares to an average 141 kWh in West Africa and 462 kWh in Sub-Saharan Africa (Figure 17). In addition, Guinea-Bissau often experiences severe electricity shortages, affecting many activities of companies, households, and even the government (Figure 18, and Figure 19). 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, raising production costs due to the lack of reliable service, and ultimately dissuading investment and reducing competitiveness. There is a critical need to invest in new generation capacity and distribution.

Improving the provision of electricity requires re-establishing the financial viability of the sector. Restoring the income statement will be necessary to sustainably improve access to, and quality of, service. 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 public utility, the Electricity and Water Company of Guinea-Bissau (EAGB). 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...
FIGURE 19: Most households in Guinea-Bissau do not have access to electricity  
(percentage of households with access to electricity)

Source: Census 2009 and World Bank staff calculations.

would strengthen payment discipline. Sustainable access to electricity and lower rates are crucial for business development and growth. (ii) Restoring financial viability will reduce the need for subsidies and will release public resources for potentially more productive uses. Without considerable government subsidies, EAGB would be bankrupt.

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 diesel 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 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. However, the country should ensure that the development of local projects is more cost-effective than imported electricity.
Priority #3: Support the revival of the productive sectors

Priority #3.1: Enhance the potential of the cashew sector

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 in order to put in place a system that (i) is sustainable and operates at a profitable scale; and (ii) will also benefit the currently most disadvantaged groups through more equitable growth.

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.

In agriculture, it is important to secure the long-term sustainability of the cashew sector by improving productivity. 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. Research is needed to develop new varieties and cropping patterns which will prevent pests and disease from decimating the trees. Cashew farmer’s bargaining power needs to be improved, by 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.

Measures should be taken to attract foreign investment into cashew processing. Past attempts by domestic investors have proven how challenging it is to be a profitable processor, especially given the high cost of local financing. Foreign investment has kick-started the industry in Cote d’Ivoire. The investment case and marketing materials should be prepared and presented to the right international investors. National authorities (such as the DGPJP 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

 FIGURE 20: Cashew processing has barely begun (thousand metric tons, 2013)

<table>
<thead>
<tr>
<th></th>
<th>Potential production of cashew kernel*</th>
<th>Current capacity to produce cashew kernel</th>
<th>Current production of cashew kernel</th>
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<tr>
<td></td>
<td>46.0</td>
<td>9.2</td>
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* 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).

event in Guinea-Bissau would also attract attention from the players in the market.

There is also considerable scope for organizing community processing facilities. Concurrent investment in both medium and small-scale processing would be beneficial, in that it would create a broader group of domestic stakeholders. 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. Small decentralized units are not viable or competitive by themselves; instead they must be organized as part of a cluster around a central unit, which provides services and facilitates access to markets. These units are small in size but transforming raw cashew 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.

The sector also needs to improve its quality standards and management. Currently, most factories lack the certification that would be essential to sell to the international market, and there is no laboratory specializing in the quality control of exported kernels. Furthermore, entrepreneurial and managerial shortcomings are common. Factory managers often lack adequate management and financial skills, and many factories lack adequate accounting systems and procedures.

Finally, there is a need for improvement of the technical skills of the operational staff working in the factories, as well as addressing the issues of labor turnover and absenteeism. The high rotation and low skills of 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. Moreover, if large foreign investors were to be attracted, it may also be possible to set up in-house training systems. To address labor participation issues, different mechanisms should be tested with regards to recruitment, promotion, work organization, and wage policy.

Priority #3.2: Support the production of rice

Growing cashew instead of rice has traditionally been a rational choice for most farmers. It has been easier for rural households to ensure food availability through the barter of cashews for rice rather than producing rice themselves for many reasons: (i) rice production systems are in a state of disrepair; (ii) inputs for rice production (including seed) are often unavailable and/or not available in a timely manner; (iii) marketing systems for the sale of surplus rice are rudimentary at best and non-existent in many areas; (iv) it has been hard to compete with cheap imported rice; and (v) cashews require much less labor input. Allocating labor to cashew and not to rice has therefore been a perfectly reasonable response.

However, a critical mass of farmers can be expected to switch to rice with sufficient investment in the sector and the prospect of higher world prices. Recent analysis indicates that Guinea-Bissau has a significant comparative advantage in rice production, through both lowland irrigated rice and traditional mangrove production systems. The latter are concentrated in low-lying areas and along rivers where cashew does not grow well, preferring dryer areas. In other parts of the country, it should be possible to combine both crops, given the low labor demand of cashew cultivation. However, this will require a concerted effort to overcome the considerable upfront constraints posed by physical capital investment, provide research and extension services, and improving the availability of credit and market linkages.
An ambitious investment program implemented over the next five years could substantially increase productivity, and approach national self-sufficiency. About 100,000 tons of additional rice would have to be produced to cover national needs with domestic production. The core of this program would be 10,000 ha of irrigated rice in alluvial soils following a model similar to that utilized successfully in Guinea-Bissau by the Chinese government’s cooperation program. The Ministry of Agriculture, in cooperation with INPA, would identify publicly-owned lands in 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 for rental to small farmers, together with the provision of technical assistance by the private sector. The program could be open to private investors willing to rent land and commit to following recommended practices. 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. 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. Since cost recovery on inputs will not be possible until after the first year, 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.

Agricultural research and technical assistance to farmers will 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. Linkages between smallholder farmers and private firms need to be improved to provide advisory services, as well as marketing. With the necessary support, INPA would be able to produce about two-thirds of the seed required, but the private sector could provide the rest and it will be fundamental in providing other inputs, technical assistance, processing, and marketing. The World Bank is supporting the government in rehabilitating land for rice production and will also
support the provision of improved agricultural inputs. Guinea-Bissau could become part of the Bank-funded West Africa Agricultural Productivity Program, currently involving 14 West African countries.

Priority #3.3: Promote sustainable fisheries development

Fisheries represent a key renewable resource with major potential but also important risks. The waters of Guinea-Bissau are very rich in terms of fish abundance and diversity of species, sustained by an influx of nutrients from the country’s many estuaries, breeding grounds in the extensive mangrove cover, and an extensive continental shelf. While the status of the fisheries resource is not sufficiently understood, it is estimated that the sustainable annual catch of demersals and small pelagics is about 120,000 tons. The industrial catch has averaged about 70,000 tons in recent years, while Bissau Guinean artisanal fisherman accounted for another 22,000 tons in 2011. However, the catch by the important foreign artisanal fishery is not known, and there is undoubtedly substantial illegal, unregulated and unreported fishing due to the weak institutional capacity to control fishing activity. Thus, the current fishing effort may already be exceeding sustainable levels.

Marine fisheries resources are enduring excessive fishing pressure in an essentially unregulated environment, leading to overexploitation and underperformance. With its vast resource base, the fisheries sector of Guinea-Bissau has the potential to make a much greater contribution to economic growth and poverty alleviation, but only if better managed. Studies and field observations indicate that fisheries stocks are dwindling in size due to (a) insufficient capacity to govern and manage the use of the resources at sustainable levels; and (b) inability to prevent illegal fishing. Since 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 country only captures a fraction of the value.

Through the West Africa Regional Fisheries Program, Guinea-Bissau has begun to lay the foundation for a gradual transition from an offshore to an onshore economy, to add more value locally to fish products and encourage the development of associated services. To attain this vision, the fisheries authorities of Guinea-Bissau should i) allow the recovery of overexploited stocks or populations; ii) put in place an effective and sustainable monitoring, control, and surveillance system; iii) strengthen the knowledge base for the sustainable exploitation and management of the fisheries resources; iv) participate in collaborative efforts at the regional level; and v) carry out institutional and legal framework reforms, accompanied by best practice governance and sustainable management of fisheries resources, conducted in a participatory and transparent manner.

Priority #3.4: Prepare for the development of extractive industries

Guinea-Bissau may be on the verge of significant mining and oil developments which could transform the country. In recent years, long-term exploration leases have been signed for both bauxite (2007) and phosphates (1997). In the latter case, new owners are putting together a bankable feasibility study for a mine which would be the largest investment in the history of Guinea-Bissau. There have also been several offshore discoveries of heavy oil deposits, the most recent of which in late 2013 shows promise of being economically viable. Including domestic sourcing, larger public spending and multiplier impacts, the development of one bauxite and one phosphate mine could generate 25,000 jobs, increase GDP by 13–26% (depending on prices), and double domestic tax and non-tax revenues.

But extractive industry development in the context of weak governance carries high risks. The potential for environmental damage which harms agricultural and fishing livelihoods is substantial, while the medium-term implications for a nascent tourism industry should not be neglected. In addition, the large rents to be earned can lead to greater corruption, a competition for power, and eventually political instability. Guinea-Bissau has much to do to avoid the problems observed in similar cases of weak governance. Joining the EITI initiative would be a necessary but not sufficient first step.

The 2010 Mining Law contains most of the elements that investors are looking for but falls short on the promotion of local and national socio-economic benefits. Security of ownership, a predictable, stable, and relatively generous fiscal structure, the ability to transfer ownership, and the ability to repatriate profits are all included. The bigger challenge is building the capacity of the state to implement laws and regulations, develop an efficient cadaster, and accurately estimate the amount of taxes and royalties due. While an environmental impact
assessment is required, there is little on community development or promoting links with the private sector. Local communities bear the brunt of negative externalities generated by mines, whether these are environmental, migrant inflows, or health impacts. The large majority of low skilled jobs should go to local community members, though this will likely entail literacy training. Efforts should also be made to train local residents for some skilled jobs and to assist local enterprises to provide services.

The most notable shortcoming in the oil sub-sector is the institutional framework 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 proposed new 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 responsibilities normally reserved for a ministry or a regulator. Its transparency requirements should extend beyond the disclosure of licensing data, taxes received, and expenses of the State, to include the volume of petroleum produced, transported, refined, and consumed.

It will be important to invest the fiscal revenues from extractive industries prudently. When depleting one source of national wealth, it is necessary to build other forms of wealth, so ideally fiscal revenues should not finance consumption. While capital expenditure in physical assets will be important, paying teachers or health workers can be an investment in human capital if done efficiently. Social assistance programs can enhance human capital and also have an effect on household investment.

Some of the fiscal revenues should probably be saved, especially as the government has limited capacity to make sound public investments. Furthermore, overwhelming the economy with natural resource-fuelled expenditures could inflate prices of non-tradable goods and services, and wages, 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. To prevent such negative side effects, the government could consider establishing a sovereign wealth fund—especially if the exploitation of petroleum materializes.

<table>
<thead>
<tr>
<th></th>
<th>Farim (phosphate)</th>
<th>Boe (bauxite)</th>
<th>Total**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product Price (US$/t)</td>
<td>100</td>
<td>125</td>
<td>150</td>
</tr>
<tr>
<td>Direct Employment*</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
</tr>
<tr>
<td>Total Employment</td>
<td>12,696</td>
<td>15,052</td>
<td>18,391</td>
</tr>
<tr>
<td>Fiscal Revenues (US$m)</td>
<td>37.0</td>
<td>46.2</td>
<td>60.3</td>
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<tr>
<td>GNI Contribution (US$m)</td>
<td>48.0</td>
<td>58.0</td>
<td>71.2</td>
</tr>
<tr>
<td>Corporate Profits (US$m)</td>
<td>31.1</td>
<td>51.0</td>
<td>71.3</td>
</tr>
<tr>
<td>GDP Contribution (US$m)</td>
<td>73.7</td>
<td>105.1</td>
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<td>Balance of Payments (US$m)</td>
<td>60.1</td>
<td>65.6</td>
<td>75.2</td>
</tr>
</tbody>
</table>

* 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.
Priority #3.5: Preserve the country’s natural wealth

The bulk of Guinea-Bissau’s wealth lies in its natural endowments. While non-renewable resources will probably increase in the near future, for the moment renewable natural resources account for over 90 percent of this wealth. This includes agricultural land (crop and pasture), fisheries, forests (timber, non-timber forest resources), and natural habitats and ecosystems often protected in national parks. As renewable resources, they can provide a sustainable source of income, but only if properly managed. This is particularly important for the poor, who rely on agriculture, fishing, and forests for their livelihoods. The threat of over-fishing has already been discussed, but there are other areas of concern.

There is evidence that the forests are being destroyed through illegal logging. Timber exports have increased after the coup, as a result of a combination of poor governance, unprincipled foreign clients, and desperate villagers suffering from mismanaged cashew harvests. It is crucial to halt illegal logging and export. Guinea-Bissau has an adequate regime in place that governs the harvesting and export of timber, but it needs to be enforced. The recent suspension of wood exports in July 2014 is a step in the right direction. Stronger enforcement at the port and at land border posts is required, as proper licensing of logging activities, to put an end to the plunder of Guinea-Bissau’s timber resources.

Guinea-Bissau houses exceptional biodiversity and ecosystems of both local and global significance. It is among the last countries in West Africa where development has had limited negative impact on the environment. The country’s ecosystems not only support a wealth of biodiversity but also provide valuable services to the country’s population. The Bolama-Bijagós Archipelago is a recognized UNESCO Man and Biosphere Reserve due to its exceptional combination of biological and cultural assets. Sustainable tourism and ecotourism in Guinea-Bissau have the potential to become a source of economic growth and employment, building upon the small but well-established sport fishing business and the country’s extensive national system of protected areas.

While in the case of over-fishing and illegal logging, the choices are relatively clear, in other cases there are complex trade-offs to consider. Mining and oil hold huge promise, but will threaten biodiversity and tourism resources. Expanding rice production could hamper the protection of mangrove swamps and their contribution to fish reproduction and flood control. Extending cashew plantations will encroach on forests. Limited logging may be justified by job creation but will need to be compared with the benefits of non-timber forest resources and carbon sequestration. These trade-offs exist at any point in time, and between the present and the future.

To evaluate these trade-offs and make informed choices about management of the country’s natural resource wealth, 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.
Priority #4: Foster private investment

Private sector investment is very low in Guinea-Bissau due partly to the many constraints to doing business. Over the past five years it averaged about 5 percent of GDP. Removing them will unlock the potential of private enterprise and support the virtuous cycle between governance and private sector-led growth. Roads and the port are in a woeful state, increasing the costs of accessing markets. Access to finance is severely limited, reducing the scope for entrepreneurs to invest in their businesses’ productivity. For example, accessing credit to buy fertilizer in order to increase yields is impossible for most Bissau-Guineans. Poor access to finance also hurts the marketing of cashew. An inefficient regulatory environment is not conducive to doing business. It is also a major deterrent to attracting foreign investment which could be transformative in Guinea-Bissau, especially if the country is to move into large-scale cashew processing. Rice production has considerable potential, including possibly exports. Other potential growth sectors are fishing, mining and tourism.

Priority #4.1: Improve the port

An efficient port is key to any trading nation, but the port of Bissau is in a woeful state. A smoothly functioning port reduces transaction costs and increases the share of the world price of exports which can be retained in-country. It also reduces the cost to consumers of critical imported goods like food and fuel, while reducing risks for local enterprises which depend on imported inputs. However, the port of Bissau has suffered for many years from a host of problems, managerial and physical, that include poor operational performance, high tariffs, decaying infrastructure and poor corporate governance. Access to the port is hampered by shipwrecks. 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. Infrastructure and cargo-handling equipment is in a state of disrepair. Terminal handling charges are up to ten times higher than in Banjul, The Gambia, which is a direct competitor. The country is losing business and tax revenues as a result.

A range of institutional and organizational issues impact on the port’s performance and financial viability. The port entity, APGB, functions outside a clear legal and regulatory framework and under an inadequate institutional arrangement, with no master plan or port investment strategy. It is de facto self-regulated. A private concession to manage the port was cancelled in 1999 but outstanding obligations for compensation have yet to be settled.

FIGURE 23: 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 be paid, preventing the attraction of any new private operators. The immediate step needed to produce rapid and visible improvement in business operations at the port would be the introduction of a technical assistance management contract at APGB. Among other things, the contractor could be tasked with the development of a coherent port investment and rehabilitation strategy and a detailed plan for management reform.

An emergency investment plan is needed pending introduction of a private operator. This project would remove shipwrecks, deepen sea depth in front of the quays and in the approach channel, rehabilitate quays, container terminal surface, and infrastructure facilities for sewage, water, and electricity, and develop storage areas and security walls. 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. APGB would then focus on its regulatory function as port landlord.

Priority #4.2: Improve the business environment, including roads and ICT

Access to markets and provision of public services are limited by inadequate road infrastructure. The road infrastructure was comparable to regional averages in 2010 but is likely to have deteriorated since then due to the lack of donor support. Farmers report considerable constraints in marketing their goods, especially during the rainy season when roads are flooded or even washed away. Secondary and tertiary roads are in particularly bad condition, yet these are the roads which tend to be most important for the poorest populations. Rural access roads require considerable rehabilitation work to connect producers with markets, increasing the gains from exports, in the case of cashews, and improving competitiveness with imports for domestic rice. While donors can be called upon for new investment, the government will be expected to take responsibility for road maintenance. Operation of the existing road fund will need strengthening.

The potential of telecommunications as an engine for economic growth and poverty reduction remains largely untapped. Despite a certain degree of competition (lower prices, increasing demands, and investment programs), the mobile telephony and broadband markets could be much more developed. Mobile phone coverage has increased dramatically over recent years and this moment should be sustained. Further developing ICT

<table>
<thead>
<tr>
<th>Container</th>
<th>Bissau</th>
<th>Banjul</th>
<th>Dakar</th>
</tr>
</thead>
<tbody>
<tr>
<td>20 foot full</td>
<td>330</td>
<td>28</td>
<td>163</td>
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<tr>
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</tr>
<tr>
<td>40 foot empty</td>
<td>410</td>
<td>56</td>
<td>163</td>
</tr>
</tbody>
</table>

Source: APBG website, Banjul and Dakar Port Authorities.
systems as technology can connect market participants across distances and remote areas. Mobile phones in particular are also increasingly used to channel cash to individuals, through remittances or potentially through social assistance programs, such as potentially cash transfers. Regarding broadband, evidence shows that broadband infrastructure and services contribute directly to a country’s productivity, competitiveness, and ability to attract FDI, reducing transaction costs and helping countries diversify into more sophisticated sectors (Figure 24). Voice and data broadband communications can also enhance efficiency in the public sector, increase transparency, and thus render government more accountable, improving the governance environment. To develop the ICT sector, the following steps should be undertaken: i) develop a Master Plan for the ICT sector; ii) rehabilitate, restructure, and privatize Guiné-Telecom and Guinetel; iii) invest in international and national infrastructure connectivity; and iv) promote the transition to 3G.

In particular, a fiber optic cable could be deployed alongside the electricity transmission line proposed under the regional power project WAPP/OMVG, linking Guinea-Bissau to the ACE submarine cable via The Gambia and Guinea-Conakry. Improving international connectivity in Guinea-Bissau is a major challenge. While the Government expressed its readiness to invest in an ACE submarine cable landing station, the World Bank considering an alternative scenario whereby private operators would be incentivized to invest in terrestrial fiber optic networks from existing submarine cable landing stations (among them Senegal, Guinea, Sierra Leone, Gambia), bearing in mind that in the coming years additional regional connectivity will be brought through the fiber optic built alongside the planned OMVG electricity grid. Such terrestrial fiber connectivity would benefit not only Guinea-Bissau as it would provide the connectivity at a cost of at US$16–17 million (compared to US$31–35 million for the estimated cost of the connection to ACE) but also the rate of return on the landing stations in neighboring countries (some of which are currently underused).

The investment climate and finance are pillars of economic growth. Considerable efforts are necessary to strengthen them. 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. In addition to poor infrastructure, they also include 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 microfinance. 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 and the business climate becomes more hospitable to investors, FDI may play a transformative role.
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