

AFRICAN DEVELOPMENT BANK



GUINEA-BISSAU

2015-2019 COUNTRY STRATEGY PAPER

ORWA/SNFO
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Translated Document

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Currency Equivalents (October 2014)

Currency Unit = XOF (CFAF Franc)

UA 1 = XOF 772.874

UA 1 = € 1.178

€ 1 = XOF 655.957

Fiscal Year

1 January to 31 December

Acronyms and Abbreviations

ADB	African Development Bank
ADF	African Development Fund
ALSF	African Legal Support Facility
AWF	African Water Facility
CPIA	Country Policy and Institutional Assessment
CPPR	Country Portfolio Performance Review
CSP	Country Strategy Paper
DENARP	National Poverty Reduction Strategy Paper
EAGB	Guinea-Bissau Electricity and Water Services Company
ECOWAS	Economic Community of West African States
EDF	European Development Fund
EHF	Ebola Hemorrhagic Fever
EITI	Extractive Industries Transparency Initiative
EU	European Union
FAPA	Fund for African Private Sector Assistance
FLEGT	Forest Law Enforcement, Governance and Trade
GASFP	Global Agriculture and Food Security Programme
GDP	Gross Domestic Product
GEF	Global Environment Facility
HIPCI	Heavily Indebted Poor Countries Initiative
IMF	International Monetary Fund
MDG	Millennium Development Goal
MRU	Mano River Union
NGO	Non-governmental organization
NPO	National Programme Office
OHADA	Organization for the Harmonization of Business Law in Africa
OMVG	Gambia River Basin Development Organization
ONUFEMMES	United Nations Entity for Gender Equality and the Empowerment of Women
ORTS	Transition Support Department
PAIGC	African Party for the Independence of Guinea and Cape Verde
PBA	Performance-Based Allocation
PCG	Partial Credit Guarantee
PECA	Public Administration Institutional Capacity Building Project
PIU	Project Implementation Units
PRG	Partial Risk Guarantee
RBCSP	Results-Based Country Strategy Paper
RMC	Regional Member Country
RSBD	Regional Standard Bidding Documents
SMCC	Senior Management Consultative Committee
SNFO	Senegal Regional Office
TFP	Technical and Financial Partners
TSF	Transition Support Facility
UNDP	United Nations Development Programme
UNIOGBIS	United Nations Integrated Peace-Building Office in Guinea-Bissau
UNODC	United Nations Office on Drugs and Crime
WADB	West African Development Bank
WAEMU	West African Economic and Monetary Union
WB	World Bank

EXECUTIVE SUMMARY

1. After a period of democratic transition in the wake of a coup d'état on 12 April 2012, Guinea-Bissau is returning to constitutional order following legislative and presidential elections held in April and May 2014. This return to the community of nations has occurred at a time when the economic situation has deteriorated, and when structural problems have continued to worsen in the wake of the coup d'état.
2. Guinea-Bissau is characterized by many different factors of fragility caused by overall institutional weakness. In general, the drivers of fragility identified suggest the characteristics of a post-conflict country, requiring, in particular, statebuilding, the development of basic infrastructure, reform of the army and justice system in order to lay the foundations of inclusive growth. These drivers of fragility are, however, more complex insofar as they stem from the historical weakness of national institutions and a model of governance that created an imbalance of power between the army and civil institutions. This is compounded by other drivers of fragility such as a lack of economic alternatives, the emergence of illegal income and establishment of cross-border criminal networks.
3. The country's underlying fragility and the ensuing context of political instability have resulted in a significant decline in economic activity in recent years with a sharp drop in GDP growth from 5.3% in 2011 to – 1.5% in 2012. While slightly positive in 2013, the 0.3% growth rate conceals deep structural problems. Inflation fell from 2.1 % in 2012 to 1.0 % in 2013 against a backdrop of sluggish domestic demand and there was a budget deficit of 4.7%. For 2014, projected GDP growth is 2.8% due to an expected upturn in economic activity following the elections.
4. In addition to the economic decline observed, the quality of life of the most vulnerable segments of the population, especially women and young people, has also steadily deteriorated since the coup d'état. The poor cashew nut harvest in 2012/2013 and low producer prices have had a negative impact on rural poverty and female poverty, plunging a third (1/3rd) of the population into a state of under-nutrition. On the health front, health care services do not meet demand in view of a lack of available resources, and also because of persisting infrastructure bottlenecks affecting the provision of health care such as the geographical inaccessibility of health centres. This situation particularly affects women by restricting their access to social services. As regards education, frequent strikes have prevented the start-up of the 2013/2014 academic year due to salary arrears.
5. However, the return to constitutional order will open a window of favourable cyclical opportunities. The post-electoral momentum and mass return of the TFPs should facilitate the restructuring of all partners' interventions and the resumption of cooperation. This CSP was prepared against that background and is underpinned by four strategic frameworks: the National Poverty Reduction Strategy Paper '2011-2015 DENARP II', implementation of which will be extended to 2018; the objectives of the New Deal for Fragile States of which Guinea-Bissau is a member; the Bank's Ten-Year Strategy and the Bank's new Strategy on Addressing Fragility and Building Resilience in Africa. It is also based on consultations in August 2014 with the government and stakeholders as well as on studies conducted by SNFO, some of which were financed by the Portuguese Trust Fund.
6. In light of the problems raised, the country's main short-term challenge is not to slide back towards greater fragility. The main medium-term challenge is to build institutional and political resilience while reducing gender disparities and to support the country's structural transformation through the establishment of key infrastructure to ensure inclusive and green growth. In this context, it is important to (i) strengthen the rule of law and republican institutions but also to (ii) provide the population with the necessary infrastructure to create the requisite momentum for the country to build economic and socio-ecological resilience restart the public administration and restore basic social services.

7. To that end, two pillars were retained in agreement with the Government: (i) strengthening of governance and the foundations of the State; and (ii) development of infrastructure that will foster inclusive growth.

- a. **PILLAR I:** *The objective of this pillar will be to help to build the resilience of government institutions.* It will, therefore, have two complementary pillars: (i) strengthening of governance which is necessary to build resilient economic institutions, and especially to contribute to revenue collection and management as well as public financial management. This should help to restore basic government structures, pay civil servant's salaries and provide basic public services as recommended in the New Deal; and (ii) the strengthening of security and justice institutions, consolidation of which is necessary to ensure inclusive growth and is a prerequisite for progress in all other areas. The second component will support the economic management work carried out insofar as it will strengthen the judicial institutions necessary for the smooth functioning of public and private economic institutions.
- b. **PILLAR II:** *The priority of this pillar will be investments infrastructure with a regional impact that will provide the best economic return and ensure social cohesion and resilience.* On the economic front, it aims to facilitate the opening up of production. On the social and economic front, it aims to open up the regions internally in order to eliminate bottlenecks affecting the provision of social services and to facilitate community participation in the economic and political recovery. The main components of this pillar are, therefore, electricity and roads. Unless there are improvements in these areas, both the provision of, and access to basic social services as well as economic opportunities will be affected.

8. In order to successfully implement this strategy, the Bank must focus on four critical aspects: (i) regional integration, in particular, the revitalization of regional partnerships that the country can depend on to safeguard the transition and build institutional resilience; (ii) increased involvement of non-state actors, especially of the private sector which provides an opportunity to build resilience and reduce fragility, (iii) coordination of the operations of donors and partners in order to create a critical mass of transformational operations; and (iv) dialogue on government policies in order to more effectively mainstream fragility.

9. The ADF-13 (2014-2016) country allocation makes provision for available resources estimated at UA 28.32 million, comprising UA 15 million from the PBA and UA 13.32 million from the TSF. To the extent possible, the Bank will prioritize co-financed projects with a leverage effect through the Bank's regional funds or Trust Funds (GASFP, AWF etc.) and the Bank's non-PBA financing instruments.

I. INTRODUCTION

1. **After a period of suspension of Bank operations in the wake of the April 2012 coup d'état, the recent return to constitutional order in Guinea-Bissau has made it possible to prepare a new Country Strategy Paper (CSP) for, and resume Bank assistance to the country.** Indeed, in April 2012, the preparation of a new assistance strategy for Guinea-Bissau for the 2012–2016 period as well as all the Bank's operations were suspended. Following a transitional period of over two years, Guinea-Bissau held legislative and presidential elections from 13 April to 18 May 2014 paving the way for a return to constitutional order and the lifting of the Bank's sanction regime¹. The main justification for this CSP is the need to establish a strategic framework that will lead to the full resumption of operations.

2. **This new CSP is based on the Bank's reflections on fragility and is the outcome of discussions with the newly elected Government, development partners and other stakeholders.** This CSP is consistent with the Bank's Ten-Year Strategy, the Bank's new strategy on Addressing Fragility and Building Resilience in Africa and the objectives of the New Deal for Fragile States. It is also in keeping with the 2011-2015 National Poverty Reduction Strategy Paper the implementation of which will be extended to 2018 in view of the transitional phase the country has been through. Likewise, the CSP is in line with the new government's 2014-2018 programme. Finally, it also draws on the consultations carried out with the Government and stakeholders in August 2014 as well as on a series of analytical studies conducted by the Bank.

3. **This strategy presents the reference framework for the Bank's operations in Guinea-Bissau for the 2015-2019 period.** This CSP is combined with a Country Portfolio Performance Review (CPPR). In addition to this introduction, the report comprises the following three parts: (ii) the Country Context and Prospects, (iii) the Bank Group's Strategy for the 2015-2019 period and (iv) the Conclusions and Recommendations.

II. COUNTRY CONTEXT AND PROSPECTS

2.1 Political, Economic and Social Context

4. **Guinea-Bissau is characterized by multiple factors of fragility² caused by overall institutional weakness.** The historical weakness of national institutions based on a centralized model of governance has created an imbalance of power between the army and civil institutions. Coupled with a lack of economic alternatives and inclusive growth – especially gender-related - institutions have also been weakened by the emergence of illegal income and the establishment of cross-border criminal networks. In addition, some historical conflicts such as that in neighbouring Casamance have fostered and facilitated destabilizing effects and even triggered internal conflicts (1998/1999 civil war). Against this backdrop, development assistance has always been volatile preventing the achievement of steady progress.

5. **The above-mentioned drivers of fragility suggest the characteristics of a post-conflict country requiring statebuilding, basic infrastructure, reform of the army and justice system in order to lay the foundations of inclusive growth.** Thus, the country's main challenge is to build institutional resilience in order to reduce the fragility-risk drivers. In the short-term, it will be necessary to prevent any sliding back towards greater fragility. The medium-term objective will be to lay the foundations of stronger State resilience as recommended in the New Deal which stresses peace-building and state-building as prerequisites for any sustainable development in the country.

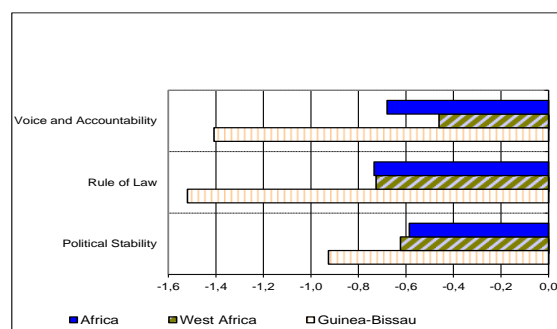
¹ The SMCC meeting of 7 June 2012 confirmed the application of Directive 03/2010 "Concerning Continuity of Operations and Engagement with De Facto Governments in Regional Member Countries". A second meeting of the SMCC on 18 July 2013 allowed the resumption of operations on a case by case basis. Application of Directive 03/2010 was suspended in September 2014.

² The term 'fragility' is used in accordance with the Bank's definition: '*a condition of elevated risk of institutional breakdown, societal collapse or violent conflict*'.

2.1.1 Political Context

6. **Following a two-year political transition in the wake of the coup d'état in April 2012, the country is returning to constitutional order.** Since 1974, the country has experienced 17 attempted coups d'état and 4 actual coups³. Consequently, the country obtains very low scores in terms of political stability compared to the rest of the sub-region (Figure 1). During the last coup in April 2012, the then prime minister and winner of the first round of the Presidential elections was ousted by the army. The executive power vacuum was filled following negotiations between the political parties, the military and civil society organizations under the aegis of ECOWAS. The ensuing Transition Pact led to the formation of a transitional government in June 2013 and the planning of fresh legislative and presidential elections. Following the postponement of the election date twice because of logistics and financing problems, the elections were held in April/May 2014. The legislative elections were won by the historical party, the African Party for the Independence of Guinea and Cape Verde (PAIGC) with 57 out of 102 members of parliament. The Presidential elections were won in a runoff by José Mario Vaz, the PAIGC candidate with a total score of 61.9%.

Figure 1: Political Context, 2012. Score -4.0 (Worst) to 2.5 (Best)

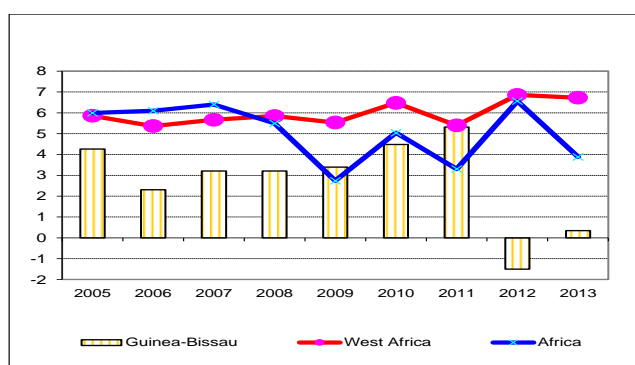


Source: ADB Statistics Department using 2013 WEF Data

2.1.2 Economic Context

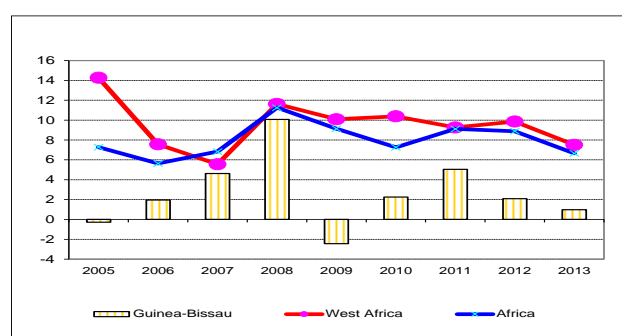
7. **The April 2012 coup d'état ended 9 consecutive years of growth and led to economic disruptions, causing GDP growth to drop sharply from 5.3% in 2011 to -1.5% in 2012.** While slightly positive in 2013, the 0.3% growth rate conceals structural problems which have steadily worsened since the coup d'état. Inflation fell from 2.1 % in 2012 to 1.0 % in 2013 against a backdrop of sluggish domestic demand and a fiscal deficit of 4.7%. For 2014, projected GDP growth is 2.8% due to the expected upturn in economic activity following the return to constitutional order.

Figure 2: Real GDP Growth Rate (%)



Source: ADB Statistics Department using 2013 WEF Data

Figure 3: Consumer Price Index, Inflation (Average) (%)



Source: ADB Statistics Department using 2013 WEF Data

8. **Guinea-Bissau's economic fabric is fragile, with little value-added and an alterable dynamism subject to political cycles.** The primary, tertiary and secondary sectors represented 49%, 38%, and 13%, respectively, of GDP in 2013. The growth drivers are limited to the agro-food sector and the production of cashew nuts, which remains the mainstay of the economy: in 2013 it accounted

³ The first free elections were held in 1994 after the one party system (1974 to 1991). A government's lifespan over the 2000-2004 period averaged 6 months and 2 years since 2004.

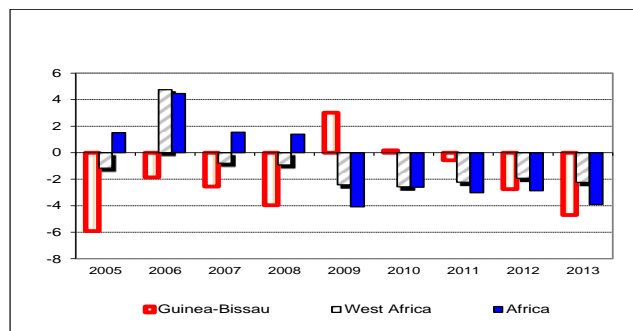
for 87.7% of total exports. However, less than 5% of the cashew production is processed locally. This economic concentration has direct impacts on the poorest segments of the population in terms of inclusiveness and food security: for example, the producer price slumped to 43% of the export price in 2013 compared to 57% in 2012⁴ seriously affecting households and plunging over a third of the population into under-nutrition. The secondary sector is mainly affected by low water and electricity output (-15.8% in 2013) and an **infrastructure gap**, especially outside the capital. The tertiary sector relies on trade and public administration activities.

2.1.3 Macroeconomic Management

9. The public finance reforms initiated before the April 2012 coup d'état have been curtailed,

including the efforts linked to regional integration under WAEMU. The government has been faced with great challenges insofar as the withdrawal of the TFPs in the wake of the April 2012 coup d'état implied the suspension of budget support as well as sources of fiscal revenue such as fishing agreements with the European Union⁵ and project disbursements. The fiscal deficit widened to 2.7% of GDP in 2012 and 4.7% of GDP in 2013. With regard to taxes, the tax base is very narrow and the tax ratio is the lowest in WAEMU (7.9% of GDP). In 2014, the normalization of the socio-political climate, the resumption of cooperation with the TFPs and ongoing reforms of the public administration and security sector should help to improve public finance performance.

Figure 4: Fiscal Balance (% PIB)



Source: ADB Statistics Department, AEO, March 2014

10. with a rigid fiscal structure and impacted by the withdrawal of the TFPs, macroeconomic management remains difficult. In view of the proportion of wage-related expenditure (equivalent to 67.4% of fiscal revenue at the end of 2013), public investments were suspended and domestic arrears increased. At the end of 2013, domestic arrears were CFAF 7.7 billion, including 4 billion for wages and salaries. For the first half of 2014, the World Bank paid the salaries of part of the civil servants directly. Following the 2014 April/May elections, arrears were cleared by the issuance of bonds by the country backed by the WAMU Securities Agency and BCEAO for CFAF 15 billion.

11. With regard to the country's external position, there has been a current account deficit since 2005. The said deficit deteriorated to 6.6 % of GDP due to a negative price shock and a fall in cashew nut production. In 2014 and 2015 this balance is expected to improve slightly to -5.8% of GDP and -5.7% of GDP, respectively.

12. The external debt burden remains fairly high, though it was brought down below the WAEMU convergence criteria threshold after the country reached the Heavily Indebted Poor Countries (HIPC) Initiative completion point in 2010. Guinea-Bissau's outstanding public debt to GDP ratio fell to 59.4% in 2013 from 164% in 2009. This figure remains below the maximum value of 70% for the WAEMU convergence criterion. However, debt sustainability will depend on economic recovery in 2014 and also prudent management by the government. It is expected that outstanding debt in 2014 and 2015 will be 59.7% and 60.1% of GDP, respectively.

⁴ At the same time export prices also fell by about 20%. This was mainly due to the disorganization of production or changes in tax regimes during the crop year and also to higher costs incurred by the main importer (India).

⁵ Agreements equivalent to 13.4% of revenue, excluding grants, in 2011 compared to 0.2% in 2013.

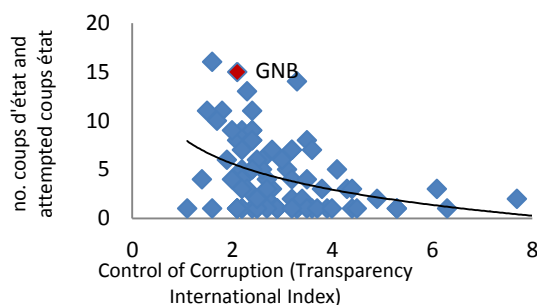
2.1.4 Governance

13. **The fragility assessment carried out by the Bank highlights the complexity of sources of fragility in terms of governance** in the following three areas: (i) economic governance and administrative transparency, (ii) social governance and (iii) political governance. As regards political governance, it is necessary to find lasting resolutions to possible conflicts and establish mechanisms that will ensure justice. The capacities of the legislative and judicial authorities are, therefore, critical, and the scope of their authority in relation to the military establishment, determining, as recent historical events have shown⁶. The justice system suffers from a number of problems such as insufficient and inadequate infrastructure, an outdated legislative framework, *de facto* immunity granted to certain groups, and structural obstacles regarding access to basic legal and judicial services. With regard to social services, the gender profile prepared by the Bank and UNWOMEN, highlights gender-based discrimination in economic and social areas⁷. The same is true for cross-cutting issues such as the environment where inadequate legislation and lack of resources present serious risks for the prospects of a transition towards green growth. In this regard, it is essential to strengthen the rule of law as analyzed in the Guinea-Bissau fragility assessment⁸ (Annex 9).

14. **In the area of transparency, there are significant challenges.** Guinea-Bissau's performances are very poor in the areas of governance and combating corruption, which, in general, is correlated to a high frequency of political and institutional uncertainties (figure 5). Indeed, in 2013, the country was ranked 163rd out of 177 countries in the Transparency International Index. Furthermore, the score awarded to Guinea-Bissau for the CPIA indicator on transparency, accountability and corruption is 2.3 out of 6. Impunity and the absence of any real anti-corruption policy, in general, and financial crime, in particular, appear to be the cause of the latter's proliferation.

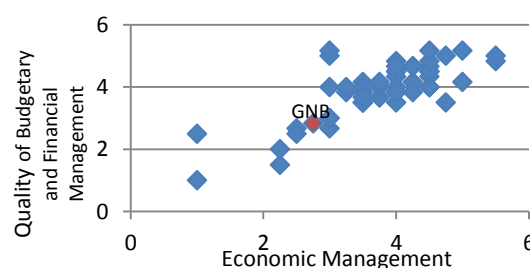
15. **In the area of economic governance and, in particular, public financial management, the country's performances have deteriorated as a result of the crisis and the capacity to mobilize domestic resources remains weak,** as noted in the PEFA 2013 and in the CPIA scores. Between 2011 and 2013, the CPIA score relating to the *Quality of Budgetary and Financial Management* dropped from 3.5 to 2.75, and the score for the *Efficiency of Revenue Mobilization* from 3.5 to 2.13. More specifically, major weaknesses were noted, especially regarding budget credibility and external control. In this area, the new government has focused on the adoption of the 2014 draft budget by the Council of Ministers and its submission to the National Assembly. The budget was, therefore, adopted in September 2014 and the 2015 budget is being

Figure 5: Institutional Uncertainty and Corruption



Source: World Bank, Country Economic Memorandum 2014

Figure 6: Quality of Budgetary and Financial Management and Economic Management Performance (2013 CPIA Scores)



Sources: CPIA Scores, ADB

⁶ In his special report on Guinea-Bissau of 30 April 2012, the United Nations Secretary-General emphasized that '*Any lasting solution to instability in Guinea-Bissau should include concrete actions to fight impunity...*'. In this respect, the issue of amnesty for those involved in the April 2012 coup is still being debated.

⁷ In addition to gender, youth-related social issues were taken into account in the fragility assessment which mentions youth as a potential driver of fragility rather than an active driver of fragility. However, the youth explosion in Guinea-Bissau peaked in 1971. Thus, unlike other countries of the continent, the pressure is weaker.

⁸ As part of the preparation of the CSP, ORWA and ORTS carried out an analysis of the drivers of fragility. This analysis is internal and differs from the fragility analysis carried out in the context of the New Deal for Fragile States, which is conducted by the country itself. The Bank has already made funds available for that purpose under the PECA project.

prepared. Challenges also remain to be addressed regarding the transposition of the six WAEMU Directives on the Public Financial Management Framework. Regarding resource mobilization, the tax base remains very narrow: the number of taxpayers is very low and the tax base is mainly focused on a limited amount of revenue such as customs duties on imports, exports of cashew nuts and the fisheries agreements. The tax ratio remains very low at 7.9% below the WAEMU convergence criterion of 17%⁹.

16. **With regard to procurement, some normative progress has been made under the auspices of WAEMU but challenges remain to be addressed**¹⁰. The need to establish a regulatory framework in accordance with the WAEMU Directives in this area led to the promulgation of an Order-in-Council on the Public Procurement Code in 2010. However, while a legislative framework exists it is not accompanied by any regulatory mechanism specifying its details. Moreover, the use of WAEMU Regional Standard Bidding Documents (RSBD) raises a problem for the national private sector, for the documents are in French and not in the Portuguese language. Guinea-Bissau has no provisions that would help to improve the public procurement regulatory framework such as an act imposing sanctions on contractors defaulting on their contracts. Finally, there is no mechanism for combating corruption in accordance with the African Union and United Nations agreements.

Table 1: Ease of Doing Business in 2013 and 2014

2.1.5 Business Climate and Competitiveness

Business Climate

17. **A salient feature of Guinea-Bissau's economy is the fledgling nature of the private sector and importance of the informal sector.** This is mainly due to a business climate that is not conducive to the development of private initiative as well as a lack of production support infrastructure. Since the opening of a single window for business formalities in 2011, there has been no major reform in the country, which continues to stagnate in the lowest decile of the World Bank's 2015 Doing Business ranking (179th out of 189). Such a situation is symptomatic of weak governance: insofar as weak market regulatory capacity and corruption are mutually strengthening, the country's business climate depends on the fragility of the institutions and efforts to regulate and improve governance. In this respect, enhanced governance is important since the momentum of the private sector and its job-creating potential for the population in general and for young people, in particular, are dependent on it.

Topics	2013 Rank	2014 Rank	Change in Rank
Doing Business	180	179	+
Starting a Business	170	176	-
Dealing with Construction Permits	155	165	-
Registering Property	158	160	-
Getting Credit	125	131	-
Protecting Minority Investors	136	122	+
Paying Taxes	148	150	-
Trading Across Borders	114	119	-
Enforcing Contracts	168	169	-
Resolving Insolvency	189	189	=

Source: ADB Statistics Department using Doing Business Data.

18. **Access to financial services is very limited and the banking sector fragile.** Regarding the financial sector, there are four commercial banks in the country and an embryonic microfinance sector. As noted in the Bank's study on the financial sector in Guinea-Bissau, credits to the economy are mostly short-term and closely linked to

⁹ According to the IMF, Guinea-Bissau's tax gap, (i.e. potential tax revenue estimated on the basis of determining variables for taxation minus actual tax revenue) for 2011 was estimated at 12% of GDP.

¹⁰ In 2011, the Bank carried out an assessment of national procurement procedures with a view to their use for national competitive bidding. It was noted that these national procurement procedures were non-compliant with the Bank's Rules and Procedures though some progress had been made. In the context of the resumption of the Bank's operations, it is planned to initiate a gradual process of dialogue in order to assist the country in establishing a public procurement system that is compliant with international standards that would help to lower the level of fiduciary risk in Guinea-Bissau.

the cashew nut harvest seasons, and banks' margins are high because of the market size and institutional instability. Access to finance remains low with a banking penetration rate of about 1%. The microfinance sector is also embryonic and is beset by regulatory and supervisory weaknesses despite the mechanisms introduced by the BCEAO. This situation penalizes women in particular, for whom microfinance represents a potential source of support to economic activity.

Factors Impacting on Competitiveness

19. **In general, infrastructure gaps are the main factors impacting competitiveness.** In addition to the low infrastructure stock, one of the main characteristics of fragility in Guinea-Bissau is the inability of the government's budget to finance public investments in infrastructure construction and maintenance, which has a negative impact on the economy's competitiveness and limits formal employment opportunities. Indeed, 95% of the public investment programme is financed by external aid.

20. **The electricity sub-sector impacts on competitiveness insofar as it is characterized by weak installed generating capacity in Bissau** of 11 MW and nothing in the country's other localities some of which are partially supplied by private producers. Real capacity is only 8MW, only 5MW of which is available 24 hours per day due to the maintenance required and the inability of the electric power utility to obtain the necessary fuel. The loss rate on the distribution network is 47% due to obsolete facilities and fraud. The amount of energy supplied falls far short of the country's requirements estimated at 30MW.

21. Against this backdrop, the preparation of an electricity sub-sector recovery plan focused on: (i) increased electricity generation, (ii) improved management of the Guinea-Bissau Electricity and Water Services Company (EAGB) and finally (iii) improvement of the condition and management of the electricity and water network, is a priority for the government. The first objective will be strengthened by the OMVG project in which the Bank is participating and from which the country will be able to obtain 27.5 MW by 2018, and the financing of a 10MW power plant by the WADB which should be completed in 2017. Regarding the second point, the World Bank has financed assistance to EAGB as well as an emergency programme including the purchase of fuel for the existing plant. The third point concerning the strengthening of the network remains without any acceptable proposed solution. If covered by ADB, it could create a critical mass of operations capable of addressing the sector's medium-term challenges.

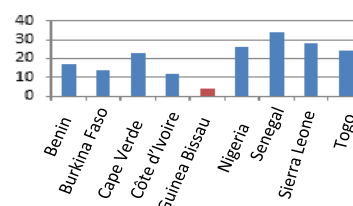
22. **As noted in the CSP preparation study on the transport sector, transport infrastructure gaps increase the population's marginalization thereby diminishing the inclusiveness of growth.** The road transport sub-sector which accounts for 60% to 70% of goods and person traffic is the main means of access to most of the rural towns and communities in Guinea-Bissau. The length of the national road network is 2,746 km, only 770 km (28%) of which are paved. Some trunk roads have recently benefited from financing by the country's partners and are in good condition. However, some regional interconnections (Farim-Tanaff road on the Senegalese side and Boke-Quebo on the Guinea-Conakry side) and the secondary/local road network in general represent a bottleneck for the agriculture sector and also for access to basic social services. With regard to sea and river transport, Guinea-Bissau has one commercial port and one fishing port in Bissau. Most of the country's port facilities are in an advanced state of disrepair. The Port of Bissau, which is the country's main commercial port, remains uncompetitive, which seriously restricts its potential use for regional integration purposes to serve neighbouring landlocked countries. In terms of air transport, the country has one international airport (Bissau) and two aerodromes with asphalted runways (Bafata and Gabu).

Regional Integration and Trade and Macroeconomic Convergence

23. **Guinea-Bissau is a member of many regional partnerships including WAEMU and ECOWAS.** Initially, ECOWAS membership contributed to the achievement of monetary stability and a shift towards a modern institutional and regulatory framework that will foster regional integration. However, as previously noted, there are several challenges regarding the transposition of Directives and regulatory frameworks. The country is also a member of ECOWAS, which has enabled it to benefit from political conflict resolution assistance. Indeed, the post-coup d'état transitional period was under the aegis of ECOWAS. The two institutions have a significant agriculture sector portfolio, especially with regard to irrigation schemes and rural employment.

24. **On the trade front, Guinea-Bissau has ratified and signed most of the memoranda of understanding and agreements of the main regional integration and cooperation organizations.** However, the country does not have adequate resources for the effective transposition and implementation of the agreements as well as their physical monitoring on the ground. Budget problems prevent the smooth functioning of the administrations and Ministries responsible for international trade. The port and roads have serious shortcomings and the customs services are not very efficient¹¹. Thus, the percentage of Guinea-Bissau's exports to the rest of ECOWAS in relation to the total value of its exports is the lowest in the region, averaging 1.1% (compared to an average of 10% for all of ECOWAS) over the 2001 to 2012 period. On the other hand, the share of Guinea-Bissau's imports from ECOWAS in relation to the total value of its imports averages 28.3% (compared to an average of 13.1% for all of ECOWAS) over the same period (see Annex 3b). In addition to logistical difficulties, trade complementarity with ECOWAS would appear to be fairly low. This aspect indicates both a need for economic diversification in order to meet regional demand and efforts to be deployed in terms of export promotion.

Figure 3 : Trade Complementary Index in ECOWAS



25. **Guinea-Bissau's performances are mixed in terms of economic convergence in WAEMU.** In 2012 and 2013, three of the four criteria have been met. Out of the primary criteria, the fiscal balance criterion has not been met. None of the secondary criteria have been met (Annex 3c). Also, some of these indicators have regressed: according to the 2014 budget, the wage bill has increased by 26.6% following the initiation of payment of education and health-sector civil servants by the transitional government. The new government intends to embark upon public administration reforms in order to improve the situation.

2.1.6 Social Context

Poverty, Social Inclusion and Gender/Equity

26. **The social and human context has deteriorated in recent years, especially since the 2012 coup d'état, because of a generalized shortage of government resources, which has further impeded access to health and education services.** The impact is clear since the country has been stagnating in the lowest decile of the human development index for over 10 years (176th rank out of 186 countries in 2013). In 2010, over 70% of the population was living on less than \$2 a day, and 30% on less than \$1. In 2013, these figures are thought to be rising with over 40% of the population living in extreme poverty.

¹¹ One measurement of efficiency is the ratio of customs officers per million \$ of imports or exports. Guinea-Bissau is far ahead of the other West-African countries with a ratio of 1.3 compared to 0.5 in Guinea-Conakry, 0.3 in The Gambia and 0.2 in Senegal.

27. **Health care services** still fall short of requirements due to insufficient government resources. According to the most recent available data spending on health per capita was \$37 in 2011 (World Bank figures) compared to twice that amount in Senegal, and almost five times in Cape Verde. Medical services are affected by serious weaknesses and bottlenecks with regard to infrastructure, which impacts on the provision of care, such as the geographical inaccessibility of health centres and obsolete buildings. Life expectancy at birth stagnates at 54 years of age. Malaria remains the main cause of death among children (18%) at the same level as pneumonia while there has been a steady year-on-year rise in the incidence of tuberculosis from 203 cases per 100,000 inhabitants in 2003 to 238 in 2011. In 2012, a cholera epidemic was declared in Guinea-Bissau which was still prevalent in 2013. Finally, as noted in the gender profile, infrastructure and capacity gaps have a significant impact on women: the maternal mortality rate is very high at 790^{100 000}.

28. **The standard and quality of education remain below the regional averages:** According to the most recent available data in 2012 only 39.4% of teachers received the minimum necessary training for primary school education compared to 74.5% in Sub-Saharan Africa while the net enrolment ratio in primary education increased from 53.7% in 2006 to 67.4% in 2010. In a recent London School of Economics study in 2013 on a sample of almost 10,000 pupils aged 7 to 17 years of age, only 27% were able to add two figures, and 19% to correctly read a word. Finally, during the transitional period, strikes due to the non-payment of salaries increased creating a risk of invalidation of the academic year, which finally ended by encroaching on the vacation period.

29. **With regard to gender, while existing policies and laws in force protect women and promote gender equality, the situation remains worrisome according to the 2014 gender profile jointly prepared by the Bank and UNWOMEN.** In Guinea-Bissau, women represent about 52% of the country's total population: 64.12% of them are illiterate compared to 47.97% for men. In addition, gender-based violence, including domestic violence, is widespread with harmful traditional practices such as female genital mutilation (affecting 50% of girls/women in the 15-49 age bracket according to the MICS 2010 survey), and forced marriage. The ratio of girls to boys shows that the number of girls enrolled in school drops significantly as the educational level rises. In secondary education, the ratio is 51%. On the health front, while there are encouraging signs such as a reduction in maternal mortality, the country lags far behind in progress towards achievement of the health-related MDG. All these weaknesses have led to the recent approval of the National Gender Policy in 2014. In addition to poverty-related problems, the lack of basic infrastructure and economic opportunities faced by both the male and female population of Guinea-Bissau, three major issues particularly affect women according to the gender profile: (i) weaknesses in healthcare access (reproductive and maternal health care in particular); (ii) discrimination in social, economic and political life; (iii) gender-based violence (excision, violence, forced/early marriage).

Environment and Climate Change

30. **With regard to the environment and climate change, the strong pressure on natural resources (fuelwood, slash-and-burn agriculture) constitutes a threat.** The majority use of fuelwood, which provide about 90% of energy consumed in the country, dependence on the single crop of cashew nuts and the cutting of mangrove wood for fish smoking have resulted in accelerated forest destruction, estimated at 30,000 – 60000 ha/year. The vulnerability of the coastal area, linked to climate change phenomena, has resulted in significant coastal erosion. This is compounded by the country's lack of capacity to assess environmental impacts and certify project environmental and social compliance. The government is aware of the need to develop a legal and regulatory framework in that area as well as the need to build capacities to create the basic conditions for environmental assessment in Guinea-Bissau. This aspect is important insofar as natural resource sector opportunities may have an environmental impact. It is, therefore, necessary to strengthen governance in this area upstream from the concretization of opportunities in order to ensure their contribution to green growth.

2.2 Strategic Options

2.2.1 Country Strategic Framework

31. **The basic strategic document on the basis of which the Government intends to pursue its actions is the DENARP II**, covering the 2011-2015 period but extended to 2018. It constitutes the reference framework for strategic planning, programming and dialogue with the TFPs. Its main objective is to ‘reduce poverty through state-building, the acceleration of growth and achievement of the MDGs. Its strategic priorities are focused on the following four strategic thrusts: (i) strengthen the rule of law and republican institutions; (ii) ensure a stable and attractive macroeconomic environment; (iii) promote sustainable economic development; and (iv) improve the level of human capital development. In keeping with these priorities, several sector strategies and plans have been prepared by the government. In order to back up these studies and close the knowledge gaps, the Bank has carried out several economic and sector studies in 2014¹².

32. **The new government focuses on a strategic approach which differentiates between the short and medium term in keeping with the DENARP II.** In the short-term, an emergency palliative approach is required and, in the medium term, a logic of reconstruction. Thus, the immediate priorities for the government as set out in its 2014-2018 programme are: (i) continuing payment of salaries, (ii) restoration of a minimum electricity service, (iii) resumption of health care and education services, and (iv) a good crop year. In the medium-term, the foundations for reconstruction are (a) sound management of public finances and assets; (b) infrastructure investments, and (c) social sector reforms and support.

33. **In order to support the operationalization of the DENARP II, Guinea-Bissau has accepted the principles of the New Deal for Fragile States under the g7+, which the Bank has fully endorsed.** The main thrusts of the New Deal are state-building and peacebuilding especially by (i) reinforcing the security of persons, (ii) the conclusion of inclusive political agreements, (iii) strengthening of the justice system, (iv) empowerment of the central government to generate and manage its revenue, and (v) strengthening of the economic fundamentals.

Box 1: The New Deal and Guinea-Bissau

Guinea-Bissau became a member of the g7+ in July 2010 in the context of the New Deal for Fragile States. Piloted by 19 ‘fragile’ and/or conflict-affected States, the New Deal establishes the key objectives of peacebuilding and state-building as proposed by the countries themselves. It focuses on new ways of engaging and identifies commitments to strengthen mutual trust. In this context actions are owned by the Member States which undertake to carry out reforms in the following direction:

- Use peacebuilding and state-building goals as an important foundation to enable progress towards the MDGs;
- Support inclusive country-led and country-owned transitions out of fragility; and
- Build mutual trust by providing aid and managing resources more effectively and aligning those resources for results

Source: New Deal website www.newdeal4peace.org

2.2.2 Challenges and Weaknesses: Addressing Fragility

34. **In the short-term, the country’s main challenge is not to slide back into greater fragility. The main medium-term challenge is to build institutional and political resilience which is now helping fragile states to emerge from fragile situations.** To that end, it is important to (i) strengthen the rule of law and republican institutions by correcting institutional weaknesses; and (ii) provide the population with the necessary infrastructure that will create the momentum to build economic and socio-ecological resilience, restart the administration and restore basic social services.

¹² A study on the financial system was conducted by ORWA/SNFO, as well as a gender profile and transport sector study financed by the Portuguese Fund and finally a joint ORWA/ORTS study on fragility.

35. **Safeguarding the transition is the immediate challenge and a key element of the New Deal.** In view of the recurring difficulties at the level of the national treasury which impact on the payment of civil servants' salaries and the population's expectations after two years of socio-economic sluggishness, the first year after the elections will be a critical year insofar as the government will have to find the necessary resources to ensure the continuity of the State. The payment of salaries is, therefore, a significant first short-term stage because it will not only ensure the functioning of the administration in general, but, as the recurrent education sector strikes demonstrated during the transitional phase, it is a prerequisite for the provision of basic social services.

36. **The fragility assessment highlights the medium-term challenges relating to the chronic weaknesses of central government which is not resilient enough to prevent situations of fragility.** According to the measurement of government effectiveness of the World Bank's Worldwide Governance Indicators, Guinea-Bissau is ranked in the lowest decile of the classification. The government is currently unable to (i) collect significant revenue, (ii) effectively manage the revenue collected (PEFA 2013), and (iii) impose its authority throughout the national territory in order to provide basic services.

37. **In addition to these aspects, and as previously mentioned, an important lesson learned concerning state-building is that the establishment of security and the justice system is a prerequisite for progress in all other areas** (ref. the New Deal and the new Strategy on Addressing Fragility and Building Resilience in Africa). The main challenge for the Bank is to carry out, on the social and economic fronts, parallel actions to resolve both the political and security problems. Indeed, the challenge of safeguarding the transition will entail the easing of a fluid and fragile political situation characterized by the recurrent interference of the military establishment in political life. In this respect, while the security sector reforms appear to be political risk mitigation measures, they do, however, present a risk to the extent that, if they are deemed inadequate by the military, they could influence the political process, as in 2012¹³.

38. **Government weaknesses are exacerbated by a chronic lack of infrastructure.** Equitable access to basic infrastructure services (electricity, transport and water) is a means of strengthening the government's legitimacy, establishing trust between the government and its citizens and increasing the inclusiveness of growth. However, in terms of energy, national production is below 5MW and the national electrification rate is 20%. With regard to the road network, the quality of roads represents a serious problem that impedes growth.

39. These infrastructure gaps have both internal and external effects for the country and limit the inclusiveness of growth. First they increase the marginalization of segments of the population (especially of women). They also limit the emergence of activities outside the capital, slow down the supply of government goods and services throughout the national territory, increase internal exclusions of certain regions ('internal isolation') and encourage the flourishing of trafficking especially at the cross-border level. To address this situation, it is essential to create infrastructure that will help to open up the country internally in order to promote inclusive growth that will take into account the country's internal disparities. At the regional level, road, port and airport connections are limited, placing the country in a situation of virtual isolation from the sub-region ('external isolation'), curtailing trade and regional integration.

2.2.3 Strengths and Opportunities: A successful transition increases the likelihood of building resilience to fragility and lays the foundations for inclusive development

40. **The return to constitutional order has opened a favourable political and cyclical window of opportunity.** Boosted by post-election momentum and the return of the TFPs, this window of opportunity should allow the restructuring of all partners' interventions and the resumption of

¹³ The 2012 coup d'état was partly justified by the interference of Angola which had played a lead role in the reform of the security forces and which, according to the army, represented a threat to national integrity.

cooperation especially in the areas prioritized under the New Deal. Increased aid coordination measures as well as the organization of a donor roundtable are under consideration.

41. **On the economic front, this provides an appropriate opportunity to review economic agreements, thereby laying the foundations for equitable and long-lasting economic rents particularly in the extractive industries.** The return to constitutional order will provide the government with an opportunity to revise some existing economic agreements (e.g. mining operations), but also to prepare for future opportunities in the natural resource sector concerning both economic and environmental aspects. Indeed, the country has an abundance of potentially exploitable natural resources that could provide the government with possible financial revenue as well as direct and indirect jobs in the country. While the existence of potentially large deposits of bauxite and phosphates have been known since the 1970s, problems relating to the lack of infrastructure and persisting political instability and governance weaknesses have prevented any significant exploitation. The country also has hardwood and heavy sand resources which are the subject of illegal trafficking in the first case and, in the second case, of an exploitation contract currently being terminated. The government intends to accede to the Extractive Industries Transparency Initiative (EITI) while stressing the importance of establishing reliable governance systems in readiness for future economic rents from these extractive industries¹⁴.

42. **In addition to the extractive industries, Guinea-Bissau has sectors with strong development potential,** especially in agriculture, fisheries and tourism. Indeed, agricultural potential is significant because of favourable factors such as climate and soil characteristics providing a diversified range of cereal (rice, millet, sorghum, etc.), cash (cashew nuts, groundnuts and cotton), fruit (mangoes, citrus fruit, papayas, etc.), and pulse and tuber (cassava and sweet potatoes) crops. Better integrated exploitation of the different sub-sectors bolstered by the development of irrigation schemes could create industrial value-added through processing activities¹⁵. However, infrastructure-related constraints inhibit this potential partly because of the internal isolation of the production areas. Guinea-Bissau is also one of the richest countries on the West African Coast in terms of fishery resources: the most recent data estimate annual potential at 300,000 metric tonnes. However, weak port services, obsolete cold storage facilities and governance gaps in fisheries have prevented fishing from becoming a value-added and job-creating activity.

43. **The return to constitutional order has also provided an opportunity to revitalize regional partnerships that the country can rely on to safeguard the transition initially and, subsequently, build institutional resilience.** For example, in the past, the country has been unable to take full advantage of the positive economic impacts of partnerships such as its membership of WAEMU in order to strengthen economic governance. Also, difficulties relating to infrastructure and, in particular, electric power could be mitigated by regional power generation and interconnection projects, e.g. by OMVG. To that end, the use of regional organizations and projects as drivers to **anchor the country in a regional dynamic**, could help to increase regional connections and benefits in order to build the resilience of national institutions as recommended in the Bank's Strategy on Addressing Fragility and Building Resilience, and the New Deal. Similarly, it is necessary to encourage dialogue aimed at promoting the country's integration into regional partnerships, including a possible rapprochement with the Mano River Union (MFO).

44. **The increased involvement of non-state actors provides an opportunity to build resilience.** While many obstacles remain to be overcome in order to create suitable conditions for its emergence, the private sector has an important role to play insofar as it can help to reduce economic vulnerability, contribute to government revenue, job creation and also become a key interlocutor in future reforms. However, in order to ensure its development, the private sector requires a general improvement of the business climate, efficient basic infrastructure, more effective application of

¹⁴ Political economy literature provides considerable evidence of a 'resource curse' showing that the abundance of resources is negatively correlated to economic growth with state-building efforts as well as with the level of democracy - factors which have represented challenges for Guinea-Bissau since its independence.

¹⁵ In this context, irrigation-development studies carried by the Gambia River Basin Development Organization (OMVG) in 2013 in the Guinea-Bissau part of the basin (Campossa Dam, 1000 ha of irrigated crops and 150ha. of bottomlands) with AWF support represent opportunities for the revival of irrigated agriculture in the country.

justice as well as technical support. Similarly, the involvement of civil society will provide an opportunity to build institutional resilience. It is, therefore, essential that partners adopt a participatory approach as well as transparency improvement programmes.

2.3 Recent Developments in Aid Coordination/Harmonization and ADB Positioning in the Country

45. **At the strategic level, some institutions have already prepared their areas of intervention while others are at the planning stage¹⁶.** The World Bank has prepared an interim country strategy which should shortly be approved by its Executive Board, while others such as the EU are in the programming phase (apart from the commitment of emergency funds). There is, therefore, a coordination gap which must be closed. With regard to public finances, the EU has proposed to set up a thematic group on the basis of their budget support programme approved in October 2014. This will help to ensure effective coordination with other development partners to support the government's public financial management strategy. Coordination will be strengthened in the other sectors by the preparation of a roundtable planned for February 2015.

Box 2: Aid Coordination in Guinea-Bissau

Prior to the April 2012 coup d'état there was a TFP consultative framework which operated on the basis of multi-sector thematic groups but meetings were suspended during the transitional period. Since then, the TFPs have been awaiting a roadmap from the Government concerning a donor roundtable that will serve as a springboard for the relaunching of coordination. It is, however, worth noting that aid coordination and monitoring mechanisms have always corrected the public administration's structural weaknesses. Prior to the 2012 coup d'état, the Bank had approved a Technical Assistance Project (PECA II) aimed at strengthening coordination capacities. This project includes support for the organization of the donor roundtable in addition to capacity building activities concerning the Ministry of Economy and Finance. Since the end of the transition, the new government has expressed its willingness to tackle the problem of coordination by establishing a quarterly monitoring mechanism, focused on project implementation concerning which an initial meeting was held two months after the elections.

46. Concerning task distribution, some institutions have assumed a lead role at policy level including UNIOGBIS, the African Union and ECOWAS regarding policy dialogue and army reforms. In addition to these institutions, only some Agencies of the United Nations System are directly involved in state-building programmes. For its part, the World Bank will base its operations on the water and electricity sectors, community development, the private sector and institutional support. WADB will be chiefly involved in road infrastructure, the energy sector and agriculture. EU institutional support will be resumed through emergency financing, pending the planning of the new European Development Fund (EDF) cycle. Annex 10 presents a summary Table of the partners' operations. Despite the weak coordination, the Bank has engaged in lengthy discussions with all the TFPs to coordinate its aid during the preparation of this strategy.

2.3.1 Bank's Positioning

47. **In its previous operations, the Bank positioned itself as a major actor in the area of project financing but project performance was affected by the impact of political uncertainties.** The political crisis, followed by the suspension of the Bank's operations, contributed to a deterioration in the portfolio's overall performance. Owing to the suspension of operations, the deadlines for the last disbursements for four projects have expired. Also, several other activities in which the Bank supports the country with a view to leveraging additional resources (Trust Funds, African Legal Support Facility and the Global Agriculture and Food Security Programme - GAFSP) were under preparation¹⁷ and have been suspended. Pursuant to an SMCC decision of 18 July 2013 it was agreed to resume existing operations on a case-by-case basis while continuing to apply the Presidential Directive on *de facto Governments*.

¹⁶ Throughout the transitional period, all the technical and financial partners (with the exception of WADB) suspended their operations.

¹⁷ Renewable energy, rural infrastructure, the Bandiri fishing port and the Bissau commercial port.

48. **As at 30 October 2014, the Bank’s active portfolio in Guinea-Bissau comprised five (5) country operations, representing a total net amount of 22.29 million units of account (UA), UA 7.47 million of which have been disbursed, i.e. a disbursement rate of 33.5%. The portfolio is largely dominated by the social sector, which accounts for 97% of the amounts allocated to four (4) projects: The Health Development Support Programme for a total amount of UA 6 million; the Education Project III for a total amount of UA 7.16 million, including UA 3.51 million from the NTF; the Public Administration Capacity Building Support Programme (PARCA) for a total amount of UA 7.8 million; and Emergency Aid in Support of Efforts aimed at Checking a Cholera Epidemic for a total amount of US\$ 0.99 million. There is one (1) multi-sector operation (i.e. 3% of the total portfolio amount), the Institutional Capacity Building Project (PECA II) for a total amount of UA 0.66 million. The portfolio also includes two (2) multinational operations for a total amount of UA 21.35 million, with a disbursement rate of 66.6% (Annex 5).**

49. **The overall 2014 portfolio evaluation score is 1.8 (on a scale of 0 to 3), i.e. a performance evaluation considered unsatisfactory, which is below the score awarded following the last portfolio review in 2010 (2.15). The political crisis, followed by the suspension of disbursements, has had a negative impact on the performance of the portfolio in Guinea-Bissau. As a result of their suspension, ongoing projects were unable to benefit from regular supervision and activities have been put on hold. The average age of the operations has fallen from 3.4 years in 2012 to 4.6 years in 2014. The Bank’s active portfolio in Guinea-Bissau includes one ageing project, i.e. the Education Project III. This is also considered to be a potentially problematic project (PPP). The disbursement rates for all the active portfolio operations are low (the overall rate is 33.6%).**

50. **With a view to improving the performance of ongoing projects, a country Portfolio Performance Improvement Plan (2014 PPIP) has been prepared and approved jointly by the Government and Bank. The 2014 PPIP was prepared following a mission fielded by the Bank from 8 to 15 August 2014 culminating in the organization of participatory workshop to review cooperation between the Bank and Guinea-Bissau (Annex 6). The Plan was also based on discussions with the different stakeholders, an analysis of the findings of the opinion survey on portfolio performance carried out at the level of the Project Implementation Units (PIUs), as well as project status data. The 2014 PPIP concerns general and specific measures accompanied by an action plan and implementation schedule aimed at addressing the main challenges:**

- (i) **Quality at Entry and Project Design:** more rigorous setting-up of projects, which reflects actual institutional and financial capacities and takes into account fragility-related challenges (application of the ‘fragility lens’).
- (ii) **Smooth implementation of operations:** this entails the maintenance of comprehensive competent teams at PIU level in order to ensure the continuity of operations and the required skills in terms of coordination and fiduciary management. This is particularly important since, during the period of suspension, the salaries of project implementation unit personnel could not be paid, resulting in the departure of some members. It is, therefore, recommended to build capacities by regular training sessions for project and

Box 3: Bank’s Presence in the Country

Guinea-Bissau is covered by the multidisciplinary teams based at the Senegal Regional Office (SNFO). With a flying time of only 40 minutes to Bissau from Dakar, the Bank’s experts are sufficiently detached to carry out a pertinent analysis of the situation while remaining close enough to acquire sound field knowledge. Moreover, coordination with the partners is facilitated since most TFPs (Bilaterals and the World Bank) covering Guinea-Bissau are based in Dakar.

The conduct of dialogue and implementation of the Bank’s activities by SNFO is facilitated by the presence of the National Programme Office (NPO) in Bissau. Comprising an operations assistant and a driver, the NPO plays a key role in maintaining contact with the authorities and projects on a day-to-day basis. It is useful in terms of communication because of the presence of Portuguese-speaking personnel but also because of its knowledge of government actors which facilitates the collection of information and effective deployment of experts in the field. As part of the decentralization, the NPO will be strengthened by a resident country economist.

Ministry staff on the Bank's rules and procedures. Finally, the timely planning and conduct of audits and processing by the PIUs remains a major challenge;

- (iii) Portfolio Restructuring: robust measures have been taken to restructure the portfolio, including: (a) the closing of some projects, in particular, the Education Project III because of its advanced age and also because it was considered as a potentially problematic project (PPP); (b) revision of the list of goods and services for some projects, including PARCA, in order to refocus the necessary resources on support to urgent capacity building measures at the Ministry of Economy and Finance, in partnership with IMF; (c) speed up implementation of ongoing activities within a reasonable timeframe in order to settle accounts and close projects.
- (iv) Monitoring and Evaluation: evaluation must be strengthened as well as performance indicators, particularly in terms of achievement of development objectives, the preparation of periodic reports, audits and completion reports, etc.

2.3.2 Implementation and Lessons Learned from Previous Strategies

51. **Generally, the Bank should more effectively capture fragility-related aspects and mainstream them in its operations.** This is the main lesson to be learned from the Bank's strategies and operations in States identified as being *fragile*. For example, the reform of the security forces was identified as a risk under the previous strategy, a risk which arose because the other partners had failed to take it sufficiently into account. This type of fragility-related aspect was underscored in the evaluation of the Bank's TSF operations or in proposals made by the High Level Panel on Fragile States. In the case of Guinea-Bissau, previous strategies were mainly focused on support to first generation reforms with the main focal areas being the strengthening of financial good governance, the promotion of rural development and access to basic socio-economic infrastructure (2005-2009 RBCSP Mid-Term Review). While the results of the first thrust were rated positive (especially with regard to budget reforms and reaching the HIPC Initiative completion point in 2010), this did not contribute to building the resilience of the government or its change management capacity as confirmed in the regression observed following the 2012 coup d'état. More effective mainstreaming of fragility-related aspects with the continuing support of the Bank's specialized Departments could resolve that problem. Concerning the second thrust, there has been a significant increase in production in the country's northern and eastern regions as a result of the rehabilitation of agricultural projects. However, production in these regions remains affected by the lack of road and irrigation infrastructure. On the whole, these findings echo the conclusions of the Bank's Ten-Year Strategy, IDEV's assessment of the Strategy for Enhanced Engagement in Fragile States, but also the main thrusts of the 2014 to 2018 Governance Strategic Framework and Action Plan (GAP II) and the Bank's new Strategy on Addressing Fragility and Building Resilience in Africa which recommend more effective mainstreaming of political economy aspects in the Bank's operations.

III. BANK GROUP STRATEGY FOR THE COUNTRY

3.1 Rationale for Bank Group Intervention

52. **The analysis carried out in this document stresses the complexity of the drivers of fragility as well the country's institutional and economic weaknesses which impede inclusive and green growth.** More specifically, these shortcomings are closely related to inadequate resilience to lift the country out of its situation of fragility. Thus, the main thrust of the DENARP II ('strengthen the rule of law and institutions') occupies a key, cross-cutting position in this strategy insofar as it determines the success of the other thrusts: without a government that is able to provide minimum guarantees, it is difficult to have a stable macroeconomic framework (Thrust 2), sustainable economic development (Thrust 3) or even to raise the level of human capital (Thrust 4) in order to foster inclusive growth. Similarly, with a weak government, the minimum safeguard measures to ensure

green growth cannot be effectively implemented. This approach is closely linked to the New Deal and is consistent with the Bank's Strategy on Addressing Fragility and Building Resilience in Africa.

53. In light of these factors, the Bank's Strategy for the 2015-2019 period is based on the first and third thrusts of the DENARP II, ('Strengthen the Rule of Law and Institutions' and 'Promote Sustainable Economic Development'). In that context, the Bank's strategy demonstrates a determination to consolidate the foundations of the State and, to the extent possible, ensure the elimination of the internal and external isolation of the country, which is curbing its economic and social development. The adoption of this approach means that the strategy is also in keeping with the mid-term review of the Bank's 2011-2015 Regional Integration Strategy Paper for West Africa, (especially the Pillar aimed at 'building the implementation capacities of the regional integration agenda'), and GAP II. The proposed areas of intervention are also in line with the Bank Group's private sector policy the long-term objectives of which are to help the RMCs to strengthen their competitiveness. They are also consistent with the Bank's Gender Strategy, in particular, Pillar 2 on 'economic empowerment'. Finally, the proposed Pillars are fully in keeping with the Bank's 2013-2022 Ten-Year Strategy, particularly its inclusiveness objectives, the mainstreaming of fragility, agriculture and food security. Thus, in light of the consultations held during the strategy mission with all the stakeholders, the analysis of constraints, the scarcity of resources, the Government's strategic options, DENARP II, the analytical studies conducted by the Bank, the framework provided by the Bank's long-term strategy, the concern for impact and in complementarity with the other partners' operations, the Bank's Strategy for the 2015-2019 period will focus on the following pillars:

54. **PILLAR I: Strengthen Governance and the Foundations of the State:** the objective of this pillar will be to support the building of the resilience of government institutions in order to prevent the emergence of situations of fragility. It will have two complementary components:

- i. The strengthening of governance linked to the justice system and the fight against impunity, consolidation of which is a prerequisite for all fair and inclusive growth as well as for progress in all other areas as recommended by the Bank's new Strategy on Addressing Fragility and Building Resilience in Africa¹⁸. In the same vein, the Bank will contribute to the (i) strengthening of accountability and transparency (especially in the area of natural resources, including at the environmental level, in order to lay the foundations for greener and more equitable growth¹⁹), (ii) the fight against corruption and illicit activities, and (iii) the creation of an enabling environment for non-state actors (private sector and civil society) to operate in. Special attention will be paid to the gender dimension in a logic of social inclusion;
- ii. The strengthening of governance required to build resilient economic institutions. In coordination with the other TFPs, the aim of the Bank's operations will be to improve revenue collection and management and strengthen public financial management in order to restore the basic government structures, pay civil servants' salaries and provide basic public services to the entire population as recommended by the New Deal. In this respect, the Bank's operations will rely on regional structures such as WAEMU and OHADA and capacity building will be recommended for institutional actors.

55. The first component will support the work carried out on economic management in the second component insofar as it will strengthen the institutions of the justice system, which are necessary for the smooth operation of public and private economic institutions. The Bank could, therefore, envisage the use of instruments such as joint or parallel institutional support with the World Bank covering the two components and/or budget support in order to ensure continuity of the State. The ALSF, ORTS

¹⁸ To that end, and as recommended in the Bank's Strategy on Addressing Fragility and Building Resilience in Africa, ORTS (ref. point 3.19), 'The Bank would partner with organizations that are active in the security and justice sector and accompany their efforts, for instance by funding the development of physical infrastructure, whether directly or as a component of budget support operations ... or provide technical support in areas such as ... capacity building for public financial management'.

¹⁹ Including the fight against illegal fishing, transparency in Fishing Agreements and adoption of the FLEGT process.

and ANRC teams will also be mobilized to link the requirements for justice and transparency with public-finance-related needs. In the context of the study on the formalization of informal enterprises, activities will be developed to strengthen the business environment to promote the private sector. Finally, given the complexity of governance aspects relating to fragility, operations without any preconceived ideas and experimentation with innovative approaches will be the main focus of this pillar.

56. **PILLAR II: Development of infrastructure that will foster inclusive growth.** The priority of this pillar will be regionally-oriented investments providing the best chance for high economic returns and also those with the strongest potential for social cohesion and resilience with an inclusive objective. From an economic standpoint, this pillar aims to support the opening up of production which remains a prerequisite for economic diversification and employment (especially of young people), inclusive growth and the development of opportunities in, for example, agriculture (particularly in favour of food security) or the private sector. From a social and human standpoint, the pillar has a regional focus insofar as it aims to open up the regions internally with a view to eliminating bottlenecks affecting the provision of social services, and promoting increased community participation in the economic and political recovery – particularly of women. The elimination of this isolation will enable government to extend its control over areas which had previously been difficult to access and thus help it to successfully assert its prerogatives in the spirit of the New Deal in order to reduce the geographical marginalization of certain segments of the population. Then, by prioritizing investments in regional/cross-border projects, the country will become more firmly anchored in its neighbouring countries and will revitalize regional partnership. The main focus of this pillar will be on: (i) electricity with the OMVG project which will result in a significant improvement in electric power generation in the country, strengthening of the distribution grid so that the energy benefits everyone, and finally on projects that will facilitate access to electricity, especially outside Bissau; (ii) transport with the construction of cross-border roads and to the extent possible rural roads. In order to ensure an inclusive approach, agricultural issues will be included in this pillar (especially, the opening up of productive areas and value chains) will be taken into consideration with GAFSP support²⁰. Implementation of this pillar will encourage the participation of private operators.

57. **In addition to the strategy's operational pillars, the Bank will place special emphasis on (i) coordination of partners' interventions** in order to create a critical mass of transformational operations: to this end, the possibility of a joint institutional support operation with the World Bank is being discussed as well as a programme-based approach with WADB and the World Bank in the electricity sector and the co-financing of road sections with the EU; **(ii) dialogue on government policies to improve fragility mainstreaming:** this dialogue will include both technical actors (Ministries, TFPs, etc.) and politico-economic actors such as WAEMU, ECOWAS and the United Nations as well as the private sector; **(iii) areas of specific interest to the Bank,** in particular, gender using the gender profile as a reference framework for operations and food security a focus on opening up productive agricultural areas through infrastructure for which preference will be given to dialogue with non-state actors.

58. **The Bank will initiate a knowledge-building programme by carrying out economic and sector work.** This study plan includes studies already initiated such as the transport sector study or planned studies such as: (i) a study on strengthening extractive industry transparency; and (ii) a comprehensive review of private sector development and the possibility of value chain gains, as a complement to Pillar I; and (iii) an analysis of national and international fiber-optic connectivity in Guinea-Bissau as a complement to Pillar II, and, finally, (v) a cross-cutting study on the prospects for strengthening regional integration.

59. **The proposed pillars will be implemented through a pipeline of projects financed by several instruments including, in particular, the Performance-Based Allocation (PBA) of the Transition Support Facility (TSF).** Regarding eligibility for TSF Pillar I, the country is considered eligible on the basis of the criteria presented in Annex 11. An overview of the resource mobilization approach is presented

²⁰ In this context, the Bank will consider the possibility of implementing LI activities with a focus on youth employment.

in Box 4.

Box 4: Resource Mobilization to Facilitate the Roll Out of the Strategy

Under ADF 13 (2014-2016), the country allocation provides available resources estimated at UA 28.32 million comprising UA 15 million from the PBA and UA 13.32 million from the TSF. It is also expected that unused balances will be released from closed operations (under the ADF window) to finance new activities. However, in order to optimize these funds, the following resource strategy will be implemented:

- Use of the Regional Envelope for infrastructure projects (cross-border roads and the OMVG electricity project);
- Co-financed Projects as, for example the Boke-Quebo road where discussions are ongoing. This is also valid for operations under Pillar 1 such as the joint institutional support project with the World Bank that will cover all aspects of governance relating to the financial administrations and also issues of transparency and justice. In addition to the objective of resource optimization, the co-financed projects will create a critical mass of transformational operations under each pillar;
- Mobilization of Trust Funds, such as the GEF for studies on a hydro-power plant in Salinho, ALSF for natural resources, GASFP for rural infrastructure (and food security) or FAPA. Other sources of financing will also be explored such as the Africa50 Infrastructure Fund, new instruments such as the Partial Credit Guarantee (PCG), the Private Sector Credit Enhancement Facility or the Partial Risk Guarantee (PRG).

3.2 Deliverables and Targets

60. **Deliverables related to lending operations.** The overall objective is to help to mitigate the drivers of the country's fragility and build institutional and socio-ecological resilience in order to promote inclusive growth. To that end, a fragility lens will be systematically applied to all project designs. Also, in addition to the specific deliverables for each pillar, it is expected that the gender dimension will be mainstreamed in the Bank's operations using the 2014 Gender Profile as a reference framework. The expected deliverables for Pillar I of the CSP are:

- *Deliverable 1.1: Build the Government's capacities to generate and manage its revenue* with, in particular, the improvement of budget programming, budget control and execution procedures, revenue mobilization; and the strengthening of national systems (in particular, with regard to public procurement), based, as far as possible, on regional regulations.
- *Deliverable 1.2: Strengthen accountability and transparency.* At this level, three themes are concerned: transparency with regard to natural resources to ensure fair returns for the country and to ensure compliance with the required environmental standards for green growth (ongoing contracts, FLEGT process, EITI etc. through the ALSF, ANRC and Trust Funds); support to reforms focused on the role of institutions (e.g. decentralization, justice) in keeping with the orientations of the DENARP II; building national environmental management capacities.
- *Deliverable 1.3: Improve the participation of non-state actors to ensure a more inclusive economy* in particular, by establishing attractive legal frameworks for investments, providing technical assistance for the private sector with special emphasis on the promotion of women's entrepreneurship and through continuing engagement with civil society and by gender mainstreaming (participatory updating of the gender profile using the profile data as a reference base for projects).
- *Deliverable 1.4: Strengthening government institutions linked to justice and the fight against impunity* to enable them to implement reforms together with (i) the promotion of legislative reforms, (ii) establishment of international mechanisms and standards in the fight against organized crime and corruption, (iii) the strengthening of judicial facilities and (iv) facilitation of women's access to justice.

61. The deliverables for the second pillar are:

- *Deliverable 2.1: the opening up of regions* through rural and regional infrastructure projects, including cross-border or secondary road transport. The Bank will ensure that gender issues are adequately mainstreamed in its support to the development of road infrastructure (use of profile data as reference bases for projects as well as the databases of women's associations for consultations).
- *Deliverable 2.2: increased electric power generation and distribution capacity* through (i) regional electric power interconnection and concretization of the OMVG project, (ii) strengthening of the distribution grid, (iii) construction of rural hydro-power facilities and finalization of the preparation of the Saltinho project.

62. **Deliverables relating to Non-Lending Operations (knowledge management).** An economic and sector work plan will be established in order to support the government throughout the strategy. It is expected that the studies conducted by the Bank will be the subject of continuing dialogue with the country.

63. **Monitoring-Evaluation:** As regards the CSP, the Results Monitoring Logical Framework (Annex 1), will be used to monitor and evaluate the expected results during the strategy's implementation. However, one of the lessons learned from previous strategies and the portfolio review is the need to create monitoring/evaluation expertise at the level of the PIUs, oversight Ministries and the Planning Department in order to generate the necessary data for the results monitoring framework. It is, therefore, necessary to (i) build the country's monitoring-evaluation capacities (especially, the national statistics system); and (ii) establish an overall programme/project monitoring-evaluation system that is efficient and computerized, including the establishment of the baseline situation. The Bank's PECA II Project contains some components relating to the monitoring-evaluation system. The Bank's institutional support will consider the possibility of providing additional support. Finally, the presence of the NPO in Bissau and proximity of SNFO will enable the Bank to carry out frequent and intensive monitoring.

3.3 Country Dialogue Issues

64. **The pursuit of institutional reforms must be the main topic of dialogue.** Institution building, by paying close attention to the reform efforts in the security sector and the central government modernization plan must be one of the main themes for dialogue. This must take citizen participation into consideration in order to promote ownership of the reforms.

65. **Improvement of the portfolio's performance will be critical to guarantee the expected results.** Given the fiduciary context, the massive inflows of official development assistance in the wake of the return to constitutional order and the emergency nature of certain operations, special attention will be paid to portfolio performance. Dialogue with the national authorities will, therefore, focus on improving project performance and the extent to which the Bank's operations could facilitate the achievement of the results-based indicators set out in the DENARP-II and progress towards achievement of the MDGs.

66. **Development of the necessary mechanisms and procedures for implementation of the Paris Declaration, the Busan Partnership, the Accra Agenda for Action and New Deal** to ensure effective absorption of aid must be constantly monitored.

3.4 Risks and Mitigation Measures

The main risks relating to the implementation of the Bank's strategy are:

67. **A reversal of the democratic-process-strengthening trend.** Indeed, the electoral process is not an end in itself, but paves the way for the political and institutional changes which this strategy aims to support. These changes, inherent in the development process may cause the re-emergence of the drivers of fragility as in 2012. This risk must, therefore, be mitigated by ongoing dialogue with all stakeholders with particular emphasis on the drivers of fragility.

68. **Weak institutional implementing capacity remains a major risk for the efficiency of the operations.** In this respect, greater flexibility should be adopted regarding the implementation of actions retained under the CSP. The use of technical assistance as well as intensification of fiduciary clinics will be prioritized. As regards dialogue with the authorities, it is important to ensure coordination among partners in order to avoid sending contradictory messages. This risk will be mitigated by the establishment of an Aid Coordination Committee by the Government.

69. **Spread of the Ebola virus to Guinea-Bissau from neighbouring countries.** Guinea - Bissau shares borders with Guinea-Conakry, one of the sources of the Ebola Hemorrhagic Fever Epidemic (EHF). It is not, therefore, secure from the threat of imported contagion. Such a situation could wipe out all the development efforts. The same risk applies to the cyclical epidemics of cholera the country has experienced for over a decade. In order to prevent such risks, the Bank has already contributed to the establishment of prevention facilities through its recent support for the fight against Ebola in WAEMU countries. Also the state-building work recommended in the strategy would ensure that the necessary resources are provided for the different prevention plans in the immediate future (increasing inflows of government revenue, etc.). The consolidation of governance, in general, would contribute to the mitigation of such risks in the long term.

70. **The issue of ineligible expenditure could block the Bank's interventions.** Exceptionally, in 2012, the Bank allowed the government of Guinea-Bissau to reimburse a total amount of CFAF 777,994,624 relating to ineligible expenditure incurred for the Post-Conflict Rehabilitation Project in 12 instalments, the first of which was paid in March 2012, but then payments were suspended in the wake of the coup d'état. Following renegotiation of the timeframe, one payment was made on schedule in January 2014 following which the government failed to honour its commitments. Recently, the Government made a payment of CFAF 200 million and has undertaken to repay the balance during 2015 on the basis of a new timeframe renegotiated with the Bank. The Bank, for its part, will continue to monitor the payments and endeavour to advise the government on its budget management (in particular, through institutional support) in order to prevent a further suspension of operations in compliance with the Bank's rules.

IV. CONCLUSIONS AND RECOMMENDATIONS

71. **Prepared on the basis of a participatory process, this 2015-2019 Strategy for Guinea-Bissau provides a framework for the Bank's operations aimed at supporting the efforts to lift the country out of crisis and put it on the path towards inclusive growth.** It will help to consolidate the foundations of the State and its economic fundamentals. It will also help to accelerate the establishment of the necessary infrastructure for inclusive growth and provide the country with knowledge-building support.

72. **With regard to the portfolio, the suspension of operations and disbursements in April 2012 had negative impacts on its performance, which is considered unsatisfactory.** In order to improve it, a country Portfolio Performance Improvement Plan has been prepared (2014 PPIP) and approved jointly by the Government and the Bank.

73. The Boards of Directors are invited to consider and approve the proposed Country Strategy Paper for Guinea-Bissau for the 2015-2019 period.

Annex 1
Results Monitoring Framework for the 2015-2018 Guinea-Bissau CSP

Development Objectives	Constraints hindering achievement of desired outcomes	FINAL OUTCOMES (expected by CSP completion in 2019)	FINAL OUTPUTS (expected by CSP completion in 2019)	MID-TERM OUTCOMES (by 2017)	MID-TERM OUTPUTS (by 2017)	Bank's Interventions
PILLAR I: STRENGTHEN GOVERNANCE AND THE FOUNDATIONS OF THE STATE						
Building Institutional Resilience	(i) Weak government capacity to generate and manage its revenue	<ul style="list-style-type: none"> - Implementation of LOLF (Organic Law on Budget Laws); - Implementation of recommendations of public procurement audit; - Implementation over the previous two-year period of internal control based on a procedures manual; - SYGARHP operational for at least 2 years; - Integrated Procurement Management System linked to a Public Financial Management System for 2 years; - Budget schedule adhered to for at least 3 years and publication of periodic budget execution reports for 2 years; - All WAEMU Directives translated into Portuguese, submitted to the National Assembly and transposed; - VAT introduced; - Tax ratio > 13% ; 	<ul style="list-style-type: none"> - SYGARHP finalized and operational; - Procedures manual prepared and updated; - Integrated Procurement Management System ready and updated; - Public procurement audits finalized; - Implementation of LOLF; - WAEMU/OHADA Directives translated; - Legal arsenal on VAT approved; - CGI revised and tax incentives harmonized; 	<ul style="list-style-type: none"> - Start of implementation of LOLF; - Public procurement audit ongoing; - Internal control based on a procedures manual effective; - Finalization of SYGARHP ; - Implementation of sector policies and adoption of MTEF; - Budget schedule adhered to; - 50% of WAEMU Directives not translated into Portuguese are translated, submitted to the National Assembly and transposed; - Tax ratio at 11% 	<ul style="list-style-type: none"> - SYGARHP being finalized; - Procedures manual being validated; - Integrated Procurement Management System ready and updated ; - Public procurement audits planned, validated and being prepared; - WAEMU/OHADA Directives translated; - VAT legal base approved; - Evaluation of CGI and tax incentives; 	<p style="text-align: center;"><u>Old Projects:</u></p> <ul style="list-style-type: none"> - PARCA - PECA <p style="text-align: center;"><u>New Projects</u></p> <ul style="list-style-type: none"> - Institutional Support - Budget Support - ALSF Support

	(ii) Weakness of official state justice and security institutions	<ul style="list-style-type: none"> - Preparation and implementation of a justice sector computerized management system: 75% of envisaged reforms are adopted; - Mandatory declaration of assets by all magistrates and legal assistants and monitoring mechanism; - Legislative reforms and establishment of mechanisms and international standards in combating organized crime, impunity and corruption 	<ul style="list-style-type: none"> - Legal framework established for mandatory declaration of assets by all magistrates and legal assistants and monitoring mechanism; - Citizen monitoring system and mechanism for monitoring women's access to justice approved; - Feasibility Study on the establishment of an anonymous public reporting system finalized and validated 	<ul style="list-style-type: none"> - Effective start-up of implementation of legal reforms relating to international conventions against organized crime and corruption; - Effective start-up of mandatory declaration of assets by all magistrates and legal assistants; 	<ul style="list-style-type: none"> - Legal framework prepared for mandatory declaration of assets; - Citizen monitoring system and mechanism for monitoring women's access to justice finalized; - Feasibility Study on the establishment of an anonymous public reporting system initiated; 	
	(iii) Need to strengthen accountability and transparency	<ul style="list-style-type: none"> - All natural resource contracts comply with the law; - National environmental management capacities built up; - Implementation of EITI; - Adoption of the Transparency Code; 	<ul style="list-style-type: none"> - Natural resource-related contracts revised; - Ongoing building of environmental management capacities at the oversight Ministry; - EITI implementation assistance; - Transparency Code finalized 	<ul style="list-style-type: none"> - Ongoing revision of all natural resource contracts; - National environmental management capacities built up; - Stage 1 of EITI implementation finalized; - Adoption of Transparency Code; 	<ul style="list-style-type: none"> - Ongoing revision of all natural resource contracts; - National environmental management capacities built up at the oversight Ministry; - EITI implementation assistance; - Transparency Code finalized 	
	(iv) Weak non-state actor capacities	<ul style="list-style-type: none"> - 20% reduction in enterprise death rate compared to 2014 - Establishment of a women's entrepreneurship promotion mechanism 	<ul style="list-style-type: none"> - Establishment of SME supervision mechanism and a business incubator 	<ul style="list-style-type: none"> 10% reduction in enterprise death rate; 	<ul style="list-style-type: none"> - SME supervision mechanism and business incubator established; 	

Development Objectives	Constraints hindering achievement of desired outcomes	FINAL OUTCOMES (expected by CSP completion in 2019)	FINAL OUTPUTS (expected by CSP completion in 2019)	MID-TERM OUTCOMES (by 2017)	MID-TERM OUTPUTS (by 2017)	Bank's Interventions
PILLAR II: DEVELOPMENT OF INCLUSIVE INFRASTRUCTURE						
Improvement of transport connections and opening up	(i) Need for support to open up regions and road infrastructure gap	<ul style="list-style-type: none"> - 7.5% increase in trade with Senegal and Mali; - Increased trade with Guinea; - Increased internal trade within the country 	<ul style="list-style-type: none"> - Final acceptance of Farim-Tanaff road in 2018 ; - Final acceptance of Boke-Quebo road in 2018; - Construction of infrastructure to improve access for rural communities through the rehabilitation of (i) 100 km of rural roads (ii) 10 small jetties and unloading ramps to facilitate river transport in outlying areas; 	<ul style="list-style-type: none"> - Construction of the Farim-Tanaff road ongoing; - Construction of the Boke-Quebo road ongoing ; - Construction of infrastructure to improve access for rural communities ongoing 	<ul style="list-style-type: none"> - Updating of studies in 2015 	<p><u>New Projects</u></p> <ul style="list-style-type: none"> - Farim-Tanaff Regional Road - Boke-Quebo Regional Road - PAIRI/GASFP Project
Improved electric power supply	(ii) Energy infrastructure gap	<ul style="list-style-type: none"> -100% increase in country's generating capacity through the OMVG interconnection; -35% increase in Bissau's electricity coverage rate -47% to 25% drop in power grid losses; -35% increase in people connected to the grid; -EAGB management improved by the introduction of a billing system; 	<ul style="list-style-type: none"> - OMVG interconnection established and effective (35 km of LV network rehabilitated, 65 km of LV network constructed and operational and 15 cabin-type transformer substations constructed and operational) - All EAGB LV customers in Bissau use pre-payment metres; -Bissau electricity network strengthening works finalized; -Introduction of a billing system ; 	<ul style="list-style-type: none"> - Construction work on 225 kV interconnection completed in 2017; - Rehabilitation and extension work on distribution network being implemented and expected to be completed in 2018. 	<ul style="list-style-type: none"> - OMVG interconnection being established ; - Electricity network strengthening networks works ongoing; 	<ul style="list-style-type: none"> - Budget Support - GEF support for Saltinho preparation - Bissau network strengthening project

Annex 2
2015-2019 Indicative Lending Programme (in million UA)

Operations Financed under ADF-13 (PBA and TSF)

ADF 13 (2014-2016)	2015	2016	2017	2018	2019	Notes
Budget Support	5					-
Institutional Support	5					-
Electric Power Distribution Network Strengthening Project		13.3				-
OMVG	1.5 ²¹					Regional operation
Farim-Tanaff Road		1.5				Regional operation
PAIRI/GASFP		2				ADF contribution towards mobilization of GASFP Trust Fund

Operations to be Financed under ADF-14 (PBA and TSF)

ADF 14 (2017-2019)	2015	2016	2017	2018	2019	Notes
Salthino Hydro-Power Plant				X ²²		-
Boke-Quebo Road			1.5			Regional operation

Operations Financed through Trust Funds

Trust Funds	2015	2016	2017	2018	2019	Notes
PAIRI/GASFP		20				GASFP Fund
Business Incubator	0.6					FAPA
Preparation for Saltinho and Solar Power Plant	2					GEF
Review of Natural Resource Contracts	X					ALSF

Non-Lending Programme

Studies	2015	2016	2017	2018	2019	Notes
Strengthening of Extractive Industry Transparency	X					-
Study on National and International Fiber-Optic Connectivity in Guinea-Bissau		X				-
Private Sector Development and Value Chain Gains (excluding cashew nuts)			X			-
Regional Integration Prospects				X		-

²¹ For countries with low allocations, regional funds are available subject to 10% use of the PBA, i.e. 1.5 million units of account in the case of Guinea-Bissau.

²² A cross indicates the year of the operation/study. However, it is impossible to know the exact amounts in advance.

Annex 3a
Selected Socio-Economic Indicators

Social Indicators	Year	Guinea-Bissau	Africa	Developing Country
Area ('000 Km ²)	2011	36	30 323	98 458
Total Population (millions)	2013	1.7	1 109.0	5 909.3
Human Development Index (Rank among 187 countries)	2012	176	...	...
Population living below \$ 1.25 a Day (%)	2002-2011	48.9	40.0	20.6
Total Population Growth Rate (%)	2013	2.4	2.5	1.3
Urban Population Growth Rate (%)	2013	3.9	3.4	2.5
Population < 15 years (%)	2013	41.5	40.9	28.3
Life Expectancy at Birth - Total (years)	2013	54.3	59.2	68.4
Life Expectancy at Birth - Female (years)	2013	55.8	60.3	70.3
Infant Mortality Rate (pour 1000)	2013	93.2	61.9	39.8
Maternal Mortality Rate (pour 100000)	2010	790.0	415.3	240.0
Women Using Contraception (%)	2013	15.7	34.9	62.6
Gross Enrolment Ratio (%) – Primary School	2010-2012	116.2	101.9	109.4
Gross Enrolment Ratio (%) – Secondary School	2006-2012	34.5	47.4	69.1
Arable Land (as percentage of Total Land Area)	2011	10.7	7.6	10.7

Source: ADB Statistics Department Database; United Nations Population Division, World Population Prospects: The 2012 Revision; World Bank WDI; UNAIDS; UNSD; WHO, UNICEF, WRI, UNDP, Country Reports. For any given interval, the value refers to the most recent year available. Notes: n.a. Not Applicable; ... : Data not available.

Economic Indicators	Unit	2005	2010	2011	2012	2013 (e)
National Accounts						
GNI at Current Prices	Million US \$.	554	857	926	848	...
GNI per capita	US \$	390	540	570	510	...
GDP at 2000 Constant Prices	Million US \$.	234	275	290	286	287
Real GDP Growth Rate	%	4.3	4.5	5.3	-1.5	0.3
Real Per Capita GDP Growth Rate	%	2.0	2.2	2.9	-3.8	-2.0
Gross Domestic Investment	% of GDP	6.4	6.7	7.3	6.5	6.5
Gross National Savings	% of GDP	4.5	1.3	9.0	0.9	1.6
Prices and Money						
Inflation (CPI)	%	-0.3	2.3	5.0	2.1	1.0
Money Supply – Annual Variations (M2)	%	22.1	33.0	44.7	-3.2	4.1
Velocity of Circulation of Money (GDP / M2)	%	17.4	33.0	43.0	41.3	38.9
Government Finance						
Total Revenue and Grants	% of GDP	15.6	21.8	19.5	15.1	13.4
Total Expenditure and Net Lending	% of GDP	21.5	21.6	20.1	17.9	18.1
Overall Deficit (-) / Surplus (+)	% of GDP	-5.9	0.2	-0.6	-2.7	-4.7
External Sector						
Exports Volume Growth (goods)	%	14.7	-12.1	16.9	-26.0	33.3
Imports Volume Growth (goods)	%	12.3	-5.3	11.4	-26.2	18.5
Terms of Trade Growth	%	-9.5	15.6	39.6	-32.9	-1.0
Current Account Balance	% of GDP	-1.8	-8.4	-1.8	-9.5	-6.6
External Reserves	months of imports	6.3	7.0	7.9	7.6	7.8
Debt and Financial Flows						
Debt Service	% of exports	4.2	648.7	0.5	1.2	1.7
Total External Debt	% of GDP	175.5	23.7	21.8	25.3	22.7
Net Official Development Assistance	Million US \$.	66	139	119	...	...

Source: ADB Statistics Department; IMF: World Economic Outlook, October 2013 and International Financial Statistics, October 2013; Statistics Department: Data Portal (Database), March 2014; OECD, Reporting System Division. Notes: ... Data not available; (e) Estimations

Annex 3b
Trend of Intra-Community Trade (2001-2012)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Average
Exports to ECOWAS (in % of the total value of the country's exports)	0.1	0.8	0.1	0.3	0.5	0.4	0.1	1.0	4.2	0.7	2.6	2.6	1.1
ECOWAS	9.6	12.8	12.2	8.9	8.4	14.1	9.1	11.4	10.4	6.8	8.2	7.8	10.0
Imports coming from ECOWAS (in % of the total value of the country's import)	22.9	24.8	18.8	38.4	53.9	44.2	39.2	26.8	18.8	16.3	17.6	17.6	28.3
ECOWAS	16.2	13.5	13.6	18.6	19.8	12.9	12.5	16.8	8.8	8.5	7.4	8.1	13.1

Source: ECA 2014, Study on tracking progress on macroeconomic policy and institutional convergence in West Africa., Ad Hoc Experts Group Meeting, Yamoussoukro, Côte d'Ivoire, Final Report, 27-28 February 2014.

Annex 3c
Guinea-Bissau's Position in relation to the WAEMU Convergence Criteria (2011-2013)

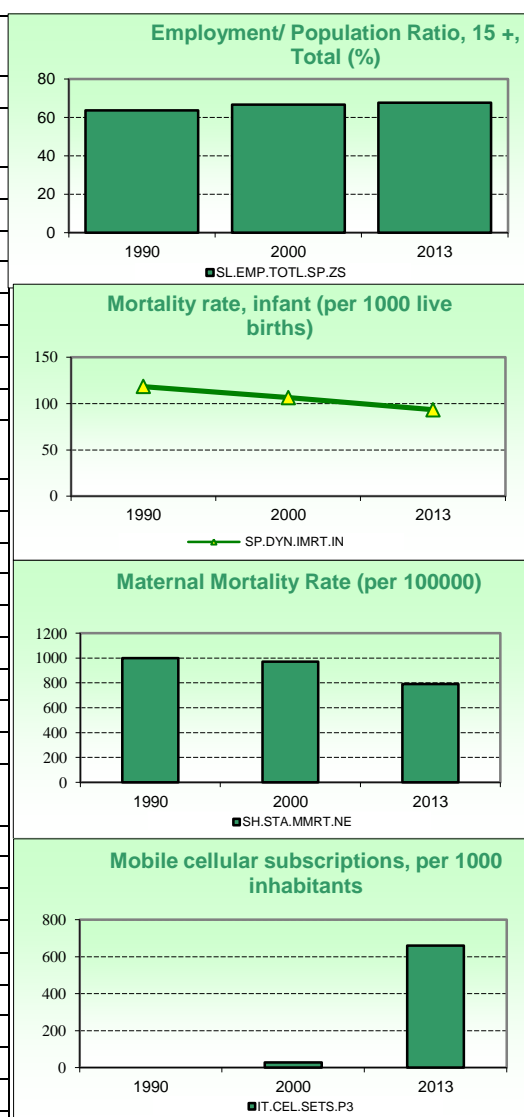
	2009	2010	2011	2012	2013Est.
First-Order Criteria					
Basic Fiscal Balance/ GDP (%)>=0	4.3	1.3	2.2	-1.1	-1.0
Average Annual Inflation Rate <=3%	-1.6	2.2	5.1	2.3	3.0
Total Debt* / GDP (%) <=70%	158.5	148.8	38.7	37.9	35.5
Change in Domestic Arrears (billion) <=0	0.0	0.0	0.0	1.5	0.0
Change in External Arrears (billion) <=0	8.0	0.0	0.0	0.0	0.0
Second-Order Criteria					
Wage Bill/ Tax Receipts <= 35%	75.6	79.2	71.3	62.0	60.2
Domestically Financed Investment / Tax Receipts (%) >= 20%	5.1	1.5	0.9	1.5	12.0
External Current Account Deficit excluding Grants / PIB <= 5%	-13.0	-10.6	-4.2	-10.8	-7.7
Tax-to-GDP Ratio >=17%	6.8	7.9	8.7	8.2	8.2

(*) data only concern external debt. Source: WAEMU, 2013, Semi-Annual Multilateral Surveillance Status Report, June.





Annex 4

Table showing Progress towards Achieving the Multilateral Development Goals

	1990 ¹	2000 ²	2013 ³
Goal 1: Eradicate Extreme Poverty and Hunger			
Employment to Population Ratio, 15 +, Total (%)	63.8	66.8	67.7
Malnutrition Prevalence, Weight for Age (% of children under 5)	...	21.9	16.6
Poverty Headcount at \$ 1.25 a day (PPP) (% of population)	52.1	48.9	...
Prevalence of Undernourishment (% of population)	23.1	19.2	8.7
Goal 2 : Achieve Universal Primary Education			
Literacy Rate, youth female (% of females ages 15-24)	...	45.9	...
Literacy Rate, Adult Total (% of people ages 15 and above)	...	41.4	...
Primary Completion Rate, Total (%of relevant age group)	...	28.7	64.0
Total Enrolment, Primary (% net)	...	49.2	69.8
Goal 3: Promote Gender Equality and Empower Women			
Proportion of seats held by women in national parliaments (%)	20.0	14.0	14.0
Ratio of female to male primary enrolment,	57.7	67.0	93.4
Ratio of female to male secondary enrolment	...	54.5	...
Goal 4: Reduce Child Mortality			
Immunization, measles (% of children ages 12-23 months)	45.0	75.0	69.0
Mortality rate, infant (per 1000 live births)	118.3	106.3	93.2
Mortality rate, under-5 (per 1000)	198.5	176.1	154.6
Goal 5 : Improve Maternal Health			
Births attended by skilled health staff (% of total)	25.0	34.7	44.0
Contraceptive Prevalence (% of women ages 15-49 years)	6.4	9.9	15.7
Maternal mortality rate (per 100000)	1000.0	970.0	790.0
Goal 6: Combat HIV/AIDS, Malaria and Other Diseases			
Incidence of Tuberculosis (per 100,000 people)	174.0	207.0	242.0
Prevalence of HIV, female (% ages 15-24)	...	...	2.0
Prevalence of HIV, male (% ages 15-24)	...	...	0.9
Prevalence of HIV, total (% of population ages 15-49)	...	1.4	2.5
Goal 7: Ensure Environmental Sustainability			
CO2 emissions (kg per PPP \$ of GDP)	0.8	1.7	1.6
Improved Sanitation Facilities (% of population with access)	10.6	14.7	19.0
Improved water source (% of population with access)	43.6	58.9	71.7
Goal 8: Develop a global partnership for development			
Aid per capita (current US \$)	103.2	54.9	73.1
Internet Users, (per 1000 people)	...	18.1	28.9
Mobile cellular subscriptions, (per 1000 people)	...	28.4	659.4
Telephone lines (per 1000 people)	6.5	7.0	3.0



Annex 5
Bank's Active Portfolio in Guinea-Bissau (as at 30 October 2014)

Sector/ Operation	Approval Date	Approved Amount (m. UA)	Disbursed Amount (m. UA)	Disbursement Rate (%)	Closing Date	Status /Challenges	Implementation Performance Evaluation
Social Sector							
Administration Capacity Building Project (PARCA)	15-July-2009	7.80	0.31	4.0	31-Dec.-2014	The project activities have resumed following authorization by SMCC. A request for revision of the list of goods and services is under consideration.	
Education III	ADF	02- July -2003	3.65	1.48	40.6	31- Dec.-2012	The deadline for last disbursement was 31 December 2012. The project closing date will have to be extended. The list of goods and services will have to be revised.
	NTF	02- July -2003	3.51	0.24	6.9	31- Dec.2012	
Health Development Programme Support Project (Health II)	07-Jan.-2009	6.00	4.77	79.4	31-Dec.-2014	The project activities have resumed following authorization by SMCC. Equipment was delivered and installed in October 2014.	
Emergency Aid in Support of Efforts at Checking a Cholera Epidemic	31- Jan.-2014	0.67	0.67	100	31- Dec.-2014	The grant was disbursed in single tranche and activities are ongoing. WHO is responsible for managing the emergency aid.	
Sub-Total / Average		21.63	7.47	34.5			
Multi-Sector							
Public Administration Institutional Capacity Building Programme (PECA II)	09-Dec.-2011	0.66	0	0	31 Dec. 2015	The grant agreement was revised at the Government's request in order to designate UNDP as the Executing Agency	
Sub-Total/ Average		0.66	0	0			
TOTAL / Average		22.29	7.47	33.5			

Source: SAP/ African Development Bank

Highly Satisfactory



Satisfactory:



Unsatisfactory



Guinea-Bissau – Multinational Operations

	Project Name	Window	Approval Date	Closing Date	Approved Amount (MUA)	Disbursed Amount (MUA)	Disbursement Rate %
1	WAEMU Higher Education Support Project	ADF	24/07/06	15/12/14	20.00	12.87	64.3
2	IWRM of the Kayanga-Geba River Basin (PMVGRN-OMVG)	ADF	09/01/2009	31/12/14	1.35	1.35	100
	TOTAL / AVERAGE				21.35	14.22	66.6%

Annex 6
Portfolio Improvement Plan

GENERIC PROBLEMS

<i>Problems and Constraints</i>	<i>Measures to be Taken</i>	<i>Measurable Indicators</i>	<i>Responsible Entity</i>	<i>Timeframe</i>
Project Implementation and Management				
Slippage on implementation of some works	- Take all the necessary measures to complete the ongoing works;	All ongoing works have been completed	MEF / PIU	Ongoing.
Poor performance of some contracts by some defaulting contractors.	Take appropriate measures regarding defaulting contractors in projects financed by the Bank in Guinea-Bissau	% of defaulting contractors in the implementation of works/contracts for projects financed by the Bank in Guinea-Bissau	MEF / PIU	
Procurement and Award of Contracts				
Problems relating to the procurement process at the time of the suspension (BDs finalized, bids received and evaluation reports finalized)	- Finalize the procurement process that was ongoing at the time of the suspension (BDs finalized, bids received and evaluation reports finalized)	- % of ongoing procurement processes at the time of suspension (BDs finalized, bids received and evaluation reports finalized) and which have been finalized.	SNFO/ORPF/PIU	31/12/2014
	- Pursue the procurement process by requesting confirmation of their bids by the bidders and agreement by the bidders to submit new bid bonds	- Pursue the procurement process by requesting confirmation of their bids by the bidders and agreement by the bidders to submit new bid bonds	SNFO/ORPF/PIU	31/12/2014
	- Relaunch some bidding processes.	- Relaunch some bidding process	SNFO/ORPF/PIU	31/12/2014
Failure to deliver equipment, implement works or provide services due to suspension	Continue to deliver equipment, implement works or provide services through direct contracting in accordance with the Bank's rules and procedures	% of new contracts signed on the basis of direct contracting in accordance with the Bank's rules and procedures	SNFO/ORPF/PIU	30/06/2014
Project Management Unit procurement capacities	- Step up training for executing agencies through SNFO.	Number of training courses provided for staff of the project management units.	SNFO/PIU	Ongoing.
Financial Management, Disbursements and Auditing				
Project financial management shortcomings.	- Ensure widespread installation, from the start-up of operations, of accounting systems and software and procedures manuals	Percentage of projects for which accounting software has been installed and the procedures manual prepared.	PIU	Project start-up.

Audit reports for 2013 fiscal year and previous years	Projects shall submit the 2013 audit reports and those covering previous years to the Bank		SNFO/PIU	15 August
Weak implementation of audit report recommendations.	- Systematically prepare action plans for the implementation of audit report recommendations.	Audit report monitoring system established ;	PIU/ Direction du Plan	Ongoing.
Timely provision of counterpart funds	Budget for and make available to projects adequate counterpart funds	% of projects receiving sufficient counterpart funds on time	MEF/PIU	Ongoing
Problems relating to payments for goods, works and services	Find appropriate solutions regarding the payment of goods, works and services delivered before and during the suspension	% of bills paid for goods, works and services delivered before and during the suspension	MEF/PIU/FFCO	31 /12/2014
Monitoring and Evaluation System (M&E)				
Difficulties in assessing and measuring project outcomes and outputs	- At project level, establish an efficient, computerized and results-based monitoring-evaluation system.	Percentage of projects with a results-based M&E system.	MEF/PIU/SNFO	from June 2014.

SPECIFIC PROBLEMS

<i>Problems and Constraints</i>	<i>Measures to be Taken</i>	<i>Measurable Indicators</i>	<i>Responsible Entity</i>	<i>Timeframe</i>
HEALTH II Supplementary Support				
2013 Audit Report	The project will submit to the Bank the revised 2013 audit report for approval.	Revised 2013 audit report is approved	SNFO/PIU	15/09/2014
Quality of Disbursement Requests	Ensure that disbursement requests are in properly prepared before submitting them to Bank in order to accelerate the disbursement process and prevent the requests from being returned.	% of disbursement requests returned for correction	SNFO/PIU	Ongoing
Operating expenditure chargeable to the grant was paid from the loan special account	The grant makes no provision for operating expenditure. The loan special account cannot be used to finance grant expenditure.	Non-utilization of loan special account to finance grant expenditure	SNFO/PIU	Before grant closure
	The project must reimburse expenditure of CFAF 19,924,552 to the special account.	Reimbursement of expenditure made on the loan special account.	SNFO/PIU	Ongoing
Termination of ongoing contracts under the loan	- Cancel balances on ongoing loan contracts. - the project must justify ongoing advances	Cancellation of balances on ongoing loan contracts	SNFO/PIU	Before grant closure
Loan closure: the special account is not settled	The special account must be closed and the unused balance returned to the Bank	The special account closed and the unused balance returned to the Bank	SNFO/PIU	Before grant closure
Education Project III				
2010 Audit Report not approved by the Bank	The auditor is required to submit a revised audit report. And the Bank will take a decision on the 2010 audit.	Revised 2010 audit report approved by the Bank	ORPT/PIU	Immediate
2011, 2012 and 2013 audit reports not submitted to the Bank.	Recruitment of the auditor and production of the audit report	Auditor recruited and production of audit report	SNFO/PIU	Immediate
Quality of disbursement requests	Ensure that disbursement requests are properly prepared before submitting them to Bank in order to accelerate the disbursement process and prevent the requests from being returned.	% of disbursement requests returned for correction	SNFO/PIU	Ongoing
Delay in justifying advances on the special account.	Advances made to the project must be justified between 6 months and one year after they are granted by the Bank.	Project advances justified between 6 months and one year after they are granted by the Bank.	SNFO/PIU	Ongoing
Delay in the release of counterpart funds	Need to provide counterpart funds earmarked for project financing	Counterpart funds available	SNFO/PIU	immediate

PARCA Project				
Change in persons authorized to sign disbursement requests	The project must send an official letter to the Bank indicating the new authorized signatories of disbursement requests.	Receipt by the Bank of names of new authorized signatories of disbursement requests	SNFO/PIU	31/08/2014
Delay in the submission of supporting documents relating to advances received on the special account	Submit to the Bank no later than six months after the granting of an advance the supporting documents for expenditure incurred by the project	Project advances justified for the period between 6 months and one year after they are granted by the Bank. Counterpart funds available	SNFO/PIU	Ongoing
Quality of disbursement requests	Ensure that disbursement requests are properly prepared before submitting them to Bank in order to accelerate the disbursement process and prevent the requests from being returned.	% of disbursement requests returned for correction	SNFO/PIU	Ongoing
Payment of audit	Submit the disbursement request to the Bank for payment of the audit	Auditor paid	SNFO/PIU	Ongoing
Disbursement capacity of personnel	Initiate training activities in order to build project personnel capacities in order to improve disbursement management by the projects	Project personnel capacities in order to improve disbursement management by projects.	SNFO/PIU	Ongoing

Annex 7 Public Procurement System

1. At the legislative level: some normative progress was made under the reform of public procurement procedures between 2011 and 2014. The need to establish a framework in accordance with Directive No. 04/2005/CM/WAEMU establishing procedures for the award, implementation and payment of public contracts and public service delegations and Directive no. 05 /2005/CM/WAEMU of 9 December 2005 establishing procedures for the control and regulation of public procurement and public service delegations within WAEMU led to the promulgation of the Decree-Law on the Public Procurement Code approved by the Council of Ministers on 29 April 2010.

2. At the regulatory level: the legislative framework is not yet accompanied by a regulatory framework specifying it. There are a number of gaps in the regulatory provisions which have to be filled including: a pricing framework, business categorization, sanctions on companies which default on contracts, conditions for public enterprises to participate in bidding, etc. On the other hand, since 2012, Guinea-Bissau has been using WAEMU Regional Standard Bidding Documents (RSBD). The French version is used which limits or excludes the national private sector. The RSBD are used on a purely informal basis and not on the basis of any government decision transposing the RSBD at national level, nor is there any mechanism for combatting corruption in accordance with the African Union and UNODC conventions.

3. At the institutional level, the existing public procurement system established in 2011 is dominated by the principle of the separation of activities:

- *procurement:* The Central Public Procurement Unit (UCAP) attached to the Ministry of Economy and Finance, is responsible, at the request of Ministries, for public procurement from the bidding document preparation stage to the results of the bidding process;
- *control:* the General Procurement Directorate (DGMP), attached to the Ministry of Economy and Finance²³, only has authority at the central level since its activities have not been deconcentrated or decentralized at the regional level; and
- *regulation:* the Public Procurement Regulatory Authority (ARMP), attached to the Office of the Prime Minister, is responsible for carrying out reforms, providing training for the administration, private sector and civil society, conducting audits, considering appeals and meting out sanctions. In principle, the ARMP²⁴ enjoys the status of an independent authority but its activities and scope are highly limited in practice and the institution must be strengthened.

4. It is necessary to strengthen the institutions through the effective implementation of texts concerning the ARMP's human and financial resources but also to be proactive by building UCAP's capacities to meet rising demand, to provide for the establishment of an

²³ It is not desirable for UCAP and the DGMP to be under the oversight of the same authority following the merger of the two Ministries. The government intends to review the supervision of the two entities.

²⁴ In compliance with Directive no. 05/2005/CM/WAEMU of 9 December 2005 establishing procedures for the control and regulation of public procurement and public service delegations within WAEMU, the ARMP has an equal and tripartite composition with 3 representatives of the administration, 3 representatives of the private sector, 3 representatives of civil society which meets quarterly unless there are extraordinary circumstances.

Integrated Public Procurement Management System (SIGMAP), conduct audits and prepare annual reports.

5. With regard to procurement operations and the private sector's role, there is no framework for dialogue between the administration and the private sector. There are many constraints on the national private sector's access to public procurements including the technical and financial ineptitude of SMEs, the absence of pricing frameworks, competition from foreign companies, difficulties in securing bid bonds because of lack of confidence in the banking sector, etc.

6. With regard to the integrity and transparency of the public procurement system, it is necessary to introduce operational controls of public procurement, for their absence constitutes a major risk. Furthermore, the basic principles of transparency are not adhered to, for example the publication of contract awards, and there is no internet information portal.

In conclusion, some progress has been made towards the operationalization of Guinea's public procurement system. However, significant progress remains to be made, especially regarding the regulatory and management frameworks, capacity building for all the actors involved in public procurement, and the establishment of mechanisms that will ensure cohesive and efficient operationalization of the different organs involved in the public procurement process (UCAP, DGMP and ARMP). Under the Bank's operational strategy for Guinea-Bissau, *Pillar I* will ensure that action is taken concerning the areas for improvement identified: a regulatory decision on the transposition of RSBDs at national level and their translation into Portuguese; establishment of a pricing framework and business categorization; establishment of a mechanism for sanctions on contractors that default on their contracts and an anti-corruption mechanism in accordance with African and UNODC Conventions; deconcentration and decentralization of DGMP's activities; establishment of an Integrated Public Procurement Management System (SIGMAP) in order to provide a link between the budget and government finances in order to improve data coordination; facilitation of access to public procurement by the private sector, including SMEs; the regular conduct of independent audits of public procurement; operationalization of the toll-free number and sensitization of people to its use; establishment of a public procurement internet portal regularly updated by data provided by the DGMP and ARMP. All these points will be the subject of dialogue with the Government with respect to the procurement actions to be envisaged under the Bank's operational strategy in Guinea-Bissau.

Annex 8: Financial Management and Bank's Fiduciary Strategy in Guinea-Bissau

1. The country fiduciary risk assessment was carried out on the basis of information collected in the field from the authorities and technical and financial partners as well as on the basis of the PEFA 2009 and 2013, PEMFAR 2010 studies and other internal Bank studies.
2. There are tremendous weaknesses in Guinea-Bissau's public financial management system in 2014 in the wake of the April 2012 coup d'état which resulted in the suspension of cooperation with the TFPs as well as most of the programmes and projects including reform of the public financial management system. The risk assessment Table below presents the main risks and proposed mitigation measures.
3. Budget credibility is affected by the lack of an adequate macroeconomic framework and the large amount of extra-budgetary expenditure, and the failure to publish the budget for the general public lowers its transparency. Moreover, the budget execution statements produced by SIGFIP are not made available to either the technical services or the general public. Annual budget execution statements are not produced and no draft budget law is prepared.
4. Cash flow management is affected by the absence of any formal cash flow management system. Not only does the treasury not cover all the revenue administrations, but it struggles to anticipate and properly monitor the main budget appropriations produced by the Budget Department. Similarly, bank account reconciliation statements are not regularly prepared. The SYGADE debt management software is not used because there is no data input operator.
5. With regard to accounting, payments are made and recorded but no management accounts have been produced since 1994. Moreover, the payment arrears situation is not established and monitored and there are no records of the status of State-owned immovable and movable property.
6. The internal control exercised by the internal control unit is confined to the verification of commitments. Validation and authorization to pay do not fall within its remit. Also, the concentration of all the comptrollers at the Ministry of Finance weakens the effectiveness of financial control. The General Inspectorate of Finance plans its missions and has the plan validated by the Minister of Finance to whom the verification reports are submitted. However, no system has been established to monitor the IGF's recommendations.
7. External control is the responsibility of the Court of Auditors which to-date has not examined any budget review bill on the implementation of the government's budget, nor has it judged any public accountant's management account. The responsibilities of the Court of Auditors must be reviewed in accordance with the Community Directive on the Court of Auditors which has not yet been transposed into national law.
8. In 2013, Guinea-Bissau was ranked 163rd out of 173 countries in the Transparency International classification and obtains a score of 2.3 out of 6 in the Bank's CPIA.
9. Coordination of TFPs operations which was active by sector prior to the coup d'état, has been suspended ever since and will resume with the new authorities elected in 2014.
10. The Bank's fiduciary strategy for the CSP proposes to use the budget support public financial management system accompanied by disbursement triggers linked to the near-term reforms to be implemented and to use the parallel financial management and private accounting system for institutional support operations and investments.
11. The risk assessment and mitigation measures Table is presented as follows:

DIMENSIONS	PEFA Ref.	MAIN RISKS	RISK LEVEL	MITIGATION MEASURES
1. BUDGET Preparation Execution		Budget schedule not adhered to No Budget Manual	High	Measures Taken: budget schedule adherence plan for 2015 budget Measure to be Taken: prepare the budget manual
		Budget classification non-compliant with Community Directive on Budget Classification	Substantial	Measures Taken: Translation of Directives into Portuguese and training of user personnel Measures to be Taken: submit Directives to People's National Assembly
		Budget execution monitoring not published, Community Directive on LOLF not transposed	High	Measures to be Taken: Publish periodic budget execution statements Submit Directives to People's National Assembly
		Budget Review Laws not prepared and submitted to CoA	High	Measure to be Taken: Prepare and submit Budget Review Laws to CoA
2. CASH FLOW		Absence of any cash flow management system: forecasting, implementation and monitoring Bank reconciliation statements not prepared	High	Measures to be Taken: Establish a complete cash flow management system (budget-cash flow-taxes-customs duties with a quarterly Cash Flow Committee and a weekly Technical Committee
3. ACCOUNTING AND FINANCIAL REPORTING		Community Directives on the accounting plan and TOFE (central government summary operations table) not transposed	Substantial	Measures to be Taken: Submit Directives to the ANP
		Financial statements not produced	High	Measures to be Taken: Prepare financial statements (management account and TOFE) no later than 30 June of the following accounting period
4. INTERNAL CONTROL		Financial control mandate does not cover validation and authorization to pay Community Directive on LOLF not transposed Absence of Procedures Manual	High	Measures to be Taken: Extend the mandate of the financial control unit to cover the entire expenditure chain Submit Directives to the ANP Prepare a Control Manual
		Lack of monitoring of IGF recommendations	Substantial	Measure to be Taken: Establish a recommendation monitoring system
5. EXTERNAL AUDIT		Community Directive on Court of Auditors not transposed Government financial statements not reviewed No review of management accounts Absence of procedures manual	High	Measures to be Taken: Submit Directive on CoA to ANP Start to review financial statements produced Begin the review of management accounts Prepare a Procedures Manual
		Budget Review Laws not submitted to ANP	High	Measures to be Taken: submit Budget review laws to the ANP Build MPs capacities in parliamentary control of the budget

Annex 9

Summary of Bank's Fragility Assessment

In June 2014, on the basis of the recommendations of the High Level Panel on Fragile States, the Bank approved its new strategy entitled 'Addressing Fragility and Building Resilience in Africa (2014-2019)' to pilot its interventions in fragile situations. The strategy focuses on the importance of applying a 'fragility lens' in order to identify factors of fragility and conflict, as well as sources of resilience in the countries and regions covered by the Bank. To that end, the Bank has undertaken to carry out rigorous fragility assessments which could serve as the entry point for informing the Bank's strategic and operational engagement at both the sub-regional and national levels.

Since its independence in 1974, Guinea-Bissau has experienced 4 coups d'état and over 15 attempted coups d'état as well as a short, but intensive civil war in 1998-1999. More recently, in 2012, the country's democratic institutions were once again disrupted when the army overthrew the Prime Minister and candidate in the Presidential elections. These events are the result of underlying political and institutional weaknesses which have dragged the country into fragile situations on several occasions. According to the Bank's definition, fragility in Guinea-Bissau is 'a condition of elevated risk of institutional breakdown, societal collapse or violent conflict'. In this context, institutions, defined as the norms and procedures in which governance is embodied, play a major role.

At first sight, Guinea-Bissau's features of fragility appear fairly simple. While the country has not been in conflict for the past 15 years, it displays typical post-conflict characteristics: an urgent need for state-building and institutional reforms; restructuring of the army and demobilization as well as for the restructuring of basic infrastructure. In fact, these aspects are the consequences of more entrenched characteristics rooted in the historical evolution of the country's political and socio-economic life which have shaped the current institutions.

Since the early days of the country's colonization, it would appear that the socio-political structures established were fairly complex insofar as they included both headless societies and structured communities which the colonizers were unable to fully infiltrate in order to spread a model of decentralized governance. Inheriting infrastructure gaps, institutional imbalances as well as the limited and non-structured presence of state institutions outside the capital, the country was unable to recover in the wake of independence. In short, the country has moved from what was a 'fragile colony' to an 'an independent fragile state'.

Until now, these features have either become more pronounced or been shaped by a number of drivers of fragility. The main driver is linked to the role of the country's armed forces. The weakness of institutions in a model of centralized governance such as in Guinea-Bissau has resulted in the domination of institutions like the army by individuals. Coupled with a lack of economic options and the negative incentives that uncontrolled institutional power can provide, rent-seeking behaviour and illegal trafficking have emerged and constitute a second driver of fragility. A third is related to conflicts in neighbouring countries which have had a destabilizing effect and have been the triggers for conflicts within Guinea-Bissau itself. In addition, the constant threat of 'ethnicization' adds another layer of fragility risks. A final driver relates to regional actors. Irrespective of whether they are politically motivated or apolitical development partners, they add a level of instability through cyclical and random intervention approaches.

In response to the assessment made, the Bank has a number of different tools which could

impact on some of the drivers identified. In this regard, effective engagement requires the maximum use of the different instruments and sources of financing (lending and non-lending) available to the Bank. Thus, the following points were identified to guide the preparation of the Bank's CSP without, however, attempting to specify particular areas of intervention. The issues raised include both principles of engagement and thematic areas of intervention and do not claim to constitute an exhaustive list.

- Support the implementation of the New Deal by the countries themselves: Guinea-Bissau is a member of the g7 + and the Bank should help the country to implement the new Deal, especially in the area of state-building;
- Engage in partnerships to support the reform of the security and justice sector: As indicated in the assessment, the problems of security and justice sector reforms are at the core of the country's fragility. Though there are limits on the Bank's capacity to provide direct aid to resolve these problems, the Bank must establish partnerships at national, regional and international level with organizations that are active in the sector.
- Adopt a regional approach to anchor the country in the regional cooperation structures, particularly in the Mano River Union: intensification of regional cooperation could impact on several of the above factors of fragility including on (i) the fight against the illegal trafficking of goods and other cross-border criminal activities; (ii) economic spinoff by facilitating regional trade ; and (iii) the improvement of transparency through the promotion of the country's integration into the extractive industries management mechanisms (e.g. EITI).
- Opening up to non-state actors in order to support the supply of basic goods and public services: In view of the country's weak institutional capacity which considerably affects the State's capacity to provide goods and services, the Bank should open up to non-state actors, in particular, the private sector and civil society.
- Help to build capable and legitimate institutions: the adoption of a state-building approach is critical to the Bank's engagement in the country. The promotion of accountable, transparent and inclusive governance is essential to build resilience and the Bank should step up its aid in coordination with the development partners to assist a limited number of key institutions.
- Promotion of Inclusive Policies in all Areas of the Bank's engagement: In view of the non-inclusive nature of growth and the centralized structure of the administration which increases the country's fragility, the Bank's engagement must be driven by the promotion of inclusive and equitable development paths.
- Support development of the local private sector: the Bank must be ready to innovate in order to boost private sector activities in the country.
- Promote projects aimed at opening up internally isolated areas and facilitating movement and trade within the country: This will address the issues raised concerning the centralization of economic and administrative power in Bissau while targeting greater growth inclusiveness and investments by helping the government to effectively meet needs throughout the country.

Annex 10
Partners' Positioning (according to the Bank's LT Strategy)

<i>Priority</i>	<i>Theme</i>	<i>Institution(s)</i>	<i>Ongoing Activities</i>
Infrastructure	Energy/water	WB/WADB/EU	The WB's Interim Strategy focuses on these themes. A US\$ 15 million project focused, among others, on rural water supply was signed by the WB on 3 April 2014. The WB is also envisaging support to the National Electricity and Water Services Company, in particular, through a US\$ 22.5m project in the sector. WADB and the EU are considering the construction of a 15MW thermal power plant.
	Transport	WADB/EU	WADB has an active project on the rehabilitation of roads in Bissau. The EU is considering engaging in this sector.
Regional Integration		WAEMU	Apart from WAEMU's regulatory harmonization activities in the area, no partner is particularly focused on regional integration.
Private Sector	Entrepreneurship and business environment	UNDP/ADB	In the context of a previous project on entrepreneurship and the formalization of businesses cofinanced by UNDP, ADB, WB and EU, the UNDP intends to conduct a study on what has become of the post-formalization businesses. The Bank will participate with non-financial support including reviews of the study.
	Finance/microfinance	IMF	The IMF Office in Bissau is the leader in this sector's reforms. The microfinance sector must be completely restructured
Qualifications and Technologies	Education	UNESCO/ADB	The United Nations System has taken the lead on this theme, in particular with the World Bank (above-mentioned US\$ 15m project contains a rural education component). ADB continues to be a key actor at this level since the resumption of an ongoing education project.
Governance	Public finances	EU/WB/IMF/ADB	A PEFA report was prepared by the WB and EU. The IMF will negotiate a staff monitored programme and a credit facility. The EU has provided budget support and WB is preparing a US\$ 10 million support project.
Areas of Special Interest (according to the Bank's LT Strategy)			
Fragile States	Study on Fragility	G7+ (including ADB)	The preparation of a fragility study is planned under the PECA II project to be financed by the Bank. An independent study is being conducted jointly by ORWA/ORTS.
Gender	-	UNWOMEN	UNWOMEN and some NGOs are active in the area. UNWOMEN has joined the Bank in preparing a gender profile.
Agriculture and Food Security	-	EU/WAEMU/WFP	In addition to some NGOs, WAEMU is actively engaged in food security, especially with the resumption of the PRESAR project which had been financed by the Bank. The WFP is also implementing some projects.
Transition towards Green Growth (according to the Bank's LT Strategy)			
Natural Resource Management	-	ADB	Through this CSP.
Resilience	-	United Nations	This component is covered to a certain extent by the United Nations System, but also under the agriculture sector in general.
Agriculture and Food Security	-	WAEMU/EU/WADB	WAEMU has provided funding for the continuation of the PRESAR project. The EU is involved in the agriculture sector, as well as WADB.
Other Areas Specific to Guinea-Bissau (as presented in the DENARP II)			
Cashew Nuts	Agriculture	WB	The World Bank has initiated a comprehensive study on the cashew nut value chain as well as a US\$ 8.5m project in the sector.

Annex 11
Assessment of Eligibility for the Next Window 1 Cycles –TSF Supplemental Support

Indicator	Window 1: Supplemental Support – First Stage Criteria
Commitment to consolidate peace and security	<p>Since 1974, the country has experienced 17 attempted coup d'états and 4 actual coups. The first free elections were held in 1994 after the one party system (1974 to 1991). A government's lifespan over the 2000-2004 period averaged 6 months and 2 years since 2004. In April 2012 the country experienced its most recent coup d'état to date. It was perpetrated between the two rounds of the presidential election and the then Prime Minister and winner of the first round of the elections was driven from power by the army. The executive power vacuum was filled following negotiations between the political parties, military and civil society organizations under the aegis of ECOWAS. The ensuing Transition Pact led to the formation of a transitional government in June 2013 and the planning of fresh legislative and presidential elections. Following the postponement of the election date twice because of logistics and financing problems, the elections were held in April/May 2014. The legislative elections were won by the historical party, the African Party for the Independence of Guinea and Cape Verde (PAIGC) with 57 out of 102 members of parliament. The Presidential elections were won in a runoff by José Mario Vaz, the PAIGC candidate with a total score of 61.9%.</p> <p>Aware of its fragilities, in particular, the historical weakness characterized by imbalance between the army and civil institutions, the country has joined the g7+ under the New Deal for Fragile States and intends to make every effort to use the objectives of peacebuilding and state-building as the basis for making progress towards achievement of the MDGs. Thus, following the end of the transitional period, the Government implemented several actions to consolidate peace and security including: (i) a commitment to the reform of the Defense and Security Sector piloted by ECOWAS, (ii) dismissal of the Chief of Staff suspected of having been the instigator of the last coup d'état, (iii) concrete measures aimed at limiting abuses by the security forces such as a ban on wearing uniforms when off duty and the dismantling of internal road blocks, sources of racketeering and corruption. As a result of the efforts made to ensure the normalization of public life and security the country has been readmitted into the international community by, for example, its re-integration into the African Union and the Community of Portuguese Language Countries (CPLP) from which it had been excluded following the coup d'état.</p>
Unmet social and economic needs	<p>The human and social context has deteriorated in recent years particularly since the 2012 coup d'état because of the widespread lack of government resources which has further impeded access to health care and education services. The impact is clear since the country has been stagnating in the lowest decile of the human development index for over 10 years (176th rank out of 186 countries in 2013). The many political and institutional crises have eroded economic growth as well as the population's living conditions. Thus, GDP at purchasing power parity per capita had reached \$1270 prior to the civil war in 1988/1999 before slumping to \$560 in 2000. It will have taken 14 years to reach the pre-war level. In 2010, over 70% of the population were living on less than \$2 a day, and 30% on less than \$1. In 2013, these figures were thought to be rising with over 40% of the population living in extreme poverty. Overall, low value-added and the alterable dynamism of the economy subject to political cycles has prevented the country from investing adequately in the social sectors to meet its requirements or to maintain existing infrastructure at a level that would ensure satisfactory service delivery. Health care services still fall short of requirements due to fragility insufficient government resources. According to the most recent available data spending on health per capita was \$37 in 2011 compared to twice that amount in Senegal, and almost five times in Cape Verde. The standard and quality of education remain remains low. In a recent London School of Economics study in 2013 on a sample of almost 10,000 pupils aged 7 to 17 years of age, only 27% were able to add two figures, and 19% to correctly read a word. Against this backdrop, the gender profile carried out by the Bank and UNWOMEN stresses the fact that socio-economic weaknesses have a greater impact on women</p>

	than men.
Indicator	Pillar I : Supplemental Support – Second Stage Criteria
Improved macroeconomic conditions and sound debt policies	<p>The April 2012 coup d'état ended 9 consecutive years of growth and led to economic disruption causing GDP growth to drop sharply from 5.3% in 2011 to -1.5% in 2012. While slightly positive in 2013, the 0.3% growth rate conceals structural problems which have steadily worsened since the coup d'état</p> <p>The return of political stability has created favourable conditions for growth. For 2014, projected GDP growth is 2.8% due to the expected upturn in economic activity following the return to constitutional order. The 2014 Budget was voted in September and the preparation of the 2015 budget has begun. The external debt burden remains fairly high, though it was brought down below the WAEMU convergence criteria threshold after the country reached the Heavily Indebted Poor Countries (HIPC) Initiative completion point in 2010. Guinea-Bissau's outstanding public debt to GDP ratio fell to 59.4% in 2013 from 164% in 2009. This figure remains below the maximum value of 70% for the WAEMU convergence criterion. However, debt sustainability will depend on the economic recovery in 2014 and also prudent management by the government. It is expected that outstanding debt in 2014 and 2015 will be 59.7% and 60.1% of GDP respectively.</p>
Sound financial management policies	<p>In the area of economic governance and, in particular, public financial management, the country's performances have deteriorated as a result of the crisis and the capacity to mobilize domestic resources remains weak, as noted in the PEFA 2013 and in the CPIA scores. Between 2011 and 2013, the CPIA score relating to the Quality of Budgetary and Financial Management dropped from 3.5 to 2.75, and the score for the Efficiency of Revenue Mobilization from 3.5 to 2.13. More specifically, major weaknesses were noted, especially regarding budget and external control. In this area, the new government has focused on the adoption of the 2014 draft budget by the Council of Ministers and its submission to the National Assembly no later than September 2014 and of the 2015 budget in November 2014.</p> <p>More specifically, there are tremendous weaknesses in Guinea-Bissau's public financial management system in 2014 in the wake of the April 2012 coup d'état which resulted in the suspension of cooperation with the TFPs as well as most of the programmes and projects including reform of the public financial management system. As in 2013, there was a gap between total real primary expenditure and primary expenditure initially estimated in the budget corresponding to an amount equivalent to over 15% of the estimated expenditure in last year's budget (data not available for 2013/2014). Also in 2014 a significant part of the budget was allocated to the payment of 6 months of civil service salary arrears which had accumulated since the coup d'état. The financial management system is also characterized by legal and regulatory weaknesses linked to the failure to transpose the 2009 WAEMU Directives on reform of the public financial management system and public management transparency code, practices that impact negatively on budget credibility, exhaustiveness and transparency and insufficient staffing to manage the budget system.</p> <p>With the return to constitutional order and re-engagement of the technical and financial partners, it is expected that the country will embark on economic and financial management reforms. The Bank already has two projects in place dating from before the April 2012 coup aimed at assisting the country in its efforts to build the administration's capacities (PECA and PARCA). In September 2014, the International Monetary Fund fielded a scoping mission which led to a staff-level agreement on financial support and the establishment of a Programme. In partnership with the World Bank, the Bank is also envisaging the implementation of a new institutional support operation.</p>
Public management transparency	<p>The budget statements produced by the Budget Department are not published or reconciled with the Treasury accounts. Nor have the financial statements (administrative and management accounts) been produced and submitted to the Court of Auditors since, nor to the People's National Assembly. The Government Budget Review Laws are not therefore produced. Guinea-Bissau has no stock accounting and no non-accounting statement has been prepared on the State's immovable and movable property. With regard to public procurement, some</p>

	<p>normative progress has been made under the aegis of WAEMU but challenges remain to be addressed. The need to establish a regulatory framework in compliance with the relevant WAEMU Directives led to the promulgation of a Decree-Law on the Public Procurement Code in 2010. However, while a legislative framework exists, it is not accompanied by any regulatory system specifying it. Moreover the use of WAEMU Regional Standard Bidding Documents (RSBD) raises a problem for the national private sector for they are in French and not in the Portuguese language. Guinea-Bissau has no provisions, therefore, that would help to improve the public procurement regulatory framework such as an act to impose sanctions on Contractors defaulting on their contracts. The strengthening of public management transparency is, therefore, a priority for the Government and also for the TFPs in the context of their institutional support operations.</p>
<p>Other considerations justifying access to Window 1 resources</p>	<p>The following factors/risks could impede Guinea-Bissau's progress towards sustained growth and trigger the return of instability:</p>
<ul style="list-style-type: none"> • Reversal of the trend towards strengthening the democratic process: the electoral process has paved the way for political and institutional changes. These changes inherent in the development process could lead to the resurgence of the drivers of fragility. In particular, this concerns the reform process in the defense and security sector. Previous processes piloted by the European Union and Angola were unsuccessful, partly because of political upheaval as in 2012. • Spread of the Ebola virus to Guinea-Bissau. Guinea -Bissau shares borders with Guinea-Conakry, one of the sources of the Ebola virus epidemic. It is not, therefore, secure from the threat of imported contagion. Such a situation could wipe out all the development efforts as in the case of the affected countries in view of the widespread shortage of available resources in Guinea-Bissau to tackle it. • A poor cashew nut harvest: cashew nuts account for 87% of the country's exports and much of its revenue. A poor harvest could seriously affect government finances and peoples' incomes as in 2013. 	