

# GUINEA-BISSAU COUNTRY DIAGNOSTIC NOTE



**AFRICAN DEVELOPMENT BANK  
AFRICAN DEVELOPMENT FUND**



**GUINEA-BISSAU**

**COUNTRY DIAGNOSTIC NOTE**

**COUNTRY ECONOMICS DEPARTMENT (ECCE)  
&  
REGIONAL DIRECTORATE GENERAL WEST (RDGW)**

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**CURRENCY EQUIVALENTS**

Currency unit	=	XOF (CFA Franc)
UA 1.00	=	1.43 USD
UA 1.00	=	1.20 EUR
UA 1.00	=	788.17 XOF
USD 1.00	=	551.63 XOF

As of 31 July 2021

**WEIGHTS AND MEASURES**

Metric System

**GOVERNMENT FISCAL YEAR**

1 January – 31 December

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## ACRONYMS AND ABBREVIATIONS

AfCFTA	African Continental Free Trade Area
AfDB	African Development Bank
BCEAO	West African Central Bank
BOAD	West Africa Development Bank
CDN	Country Diagnostic Note
CEN-SAD	Economic Community of Sahelo-Sahelian Countries
CENTIF	National Unit of Financial Information Processing in Guinea-Bissau
CET	Common External Tariff
CFAF	Franc of the African Financial Community
COMESA	Common Market for Eastern and Southern Africa
CPI	Consumer Price Index
CPIA	Country Policy and Institutional Assessment
CSP	Country Strategy Paper
DGI	Directorate General for Industry
EAC	East African Community
EAGB	Electricity and Water Corporation of Guinea-Bissau
ECCAS	Economic Community of Central African States
ECOWAS	Economic Community of West African States
EITI	Extractive Industries Transparency Initiative
EPA	Economic Partnership Agreement
EU	European Union
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
FUNPI	Fund to Promote Industrialization of Agricultural Products
GDP	Gross Domestic Product
GNB	Republic of Guinea-Bissau
GNI	Gross National Income
HIPC	Highly Indebted Poor Countries
HIV	Human Immunodeficiency Virus
IGAD	Intergovernmental Authority on Development
ILO	International Labour Organisation
IMF	International Monetary Fund
INDC	Intended Nationally Determined Contributions
MW	Megawatt
NSS	National Statistic System
NIS	National Institute of Statistics
NPL	Non-Performing Loans
NSDS	National Strategy for the Development of Statistics

OECD	Organization for Economic Co-operation and Development
PARGEF	Support Project for the Consolidation of Economic and Financial Programming
PEFA	Public Expenditure and Financial Accountability
PFM	Public Finance Management
PPIAF	Private-Public Infrastructure Advisory Facility
PPP	Public-private partnership
RISP	Regional Integration Strategy Paper
RoG	Republic of Guinea-Bissau
SADC	Southern African Development Community
SCS	Superior Council of Statistics
SEZ	Special Economic Zone
SOE	State-Owned Enterprise
SSA	Sub-Saharan Africa
UA	Unit of Account
UMA	Arab Maghreb Union
UN	United Nations
UNDP	United Nations Development Program
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNICEF	United Nations Children's Fund
UNIOGBIS	United Nations Integrated Peacebuilding Office in Guinea-Bissau
UNODC	United Nations Office on Drugs and Crime
USD	United States dollar
VAT	Value-added tax
WAEMU	West African Economic and Monetary Union
WB	World Bank
WTO	World Trade Organization

## MAP OF GUINEA-BISSAU



Source: Guinea-Bissau: Mid-Term Evaluation of The AfDB Country Strategy And Program (2015-2019)

## EXECUTIVE SUMMARY:

1. This Country Diagnostic Note (CDN) assesses Guinea-Bissau's socio-economic situation to date and the development strategies and policies it needs to achieve its national development goals. Following a brief historical overview, the CDN considers Guinea-Bissau's growth model, macroeconomic performance and outlook, and cross-cutting issues, including governance, climate change, and gender. It also looks at how the country could resolve its structural and institutional problems and achieve its development potential. Finally, the Note examines how the African Development Bank can assist by implementing its Ten-Year Strategy (2013-2022) and promoting its High 5's agenda.

2. Guinea-Bissau is a low-income country with a Gross Domestic Product (GDP) of approximately USD 1.465 billion in 2020 and an estimated GDP per capita of USD 695 in 2020. It is one of the poorest countries in the world, ranked 175 out of 189 countries in the 2020 Human Development Report. Moreover, political instability and institutional fragility impede the country from moving forward and promoting inclusive growth. According to the Fragile States Index, the country is the 27th most fragile country globally (out of 179), having suffered a progressive deterioration since 2006. In addition, the onset of the COVID-19 pandemic has brought further challenges to the country, whose health and social systems were ill-prepared to cope with it.

3. Guinea-Bissau's economy relies heavily on agriculture, especially rice and cashew nut production. In 2019, agriculture accounted for 46.9% of GDP, generated almost 85% of total employment and more than 90% of exports. The economy has transformed very little in the past decades, failing to produce a relevant industrial sector. Guinea-Bissau relies much more on agriculture than do countries in the West African Economic and Monetary Union (WAEMU), where agriculture represents, on average, 28.16% of GDP. The diversification of the economy, the improvement of governance, the amelioration of basic infrastructures, and political stability are critical to promoting inclusive growth. GDP growth in the past decade was interrupted by i) the 2012 coup d'état, when multilateral and bilateral financial partners suspended their activities, ii) the COVID-19 pandemic.

4. Political instability has impeded the execution of many development plans and poverty reduction strategies. A succession of coup d'états accompanied by a fragile political governance mechanism hindered the implementation of tangible medium- and long-term measures, including the state capacity to increase tax revenue and hence be able to spend productively. The last political crisis followed the presidential elections held in 2019, solved later in April 2020. The new government managed to get parliament approval of a government plan and development policy, *Hora Tchiga*. The plan focuses on similar objectives provided in previous development plans, including investing in activities to re-launch the economy after the COVID-19 pandemic and targeting a public administration reform to reduce the wage bill and corruption.

5. The pandemic interrupted the positive growth trend in the most recent years. From 2015 to 2019, GDP growth averaged 5.2%. The health crisis pushed real GDP to contract 2.8% in 2020, down from earlier projections of 5%. Guinea-Bissau's fiscal position, strongly dependent on cashew nut's revenues, worsened to -7.8% of GDP in 2020 from -4.6% in 2019, given the abruptly reduced revenues. The public debt situation has deteriorated rapidly: estimates in 2021 shows that

total public debt had climbed sharply to 78.4% of GDP in 2020 from 67% of GDP in 2019. In 2021, the IMF assessed the risk of external debt distress as high, a downgrade from moderate risk as of 2018. External debt is estimated at 26% of GDP in 2020, increasing from 21.8% of GDP in 2018, mainly because of loans to support infrastructure projects. Although the share of external debt remains relatively small, Guinea-Bissau faces significant vulnerabilities that increase its risk of external debt distress.

6. Given the limited fiscal space due to the relatively high debt burden, there is a need to improve the business environment while searching for innovative strategies to attract investments from the private sector and development partners at affordable costs. This includes exploring public-private partnerships (PPPs) and crowding-in innovative investment mechanisms. In addition, there is a need to put in place a robust regulatory framework and sound institutional coordination and a stable political environment

7. Overall, the employment situation is particularly worst for women: employed mainly in the rural sector, their condition is highly precarious and affected by extreme poverty. The distribution by gender reveals that 56% of women are affected by poverty, compared to 49% of men (UNDP, 2017). Women have limited access to education, health, land ownership, credit, and technology. Moreover, discriminatory customs and harmful traditional practices are prevalent in rural areas. The female participation rate in services and good production was estimated at 67.6% in 2018, lower than the male rate of approximately 76%.

8. Guinea Bissau is well-endowed with renewable and non-renewable natural resources, which can be leveraged to economically transform the country and pull its people out of poverty. Renewable resources, foremost agricultural land and forests are the most extensive natural resources in the country. Fisheries and protected areas and biodiversity are also essential and could substantially contribute to economic development. Non-renewable resources, including solid minerals, and petroleum, could also provide Guinea Bissau with important revenue streams contingent on the further exploration and development of these resources, considering the volatility of minerals and oil prices and the constraints of climate change mitigation and adaptation.

9. The path to make Guinea-Bissau's economy more inclusive and resilient, with the possibility to explore the abovementioned potentials, includes i) improving the business environment; ii) fighting corruption; iii) invest in basic and efficient infrastructure, especially energy and roads. In addition, the country must design and implement effective socio-economic policies, pushing for inter-ministerial coordination and political commitment to tackle the country's developmental challenges and fragility pressures forcefully. These findings are aligned to the AfDB's priority High 5s: *Light up & Power Africa, Industrialize Africa, Integrate Africa* and *Improve the quality of life for the people of Africa*



## Chapter 1: Introduction

1. Guinea-Bissau is a low-income country with a Gross Domestic Product (GDP) of approximately USD 1.465 billion in 2020 and a GNI per capita of USD 820 in 2019 (Annex 2). It is one of the poorest countries in the world, ranked 166 out of 182 countries (World Bank, 2021). Even though GNI per capita grew significantly (41%) since 2010 backed by the export sector, political instability and institutional fragility impede the country from moving forward. According to the Fragile States Index, the country is the 27th most fragile country in the world, having suffered a progressive deterioration since 2006<sup>1</sup>. Moreover, the onset of the COVID-19 pandemic has brought further challenges to the country, whose health and social systems were ill-prepared to cope with it. Further, the reduced exports in 2020 due to lockdowns and border closures have resulted in an economic shock of 8 % of GDP compared to the pre-pandemic forecasts.

2. In 2019, the African Development Bank Group's Board of Directors approved the Revised Framework for Country Strategy Paper (CSP) and Regional Integration Strategy Paper (RISP). These predicated a Country Diagnostic Note (CDN) and Regional Diagnostic Notes (RDN) as a prerequisite analytical work to inform the CSP/RISP. The preparation of a comprehensive CDN in advance of the CSP is intended to significantly enhance the Bank's understanding of a country's development challenges and most pressing constraints and opportunities. The main objective of this Country Diagnostic Note (CDN) is to outline the current development challenges/opportunities facing Guinea-Bissau and offer a set of priority interventions to further the dual goals of economic growth and poverty reduction.

3. This CDN analyzes Guinea-Bissau's socio-economic conditions to identify key development challenges that require the Bank's intervention. It provides an analysis of the country's economic situation and prospects while recommending policy options that will support the achievement of the Bank's corporate strategy and the High-Five priorities. It will thus underpin the preparation of the 2022-2026 CSP, specifically in making informed strategic choices. It also provides the appropriate analytical content to guide the selection of the CSP Pillars and areas of intervention.

4. Despite the economic growth experienced by Guinea-Bissau in the last decade, it has not translated into poverty reduction and improvement of human development. The economic activity is extremely dependent on the agricultural sector (cashew nut in particular) and the private sector is practically inexistent. This is due to a myriad of concurring political, economic, and social factors that range from deplorable infrastructure to low levels of human capital or the weak presence of the rule of law. While those factors are all crucial, it becomes practically impossible to show progress in any of them due to the country's chronic political paralysis since independence. A succession of coup d'états followed by fragile political governance has hindered the implementation of any tangible medium- and long-term measures, including the state capacity to increase tax revenue and hence be able to spend productively. Nevertheless, despite the enormous challenges, Guinea-Bissau has a considerable potential to trigger environmentally sustainable and inclusive growth, such as in the tertiary sector (tourism, health services) and the primary sector (minerals, fisheries, and agricultural diversification).

5. The remainder of this CDN is organized as follows: Chapter II provides the macroeconomic assessment; Chapter III discusses cross-cutting issues; Chapter IV provides a diagnostic of gaps and constraints; Chapter V deals with priority areas of reform, and the concluding Chapter VI discusses the monitoring and evaluation of development outcomes.

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<sup>1</sup> The fragile states index ranking starts from the most to the least fragile country. In 2006, Guinea-Bissau was in the 46<sup>th</sup> position. Source: <https://fragilestatesindex.org/>.

## Chapter 2: Macroeconomic assessment

6. With a per capita GNI of \$820 in 2019, against US\$1,554 for Sub-Saharan Africa,<sup>2</sup> Guinea-Bissau is one of the poorest countries in the world. Economic performance over the last decades has been disappointing. In 2019, its per capita GDP was 16% lower than it was in 1997.<sup>3</sup> However, since the crisis that followed the last successful coup in 2012, economic activity increased, averaging 4.4% GDP growth until 2019. The COVID-19 pandemic heavily affected the country, with a GDP contraction of 2.8% against the 5% growth initially projected. Real GDP is projected to resume in 2021 and attain pre-COVID levels due to the restoration of trade activity linked to the cashew nut export.

7. There is a strong potential to transform the local economy. The operational and strategic plan *Hora Tchiga*, approved by the government in 2020, identified the following sectors as four main axes to steer this transformation: agriculture and agribusiness; fishing and aquaculture; tourism, transports and increased business formalization. However, to transform, the country must address its profound, productive deficiencies and reduce dependency on its vast natural resources. Guinea-Bissau has the highest proportion of natural wealth per capita in West Africa, although resources are rapidly depleted (Annex I).

8. This section will cover the main macroeconomic aspects of Guinea-Bissau, starting with a review of the country's development history, going through its growth structure, monetary, fiscal and external balance overview in the past five years. It concludes with an assessment of the main macroeconomic challenges.

### 2.1. Country's growth model and recent economic performance

#### 2.1.1. Country's economic and development history

9. **Country's long-term development policy:** Since independence from Portugal in 1973, Guinea-Bissau has struggled to implement development policies that translate economic growth into inclusive social development. The first development policy under Amílcar Cabral, the independence movement leader, focused on the need to develop an industrial sector, improve agriculture and infrastructure (Cabral, 1976). After the independence struggle, the main goal of the central government was to transform the economy from the extractive model, overdependent on unskilled labor, to an inclusive developed economy. The new model would promote essential services (education, health, social assistance) by exploring available natural resources and the modernization of the agricultural sector.

10. The plan was hampered by a series of political disputes that permeate economic development (more detailed in section 3.4, on the fragility aspects). After independence, there was limited economic transformation and growth was mainly driven by activities in the capital Bissau. The government liberalized the economy, promoted economic reforms, and depreciated the national currency Peso to improve terms-of-trade and trade balance. In 1997, he led Guinea-Bissau's integration to the WAEMU and the replacement of the Peso by the CFAF, pushing the country to closer integration with its neighbors.

11. The 1998-1999 civil war<sup>4</sup> destroyed 80% of the country's economic infrastructure and GDP per capita shrank by 9% during the following years (AfDB, 2005). In 2004, the government prepared a Poverty Reduction Strategy Paper and 2004-2006 Policy action (known from its Portuguese acronym DENARP) focusing on four strategic axes: (i) the acceleration of growth; (ii) increasing and improving access to essential social services and socio-economic infrastructure;

<sup>2</sup> World Bank

<sup>3</sup> World Bank (2021). 2019 is the last available data.

<sup>4</sup> Since 1998, Guinea Bissau entered a series of chronic instability events marked by the non-subordination of the army to civil authorities, triggering the civil war. Between 2000-2004, the average life of a government was six months; from 2004-2011, a government life was 2-year. There was a coup d'état in 2003, then on 2nd March 2009, the democratically elected president and the Chief of the Army were assassinated. On 1st April 2010, the military intervention fueled tensions at the head of the Executive and fragilized the power equilibrium, leading to the 2012 coup d'état. Between 2012 and 2019, there has been tension between the Executive and the parliament, bringing great instability to the Government..

(iii) improving the living conditions of vulnerable groups to reduce disparity among social groups and promote social equity; and lastly (iv) improving institutional and governance capacities. Despite some progress, DENARP's overall assessment was unsatisfactory. Poorly ranked priorities and institutional fragilities were the main reasons behind the difficulties in executing projects and over-optimism related to foreign donors' aid.

12. In 2010, the Government decided to implement the same thrusts as the DENARP. Still, it revised the key monitoring indicators and prepared studies to sustain the following 2011-2015 strategy, coinciding with the cut-off date for achieving the MDGs. DENARP II's main focus was: (i) strengthen the rule of law and democratic institutions; (ii) restructure and improve public financial management; (iii) promote sustainable economic development. And (iv) enhance quality service delivery in the social sectors. DENARP II implementation was suddenly stopped by the successful 2012 coup d'état, which led many donors, including the African Development Bank, to suspend operations and financial support to the country (AfDB, 2015).

13. In 2014, the return to constitutional order was followed by a new development plan and vision, entitled *Terra Ranka* ("a fresh start"), based on the lessons of the previous development plans DENARP I and II. The plan aimed to guide foreign donors' interventions, proposing to develop the agriculture and agroindustry sectors, fishing, tourism, and mining. These growth "engines" would essentially rely on developing the cashew nut and rice value chains, the development of fishery resources, and the establishment of a special tourism area. Once again, political instability impeded the execution of this plan, although some critical infrastructure investments were completed or are underway<sup>5</sup>. Recently, the government-appointed in 2020 approved a new government plan and development policy, *Hora Tchiga*, focusing on similar objectives provided in previous development plans as to invest in activities to re-launch the economy after the COVID-19 pandemic and targeting a public administration reform to reduce the wage bill and corruption.

14. It is important to highlight the importance of the international community in financing development investments in Guinea-Bissau. Since independence, the country struggles to mobilize tax revenues and promote sound fiscal management reforms that could sustain long-term growth. Bilateral and multilateral donors finance almost 90% of public investment given the lack of fiscal space – tax revenue to GDP averages 8% since 2005. The wage bill has been increasing since 2001, reaching a record of 82% of tax revenue in 2021. The country has made several adjustment efforts since 1987 to lower inflation, reduce external imbalances, reduce debt and improve fiscal deficit<sup>6</sup>. It attained the decision point to the HIPC initiative in 2000<sup>7</sup> and 2010<sup>8</sup>. These characteristics make Guinea-Bissau overdependent on foreign aid or, as dubbed by Professor Carlos Lopes<sup>9</sup>, "a beggar state."

15. **Economic growth model:** the economic model in Guinea-Bissau during the colonial period was of an extractive pattern, with little investment in human or physical capital (World Bank, 2020). According to Tanuto (2012), the first land concessions to the Portuguese were oriented to groundnuts, sugar cane, and rice production. Concessionaires, however, delegated production to local farmers, supplying them with seeds and merchandise on a credit basis. They

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<sup>5</sup> For instance, the submarine cable station to provide better and cheaper communications services, the asphaltting of the Buba-Catio road in the part south of the country, and infrastructure investments to generate energy and improve transmission and distribution.

<sup>6</sup> Guinea-Bissau went through a 3-years Structural Adjustment Program (SAP) IMF program in 1987. The package included: liberalization of the economy; devaluation of the Peso; reduction of expenses, including subsidies and reducing the number of public workers; refrain from borrowing from the Central Bank (Gali, 1990).

<sup>7</sup> The AfDB approved debt relief of US\$ 50.84 million in net present value at end-1999.

<sup>8</sup> The IMF/World Bank calculated a USD 415.9 million present-value of debt relief at end-1999; however, the HIPC lapsed in 2001, resumed in 2010.

<sup>9</sup> Honorary Professor at Nelson Mandela School of Public Governance, Faculty of Commerce, University of Cape Town. Former UN Assistant Secretary-General and Political Director for Secretary-General Kofi Annan, former African Union High Representative for Partnerships with Europe

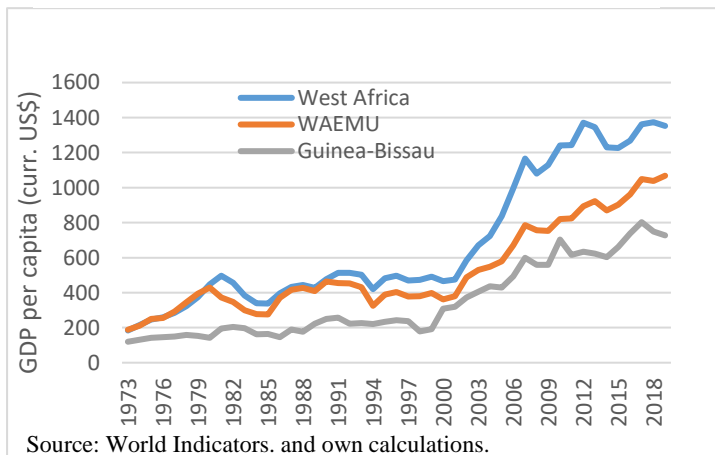


held the monopoly to buy surpluses and sell consumers' goods. Groundnuts were the main export crop between 1846 and independence, but other cultures were produced, such as cotton, palm kernels, and rice. Cashew trees were systematically planted across the country from 1940 on, promoted by colonial authorities, up to the point which revenues from cashew nuts exports were the third highest in the colony, behind groundnuts and palm kernels.

16. This model relied on cheap unskilled labor provided by farmers living in concessional lands. Colonial exploitation was based on the imposition of hut taxes to force farmers to produce and sell export crops. Road construction was done with the use of forced labor. By independence, Guinea-Bissau had just 60 kilometers of paved roads and a literacy rate below one % (World Bank, 2015).

17. Agriculture accounts for 48.0% of GDP and generates almost 85% of total employment and more than 90% of exports.<sup>10</sup> Cashew nut production is the primary source of income for two-thirds of households. As a result, the economy is highly dependent on the performance of its prices. The second extended crop is rice, producing 200,000 tons per year, although still far from reaching self-sufficiency, estimated at 450,000 tons (OECD, 2015). Fisheries is another important sector, with Chinese and European vessels catching 500,000 tons of fish every year (AFDB/WB, 2019).

**Figure 1: GDP per capita**



18. This economic structure has barely changed over the past decades, as opposed to other countries in the region. For instance, in SSA the share of services has increased progressively to almost 60% of GDP, and agriculture decreased to 15%. Services make up roughly 39%, with the industrial sector amounting to 14.2%. Further, the services sector is mainly concentrated in Bissau and is largely informal. Almost 76% of workers in the capital are engaged in informal businesses, such as handicrafts and other street vendor

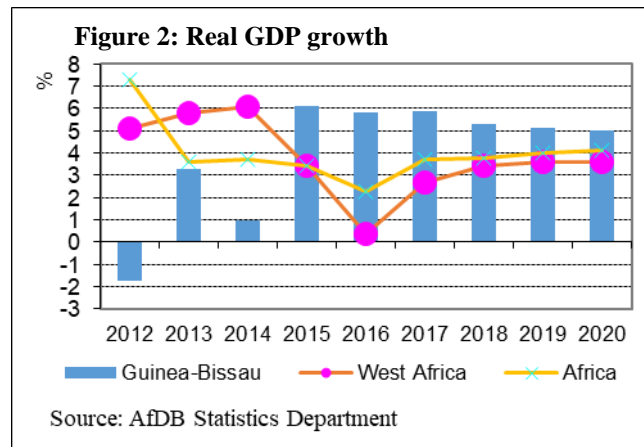
items and restaurants and hotels. (World Bank, 2016). Despite investments in human capital and basic infrastructure, these have not yet been translated into economic diversification or industrialization. GDP per capita has grown at a lower rate than neighboring countries in West Africa, increasing the gap differential.

19. The structure of the Bissau-Guinean economy is still based on low value-added agricultural products with marginal industrial production. Almost all cashew nut exports are sold as raw inputs to more sophisticated value chains in India and Vietnam. This structure limits the ability of the economy to diversify into other products and create forward and backward linkages with other sectors. A study by Haile and Moeller (2018) reveals that structural factors – notably financial deepening and trade, combined with favorable external conditions – explain most of the growth in Guinea-Bissau between 2010-2018. Infrastructure development played a small role, reflecting the low level of capital accumulation.

### 2.1.2. Recent growth performance and outlook

<sup>10</sup> GDP data obtained from AfDB Statistics Department. Employment and export data obtained from AfDB (2019).

20. **Recent growth performance:** The last successful coup d'état occurred in 2012, leading to an economic contraction of 1.7% with the suspension of support from multilateral and bilateral partners. Return to constitutional order in the years that followed has allowed six consecutive years of growth, averaging 4.4% annually. This trend was further improved between 2015-2019, with growth attaining 5.4% per annum. The years of best economic performance were explained by higher cashew nut export prices and higher traded volume, sustaining good macroeconomic external and fiscal indicators. This stop-go growth cycle is interconnected to political instability and a poorly diversified economy.



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21. GDP growth outlook for 2021 is estimated to remain at 5%, increasing cashew nut production and constant prices. However, growth was compromised by the unstable political context and the COVID-19 outbreak. The global economic slowdown weighted on cashew nuts exports and foreign direct investment, along with the substantial adverse impact of the lockdown measures on domestic non-cashew activity and retail trade. The impact of devastating floods in basic infrastructure and agricultural production contributed to worsening growth in 2020, estimated to shrink -2.8%.

**Table 1: Macroeconomic Trends and Prospects (2017-2022)**

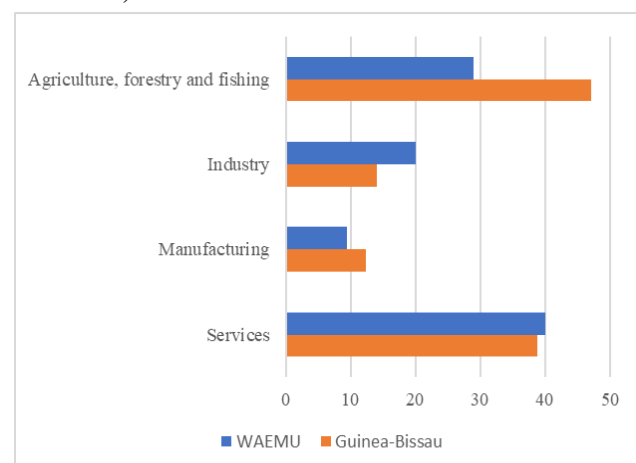
	2017	2018	2019	2020 (e)	2021 (p)	2022 (p)
Real GDP Growth	4.8 %	3.4 %	4.5 %	-2.8 %	2.9%	3.9%
Inflation	-0.2%	0.4%	0.2%	1.9%	2.0%	1.9%
External public debt (% PIB)	17.3	21.8	25.3	27.1	24.9	24.9
Overall Fiscal Balance (% GDP)	-1.3	-4.3	-4.6	-7.8	-5.3	-4.6
Current Account (% GDP)	0.3	-3.2	-8.5	-11.4	-4.4	-4.4

Source: AfDB Statistics Department, IMF DSA 2021.

### 2.1.3. Supply-side drivers of growth

22. Supply-side components of GDP: The primary sector accounts for the most significant share in Guinea-Bissau's economy, with agriculture, forestry, and fishing representing 48.0% of GDP in 2020. Within this sector, agriculture alone accounted for roughly 44.5%, forestry for 1.36%, and fisheries for 3.2%<sup>11</sup>. The industrial sector represents 14% of GDP, with manufacturing accounting for roughly 12%. In contrast, services remained below 40% (38.2% in 2020), with the most critical subsector being wholesale & retail trade, restaurants, and hotels, about 20% of GDP. One characteristic of the Bissau-Guinean economy is the absence of any trend towards a more modern economy, lowering the share of the primary sector. Most proportions have remained

**Figure 3: Economic structure in Guinea-Bissau and WAEMU, % value added to GDP in 2019**



Source: AfDB, UN

<sup>11</sup> UN National Accounts Data and AfDB. It must be noted that UN and AfDB data differ in 2 % on the share attributed to the primary sector.

virtually unchanged for the last decade (

23.

24. Table 2).

**Table 2: Value-added by economic activity, at current price (% of GDP)**

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019 (e)	2020 (p)
<b>Agriculture, forestry and fishing</b>	<b>47.0</b>	<b>46.8</b>	<b>48.7</b>	<b>45.6</b>	<b>43.1</b>	<b>49.4</b>	<b>49.1</b>	<b>47.2</b>	<b>46.9</b>	<b>47.1</b>	<b>48.0</b>
<b>Industries</b>	<b>13.7</b>	<b>12.9</b>	<b>14.1</b>	<b>14.9</b>	<b>15.1</b>	<b>13.2</b>	<b>13.5</b>	<b>14.2</b>	<b>14.2</b>	<b>14.0</b>	<b>13.8</b>
Construction	1.3	0.6	0.8	1.3	1.4	1.0	0.7	1.0	1.1	1.1	1.0
Electricity, gas & water	0.6	0.7	0.6	0.5	0.7	0.7	0.6	0.6	0.6	0.6	0.6
Manufacturing	11.8	11.5	12.7	13.1	13.0	11.5	12.2	12.5	12.5	12.3	12.2
Mining and quarrying	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Services</b>	<b>39.4</b>	<b>40.2</b>	<b>37.3</b>	<b>39.4</b>	<b>41.8</b>	<b>37.4</b>	<b>37.4</b>	<b>38.6</b>	<b>38.9</b>	<b>38.8</b>	<b>38.2</b>
Wholesale & retail trade, restaurants, hotels	19.2	21.2	19.5	22.3	22.5	18.8	20.3	20.7	20.9	20.6	20.3
Transport, Storage and Communications	4.6	5.2	5.4	5.3	5.4	5.2	4.7	5.2	5.2	5.1	5.1
Finance, insurance, real estate & business act.	2.9	3.1	3.2	3.0	3.1	3.0	2.7	3.0	3.0	2.9	2.9
Public administration and defense; compulsory social security	11.4	10.3	8.7	8.7	10.7	9.5	8.7	9.2	9.3	9.5	9.2

Source: AfDB Statistics Department

25. Agriculture has remained unstable due to oscillations in cashew nut prices. Industrial production experienced considerable growth due to investments in electrification (14 interior villages), the construction of three photovoltaic plants, and some critical infrastructures (roads and markets) (UEMOA, 2019). Construction, in turn, has been the sector that has grown the most over the 2015-2019 period, backed up by the good cashew-nut exports.

**Table 3: Growth rate by sector (annual change)**

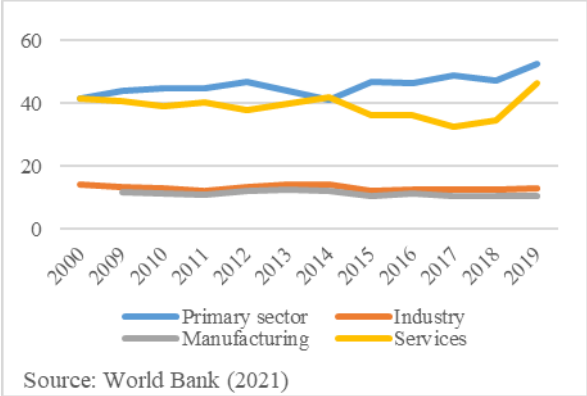
	2016	2017	2018	2019*
Agriculture, hunting, forestry, fishing	5,3	-0,3	0,7	-0,3
Mining, Manufacturing, Utilities	5,5	4,5	5,3	7,4
Construction	-17,8	119,0	2,8	-10,9
Wholesale, retail trade, restaurants and hotels	11,0	4,1	4,8	7,1
Transport, storage and communication	4,1	5,8	6,0	5,8
Other Activities	3,2	11,9	2,3	6,2

\*Last available data.

**Figure 4: Evolution of GDP composition in Guinea-Bissau (2000-2019), % value added to GDP**

**2.1.4. Demand side components of GDP**

26. An analysis of the demand side components of the GDP ( One example of the food import trend is the demand for rice: Guinea-Bissau was self-sufficient in rice production, a staple food for many households. The cashew nut export sector's increased attraction led small farmers to divert from rice to cashew crops, making Guinea-Bissau an importer of rice.



27. Table 4) reveals that Guinea-Bissau's economy is mainly led by household's consumption, amounting to an average of 92% of expenditure between 2012-2019 (Table 4). In 2019, household consumption spiked to 97.4%, compensating for the reduction in exports caused by the reduced terms of trade. This component, however, has increased its importance substantially since 2010, supported by the increased international cashew nut demand and prices. This orientation towards cashew nut production is also reflected in imports. This component is growing since 2014, driven mainly by increased oil demand, capital goods, and food imports. One example of the food import trend is the demand for rice: Guinea-Bissau was self-sufficient in rice production, a staple food for many households. The cashew nut export sector's increased attraction led small farmers to divert from rice to cashew crops, making Guinea-Bissau an importer of rice<sup>12</sup>.

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<sup>12</sup> Temudo and Abrantes (2011) explain how the price fixing policies adopted by the government during the 80-90s benefited imported rice over the local produced rice, creating a disincentive.

**Table 4: GDP by Expenditure**

	2012	2013	2014	2015	2016	2017	2018	2019
<b>% Distribution</b>								
<b>Final consumption expenditure</b>	102.8	100.7	102.0	100.8	100.2	98.3	101,5	113,3
<b>Household consumption expenditure</b>	89.7	88.0	85.3	85.3	86.8	84.1	86,9	97,4
<b>General government final consumption expenditure</b>	13.0	12.7	16.7	15.5	13.3	14.3	14,6	15,9
<b>Gross capital formation</b>	7.4	6.7	7.8	4.2	4.9	6.2	5,0	5,4
<b>Gross fixed capital formation</b>	6.6	5.7	6.0	5.5	4.8	6.1	6,8	5,6
<b>Changes in inventories</b>	0.8	1.0	1.8	-1.4	0.1	0.1	-1,8	-0,2
<b>Exports of goods and services</b>	15.6	18.4	22.3	27.5	26.5	26.5	27,4	21,9
<b>Imports of goods and services</b>	25.7	25.8	32.1	32.5	31.6	31.0	31,2	37,4
<b>Annual Growth</b>								
<b>Final consumption expenditure</b>	-5.0	0.8	6.3	11.3	11.5	8.1	1,8	5,8
<b>Household consumption expenditure</b>	-4.2	-0.2	2.5	11.1	14.7	6.2	2,1	6,3
<b>General government final consumption expenditure</b>	-9.2	7.3	28.0	12.2	-2.8	18.7	0,3	3,7
<b>Gross capital formation</b>	29.9	-12.0	15.5	-27.8	13.3	38.5	-21,6	6,9
<b>Gross fixed capital formation</b>	19.5	-11.8	2.1	6.6	-3.4	38.1	8,6	-18,9
<b>Changes in inventories</b>	619.3	-14.7	145.2	NA	NA	NA	19,3	14,6
<b>Exports of goods and services</b>	-29.6	17.3	11.8	8.0	-6.9	-8.1	-4,5	19,2
<b>Imports of goods and services</b>	-24.5	-1.4	33.5	14.0	14.6	10.4	3,4	4,5

Source: UN National Accounts Data

### 2.1.5. Spatial distribution of growth

28. Guinea-Bissau is divided in 8 administrative regions (Bafata, Biombo, Bolama/Bijagos, Cacheu, Gabu, Oio, Quinara, Tombali) and the autonomous sector of the capital Bissau. Regions are dependent on agriculture (cashew nut, groundnuts, and rice) and services (commerce). Other economic activities are concentrated in the capital Bissau (OECD, 2015), pulled by the public sector activities and significant infrastructure investments. The archipelago of the Bijagos enjoys its privileged location to promote tourism service, but on a low scale. The northern regions of Oio and Cacheu are isolated from the capital and the population relies on trade and services provided in the neighbor Senegal. The uneven distribution of growth between the capital Bissau and other regions creates a feeling of resentment and injustice among different ethnicities (see section 3.4). The lack of job opportunities, schooling, and poor social services contribute to poverty ratios (see section 4.4.2).

29. The rural population stands at 56.6% of the total population estimated at 2 million people (Annex 2), down from 63% in 2000. Rural living standards are considerably lower than in Bissau, reflecting lower rural human capital and lower agricultural productivity. The difference in the standard of living in rural and urban areas has widened over time. This has been accompanied by a similar shift over time towards employment in agriculture, further emphasizing the link between a sector plagued by low productivity and higher poverty rates (World Bank, 2016).

### 2.1.6. Structural transformation

30. **Economic Structure:** Guinea-Bissau's economic structure has experienced little change over the last decades, with the primary sector even increasing in past years on the back of high cashew prices while other sectors of the economy have stagnated or contracted. The country has failed to produce an industrial policy that could steer the economy towards higher value-added processing factories. This is at odds with the WAEMU structure where the primary sector represents a much smaller share of national GDP (52% vs. 29%), with their economies somewhat transitioning to higher value-added sectors.

31. **Potential for structural transformation:** Guinea-Bissau's economy has a solid potential to transition towards higher value-added activities. The previous strategic document *Terra Ranka*,

upon which the latest document *Hora Tchiga* builds, identified the following priority axis:

- a. Agriculture and agribusiness: This axis call for developing the agri-processing of the cashew nut, the expansion of the rice culture, and diversification by developing livestock and horticulture.
- b. Fishing and aquaculture: the plan entails developing a processing sector but requires more capacity building through training and research on fisheries and aquaculture.
- c. Tourism: Guinea-Bissau intends to become an eco-friendly touristic destination, aiming to develop a unique program for the Bijagos Islands and an inland national park network.
- d. Mining sector: Besides supporting the two primary mines in Farim (phosphates) and Boé (bauxite), the country attempts to improve the knowledge base of the mining sector by undertaking a mining inventory and a geological mapping.

32. In addition, *Hora Tchiga* identifies the following key reforms:

1. Credit support to the cashew nut and other agribusinesses, mainly to soften the short-term effects of the foreseen reduction in the 2020-2021 campaigns caused by the COVID-19 pandemic.
2. Promotion of the vegetal and animal value chains, as well as ensuring food security. This reform aims to promote agriculture production through productivity increases (mainly through climate-smart agriculture), diversification, and enhancement of the value chain, with particular emphasis on products with strong mercantile potential and food security.
3. Support of agricultural and fisheries industries, which aims to improve the processing of the different products.
4. Reduction of informality in the artisanal sector by creating incentives to enter the formal sector, reducing unemployment and improving tax collection.
5. Support of the tourism sector, promoting residential, sport, bird-watching, and eco-tourism.
6. Enhancement of the transport sector. This program intends to develop the entire sector by adopting a holistic approach focused on complex infrastructure and improving the quality of the vehicles and their maintenance capacity.
7. Liberalization of the energy and water sector. Given the chronic incapacity of EAGB to ensure electricity supply and water distribution, the intention is to implicate private companies through Build-Operate-Transfer (BOT) mechanisms to ensure energy and water distribution throughout the country.



### 2.1.7. Productivity and economic complexity

30. Factor productivity: Low physical and human capital accumulation have posed substantial impediments to growth in Guinea-Bissau in the past decades. Education improvements and labor force growth had contributed positively to growth from 2012 ahead. Still, low capital growth had precluded the country's potential, with investment as a percentage of GDP been less than half of that registered in other WAEMU countries. Labor accumulation and total factor productivity (TFP)<sup>13</sup> accounted for most of the modest growth per capita between 2000-2016, and the growth of capital was either low or negative. Capital growth contribution to growth was positive between 2017 to 2020, with increased investments provided by multilateral and regional banks. In general, growth has been driven by an increased labor and land expansion supply but not by increased productivity.

31. **Sectoral productivity:** Agricultural productivity is low. The yield of its two main crops (cashew nuts and rice) is significantly lower than WAEMU's average and far from the best performers in the region. Cashew trees are aging, hence diminishing their productivity. Corrective measures such as intercropping and diminishing tree density can boost productivity. Rice productivity may increase by developing land for irrigated rice in alluvial soils. Farmers in Guinea-Bissau fail to adopt modern inputs and improved technologies, resulting in low productivity (Figure 8:). The absence of plant protection programs and treatment for diseases further exacerbates low productivity and increases vulnerability. Additionally, just 8 % of the potentially irrigable land is under irrigation, despite the abundance of essential water resources.

Figure 7: Evolution of yield 2010-2019 (hg/ha)

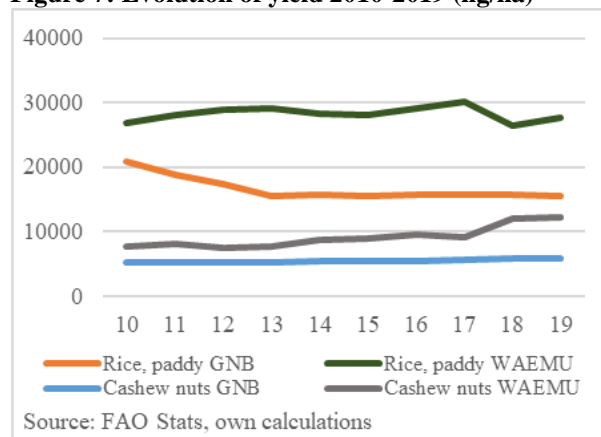
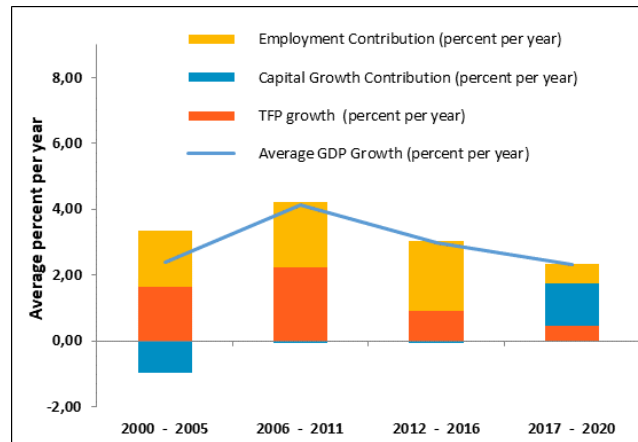


Figure 6: Guinea-Bissau Contributions to Growth

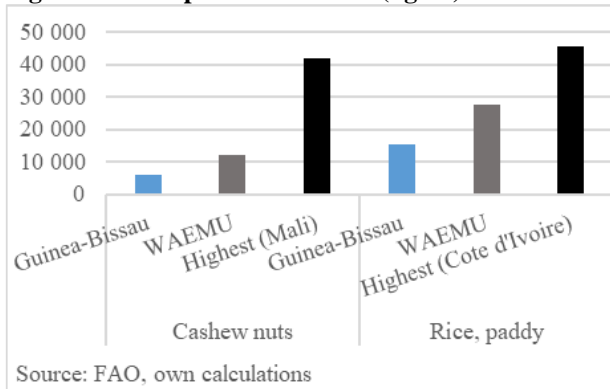


Source: World Development Indicators, own calculations.

32. These factors have resulted in minimal productivity gains over the last years, if not a loss. The yield of rice per hectare since 2010 has decreased 25%, while the yield of cashew nuts has increased 12% (**Erreur ! Source du renvoi introuvable.**6). In the same period, WAEMU's average has increased by 3% and 57%, respectively. Guinea-Bissau is not profiting from the development of new techniques, despite its favorable natural conditions.

<sup>13</sup> TFP estimated using the Solow residual= $g_Y - \alpha * g_K - (1 - \alpha) * g_L$ . Hypothesis: annual depreciation rate; 7%; capital's share of Y ( $\alpha$ ): 0.3; initial K/L ratio: 3,00.



**Figure 8: Yield per hectare 2019 (hg/ha)**

### 2.1.8. Inclusive and green growth

33. Guinea-Bissau's growth in the past decades has not been inclusive. GDP per capita has stagnated since the 1998 civil war, poverty and inequality remain high and are exacerbated by non-monetary deprivations. Two-thirds of the population live below the international poverty line of US\$1.90 a day, and one-third live in extreme poverty, on \$1.25 or less a day. Poverty reduction has been hampered by low and volatile growth.

34. High- and rising-income inequality—with the Gini coefficient at 0.51 in 2010<sup>14</sup>, compared to 0.35 in 2002—indicates that the top income groups are the main beneficiaries of the system. People in the lower quintiles are the most deprived of asset ownership and access to essential social services. Despite progress on access to primary education, education outcomes are still weak. Health outcomes are equally poor: infant and maternal mortality rates are among the highest in the world (more detailed in section 4.7). The decades-long failure to provide basic public goods has severely impaired the ability of poor households to participate in economic activities. Women face disadvantages in access to education and health services. While statutory laws provide equal land rights to men and women, customary practices impede women's access to land and other assets, often dependent on their marital status.

35. On green growth, Guinea-Bissau possesses a solid potential for spur low-carbon, climate-resilient development by harnessing the opportunities of a green and blue economy. The country is endowed with unexploited natural resources, including renewable energies (hydropower, wind, solar, cashew shells and other agricultural waste/residues, ocean energy, etc.), fisheries and marine resources, ecotourism, agricultural lands, biodiversity richness, water resources, and lush coastal areas. Guinea-Bissau's biodiversity constitutes a significant natural asset for the country and, if protected, can serve as the backbone of the future tourism industry. Its diverse ecosystem of mangroves, sandbanks, mudflats, shallow estuarine waters, and sub-humid Guinean forests are both local and global significance, with the Bolama-Bijagós Archipelago being recognized UNESCO as Biosphere Reserve. However, the country struggles to get out of the cashew-crop dependence and take advantage of these opportunities.

36. Guinea-Bissau is one of the most vulnerable countries in the world to climate change. The 2018 World Risk Report ranked Guinea-Bissau at 19th out of 173 countries<sup>15</sup> regarding natural disasters. Wetlands constitute most of the land area, and land suitable for urbanization is becoming limited. However, due to the lack of enforcement of regulations, inhabitants have been expanding and building on the fringes of these shallow surfaces. This results in poor habitat conditions and neighborhoods that are often flooded. Most of Bissau consists of wetlands and coastal swamps. During the rainy season (from June to October), water levels overflow the peripheral habitats.

37. Nearly 10% of the country is covered by mangroves, the highest proportion in the world. About 15% of the country is preserved for biodiversity, which is expected to rise to 26% by 2020. The country's economic performance depends heavily on the exploitation of these resources. Despite all these enormous opportunities, challenges remain in harnessing its natural resources for its accelerated socio-economic development (Annex I). The depletion of Guinea-Bissau's total

<sup>14</sup> 2010 is the latest data available.

<sup>15</sup> 1st being the most vulnerable and the 173rd the less vulnerable.

net capital of natural resources is mainly the consequence of weak governance and the subsequent mismanagement.

### 2.1.9. Macroeconomic outlook and potential impact of COVID-19

38. In the expectation of large-scale vaccination, economic activity shall bounce back in 2021, albeit slower than in the pre-shock scenario. While vaccination progress is proving to be slower than expected, the overall incidence of COVID-19 has remained very low in the second quarter of 2021 (Box 1). To avoid risks related to financial stress in the banking sector, BCEAO implemented a set of monetary and macroprudential measures in March 2020. These include lowering its policy rate to a fixed 2.5 percent and extended refinancing operations of the 3-month “Covid-19 T-Bills” at 2.5 percent for limited amounts.

39. Growth is expected to rebound to 2.9% in 2021 and 3.9% in 2022. On the external front, the outlook depends on recovering international cashew nut prices and trade volume. The outlook is also subject to political stability, crucial to attract investment and stimulate private sector engagement.

40. Inflation is expected to remain stable—at 2% in 2021 and 1.9% in 2022, with disruptions in the international supply of essential goods being offset by weaker demand. As a result, a slight improvement will be observed in the budget deficit—at 5.3% of GDP in 2021 and 4.6% in 2022—and the current account balance, which will be a deficit of 4.4% in both years (AfDB, 2021).

**Table 5: COVID Impact on Macroeconomic Outlook**

Item	2019	2020		2021		2022	
	Est.	Pre-shock	After-shock	Pre-shock	After-shock	Pre-shock	After-shock
Real GDP Growth (%)	4,5	5,0	-2,8	5,1	2,9	5,0	3,9
Real GDP per capita growth (%)	2,0	2,5	-5,2	2,7	0,5	2,7	1,5
CPI inflation (%)	0,2	2,2	1,9	2,3	2,0	2,0	1,9
Budget balance (% of GDP)	-4,6	-3,1	-7,8	-3,2	-5,3	-5,2	-4,6
Current account (% of GDP)	-8,5	-3,3	-11,4	-3,0	-4,4	-4,6	-4,4

Source: AfDB Statistics Department, except 2022 pre-shock data obtained from IMF (2021)

### **Box 1: The COVID-19 pandemic in Guinea-Bissau**

By June 2021, Guinea-Bissau has recorded 3,881 cases since the first case was detected in March 2020. Of these confirmed cases, most are in Bissau, the capital. The death toll is 69 people, representing a fatality rate of 1.8 percent, slightly below the world fatality rate of 2.3 percent, but above Africa's 1.13 percent. Precautionary measures were put in place earlier in March when the authorities closed land, air, and sea borders, declared a State of Emergency and imposed restrictions of movement of people across the country. Despite the government's quick response to monitor incoming citizens to avoid the spread of the disease, the lack of funds and equipment put in question the country's capacity to deal with the outbreak.

Despite this adverse environment, on 31 March 2020 the Government imported 17 million CFA in medical equipment (gloves, masks, test kits) from Portugal to support national hospitals. On 7 April 2020, the Ministry of Finance put available 122 million CFA to the main hospital Simao Mendes. The Government also mobilized around USD 80 million from international donors, financial and technical partners to finance the COVID-19 contingency plan (purchase of PEP's, test and hygienic kits and risk communication support) and to provide socio-economic support, most in the form of grants and donations. In coordination with the Economic Community of West African States (ECOWAS), airspace was re-opened on 21 July; international travellers are allowed to enter the country subject to holding a negative PCR COVID-19 certificate.

The National Vaccination Plan against COVID-19 in Guinea-Bissau started on 1 April 2021 with donations of 4,000 doses from Senegal and 12,000 doses from the African Union in partnership with MTN group (Astra Zeneca and Sinovax). On 12 April 2021, 28,800 doses of AstraZeneca vaccines were received from the COVAX facility, the first arrival of the 120,000 planned doses. Constant strikes among workers in the health sector are hindering the pandemic management in the country. According to data from the WHO office in Guinea-Bissau, PCR tests are being held only among travellers. On vaccination, registers account for 21,855 applied doses up to 31 May 2021, less than 1.5% of total population.

## **2.2. Fiscal developments**

### **2.2.1. Budget deficit:**

41. The government fiscal deficits have oscillated over the last years, experiencing a 1.4%, 5.1% and 4.6% deficit to GDP ratio in 2017, 2018 and 2019, respectively, with an expected 7.8% deficit in 2020 (AfDB, 2021).<sup>16</sup> Low revenues combined with the impact of the COVID-19 pandemic contributed to the deficit increase. In 2015, the government mobilized 10% of GDP in tax revenues, decreasing to 9.4% in 2019 and averaging 9% in 2010-2020. Several reforms to improve tax administration, such as assigning tax numbers to individuals and corporations, have been upset by political instability and an overdependency on cashew nut sales, which fell in 2018-2019. The COVID-19 pandemic has further deteriorated tax collection, bottoming at 8.1% in 2020.<sup>17</sup> Guinea-Bissau lags considerably behind other WAEMU countries who, on average, mobilize tax revenue above 15% of GDP and is also far from the 20% of GDP target of WAEMU convergence criteria.<sup>18</sup>

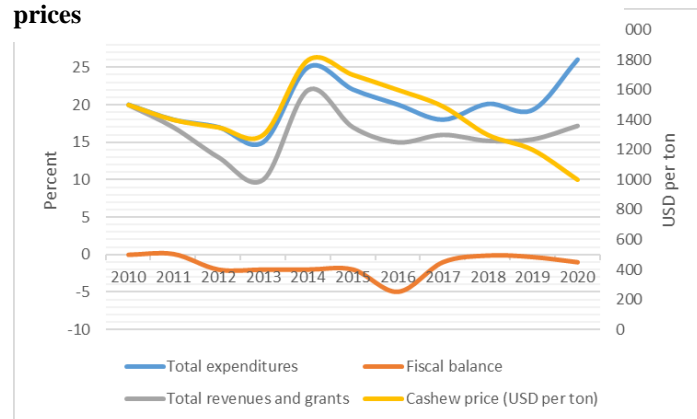
<sup>16</sup> AfDB Statistics Department. IMF (2021) estimates a budget deficit for 2020 of 11.1%

<sup>17</sup> IMF (2018) and IMF (2021)

<sup>18</sup> Guinea-Bissau's tax policy framework has been largely unchanged for decades. Its personal income tax rate, at 12 percent, is the lowest among all its peers. Similarly, although the statutory corporate income tax (CIT) rate is 25 percent, similar to its peers,

42. On the expenditure side, the government contained 17.6% of GDP in 2017 from 22.1% in 2014, when expenses increased due to the elections and out-of-budget expenses. This improvement was partly thanks to the importance given to the Treasury Committee – a body acting as a controller over expenses – eliminating non-regularized expenditures. Measures such as avoiding the accumulation of new arrears, the withdraw of expensive bank overdraft facilities, and reprofiling of debts to reduce servicing costs contributed to the control of expenditures.<sup>19</sup> However, between 2018 and 2019, fiscal measures were eased, and the activities of the Treasury Committee were suspended. The political instability in 2019 added to relax expenditure control, resulting in 19.3% of GDP in 2019. The COVID-pandemic brought further pressure on expenditure, estimated to have reached 26.1% of GDP in 2020. Measures designed to mitigate the pandemic's effects included healthcare, vulnerable families support, and a program to support the financing of the critical cashew nut campaign. Additional financing to address COVID spending needs has been provided by international donors, including the World Bank, the CCRT, the Islamic Development Bank, non-concessional loans from the West African Development Bank (BOAD), and treasury issuances placed in WAEMU commercial banks.<sup>20</sup>

**Figure 9: Fiscal balance and international cashew prices**



Source: Minister of Finance, IMF, WB.

### 2.2.2. Fiscal outlook

43. In 2020, despite the pandemic, the authorities started to rebuild track records by adopting prudent fiscal policies, including an audit on the real number of public servants and eliminating unjustified wage incentives. In 2021, the authorities will initiate an ambitious fiscal consolidation program led by the IMF to ensure medium-term debt sustainability while supporting economic recovery. As a result, the budget deficit is expected to fall to 5.3% in 2021.<sup>21</sup>

44. From a revenue perspective, tax revenues are expected to increase to 9.8 % of GDP based on a new tax on telecommunications, enhanced tax compliance through the adoption of new legislation and economic recovery. In this regard, the authorities will: (i) submit to Parliament a revised new general tax code and new legislation to strengthen the collection and internal control procedures of the customs and tax directorates as well as implement the Ministerial Order allowing for the *Imposto Geral sobre Vendas e Serviços* (IGV, the value-added tax) Electronic Tax Return.

45. Expenditure is expected to decline to 20.8% of GDP in 2021 from 24.6% in 2020 on the back of (i) reduction of pandemic-related expenditures, (ii) improved management of public sector salaries and new hires, reducing the wage bill, and (iii) the reestablishment of the Treasury Committee to enhance expenditure control. The 2021 budget includes COVID-19-related investments in healthcare and other investments to support food security (at 1.5% of GDP) and keeping cash transfers to vulnerable families. In addition, several transparency measures are expected to be adopted by the authorities following a technical mission from the IMF on

the effective CIT rate is only around 15 percent, partly due to exemptions and the application of lower rates in some sectors. Increases in domestic revenue are due to improved tax and customs administration. Nonetheless, generous tax exemptions and tax liabilities account for a large portion of foregone revenues, estimated at 2.7 percent of GDP (WB, 2019).

<sup>19</sup> IMF (2017) and IMF (2021)

<sup>20</sup> IMF (2021)

<sup>21</sup> AfDB Statistics Department. IMF (2021) estimates a budget deficit for 2021 of 7.6%.

governance and measures to strengthen anti-corruption structures.

46. For the medium term, the fiscal stance is expected to improve, although slowly. Tax revenue is expected to increase to 10.2% of GDP (still far away from the WAEMU average of 15%) slightly. More control is estimated to arise from the expenditure side, reducing expenditure to 20.9% of GDP, although still higher than the 2017 level.

### 2.2.3. Fiscal reforms

47. Guinea-Bissau's fragility is exemplified by the low level of revenue mobilization and expenditure planning and control. Nevertheless, the government reinforced fiscal governance and transparency starting in 2021 to ensure debt sustainability. Tax revenues are expected to increase to 9.8% of GDP (from 8% in 2020) based on a new tax on telecommunications, economic recovery, and enhance tax compliance. On this latter, the government adopted new decrees and ministerial orders to strengthen internal control procedures of the customs and tax directorates.

48. Current expenditures are projected to decline to 16% of GDP (from 16.5% of GDP in 2020) on the back of (i) the reestablishment of the Treasury Committee to enhance expenditure control, (ii) freezing of public sector salaries and new hires to reduce the wage bill, and (iii) lower transfers because of improved management of a state-owned enterprise. In addition, the budget includes COVID-19-related investments in healthcare and other investments to support food security and transfers to vulnerable families to sustain the recovery.

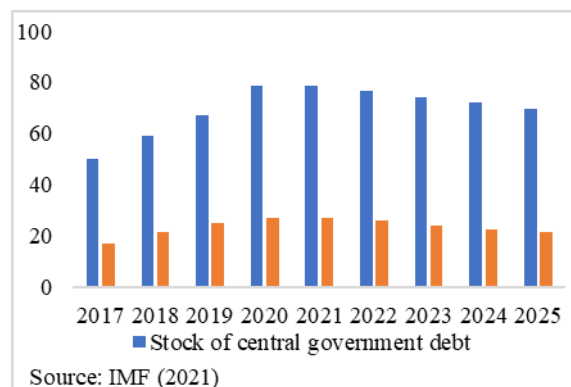
49. Concerning the 2021 budget, the authorities have committed to (i) submit to Parliament a revised new general tax code and a revised tax penalty regime; (ii) implement the Ministerial Order allowing for the Imposto Geral sobre Vendas e Serviços (IGV, the value-added tax) Electronic Tax Return and new decrees and ministerial orders to strengthen collection and internal control procedures of the customs and tax directorates; (iii) freeze public sector salaries and new hires to rationalize the wage bill; (iv) initiate in good faith debt reprofiling discussions with the largest creditor, BOAD, the regional development bank; and (v) streamline the procurement process. Additionally, in early 2021, the Minister of Finance presented to Parliament a modernized statute for the IGV.

## 2.3. Public debt policy / management

### 2.3.1. Current debt situation

50. Total public debt declined to 50% of GDP in 2017 from 55.1% in 2014, primarily thanks to debt relief of pre-HIPC debts on near-Paris Club terms and reduced recourse to expensive banks overdraft (IMF, 2018). However, fiscal relaxation since 2018 increased the debt to GDP ratio to 66.9% of GDP in 2019. Increased borrowing for investment projects (energy, other infrastructure, and rural development) and additional financing required to address COVID-19-related expenses have accentuated this trend, with debt peaking at an estimated 78.4% of GDP in 2020. This represents an increase in the public debt stock of 56% from the 2017 baseline. External debt has risen at a similar pace, going from 17.3% of GDP in 2017 to 27.1% in 2020.<sup>22</sup> Guinea-Bissau's main creditors are international and regional financial institutions, and it benefits from the regional context where institutions and larger regional members provide financial support. Data limitations prevent expanding debt coverage to State-Owned Companies. However, they are

Figure 10: Current debt situation



<sup>22</sup> IMF (2021)

not likely to represent a significant burden except for EAGB, with an estimated debt of 3% of GDP.

**Table 6: Total Public Debt**

	2017	2018	2019	2020
Central Government Debt	50.0	59.2	66.9	78.4
External	17.3	21.8	25.3	27.1
Multilateral	9.8	13.8	17.2	19.6
IMF	2.1	2.3	2.2	1.9
IDA	2.5	5.8	8.2	10.1
AfDB	2.2	2.4	3.9	3.9
Others (IDB, BADEA, IFAD, etc.)	3.1	3.4	2.9	3.7
Bilateral	7.5	8.0	8.1	7.6
Partis Club	0.2	0.2	0.2	0.2
Non-Paris Club	7.3	7.8	7.9	7.3
of which Legacy Arrears	2.8	2.7	2.7	2.5
Domestic	32.7	37.4	41.7	51.2
BOAD	12.6	14.7	15.8	18.7
Local Banking System	13.1	13.7	15.2	11.7
BCEAO	11.1	11.3	11.2	11.5
Loans local commercial banks	0.7	1.9	2.5	-
Treasury Sec. held by local banks	1.4	0.5	1.5	0.2
Treasury Sec. held by regional banks	4.4	6.6	8.7	19.1
Payment Arrears	1.9	1.8	1.5	0.6
Guarantees	0.7	0.5	0.4	1.1

### 2.3.2. Debt sustainability and risks

51. The IMF's previous debt sustainability analysis in 2018 indicated a moderate risk of debt distress. The latest one in 2021 places the risk of debt distress (both external and overall) high due to worsening of indicators on the back of higher-than-expected fiscal deficits, increased borrowing for investment projects, and the additional financing required to address the impact of the COVID-19 pandemic. Although the external debt ratio is relatively small (27.1% of GDP), the risk of external debt distress is considered high because of vulnerabilities from overall distress. The most recent audits of domestic debt suggest that arrears accumulated from 1974 to 1999 amounted to CFAF 14.3 billion (1.7% of GDP), and arrears from 2000–07 were CFAF 88.7 billion (10% of GDP).

52. The present value of the total public debt-to-GDP ratio, while projected to decline in the long term, is above its indicative benchmark and is expected to remain so over the next four years. External debt is considered sustainable in the longer term given the concessional nature of most Guinea-Bissau's, provided the authorities remain committed to post-pandemic fiscal adjustment. None of the major credit rating agencies rates Guinea-Bissau.

### 2.3.3. Debt management strategy

53. The authorities are committed to avoiding non-concessional and short-term external debt. The government has embarked on a series of administrative reforms to better manage debt procedures, including implementing a new debt management software that will allow the elaboration of quarterly debt reports. The government is also trying to understand its external and internal debt better and subsequently improve repayment terms. Internationally, arrears and contingent liabilities have been cleared or renegotiated with Taiwan, and Libya. In parallel, the



authorities are actively seeking renegotiation with other creditors, including Brazil, Angola, Pakistan, and Russia.

54. A large pipeline of contracted project loans with multilateral institutions, amounting to 22% of GDP, remained undisbursed at the end of 2019. Capacity constraints and lack of budgetary allocation for government co-financing have entailed implementation delays. Improved disbursement is expected to bring down public debt over the next five years. Gross annual project disbursements from loans and grants are assumed to finance capital expenditure within 6.5 % of GDP, given the low absorption capacity. In the medium term, in line with the government’s policy to prioritize low-cost funding, project financing is expected to be provided mainly by multilateral external creditors on concessional terms. Residual financing needs are assumed to be filled by Treasury securities with longer maturities, with interest rates projected at 5.8 % for 3-year bonds and 6.3 % for 5-years bonds, in line with the trend of improved financing conditions auction results.<sup>23</sup>

## 2.4. Monetary Policy

### 2.4.1. Monetary policy framework and tools

55. As a WAEMU member, monetary policy is managed at the supranational level by the BCEAO, whose declared the main objective is price stability. WAEMU members share a common currency, the Franc CFA. WAEMU members are expected to comply with first and second-order macroeconomic convergence criteria covering deficit, inflation, and debt levels. The targets of these criteria and Guinea-Bissau’s progress in the last years are shown in Table 77.

**Table 7: WAEMU’s Convergence criteria**

Criteria	Target	2019	2020
<u>First-order criteria</u>			
Overall balance/GDP	$\geq -3\%$	-4.6%	-7.8%
Average consumer price inflation	$\leq 3\%$	0.2%	1.9%
Total debt/GDP	$\leq 70\%$	66.9%	78.4%
<u>Second-order criteria</u>			
Wages and salaries / tax revenue	$\leq 35\%$	60%	82%
Tax revenue / GDP	$\geq 20\%$	9.4%	8.1%

Source: BCEAO

56. Guinea-Bissau’s membership to the WAEMU has contributed positively for securing price stability and consistency of monetary policy. Annual inflation rate averaged 1.1% from 2015 to 2019. Prices rose by 1.9% in 2020 because of the supply shock caused by the pandemic on the prices of essential items. However, inflation is still below the 3% WAEMU convergence criterion.

57. In April 2020, the WAEMU heads of state adopted a declaration suspending all the convergence criteria to provide members additional fiscal space to respond to the COVID-19 crisis. While the suspension did not foresee any time horizon, members declared to remain committed to resuming fiscal consolidation once the crisis is overcome. WAEMU authorities have agreed to attempt to bring the deficit down to 3% of GDP by 2023.<sup>24</sup> At the same time, the suspension has provided the opportunity to reassess the convergence framework. At present, the WAEMU Commission is exploring different options for a modified convergence framework.<sup>25</sup>

58. In December 2019, WAEMU authorities announced a reform of the long-standing monetary agreements with France. The main element of the agreement was the replacement in

<sup>23</sup> IMF (2021)

<sup>24</sup> IMF (2021c)

<sup>25</sup> IMF (2021b)

2020 of the CFA Franc by the ECO, a recently approved common currency for ECOWAS countries. The ECO would remain pegged to the euro<sup>26</sup>. Still, the BCEAO will no longer have an obligation to hold 50% of its reserves in the French National Bank, while France will still act as guarantor. However, other ECOWAS countries, including the largest country Nigeria have voiced concerns about the pace of adopting the common currency, which, together with difficulties arising because of the COVID-19 pandemic, will likely result in the ECO not being introduced for another three to five years.<sup>27</sup>

59. The current mechanism for the BCEAO's management of the currency and credit relies on market mechanisms and indirect tools to regulate liquidity, notably interest rates and the required reserve system. The interest rate policy is focused on the steering of short-term interest rates through the open market and refinancing transactions on the marginal lending window. The minimum interest rate for bidding on open market transactions and the interest rate applicable on the marginal lending window (repo rate) are at respectively 2.50% and 3.50%. These are the principal leading interest rates of the BCEAO set by the Monetary Policy Committee.

#### **2.4.2. Current monetary policy stance**

60. The current monetary policy expansionary stance is appropriate to the context of the pandemic. However, the BCEAO may tighten external buffers significantly in 2021, depending on economic recovery. External reserves rose in 2019 and the first half of 2020 on the back contraction of the current account deficit due to overall fiscal consolidation. Combined with ample donor support and import reduction during the pandemic, the import coverage ratio in months increased from 4.7 in 2018 to 6.0 in mid-2020 before receding to 5.4 in November 2020.<sup>28</sup> In case this ratio falls for several months in a row, the BCEAO should tighten its monetary stance by relying mainly on quantitative measures (refinancing window or reserve requirement) initially and potentially on rate increases. An external sector assessment carried on by the IMF (IMF, 2021c) established the appropriate level of reserves to be between 5 and 7 months of imports. The IMF predicts reserves to stabilize after the pandemic at a level close to 4 months, below the optimal level, calling for renewed efforts to improve competitiveness in the region. These efforts could promote economic integration, particularly through better coordinating regional infrastructure investments, enhancing the regional competition framework, and eliminating non-tariff barriers.

61. Liquidity conditions eased further during the COVID crisis. Both the open-market and interbank rates have been on a downward trend since early 2019, mainly reflecting a more accommodative stance of the BCEAO. Fifty basis points lowered the interest rate band to 2-4 % in June 2020. On the regional public security market, interest rates declined as well over the period.

62. Since March 2020, the BCEAO has been meeting all banks' demand for liquidity at a fixed rate against collateral, avoiding a credit crunch. Later in May, the BCEAO launched a special 3-month refinancing window at a fixed low rate for limited amounts of 3-month "COVID-19 T-Bills" issued by the Member States to help meet funding needs related to the pandemic.

#### **2.4.3. Effectiveness of monetary and exchange rate policy**

63. Guinea-Bissau shares currency, the CFA Franc, with other WAEMU member states. The FCFA is pegged to the Euro since January 1, 1999, at a rate of 1 EUR = 655.957 CFAF. From 2009 until 2016, the FCFA depreciated 28% against the dollar but has since appreciated 16 %.

64. Although some imbalances persist, the conduction of monetary policy from the headquarters of the BCEAO in Ouagadougou have allowed Guinea-Bissau, as well as the entire

<sup>26</sup> There are discussions on the possibility of a currency peg based on a basket of currencies.

<sup>27</sup> IMF (2021c)

<sup>28</sup> IMF (2021c)



region, to experience an appropriate monetary stance: As such, the main source of concern, and hence the main reforms being tackled by the monetary policy are targeted at the financial sector, as discussed in section 2.5.

65. Overall, WAEMU countries kept a strong growth trajectory above 6% for the eighth year in a row in 2019, doubling the average of SSA while keeping inflation low and increasing reserves.

**Table 8: Prices and Money**

	2014	2015	2016	2017	2018	2019
Inflation (CPI)	1.1	-1.0	1.5	1.6	1.1	1.4
Exchange Rate (Annual Average)	495.3	494.4	591.4	593.0	582.1	555.7
Monetary Growth (M2)	33.0	18.3	23.4	6.6	15.4	11.1
Money and Quasi Money as % of GDP	32.9	52.1	54.7	51.7	52.5	56.5

Source: AfDB Statistics Department

66. The measures taken during the COVID-19 crisis have proven fundamental in mitigating the impact of the pandemic by providing additional liquidity. Although a decrease in reserves may lead to a tightening of the monetary stance, the IMF (2021c) estimates that if the external buffers remain stable, the BCEAO could still have room for further relaxation in case of prolonged deterioration the economic outlook.

## 2.5. Financial Markets

### 2.5.1. Recent financial sector developments

67. The financial sector remains largely underserved in Guinea-Bissau, with just five banks operating in the country and assets worth 245.921 million FCFA. The total number of banks for the WAEMU region is 129, while Bissau-Guinean banks' assets represent just 0.7% of total WAEMU banks' assets. Just 9.16% of adults have a bank account, compared to an average of 15.6% in the WAEMU region (World Bank, 2019a). Banking penetration rate remains below 1% (AFDB, 2019a). On financial inclusion, the number of people with bank accounts has increased in recent years, owing in part to the government's decision to pay salaries through the banking sector. Use of financial services is increasing: the global financial services utilization rate increased from 23% in 2018 to 45.2% in 2019, according the BCEAO Report "Evolution of Financial Inclusion Indicators at WAEMU in 2019". The use of mobile money also jumped from 23.6% in 2018 to 46.5% in 2019. Access to microfinance credit, however, remains underdeveloped: its utilization rate is at 1% in 2019, same as in 2009.

**Table 9: Banks and financial institutions in WAEMU**

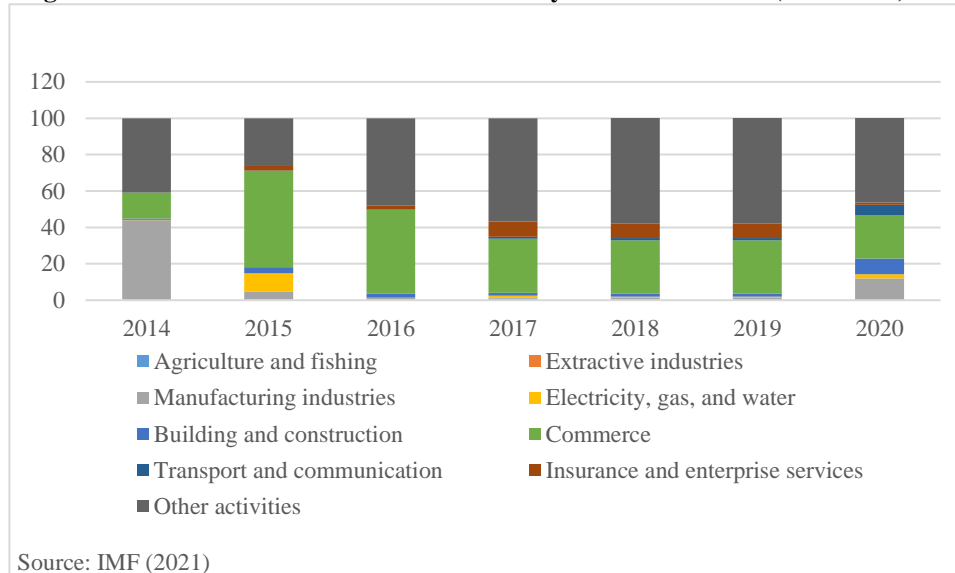
Country	Banks	Fin. Inst	TOTAL		Banks	Fin. Inst	TOTAL
<b>Benin</b>	14	1	15	<b>Mali</b>	14	3	17
<b>Burkina-Faso</b>	15	4	19	<b>Niger</b>	14	4	18
<b>Cote d'Ivoire</b>	29	2	31	<b>Senegal</b>	26	4	30
<b>Guinea-Bissau</b>	5	0	5	<b>Togo</b>	14	3	17
<b>TOTAL WAEMU</b>	131	21	152				

Source: BCEAO, as of 31 December 2020

68. Financial intermediation has remained weak amidst high non-performing loans (20.3% of loans as of June 2020) and low profitability (4.2% return on assets in 2019), which explains the low level of credit provided to the private sector provided by banks, which stands at 11.9% (World Bank, 2019a). In comparison, WAEMU's average credit to the economy stands at 24%, partially

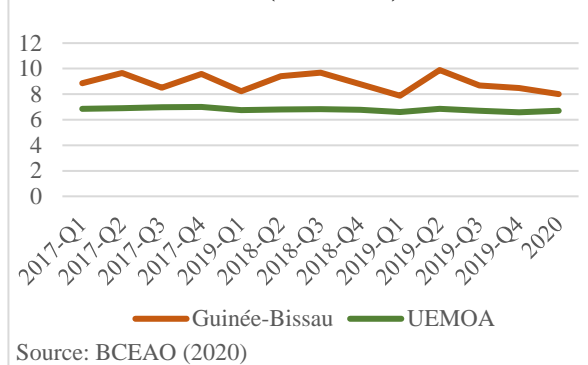
explained by the much lower share of non-performing loans, at 12% (IMF, 2019a). However, an improvement has been recorded since 2017, when NPLs stood at 37.4% and return on assets at -0.4%. As a result, credit to the economy grew steadily above 13% in 2018 and 2019. The sectoral distribution of credit is represented in Figure 11. Besides “Other activities,” commerce is by far the one attracting more credit. Not just the structural conditions of the banking sector explain low credit to the economy. Banks commonly cite the lack of bankable projects presented by the private sector as one of the main reasons why credit does not flow more easily (AFDB, 2014).

**Figure 11: Distribution of credit to the economy in Guinea-Bissau (2014-2020)**



69. Although monetary policy is managed centrally, there are still some variations between each WAEMU countries' monetary variable. For instance, Guinea-Bissau presents a higher cost for credit than peer countries, as exemplified in Figure 12. Over the last three years, the interest rate spread between Guinea-Bissau and the rest of the region has oscillated between two and three percentage points. Guinea-Bissau's interest rate shows considerably more volatility than the regional average.

**Figure 12: Evolution of interest rates in Guinea-Bissau and WAEMU (2017-2020)**



### 2.5.2. The efficiency of financial markets in Guinea-Bissau

70. The financial sector in Guinea-Bissau is limited to the banking sector, with no other registered financial institution than the five existing banks. The sector is small and has low levels of intermediation. While the average loan to deposit ratio in West Africa is about 84%, in Guinea-Bissau, it only stood at 47% in 2016 (World Bank, 2019a). The cost to income ratio of local banks in 2013 was the highest in the region at 88.5%. This reflects the cost of doing business in the country and mimics the low efficiency of contractual agreements. Banking activity is not only limited in size but also scope. Most lending is mainly used around the cashew nut harvest season, with credit to the economy has grown almost identically as cashew nut production. The first consequence of this situation is an over-dependence of the banking sector on the performance of the crop, greatly endangering its stability.

### 2.5.3. Financial sector stability and risks

71. The banking sector was largely affected by an irregular bank bailout the government undertook in 2015 when it bailed a bank with money from international partners against their indications (Box 2). This led to the suspension of payments by international institutions to Guinea-Bissau. After promises by the government to undo the bailout, recent news points to an amicable settlement of the dispute with the accompanying capitalization of the bank that may provide the necessary support for financial stability and long-term growth.<sup>29</sup> However, one systemic bank remains undercapitalized, despite government recapitalization in 2019. The bank has taken steps towards achieving soundness by recovering part of its non-performing loans, but it raises questions on its sustainability (IMF, 2019a).

72. To cope with the COVID-19 pandemic and provide liquidity to the financial system, the BCEAO has adopted a flexible stance with a series of measures, such as the allotment strategy at the minimum interest rate (at 2%). The Central Bank also extended the collateral framework to access central bank refinancing, allowing the inclusion of prequalified 1,700 private companies to loan and easing the criteria on classifying non-performing loans. In addition, BCEAO launched special 3-month “COVID-19 T-Bills” directed to commercial banks to support the cashew nut sector, in the case of Guinea-Bissau.

#### **Box 2: Bailout Operation for Two Local Banks in Guinea-Bissau and Its Fiscal Impacts**

In 2015, the Government transferred the non-performing debt portfolios of two commercial banks to the State for CFAF 34 billion or 5.6% of GDP triggered by a sequence of non-payments from cashew nut exporters. These two banks represented approximately 50% of the balance sheet and 55% of the accounts within the national banking system in 2015. As a result of this operation, the International Monetary Fund (IMF) suspended the approved Extended Credit Facility (ECF) programme. Other technical and financial partners (PTFs) like AfDB and the European Union froze their budget support. Due to these positions, domestic debt bonds were issued to supplement budgetary resources. The next government cancelled the bailout in mid-2016 because the decision had been taken without consulting Parliament. Legal action, with civil and criminal suits, was also launched. The WAEMU Banking Commission sent a mission at the end of 2016 and required provisioning for bad debts previously transferred. The result was a drastic decline in equity capital for the two banks, way below the required minimum threshold of CFAF 10 billion, from 1 July 2017. The promising movement towards settling disputes enabled the financial sector to develop and resume bank credit to the economy.

Following initiation of the judicial process relating to the bailout decision taken on behalf of the above-mentioned two banks, the IMF resumed its programme with Guinea-Bissau. Hence, the IMF completed the third review of the ECF agreement in early July 2017 by disbursing USD 4.1 million to the country. A new arrangement is being discussed and the government has already accepted a 9-months staff monitored program which may trigger a new medium-

### 2.5.4. Financial sector reforms

73. To tackle the most urgent needs highlighted above and at the same time ensure credit flows to the economy, the government has embarked on a series of reforms. As a priority, it is developing measures to help banks reduce their non-performing loans, such as facilitating the collection of

<sup>29</sup> <https://www.imf.org/en/News/Articles/2019/05/10/pr19156-guinea-bissau-imf-staff-concludes-visit-to-guinea-bissau>

collateral. Additionally, the authorities are updating their national plan for financial inclusion, following BCEAO recommendations. The government has recommended banks start negotiations with borrowers on debt restructuring.

74. In parallel, the BCEAO is also undertaking several reforms at the regional level. On its review of WAEMU's monetary policy, the IMF considered that BCEAO should strengthen supervision and offer to refinance cautiously to address the structural deficit of the banking sector. In this regard, WAEMU embarked on significant reforms in the regulatory framework in 2018, including the transition to Basel II/III prudential norms and accounting norms more in line with international standards. The transition, which started in 2018, was due to end in 2022, albeit its one-year postponement because of the COVID-19 crisis (IMF, 2021b). An additional measure has been allowed to remain in 2020 at its 2019 of 9.5% before increasing to 11.5% in 2023. Furthermore, if banks fail to comply with capitalization requirements, the Banking Commission is expected to take firm action in its rectification (IMF, 2019a).

## 2.6. External balance

### 2.6.1. Trends in current account

75. Guinea-Bissau current account reflects the country overdependency on cashew-nut exports. From 2015-19 the current account deficit averaged 2.1 percent of GDP on the back of high international cashew prices in 2015-18 followed by a negative terms of trade shock. In 2018, the current account balance deficit widened on the back of rising imports (following an increase in freight prices) as well as on the unfinished fishing negotiations with the EU (which previously represented about 0.6% of GDP).<sup>30</sup> Travel and transport have also deteriorated over the past years, because of increased imports and the accounting for seasonal workers' expenses. Regarding exports of services, travel is the most prominent item, representing 1.17 of the country's GDP (RoG/BCEAO, 2018). Lower cashew prices in 2018-2019 contributed to the deterioration of the terms of trade. The COVID-19 pandemic caused a pronounced impact on exports due to border close-downs, which effectively hampered demand and drove down cashew prices. The financing of the current account deficit shifted from investment inflows in 2010 to portfolio investment (treasury securities) in 2020. Net foreign direct investments are estimated at 0.85 of GDP in 2020 (FMI, 2021).

**Table 10: Guinea-Bissau's External Sector (2010-2019)**

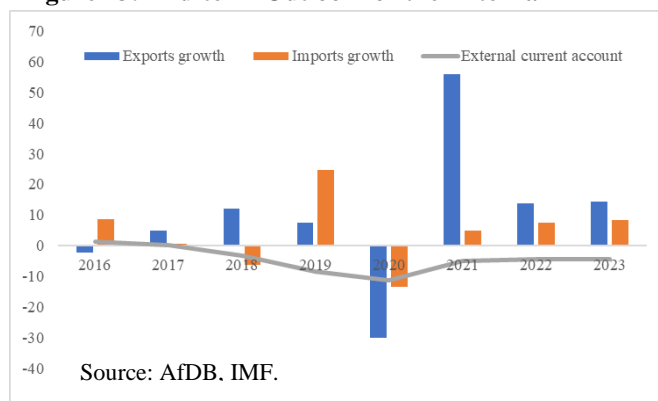
	2010	2016	2017	2018	2019	2020	2021
Exports Volume Growth (Goods, %)	-3,7	-2,4	4,8	12,1	7,4	-30,2	56,0
Imports Volume Growth (Goods, %)	2,9	8,7	0,6	-6,4	24,8	-13,6	5,0
Terms of Trade Growth (%)	14,5	9,8	-6,7	-17,1	-31,4	-11,6	13,8
Current Account Balance (% GDP)	-8,3	1,4	0,3	-3,2	-8,5	-11,4	-4,4

Source: AfDB Statistics Department. Data for 2020 is estimated; data for 2021 is forecast.

### 2.6.2. Current account outlook

76. As for the medium term, the economy is expected to bounce back on the expectation the COVID-19 pandemic is overcome. This should result in a significant increase in exports in 2021. At the same time, expected investments in infrastructure and increased credit to the economy should also increase imports. Subject to political and financial stability and favourable cashew prices, the current account deficit could be progressively reduced between 2021-2023, although not enough to register a surplus.

<sup>30</sup> The current account deficit registered in 2019 also includes the one-off import (3,5% of GDP) of a power-generation ship that is anchored off the coast of Bissau-

**Figure 13: Mid-term Outlook for the External**

### 2.6.3. Financing of current account balance

77. The remaining elements of the current account are contained in

78.

79. Table 11.<sup>31</sup> The fishing agreement with the EU represents an important source of income (about 0,85% of GDP). Given the political situation in Guinea-Bissau over the past years, transfers have become highly volatile, as the support provided in

international cooperation is highly sensitive to political shocks. However, they should remain sizeable in the coming years, provided political stability is maintained. Workers' remittances continue to be a relevant source of foreign exchange for the country, above 3% of GDP in the years to come.

**Table 11: Incomes and Current Transfers**

	2017	2018	2019	2020	2021	2022	2023	2024	2025
Incomes	8.4	-28.4	17.8	14.1	12.0	15.9	18.5	20.5	23.0
Credits	27.1	30.8	24.5	24.0	24.1	27.7	30.4	32.3	34.5
<i>Of which: EU fishing compensation</i>	0.0	0.0	7.6	7.6	7.6	7.6	7.6	7.6	7.6
Debit	-18.7	-59.2	-6.7	-9.9	-12.0	-11.8	-11.9	-11.8	-11.5
<i>Of which : government interest</i>	-2.2	-2.1	-1.6	-4.9	-6.5	-6.0	-5.8	-5.4	-4.8
Current transfers (net)	35.4	42.1	33.1	49.2	61.7	61.0	62.4	65.5	68.9
Official	9.6	10.2	10.0	19.6	29.3	27.1	27.2	29.1	31.1
Private	25.8	31.9	23.1	29.6	32.4	33.9	35.2	36.5	37.8
<i>Of which : remittances</i>	24.5	30.2	21.7	28.0	30.7	32.1	33.4	34.6	35.9

Source: IMF (2021)

### 2.6.4. Balance of payments

80. The pandemic has given rise to urgent balance of payments (BOP) needs. It is estimated that in 2020 the pandemic caused a deterioration of 8.3% of GDP, relative to the pre-shock projection, leading to a financing gap of 7.5% of GDP. In 2021, financing needs will still amount to 5% of GDP.<sup>32</sup> The financing gap is expected to be covered by grants and loans from international financing institutions, non-concessional loans from the West African Development Bank (BOAD) and Treasury securities placed in regional commercial banks. Non-concessional funding is expected to decline considerably after 2021 with BOAD renegotiations.

<sup>31</sup> A notable element in the past included the recording of illegal exports of timber as direct debit under the primary income account in 2018.

<sup>32</sup> (IMF, 2021)

**Table 12: Capital and financial accounts (CFAF billions)**

	2017	2018	2019	2020	2021	2022	2023	2024	2025
Capital account	60,6	23,4	16,1	23,8	17,6	20,6	21,4	22,8	24,2
<i>Of which: official transfers</i>	<i>59,9</i>	<i>22,1</i>	<i>14,5</i>	<i>23,2</i>	<i>15,4</i>	<i>17,4</i>	<i>18,1</i>	<i>19,4</i>	<i>20,7</i>
Financial account	36,2	-6,3	-75,9	-68,7	-11,7	-19,3	-20,8	-20,9	-21,1
FDI	-8,3	-11,6	-41,8	-7	-13	-15,6	-16,8	-18,2	-19,6
Other investment	44,5	5,3	-34,2	-61,7	1,3	-3,7	-4	-2,8	-1,5
Official medium and long term disbursements	-13,9	-45,8	-14,1	-61,1	-13,3	-13,8	-14,4	-17,3	-18,5
Programs	0	0	0	-30,3	0	0	0	0	0
Projects	-13,9	-45,8	-14,1	-30,8	-13,3	-13,8	-14,4	-17,3	-18,5
Amortization	28,2	2,5	2,2	9,8	5,7	6,6	7,6	7,7	8,9
Treasury bills (regional financing)	-9,6	-17,9	-18,3	-73,4	-22,2	-28,1	-30	-26,6	-28,7
Commercial bank net foreign assets	0,9	13,3	-28,1	39,1	8,4	5,8	0	0	0
Other net foreign assets	38,9	53,3	24,1	23,9	22,7	25,7	32,8	33,4	36,8
Errors and omissions	-8,9	-4	-6,5	0	0	0	0	0	0
Overall balance	17,7	-4,4	13,2	9,6	-26,3	-10,4	-2,5	-2,2	-0,6
Financing	-17,7	4,4	-13,2	-9,6	15,5	10,4	2,5	2,2	0,6
Net foreign assets (excluding IMF)	-21,4	3,1	-12	-9,6	6	12,2	5,4	5,3	3,2
IMF purchases	4,9	2,4	0	0	10,8	0	0	0	0
IMF repurchases	-1,2	-1,1	-1,2	-1,7	-1,5	-1,7	-2,9	-3,1	-2,6
Grant for debt relief under the IMF CCRT	0	0	0	1,7	0,2	0	0	0	0
Change in arrears	0	0	0	0	0	0	0	0	0
Residual financing gap	0	0	0	0	10,8	0	0	0	0

Source: IMF (2021)

## 2.7. Macroeconomic stability

81. Despite the chronic political crises since 2012, Guinea-Bissau has managed to sustain a relatively robust economic growth beyond 5% for the years before the onset of the COVID-19 pandemic while keeping inflation under control, improving its reserves, and reducing total debt. At the same time, until 2018, the government had embarked on a series of reforms to increase its revenue base to allow for high priority and social spending while keeping the deficit below the 3% convergence criteria within WAEMU. This was disrupted in 2019 with the fiscal relaxation that ensued political instability, lowered cashew nut prices, and severely aggravated in 2020 with the pandemic.

82. The main lessons learned from the past two years are that: (i) the economy remains extremely sensitive to terms of trade fluctuations (particularly cashew nut and oil); (ii) without proper control of fiscal policy, the economy quickly deteriorates; and (iii) the country remains very dependent on international donors.

83. The new government has reaffirmed its commitment to maintaining fiscal discipline by requesting a 9-months staff-monitored program (SMP) with the IMF to restore macroeconomic stability. The program includes revenue mobilization and expenditure containment measures—including reducing the wage bill. In this context, the main economic challenge for the government will be to mobilize more revenue while getting back on track with the reforms that had kept expenditure under control until 2018.



### Chapter 3: Assessment of cross-cutting issues

84. This section highlights the main challenges Guinea-Bissau faces towards inclusive growth, confronting its progress to date in governance, climate change, gender, and assessing its pressure and resilience factors.

#### 3.1. Governance

##### 3.1.1. Status of economic and financial governance in the country

85. Guinea-Bissau's economic and political governance is characterized by its weak performance. It ranks 27th in the Fragile States Index and 41 out of 54 African countries in the Mo Ibrahim Index. These indicators broadly reflect the country's poor ability to manage public finances adequately: the parliamentary control should have been initiated and implemented based on integrating the 2009 WAEMU directives on finance laws, which has not yet been done. In addition, financial control is highly centralized at the level of the Ministry of Finance. It does not have a procedure manual, and its staff is insufficient to cover all public expenditure controls. In addition, Parliamentary committees are subject to severe time constraints, which make it impossible to discuss the budget law effectively. The time allotted for parliamentary control and supervision conflicts with the time allocated to legislation (including legislative revision) of the budget law.

86. There is a significant limitation of technical capacity on the external capacity of budget and expenditure analysis, macroeconomics, and public finance issues. In general, the rules and procedures that define the ceiling of the budget allocation are very flexible. They provide substantial room for manoeuvre so that the executive can make changes during the implementation process and include these changes in the final report. An in-house committee often makes spending decisions in charge of the expenditure execution presided by the Minister of Finance in a discretionary way. The government resumed the tasks of the Treasury Committee in 2020, which was discontinued between 2018 and 2019.

87. A review of budgets also suggests that they tend to be overoptimistic both on revenue and expenditure expectations. Weak budgeting does not bode well with transparency and accountability. It isn't easy to understand what is planned or achieved. There also tends to be no genuine consultation or discussion between the Executive and Legislative branches during the budget formulation. In some cases, laws give Ministers discretionary powers with little or no accountability mechanisms attached, as in the granting of Tax Exemptions by the Minister of Finance.

88. Different treasury accounts – line Ministries can open accounts with commercial Banks with a simple agreement between the Treasury and the line Ministry. The proliferation of accounts has made reconciliation difficult (there is still no finalized inventory of accounts). This tends to promote the use of extra-budgetary operations with implied limited accountability feedback. This is particularly the case of State-Owned Enterprises and autonomous public entities. Expenditure arrears in these institutions was estimated at 2% of GDP in 2018<sup>33</sup>.

89. A Court of Auditors exists, but the legal framework that defines the Court of Auditor's financial independence and ability to remove leadership should be aligned with international standards. Both the external control of the Court of Auditors and the legislative analysis by Parliament are very weak. Coordination between Parliament and the Court of Auditors and other financial control institutions (e.g., General Inspectorate of Finance, IGF), including sharing information and access to reports, is nearly non-existent.

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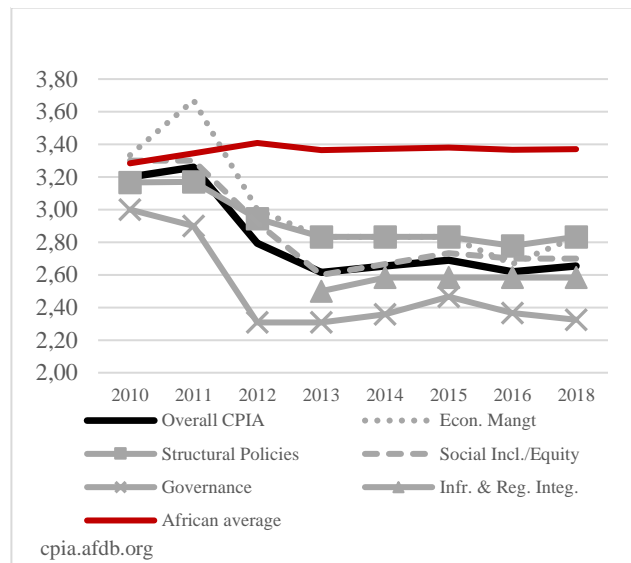
<sup>33</sup> Last available data.

### 3.1.2. Bank's assessment

90. On a scale of one to six, Guinea-Bissau scored 2.7 on the CPIA 2018, ranking 30th out of 37 countries.<sup>34</sup> This represents a very modest improvement since 2013 when it ranked 31st and scored 2.6, but it shows an overall deterioration since 2011, when the country was better ranked, in 23rd position. This score is far from the African average, set at 3.37 in 2018.

91. Every indicator has worsened since 2011, except for some modest improvement registered since 2013 in Social Inclusion & Equity, Governance and Infrastructure, and Regional Integration. In contrast, Economic Management and Structural Policies have remained the same.

Figure 14: CPIA Evolution



### 3.1.3. Governance of state-owned enterprises (SOEs)

92. The last Public Expenditure and Financial Accountability (PEFA) available for Guinea-Bissau<sup>35</sup> revealed that Guinea-Bissau has seven public enterprises, three of them receiving funds from the budget. Publicly available information is limited, whether on their legal stance or financial performance. The PEFA awarded a “D” to the supervision of public companies by the central government, implying that there is no systemic monitoring and reporting is incomplete or inexistent (EU/WB, 2014). Very little information is available regarding the resources used by SOEs, whether financially or in terms of human resources. The World Bank (2018a) indicates that the number of employees working in SOEs is unclear but could be high and growing given their hiring processes are vulnerable to nepotism.

### 3.1.4. Reforms necessary to improve economic and financial governance

93. Guinea-Bissau needs to improve the reliability of its public finance data and to increase transparency. The government needs to reduce waiver procedures regarding expenditure authorization without well-defined procedures and supporting document nomenclature. Accounting management should be reinforced, allowing future audits. Efforts have been made to restore the single account principle at the Public Treasury and to ensure regular bank reconciliation. The absence of settlement bills prevents the National Assembly from controlling budget implementation. In public procurement, the country should operationalize the regulatory and institutional framework provided by the WAEMU guidelines adopted in June 2010. The legal public financial management framework has to be enhanced by reorganizing the central directorates of the Ministry of Finance and the departments of administration and finance of line Ministries to align them with the new budgetary practice. Public fiscal management frameworks should also be highlighted in the constitution reform discussion.

## 3.2. Climate change

94. Guinea-Bissau has the highest proportion of natural wealth per capita in the West Africa region. Still, it is also the second most vulnerable country to climate change worldwide after Bangladesh (World Bank, 2017). Climate change and weather variability represent a threat to

<sup>34</sup> [www.cpia.afdb.org](http://www.cpia.afdb.org)

<sup>35</sup> Last assessment done in 2014.



development as the country is poorly equipped to address the adverse effects of climate change (UNDP, 2015). The extent of the impact of climate change is widespread, and resources are already rapidly being depleted (World Bank, 2017). The natural environment of Guinea-Bissau is vulnerable to increasing desertification and deforestation on the background of increasing domestic fuel demands, overfishing, and saltwater intrusion into agricultural areas. According to the Bissau-Guinean government, forest fires destroy more than 120 ha of forest every year (RoG, 2015a).

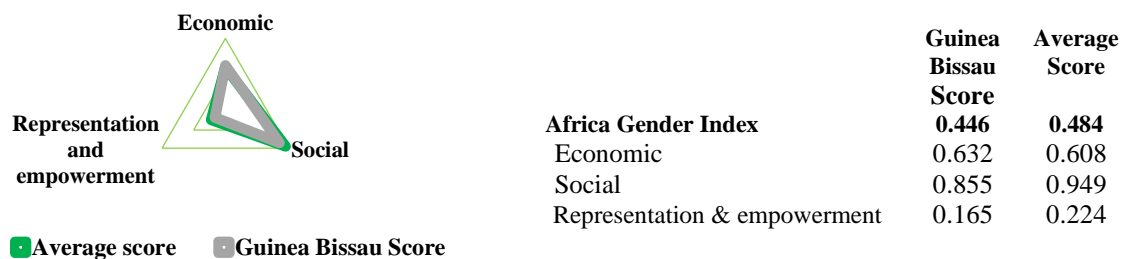
95. Despite an overall decrease in rainfall causing salt-water infiltration into aquifers, rain events are growing increasingly intense. They are frequently accompanied by strong winds, which results in substantial agricultural losses. In 2020 Guinea-Bissau suffered severe floods in the rice-producing region in the South, damaging infrastructure and compromising subsistence rice production. Sea-level rise leads to salt-water flooding of rice paddies and destruction of dykes. Furthermore, as the length of the dry season increases, the savannah vegetation advances, which alters forest composition and the quality of pastures and crops affected by dust-laden harmattan winds. Because of changes in the climatic regime, water scarcity is also worsening. Overall, Guinea-Bissau is an absolute Green House Gas sink country, i.e., it contributes to global climate change mitigation while being one of the most affected countries by climate change.

96. In its Intended Nationally Determined Contributions (INDC), Guinea-Bissau identifies two primary sources of greenhouse gas emissions: the change in the use of land and forests and the energy sector. At the current pace of wood decline (estimated at 625,000 m<sup>3</sup> per year) and given energy needs, set at 90MW using petroleum products, emissions are expected to increase to 150,000 Gg of CO<sub>2</sub> equivalent by 2050 (from roughly 10,000 Gg today). The main mitigation measures suggested by the government will target reforestation and electric power generation from renewable energies. While there is no set target level, Guinea-Bissau conditions its contribution to mitigation on the technological and capacity-building support it receives and valuing it at USD 500 million.

### 3.3. Gender

97. With an index of 0.446 in the Africa Gender Index (score of 1=gender parity), women's political and economic empowerment remains a fundamental challenge for the sustainable and equitable development of Guinea-Bissau. The country presents an unsatisfactory social dimension (0.855) and economic dimension (0.632) index. It also gets a low score on empowerment and representation dimension (0.165), significantly reducing its overall score.

**Figure 15: Guinea Bissau's Gender Index**



Source: Africa Gender Index 2019.

98. The situation of rural women (most women in Guinea-Bissau) remains highly precarious, as they live in extreme poverty. The distribution by sex reveals that 56% of women are affected by poverty, compared to 49% of men (UNDP, 2017). They have limited access to education, health, land ownership, credit, and technology. Moreover, discriminatory customs and harmful traditional practices, such as polygamy and levirate, are prevalent in rural areas. The female labor

market participation in goods and services production was estimated at 67.6% in 2018, lower than the male rate of 76%. The labor market also presents gender disparities. The unemployment rate in 2018 was 4% for women and 3.9% for men (World Bank, 2018). Women make up just around 27% of the formal labor market and are less likely than men to work in senior or skilled positions. 100. Women also do not benefit men from the economic returns from cashew, even though about half the cashew workforce is female. Women farm and harvest the cashews, peel and sort nuts, and process the cashew stem or fruit, which is much less valuable than the nuts, which are seen as belonging to men. Moreover, women are legally barred from performing the same jobs as men. For example, they cannot work the same night hours as men (IMF, 2019).

99. Guinea-Bissau achieved gender parity in primary education. However, 64.12% of women are still illiterate compared to 47.97% of men, and the gender gap is still relevant for lower and upper secondary education, where girls' attendance is lower by 10 to 14% (MICS 6, 2018-2019). Domestic work does not allow women to concentrate on income-generating activities, leading to a significant proportion of girls being left out of the education system. In addition, female illiteracy is associated with a lack of parental interest in education. Other existing obstacles permanently hamper women's access to education, training, and work, such as poverty, distance to schools, forced marriage, early pregnancy, and the lack of identity papers.

100. Maternal mortality rates remain very high, 900 per 100,000 live births (UPR, 2019). The proportion of women who gave birth with the assistance of a trained service provider (doctors, midwives, and nurses) increased from 45% in 2014 to 54% in 2019 (MICS 6). In reproductive health, contraceptive prevalence is estimated at 20% in 2019, according to MICS 6, compared to 14.2% in 2010.

101. The low score (0.165) recorded at the level of representation and empowerment is explained by the low proportion of women intervening in national decision-making bodies such as parliament (13.7%), and the new government counts six women out of has 32 members. The same situation prevailed for women managers, professionals, and technicians (24.1%).

102. In 2017, the Guinea-Bissau government adopted The National Policy on Gender Equality and Equity to combat inequalities between boys and girls (i.e., any gender inequalities expressed in stereotypes, biases, and discriminatory practices that lead to differences and opportunities for participation development process). On the other hand, while the Constitution places women and men on equal footing concerning legal status and rights, the Civil Code designates the husband as the sole head of the family (Art. 1674). In this capacity, the husband has full authority to represent his wife and decide on all matters relating to their married life (Civil Code, Art. 1674). The wife cannot do business without the husband's consent unless she is appointed the administrator of all the couple's assets (Civil Code, Art. 1674). However, the law does not require a married woman to obtain her husband's consent to work or obtain a profession (Civil Code, Art. 1676). Women enjoy equal political rights per the Constitution, but their participation is limited in practice by cultural obstacles, and they are underrepresented in leadership positions.

103. During the last legislative elections in 2019, no political party complied with the August 2018 gender-parity law, which requires 36% of candidates to be female. In 2013, the state adopted the Domestic Violence Bill to address the country's pervasive problem of domestic violence. Despite adopting a law tackling domestic violence, it remains widespread in the country (US Department of State, 2017; OECD, 2019). Moreover, laws in Guinea-Bissau set clear criminal penalties for transgressions, and marital rape is explicitly criminalized. Victims of rape and domestic abuse rarely report the crimes, and although rape is criminalized, the law is hardly applied. Perpetrators are rarely prosecuted, notably because of a lack of resources. Female genital mutilation (FGM), or "Fanado," is common practice, with around 45% of women in Guinea-Bissau been subjected to mutilation (UNICEF, 2016). Guinea-Bissau has adopted the Law to Prevent, Fight and Suppress Female Genital Mutilation (2011) and the 2010–2015 National Action Plan to Combat Female Genital Mutilation/Cutting (African Gender and Development Index 2019). In 2011, the State adopted the Act of Reproductive Health, which raised the

minimum age for marriage to 18 years old for both girls and boys. However, early or forced marriages remain common for women, with 12% of girls under 18 years being married (OECD, 2019).

104. Overall, women in Guinea-Bissau face extreme obstacles in seeking justice to assert their rights. This situation is principally due to a lack of information on women's rights and the laws that protect them, the cost of proceedings, and the lack of training for police and legal personnel.

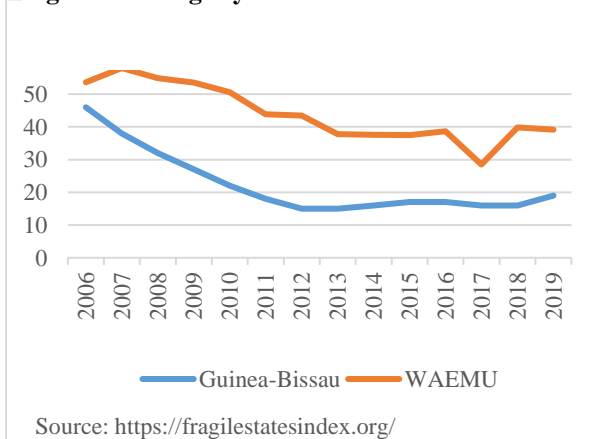
### 3.4. Fragility

#### 3.4.1. Political fragility

105. Guinea-Bissau has a history of political and institutional instability dating back to its independence in 1974. Since independence, four successful coups have been recorded in Guinea-Bissau, with another sixteen coup attempts plotted or alleged. In December 2019, the last presidential elections were followed by a political crisis, as the defeated candidate, Domingo Simoes Pereira, alleging the existence of fraud and irregularities, filed a motion to challenge the election results. In April 2020, ECOWAS, followed by the European Union, recognized the election of Umaro Sissoco Embaló as President of the Republic and called for a new prime minister's appointment based on the results of the legislative elections. The United Nations Integrated Peacebuilding Office (UNOGBIS), established to facilitate the Abuja Accord and elections, completed its Security Council mandate on 31 December 2020.

106. The Country Resilience and Fragility Assessment (AfDB, 2019) indicates that the country displays fragility across all seven dimensions covering the spectrum of inclusive politics, security, justice, social and economic inclusion, social cohesion, externalities and regional spillover effects, climate and environment. Critical aspects of inclusive politics (such as representation in the political system, political stability), economic and social inclusion (such as access to public services), and polarization based on group identity require attention. However, recent data also suggest that economic inclusion (notably the effectiveness of economic policies, economic and income equality) and external/regional spillovers (resilience to economic shocks) have improved and strengthened.

**Figure 16: Fragility States Index Rank**



107. In 2020, the country ranked as the 27<sup>th</sup> most fragile country in the Fragile State Index, having suffered a progressive deterioration since 2006, when it ranked 46<sup>th</sup> until 2013, its worst year, when it ranked 15<sup>th</sup>, rebounding slightly to its current stance.<sup>36</sup> As a result, Guinea-Bissau ranks 20 positions below the WAEMU's average. In 2006, Guinea-Bissau was just eight positions behind this average. However, after widening the gap progressively until 2013, it has now narrowed it slightly in the last year, following the modest recovery the country is experiencing.

108. A detailed analysis of the index composition shows that Guinea-Bissau has deteriorated its stance in every aspect (cohesion, economic, political and social, and cross-cutting), particularly in the cohesion and social variables. This is exemplified in the figure below, where an increase in each component means a deterioration of the conditions. Guinea-Bissau has always showed systemic problems in this variable regarding political fragility, so the deterioration up to 2013 was not as pronounced. Likewise, it has barely improved since then.

<sup>36</sup> <https://fragilestatesindex.org/>

109. All combined, the Fragile State Index component that has worsened most over the past years is related to factionalized elites, which considers the fragmentation of state institutions amongst different groups. In this regard, Guinea-Bissau ranks among the worst performer countries in the world. Political parties usually do not have differentiated programs by ideology but by the interest group or faction they serve (AFDB/WB, 2019). This comes partly due to the system created right after independence, when ministries acted autonomously in their quest for funding and spending, laying the grounds for a predatory economy that persists today (Idem).

110. The judiciary system also presents severe structural problems. It is primarily perceived as inefficient, arbitrary, and unfair (AFDB/WB, 2019). Several reasons explain this perception: the very weak territorial implementation with only five regional courts in nine provinces, the low level of judiciary staff, or the high price the justice costs to ordinary people. As a result, an alternative traditional legal system is often used to handle smaller quarrels.

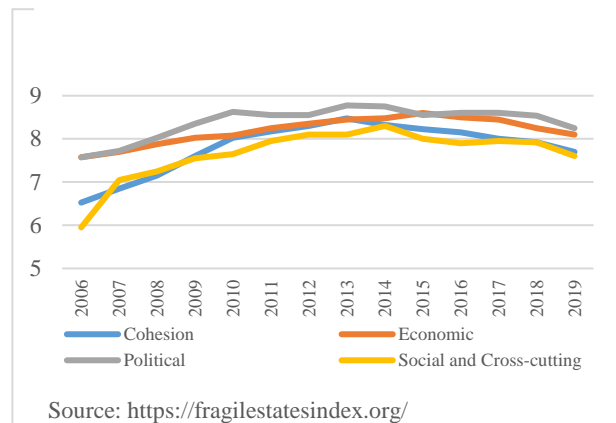
111. Corruption is rampant in Guinea-Bissau. Transparency International is classified as the 171<sup>st</sup> most corrupt country (out of 180 countries). According to the Basel Institute, Guinea-Bissau is today the 5th most vulnerable country for money laundering. In addition, the country has been frequented in the last years by drug dealers on their way from Latin America to Europe. In September 2019, a shipment of two tons of cocaine was apprehended in what became the largest seizure in the country's history. The capture represented roughly 4% of Guinea-Bissau's GDP. It is estimated that currently, 30 tons of cocaine cross Bissau-Guinean territory on its way to Europe.<sup>37</sup>

112. With regards to Security, from 2012 to 2018, ECOWAS deployed several hundred ECOMIB peacekeepers to stabilize Guinea-Bissau. This helps explain low public reliance on security forces to uphold law and order. Citizens' lack of trust is compounded by the country's low capacity to undertake meaningful security sector reform. Despite little criminal activity within the Guinea-Bissau population, high levels of contraband and trafficking and unmet capacity in police forces make the country vulnerable to violent crimes.

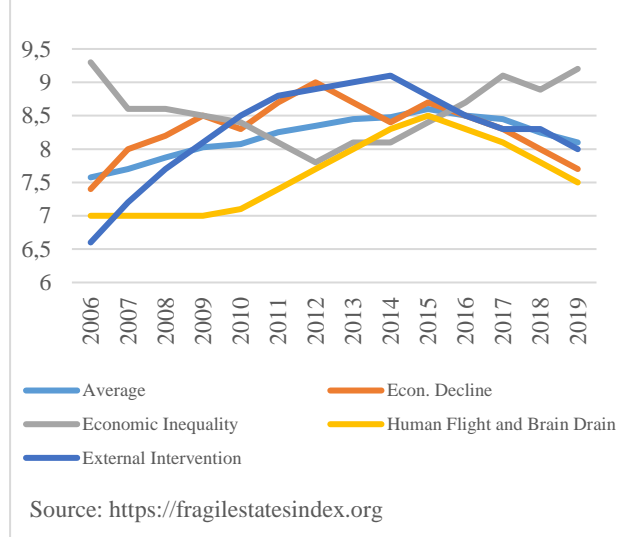
### 3.4.2. Economic fragility

113. Guinea-Bissau's economy is extremely fragile. As detailed in previous sections, almost half of GDP is provided by the primary sector, which in turn is heavily dependent on just one crop, cashew nut. Almost 10% of the government's revenues come from this crop, not counting taxes paid by companies operating in this sector (AFDB/WB, 2019). This makes the country extremely vulnerable to external shocks, like rainfall.

Figure 17: Elements of Fragility



<sup>37</sup> <https://globalinitiative.net/guinea-bissau-illegal-drug-economy/>

**Figure 18: Factors of Economic Fragility**

114. The private sector is only marginally developed, with almost 80% of employment considered vulnerable by the ILO. Moreover, poverty is widespread, with two-thirds of the population living on less than \$1.9 a day. At the same time, inequality is prominent, with Guinea-Bissau ranking in 14<sup>th</sup> out of 165 countries (World Bank, 2019).<sup>38</sup> However, a look at the inequality component of the Fragile States Index showed that there was significant improvement until 2013, to deteriorate after that sensibly.

115. A further issue that increases economic fragility is the extent of the brain drain, whose worse trend coincided with the

financial crisis globally. Finally, contributing to the country's economic fragility is the disadvantaged economic position of the women, with Guinea-Bissau scoring the worst of all WAEMU countries in the World Bank's CPIA Gender equality variable.<sup>39</sup>

116. Guinea-Bissau is facing overall stresses related to Economic and Social Inclusiveness. The country's location and its unstable governance make it a regional transit point for drug smuggling from South America to Europe. Few natural resources are being exploited, and cashew nuts account for 90% of exports. Since adopting the West African CFA franc in 1997, Guinea-Bissau has enjoyed a more stable currency, but soaring poverty, a lack of economic diversity, and high-income inequality impede inclusive growth. An increase in public sector wages, particularly the increase requested by civil servants in the judicial system, would make it difficult to control the short and medium-term budget deficits.

### 3.4.3. Social and environmental fragility

117. Guinea-Bissau is home to a wide variety of ethnic groups, languages, and religions, but communal and ethnic-based violence generally remains low.<sup>40</sup> The small country is home to more than 20 African ethnicities, including Fulani/Peul, Balanta, and Mandinka/Malinke.<sup>41</sup> The ethnic construction is complex and has played a consistent role in Guinea-Bissau's political history. The Peuls and Malinkes include the most significant number of Muslims. Muslims, predominantly Sunni,<sup>42</sup> tend to live in the country's north and northwest. Adherents to indigenous religious beliefs, such as the Balantas, are scattered throughout the country. At the same time, Christians, predominantly Papel, Manjaco, and Balanta, are concentrated in urban areas around Bissau and along the coast. Less than 20 % of the population speaks Portuguese, but almost half of the population speaks Crioulo,<sup>43</sup> a Portuguese-based Creole language. Interreligious and interethnic relations are expected, including marriages.

118. Regarding social cohesion, widening income inequality and the marginalization of women and youth have increased group-based polarization, which could hamper social cohesion. Guinea-Bissau's constitution guarantees all citizens' fundamental rights. Through their convening power,

<sup>38</sup> Guinea-Bissau last available data is from 2010. In order to provide this ranking the author has used the last available data for each country.

<sup>39</sup> This variable assesses the extent to which the country has installed institutions and programs to enforce laws and policies that promote equal access for men and women in education, health, the economy, and protection under law.

<sup>40</sup> U.S. Department of State 2017.

<sup>41</sup> CIA 2018.

<sup>42</sup> Almost 6 % of Muslims in Guinea-Bissau are Shiite and 2 % are Ahmadiyya (Pew Forum on Religion & Public Life 2010).

<sup>43</sup> Kohl 2010.



civil society groups play an active role in appeasing the political environment. Guinea-Bissau's constitution guarantees all citizens' fundamental rights. Through their convening power, civil society groups play an active role in appeasing the political environment. Resolving continued gridlocks in politics could reduce pressures and strengthen social cohesion overall.

119. According to the Climate Change Vulnerability Index, Guinea-Bissau is the second most vulnerable country globally, only after Bangladesh.<sup>44</sup> Although the government acknowledges the importance of strengthening environmental resilience, as evidenced by the planned increase of biodiversity preserved areas, the weakness of state institutions is very much responsible for the deterioration experienced in the past years (see more details in Annex 1).

### 3.5. Private sector development

#### 3.5.1. Structure of the private sector in the country

120. The private sector in Guinea-Bissau is very small. At the end of 2014, there were just about 2,200 active registered businesses, including individual entrepreneurs (World Bank, 2016). The private sector is practically non-existent except for the one sector that concentrates most activity: cashew processing and trading (World Bank, 2017). Several elements undermine the development of the private sector ranging from poor infrastructure to poor regulatory and business environment, limited access to finance, low productivity, relatively high labor costs, and political instability.

#### 3.5.2. Private sector business environment

121. The business climate is not conducive to growth. Guinea-Bissau ranks 174<sup>th</sup> out of 190 countries in the latest Doing Business Report (World Bank, 2019b). It ranks 128<sup>th</sup> on registering property and 165<sup>th</sup> in dealing with construction permits, getting electricity, enforcing contracts, and resolving insolvency. There has been very little progress since 2013, when the country ranked 179<sup>th</sup> (out of 185 countries). Guinea-Bissau is not represented in the Global Competitiveness Index from the World Economic Forum.

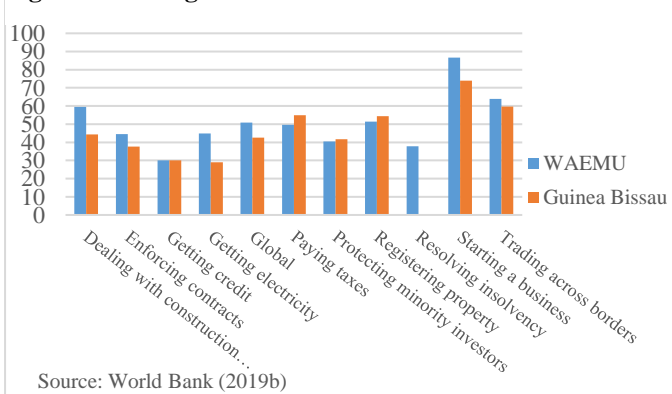
122. Access to finance remains a crucial problem, with overall credit to the private sector representing 13.8% of GDP in 2014, significantly below the WAEMU average. Also, the World Bank estimates that the healthy growth it has enjoyed in the past years above 14% will now be reduced to below 3% growth in the coming years (World Bank, 2017). In addition, labor costs

in Guinea-Bissau are high relative to productivity due to low education skill. They represent 54% of total value-added, much higher than other African countries (Kenya, for instance, 24%).

#### 3.5.3. Contribution of the private sector to the economy

123. Data on the impact of the private sector on the economy is unavailable. However, this can be proxied by the participation of the labor force. Estimates indicate that only 30% of the labor force works outside small and subsistence natural resources-related jobs, and most of them work self-employed in transport and commerce. Only 10% of workers receive a salary, half of those in government and the other half in small urban services. This means that, in practice, just 5% of the labor force work in the formal private sector (World Bank, 2016).

Figure 19: Doing Business Score



<sup>44</sup> Climate Change Vulnerability Index, in World Bank (2017)



#### **3.5.4. Opportunities in the private sector**

124. There are several untapped opportunities for the private sector in Guinea-Bissau.<sup>45</sup> In particular, there is vast unrealized potential of traditional sectors (agriculture and fisheries) that could improve their yields with more modern farming and fishing techniques considering the climate change impacts. Currently, most value-added to agriculture and fisheries is added abroad, and there could be an effort in Guinea-Bissau to incorporate the first steps of the value chain locally. There is also potential in other cereal (mainly rice, which the country was a net exporter in the past), some fruit and pulse, and tuber crops. In addition, the mining sector has specific potential, with phosphates and bauxite mines. Lastly, the tourism sector, particularly the high-end segment for Europeans to visit the Bijagos Islands, can also become an interesting sector. A more in-depth discussion is provided below.

125. The common element to these opportunities is that they are all conceived for export. The tiny size of the local market makes it challenging to justify substantial investments except in very crucial areas such as infrastructures or telecommunications. However, the abundant endowment of natural resources, its coastal location could attract industries with an export focus if the right policies were put in place.

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<sup>45</sup> This section builds on the analysis and findings obtained in World Bank (2015)

## Chapter 4: Diagnostic of gaps/constraints by the High 5s

126. This chapter diagnoses development gaps and challenges for Guinea-Bissau using the African Development Bank's High 5 strategic priorities and the reforms required to achieve them as the basis for analysis. The Bank's High 5s are 'Light up and power Africa'; 'Feed Africa'; 'Industrialize Africa'; 'Integrate Africa' and 'Improve the quality of life of the people of Africa. The diagnosis focuses on the opportunities and challenges for industrialization, the potential for agriculture value chains, analyzing the infrastructure bottlenecks, and creating incentives to the private sector. It also assesses human capital development, skills and employment creation, and the role the state of Guinea-Bissau should play in regional integration processes to facilitate trade and development through regional value chains. Finally, given the country's institutional fragility context, particular attention is paid to strengthening governance and institutional capacity to implement the necessary policy reforms and build resilience.

### 4.1. Dynamic in the agricultural sector

#### 4.1.1. Overall development profile of the primary sector

127. The primary sector represents almost half of the country's GDP, with cashew nut, rice, and fisheries being the main subsectors. Guinea-Bissau has significant agricultural potential, detailed in Annex 1. The sector employs around 85% of the working population. Agriculture is carried out by approximately: (i) 120,000 small producers in villages, on areas ranging from 0.25 to 2 ha, accounting for 90% of national production; and (ii) 1,200 modern farmers (*ponteiros*) with significant land concessions with an average size of 135 ha provided by the State, making the 10% of the remaining production.

128. Estimated at only 14,000 ha in 1978, the area for cashew production expanded and reached 233,000 ha in 2017. This is over 50% of the total cultivated land, estimated at 400,000 ha. Cashew nut is grown primarily by small-scale farmers who plant an average of 2-3 hectares of land (World Bank, 2015). Economically, cashews represent more than 95% of export earnings and 17% of tax revenues. The strong dependence on cashew cultivation exposes the country to external and internal shocks. Cashew accounts for at least a third of the average income in most areas throughout the country.

129. While in 2016, it produced just over 150,000 tons of cashew, it can produce up to 200,000 tons.<sup>46</sup> Despite the production capacity size, most value in the production chain is added abroad as the installed capacity allows to process only 20% of the production.<sup>47</sup> In 2013 the country reached a processing capacity of about 40,000 tons but only produced 250 tons (<4% of the capacity and less than 2% of total production). Still, almost 100 tons did not find a buyer. Cashew exports have grown at 6% between 1994 and 2013, primarily due to expanding areas under cultivation.

130. Rice is another important crop in Guinea-Bissau, being the national staple food, accounting for about 40% of the daily calorific intake (Kyle, 2015). It also has powerful potential to sustain food security and revenues to rural communities. The total demand for rice consumption in Guinea-Bissau in 2016 was estimated at around 200,886 tonnes, with a national production that remained limited to 111,096 tonnes. To fill this gap, the country has resorted to imported rice at an average cost of nearly 36 million US dollars. This cereal has a prominent strategic position in agriculture and the national economy since it represents 62% of the national net cereal production, 75% cereal consumption, and 25% on average of the trade deficit.

131. Rice is a traditional crop in Guinea-Bissau. Between 1940 and 1955, the country achieved

<sup>46</sup> Data for 2016 obtained from <https://www.tridge.com/intelligences/cashew-nut/GW>. Estimations obtained from World Bank (2015)

<sup>47</sup> Own calculations from World Bank (2015),

its rice production and exporting peak, reaching 45,000 tons of paddy or 30,000 white rice, of which 7,000 tons of white rice were exported. However, rice production declined heavily during the independence war, partly because farmers turned to cashew nuts. After increasing progressively, production reached the pre-independence size by 2011 to peak in 2013 both in production and area harvested. However, in 2014 production fell and has been slowly recovering since. However, inefficiencies abound concerning this crop. According to official sources, more than 40% of production is lost every year due to poor seed quality and appropriate harvesting equipment<sup>48</sup>

132. **Fisheries:** Guinea-Bissau's geographical configuration and humid tropical climate offer necessary productive fisheries conditions. Guinea-Bissau has an Exclusive Economic Zone (EEZ) of 105,000 km<sup>2</sup>, three times larger than its land area (36,125 km<sup>2</sup>). Part of this EEZ defined in 1978 (UNCLOS) is integrated into the Management and Cooperation Zone managed jointly with Senegal. The agreement signed in 1993 between the two countries defines the rules for sharing fisheries and hydrocarbon resources. Guinea-Bissau has many large rivers and a vast inshore fishing area of 24,000 km<sup>2</sup>, naturally protected by the existence of the Bijagos archipelago, where the very shallow waters prohibit industrial fishing. Off the archipelago, the continental shelf is wide (38,000 km<sup>2</sup>) and rich in bottom fish, cephalopods, and crustaceans. Beyond, the waters are rich in hake and pelagic species, notably horse mackerel and tuna, on a seasonal basis.

133. Although almost 25,000 people are employed in fisheries, the sector's contribution to the GDP is estimated at 4%. However, studies indicate that fisheries stocks are decimating due to overexploitation and illegal fishing, both due to weak public capacity to prevent them. In addition, most industrial catch is taken offshore, not contributing to the local economy. The government is now giving steps to try to revert this situation. For instance, it became mandatory for local Guinean vessels to drop a share of the catch onshore (WTO, 2017). In November 2018, Guinea-Bissau and the European Union signed another fisheries protocol allowing European vessels to catch in its waters for the next five years in exchange for an annual contribution of close to € 20 M annually.<sup>49</sup>

134. Value chains are rudimentary due to infrastructural constraints, including the lack of fresh water and electricity supply in most landing sites, preventing cold preservation. In addition, despite the short distances between towns, the state of the roads does not facilitate fresh products. Foreign trade in fishery products is also minimal, with exports mainly consisting of frozen products of low commercial value to Africa (USD 5 million in 2016). Imports are insignificant and consist almost exclusively of canned sardines from Europe.

#### 4.1.2. Spatial distribution and potential value chains

135. Cashew nut production occupies around 50% of the total arable area of the country. It is harvested in every region except in Bissau (Cashew Info, 2015). However, regional differences, with greater quality cashew being harvested near the sea (Pal and Mota, 2010).<sup>50</sup> Cashew nut is usually produced close to the villages in rural areas, with expansion following a centrifugal trend, following a land preparation process involving cutting down woody vegetation and burning it at the end of the dry season (Catarino et al., 2015). Subsequently, the cashew nut is either bartered for rice or bought by up-country buyers on behalf of urban buyers. Raw cashew nuts are delivered to town warehouses, where they may be dried and bagged or sent directly to exporters in Bissau, who will then sell them to international dealers. Participation in this commercial chain is subject to licensing. In 2004 there were 300 registered buyers and 40 exporters (Idem). By its part, rice was first grown in the North (by the Mansoa river), but several areas in the country also have very favorable conditions for rice growing, whether mangrove swamp rice in the South and North or

<sup>48</sup> <https://macauhub.com.mo/2018/07/09/pt-guine-bissau-perde-anualmente-metade-da-producao-de-arroz-por-falta-de-equipamentos-agricolas/>

<sup>49</sup> [https://eeas.europa.eu/delegations/guinea-bissau/53927/acordo-de-parceria-de-pesca-dur%C3%A1vel-entre-uni%C3%A3o-europeia-e-rep%C3%BAblica-da-guin%C3%A9-bissau\\_pt](https://eeas.europa.eu/delegations/guinea-bissau/53927/acordo-de-parceria-de-pesca-dur%C3%A1vel-entre-uni%C3%A3o-europeia-e-rep%C3%BAblica-da-guin%C3%A9-bissau_pt)

<sup>50</sup> Cited in World Bank (2015)

irrigated rice in the East.

#### **4.1.3. The efficiency of markets**

136. The cashew nut sector suffers from several supply-side constraints: i) information issues; ii) limited bargaining power; iii) capital constraints; iv) coordination issues; v) disruptive policies. For instance, the low bargaining power of farmers translates into essential differences in the gate price. In 2013 they received at most 42% of the reference price, while in 2010-2012, they received up to 85% (Idem). Contrary to cashew nut, it is estimated that only one-third of total rice production is marketed. Rice is a staple food in Guinea-Bissau, and as such, it is mainly used for self-consumption with very primitive commercial channels available. The small production that is sold finds its way to local markets, and a small share of it arrives at Bissau, with most of it being sold directly by producers (World Bank, 2015).

#### **4.1.4. Reforms**

137. Several policy options are at hand to improve the productivity of the cashew sector, namely: increase the cohesion of producers, improving the business environment, attracting foreign direct investment, organizing medium-scale community processing facilities, tackling access to finance, improve quality and management and increase the technical skills of the operational workforce and lastly, scaling up infrastructure.

138. As for rice, Guinea-Bissau has a comparative advantage in its production compared to other countries in the region, so it should be possible to boost rice production by applying several measures, such as i) the introduction of improved varieties of seeds; ii) rehabilitation and reestablishment of the production capacity through, for instance, the reconstruction of dykes; iii) improvement of irrigation and drainage; iv) improvement of non-existing marketing mechanisms and rice is mainly consumed by its producers; v) infrastructure improvement would also support these mechanisms. A specific set of reforms are provided in Chapter 5 below for both the cashew nut and rice subsectors.

### **4.2. Assessing gaps in the industrial Sector**

139. The industrial sector in Guinea-Bissau has seen limited development over the decades. The government is now trying to revert this stagnation, and industrialization is now a key priority. The 2016-2018 workplan of the Directorate General for Industry foresees an industrial policy plan, including new legislation and several initiatives aimed at promoting industrial development across the country (WTO, 2017). Also, *Terra Ranka* foresaw creating a Special Economic Zone mainly to process fishing products and cashew nuts (OECD, 2015). The new strategic document, *Hora Tchiga*, concentrates on industrial development in the agricultural and fisheries sectors.

#### **4.2.1. A brief history of the country's industrial policies**

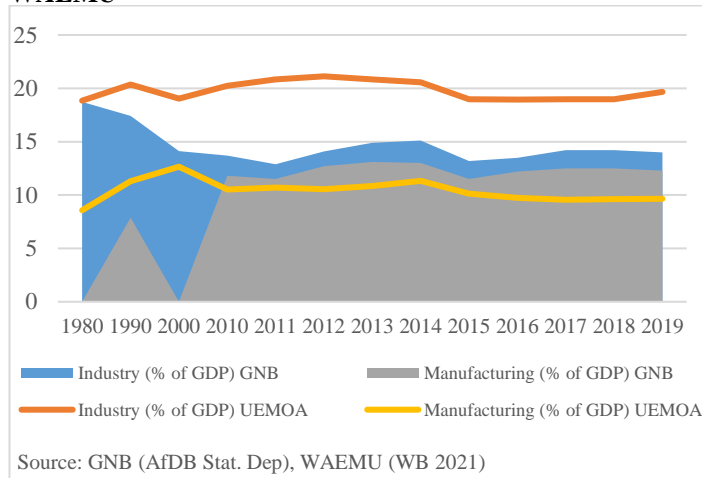
138. Right after independence, Guinea-Bissau adopted a centralized planned economic model based on socialist practices, which was changed into a market economy in the mid-'80s. Neither regime has developed an industrial capacity in the country, which is today confined to a small industry concentrated in processing the cashew nut (WTO, 2017).

#### **4.2.2. Status of industrial development**

##### **Trends in manufacturing value-added to GDP**

139. Guinea-Bissau's industrial sector represented in 2019 14.0% of GDP, and the manufacturing sector represents 12.2%. The weight of the manufacturing sector is similar to other

**Figure 20: Industry and manufacturing in GNB and WAEMU**

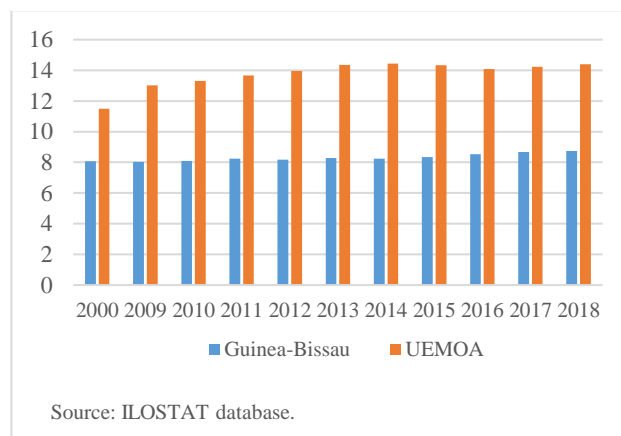


WAEMU countries (9.63% on average). Nevertheless, the overall industrial weight is lower than the rest of the region (19.65%). The industrial sector has been declining for decades, after reaching 18.72% in 1980, while it has remained very much stable in other countries in the region. The manufacturing sector peaked in 2013 at 12.68%, declining progressively since to its current level. Up to 2015, only 3% of all Bissau-Guinean companies are licensed for industrial activity (RoG, 2015b). Despite being at the center of the productive sector, there are just 18 cashew nut

processing factories in the country (Cashew Info, 2015). Other small industries relate to the production of beer and dairy products.<sup>51</sup>

140. Extractive industries are likely to attract considerable attention in the short term. Although mining was one of the government priorities under the previous *Terra Ranka* Strategy, it does not appear prominently in the latest strategy document *Hora Tchiga*. The impact of the mining industry can potentially be considerable. It could increase GDP by up to 15% (WTO, 2017) and create as many as 10,000 jobs (World Bank, 2016). Although some small-scale mining operations occur for gold and building materials (quartzite, laterite, dolerite, clay and sand), there are no mines in operation. There are confirmed deposits of phosphates, bauxite, sands, gold, and petroleum prospects. The start of extraction of phosphates in the North part of the country (Farim), planned for 2017, was postponed to 2021.<sup>52</sup> The mine in Farim is supposed to be one of the highest grade amorphous phosphates mine in the world.<sup>53</sup> Bauxite exploration rights were awarded back in 2007 to an Angolan company, but following the 2012 coup, the project was suspended. Talks in 2018 suggest that works in this regard could resume, albeit change in government and the pandemic seem to have put the project on hold.<sup>54</sup>

**Figure 21: % of employment in industry**



141. By its part, oil exploration could be close to producing some positive news after years of exploration in which no commercially viable oil has been found in the 14 blocks under exploration.<sup>55</sup> At least two blocks have revealed high prospects of containing viable oil and drilling, and the expectation is to start drilling in 2021-2022.<sup>56</sup> The oil potential of Guinea-Bissau

<sup>51</sup> Oficina Económica y Comercial de la Embajada de España en Dakar (2018)

<sup>52</sup> <https://macauhub.com.mo/2018/09/10/pt-empresa-itafof-farim-inicia-exploracao-de-fosfatos-na-guine-bissau/>

<sup>53</sup> <https://www.worldfertilizer.com/phosphates/24072019/itafof-provides-update-on-engineering-and-construction-of-guinea-bissau-phosphate-mine/>

<sup>54</sup> <https://www.alcircle.com/news/bauxite-angolas-mining-project-in-guinea-bissau-soon-to-restart-30201>

<sup>55</sup> <http://pt.rfi.fr/guine-bissau/20190805-bissau-pode-finalmente-ter-descoberto-petroleo>

<sup>56</sup> <https://constructionreviewonline.com/news/drilling-of-blocks-2-and-4a-5a-offshore-guinea-bissau-to-start-this-year/>

is calculated at 30,000 – 60,000 barrels/day.<sup>57</sup>

142. **Share of employment in industry as a proportion of total employment:** employment in the industrial sector remains in Guinea-Bissau under the regional average (8.75% versus 14.38% in WAEMU), reflecting the smaller size of the industrial sector. In line with the sector's developments, employment in industrial activities has grown less than 10% since 2010. In the rest of the region, the share of industry employment has increased by 25%.

#### 4.2.3. Enablers and constraints to industrial development in the country

143. Constraints to industrial activity abound in Guinea-Bissau. Most notable are dealing with construction permits, getting electricity, enforcing contracts, and resolving insolvency (World Bank, 2019b). The lack of a skilled workforce is a critical issue (WTO, 2017). In addition, this problem is not likely to be easily overcome with the public university not functioning and professional training opportunities being extremely limited (AFDB, 2017). In Guinea-Bissau, 74% of firms indicate electricity shortage as a major constraint to business, and 53% of firms use electricity from their own or shared generator, compared to just 1.9 in Niger or 0.3 in Burkina Faso (World Bank, 2006). The overall energy generation installed capacity is at a low 11MW, of which just one 2.5MW generator is operational (AFDB, 2017). This is way below the needs of the country. It is estimated that the energy needs for just the city of Bissau raise to 30MW.

144. **Status of infrastructure in the country:** Guinea-Bissau's infrastructure is scarce and in poor condition. Paved roads represent 28% of the total road network. Although this in line with the regional situation, roads have deteriorated considerably in recent years, particularly after 2020's floods (IMF, 2021). Secondary and tertiary roads are in very poor conditions (World Bank, 2016). Also, the port of Bissau, which handles 85% of Guinea-Bissau's recorded trade, is highly uncompetitive and in a very poor state (World Bank, 2015). The port deals with five times more containers than originally designed for, handling close to 25,000 Twenty-Foot Equivalent Units, compared to its original capacity of 5,000.

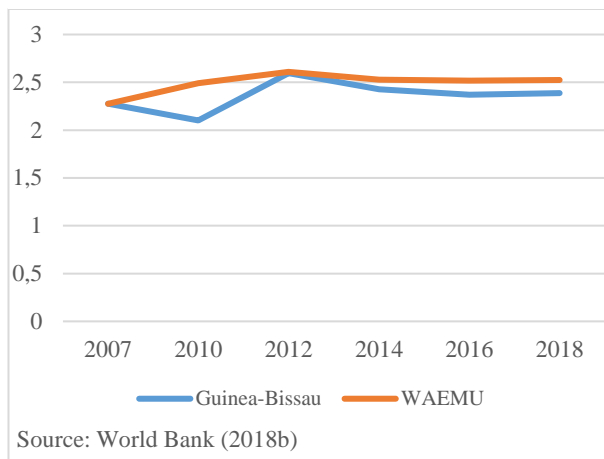
145. Additionally, port tariffs are considerably more expensive than regional competitors like Banjul or Dakar. For example, a 20-foot stacked container in Bissau costs \$330 compared to just \$28 in Banjul or \$163 in Dakar (Idem). In all, Guinea-Bissau's infrastructure is in general in worse condition than in any other WAEMU country, as exemplified by the infrastructure component of the Logistics Performance Index, where Guinea-Bissau ranks consistently below the WAEMU average (**Erreur ! Source du renvoi introuvable.**)<sup>58</sup>

<sup>57</sup> <http://pt.rfi.fr/guine-bissau/20190805-bissau-pode-finalmente-ter-descoberto-petroleo>

<sup>58</sup> Logistics professionals' perception of country's quality of trade and transport related infrastructure (e.g. ports, railroads, roads, information technology), on a rating ranging from 1 (very low) to 5 (very high). Scores are averaged across all respondents.



**Figure 22: Logistics Performance Index in GNB and WAEMU**



been developed. Similarly, while Guinea-Bissau approved a Mining Code and a Petroleum Code in 2014, their regulations have not yet been passed. In this regard, it is expected that Guinea-Bissau joins the EITI (WTO, 2017). By May 2021, Guinea-Bissau is the only WAEMU country not having done so.<sup>59</sup>

#### 4.2.4. The role of the private sector in accelerating industrial development

147. **The extent of private-public partnerships (PPP):** In the past, private-public partnerships (PPP) in Guinea-Bissau have been extremely limited in scope and have experienced little success. A commonly cited example is the failed concession of port operations in Bissau. A foreign private operator obtained the concession in 1991 in a joint venture with a local partner. Still, the government cancelled the contract in 1999, following which the port authority took over operations (AFDB, 2015a). Another area in which PPPs have been set up in Guinea-Bissau is oil exploration. Several foreign companies have been exploring a joint venture with the national oil company Petroguin. Given the uncertainties regarding this sector, there has been a high turnover of licenses in past years (World Bank, 2015). While Guinea-Bissau does not have an extensive history of PPPs, the government presented in its *Terra Ranka* Strategy Document several projects that could be implemented through public and private collaboration. Up to 46% of total funding could fall under different forms of PPP, for a total value of € 940 million (AFDB, 2015a), such as:

- Energy generation, with the 20MW Saltinho hydro plant;
- Private management of the National Water and Electricity Company (EAGB);
- Transformation of Guiné Telecom into a holding company to manage telecommunications infrastructure;
- Port facilities, including a deep-sea port in Buba, the rehabilitation and concession of the port of Bissau;
- Rice irrigation projects in lowlands.

148. **Status of PPPs, legal and regulatory framework in place to promote PPPs:** Guinea-Bissau modernized its regulatory framework in 2009 with the assistance of the Public-Private Infrastructure Advisory Facility – PPIAF- , which led to the enactment of a new 2009 PPP law as well as important amendments to the code of public contracts (AFDB, 2015a). However, although in 2010 the Government adopted a new Procurement Code that ensured greater transparency and efficiency, the bodies set up to implement it (Procurement Regulatory Authority, Directorate

<sup>59</sup> <https://eiti.org/countries>, consulted on June 5<sup>th</sup> 2021.

General of Public Procurement, Central Procurement Agency) lacked the required capacity. Institutional support projects approved by partners such as the AfDB or the World Bank in 2015 target specifically such issues. However, there remain key conditions to be met to set up a workable PPP framework.

#### **4.2.5. Strategies to foster successful industrial development in the country**

149. The Strategic and Operational Plan 2015-2020 *Terra Ranka* envisioned the economy's diversification based on four pillars: agriculture and agroindustry, fisheries, tourism, and mining. It also foresees establishing a legal framework providing incentives for the private sector, particularly through the creation of integrated industrial platforms, including a multisectoral SEZ in Bissau by 2025. The SEZ should house industrial and agro-industrial activities and offer a comprehensive package of infrastructure and services (buildings, energy, water, transport, high-speed internet, etc.). The Plan also aims to develop nine different economic hubs across the country. However, to date, the new government has concentrated its industrialization in the agricultural and fisheries sectors, aiming to enhance the processing of raw materials.<sup>60</sup> These initiatives were reinforced in the *Hora Tchiga* plan, reinforcing the government's commitment and continuity to past planned actions.

### **4.3. Assessing gaps in regional integration and trade**

#### **4.3.1. Institutional framework for regional integration and trade:**

150. Guinea-Bissau is a member of WAEMU, whose objective is to create a harmonized and integrated economic area in Western Africa by ensuring free movement of people, goods, services, capitals, and production factors. They share a common currency and have harmonized customs legislation, including a CET. Common initiatives are also taken in several economic sectors such as agriculture, fisheries, mining, or energy. Community directives must be transposed into national legislation, although the application has remained slow.

151. All WAEMU Member States are also members of the ECOWAS, comprising 15 members overall and deemed to be the only economic community in the region for economic integration. The level of integration within ECOWAS is lesser than within WAEMU. The latter is already a monetary and a currency union, albeit progress in ECOWAS towards tighter integration occurs within several sectors, trade in particular. Since 2015, WAEMU members have adopted the ECOWAS CET, Guinea-Bissau, doing so in 2016.

152. ECOWAS is a building block towards the continental customs union, the African Economic Community, and the block negotiating an EPA with the European Union, which provides for the creation of a free trade area between both blocks. As a first step towards reaching African economic integration, African countries decided to create the AfCFTA, which will be the largest trading block globally by some countries and, according to some estimates, could boost intra-regional trade by 52.3% by eliminating import duties.<sup>61</sup> The AfCFTA was presented for signature in May 2018. Since then, all 55 members of the African Union except Eritrea have signed the treaty. The AfCFTA entered into force in May 2019 after the ratification of 22 countries. As of May 2021, Guinea-Bissau is the only WAEMU member yet to ratify the agreement. Trading under this protocol started on January 1st, 2021, six months after the initial projected date.<sup>62</sup> Concerning the EPA, it has been signed by all ECOWAS Member States, including Guinea-Bissau, but until 2019 only Cote d'Ivoire and Ghana ratified it.

153. Despite the different trade agreements to which Guinea-Bissau is a party, intra-regional

<sup>60</sup> Governo da República da Guiné Bissau (2020)

<sup>61</sup> <https://www.tralac.org/resources/our-resources/6730-continental-free-trade-area-cfta.html>

<sup>62</sup> <https://www.un.org/africarenewal/magazine/january-2021/afcfta-africa-now-open-business>

trade remains low. Guinea-Bissau only exports 6% of its goods to WAEMU countries while importing 23.8 from the region (practically everything from Senegal). Guinea-Bissau's exports represent just 0.2% and its imports 1.9% of total intra-regional trade.<sup>63</sup> Trade with non-WAEMU ECOWAS countries is virtually inexistent, amounting to 0.1% of exports and imports (WTO, 2017).

#### 4.3.2. Facilitators and barriers to trade and regional integration

154. Availability of electricity supply, paved road density, and telecommunication infrastructure is low in WAEMU even compared to other Sub-Saharan countries. In addition to the infrastructure gap, the quality of infrastructure is also perceived to be poor, diminishing trade between partners (IMF, 2016).

155. The absence of a single market system (free movement) in WAEMU gives rise to many taxes and deprives the Union of the single-entry point system for goods (WTO, 2017). Among the barriers that hamper the promotion of internal trade are: abusive or illicit taxation; attempts at tariff rearmament on certain products originating in the Union; technical or administrative obstacles imposed on community products; abusive inspection formalities; minimum import quantities to benefit from duty-free status; importation of originating products contingent on the purchase of national products; certificate of origin requirement for local products; withholding of prior import declarations; and measures aimed at extorting bribes on the Union's main road corridors. Improved investor legal protection, labor skills, and access to finance across member states would also promote regional trade (IMF, 2019).

#### 4.3.3. External competitiveness

156. WAEMU's countries' capacity to trade across borders ranks poorly compared to the world, as exemplified by the trading across borders pillar of the Doing Business methodology. However, after ranking at a low 139<sup>th</sup> average position in 2013, there has been a gradual improvement to the 2018 124<sup>th</sup> average position. By contrast, Guinea-Bissau has continued to worsen its trading across borders capacity from the 74<sup>th</sup> position in 2006 to the 146<sup>th</sup> in 2019 (World Bank, 2020b).<sup>64</sup>

157. A detailed observation of the different components of 2020 Doing Business Trading across Borders pillar reveals that WAEMU members rank relatively bad the time it takes to export or import, rather than the cost (except for the cost of documentary compliance of imports which is also high). In contrast, Guinea-Bissau ranks worse in every measure. Exceptions are on time

**Figure 24: Elements of Trading across Boarders 2018**      **Figure 23: Rank in Trading Across Borders**



devoted to complying with importing requirements and for cost-related measures.

<sup>63</sup> BCAO (2021)

<sup>64</sup> A change in methodology in the Doing Business classification in 2015 can be blamed for some of the changes in the trend, with some countries experiencing strong worsening in their ranking (Guinea-Bissau, Senegal) and some others climbing in the opposite direction (Mali, Niger, Burkina Faso). However, the trend since 2015 shows the same evolution for WAEMU and Guinea-Bissau.

158. Although progress may be sluggish in terms of regional integration, the ECOWAS region outperforms other African regions in terms of regional integration, as shown in Table 133. The ECOWAS regions perform particularly above average in terms of free movement of people and financial and macroeconomic integration. They are below average on trade integration, regional infrastructure, and above all, productive integration, which looks at the intra-regional trade of intermediate and complementary goods.

**Table 13: Regional Integration by Grouping in Africa**

Region	Trade integration	Regional infrastructure	Productive integration	Free mov. of people	Fin. and macro. Integration	Average
CEN-SAD	0.35	0.25	0.25	0.48	0.52	<b>0.37</b>
COMESA	0.57	0.44	0.45	0.27	0.34	<b>0.41</b>
EAC	0.78	0.50	0.55	0.72	0.16	<b>0.54</b>
ECCAS	0.53	0.45	0.29	0.40	0.60	<b>0.45</b>
ECOWAS	0.44	0.43	0.27	0.80	0.61	<b>0.51</b>
IGAD	0.51	0.63	0.43	0.45	0.22	<b>0.45</b>
SADC	0.51	0.50	0.35	0.53	0.40	<b>0.46</b>
UMA	0.63	0.49	0.48	0.49	0.20	<b>0.46</b>
<b>Average</b>	<b>0.54</b>	<b>0.46</b>	<b>0.38</b>	<b>0.52</b>	<b>0.38</b>	<b>0.46</b>

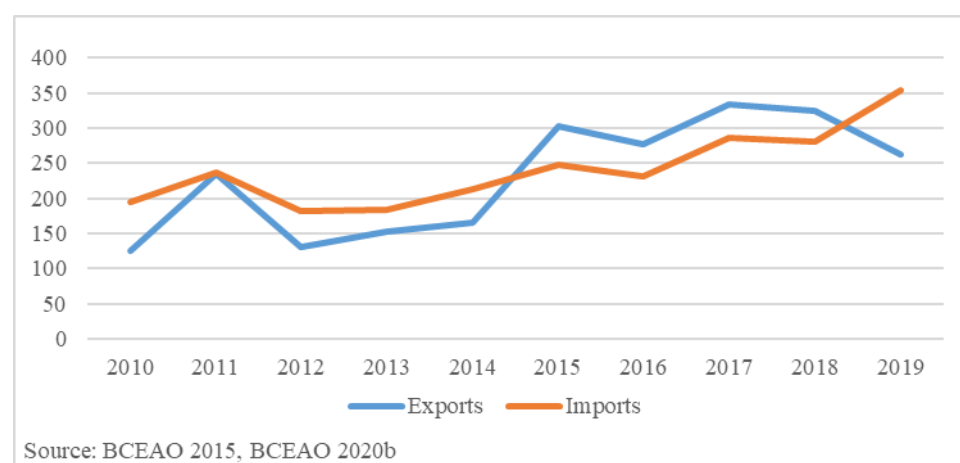
Source: African Regional Integration Index

159. The level of integration of the sub-set of WAEMU countries is even higher than other ECOWAS members. The average integration score of these countries is 0.56. Although Guinea-Bissau is the worse performer of all WAEMU countries with 0.5, it still scores above the African integration average (UNECA, 2016). In line with WAEMU findings, Guinea-Bissau outperforms the African average in terms of free movement of persons and financial and macroeconomic integration. On the other hand, it matches the regional average on regional infrastructure and is clearly below average on trade and productive factors integration.

#### 4.3.4. Trade flows

160. Guinea-Bissau trades 60% of its GDP, which is considered an open economy (OECD/WTO, 2019). However, by world standards, Guinea-Bissau remains a small trading nation, occupying the 171<sup>st</sup> and 193<sup>rd</sup> positions by the size of exports and imports, respectively (WTO, 2019).<sup>Therefore</sup>, Guinea-Bissau has a structural propensity to handle a trade account deficit. This has been the case since 1995 except in the period 2015-2018 when cashew nut prices peaked.

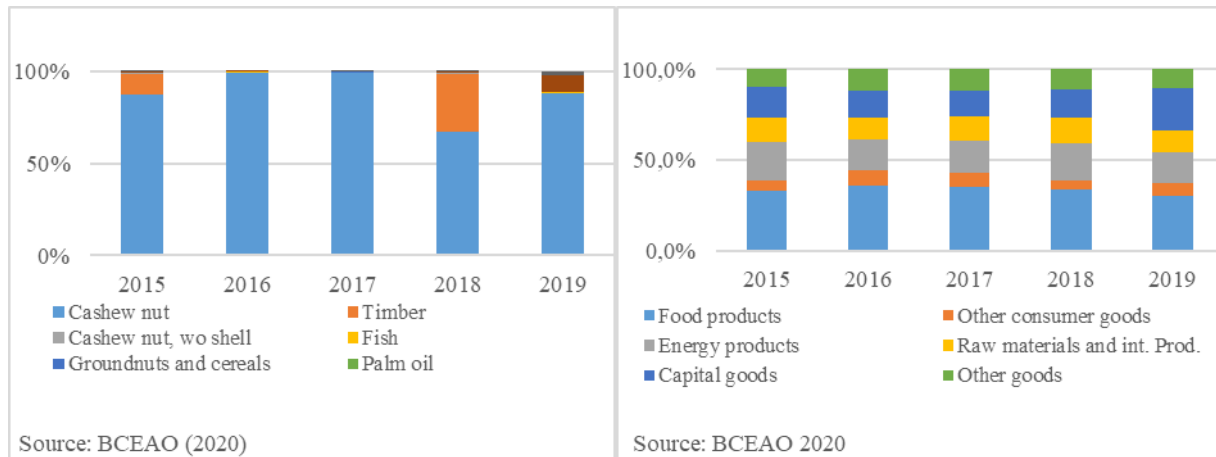
**Figure 25: Guinea-Bissau total exports and imports (USD mill.)**



### 4.3.5. Trade structure

161. Cashew nut usually represents close to 90% of total exports, with fish representing close to 1%. In 2018 timber products represented 32% of total exports, and then again 0% in 2019. The reason for this variation lies in the authorities seizing 2018 illegally harvested timber.<sup>65</sup> In all, primary goods represent more than 98% of all exports.

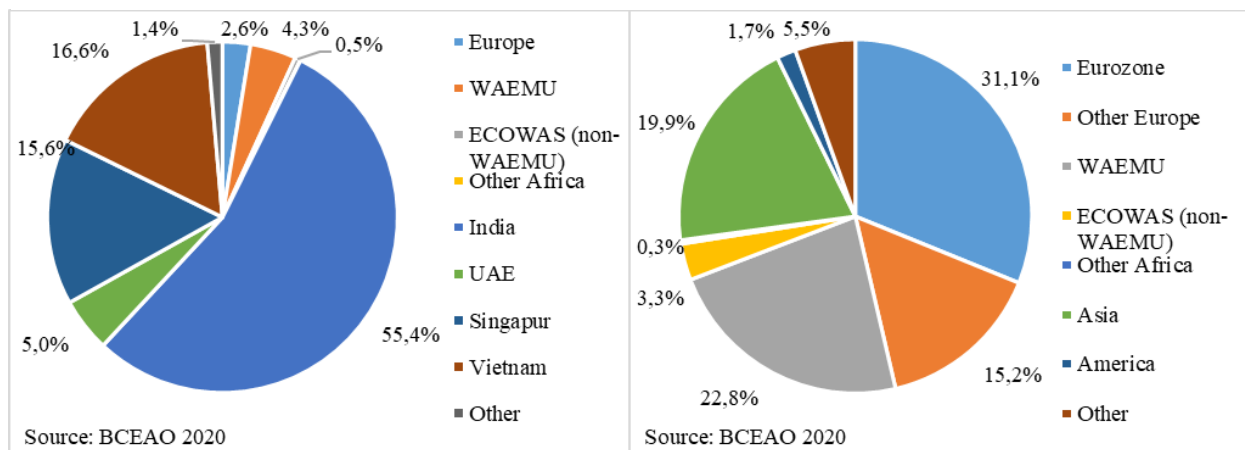
**Figure 26: Export (LHS) and import (RHS) composition**



162. Import composition is much more diversified, with rice being the number one import. Bissau-Guinean imports are practically divided between primary goods (55%) and manufacture (45%).

163. Guinea-Bissau's main export is raw cashew, and as such, the main export markets are India and Vietnam, countries with large cashew processing industries. As is the case with import structure, the origin is more diversified. Exports to WAEMU represent just 4,3% of total exports, most of it (92%) to Senegal. On the other hand, regional imports represent 22,8% of total imports, almost exclusively from Senegal (97%).

**Figure 27: Export (left) and import (right) origin (2019)**



### 4.3.6. Trade and Regional Trade Reforms

164. The trade policy review of WAEMU conducted by the WTO in 2017 revealed several impediments to intra-regional trade. These barriers include many roadblocks and checks on the corridors in the community territory; unofficial, illicit payments on highways; the slow pace of formalities upon import and export of goods; and the high number and complex nature of procedures and documents economic operators have to contend.<sup>66</sup>

<sup>65</sup> IMF 2020

<sup>66</sup> WTO (2017)



165. Based on these findings, WAEMU put in place a regional trade facilitation program, intended to be implemented between 2016 and 2020, aiming to address the following outcomes:

- i. improve trade facilitation practices within the Union;
- ii. modernize the national customs administrations;
- iii. increase the transparency and predictability of trade transactions and cross-border transport;
- iv. introduce more efficient coordination into the management of the structures and procedures involved in external trade.

166. In line with the projected reforms, national road transport and transit facilitation committees were established in each country. Regional road corridors were identified and projects to construct checkpoints at the borders were launched. The security mechanism for the inter-State road transit of goods was also launched.

167. It must be noted that Guinea-Bissau is the only WAEMU country not having ratified the WTO Trade Facilitation Agreement as of June 2021. This agreement, which entered into force in 2017, contains provisions for expediting the movement, release and clearance of goods, including goods in transit. It also sets out measures for cooperation between customs and other authorities on trade facilitation and customs compliance issues. It further contains provisions for technical assistance and capacity building in this area.<sup>67</sup>

#### 4.4. Assessing gaps in the social sector

##### 4.4.1. Skills for employability in the country

168. Official statistics refer to an unemployment figure of around 11.5%. This figure masks the huge level of informality of the economy. Some estimates set the youth unemployment figure at 50% of the active population (AFDB/WB, 2019). In absolute terms, employment figures show a high degree of occupation of the population, as shown in **Erreur ! Source du renvoi introuvable.**<sup>7</sup> below. Another characteristic of Guinea-Bissau's labor market is its stability over the last two decades. Overall employment has increased slightly from 68.8% of the population to 70%. However, the increase is more pronounced for female workers, whose employment has gone from 61.24% to 64.4%, whereas male employment has decreased slightly. Unemployment has somewhat reduced from an already low level from 4.67% to 4.05%, with similar evolution between males and females.

169. ILO estimates vulnerable employment at 78.34% of total employment. Wage and salaried workers represent just 20.6% of total workers, with a marked difference between gender, with 27.7% of men being waged against just 12.65% of female workers.



A crucial need for Guinea-Bissau is therefore reducing the level of job vulnerability. The development of the private sector is key for this. At the same time, the private sector highlights as one of its main constraints low labor productivity, which in turn is caused by the low skilled level of the workforce (World Bank, 2015). Just 47% of workers are considered skilled workers in Guinea-Bissau, compared to 75% in SSA (World Bank, 2006). Yet only 12% of firms offer any form of training, compared to 29% in the continent.

170. The weak education and training system are not bound just to technical and professional training. Just 64% of the children complete primary education, compared to 69% in Sub-Saharan

<sup>67</sup> [https://www.wto.org/english/tratop\\_e/tradfa\\_e/tradfa\\_e.htm#VI](https://www.wto.org/english/tratop_e/tradfa_e/tradfa_e.htm#VI)



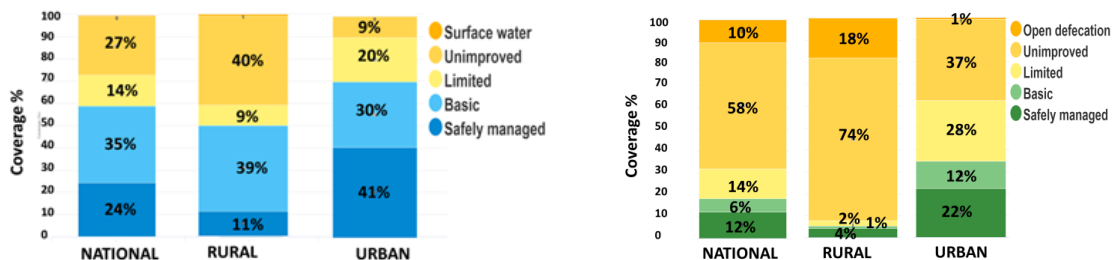
Africa and 92% worldwide (World Bank, 2016). While literacy rates for adults are in line with other WAEMU countries (45% is above Benin or Burkina Faso, who do not reach 35% but is lower than 52% and 60% in Senegal and Togo, respectively), youth literacy rates at 69% are below the regional average, only better to Benin's 64%. This indicates that Guinea-Bissau is not registering progress in this domain simultaneously as other comparable countries. As it would be expected, education problems are aggravated with the poorer population. Adults in the low 40% quintile of income complete just over two years of education (Idem).

#### 4.4.2. Poverty and inequality

171. Guinea-Bissau's HDI for 2020 is 0.480, which places the country in the “low human development” category and 175th out of 188 countries and territories. However, between 2005 and 2020, Guinea-Bissau's HDI increased from 0.393 to 0.480, increasing 22%. In addition, between 1990 and 2019, life expectancy at birth in Guinea-Bissau increased by 11.2 years, and the expected duration of schooling increased by 6.9 years.

172. The proportion of people living with less than \$1.9 / day is 67.1%, which is the worst performer of the WAEMU region and considerably worse than the region's average at 52.5% (World Bank, 2019). Poverty affects more rural areas, with three-quarters of the rural population in extreme poverty. Extreme urban poverty affects 51% of the population. In both cases, it shows worse figures than WAEMU (55.6% of the rural population and 28.6% of the urban population living in extreme poverty, respectively). In addition, the country shows marked regional disparities in poverty incidence, ranging from 83% in Gabú to 47% in Bolama / Bijagos. Bissau shows the second-lowest poverty rate, with 51.2% of the population living below \$ 1.9/day.

Figure 29: Use of Basic Drinking Water (left) and Basic Sanitation (right)



Source : JMP 2020/ <https://washdata.org/data/household#!/>

173. Inequality is also high. The last available data, from 2010, showed a Gini index of 0.5, higher than 0.35 in 2002. This figure places Guinea-Bissau among the unequal countries on the continent. Estimates of poverty indicate that poverty declined from 63.3 percent to 62.8 percent between 2018 and 2019, although the number of poor people increased by 14,000 people due to faster population growth among the poor. The pandemic is expected to increase the poverty rate to 65 percent in 2020 because of the negative impact on farmer income and social vulnerabilities. World Bank estimative points to an increase of 84,000 people below the poverty line. Poverty would gradually decline to about 64 percent in 2022, supported by increased cashew income and higher economic growth. The number of poor people is projected to remain largely unchanged, though.

#### 4.4.3. Access to water and sanitation

174. Access to water and sanitation is limited, although it is in line with regional standards (Figure 28). The population share using at least plain drinking water is just above 59% in 2020, with a marked difference between rural and urban areas (50% and 70%, respectively). By its

extent, people using at least basic sanitation facilities was 18,3% in 2020. In rural areas, the access rate is 5,2% while it rises at 34,7% in urban. Despite the lower use of sanitation facilities, mortality incidence attributed to unsafe water, sanitation, and lack of hygiene is considerably lower in Guinea-Bissau than in other countries in the region. Guinea-Bissau registers 35 per 100,000 casualties compared to a regional average of 49.85 per 100,000.

#### **4.4.4. Strength of health systems**

175. Guinea-Bissau's national health system is structured around three levels: central, regional, and peripheral (central level, 11 health regions at the regional level, and 114 peripheral health areas). Health financing depends mainly on external support, which represents more than 90% of the budget. Of this external support, 47.6% comes from international partners, and 42.6% is charged to direct payments by households, leaving the State's contribution to barely 8.2% (National Health Accounts, 2016). The state's contribution is limited to the payment of salaries and some small interventions. The health sector is made up of a public sector and a private profit and non-profit sector. Given the sector's complexity, the Ministry of Health has adopted an approach to consider socioeconomic determinants in its planning by bringing together all the development sectors that carry out awareness-raising activities for better involvement. However, the health information system that accompanies this plan is affected by the lack of competent personnel in data management. At the same time, the involvement of the for-profit private sector remains very limited. Measures are underway to reverse the trend, including DHIS\_2 in all health regions of the country.

176. The COVID-19 pandemic exacerbated the fragility of the health system in Guinea-Bissau. The glaring lack of human resources in health in almost all the services, the low budget allocated to the health sector for several years, and the institutions' fragility contributed to the pandemic experiencing an exponential evolution approximately 30 days after the declaration of the first cases. The number of doctors and nurses per capita is below the threshold recommended by the WHO (one doctor per 5,000 to 10,000 inhabitants, as opposed to 23) with strong territorial disparities. For the most part, the health infrastructures are dilapidated and poorly equipped. It is estimated that 60% of the population does not have access to a health structure within 5 km. Financial access is also difficult, especially for the poorest.

177. In addition, the country has one of the worst maternal and infant mortality rates in the world, respectively 667 per 100,000 births, 79/1000, and the prevalence of HIV / AIDS remains the highest in West Africa, 3,4% for the population aged 15 to 49. Chronic, non-communicable diseases are on the rise and the national prevalence of stunting among children under five is 27.6%, while 52.5% of children under six months are exclusively breastfed. In addition, 43.8% of women of childbearing age suffer from anemia. The consequences of the COVID-19 pandemic, including constraints on access to food, economic pressure, and reduced livelihood opportunities, significantly impact households' food intake and nutritional status. The most vulnerable populations are likely to turn to cheaper and less nutritious foods. In 2019, data showed that only 17.9% of women adhered to the minimum dietary diversity and only 8.3% of children aged 6-23 months adhered to a minimum acceptable diet. Public health interventions in this project can leverage the integration of nutrition into strengthening health systems, infrastructure and services to maximize the impact on health across the lifespan and contribute to the nutrition of vulnerable populations.

178. The health sector in Guinea-Bissau is very vulnerable to epidemic outbreaks, particularly that of the scale of COVID-19. Indeed, the system is ill-prepared and ill-equipped in infrastructure, health personnel and biomedical equipment to identify, test, isolate and treat confirmed patients. The steering and coordination mechanisms of the health system also remain weak. The Global Health Security Index report shows that Guinea-Bissau is ranked 186 out of 195 countries in terms of rapid response for mitigating the spread of an epidemic.

179. The epidemiological situation in Guinea-Bissau is characterized by the predominance of

infectious diseases and malnutrition. Thus, 28% of the population suffers from malnutrition, and the most frequent infectious diseases are malaria and tuberculosis. The incidence of malaria per 1,000 people is 89.3, according to the World Bank. The country also experiences epidemic outbreaks such as meningitis and cholera. Communicable, maternal, neonatal, and nutritional diseases represent the seven most frequent causes of death out of 12 listed causes.<sup>68</sup> All these causes weaken the immune system to fight against any other infectious disease, including COVID-19. Beyond infectious diseases, the country is experiencing an increase in non-communicable diseases; it is estimated that the death ratio from non-communicable diseases is 20% of all deaths from all causes.

180. The health system relies heavily on the support of community health workers. The state is trying to leverage this aspect by placing 50 families under the responsibility of a community health worker to facilitate the 16 family and hygiene practices in the different families. However, the sustainability of this strategy depends on external funding for the remuneration of community health workers and their means of transport.

181. It is necessary to finalize the health development plan with a strategy and a budgeted action plan. The mobilization of domestic resources for the health and nutrition sectors must be considered a priority. It would be appropriate to have a study on internal resources mobilization. The government needs to access innovative financing mechanisms such as "Power of Nutrition" or the "Global Financing Facility (GFF)," supporting governments in improving nutrition and reducing maternal and infant mortality. These would increase the budget allocated to health towards the achievement of the Abuja declaration.

#### **4.5. Assessing gaps in the energy sector**

182. The electricity sector is one of the worst-performing in the West African subregion. It faces serious challenges, including (i) the imbalance between supply and demand; (ii) the obsolescence of the distribution networks with an overall loss rate of around 47%; (iii) a low level of structuring investments; (iv) the poor commercial and financial performance of the national electricity company EAGB and (v) the estimated rate of access to electricity of 10% nationally and 20% in the city of Bissau. The country's current total installed electricity generation capacity is provided by a lease of 24 MW from a private company reliant on diesel. With the support of technical and financial partners, the Government is working on setting up power plants to produce electricity. It has obtained partial financing for a 15 MW thermal power plant (heavy fuel oil) whose work is underway with a forecast of implementation in 2022 and the financing of a 20 MW solar power plant whose work has not started. With the completion of the construction of the interconnection line for the electricity networks of the OMVG countries, which is currently being built, the country could import about 27.5 MW from neighbouring countries (Guinea and Senegal) by 2022.

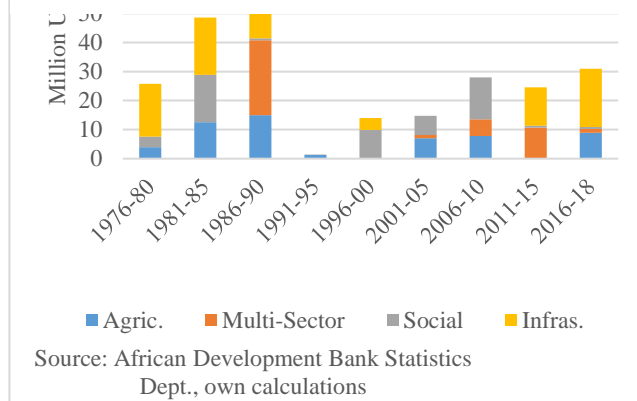
183. In parallel with all these forecasts of an increase in generation capacity, the transmission and distribution networks need to be strengthened to ensure efficient electricity distribution. Indeed, the 24 MW made available by the private producer Kapar Power is currently consumed to the tune of only 19 MW due to the failure of the electricity network and the system with very few new connections. Barely 20% of the population of the city of Bissau has access to electricity. The supply of electricity is irregular, with the almost permanent load shedding. The revenue from the sale of electricity by EAGB is not intended to cover the rental and operating costs of the leased plant. In some parts of the country, small independent generators sell electricity from their generators at a prohibitive price.

#### **Chapter 5: Priority areas of reforms**

184. This chapter identifies some priority policies for achieving Guinea-Bissau's development

<sup>68</sup> <http://www.healthdata.org/guinea-bissau>

**Figure 30: AfDB historic commitments in Guinea-Bissau**



objectives, reducing poverty, and promote inclusive growth in the context of the High 5 agenda set by the African Development Bank. Considering previous cooperation and the needs highlighted throughout this document, some interventions are suggested below.

185. In addition, recommendations make use of the Debt Sustainability, Public Investment, and Natural Resources model (available at Annex 3). The model analyses public investment plans' debt sustainability and macroeconomic effects in resource-abundant developing countries, such as Guinea-Bissau. It considers alternative

investment programs that differ along the following dimensions: i) the mix between investment in infrastructure and human capital; ii) the size and the speed of public investment scaling-up; iii) the fiscal space and the financing mechanism gave the impact of COVID-19; iv) and the role of reforms that improve the efficiency of public investment. Since COVID-19 has strained public finances and led to re-prioritization in public spending, the model examines a pre-COVID-19 shock and an after-COVID-19 shock. The pre-COVID-19 shock considers a big-push investment program of the type envisioned by the government of Guinea-Bissau. The after-COVID-19 shock assumes a decrease in 2020-22 and an increase after that.

### 5.1. Improving infrastructure conditions

186. Crucial to boost the productivity of Guinea-Bissau is to improve current infrastructure, so the cost of doing business and trading goods (internally and across borders) is reduced. In this regard, the 2014-2019 CSP infrastructure support must be continued, particularly concerning electrification. Additionally, supporting infrastructures for irrigation and drainage will result in increased productivity of the agricultural sector. Furthermore, importance must be given to infrastructures in and to Farim because of the upcoming development of the mining industry.

187. The importance of infrastructure investment in growth is described in Annex 3. The model assumes two types of public investment paths: i) a gradual increase between 2019 and 2023; ii) a gradual decline after that. The estimated cumulative increase in public investment in infrastructure and human capital during that period is 8% of GDP and 5.3% of GDP, respectively. The ambitious investment plan is assumed to be funded by concessional loans and grants. However, grants do not fully cover the financing need, opening a financing gap that has to be covered by fiscal adjustment. We consider a fiscal adjustment on the spending side whereby the government must re-prioritize spending by cutting unproductive spending. Moreover, the scale and the speed of the public investment acceleration strain the government's absorptive capacity, creating inefficiencies. The baseline scenario assumes that only about 60 % of public investment is translated into productive public capital, implying that 40 cents on every dollar invested are lost due to inefficiency.

188. The simulations show that the investment plan may bring tangible medium- to real long-run benefits to the economy. For instance, by 2023, the real GDP growth rate is 5.7 % relative to its original level (in 2019) of 4.5 % (Figure 1 in Annex 3). Private investment is crowded in—i.e., by 2024, private investment expands by about 3 %.

### 5.2. Improving governance

189. The improvement of governance is an urgent priority in the reform agenda. Guinea-Bissau must improve tax mobilization to increase spending in productive areas, particularly human capital and infrastructure investment. It is estimated that the revenue potential of Guinea-Bissau is at 18%

of GDP (almost doubling the current 10% of GDP) (World Bank, 2018a). Therefore, the country must start capitalizing on “easy wins” in this aspect, such as eliminating certain tax exemptions, increasing excise taxes, or expanding the coverage of some taxes, and continuing with measures (digitalization) to improve tax and customs administration. Furthermore, given the recent developments in the oil sector, Guinea-Bissau must prepare for transparent and efficient management of Petroguin, which will represent an important source of revenue for the country. Also, related to increasing the tax base and improving governance, it is advisable to fight fiscal crimes (corruption and money laundering) by strengthening CENTIF’s capacity.

190. In parallel to increased revenue mobilization, the country must re-orientate its spending towards social areas and keep fiscal discipline. The country urgently needs to reduce the wage-bill ratio, estimated at 65% of revenues in 2021, audit the different ministries' banking accounts, and centralize expenditures under a single Treasury account.

191. The importance of improved governance is also contemplated by the growth model developed in Annex 3. The model assumes that public investment spending is more efficient (no leakages), with 100% of the spending translated into productive public capital instead of 60% in the baseline. Indeed, the real GDP growth rate is about 2 points higher in 2023 compared to the baseline. As would be expected, with improved efficiency, the fiscal adjustment (unproductive spending cut) is less punitive, with certainly some implication on inequality. The paths macro and sectoral variables are notably better in the long run. Total private consumption is 15 %age points higher by 2030, and private investment is more than 20 % higher by the same year. The ratio of total public debt is much lower during the transition path, and the real GDP growth rate reaches a much higher level with improved efficiency in public spending.

### **5.3. Promoting industrialization and business climate**

192. The country must increase its current industrialization level while, in parallel, developing the private sector. Several concurring factors must be tackled to be successful. First, an industrial policy must be drafted, defining priority areas. Although the document may serve as the basis, it is now almost five years old and needs to be reassessed.

193. The business environment needs to be improved. But, again, there are bureaucratic duplicities and unnecessary red tape, such as removing the husband’s requirement for a married woman to open a business that can quickly improve the business climate and show some early results.

194. Lastly, the government needs to prepare for future action in a series of elements, where better understanding and according to subsequent planning needs to take place, namely:

- i) State-owned enterprises: Conduct an inventory of existing SOEs and their economic situation, with a view of preparing non-performing ones for privatization.
- ii) Elaborate a plan to attract the private sector interested in PPPs. This plan should consider the opportunities but also the legal changes needed to provide sufficient confidence to investors.
- iii) Explore best practices in SEZs in fragile economies and adapt them to the Bissau-Guinean context, with a view of facilitating exporting activities.
- iv) Start preparing for the AfCFTA, conducting the necessary studies to make sure Guinea-Bissau can maximize the results from the outcomes of the negotiations.

### **5.4. Investing in human capital**

195. It is key to improve productivity for businesses. This can be done by supporting the creation and development of professional training centers, quality of education, and adaptation to employment supply. These centers could be conceived to support the sectors identified in the industrial policy and Annex 1. Agriculture productivity will also benefit from specific training by



supporting institutions that promote best practices in agriculture (rice and cashew) and fisheries.

### **5.5. Improved and integrated financial markets**

196. A functioning financial system is necessary for any industrialization and private sector development plan to be successful. As has been previously explained in this CDN, credit to the economy is extremely low and is very much confined to the cashew sector. Businesses complain about the lack of financing opportunities, while banks argue that very few consistent business opportunities are presented and that their risk is too high. Guinea-Bissau could then benefit by implementing a wide financial inclusion project that incorporated measures to address the challenges above, like creating a collateral guarantee program by the government or the constitution of a body commissioned with training on business fundamentals and the presentation of business opportunities to banks.

197. Implementing these interventions would certainly help Guinea-Bissau develop a more dynamic private sector, promote industrialization, and increase job creation and poverty alleviation. In turn, in conjunction with other initiatives, the government would increase tax revenues and subsequently invest them in priority areas that would reinforce economic diversification and improve social indicators and further reduce poverty.

### **Chapter Six: Monitoring and evaluation of development outcomes**

198. A Monitoring and Evaluation System is necessary for assessing the extent to which reforms will be on track. The M&E system would ensure greater accountability of the Bank investments and promote more effective and efficient policymaking. A first step towards building such a system is devising the expected outputs from each intervention, measuring them directly. This would also help assess the risks and mitigation measures by standardizing risk management procedures to ensure the desired results.

#### **6.1. Status of the national monitoring and evaluation system in Guinea-Bissau**

201. Law governs statistical activity in Guinea-Bissau No. 6/2007 of September 10, 2007, establishing the national statistical system (NSS) and Legislative Decree No. 2/91 of March 25, 1991, relating to the powers, composition, and operation of the NSS. The full picture of the legal framework implies that the national statistical system is composed of the Superior Council of Statistics (SCS), the National Institute of Statistics (NIS), and the Delegated Bodies of the NIS.

202. The SCS is the coordinating body for NSS activities, including producers and users. It defines statistical priorities, coordinates their execution, promotes methodological standards and data dissemination, and ensures their use. The NIS is the central organ of the NSS. Legislative Decree No. 2/91 instituted the change of its status from public administration to the public establishment, endowed with a legal personality and enjoying technical, administrative, financial, and patrimonial autonomy.

203. The NSS legislative and regulatory framework is not fully operational. As a result, the SCS is not functional and the new status of the NIS is not effective. In addition, there is an almost complete absence of text defining the missions and powers of most sectoral statistical services. Consequently, the implementation of the legislative and regulatory framework is limited and the organic links between the various components of the NSS are very weak. This situation generates the problems in which statistical production suffers inconsistency and low reliability of data (spatial and temporal); absence of clearly defined priorities and rational programming of activities; unsuitability of data for user needs; etc.

204. Guinea-Bissau has developed two national strategies for developing statistics (NSDS) to respond adequately to the demand for data for monitoring and evaluating *Terra Ranka* or *Hora*



*Tchiga* and international development agendas. The first covered the period 2015-2017 and the second the period 2018-2020. The two NSDSs were developed according to the international methodology established in this area (participatory process, covering the entire NSS and conducted in stages). Thus, they are integrated into the national development process in terms of time horizon and as an essential tool for monitoring and evaluating.

205. The reform of public services is planned to correct the dysfunctions basis of the ineffectiveness of the services. The use of digital technologies is imperative to improve, on the one hand, the efficiency of government action, transparency, the accountability of public officials, and on the other hand, the participation of the citizens and their involvement in administrative governance. In the first phase of the installation of digital governance, it is planned to set up an integrated and coherent national information system through two main actions: (i) constitution of large state registries, namely the registry of natural persons (national biometric identity card), the registry of legal persons (tax identity) and the national mapping and; (ii) Strengthening and modernizing of the NSS through capacity building of the National Statistics Institute but also of two key sectors of the economy, agriculture, and tourism.

206. The implementation of the NSDS 2015-2017 suffered from weak coordination of the NSS and the low level of human resources in quantity and quality and financial and material resources. As a result, the implementation rate of the activities of this NSDS has been evaluated at 24.13%. Statistical production remains weak despite the progress recorded within the framework of the NSDS, resulting from surveys and censuses entirely financed by technical and financial partners. Routine data is almost non-existent except aggregates and economic statistics under the NSI (national accounts, household consumer price indices, foreign trade statistics) and sector statistics of education, fishing, health and agriculture.

## **6.2. Analysis of the statistical system in Guinea-Bissau**

207. The insufficiency of financial resources, in own particular resources, constitutes a major difficulty for statistical production. The execution of statistical activities is highly dependent on external funding directed mainly towards large statistical operations to the detriment of routine data production.

### **Strengths of the NSS**

- The existence of a statistical law and a text of its application
- Support from technical and financial partners
- Existence of data validation committees to improve their consistency.

### **Weaknesses of the NSS**

- Poor operationalization of the law and its decree
- Poor coordination between producers on the one hand, and between producers and users on the other
- Strong dependence on external funding.

### **Opportunities for the NSS**

- Good integration of the NSDS into the Terra Ranka strategy document.
- Membership of Guinea-Bissau in AFRISTAT
- Strategy for the harmonization of statistics in Africa (SHaSA.2)
- United Nations 2030 Agenda for Sustainable Development.

### **Challenges for the NSS**

- Improvement of the quality of statistics by setting up and strengthening standards and controls within effective coordination.
- Reform of the statute of the NIS
- Securing funding for statistical activities
- Development of NSDS-3.

### **6.3. Possible Bank's intervention**

208. Based on the elements presented above, a Bank operation should be envisaged contributing to the sustainable development of the production of quality statistics adapted to needs to improve the monitoring and evaluation of the strategic development plan for Guinea-Bissau.

209. Specifically, the project should contribute to (i) create legislative, regulatory and organizational conditions to improve the governance of the statistical system; (ii) put in place tools for managing the statistical system; (iii); develop the production of sectoral statistics and the dissemination of data; (iv) build human capacities.

## Conclusion

210. Guinea-Bissau's economic growth has been fragile and vulnerable to multiple economic shocks and political disturbances. Since independence, there has been little change in the economic structure, remaining over-reliant on the primary sector, particularly on the cashew-nut trade. Positive economic growth rates have not been translated into better socio-economic conditions: GDP per capita is stagnated since the 1998 civil war, and two-thirds of the population live below the international poverty line of US\$1.90 a day. On the fragility aspects, Guinea-Bissau displays issues related to inclusive politics (such as representation in the political system, political stability), economic and social inclusion (such as access to public services), and (social cohesion) polarization based on group identity. The limited economic inclusion (notably the effectiveness of economic policies, economic and income equality) deserves special attention to take the country out of the poverty trap.

211. The positive GDP growth average of 3% from 2012 to 2020 was based on a stop-and-go model, challenged by political events and external shocks, such as cashew-nut price volatility and the COVID-19 pandemic. As agriculture remains highly dependent on rainfall, crop yield is subject to frequent variation due to low mechanization and yield-enhancing inputs. The private sector had little participation in the country's economic development, facing numerous difficulties related to poor infrastructure – lack of energy, poor conditions of roads, ports and telecommunications. A study by Haile and Moeller (2018) reveals that structural factors – notably financial deepening and trade, combined with favorable external conditions – explain most of the growth in Guinea-Bissau between 2010-2018. Infrastructure development played a small role, reflecting the low level of capital accumulation.

212. On the way forward, the country needs to change its economic growth pattern by boosting industrialization by engaging the private and civil society in development. This engagement depends strongly on improving current infrastructure, so the cost of doing business and trading goods (internally and across borders) is reduced. Investments in the energy and transportation sectors started in 2014 must be continued, and water and sanitation, telecommunications, and health infrastructure investments should be leveraged. Additionally, supporting infrastructures for irrigation and drainage will result in increased productivity of the agricultural sector. Importance must be given to infrastructures in the Farim region because of the mining industry development possibilities. These reforms are aligned to the AfDB's priority High 5s: *Light up & Power Africa, Industrialize Africa, Integrate Africa, Feed Africa* and *Improve the quality of life for the people of Africa*.

213. Improvements in economic governance is a theme that must be born in mind for the next development plans in Guinea-Bissau. The country urgently needs to reduce the wage-bill ratio, audit the different ministries' banking accounts, and centralize expenditures under a single Treasury account. Budget preparation, surveillance, and audit should be continued. Civil society should be engaged through budget transparency and expenditure prioritization mechanisms. Implementing the WAEMU directives on public fiscal management will better integrate Guinea-Bissau in the regional trade, boosted with the advent of the AfCFTA. Investment in trade facilitation and skills developments supporting manufacturing will be key to boost productivity and growth. Improving quality education and health services will contribute to the augmentation of labor productivity, particularly female productivity.

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## Annex 1: Guinea-Bissau's Natural Resources Diagnostic<sup>1</sup>

### Introduction

Guinea-Bissau is well-endowed with renewable and non-renewable natural resources, which can be leveraged to economically transform the country and pull its people out of poverty. Renewable resources, foremost agricultural land and forests are the country's largest natural resources. Fisheries and protected areas and biodiversity that lies within are also important and could substantially contribute to economic development. Non-renewable resources, including solid minerals and petroleum, could also provide Guinea-Bissau with important streams of revenue, which is contingent on the further exploration and development of these resources, considering the volatility of minerals and oil prices as well as the constraints of climate change mitigation and adaptation and dilemma of revenues management. Revenues management puts Government in front of the dilemma of consumption and investments since one of the major decisions facing governments with new resource rents, or even just with the prospect of resource rents, is to choose between consuming more to benefit current generations or investing more to accrue some benefits today but leaving the lion's share to future generations. The decision may not be straightforward, although one may argue that since Guinea-Bissau has a very poor population living with less than US\$2 per day, rents should be used to alleviate poverty immediately.

This document consists of a diagnostic of natural resources sectors of Guinea-Bissau to recommend potential areas for Bank's intervention. It is divided into four major sections. Section 1 covers general policy, legal, regulatory, and institutional frameworks common to all the natural resources; section 2 specifically discusses renewable resources sectors: land, forests, fisheries, and biodiversity in protected areas. Section 3 discusses non-renewable resource sectors: solid minerals and petroleum (oil & gas). Finally, section 4 consists of subsections on each sector. These subsections deal with resources' endowment, contribution (or potential contribution) to the economy, discussions on specific legal, regulatory and institutional frameworks; analysis of specific issues constraining the development of these resources as well as challenges and opportunities of the sector; and recommendations for Bank's intervention in the countries.

### 1. Policies, laws, regulations, and institutions common to all the natural resources sectors

#### The national context

The constitution of Guinea-Bissau provides overarching guidelines regarding ownership of natural resources and their responsible exploitation, preserving the health of the people and the environment. It stipulates in section 12 that *“The State has ownership over the soil, the underground, mineral resources, main energy sources, the forest wealth and social infrastructure.”*

Other laws are specially related to environmental protection. They cover issues ranging from the use of toxic substances to extraction in protected areas. They include but are not limited to Environmental Impacts Assessment and regulation on environmental licensing and procedures, environmental Assessment Law 2010.

A wide range of policies, strategies, and plans underpins the legal and regulatory framework for natural resources management in Guinea-Bissau. These include the National Environmental Management Plan, National Plan for Natural Resource Management, National Biodiversity Strategy, Protected Areas Strategy, Coastal Zone Master Plan, Water Master Plan, Integrated

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<sup>1</sup> This section was prepared by the ECNR team, coordinated by Arron Alie Tchouka Singhe, Chief Oil Sector Officer.

Financing Strategy for Durable Land Management, Sustainable Financing Strategy of Adaptation to climate change, Forestry Master Plan and the Forest Management Plan<sup>2</sup>.

Investments are governed by the investment code approved by Law No. 13/2011 of 5 August 2011, as amended by Law No. 3/2015. They are facilitated by the enterprises' formalization Centre (*Centro de Formalização de Empresas*, "CFE"), under the authority of the Ministry of Economy and Finance. It acts as a one-stop-shop for business registration<sup>3</sup>. The Investment Promotion Agency – Guinea-Bissau Investments (API-GBI), also called the Directorate-General for the Promotion of Private Investment, is a public body established by decree in 1991 and operating under the authority of the Ministry responsible for the economy. Where the investment is concerned, API provides the interface between the Government and the private sector. It is administratively and financially autonomous, and its purpose is to promote private investment in Guinea-Bissau. Its status was reviewed by Decree No. 13/2012 of 19 December 2012. In addition, bilateral investment treaties are in force with Portugal, and some have also been signed with Angola and Morocco but are yet to enter into force. Incentives to investments include various benefits available for projects carried out in Guinea-Bissau, especially incentives available to companies in the mining sector under the Mines and Quarries Code, which vary according to the prospecting, research, or exploration period.

Regarding the land acquisition, planning, and use, in line with a 1998 constitutional law, all land belongs to the people of Guinea-Bissau - that is, in practice, to the state, ruling out private property rights. This only allows the state to grant concessions to individuals and groups. According to the World Bank's Doing Business 2019 report, it took 48 days to register property, five procedures were necessary, and the costs to do so amounted to 5.4% of the property value. Concessions are granted to the private investors for a renewable period of 90-year.

Other policies and strategic documents provide guiding principles for the development of natural resources sectors in the country. Chief amongst them being the strategic vision Guinea-Bissau, 2015-2025, christened "Terra Ranka." The vision of Guinea-Bissau was first declined in a 2015-2020 operational plan. In 2020 the new government elaborated a new national development plan 2020-2023 called "Hora Tchiga" (the time has come). The vision document provides the overarching framework for development and multisector strategies and policies in Guinea-Bissau.<sup>4</sup> Its priorities include improving institutional capacity and quality of governance, developing human capital and care for social well-being, and industrialization. It is focused on three projects. It introduces an incentive-based legal framework by formulating sectoral codes for agriculture, agro-industry, tourism, mining, and fishing. It also prescribes reforms of the business framework as a result of public and private sector dialogue, designed to strengthen the Investment Promotion Agency and the Business Formalization Centre; development of a code and support for small and medium-sized enterprises, and to implement a plan for the development of an inclusive financial sector

### On the regional scene

Guinea-Bissau is a member of OHADA, the organization for harmonization of business Laws in Francophone Africa. It guarantees more legal and judiciary security to investors and promotes integration in the regional market<sup>5</sup>. Furthermore, it provides arbitration and mediation frameworks

<sup>2</sup> Mercer, J. et al. 2014. Guinea Bissau NDC Factsheet. Studies of nature-based solutions in Guinea Bissau. Ecosystem-Based Adaptation for Food Security in the AIMS SIDS: Integrating External and Local Knowledge. 3 pp.

<sup>3</sup> [file:///C:/Users/TAR105932/Downloads/169\\_doing%20business%20in%20GUINEA-BISSAU.pdf](file:///C:/Users/TAR105932/Downloads/169_doing%20business%20in%20GUINEA-BISSAU.pdf)

<sup>4</sup> <https://www.tralac.org/images/docs/12324/wto-trade-policy-review-waemu-report-by-the-secretariat-annex-4-guinea-bissau-september-2017.pdf>

<sup>5</sup> <https://www.ohada.com/>

for contracts and business disputes settlement. Guinea-Bissau is also been a member of the West Africa Economic and Monetary Union since 1997. In addition, Guinea-Bissau is also a signatory of the African Continental Free Trade Agreement (AfCFTA) and member of the Economic Community of West African States (ECOWAS), coming with more opportunities for regional integration in planning the development of natural resources in a regional value chain perspective for access to the larger regional market. Along with Gambia, Guinea, and Senegal, Guinea-Bissau also belongs to the Gambia River Basin Development Organization (OMVG), which implements integrated development programs in the four-member countries, focusing on the rational and harmonious use of common resources of the Gambia, Kayanga-Géba, and Koliba-Corubal river basins.

#### On the international scene

Guinea-Bissau is a member of WTO, which opens to international markets and imposes restrictions on protectionism policies. Guinea-Bissau is also a signatory of the Paris agreement and is committed to Nationally Determined Contributions (NDC) to climate change mitigation. Guinea-Bissau is concerned about climate change because it is vulnerable to the consequences, even though its low greenhouse gas (GHG) emissions make the country a net GHG sink. Hence, it articulated its INDCs in 2015 and those related to energy.

- Change of per-capita emissions from 2010 to 2030 (average): -5%.
- Per-capita emissions in 2030 (average): 1.3 tCO<sub>2</sub>/eq.
- Global rank of national emissions excluding land use (out of 195 countries): 166<sup>th</sup> in 2010 and 160<sup>th</sup> in 2030<sup>6</sup>.

#### Market anomalies/deficiency issues

Guinea-Bissau does not have a national competition law and a national competition authority. However, it is a member of the West African Economic and Monetary Union (WAEMU) that adopted antitrust competition legislation in 2002 and has been operative since January 2003. Hence, Guinea-Bissau applies the regional law of WAEMU to national anti-competitive practices. Guinea-Bissau had a planned economy from independence until the 1980s, characterized by state monopolies. Although these monopolies were largely abolished, some continue de facto to exist, such as the Bissau Port Authority and the Bissau water and electricity supply enterprise. Guinea-Bissau is not yet (as of 2020) a member of the International Competition Network (ICN).

Although Guinea-Bissau has been a member of the World Trade Organization (WTO) since 1995 and a member of the West African Economic and Monetary Union (WAEMU) since 1997, given its dependence on the export of cash crops and foreign aid, it has one-sided and limited integration into the international market.

The Bissau-Guinean market remained characterized by informality – expressed by vast petty trade. There are no official statistics on the size of the informal employment sector. This is in line with those mentioned above inappropriate institutional frameworks of economic and social policy, inconsistent application of existing law rules. Moreover, oligopolies and market concentrations exist to import specific products in some segments, including petroleum products importation and distribution, resulting in domination of those segments by few entrepreneurs and corporations.

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<sup>6</sup> <https://www.climatecollege.unimelb.edu.au/indc-factsheets/guinea-bissau>

Some sectors are subject to state intervention, including the timber and mining sectors, where incentives under respective sectoral laws and agro-industry, tourism, mining, and fishing under the Vision 2015-2024 programs. Nonetheless, state intervention is not excessive<sup>7</sup>.

The timber and artisanal and small-scale mining sectors are particularly plagued by illicit trade and financial flow with the involvement of government officials<sup>8</sup>. This corroborates the high level of corruption, and low degree of accountability of government officials highlighted above and constituted a huge obstacle to maximizing the benefits of developing these sectors. It is also in line with the conclusion of the Heritage Foundation, cited by BTI<sup>9</sup>, which stipulates that nontariff barriers especially impede trade in Guinea-Bissau. However, the country received a medium rating in terms of trade freedom. Further obstacles to investments and development of natural resources sectors are political instability, regulatory lack of transparency, underdeveloped and costly financial sector, and high levels of corruption.

## 2. Renewable Natural Resources Sectors

Guinea-Bissau's economy is mostly based on the exploitation of its renewable resources. Figure 1 below shows agriculture, industry, and services to Guinea Bissau's GDP from 1990 to 2019. Agriculture here includes farming, forestry, fishing and livestock, and forestry. It has always accounted for more than 40% of the GDP. In 2019 agriculture contributed for almost 53% of the GDP, and cashew nuts accounted for 90% of exports<sup>10</sup>.

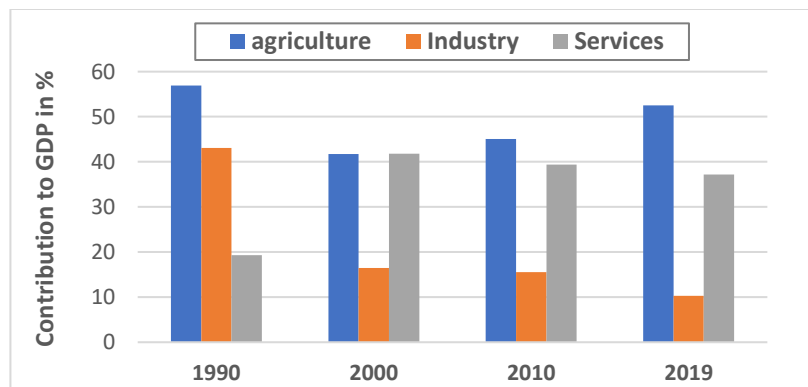


Figure 1: Contribution to GDP, agriculture represents agriculture, forestry, and fishing (source WorldBank development indicators database)

### The land sector: resource endowment (arable land)

The country has approximately 1,410,000 ha of arable land, yet only 27 % is being utilized. This merits an integrated natural resources management strategy to ensure equitable, efficient, productive, and sustainable land and other natural resources, including water, forestry, and fisheries. Opportunities lie with the reform of the 1998 Land Law that was developed to address land administration issues by reconciling customary land rights with surging demand for land by private investors<sup>11</sup>. Notably, policies that secure tenure rights for the poor and vulnerable, including indigenous people, landless farmers, rural women, and youth, would go a long way towards contributing to poverty eradication, food, water, and energy security<sup>12</sup>.

<sup>7</sup> <https://www.bti-project.org/en/reports/country-report-GNB-2020.html>

<sup>8</sup> <https://www.bti-project.org/en/reports/country-report-GNB-2020.html>

<sup>9</sup> [https://www.bti-project.org/content/en/downloads/reports/country\\_report\\_2020\\_GNB.pdf](https://www.bti-project.org/content/en/downloads/reports/country_report_2020_GNB.pdf)

<sup>10</sup> AfDB 2019. Macroeconomic Outlook and Prospects. Guinea Bissau – Africa Economic Outlook 2019. 214 pp.

<sup>11</sup> Tanner C. and Bourguignon C. 2017. Doing (Inclusive) Business in Guinea Bissau: Re-activating the 1998 Land Law. Presentation “2017 World Bank Conference on Land and Poverty”. World Bank, Washington DC, March 20-24. 22pp.

<sup>12</sup> FAO. 2018. The State of the World's Forests 2018 - Forest pathways to sustainable development. Rome. Licence: CC BY-NC-SA 3.0 IGO.

### Contribution of land to economy

Agriculture is the mainstay of Guinea-Bissau's economy, accounting for almost half of GDP and over 60 % of employment – this figure is even higher in rural areas. However, despite the importance and relevance of the agriculture sector, its productivity has been waning in recent years. Income growth has barely kept pace with population growth, and with few incentives for entrepreneurial activity, agriculture is largely subsistence. According to the General Directorate of Agriculture (DGAg), the population involved in farming is about 1,270,000 persons (20 %age points greater than the official employment statistics). About 120,000 family farms, ranging in size from 0.5ha to 1.5ha, and 1,200 larger farms ranging from 20ha to 2,500ha per producer (*ponteiro*), with an average size of 136ha/producer.

### Policy, legal, regulatory, and institutional framework of land

Regarding land acquisition, planning, and use, in line with a 1998 constitutional law, overruling the colonial legislation No.4/75, all land belongs to the people of Guinea-Bissau - that is, in practice, to the state, ruling out private property rights. The law only allows the state to grant concessions to individuals and groups. According to the World Bank's Doing Business 2019 report, it took 48 days to register property, five procedures were necessary, and the costs to do so amounted to 5.4% of the property value. Concessions are granted to the private investors for a renewable period of 90-year.

In line with the current draft and policy, the objective of granting concession rights is to stimulate investment and agricultural production, mainly of cashew plantations, which is the most important cash crop of the country, and next to fishery, the most important resource for foreign exchange income.

Over the last few years, the Government has attempted to develop land policy and land regulations. The draft land policy, in its introduction, describes some basic principles of pro-poor land policy from the perspective of land administration, land management, and land regulation. However, the draft has yet to be subjected to public discussion and scrutiny within all nine regions of Guinea-Bissau. Alongside, the Government has also developed a public land regulation document. However, uptake of this document has not gained acceptance, especially in the southern regions, due to lack of local community's understanding of the significance of the new draft land law and regulation for their land tenure management and the technical process of land concession adjudication.

There is no specific Ministry in charge of land. Instead, land sector functions are spread across three Ministries, i.e., Agriculture for rural land; Urban for urban land, and President Office for Govt owned land and estates – commonly termed public land. Each of the three institutions administers land services according to sometimes conflicting land regulations. Therefore, creating severe coherence issues amongst policies and regulations and coordination issues amongst the institutions.

### Key Issues plaguing the land sector

Agricultural land as a share of the land area of Guinea-Bissau has increased from 48.6% in 1967 to 58% in 2016, growing at an average annual rate of 0.36%. However, this growth has occurred at the expense of other land uses. For instance, the expansion of cashew nut plantations at the annual rate of 10% has led to dwindling forest cover and shrinking renewable water per capita<sup>13</sup>.

<sup>13</sup> World data Atlas. 2018. <https://knoema.com/atlas/Guinea-Bissau/Internal-renewable-water-resources-per-capita>.  
<https://knoema.com/atlas/Guinea-Bissau/Volume-of-surface-water-produced>



Cashew production has encroached on traditional livelihoods, leading to a felt pressure on the scarce land resource in the highly populated rural areas, such as the areas along the lower Geba river and Geba canal. In this region, export-oriented cashew production has changed traditional land tenure forms threatening subsistence agriculture and opening grounds for individuals with financial resources as quoted from the “República da Guiné-Bissau, Lei no 5/98 de 23 de Abril, published in Boletim Oficial, 28 de Abril de 1998, Número 17 and República da Guiné-Bissau, Ante-Projecto de Regulamento Geral da Lei da Terra, Maio 2004.

The current position of not providing freehold property rights of land to individuals or groups has been adopted to protect access to the land resource in favor of the poor majority of the population, thus promoting food security via strengthening the huge sector of subsistence agriculture. This decision has been taken because it was feared that a land market could be dangerous for the poorer population because of its current socio-economic situation. Depending on future socio-economic developments, it seems possible to abandon the current concession system and release a fully operational land market granting property rights on land. The issuance of a clear policy statement concerning future development opportunities and long-term perspectives would be most recommendable.

Within the national land management and land rights regulations, the government intends to promote the integration of the official land rights system with traditional forms of land management, allowing access to land following equity principles. Although this objective is of extraordinary importance, it does not seem easy to handle. There is a huge variety of traditional land tenure regimes, and there are several aspects of incompatibility between traditional and official systems.

A negotiation process based on information in both directions and fostering mutual understanding will be necessary to prevent future conflicts. Furthermore, nationwide implementation of the land policy and related juridical instruments would certainly reveal a large number of conflicts between traditional land allocation and management and the existing concessions, especially those entitling concessionaires to occupy large plots of arable land, which are currently occupied by local communities practicing their traditional land tenure management, because the concessionaires are not able to make productive use of these areas.

### Main opportunities and challenges in the land sector

#### *Opportunities in the land sector*

An important opportunity is the digitalization of the land sector, including land administration, land registry, and land records (surveys documents, sketches, maps, and land titles/concessions). This will support the efficient management of concessions for various agricultural and mining activities. Digitalization will also bring more transparency, reduce transaction costs, and therefore support establishing an efficient land market, should the regulation allow ownership through titles.

The young population is a key driver of the rural economy, and thus, the need for secure land is more eminent than ever before. This could offer the Government opportunity to streamline its land administration services to meet such new emerging needs, leveraging digitalization as mentioned in the preceding.

#### *Challenges in developing the land sector*

Enhancing capacity and strengthening capabilities in both the Ministry of Land and Ministry of Agriculture and the Ministry of Urban Development are needed. These improvements will maximize the benefits of exploitation of land in an environment with weak educational and



training systems and a high tendency to unethical behavior caused by low-level of Law enforcement and a high level of corruption and use of influential power.

There is a lack of trust between the citizenry and the ruling class arising from land grabs by elites who misuse the Law to deprive peasants and communities of their lands. This is exacerbated by coherence deficiencies amongst regulations and inefficient coordination amongst institutions that govern the land.

Much of the land is customarily held, and this conflicts with some constitutional and legal provisions. Thus, there is a need to harmonize the numerous land codes that govern rural and urban land. In addition, high population growth rate, high urbanization growth rate and climate change is the new threat to the rural holding architecture.

Desertification, threats of immersion, and soil erosion due to climate change and competing use of land with the growing conversion of agricultural land into peri-urban land, in the absence of appropriate planning caused by the inefficiency of the planning and management Departments.

#### Recommendations for Bank Intervention in the land sector

The main recommendations for Bank's intervention to help to strengthen the land sector in Guinea-Bissau are namely:

- Support Guinea-Bissau to build its legal, policy, and institutional architecture for land to play its major role in poverty reduction and national development. The new legal framework is still incomplete, especially regarding the general land regulation. Other laws and by-laws also have to be developed, especially about land-related information management, GIS, national standards for geodesy and register, zoning of areas protected by use restrictions of any kind, socio-economic development plans, and tourism development plans natural resource management regulations.
- Enhance public and civic participation in land policy development to gain citizen acceptance. This is crucial in a situation where the citizenry has little trust in the Government and has a plethora of conflicting land tenure arrangements.
- Streamline the functions of all Government entities that are responsible for land – agriculture, tourism, urban development, etc. to bring out the missing and often conflicting organic laws and standing orders from different ministries and other governmental entities together to avoid overlaps, confusion, and sector inefficiencies since the implementation of the land law depend on a clearly defined organizational structure.
- There is a need to help the country with system up-grade standardization of its operations, especially land administration. Two cases come to the fore: the national register, hosted by the Ministry of Public Works, Construction and Urbanism, still applies methods and standards from colonial times with a palpable lack of adequate norms and procedural regulations.
- The main source of geographic information is a one-person unit managed by the Ministry of Agriculture and Rural Development, hosted by the National Research Institute INEP. The availability of geographic data is limited, not updated at all, and very restricted in user orientation, especially regarding geodetic and cadastral procedures and quality management systems. Therefore, it would be imperative to institutionalize a national GIS.
- Developing and Enhancing a culture of urban planning is of crucial importance. For example, in the capital city of Bissau itself, though recognized by national legislation as an autonomous, efficient land administration and management is in dire need.

#### The forestry Sector: Forestry resources endowment and threats

Guinea-Bissau has a huge forest cover, with recent estimates showing that the total forest area in the country, including mangrove ecosystems, open forests, sub-humid forests, natural palm forests, and tree savannas, amount to about 1.98 million ha in 2020 or 55% of the country area, which is down from about 2.33 million ha in 1990 (Figure 2)<sup>14</sup>.

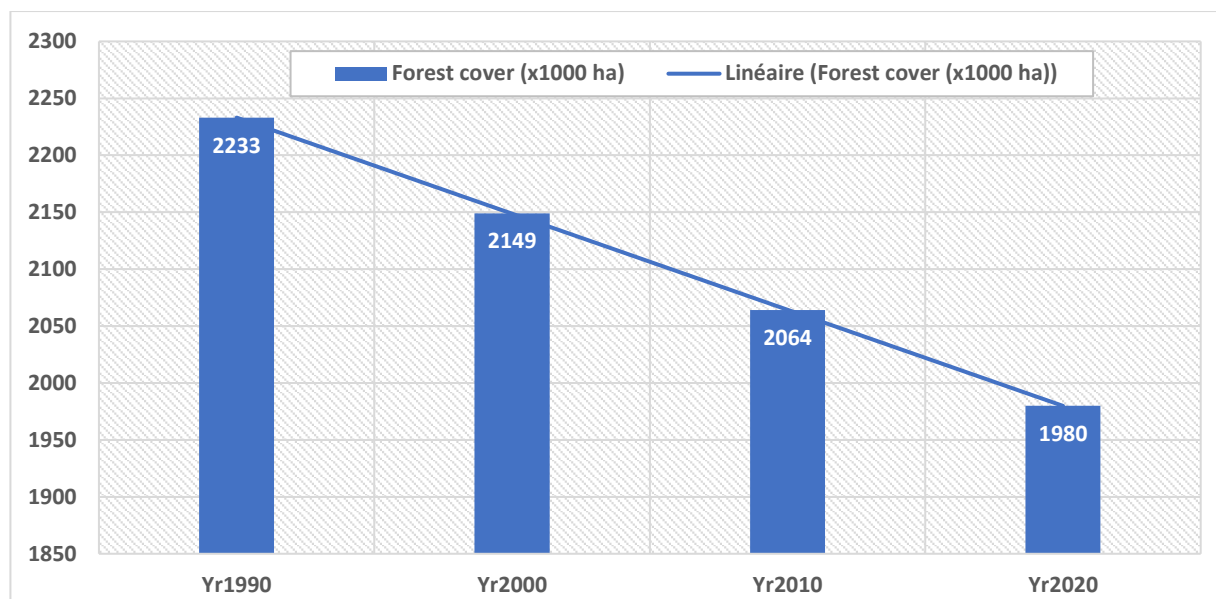


Figure 2: Dwindling forest cover in Guinea-Bissau over the last four decades (1990 -2020). Source: FAO. 2020. Global Forest Resources Assessment 2020: Main report. Rome.

This is a clear indication of a high level of deforestation at the rate of -0.38%, -0.4%, and -0.42% in the 1990-2000, 2000-2019, and 2010 to 2020 periods<sup>15</sup>. A time-series analysis derived from remote sensing in selected portions of the Forest Belt has documented that over 17 years, dense forest cover has decreased by an estimated 50% in the Boé area and 20% in the Dulombi area<sup>16</sup>. Affected landscapes are subject to shifting cultivation, overgrazing, reduced groundwater and surface water quantity, erosion, lowered soil fertility, and ultimately biodiversity loss<sup>17</sup>. The south and south-east of the continental portion of the country features the *Forest Belt* region that is equally important in terms of global and regional biodiversity, characterized by patches of dense forests and open forests, predominantly intertwined with woodland savannahs that are rich in globally significant plant and animal life and a refuge for many migratory species that move across the West-African savannahs.

#### Contribution of the forestry sector to the economy

Forests provide fuelwood to 80 % of the population<sup>18</sup>. They also provide raw materials for fodder and construction materials, and through agroforestry systems, rural employment. From 1970 to 2017, the contribution of forest rents to GDP has been consistently over 13% and reaching 16% in the 2010 to 2017 period (Figure 3). This is a conservative estimate since forests sustain the environment's health by mitigating climate change, conserving biodiversity, controlling erosion, protecting soils, sustaining and enhancing land productivity, and providing low-cost energy products. These benefits are currently not accounted for in national accounts, although they are increasingly recognized in many regional and multilateral agreements, treaties, and conventions.

<sup>14</sup> FAO. 2020. Global Forest Resources Assessment 2020: Main report. Rome. <https://doi.org/10.4060/ca9825en>

<sup>15</sup> FAO 2020. Op. cit.

<sup>16</sup> Republic Of Guinea-Bissau. 2013. Project Identification Form (PIF). GEF. 18 Pp.

<sup>17</sup> Republic Of Guinea-Bissau. 2013. Project Identification Form (PIF). GEF. 18 Pp.

<sup>18</sup> Margarida Lima de Faria, Pedro Moura Ferreira, Joana B. Melo and Maria J. Vasconcelos. 2014. A Social Assessment of Forest Degradation in the “Cacheu Mangroves Natural Park”, Guinea-Bissau. *Forests*. DOI: 10.3390/f5123327.

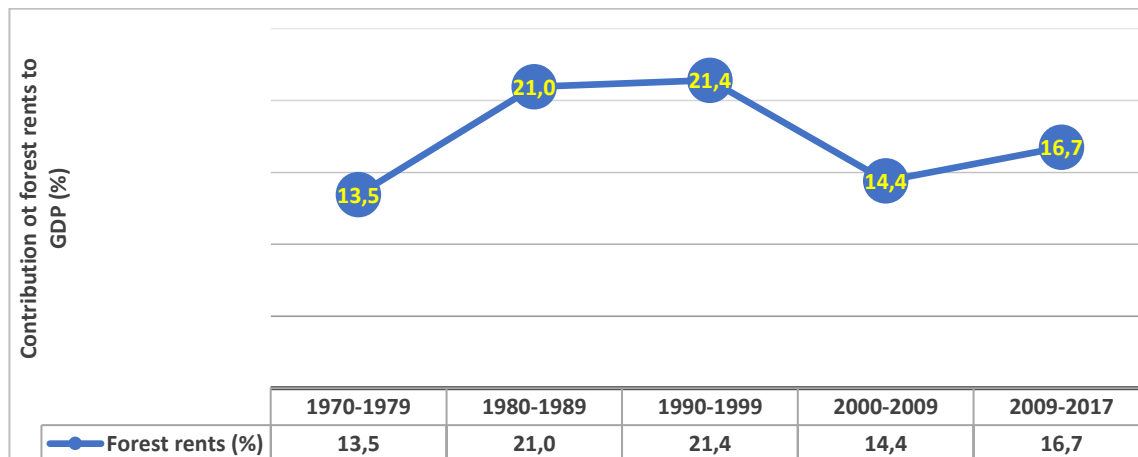


Figure 3: Contribution of forest rents to GDP of Guinea-Bissau (1970-2017). Source: Compiled by author from World Bank Development Indicators database.

#### Policy, legal, regulatory, and institutional framework of the forestry sector

Guinea-Bissau is signatory of the Convention about Biological Diversity. Still, it is also a contracting party of several other conventions, protocols, agreements, and organizations, international and regional, important for conserving the ecosystems and sustainable use of the biodiversity and natural resources. These instruments are transcribed for the national juridical planning of forests management and conservation in protected areas.

The new Forest Law, instituted by the *Decree-law no. 5/2011, of February 22*, defines the management and the different forest regimes; it institutes the forest funds (especially the forest fee rates), the sales of the products, and the protection of the forest zone in the proximity of sources, along with the watercourses, lakes, and ponds. Furthermore, it considers the environmental evaluation for wood industries, which constitutes an innovation.

The National Plan governs the policy framework for the Forestry sector in Guinea-Bissau *for Natural Resource Management, the National Biodiversity Strategy (2004) and 5th National Biodiversity Report (2015), the Protected Areas Strategy (2007-2011 and 2014-2020), the Forestry Master Plan and the Forest Management Plan (2013)*. Guinea-Bissau has short, medium, and long-term plans for managing its forest and protected areas. In the short term, emphasis is on increasing the %age of protected areas from 15% to 26% and ensuring its management and effective implementation of the Forest Act and the moratorium to ban the felling and export of timber over the next five years; conducting a nationwide forest inventory; developing an agro-ecological zone and forest management; strengthening the existing capacity to participate in the REDD + mechanism and consequently raise the national effort to combat the adverse impacts of climate change.

In the medium and long term, Guinea-Bissau hopes to focus on developing national reforestation and sustainable management of forest and agroforestry ecosystems program by 2025; developing scientific and technical research on adaptation of new productive varieties with broad-spectrum tolerance to adverse climate effects by 2025; reducing illegal and indiscriminate felling of trees by 2030, and promoting forestry/plantation of species resistant to drought and low rainfall by 2030<sup>19</sup>. According to the nature-based policy platform of the country, Nature-based Actions in Adaptation Plan will involve the development of national reforestation and sustainable

<sup>19</sup> Republic of Guinea-Bissau. 2015. Intended Nationally Determined Contributions (INDC). September. 12 pp.

management of forest and agroforestry ecosystems program by 2025 as well as increasing the %age of protected areas from 15% to 26% and ensuring its management through effective implementation of the Forest Act and the moratorium to ban the felling and export of timber over the next five years.

Institutionally, forestry activities in Guinea-Bissau are governed by the Ministry of Agriculture, Forestry, and livestock, with a specific Department headed by a Director-General of Forestry and Wildlife.

#### Issues plaguing the forestry sector

In addition to issues constraining natural resources management and development discussed above, the main issues plaguing the forestry sector in Guinea-Bissau include stagnating or weak economic performance due to low value-added products, illicit production and trade, weakness in data collection and archival, and agricultural encroachment.

#### *Stagnating or weak economic performance due to low level of value-added products*

Despite its enormous potential, the forestry sector is still underutilized. For instance, raw timber is the primary wood product exported, averaging US\$ 8.4 million between 2010 and 2019. Over the same period, the country experienced over US\$ 5.07 million negative trade balance associated with the importation of plywood and sawn wood (Table 1)<sup>20</sup>. This suggests a poorly developed timber industry that cannot meet domestic demands for primary processed wood products. Data is not available for the trade balances associated with secondary processed wood products such as furniture, builder wood, moldings, cane, and bamboo products, which could be of greater magnitude.

Table 1: trade balance associated with the importation of plywood and sawn wood

Products	Export (US\$*1000)	Import (US\$*1000)	Trade Balance (US\$*1000)
Industrial roundwood	84182	2	84180
Plywood	103	3143	-3040
Sawnwood	1206	3237	-2031
Veneer sheets	135	61	74
Total	85626	6443	79183

Compiled from FAOSTAT-Forestry (2010-2019) <https://www.fao.org/faostat/en/#data/FO>

From 2010 to 2017, the country suffered from huge trade deficits associated with six tertiary wood products<sup>21</sup> estimated at US\$ 4.7 million, averaging US\$ 584 000 per annum (Figure 4).

20 Own calculations. Trade balance for six tertiary processed wood products (2010-2017)

Data source: <http://www.fao.org/faostat/en/#data/FO>

21 Wrapping papers, packaging papers and paperboards, printing and writing papers, case materials, cartonboards, household/sanitary papers.

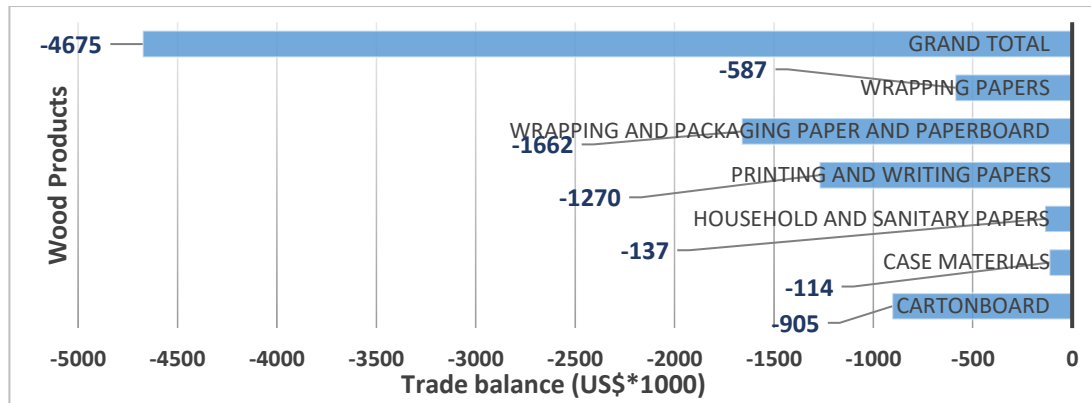


Figure 4: Trade balance for six tertiary processed wood products (2010-2017) Data source: <http://www.fao.org/faostat/en/#data/FO>

### *Illicit production and trade in forest products*

Despite Guinea-Bissau's high forest cover, the pillaging of resources in recent years has endangered the country's natural reserves and the stock of some of its most valuable species of timber. Throughout the country, illegal timber logging and slash-and-burn agriculture practices have posed an increasing threat to soil degradation and erosion. Lifting the moratorium on the ban of logging in forest reserves could further enable illegal logging of valuable timber species due to a lack of resources to oversee the new restrictions, making wood scarce for local populations who rely on it, predominantly as a domestic source of energy.

International demands, especially from China, for a few species of trees such as rosewood (*Pterocarpus Erinaceus*), referred to as "bloodwood" in Guinea-Bissau, put a lot of pressure on the remaining forest stock. For instance, timber exports from Guinea-Bissau to China increased from 61 tonnes in 2007 to 98,000 tonnes in 2014<sup>22</sup>. To reverse local threats to the extinction of valuable timber trees will require increased efforts on replanting them as they take an average of 35-40 years to reach their phase of maturity.

### *Weaknesses in data collection and archival*

Curbing illicit trade in timber products through transparency, better accountability, and tracking flows, magnitudes, and values will require sound statistics. Almost all African countries have grievous problems with data collection, archiving, and analysis. Inventory data on actual resource stock is lacking, making appropriate planning and management difficult.

### *Low level of reforestation and plantation establishment*

The total forest plantation area in Guinea-Bissau is around 1000 ha, with a net annual increase of about 4% between 2010 and 2020<sup>23</sup>. The level of reforestation cannot meet future demand for forest products and services at the local, national, regional, and international levels. Increasing the rate requires technical, human, and material resources that the country currently does not have. However, the proper implementation of the reforestation plan and restricting logging to 14 species subject to specific licensing and quotas will go a long way to stabilize and increase forest cover.

## Opportunities and Challenges for the development of the forestry sector

### *Opportunities*

Improved governance, value addition, and diversification within the sector can substantially enhance the sector's contribution to broad-based national development. This would increase

<sup>22</sup> EIA (Environmental Investigation Agency). 2019a. Toxic trade: Forest crimes in Gabon and the Republic of Congo and the contamination of the US market. EIA, Washington DC. 84 pp.

<sup>23</sup> FAO. 2020. Global Forest Resources Assessment 2020: Main report. Rome. <https://doi.org/10.4060/ca9825en>

annual timber production without jeopardizing the integrity of the forest ecosystem, increase the country's exports of finished timber products, and reduce imports of the same.

Some other measures appraised by Guinea-Bissau involve establishing and scheduling a new forestry policy with the vision of ensuring sustainable management of forest resources - including through conservation and restoration of forests. The policy would enhance a socio-economic balance that meets the needs of communities and ensures their accountability. This will require the development of a coherent legal framework through a national strategy for long-term low-carbon development.

Other opportunities lie in the long-term full-capitalization of the BioGuinea Foundation (FBG) to the tune of US\$ 20 million, which in early 2012 obtained charity status in the United Kingdom (UK) and for which a protocol was formalized with the Guinea-Bissau Government. All key stakeholders consider this as the most critical element for biodiversity conservation and protected areas management in Guinea-Bissau.

### *Challenges*

The forestry sector faces many challenges. These are related to deforestation, illicit timber harvesting and trade, soil erosion, degradation of coastal ecosystems, and dwindling quantity and water resources.

Forest fires destroy more than 120 hectares of forest per year<sup>24</sup>. Land-use changes result in a loss of valuable habitats, land degradation, soil erosion, a decrease in clean water, and the release of carbon into the atmosphere. Increasing agricultural production and improving food security without significantly reducing forest cover is a major challenge that the country will carefully manage in the medium term<sup>25</sup>. Implementing solution-driven measures requires financial resources, access to technology, and capacity building. This is all expected from external partners rather than being mobilized from internal sources, which could be more sustainable.

Regulatory uncertainties and weak law enforcement present high risks to investors and exacerbate the sector's illicit trade and financial flows.

### *Recommendations for Bank's intervention in the forestry sector*

Three main recommendations are suggested for strengthening the forestry sector in Guinea-Bissau, namely:

- Increase efforts in planting desirable trees species through robust afforestation programs. This is expected to increase forest cover in the country, reverse deforestation rates, contribute more to biodiversity conservation and climate change mitigation and adaptation.
- Develop the timber value chain by promoting secondary and tertiary wood producing industries to avoid huge trade deficits associated with the importation of processed wood products and increase the contribution of the forestry sector to local and national economies.
- Improve forest governance arrangements to curb illicit production and trade in forest products.
- Improved governance is expected to ensure better and sustainable management of forests in Guinea-Bissau, thus increasing sector contribution to GDP and improving the livelihoods of forest-dependent communities.

### *Environment and biodiversity*

The Forest Belt contains or contained several endemic and rare and threatened species of birds, higher plants, reptiles, and mammals, including African Wild Dog (*Lycaon pictus*), African Dwarf

24 RoGB 2015. Intended Nationally Determined Contributions (INDC). Republic of Guinea Bissau. 12 pp.

25 FAO. 2018. The State of the World's Forests 2018 - Forest pathways to sustainable development. Rome. Licence: CC BY-NC-SA 3.0 IGO



Crocodile (*Osteolaemus tetraspis*), Lion (*Panthera leo*), African Elephant (*Loxodonta africana*), large ungulates such as African Buffalo (*Syncerus caffer*), Hippopotamus (*Hippopotamus amphibius*) and Eland (*Taurotragus derbianus*). Dozens of families of chimpanzees (*Pan troglodytes*) inhabit that area and are poorly studied. Other threatened primates include Sooty Mangabey (*Cercocebus atys*), West African Red Colobus (*Procolobus badius*), and King Colobus (*Colobus polykomos*). With habitat fragmentation and pressures on natural resources increasing throughout West Africa, areas such as the Forest Belt of Guinea-Bissau are rapidly becoming critical refuges for emblematic and threatened species in the region while providing important national and transnational biological corridors and migration routes for large mammals. Increasing human populations and pressures from economic activities constitute major threats to forests and wildlife<sup>26</sup>.

#### *Coastal and marine environment and biodiversity*

The main natural habitats of the coastal zone are:

- Channels and shoals play an important role in the circulation of water masses concerning the tides.
- The intertidal mudflats are a major habitat of the coastal zone and consist of sand and sandy-muddy formations.
- Mangroves, which occupy 3,400 km<sup>2</sup> and rank Guinea-Bissau 12th in the world.
- Beaches and sandbanks are mainly found in the north and the Bijagos archipelago.

Most rivers function as reverse estuaries, i.e., the effect of the tides is felt up to several dozen kilometers into the land. This phenomenon creates a highly productive but extremely unstable type of ecosystem. For example, in the Bijagos archipelago, the surface area of emerged land varies by 150% between high and low tides.

The diversity of habitats and the relatively low population density have helped make Guinea-Bissau a biodiversity haven in West Africa. The country is home to the last viable manatee population and the only marine hippo population and dolphin populations, very large colonies of waders and shorebirds, and one of the largest sea turtle nesting sites on the Atlantic coast of the continent (Poilão islet). However, some habitats are threatened by deforestation, and targeted shark fishing in the 1990s led to the collapse of several populations (guitar rays, hammerhead sharks, sawfish).

It is important to highlight the commitment of successive governments since the 1990s to the conservation of coastal and marine ecosystems, which has resulted in the recognition in 1996 of the Bijagos Archipelago as a biosphere reserve created within the framework of UNESCO's Man and the Biosphere (MAB) program and the creation of several large marine protected areas: Orango National Park, Cacheu Mangrove Nature Reserve, the Rio Grande de Buba and Lagoa de Cufada Nature Reserve, Urok Community Marine Protected Area, and João Vieira - Poilão National Marine Park. Guinea-Bissau created in 2004 the Specialised Institute for Biodiversity and Protected Areas (IBAP) and, with the support of the World Bank, the GEF, and other partners, created in 2011 a trust fund, the BioGuiné Foundation, for the operation of protected areas<sup>27</sup>.

The exceptional biodiversity and the preserved state of many ecosystems thanks to the network of protected areas constitute a potential asset for ecological tourism, or ecotourism, combined with recreational fishing. Guinea-Bissau has shown in the 1990s its ability to attract tourists, especially

<sup>26</sup> Republic Of Guinea-Bissau. 2015. Strategy And National Action Plan For The Biodiversity 2015 – 2020. The State's General Office of the Environment. July. 155 pp.

<sup>27</sup> <https://www.oecd.org/countries/mauritania/Policy-Paper-Sustainable-financing-for-marine-ecosystem-services-in-Mauritania-Guinea-Bissau.pdf>

from Europe. Despite this potential, the country is one of the least visited globally, and tourism revenues represent about 1% of GDP. The major constraint to the development of this sector lies largely in the poor availability of services and infrastructure and the low qualification of the labor force.

However, the country's general situation is one of great vulnerability to climate changes, especially to sea level rise, given that almost 40% of the country is located at an altitude of only a few meters. This situation is particularly critical in the archipelago region and around the city of Bissau. The country has the largest mangrove cover in Africa, which protects large parts of the territory from extreme weather events (storms, heavy swells). However, areas without mangroves, such as the northwest coast (Varela), or some areas where deforestation has been intensive (Cacine), are already subject to severe erosion, which has led to the displacement of villages in recent years.

There is also a high potential asset for ecological tourism based on the rich biological diversity, the preserved state of many ecosystems thanks to a network of large marine and protected coastal areas – this contingent on the development of the private sector.

## The Fisheries Sector

### *Fishing areas and resources*

Guinea-Bissau has an Exclusive Economic Zone (EEZ) of 105,000 km<sup>2</sup>, three times larger than its land area (36,125 km<sup>2</sup>). Part of this EEZ defined in 1978 (UNCLOS) is integrated into the Management and Cooperation Zone managed jointly with Senegal. The agreement signed in 1993 between the two countries defines the rules for sharing fisheries and hydrocarbon resources. Guinea-Bissau has many large rivers and a very large inshore fishing area of 24,000 km<sup>2</sup>, naturally protected by the existence of the Bijagos archipelago, where the very shallow waters prohibit industrial fishing. Off the archipelago, the continental shelf is very wide (38,000 km<sup>2</sup>) and rich in bottom fish, cephalopods, and crustaceans. Beyond, the waters are rich in hake and pelagic species, notably horse mackerel and tuna, on a seasonal basis. Fisheries resources have recently been the subject of direct assessment campaigns (2016, 2018), showing that most stocks are overexploited, leading the FAO to recommend reducing fishing efforts<sup>28</sup>.

### *Fisheries sub-sectors and respective catches*

The industrial fishing sector comprises foreign fleets operating within the framework of agreements for 2 to 5 years. The bottom trawlers are mainly Chinese, Senegalese, and European, and the pelagic trawlers are Russian and European. The tuna resources are exploited by Senegalese pole-and-line vessels and European long-liners and purse seiners operating under the new protocol of the fisheries agreement signed in June 2019 for five years. All-access rights paid by boat owners for these different fisheries represented an estimated 24 million euros of revenue for Guinea-Bissau in 2020, not including the sectoral support subsidy of 4 million euros paid annually by the EU until the end of the current protocol in 2024. Total catches of industrial fisheries are difficult to estimate more than roughly since catch data are not systematically provided by shipowners (particularly from the Chinese and Russian fleets) to the Guinea-Bissau authorities, who have not communicated data to the FAO several years. However, recent extrapolations based on several indicators (Intchama, 2018) lead to an estimated catch level of 300,000 t/year on average over 2011-2017, i.e., three times higher than the official data. These catches mainly concern small pelagics, cuttlefish, and groundfish.

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<sup>28</sup> (CECAF, 2018)

The artisanal fishing sector is very dispersed, with more than 130 landing sites to which less than 20 pirogues are generally attached (70% of cases). Only two large sites (Bissau and Cacheu) have more than 100 pirogues. The most recent census data<sup>29</sup> shows 2,500 pirogues, mostly dugout canoes, of which only 22% are motorized. The main fishing gear is the gillnet, followed by handlines. The number of fishers has been estimated between 6,500 and 10,000, not counting the many jobs in the value chains (fish trade, processing), largely held by women. The bilateral fisheries agreement with Senegal also authorizes 300 large motorized canoes to fish in Guinea-Bissau, using purse-seine and handlines and equipped with large capacity ice boxes, landing all their catches directly in Senegal. In recent years, Korean companies have established process plants in the southern region to exploit the croakers. These companies charter around 200 motorized pirogues from Guinea (Kamsar), and the catches are processed and frozen on land for export in reefer containers to Asia. In both cases, these foreign fleets export their catches without paying taxes. Several recent studies using different and complementary approaches estimate the catch level of the national artisanal fishery at 30,000 tonnes per year on average<sup>30</sup>. These data must be completed by the catches of the pirogue fleets from Senegal, around 10,000 t/year, and those of pirogues chartered from Guinea by Korean companies, around 5,000 t/year.

Subsistence fishing plays an essential role in several regions of Guinea-Bissau, particularly the collection of shellfish (oysters, sea snails, arks, and razors). This activity is carried out all year round by women throughout the archipelago and in the main estuaries. Estimates made by several authors are around 15,000 t/year of products mainly intended to be dried or cooked for local consumption. Aquaculture is not developed at all, except for a few small artisanal tilapia farms.

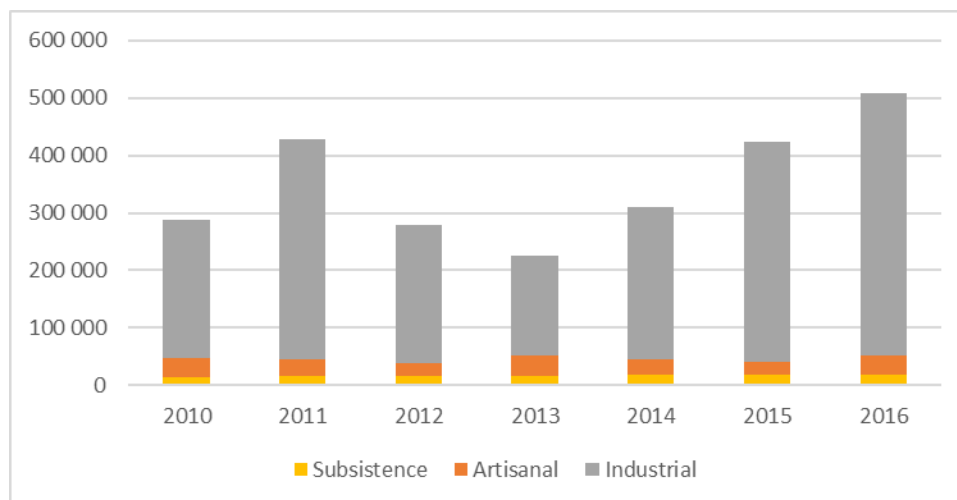


Figure 5- Reconstitution of total catches in Guinea-Bissau EEZ from 2010 to 2016

#### *Contribution of fishery sector to the economy*

The sector contributes about 3.5% of GDP and 4% of employment. Despite its importance, the fisheries sector contributes less than 2% of exports.

#### *Value chains, trade, and consumption of fisheries products*

Value chains are rudimentary due to infrastructural constraints, including the lack of fresh water and electricity supply in most landing sites, preventing cold preservation. In addition, despite the short distances between towns, the state of the roads does not facilitate fresh products.

<sup>29</sup> (UEMOA 2016)

<sup>30</sup> (UEMOA, 2016; Intchama, 2018)

Therefore, the dominant method of preserving fish products is hot smoking, which allows several weeks of preservation but causes significant losses due to very rudimentary storage conditions. Some women's associations still practice trials of salt-and-drying (bacalhau type) undertaken in the 1990s to produce high value-added products. Foreign trade in fisheries products is also very limited. Exports consist mainly of frozen products of low commercial value (bonga shad) exported to Africa without being landed but directly transhipped at sea from freezer trawlers onto reefers, with an estimated value of USD 5 million in 2016. Imports are insignificant and consist almost exclusively of canned sardines from Europe.

Based on the available data, it is clear that the actual consumption of fishery products in Guinea-Bissau is slightly higher than the average for the continent, at around 11 kg/y per capita. However, there are disparities at the national level, with higher consumption in the isolated areas of the Bijagos archipelago and in the capital Bissau where fish products are regularly accessible and where consumption can reach 25 kg/y per capita<sup>31</sup>.

#### *Policy, Legal and Institutional framework*

After the expiry of the Strategic Fisheries Development Plan 2015-2020, the new National Development Plan 2020-2023 is not very explicit about the objectives set for the fisheries sector, which remains a key sector for ensuring the country's food security and providing substantial revenue through the payment of access fees by foreign fleets.

The ministry of fisheries has managed the fisheries sector for several decades. The General Fisheries Law was revised in 2011, and the current government is considering amending it to strengthen certain measures concerning foreign industrial fleets, including landing obligations. Regulatory measures were partially developed in 2016 but remain incomplete or have not been adopted by decree. There is also an applied fisheries research center (CIPA) responsible for monitoring catches and establishing fisheries management plans and the national service for the surveillance and control of fishing activities (FISCAP). Its intervention capacity is limited to the coastal zone. In addition, the CIPA is responsible for the health control of products, mainly for exports.

In terms of international cooperation, Guinea-Bissau has been a member of the Sub-Regional Fisheries Commission (SRFC)<sup>32</sup> since 1990 and, as such, benefits from the support of the other Member States in terms of oceanographic research (evaluation of fish stocks) and fisheries monitoring, control and surveillance. Guinea-Bissau is also a member of the Fishery Committee for the Eastern Central Atlantic (CECAF) of the FAO and the International Commission for the Conservation of Atlantic Tunas (ICCAT).

#### Key issues plaguing the Guinea-Bissau fisheries sector

In addition to general issues plaguing governance and the business environment in general, as identified above, Guinea Bissau is facing profound issues specific to managing its fisheries sector and realizing the full potential of the maritime economy.

#### *Insecurity of the maritime and coastal space*

The insecurity of the maritime and coastal space is a major issue for Guinea-Bissau, largely due to its geographical complexity and the fact that part of the EEZ is jointly managed with Senegal. This Management and Cooperation Zone and the archipelago area are known to be hotbeds of maritime crime (drug trafficking, arms trafficking, etc.). Indeed, Guinea-Bissau is particularly

<sup>31</sup> (Belhabib, 2020; Intchama, 2018).

<sup>32</sup> SRFC includes Mauritania, Senegal, The Gambia, Cabo Verde, Guinea, Guinea Bissau and Sierra Leone

affected by illegal, unreported, and unregulated (IUU) fishing, including by vessels operating legally in neighboring EEZs. Finally, the extremely fragmented coastline due to the numerous estuaries and inlets hinders land-based communication routes, isolating many fishing landings sites.

#### *Governance weaknesses*

of fisheries management has been deeply degraded by years of political and security instability. The deficiencies of the state are one of the main obstacles to the sustainable management of fisheries resources. The first pillar of fisheries management, namely monitoring fishing activity, is no longer ensured, and the statistical data essential to fisheries management are no longer produced. Regulations are inadequate in many areas, and enforcement is largely ineffective. This concerns the mechanisms for allocating licenses to foreign vessels, authorizations for transshipment at sea, control of assistance vessels, etc. This problem extends to artisanal fishing, with some of the catches being landed in neighbouring countries (Senegal, Guinea) or transhipped at sea and exported without any control.

#### *Institutional weaknesses*

The Ministry of Fisheries has a relatively young but poorly qualified staff. An applied fisheries research center (CIPA) is responsible for monitoring catches and establishing fisheries management plans. The CIPA has insufficient resources. The national service for the surveillance and control of fishing activities (FISCAP) also lacks technical means, and its intervention capacity is limited to the coastal zone.

With management decisions resting exclusively with the Minister of Fisheries in the absence of operational advisory bodies (National Fisheries Council planned by decree in 2016). The low level of representation of professional organizations in the sector, often limited to local associations, contributes to the weakness of the dialogue between the state and the stakeholders. The fisheries governance framework is particularly weak in marine protected areas where regulations are defined and enforced by IBAP without consultation with the department in charge of fisheries. The lack of will aggravates the restrictions imposed on local communities to fish to improve living conditions within MPAs.

### Opportunities and Challenge for the development of the fisheries sector

#### *Opportunities*

The development of a blue economy policy is included in the policy reform objectives supported by the Bank and the Lusophone Compact under the heading of policies favorable to private sector development and public-private partnerships. The Lusophone Compact's indicative policy matrix also includes initiatives for tourism development and certification of fishery products for access to the EU market. The blue economy policy could help create a favorable business climate for investors in the fish processing and tourism sectors. However, there is a significant risk that job creation will mainly benefit foreigners without qualified national personnel. The low competitiveness vis-à-vis companies in the sub-region will not allow a satisfactory return on investment. Investment opportunities should be accompanied by commitments to contribute to activities that improve economic and social welfare, including vocational training.

Creating a deep-sea port in the Rio Grande de Buba could offer opportunities for the development of the port sector and maritime transport, which can provide Guinea-Bissau with the means to control better its maritime space, subject to a careful assessment of environmental impacts. The possibility of having a multifunctional port (minerals, containers, and fisheries) could allow Guinea-Bissau to negotiate fisheries agreements, including landing obligation clauses, which would allow, on the one hand, better control of catches and on the other hand to consider seriously



the development of value chains requiring a minimum volume of products to be processed. Such a port would also allow Guinea-Bissau to become a base for high seas surveillance vessels and be less dependent on regional cooperation or contribute more consistently to joint surveillance operations.

### *Challenges*

The challenges for Guinea-Bissau to develop a resilient and inclusive maritime economy are of several kinds. First, securing the maritime space is a major challenge to enable the various maritime economy sectors, including fishing, to make a real contribution to the national economy. The lack of qualified human resources and equipment adapted to control industrial fishing activities effectively is partly compensated by sub-regional cooperation, allowing Guinea-Bissau to benefit from the surveillance means available in the SRFC countries. However, the effects of this cooperation remain limited because (i) Guinea-Bissau does not respect its commitments regarding the register of vessels authorized to fish in its waters; (ii) does not initiate the necessary legal proceedings against offending vessels; and (iii) does not contribute financially to the cost of control operations carried out within the framework of the SRFC.

The control of industrial fishing activities is made infinitely more complicated by the absence of a fishing port big enough to encourage vessels to land in Guinea-Bissau. This situation is the cause of intense transshipment activity on the high seas, which authorities largely tolerate since they cannot control it effectively.

The general problem of the lack of human resources concerns the fisheries sector particularly. Many skills (statistics, evaluation of fisheries resources, sustained use of the vessel monitoring system) are not represented within the competent administrations, apart from some ad hoc training in the framework of projects.

The business environment and the poor quality of essential services constitute another challenge in preventing private investment that could help professionalize artisanal fisheries and downstream industries.

The absence of basic infrastructure and services and weak sanitary control of products to ease access of products landed in Guinea-Bissau to the EU market and the lack of incentives for private sector development and in particular in capacity building in the field of fisheries products value chains constraint value addition to fisheries products significantly.

There is also a high potential asset for ecological tourism based on the rich biological diversity, the preserved state of many ecosystems thanks to a network of large marine and protected coastal areas. Again, the development of private enterprises specializing in the ecotourism sector requires investment in basic infrastructure and services in and around protected areas, as well as substantial efforts in human capacity building. The hotel school project included in the Lusophone Compact appears to be an opportunity of great interest.

Finally, the potential for tidal energy production should be assessed more precisely given the exceptional situation of the tidal regime in Guinea-Bissau, with an average amplitude of 6 meters, the largest on the Atlantic coast of Africa. Even if this technology is only developed in a few countries, research is in full swing. It is possible to envisage developments adapted to Guinea-Bissau in the short term.

*Potential areas for the Bank intervention in the fisheries sector*



The opportunities concern in priority the projects identified in the Lusophone Compact specific to Guinea-Bissau<sup>33</sup>.

Other areas of intervention could concern:

- Institutional capacity building for better management of the fisheries sector, particularly in data collection and analysis.
- Support for the improvement of the governance framework of the fisheries sector for wider participation of civil society and the private sector, with particular attention to governance in marine, protected areas because of the fragility of the communities living there.
- Strengthening the means of control and surveillance of the maritime space, particularly using satellite and drone data.
- Developing solar energy for drying and preserving fishery products to replace smoking, which is a cause of intense degradation of forest cover and mangroves, particularly in the south.

### 3. Non-Renewable Resources

#### Solid Minerals

##### *Resources endowment*

Guinea-Bissau is endowed with a wide range of minerals such as gold, diamonds, bauxite, phosphate, graphite, limestone, clay, and sand. Occurrences of potentially large economic deposits of bauxite and phosphates were documented since the 1970s in addition to good prospects for gold and silica sand. Bauxite deposits near Boe have been estimated at 160 million metric tonnes. The deposit is part of the Fouta Djallon–Mandingo bauxite province, the world’s largest deposit located in the Republic of Guinea, Mali, and Guinea-Bissau territories. The resources of the Fouta Djallon–Mandingo province as of 2017 were estimated at 47 billion metric bauxite based on a 40% cut-off grade of  $Al_2O_3$ <sup>34</sup>. Currently, the total bauxite resources of the Fouta Djallon–Mandingo province makes up almost half of the world’s total bauxite resources.

Major phosphate is the Farim deposit that currently belongs to Itafos, a US-based company. It holds estimated reserves of 44 million tonnes @40% and 143 million tonnes of measured & indicated resources at 28%  $P_2O_5$ .

##### *Potential development and efforts to integrate Mining into National Economy*

The minerals sector, especially the bulk materials (phosphate and bauxite), have been identified as a major export potential after cashew. However, this is yet to materialize. Production of minerals resources could double or triple Guinea-Bissau’s foreign exchange and fiscal revenues<sup>35</sup>. Development of phosphate reserves is expected to significantly affect Guinea-Bissau’s economy, accounting for 15% to 20% of the GDP and employing about 1000 people<sup>36</sup>.

Despite the significant mineral endowments and potential contribution of minerals to the economy, there is no large-scale operation. Gold is being mined on a small-scale basis along the border with Guinea. Small quarries for construction materials, such as granite, limestone, clay, and sand, are also exploited by locals. The industrial-scale sector has remained largely dormant

<sup>33</sup> With the exception of the project to set up an industrial fishery to exploit tuna in the Gulf of Guinea, due to: i) the historical weakness of tuna catches in the Bissau-Guinean EEZ compared to African countries bordering the Atlantic (1300 tonnes out of 42,000 tonnes on average over the last 20 years); ii) the enormous difference in competitiveness with the ports of Dakar and Abidjan for the processing of tuna (canning factories); and iii) precedents concerning errors of assessment of the viability of such enterprises (Mozambique)

<sup>34</sup> This represents about 50% of global bauxite reserves. Mamedova et al. The World’s Largest Fouta Djallon–Mandingo Bauxite Province (West Africa) in *Geology of Ore Deposits* Vol. 56 No. 2 2020.

<sup>35</sup> UNITAR, UNDP and GEF, 2019, *Minamata initial Assessment report for Guinea Bissau*, Bisau

<sup>36</sup> GB Minerals Ltd., 2016 (Former owners of the Phosphate Mining Concession).

due to limited energy and transport infrastructure, persisting political instability, and governance weaknesses.

Currently, Bauxite-Angola, an Angolan company, holds the mining lease over the bauxite deposit and has recently made announcements to restart operations with a proposed investment of up to USD 500 million<sup>37</sup>. The US\$500 million is expected to fund the construction of the 3-million-metric-ton-per-year (Mt/yr) mine and a deep-water port at the Rio Grande de Buba and railway and road connections to the mine and port.

#### *Policy, legal and regulatory, and institutional framework*

Mining and Quarry Code principally govern the minerals sector No. 03/2014 in 2014, which regulates the exploration and exploitation, and commercialization of mineral resources in Guinea-Bissau<sup>3839</sup>.

Other relevant decrees that assist regulation of the extractive industry include<sup>40</sup>:

- Public Participation in EIA Procedure 2017
- Regulation on Environmental Inspection 2017
- Regulation on Environmental Audits 2017
- Regulation on Environmental Impact Assessment (EIA) 2017
- Protected Areas Legislation 2011
- The Ministry of Natural Resources is responsible for protecting and sustainably managing the diverse mineral resources to support Guinea-Bissau economic prosperity and quality of life. In addition, other Ministries that assist regulation of the sector include the Ministries responsible for Finances, Economy & Integration, Environment, Water, and Forestry.

#### Key issues plaguing minerals sector in Guinea-Bissau

Currently, mineral production is constrained to the small-scale mining sector. The industrial minerals mined are used locally, external markets are limited. Recent gold mining activities at the western border with Guinea raise serious illicit trade issues, which need to be addressed. Most of these small-scale miners are informal; hence the gold is smuggled across the border to Guinea, causing the country to lose revenues in the sector. Again, due to the largely informal nature of their operations, there are no official statistics on gold production and exports.

Although many companies are exploring for large minerals mines and the country has large potentials for Bauxite and Phosphate (though still underexplored), only a few projects in bauxite have advanced to the development stage. These include the Angola Bauxite project in the South Eastern Boe region. The project consists of an investment of US\$500 million to mine 3 million tons of Bauxite a year. It will include exploitation of bauxite and construction of the port of Buba and railways and roads linking Boe and Buba<sup>41</sup>.

The Angola Bauxite project is the single biggest foreign investment in the country planned for the near future, notwithstanding the country's huge mineral potential, easy access, and available incentives to business and other specific incentives provided in the mining and quarry code the Vision 2015-2024. This implies some market anomalies and non-tariff entry barriers, as highlighted above.

<sup>37</sup> Yannis A, Maxime W. 2017, Resource Policy (53). Turning resource curse into development dividends in Guinea-Bissau

<sup>38</sup> <https://www.informea.org/fr/node/482901>

<sup>39</sup> Africa Mining legislative Atlas. [Online] Available at: <https://www.a-mla.org/countries/23?name=Guinea-Bissau> [Accessed 14 06 2019]

<sup>40</sup> <https://www.extractiveshub.org/servefile/getFile/id/7658>

<sup>41</sup> <https://www.miningreview.com/top-stories/us-500-million-bauxite-mine-for-guinea-bissau/#:~:text=According%20to%20Reuters%2C%20Guinea%2DBissau,from%20which%20aluminium%20is%20made>

Due to many challenges, including poor infrastructure and periods of instability, companies preparing to mine the bauxite and phosphate deposits currently plan to export the minerals raw without value addition. However, this is contrary to the provisions of the Africa Mining Vision, which encourage African Countries to use their mineral resources to support industrialization. For Guinea-Bissau, unlocking the extractive sector's potential requires significant energy, water, and transport infrastructure. Also, being part of the massive bauxite deposits in the West Africa sub-region, there is the need to explore potential cooperation with Guinea (a major bauxite neighbor) for value addition to its minerals.

#### Key opportunities challenges

In the light of the preceding, there are significant opportunities and challenges to developing natural resources sectors shortly.

#### *Opportunities in the minerals sector*

There are important opportunities for investments in Bauxite mining and aluminum production supported by: (i) large resource endowment and incentives provided in the laws and vision 2014-2025 paper; (ii) the openness to large regional market thanks to the membership of ECOWAS and AfCFTA; (iii) the large energy deficit; and (iv) the forecasted high demand for aluminum and REE to support energy transition and fourth industrial revolution.

The upstream segment could collaborate with Guinea and Mali at the supply side to attract prominent investors to mine the bauxite and develop efficient local content and domestic linkage policies. The downstream segment at the demand side could also collaborate with other African countries with high demand for aluminum or Alumina or existing or high potential to develop large-scale processing capacities that can compete globally and supply African countries under the AfCFTA.

Phosphates also offer fertilizer manufacturing opportunities to support agriculture in Guinea-Bissau and the ECOWAS and other countries in the continent taking advantage of the AfCFTA.

#### *Challenges to minerals sector development*

The challenges are related to efforts to overcome the structural and non-tariff barriers to investments to attract more investors in the minerals sector. They include overcoming resistance to change, intending to reducing the level of corruption and its incidence in the economy, improving the quality of education and training in-country, improving legal and judiciary security, and reducing political instability. In addition, a challenge is finding investment to acquire geoscientific information that will be used to promote the country's mining domain and attract good investors.

Other challenges are related to improving participation of the economy and especially in the formal economy and thus reducing illicit trade of minerals. They include reduction of poverty and social inequalities to enable people to save and form capital that they can invest in business activities, facilitate access to finances and increase inclusion of the people in the formal financial system; and overcoming involvement of political and administrative elite in informal exploitation and illicit trading of gold through the formalization of ASMs and improved transparency and accountability to reduce corruption level. This will need to improve level of law enforcement and enhance skills of regulators and capacity of regulatory bodies. It implies a profound structural transformation both economically and institutionally, necessitating increase of wages of civil servants and improved civil service infrastructure.

#### Recommendations for the government

The government needs to facilitate the following in the mining sector:

- **Investment Promotion:** Invest in regional mineral exploration by acquiring geoscientific data and packaging it in the appropriate form to promote investment. This is expected to attract multinational investors to the mining sector to develop the mineral resources for the mutual benefit of the country and investors.
- **Formalization of artisanal and small-scale mining (ASM):** ASMs need to be supported to formalize their activities to serve as a key employment generation sub-sector for the country, as well as a source of revenue generation for the State; and
- **Explore Regional Approach for Value Addition:** Explore the opportunities for a regional approach to establish integrated mineral-based industries using the significant bauxite and phosphate deposits. A feasibility study needs to be conducted to underpin this.

#### Recommendations for Bank's intervention in the minerals sector

Some of the Bank's interventions could be geared towards supporting governance reforms to promote transparency, inclusiveness, and accountability in the minerals sector, subdue the rent-seeking culture, and develop a culture of wider beneficiation amongst decisions makers. Specifically, the Bank can support the following:

- Support Guinea-Bissau to officially join the EITI. This will help improve its governance systems before the establishment of the large-scale bauxite and phosphate mines.
- Support to conduct studies and implement programs related to the development of regional value chains for establishing an integrated bauxite-alumina-aluminum industry in the ECOWAS sub-region.
- Support in mining phosphorous and add value as fertilizer and pharmaceutical inputs by also integrating into a regional chemical and pharmaceutical value chain at ECOWAS levels
- Support improvement of fiscal policy (including efficient and progressive taxation, as well as fiscal transfers) and development of local content and domestic/regional linkage policies to help poverty alleviation and reduction in inequality while also promoting inclusive growth and economic diversification.
- Support in drafting and negotiation of minerals' contracts.

#### The Petroleum sector

##### *Resources endowment*

Guinea-Bissau is part of the MSGBC sedimentary basin where large petroleum resources were found, particularly in Mauritania and Senegal. Though the oil potential is unclear, oil reserves were estimated in 2019 at 1.1 billion barrels<sup>42</sup>, which is very important considering the country's relatively small size and population.

##### *Potential development and contribution to the economy*

In Guinea-Bissau, large discoveries can be developed to produce oil to cover at least the domestic needs for petroleum and petroleum products through local refining. The rest can be exported in the region or on the international market. This implies a significant contribution to GDP, exports, and employment in the country. Though difficult to quantify, without a granular analysis based on an on-the-ground study, imports substitution of petroleum products could save a lot of money, significantly improve balance and payments, and reduce the current account deficit.

#### Policy, legal and regulatory, and institutional framework

<sup>42</sup> UNITAR, UNDP and GEF, 2019, *Minamata initial Assessment report for Guinea Bissau, Bisau*

The petroleum sector is principally governed by the petroleum Act 2014, which provides general guidelines for petroleum exploration and production activities<sup>43</sup>. It is a guiding framework for the 1999 model petroleum contract, which specifies the fiscal structure of petroleum agreements and forms the basis for negotiating royalty, income tax, and custom duties payments. The Act includes some elements of local content, amongst which, funding of training of local personnel during the exploration period, funding of technical and administrative programs, and aid to local educational institutions.

The main sector policy is the National Energy Policy 1995, and more recently, the Energy Master Plan of 2013. The Ministry of Energy and Industry oversees the sector. It crafts and implements policies in the energy sector and regulating the sector. It oversees and regulates the development of petroleum resources and activities in the country, both upstream and downstream. In addition, the Agence de Gestion et de Cooperation entre Le Senegal et la Guinee Bissau (AGC) manages blocks that straddle Senegal and Guinea-Bissau territories.

PETROGUIN is the National Oil Company of Guinea-Bissau, created in 2006 by decree 14-A/86<sup>44</sup>. The company is entitled to carry out research, production, processing, storage, transportation, and supply of crude oil and natural gas, and petroleum products. Decree No. 3/95 of 1995 also attributes PETROGUIN's competence to promote mineral exploitation (both petroleum and solid minerals) within the national territory and negotiate research, exploitation concession, and development mining contracts with national or foreign enterprises<sup>45</sup>.

Other institutions include the ministry of finance, labor, employment, the ministry of environment, institutions in charge of the land, the Ministry in charge of the forest, etc. The involvement of many ministries with different policies, laws, and regulations may imply coherence issues and weak coordination amongst institutions.

#### Key issues plaguing the petroleum sector in Guinea-Bissau

In addition to general issues plaguing natural resources in general discussed above, there are issues specific to the petroleum sector in the upstream and downstream segments.

The upstream petroleum activities are still limited to exploration. Although oil companies' appetite for Guinea-Bissau has increased thanks to large discoveries in neighboring Senegal and Mauritania, very few and smaller players have been active. The key players include de National Oil company, PETROGUIN, FAR energy, CNOOC - Chinese company, Petronor -Norwegian company, which recently purchased SPE Guinea-Bissau and acquired operatorship right of very promising Atum and Anchova prospects with probable reserves estimated at 568 million barrels of oil in 2020<sup>46</sup>. This creates an oligopoly, reduces the government's negotiation power, and increases risks that these fields are not developed or are developed in a way that does not maximize benefits to the country since government leverage in contracts negotiation would be weak.

The downstream segment is limited to petroleum products trading, storage, and distribution – there is no refinery in the country, as shown in figure 6, where all consumption is imported. These include but are not limited to gasoline, kerosene, jet-fuels, diesel, bitumen, and LPG. An oligopoly exists in the sector, which aligns with the analysis of BTI who highlights that oligopolies existed for the importation of specific products in some segments. It is dominated by GALP, the

<sup>43</sup> Extraxtives Hub, ALSF, CEPML Dundee University and International Bar Association, 2020, Guinea Bissau

<sup>44</sup> <https://www.ecolex.org/details/legislation/decreed-no-14-a86-creating-and-approving-the-statute-of-the-oil-exploitation-company-petroguin-lex-faoc121649/>

<sup>45</sup> <https://www.ecolex.org/details/legislation/decreed-no-395-on-mining-exploitation-performed-by-petroguin-lex-faoc121648/>?

<sup>46</sup> <https://www.nsenerybusiness.com/news/petronor-spe-guinea-bissau-svenska/>

Portuguese junior International Oil Company, through several subsidiaries, and ENGEN, a South African company. The two companies hold roughly 80% of the market. The other players are LENOX, PETRODIS, and CASTLE. Most of the fuel stations are concentrated in the capital Bissau. Thus, the potential for fuel smuggling and illicit trading is very high in the other areas of the country.

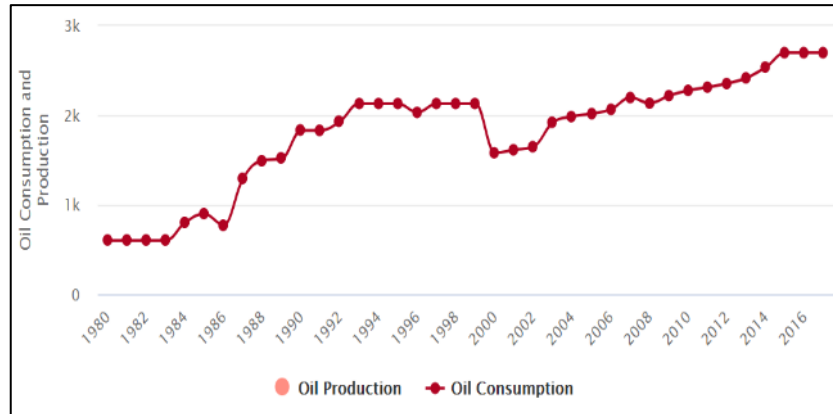


Figure 6: Guinea-Bissau's oil production and consumption from 1980 and 2016 in bbl./day (Source: Worldometers<sup>47</sup>)

In addition, the transition to greener energy imposes other constraints to development, reduces access to finances, and increases environmental requirements and risks perception. As a result, it adds a premium to the cost of capital for petroleum activities and imposes at least net zero emissions to projects. This implies additional costly technological and operational constraints and strategic rethinking to upstream petroleum activities to align to sustainable development goals and African Union Vision 2063. Therefore, the profitability of projects must be higher than ever to attract good investors, who may be compelled to also invest in biological and geological CO<sub>2</sub> sinks in the carbon trading process. This may require a review of the fiscal regimes in legislations and fiscal framework of contracts in the upstream segment and fiscal regimes in the downstream segment. Furthermore, considering the uncertainties on peak oil time, development must be fast-tracked, and profitability should be evaluated based on production forecasted for 20 years. In the light of the previous, information asymmetry may increase in favor of investors, and the negotiation power of government vis-à-vis investors may decrease.

### Key opportunities challenges

In the light of the above, there are significant opportunities and challenges to developing natural resources sectors.

#### *Opportunities*

The oil sector can benefit from the increased attractiveness and petroleum index because of current successful developments in Senegal and Mauritania. The risk has significantly been reduced as promising prospects have been identified. The oil exploitation should be planned in shorter periods than in the past (fast-tracking development to first oil within 3 to 5 years and planning production within 20 to 25), with effective plans for oil and gas to be used as vehicles (with minerals) to support economic diversification and eliminate dependency on imported petroleum products. This implies the opportunity to invest in a modular or small-scale refinery of 10,000 bbl./day, for instance, to supply the internal market where the consumption of petroleum products

<sup>47</sup> <https://www.worldometers.info/oil/guinea-bissau-oil/>



was around 2,700 bbl./day in 2016<sup>48</sup> and around 2000 bbl./day in 2019<sup>49</sup>. The surplus would be sold in neighboring countries like Mali and Guinea, which are net importers of petroleum products.

The gas from the oil field can be used to produce electricity and support clean cooking in the country and reduce the pressure on the biomass. This will help achieve zero flaring at oil and gas fields, thus meeting NDC under the Paris Agreement.

### *Challenges*

The key challenge of the Bissau Guinean petroleum sector is to attract investments to start producing its discoveries. In these times, investors' appetite for petroleum projects is eroding due to combatting global warming, inducing thus more investments in renewable and cleaner energies. Overcoming the challenge would require integrating petroleum resources development in the overall energy strategy and integrated natural resources management strategy that will create a synergy whereby natural resources and energy development will help meet the energy needs of the country and ensure net zero or negative emission to justify investments and sustain high profitability through a reduction of negative externalities that impose a premium on the cost of capital for oil and gas projects and erodes appetite of investors in the sector.

Other important challenges are related to efforts needed to overcome the structural and non-tariff barriers to investments to attract more investors in the petroleum sector. They include overcoming resistance to change intending to reduce corruption and its incidence in the economy, improving the quality of education and training in the country, improving legal and judiciary security, and reducing political instability.

Further challenges are related to improving participation of the economy and especially in the formal economy and thus reducing illicit trade of petroleum products and permitting locals to participate in oil and gas activities as suppliers and subcontractors. They include improving the standard of education and training, reduction of poverty to enable people to save and form capital that they can invest in business activities, facilitate access to finances and increase inclusion of the people in the formal financial system; and overcoming involvement of political and administrative elite in a way that to benefit illicitly from the resources by improving transparency and accountability to reduce corruption level. This will need to improve the level of law enforcement and enhance the skill of regulators and the capacity of regulatory bodies. In addition, it implies a profound structural transformation both economically and institutionally, necessitating an increase of wages of civil servants and improving civil service infrastructures.

### Recommendations for Bank's intervention in the petroleum sector

As in the minerals sector, Some of the Bank's interventions could be geared towards supporting governance reforms to promote transparency, inclusiveness, and accountability in the petroleum sector, subdue the rent-seeking culture, and develop a culture of wider beneficiation amongst decisions makers. Specifically, the Bank can support the following:

- Support in negotiating and drafting oil and gas contracts and fiscal regimes that favor maximization of domestically mobilized resources;
- Support in mapping oil and industry to sustainable development goals and AU Agenda 2063 to support economic development, reduce energy and material poverty in an environmentally friendly manner;

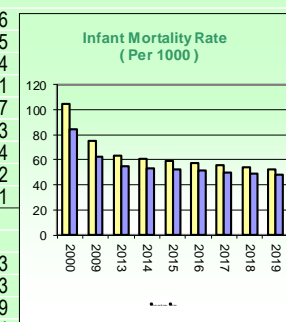
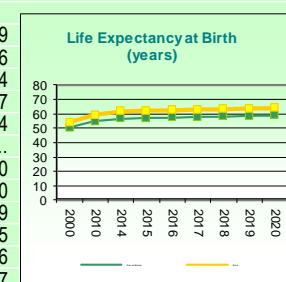
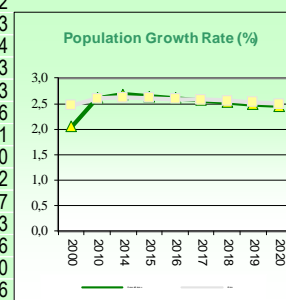
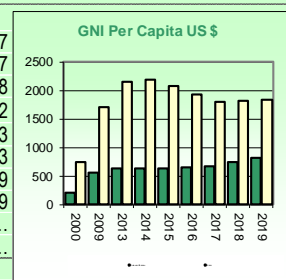
<sup>48</sup> <https://www.worldometers.info/oil/guinea-bissau-oil/>

<sup>49</sup> <https://www.eia.gov/international/overview/country/GNB?pa=12&u=0&f=A&v=none&y=01%2F01%2F2018>

- Support for local content development with local content and domestic linkages strategies and policies;
- Support for values addition strategy in refining and gas to power production for domestic use and to supply neighboring countries;
- Support in integrated natural resources management with petroleum production/ and development of carbon sink and source tandem to enable sustained negative emission;
- Support Guinea-Bissau to officially join the EITI. This will help improve its governance systems before the establishment of oil and gas production. To enhance governance and accountability.
- Improvement of fiscal policy (including efficient and progressive taxation, as well as fiscal transfers) and development of local content and domestic/regional linkage policies to help poverty alleviation and reduction in inequality while also promoting inclusive growth and economic diversification.

## Annex 2: Comparative Socio-Economic Indicators

	Year	Guinea-Bissau	West Africa	Africa	Developing Countries
<b>Basic Indicators</b>					
Area ('000 Km <sup>2</sup> )	2020	28	5 115	30 067	94 557
Total Population (millions)	2020	2,0	397,2	1 338,8	6 437,7
Urban Population (% of Total)	2020	44,9	47,6	43,8	50,8
Population Density (per Km <sup>2</sup> )	2020	70,0	78,9	45,6	67,2
GNI per Capita (US \$)	2019	820	1 677	1 843	5 093
Labor Force Participation * - Total (%)	2020	69,4	57,7	61,3	58,3
Labor Force Participation ** - Female (%)	2019	65,9	57,1	55,8	45,9
Sex Ratio (per 100 female)	2020	95,8	101,4	99,9	106,9
Human Develop. Index (Rank among 189 countries)	2019	175	...	...	...
Popul. Living Below \$ 1.90 a Day (% of Population)	2007-18	68,4	36,0	34,4	...
<b>Demographic Indicators</b>					
Population Growth Rate - Total (%)	2020	2,5	2,7	2,5	1,2
Population Growth Rate - Urban (%)	2020	3,4	4,0	3,6	2,3
Population < 15 years (%)	2020	41,9	43,2	40,4	27,4
Population 15-24 years (%)	2020	19,7	19,7	19,3	16,3
Population >= 65 years (%)	2020	2,9	2,8	3,5	7,3
Dependency Ratio (%)	2020	81,2	85,1	78,1	54,6
Female Population 15-49 years (% of total population)	2020	25,0	23,4	24,2	25,1
Life Expectancy at Birth - Total (years)	2020	58,6	58,4	63,8	71,0
Life Expectancy at Birth - Female (years)	2020	60,5	59,5	65,6	73,2
Crude Birth Rate (per 1,000)	2020	34,0	36,4	32,6	19,7
Crude Death Rate (per 1,000)	2020	9,3	9,8	7,8	7,3
Infant Mortality Rate (per 1,000)	2019	52,3	63,3	47,9	30,6
Child Mortality Rate (per 1,000)	2019	78,5	98,2	69,5	41,0
Total Fertility Rate (per woman)	2020	4,3	5,0	4,3	2,6
Maternal Mortality Rate (per 100,000)	2017	667,0	704,7	432,3	231,0
Women Using Contraception (%)	2020	20,7	25,5	39,1	59,1
<b>Health &amp; Nutrition Indicators</b>					
Physicians (per 100,000 people)	2010-18	12,7	25,1	33,4	127,9
Nurses and midwives (per 100,000 people)	2010-18	68,5	98,7	107,8	247,6
Births attended by Trained Health Personnel (%)	2010-18	45,0	54,2	64,7	79,4
Peop. Using at least basic drinking water services (% of Pop.)	2017	66,6	69,8	66,3	87,7
Peop. Using at least basic sanitation services (% of Population)	2017	20,5	32,5	40,3	68,4
Percent. of Adults (aged 15-49) Living with HIV/AIDS	2019	3,4	1,3	3,1	...
Incidence of Tuberculosis (per 100,000)	2019	361,0	170,2	198,2	152,0
Child Immunization Against Tuberculosis (%)	2019	86,0	76,8	81,0	88,0
Child Immunization Against Measles (%)	2019	86,0	65,9	71,9	84,9
Underweight Children (% of children under 5 years)	2010-19	16,3	25,6	18,1	14,5
Prevalence of stunting	2010-19	30,3	36,4	32,4	23,6
Prevalence of undernourishment (% of pop.)	2018	...	13,1	15,1	9,7
Current health expenditure (% of GDP)	2018	7,0	4,1	5,2	5,4
<b>Education Indicators</b>					
Gross Enrolment Ratio (%)					
Primary School - Total	2010-20	118,7	89,4	101,0	101,6
Primary School - Female	2010-20	114,5	87,3	98,8	100,5
Secondary School - Total	2010-20	...	50,3	53,5	72,4
Secondary School - Female	2010-20	...	42,9	50,5	72,1
Primary School Female Teaching Staff (% of Total)	2010-20	21,8	41,7	49,2	63,7
Adult literacy Rate - Total (%)	2010-18	45,6	51,9	67,9	84,3
Adult literacy Rate - Male (%)	2010-18	43,6	71,1	73,5	88,4
Adult literacy Rate - Female (%)	2010-18	30,8	42,1	61,7	80,2
Government expenditure on Education (% of GDP)	2010-19	2,1	3,9	4,8	4,1
<b>Environmental Indicators</b>					
Land Use (Arable Land as % of Total Land Area)	2016	10,7	17,0	8,0	11,3
Agricultural Land (as % of land area)	2016	58,0	48,9	38,2	38,3
Forest (As % of Land Area)	2016	69,8	9,2	13,2	31,9
Per Capita CO2 Emissions (metric tons)	2016	0,2	0,5	1,1	3,4



Sources : AfDB Statistics Department Databases; World Bank: World Development Indicators;

last update :

March 2021

UNAIDS; UNSD; WHO, UNICEF, UNDP; Country Reports.

Note : n.a. : Not Applicable ; ... : Data Not Available. \* Labor force participation rate, total (% of total population ages 15+)

\*\* Labor force participation rate, female (% of female population ages 15+)

### **Annex 3: Public investment surges, growth, and debt sustainability in Guinea Bissau: A model-based analysis<sup>1</sup>**

This note presents an analysis of the tradeoffs associated with public investment in infrastructure versus public investment in human capital. First, we employed the new debt, investment, and growth model with segmented labor market (DIG-Labor) developed by Buffie et al. (2020)<sup>2</sup>. Then, we applied it to Guinea Bissau to evaluate the impact of alternative investment programs on debt sustainability, growth, and unemployment. The main features of the model's general structure and calibration assumptions are listed in Appendix A.

#### **The public investment program scenarios**

The model evaluates alternative investment programs that differ along the following dimensions: i) the mix between investment in infrastructure and human capital; ii) the size and the speed of public investment scaling-up; iii) the fiscal space and the financing mechanism on the impact of COVID-19; iv) and the role of reforms that improve the efficiency of public investment. Since COVID-19 has strained public finances and led to re-prioritization in public spending, we examine a pre-COVID-19 shock and an after-COVID-19 shock. The pre-COVID-19 shock considers a big-push investment program of the type envisioned by the government of Guinea Bissau, while the after-COVID-19 shock assumes a decrease in 2020-22 and an increase after that.

#### ***Baseline pre-COVID-19 shock: Scaling up public investment in infrastructure and human capital***

This scenario assumes that the government investment spending falls both on infrastructure and human capital. The path for the two types of public investment assumes a gradual increase between 2019 and 2023 and a gradual decline thereafter (Figure 1). The estimated cumulative increase in public investment in infrastructure and human capital during that period is 8% of GDP and 5.3% of GDP, respectively. The ambitious investment plan is assumed to be funded by concessional loans and grants. However, it is assumed that the grants do not fully cover the financing need, opening up a financing gap that has to be covered by fiscal adjustment. We consider a fiscal adjustment on the spending side whereby the government has to re-prioritize spending by cutting unproductive spending.<sup>3</sup> Moreover, the scale and the speed of the public investment acceleration strain the government's absorptive capacity, creating inefficiencies. To reflect inefficiencies in public investment, the baseline scenario assumes that only about 60 % of public investment is translated into productive public capital, implying that 40 cents on every dollar invested are lost due to inefficiency.

The simulations show that the investment plan may bring tangible medium- to real long-run benefits to the economy. For instance, by 2023, the real GDP growth rate is 5.7 % relative to its original level (in 2019) of 4.5 %, as shown in Figure 1. Moreover, private investment is crowded in—i.e., by 2024, private investment expands by about 3 %. These positive results depend on the structural conditions of the economy. The baseline calibration of key parameters, such as the rates of return on infrastructure, are favorable and yield positive medium- to long-run macroeconomic effects. Under less favorable calibration, the positive effects could be significantly diminished. On the flip side, given the fiscal adjustment, the cut in public transfer

<sup>1</sup> This annex was prepared by Lacina Balma, Senior Researcher Economist, ECMR1.

<sup>2</sup> The full technical paper is available here: <https://www.imf.org/en/Publications/WP/Issues/2020/06/19/Debt-Investment-and-Growth-in-Developing-Countries-with-Segmented-Labor-Markets-49458>

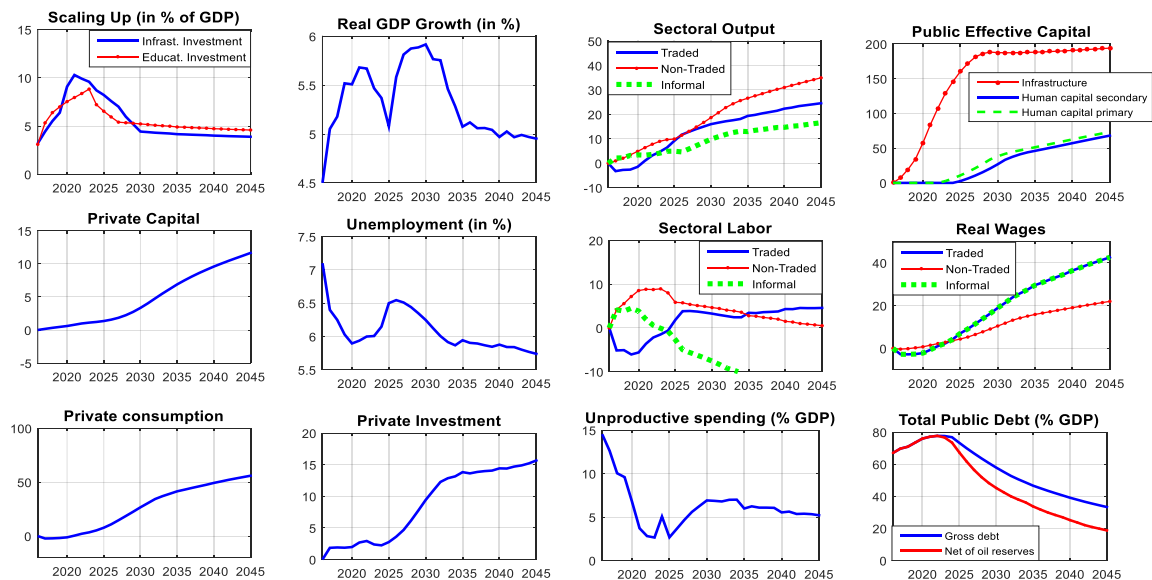
<sup>3</sup> Unproductive spending here refers to any other spending except public investment spending in infrastructure and in human capital. It is the kind of spending that does not accumulate capital and comprise transfers, security spending, social protection spending, etc....

and other social spending undermines private consumption, which declines by about 12% in 2023.

The medium-term sectoral impact is driven by factor reallocation and exchange rate overvaluation. An overvalued real exchange rate (i.e., the relative price of non-traded goods) and other prices (e.g., wages) are central to the transmission mechanism in the grant and concessional debt-financed investment scaling-ups scenario. In the medium term, the non-tradable sectors need to absorb labor to provide public services due to public infrastructure and human capital investment surges. This is materialized by shifting factors from the export (tradable) sectors to those in high demand (non-tradable) due to government spending and the high demand for non-tradable resources. As a result, the factor employment in the non-tradable sector expands (unemployment rate declines) while shrinking in the tradable. In addition, informal employment also expands in the medium term. Accordingly, the high demand for labor, especially in the non-tradable sector, leads to an increase in real wage in this sector and real wages generally (Figure 1). Furthermore, the grant-financing also leads to real exchange rate appreciation (relative price of non-tradable). This real appreciation compounds the decline of the tradable sector output.

In the transition (medium to long-term), concessional borrowing requires a fiscal adjustment to ensure debt sustainability. Indeed, by 2024, the total public debt to GDP ratio is at 77.6 % from 67 % in 2019, a ten percentage point increase. But this is not enough to finance the big-push investment program for more than a couple of years—drastic fiscal adjustments are required for debt stability. Specifically, this is achieved through a drastic cut in unproductive spending between 2020 and 2026. However, concessional debt is relatively cheap. Moreover, the interest rate on concessional debt is calibrated at zero, consistent with financing terms for such debt, which implies that debt follows a sustainable path.

**Figure 1: Baseline pre-crisis scaling up of public investment**



**Source:** Authors' calculations

**Note:** The Y axis measures the growth of the variable unless otherwise indicated. The X-axis denotes the years.

### *After-COVID-19 shock: Scaling down public investment in infrastructure*

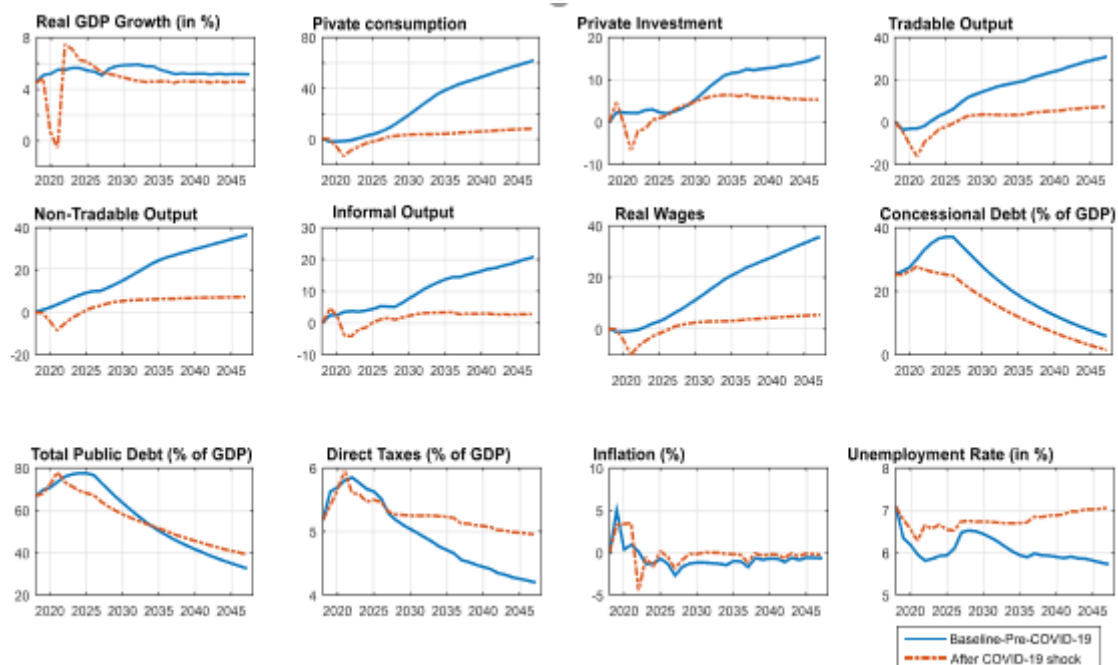
To capture the extent to which the COVID-19 pandemic has reduced fiscal space and led the government of Guinea Bissau to re-prioritize public expenditure, we consider an “after-COVID-19” shock whereby the investment in infrastructure is scaled down, and investment in human capital remains unchanged. Accordingly, we assume a cumulative cut in infrastructure investment spending by about 7 % of GDP in 2020 and 2021. Moreover, given the current context of difficult access to external financing, we assume there is no grant-financing, unlike the pre-crisis scenario.

The “after-COVID-19” shock is associated with a contraction of real GDP. The real GDP growth rate is in negative territory in 2020, in line with other estimations, which point to a growth rate of -2.8 % in 2020 (AEO, 2021). An uptick in growth rate is expected in 2021 and by 2022. Afterward, the growth rate is estimated to catch up to the pre-crisis level. Private consumption and private investment are lower by about 15 % and 7 %, respectively, in 2020 (Figure 2).

The sectoral impact revealed a contraction of tradable, non-tradable, and informal sector outputs by about 16 %, 8 %, and 4 %, respectively, in 2020. The unemployment rate is high compared to the pre-crisis level. A V-shaped recovery is expected in 2021 for most of the real macro and sectoral variables. The recovery is expected to be faster for the three sectors. Accordingly, consumption and investment behavior adjust, with the growth rate of consumption and private investment returning to positive territory by 2024 (Figure 2).

The implication on debt sustainability is straightforward. There is no additional concessional borrowing, but the contraction of GDP in 2020 entails increasing debt-GDP ratio by 4 %age point above the pre-crisis level. However, the cheapness of concessional debt and the expected recovery implies that debt follows a sustainable path.

**Figure 2: Impact of COVID-19 on public investment and financing**



**Source:** Authors’ calculations

**Note:** The Y axis measures the growth of the variable, unless otherwise indicated. The X axis denotes the years, with 2019 as the initial year.

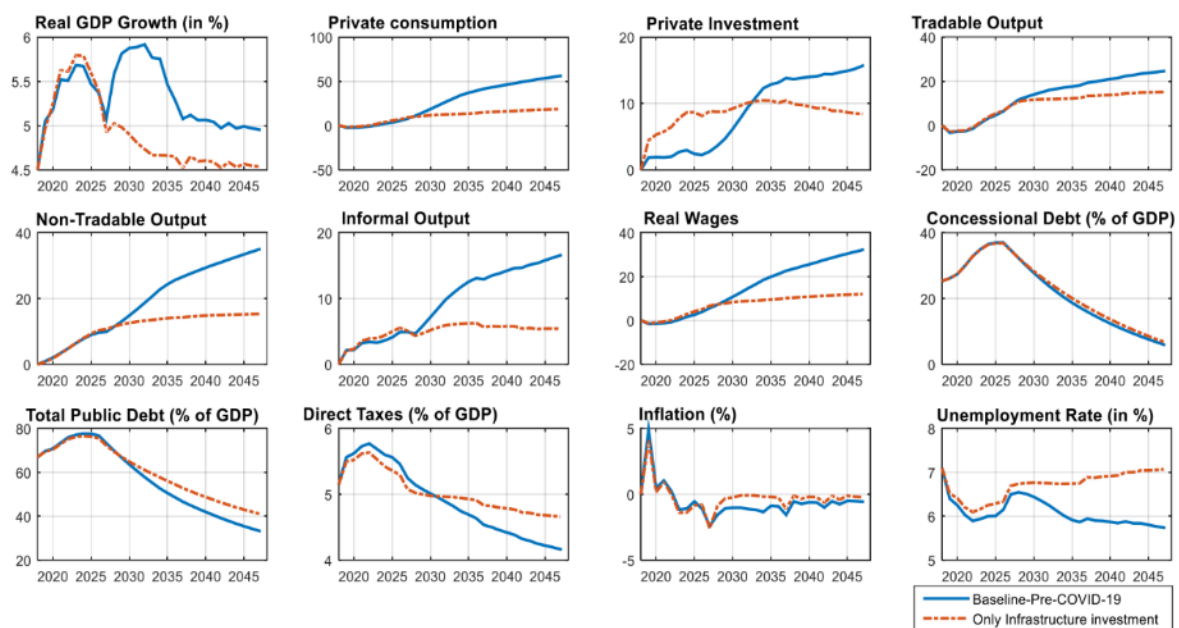


### *Mixed investment program versus infrastructure investment*

We compare the baseline pre-crisis mixed investment program with an alternative scenario that assumes that the government investment spending will fall exclusively on infrastructure. Human capital investment remains constant during the transition path. The path of the investment spending in infrastructure is similar to the one in the baseline.

Scaling infrastructure investment only yields lower real economic impact in the long run than a program that combines public investment in infrastructure and human capital (see baseline pre-COVID-19). Indeed, with infrastructure investment, the multiplier effect is less important, so real GDP growth rate, private consumption, and the three sectors' output are lower by 2027.

**Figure 3: Baseline mixed investment versus investment in infrastructure only**



**Source:** Authors' calculations

**Note:** The Y axis measures the growth of the variable, unless otherwise indicated. The X axis denotes the years, with 2019 as the initial year.

### *Improving the efficiency of public spending*

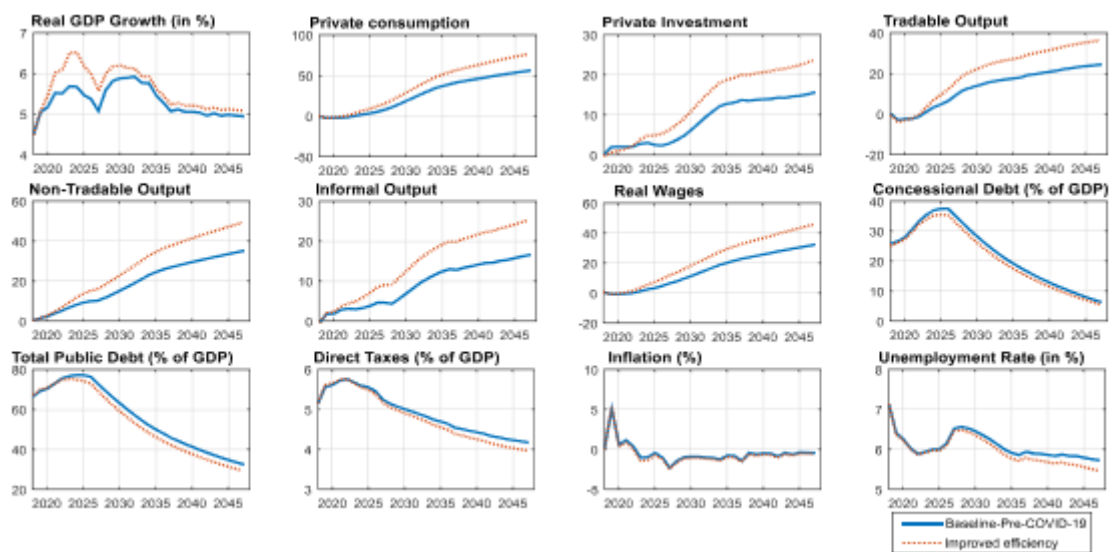
The macroeconomic and fiscal impacts of the public investment program can be significant if the government institutes reforms to enhance investment efficiency and the return on investment. This simulation assumes that the government undertakes reforms to remove bottlenecks that reduce inefficiencies in public spending. Inefficiencies can lead to mismanagement and leakages in the government investment program and undermine the intended outcomes.

The dynamic implications of reforms that improve the efficiency of government spending are examined and conditions that represent an “improved efficiency” scenario are compared with the baseline scenario (Figure 4).

In the “improved efficiency” scenario, we assume that public investment spending is more efficient (no leakages) with 100% of the spending translated into productive public capital; we set the efficiency parameter<sup>4</sup> at 100% versus 60% in the baseline.<sup>5</sup>

Figure 4 displays the results associated with the “improved efficiency” scenario compared with the baseline. As expected, with improved efficiency, the fiscal adjustment (unproductive spending cut) is less punitive, with some implication on inequality. The paths macro and sectoral variables are notably better in the long run. Total private consumption is 15 percentage points higher by 2030 and private investment is more than 20 percentage points higher by the same year. The ratio of total public debt is much lower during the transition path. The real GDP growth rate reaches a much higher level with improved efficiency in public spending. Indeed, real GDP growth rate is about 2 points higher in 2023 compared to baseline.

**Figure 4: Improving the efficiency of government spending**



**Source:** Authors’ calculations

**Note:** The Y axis measures the growth of the variable, unless otherwise indicated. The X axis denotes the years, with 2019 as the initial year.

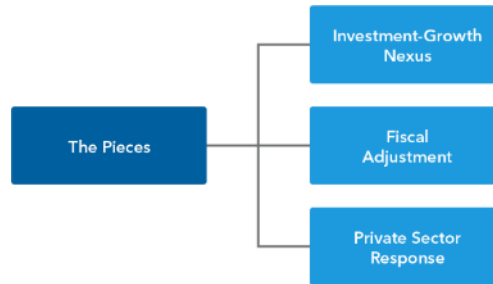
<sup>4</sup> The efficiency parameter is estimated using Data Envelopment Analysis (DEA) method (see Barhoumi et al (2018) for more details).

<sup>5</sup> Based on a sample of 32 African countries, our estimates show that Africa has an average efficiency gap of 39%, which means that close to 39% of debt financing is wasted or spent on poor projects.

## Technical appendix

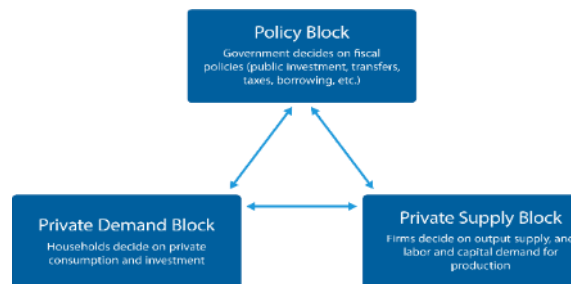
### Essential pieces and blocks of the model

**How does the model capture the investment-growth nexus?** The model is an open-economy perfect foresight general equilibrium model with three private sectors: tradable agriculture, non-tradable formal, and non-agriculture informal sectors. Each sector is represented by a neoclassical production function where output is produced by combining public capital, private capital, low-skill labor, high-skill labor, and land in the agriculture sector. Then, because public capital is productive, government spending can raise output directly; this, however, depends on the marginal productivity (return) of public capital, which in the model is calibrated in line with existing empirical evidence. Furthermore, by raising the marginal productivity of private capital, public capital can crowd private investment and ultimately stimulate growth. Besides the rate of return to public capital, the model captures public investment inefficiencies and absorptive capacity constraints.



**Public Investment in Human Capital** Public investment in human capital plays three fundamental roles. First, it raises the productivity of low-skill labor in the different sectors, including in the informal sector. Second, it increases the supply of high-skill labor into the different sectors of the economy. Finally, educational capital has a complementarity effect on physical capital by providing skilled labor to the different sectors of the economy and loosening absorptive capacity constraints. When skilled labor is in scarce supply, higher demand for skilled labor when public investment is scaled up will shift labor from one sector to another, put pressure on real wages, and create a situation that is not Pareto optimal for the economy.

**Labor market: The labor market is segmented and comprises formal (non-tradable), non-agricultural informal, and agricultural sectors.** Firms in the formal sector pay efficient wages, while own-account workers populate firms in the informal sector and agriculture, forming an integrated labor market with flexible wages. There is open involuntary unemployment, so aggregate labor productivity increases when labor moves from the informal to the formal sector or from agriculture to either non-agricultural sector. In addition, new skilled labor enters the labor market thanks to public investment in educational capital.



**Fiscal Adjustment and the Public Sector Budget Constraint** Regarding the fiscal adjustment, the model considers different government financing options. When revenues fall short of expenditures, the resulting deficit is financed through domestic borrowing, external commercial borrowing, or concessional borrowing. The revenue side of the government budget constraint is well detailed, with many tax instruments that the government can also adjust to ensure debt sustainability. On the other hand, expenditures correspond to interest payments on the three types of debt, public investment in infrastructure, primary education and upper education, and other non-capital and non-educational expenditures.

**The private sector's response (firms and households) response is the key in the transmission and the ultimate impact of government investment surges on the overall economy.** The private sector response is related to crowding in (long term, supply-side effect) and crowding-out effects on private demand. In the model, fiscal adjustment and domestic borrowing can crowd out private consumption and investment because of: i) tax increases, which are distortionary, lower private consumption; ii) when the government uses domestic resources to invest, these resources are no longer available for private investment and consumption. On the other hand, firms in the model maximize profits. They use their production functions to produce goods and services, where increases in public capital—physical and human capital—raise the marginal

productivity of private capital, and therefore, can crowd in private investment. In the end, the balance between crowding in and crowding out depends on factors such as the return to capital and the efficiency of public investment. But in the long run, there is always crowding in if the projects are good, while in the short to medium run, crowding out may dominate, especially if there is not enough foreign financing.