Developing Public-Private Partnerships in Guinea-Bissau: Getting the Policy Framework Right

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List of projects from the government’s March 2015 Strategic and Operational Plan
The West Africa Department

The West Africa Department covers 14 West African Countries from Senegal to Benin. The Department’s responsibilities include country dialogue, programming of the Bank’s activities in these countries as well as allocation of country resources among sectors activities; country and regional lending and work programs. The main deliverables for the Regional Department are: Economic & Sector Studies (ESW), Country Strategies, Country Portfolio Reviews, coordination of country portfolio management, Country Economic Reviews, contributions to sector analytical work, support of regional entities and representation of the Bank in donor consortiums and meetings.

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As part of ORWA knowledge management strategy, West Africa Staff Policy Notes (WASPN) are a new series on key development and emerging issues affecting the region. The series provide a platform for Economists of the West Africa regional department to contribute to Bank efforts to foster knowledge sharing.
Although PPPs are often hailed as the best route to infrastructure development, there is however surprisingly little understanding of what they entail amongst policymakers. This is even more so in situations of fragility. The first task of this paper is to provide a contribution to a better understanding of PPPs in fragile or low-income countries by shedding light on what are PPPs in practice. The paper’s second main objective is to highlight the advantages and pitfalls of PPPs, apply them to the realities of Guinea-Bissau and provide recommendations on the best course of action for their development in the country. The analysis asserts that building a viable PPP framework in Guinea-Bissau is a medium to long-term task which needs to be undertaken step-by-step. Continuous improvements – rather than large leaps – are advocated, amongst which (i) setting core regulatory principles; (ii) start small and thereafter fine-tune with lessons learned; (iii) map out predictable administrative process and build capacity amongst relevant players of the public sector; (iv) accumulate experience of fiscal responsibility and PFM improvements; (v) clarify institutional arrangements right from start; and (vi) leverage on development partner’s expertise as local capacity is built. The ultimate goal is to go beyond “a project-by-project” approach, to deploy a system for planning, delivering and operating PPPs.

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Over the past ten years, many studies highlighted both the importance of infrastructure development for Africa’s growth (Forest and Briceño-Garmendia 2010). Conversely, infrastructure shortfalls greatly limit the continent’s development. For instance, electricity access is still below 50%, and the costs of power outages lead to huge losses of production time (12.5% compared to 7% for South Asia (AfDB 2010:2)). In order to catch-up with demand and close Africa’s infrastructure deficit by 2020, over USD 50 billion worth of investments per year are required. However, this only applies to the energy, transport, and water and sanitation sectors. Adding telecommunications or social infrastructure (health and education) would lead to a much higher price tag.

The infrastructure deficit is even more flagrant in the continent’s fragile states. In many such countries, infrastructure stock has suffered from severe underinvestment and sometimes was destroyed by conflicts. To build a solid infrastructural basis, fragile states would need to spend over 35% of their GDP on infrastructure, of which a quarter on operations and maintenance while the rest in investments (Forest and Briceño-Garmendia 2010:8).

Guinea-Bissau is no stranger to these facts. At independence, the country inherited a rather weak infrastructure which was further depleted during the 1998/99 civil war. In addition, years of under-budgeting did not allow for effective maintenance nor to extra investments. Financing-wise, the country is highly dependent on external finance. According to the 2013 budget, about 90% of investment expenditure was marked for external financing (Arvanitis 2014:7). In addition, the relative undersupply of such financing flows proved an extra constraint: Guinea-Bissau is one of the countries in Africa that had received the least external finance for infrastructure over the 2005-2012 period (Gutman et al. 2015:33). Against this background, leveraging private funding for infrastructure development is seen as a potential solution.

While the continent has seen a steady rise in the use of Public-Private-Partnerships (PPP) in order to finance its infrastructure gap (Figure 1), Guinea-Bissau did not benefit from this trend. According to the World Bank’s Private Participation in Infrastructure Database, 506 projects with private participation were financed between 1990 and 2014 in 47 African countries for USD 151 billion. The overwhelming majority of these projects have been financed in the telecommunications sector. In Guinea-Bissau however, recurrent political upheavals were not conducing to improved investment climate, and this has not been welcoming to PPPs as less than a handful – and largely unsuccessful - attempts were made.

Recently, the country has gained economic and political momentum. With the return to constitutional order in mid-2014, the successful resumption of donor cooperation and the presentation of a new national strategy in March 2015, the country is more than ever willing to engage in PPPs to revamp its infrastructural stock. Yet, as much of the literature points out, PPPs are not a panacea. There are many issues which much be dealt with in order for such partnerships to be successful. This paper intends to look at the specific case of Guinea-Bissau, highlight the possibilities for PPP investments while giving guidance on how best to approach them for success.
To do so, section II of the paper will delve upon the concept of PPPs, its advantages and pitfalls. Understanding the basic mechanics of PPPs and how they may apply to fragile states will offer a framework within which an analysis of Guinea-Bissau can take place. Section III will lay-out the needs and opportunities for PPPs in the country. Section IV will provide an analysis of how Guinea-Bissau’s PPP framework can be operationalized, and provide concrete recommendations on the best course of action for the country in section V.
Public Private Partnerships refer to investment arrangements between private and public entities. Contrary to what may seem, PPPs do not have a legal meaning as they may take many forms. They are in fact “contractual arrangements of varied nature where the two parties [public and private] share rights and responsibilities during the duration of the contract” (Farquharson et al. 2011:14). As with any contracts, rights and responsibilities come with risks. The various forms that PPPs can take, ultimately reflect the degree of risks that either party is willing and able to bear.

Distribution of risk plays a central role in getting a PPP right. It refers to the probability that adverse outcomes are yielded from given actions and handled by the most suitable party. In the case of a power plant for instance, there may be construction risks due to the fact that the facilities are not built on time; which must be handled by the EPC (Engineering, Procurement & Construction) contractor. In addition to construction risks, there are additional ones related to commercial considerations, political situations, legal, operations, completion, environmental etc.

The essence of PPPs lies in the transfer of risks from one party to the other. There are broadly four ways in which risks can be transferred (Yescombe 2011:242): (i) they can be retained by the public authority, (ii) borne by the private entity, (iii) transferred to the private entity but reallocated to third parties (e.g. to subcontractors or insurance companies), and (iv) transferred to end-users in the case of concessions (through higher services fees). It is therefore on that basis that contracts are devised: risks and rewards must be commensurate, private parties incentivised adequately, and value-for-money obtained for the public sector.

With the risk caveat in mind, it is important to understand why a PPP is sought. When considering an investment, PPPs are not the only option. Infrastructure can be delivered under a traditional government procurement manner, financed directly by a development partner (in either concessional or non-concessional terms), or undertaken as a PPP. In the case of traditional procurement, budget constraints are an important limitation. Cash-strapped governments face difficulties in raising revenue required for the development of large infrastructure projects. This is particularly the case for underdeveloped economies and/or fragile states. Regarding financing from development partners, one limitation is the envelopes that they many have at their disposals for a given country. Institutions like the African Development Bank have triennial envelopes for low-income countries that are important, but not sufficient to cover all needs. In the case of Guinea-Bissau, considering that authorities are mostly dependent on external finance for investment, leveraging private funding may seem appropriate.

Ultimately, the key motivation for PPPs are the leverage effect that private financiers can bring. This financial efficiency argument is important for countries like Guinea-
Bissau which do not have access to long-term capital markets to finance infrastructure\(^2\). This is reinforced with government budget constraints which impose a fiscal motivation for PPPs. For instance, in the case of a concession involving a loss-making state-owned utility, the fiscal motivation is important: while it may be politically sensitive, it will result in a beneficial transfer to taxpayers (who pay through their taxes for subsidizing the utility). Another motivation is that of service efficiency gains, with the idea that the private sector is more efficient than the public sector in delivering services.

While this can quickly turn into an ideological debate, the most important factor to retain is that incentives (rather than ownership) are what create value and efficiency gains. For instance, under a road PPP in a rainy area built and maintained by a private concessionaire, the incentive will be to build it in a water-resistant way for the private investor to save money in maintenance over the years. Such a project life-cycle perspective differs from that of governments which may in contrast take a political cycle approach. Under the former, maintenance takes a central role and is often an obligation as part of contracts\(^3\). In this respect, time-horizons under a PPP set-up may prove positive with respect to infrastructure sustainability and led to improved maintenance over time. Last, but not least, the idea of competition for projects, as well as the incentive structures just described could also motive the choice for PPPs as it may lead to improvements in project design.

These are however theoretical gains from PPP. Indeed, PPPs have proven in many cases to be problematic for public finances. If there are no efficiency gains from the investment, it is likely that effects are felt in public finances over the long-term. In some countries, PPPs were used to bypass public financial management (PFM) control (World Bank, ADB and IADB 2014:36). As in the case of Portugal, weak controls led to off-balance sheet over-exposure to PPP, creating severe budget problems and contributing to the country’s 2011 fiscal crisis (Abrantes de Sousa 2011). In other instances, governments provide a guarantee for a given risk within the PPP structure. Should this risk materialise, government budget may suffer (box 1). As far as public finances are concerned, it is paramount that PPP assets and liabilities are not treated off-budget, in particular if future payments are planned\(^4\). These ought to figure in budgets and expenditure plans (World Bank, ADB and IADB 2014:36).

Access to capital markets may in fact provide cheaper financing for infrastructure development than under a PPP, especially for long-term finance. In the case of Guinea-Bissau however, this option is not available due to its lack of positive budget & PFM record or simply lack of market confidence\(^5\). PPPs are however not a clear-cut solution to the financing issue. In fact, the use of PPPs may simply just “displace” the issue.

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\(^2\) Indeed, for a country with a relatively low debt level and access to capital markets, it may be cheaper to borrow through bond issuance and undertake traditional procurement rather than engage into a PPP.

\(^3\) Under a political-cycle horizon, focus tends to be on the actual delivery of infrastructure within a mandate rather than taking a longer-term perspective which includes adequate maintenance. Moreover, state maintenance budgets tend not to be sufficient to cover actual requirements. In 2013 the Guinea-Bissau road fund had a spending programme which only covered about 45% of its needs.

\(^4\) It is important to recall that the private sector’s costs may be recovered either from charges related to services use (this, as highlighted in the paper raises questions of affordability), or through payments from the public sector (thus raising questions over public finances).

\(^5\) Guinea-Bissau’s PFM systems present important weaknesses as put forth in the Public Expenditure Framework Assessment (PEFA) 2013 as well as in recent AfDB analysis (AIDB 2013a and 2013b). In addition, the country lacks sovereign rating. This makes it difficult to raise capital in the markets, at least with a sufficient maturity and price to justify long-term infrastructure investments. In 2014, the country managed to issue 1 year debt and roll it over in 2015. However, such borrowing cannot be long-term, and is constrained by PFM capacity as well as the country’s debt levels.
Considering the high perceived country risks, investors will tend to get a return as quickly as possible. This will imply commercial models that either entail a high level of government subsidy, and/or greater contribution from users. Such consequences could make PPP structuring and stakeholder acceptability more difficult. Such an event chain is important to bear in mind, and can be mitigated by ring-fencing and insurances. They usually take place around the project structure to mitigate risks for investors (e.g. secure cash-flows or insurance products such as commercial or political risk guarantees made available by Development Finance Institutions).

Inadequate planning and project selection are also common pitfalls which may reduce or simply work against the motivations for PPPs. Ensuring that the needs are well-grounded is key in this respect. If it is the case, understanding whether the private sector can manage risks better than the public sector should follow in order to gauge whether the costs of engaging into a PPP are worth the risks born by the counterparty. This is closely linked to the project analysis capacity ex-ante: flawed analysis can have negative consequences (box 1). In this regard experience has shown that demand forecasts – at least in the transport sector – are usually over-optimistic by 20% (Flyvbjerg et al. 2005).

However studies have shown that it is not only analytical capacity which matters, but also deliberate misinformation both from planners and promoters which may misrepresent cost, benefits, and risks in order to gain an edge over competition and see a winning bid (Flyvbjerg 2007). This also links to a risk related to misbehavior, whether from the bidders or public officials. Corruption in public investment tends to bloat the size of projects and increase their complexity, and ends up hurting economic growth as it reduces the average productivity of the investment (Tanzi and Davoodi 1998).

Failures in PPPs are not only a matter of increased pressure on government finances. Environmental and social considerations are also paramount. Large infrastructure projects are very likely to lead to adverse environmental effects or negative social impacts (e.g. physical or economic relocation). On the social front, stakeholder
consultations are essential. Unhappy stakeholders may derail a PPP. On the environmental front, the first step is to truly consider all available design options (site location, technology used etc.) to minimise adverse impacts. To do so, complex technical studies are required. In the case of fragile countries such as Guinea-Bissau, this is of particular importance since it may be the case that authorities do not have the tools, financing and capacity needed to fully appraise the options and give environmental clearance. These issues are explored in the sections below.
In March 2015, Guinea-Bissau convened an international donor roundtable to mark its return to constitutional order and draw interest to the country. During the event, the government presented a 10 year long-term vision together with a shorter but more precise strategic and operational plan dubbed “Terra Ranka”\(^6\). This plan consists of a total of 116 projects which require financing in the short-term in 8 key sectors: agriculture (and agro-industry, including fishing), biodiversity, human development, governance, business environment, infrastructure, mining and tourism. The total pipeline tallied up to Euro 2 billion. In terms of project numbers, the vast majority, 91 projects (or 78.5% of the total) are to be financed through public funding and the leveraging of concessional financing from partners. The remainder is due to be financed with private sector involvement alongside the public sector. In terms of financing however, forms of public private partnerships are expected to account for about 46% of the estimated project costs – that is about Euro 940 million.

\(^6\) The plan’s details and project portfolio is available on http://www.teraranka.gov.gw/
As highlighted in figures 2 and 3, the bulk of the projects are under the infrastructure category, whether in terms of numbers or required funding. As far as potential PPP projects are concerned, infrastructure also stands out with 12 listed projects that include both transport and energy, two key structuring sub-sectors.

According to the authorities, energy is a priority sector. The country faces a serious energy crisis, with production capacity not exceeding 11 MW, of which 5 MW are operational. Following the 2014 elections the new government hired the equivalent of 10 MW to supplement capacity and better meet an estimated demand of over 30 MW within the city of Bissau. Yet, with network losses of approximately 50%, actual demand met is much below potential. To meet these challenges, development partners are assisting the country with structuring projects: the West African Development Bank is funding a 15 MW and the AfDB is engaging into Bissau’s network rehabilitation. Alongside these endeavors, there are potential PPP projects such as the (estimated) 20 MW Saltinho hydropower plant.

One project still to be defined is the eventual set-up of a management contract, or private running of Eletricidad e Agua da Guiné-Bissau (EAGB), the national Water and Electricity Company. Though not in the list of projects, the treatment of EAGB is a longstanding issue in the country. The company was initially put out for privatization in the mid-1990, and due to failure of the process this was rescheduled for 2000 before being abandoned (Barthélémy et al.2004). Although privatization seems not to be the preferred way forth, a PPP arrangement under a management contract could be envisaged. However, prerequisites to such a move would be (i) minimal improvements in bill collection rates, (ii) revamping of administrative structure, and (iii) decrease of network technical losses. Although these would also be potential benefits stemming from the PPP, minimal upgrades on these fronts would be required to improve project attractiveness.

Telecommunications are also a sector of potential interest. In the list of projects presented, the reform of Guiné-Telecom (fixed line operator) and its Guiné-Tel (mobile operator) subsidiary could open the door to further opportunities. After the liberalization of the telecommunications sector in the 2000s, both operators have been losing market share. Operational failures coupled with the democratization of mobile phone rendered fixed lines obsolete and non-operational today. Today, a revival of Guiné-Tel would face competition with MTN and Orange-Bissau. Yet, the privatization of Guiné-Telecom has been on the table for years, especially since past owner and operator Portugal Telecom parted ways with the company over a dispute concerning unpaid debts by the government (Economist Intelligence Unit 2013). More recently however, interest has been indicated by private operators (Macauhub 2015a). Concurrently, the government announced that it potentially envisages the transformation of Guiné-Telecom into a holding company to manage infrastructure, including the planned connection of the country to the Atlantic coast submarine backbone (Macauhub 2015c). Although it is unclear what form these projects will take, PPP schemes are a potential solution.

Potential trade and transport PPP projects in Guinea-Bissau range across several sub-sectors, but also across different types of partnerships. Port facilities are prominent, notably
with a long-standing project of a new deep-sea port in the city of Buba for which interest has been highlighted in the past. While such a large project is at a very early stage, the rehabilitation and concession of the current port of Bissau is seen as more pressing. To that end, the government has decided to relaunch tender for a concession (Macauhub 2015b). The port of Bissau has a history of failed private sector participation (see Box 2), which in many ways highlights the fact that in order to structure successful PPPs in Guinea-Bissau, a solid PPP framework must be built, taking into account local conditions and capacity. In 2010, the World Bank financed a study which considered different PPP options for the port of Bissau. While laying out the different options, the report highlights the fact that while exploring avenues for a PPP on the port of Bissau, it is paramount that the state puts together a strategic plan for the maritime sector. Such a plan should lay out perspectives concerning not only the port of Bissau, but also the small ports and the eventual construction of a second deep-sea port in the city of Buba on the back of mining development in the region. In this case, the accent is put on the need to have knowledge of what lies ahead in order to optimise the choices of the potential PPP model and incentivise participation. Another pending issue regarding the port are reforms needed to be undertaken at the level of port authorities. These need to acquire financial autonomy to increase the chances of a successful PPP and regain in efficiency. Further reforms laid out in the World Bank Country Economic Memorandum are also necessary. They are however considered risky as political instability will remain an important factor which could affect the implementation of reform configuration (World Bank 2014: 43).

**Box 2 The Bissau port PPP failure in the 1990s**

In 1991, the government of Guinea-Bissau launched a tender for a concession of the port of Bissau. The Portugal-based private operator entered into a joint venture with a local investor. They were however stripped of the concession rights in 1999 and the government created a national agency, the Guinea-Bissau Port Agency (APGB), to take over operations. The contract cancellation was initiated as the government accused the concessionaire of not living up to the contract and mismanaging the facilities which led the port of Bissau to be one of the most expensive of the West African coast.

As a result of the unilateral contract cancellation, the concessionaire took the authorities to arbitration and was awarded a Euro 5.9 million compensation. To date, the liability remains for the government and the former concessionaire has not been compensated, first because the fine represents a large burden in comparison to the state budget, and second, because it is technically not enforceable as the UN Convention on the Recognition and Enforcement of Foreign Arbitral Awards has not been signed by Guinea-Bissau.

Source: IRIN News (1999), World Bank (2014),
As noted above, Guinea-Bissau has many opportunities to engage into PPPs. These are however subject to many caveats. With this in mind, and considering the theoretical background given above, it is important to reflect upon the best approach to engage into PPPs in the country. Ultimately, for PPPs to be successful, Guinea-Bissau must put in place the right PPP policy framework. Such a framework should be dynamic in nature: as projects are implemented, capacity strengthened and experience tallies up, the framework is bound to evolve to reflect the prevailing environment. However, this section focuses on today’s situation to give recommendations on how to best kick start the process. PPP frameworks essentially encompass three dimensions: economic, institutional and political imperatives (IFC 2013).

**Economic dimensions**

For PPPs to be successful, the economic fundamentals of projects must be well-grounded. Costs, revenues and the investment required must be well understood, as should other assumptions such as usage. As mentioned previously, usage forecast may present an issue, especially in the context of Guinea-Bissau for two main reasons. First, there is an overall lack of data availability, which forces planners to solely rely on specific surveys which can be expensive (the lack of statistical context is also a limitation). Second, because usage is paramount to determine affordability levels. In the case of the Saltinho power plant, it is paramount to know exactly what the price of electricity will be, and compare it to what the utility’s capacity to pay for the power is, as well as its ability to collect payments from users. Such considerations can be taken into account and dealt with the support of development finance institutions and donors. In the case of Saltinho, the AfDB together with UNIDO and other partners are currently mobilizing grant funding for feasibility studies with the aim of bringing the project to "bankability". To this end, the use of grant financing is important.

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*Economic theory suggests that there are situations where grant components may help achieve development impacts that the private sector would not achieve on its own. Project preparation grants for countries with low capacity and funding help plant the seeds of commercial viability and thus attract private investors. The use of grants however should be carefully evaluated as per six criteria outlined in Arvanitis Y. (2013).*
The economic fundamentals of the project should always be compared to other alternatives (box 3). In the case of Guinea-Bissau, the tight budgetary conditions practically exclude budget financing, and the country’s lack of rating and debt sustainability analysis does not allow for debt issuance for infrastructure. One alternative for PPPs is using the envelopes made available from development finance institutions. There are however trade-offs to gauge even with such financing options as not all projects are suitable for PPPs. For instance, the list of energy projects proposed for eventual PPPs include the OMVG interconnection. However, transmission projects are less suitable to be structured as PPPs, unlike generation projects, due to their natural monopoly nature (World Bank 2015). With this in mind, the OMVG project is best financed by the public sector, in this case using country and regional allocations of development finance institutions.

One key issue in Guinea-Bissau is that of capacity, in particular as far as getting bankable projects to speed. The newly born Investment Promotion Agency is understaffed, as is the ministry of planning. Specific project finance skills are lacking as well as specific PPP knowledge. To some extent, and as hinted upon earlier, immediate requirements may be filled in by development partners. However, a longer-term capacity building programme is required, as “every country needs a competent group of bureaucrats who have the authority and skills to design a pipeline of viable infrastructure.
deals and the political clout to standardize procurement procedures and other practicalities of getting a road built or a tunnel dug* (The Economist 2014).

A fundamental flaw of potential PPP projects is to focus on the actual infrastructure asset rather than on the services delivered by the infrastructure as the ultimate objective of PPPs. Focusing on outputs and services brings a longer-term view compatible with the notion of efficient use of public resources. Hence, in projects such as Saltinho, or the port of Bissau, the focus should be put on the electricity generated or vessel traffic rather than on the delivery of a given amount of investments for the plant of port rehabilitation per se.

**Institutional dimensions**

The legal framework plays a very important role in PPP frameworks and is determinant for successful projects to take hold. PPPs are contracts which allocate risks (as well as rewards and responsibilities) amongst parties, and it is paramount that reference points and boundaries are set by law. In 2007-2008, Guinea-Bissau undertook to modernise its regulatory framework with the assistance of the Private-Public Infrastructure Advisory Facility (PPIAF). The initial findings of the Facility were that the government’s approach at the time lacked consistency, in particular due to: (i) the absence of a clear allocation of responsibilities of government institutions in relation to PPP; and (ii) the coherence of a regulatory framework (World Bank 2012).

Regarding the regulatory framework, the outcome of the PPIAF involvement was the enactment of a new PPP law in 2009 as well as important amendments to the code of public contracts. Today, the law still reflects some minor gaps and the government is seeking to update it. Enacting legislation is however not an end in itself. Diagnostics undertaken by the African Development Bank highlight the fact that although in 2010, the Government adopted a new Procurement Code that ensures greater transparency and efficiency, the bodies set up to implement it (Procurement Regulatory Authority, Directorate General of Public Procurement, Central Procurement Agency) lack the required capacity (AfDB 2015). By way of example, the public procurement system suffers from the lack of procedures manuals for use by entities awarded contracts, or guidelines for use by bidders to ensure correct interpretation of the law and its implementing instruments. Albeit established, the Public Procurement Regulatory Agency is not functional. Information systems to help disseminate procurement related information is lacking and audits of public procurement have never been carried out (AfDB 2015b). Institutional support projects approved by partners such as the AfDB or the World Bank in 2015 target specifically such issues. They however remain key conditions to be met in order to set-up a workable PPP framework.

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* In this regard however, the right structure and panel of required expertise may also be dependent on economies of scales. Indeed, for Guinea-Bissau to have the same degree of in-house expertise as for instance South-Africa would not only be difficult, but also inefficient compared to the size of the PPP market. The initial focus should thus be on having an adequate number of competent technocrats who know where to go for expert advice. In this regard, development partners have an important role to play, not only in training and scaling up local expertise, but also in delivering expert advice.
Legal framework goes beyond the PPP law and as such sector specific legislation is important. For instance, the 2010 Telecom law provides a cadre in which prospective private sector involvement with Guinée-Telecom can take place. Other important legislation are international conventions such as the UN Convention on the Recognition and Enforcement of Foreign Arbitral Awards which has not been signed by Guinea-Bissau. The absence of application of such a treaty could constitute a deterrent, especially considering past experiences (see Box 1).

**Figure 4 Institutional performance in selected areas linked to PPP development**

The quality of public financial management (PFM) is also a key ingredient of the institutional set-up for successful PPPs. Having briefly discussed its implications in the previous section, the challenge for Guinea-Bissau is to ensure a sustained and steady positive improvement in the PFM. As highlighted in figure 4, using scores from the Country Performance Institutional Assessment (CPIA), Guinea-Bissau lags behind much of the rest of the continent in areas which can influence the PPP framework, including PFM.

There are however caveats to this picture. PPPs can succeed in countries with overall poor institutional framework, and sometimes fail in countries with better institutions. One important feature to bear in mind is that although not perfect, institutions must be on the path of improvement. Weak institutions engender risks, for which mitigating measures could be found (although this makes deals more difficult and expensive to close). As suggested in this paper, any indication that institutions are not improving can showcase political strife or entrenched vested interests that block reforms. In the case of Guinea-Bissau, looking at the average CPIA scores over the past 10 years, we note gradual improvements up until the 2012 coup, which reversed many gains achieved (figure 5).

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10 The convention (also known as the “New York Convention”) allows for the enforcement and recognition by local courts of arbitration awards made in other contracting states.
Interestingly, right before the coup, institutions had improved and, as previously noted, many steps were taken (such as the PPP law, the procurement code etc.) to lay down the core regulatory principles for PPPs.

Concerning the allocation of responsibilities, the absence of clear guidance in that respect was noted as one of Guinea-Bissau’s weakness before the 2012 coup. Today, responsibility for PPPs seems to be resting with the ministry of Economy and Finance, and more specifically with the planning directorate. This structure is however understaffed and, in addition to any responsibilities having to do with PPPs, they are in charge of overseeing all public investment projects. While the execution may be with line ministries, the planning directorate is involved upstream, not least because most investments come from donor financing and that the directorate is the partners’ point of entry. Concurrently, the investment promotion directorate has been revamped and transformed into an independent agency. Understaff and underfunded, the agency is to be involved with private project investments, but its link to PPPs are not defined. A clear allocation of roles is required, together with a plan for capacity building in the selected entity.

The set-up of a PPP unit (whether in the ministry or not) should be the repository of PPP knowledge in the country. Continuity should be sought and changes in responsibility allocation avoided. PPPs are long-term contracts and the work they involve is not simply limited to project selection and approval. The bulk of the work resides in monitoring implementation and following-up with contractual obligations. As for the ministry of Economy and Finance, if it is not the repository of PPP responsibilities, it is important that it is involved to have a control over the potential budgetary (and debt) implications of PPPs.
Political dimension

Since independence, Guinea-Bissau's economic performance has been subject to alterable dynamism subject to political cycles. Political upheavals have not allowed for steady flow of investment. Poor governance, defined by marking political events is positively correlated with poor control of corruption (figure 6), and thus very detrimental to investments. In this respect, continued political stability is a condition sine qua non for a successful PPP programme.

Figure 6, also highlights the rather low degree of corruption control in the country compared to peers. While this does not preclude forthcoming PPP projects to be undertaken in full transparency, it draws a particular attention to this issue. Alongside specific measures to be taken when engaging into a PPP to secure transparent oversight, it is also important that continuous efforts are made to improve the business environment and the judicial system.

One mitigation to the shadow of red-tape is the involvement of civil society. Beyond the controlling function that it may have, its involvement is also important to the extent that without broad citizen support, PPPs are likely to fail. PPPs feature many interests. Identifying all the stakeholders and developing a strategy to address their concerns should be part of project appraisal. In given cases, compensations (such as those planned by resettlement laws) may be required. In other cases, a full-understanding of potential vested interests may be required and a mediation strategy put in place.

Figure 6 Institutional Vagaries and Corruption

Political will is also paramount. In a series of lessons from past PPPs, the IFC (2013) suggests that a political champion is required to "articulate and refine the vision, guide progress and advocate for support". In the case of Guinea-Bissau, there is broad backing of PPPs for infrastructure development as attested by the consultations leading up to the March 2015 donor roundtable. Yet this needs to be translated into a project-by-project advocacy. The rationale for PPPs in given projects (port concession, Guiné-Télécom, Saltinho, etc.) needs to be clearly explained to garner support. In this respect, information sharing on PPP plans is crucial.

Last but not least is the importance of social and environmental impacts. As mentioned in section 2, in the case of Guinea-Bissau, environmental considerations are of particular importance. AfDB analysis suggests that the country lacks capacity to assess environmental impacts and certify project environmental and social compliance (AfDB 2015c). However, 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. This is particularly important as the preservation of biodiversity is a key national objective. The capacity to take into account other cross-cutting issues such as gender is also important. Women are often neglected as stakeholders, and their voice is crucial to ensure social acceptance of projects. In this regard, Guinea-Bissau has a wide civil society gender platform which needs to be consulted (AfDB 2014).
Theory on PPPs, their challenges and pitfalls present a core cadre for an analysis of contextual requirements to actually build a viable PPP framework. The first take-away from the theory is that PPPs are not a panacea. They are one of many tools which can help spur the development of much needed infrastructure. They should thus not be perceived as miracle solutions.

As far as Guinea-Bissau is concerned, there is broad agreement that, if developed adequately, PPPs can have a transformational impact in the country. The most recent presentation of the country’s 10 year long-term vision together with a precise strategic and operational planned “Terra Ranka” was accompanied by a list of potential projects that could draw private interest. Although not exhaustive, this list highlights the many opportunities waiting to be seized. Many of these projects however have caveats which reflect weaknesses in the country’s PPP framework. To address these, the analysis conducted puts forth the following recommendations for Guinea-Bissau:

**Recommendation 1:** Undertake a gradual approach to PPP projects. Considering the weaknesses, it is not recommended for the country to move fast on all fronts. Instead, it is advisable to start small with a project or two off the list presented in the “Terra Ranka” plan and get them right. Based on a first experience, then it will be possible to fine-tune considering lessons learned, then slowly build a strategy. By choosing a more all-encompassing strategy will many concurrent projects, there is a risk of spreading currently weak capacities too thin. In selected projects, it is best to involve line ministries and ensure that the underlying sector strategies are viable and accepted (e.g. port of Bissau).

**Recommendation 2:** In the meantime, accumulate experience of fiscal responsibility. Sustained growth is also important since it shows increased affordability (both from government to meet its obligations and from eventual users-payers). In this regard, adherence to the current FMI programme as well as EU and AfDB-led reform proposals would be advisable to build-up further credibility.

**Recommendation 3:** Readjust the core regulatory texts and clearly divide the tasks amongst officials. Once in place, clearly identified teams should start getting the necessary training. Institutions such as the AfDB are in a position to offer required training, either through ongoing institutional support projects or via the African Development Institute. This does not only apply to the set-up of a PPP unit, but also to staff in the Ministry of Economy and Finance who will need to accompany the process throughout the project life-cycle.

**Recommendation 4:** Ensure that potential investors feel safer day-by-day. A first step would be to study the country’s ratification of international treaties which facilitate investment and conflict resolution. Second, close off pending litigations, such as that of the port of Bissau. Third, investing in improvements in procurement systems will also provide comfort.
**Recommendation 5:** Make full-use of instruments and expertise that development finance institutions can offer: e.g. the Sustainable Energy Fund for Africa (SEFA) can support enabling environment as well as project preparation activities for attracting private investment in the sustainable energy sector, the African Legal Support Facility can be mobilised for negotiations/training, the IFC or the AfDB private window can be used for structuring and/or lending, the AfDB’s public window or the World Bank for technical assistance or lending etc. The involvement of development partners in the case of Saltinho can provide a good demonstration effect.

**Recommendation 6:** Communicate on PPP processes. Communication should target investors, but most importantly to society as a whole. This will increase acceptance and help in guiding stakeholder engagement in the process.

**Recommendation 7:** Recognise the importance of social and environmental dimensions. On the environmental front, ensure that capacities are built in relevant ministries as they are currently very weak. Pending capacity building, lean on international development partners for technical assistance and partnerships as suggested above. On the social front, ongoing consultations should be the rule rather than the exception.


## List of projects from the government’s March 2015 Strategic and Operational Plan

<table>
<thead>
<tr>
<th>Project name</th>
<th>Total estimated cost (CFA million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public registry (physical persons), Phase 1: biometric identity cards</td>
<td>2,000</td>
</tr>
<tr>
<td>Creation of a treatment centre for residuals and chemical products</td>
<td>2,000</td>
</tr>
<tr>
<td>Solid waste treatment centre</td>
<td>2,011</td>
</tr>
<tr>
<td>Control and surveillance of maritime territory</td>
<td>7,000</td>
</tr>
<tr>
<td>Construction of 7 passenger bus station in main cities</td>
<td>2,450</td>
</tr>
<tr>
<td>Bissau urban mobility programme</td>
<td>3,500</td>
</tr>
<tr>
<td>Buba deep sea port</td>
<td>133,400</td>
</tr>
<tr>
<td>Pikil deep sea port (feasibility study)</td>
<td>600</td>
</tr>
<tr>
<td>Fluvial and maritime transport project (boats, infrastructure security)</td>
<td>4,500</td>
</tr>
<tr>
<td>Osvaldo Vieira airport rehabilitation</td>
<td>11,200</td>
</tr>
<tr>
<td>Saltinho hydroelectric power plant- Phase 1</td>
<td>166,600</td>
</tr>
<tr>
<td>OMVG interconnection project</td>
<td>40,437</td>
</tr>
<tr>
<td>Rurla electrification project</td>
<td>2,000</td>
</tr>
<tr>
<td>Guine Telecom + GuineTel reforms</td>
<td>750</td>
</tr>
<tr>
<td>Access to the submarine cable (technical study &amp; implementation) and</td>
<td>30,550</td>
</tr>
<tr>
<td>national backbone optic fibre</td>
<td></td>
</tr>
<tr>
<td>Integrated infrastructure and human development programme for the Bijagos</td>
<td>5,000</td>
</tr>
<tr>
<td>(Bubaque airport, electricity, telecommunication, school, vocational</td>
<td></td>
</tr>
<tr>
<td>training centre…)</td>
<td></td>
</tr>
<tr>
<td>Reform and quality &amp; capacity strengthening of higher education</td>
<td>10,000</td>
</tr>
<tr>
<td>(including the construction of university infrastructure)</td>
<td></td>
</tr>
<tr>
<td>Construction of a specialised hospital (CHEGUIB)</td>
<td>69,000</td>
</tr>
<tr>
<td>Bissau special economic zone (study and implementation)</td>
<td>10,000</td>
</tr>
<tr>
<td>Food security - Promotion of vegetable production value chains</td>
<td>57,000</td>
</tr>
<tr>
<td>Assistance for the control of fish resources and fishing infrastructure</td>
<td>48,000</td>
</tr>
<tr>
<td>reinforcement</td>
<td></td>
</tr>
<tr>
<td>Set up of a touristic parks network (Varela, Pecixe…)</td>
<td>1,000</td>
</tr>
<tr>
<td>Mining inventory and geological cartography</td>
<td>4,000</td>
</tr>
<tr>
<td>Farim mining development (phosphates)</td>
<td>1,000</td>
</tr>
<tr>
<td>Boé bauxite mining development (feasibility study and environmental</td>
<td>1,000</td>
</tr>
<tr>
<td>impact study)</td>
<td></td>
</tr>
</tbody>
</table>
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