

GUINEA-BISSAU

Cashew and Beyond: Diversification through Trade



Diagnostic Trade Integration Study for the Enhanced Integrated Framework for Trade-related Technical Assistance

May 2010

CURRENCY EQUIVALENTS
Exchange Rate as of May 2010

Currency Unit = CFA Franc (CFAF)
US\$1 = 499CFAF

Weights and Measures
Metric System

ABBREVIATION AND ACRONYMS

| | |
|---------|---|
| ACBF | Africa Capacity Building Foundation |
| ANAPA | National Association of Artisanal Fisheries Boat-owners |
| ANEP | National Association of Fishing Entrepreneurs |
| APGB | Port Administration of Guinea-Bissau |
| ARN | National Regulatory Agency |
| BCEAO | Central Bank of West African States |
| BDS | Business Development Services |
| BIGB | International Bank of Guinea-Bissau |
| BOAD | West African Development Bank |
| BRPE | Export Registration Document |
| BRPI | Import Registration Document |
| BRS | Regional Solidarity Bank |
| CADESPC | Unit for the Development of Savings and Credit |
| CAF | Training Support Unit |
| CAIA | Unit for Evaluation of Environmental Impact |
| CAPAF | Capacity-Building Program for microfinance institutions in Francophone Africa |
| CAS | Country Assistance Strategy |
| CCIA | Chamber of Commerce, Industry and Agriculture |
| CECAF | Fishery Committee for the Eastern Central Atlantic |
| CEM | Country Economic Memorandum |
| CENFA | National Center of Administrative Training |
| CFAA | Country Financial Accountability Assessment |
| CGAP | Consultative Group to Assist the Poor |
| CI | Industrial Contribution |
| CIFC | China International Fishing Company |
| CIPA | Fisheries Center for Applied Research |
| CNFC | China National Fishing Company |
| COPACE | Committee for Fisheries of the Central and West Atlantic Ocean |
| CPIA | Country Performance Indicator Assessment |
| CPLP | Community of Portuguese-speaking countries |
| CSDP | Community Sustainable Development Plan |
| DENARP | Poverty Reduction Strategy Paper |
| DFID | Department For International Development (United Kingdom) |
| DGA | General Directorate of Customs |
| DGCI | General Directorate of Taxes |
| DGM | Directorate of Geology and Mining |
| DGPA | General Directorate for Artisanal Fisheries |
| DPIP | Directorate for the Promotion of Private Investment |
| DRC | Domestic Resource Cost |

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| DSFD | Directorate of Decentralized Financial Systems |
| EA | Environmental Assessment |
| EAGB | Electricity and Water Company of Guinea Bissau |
| EC | European Commission |
| ECOWAS | Economic Community of West African States |
| EEEEAO | West African Electrical Energy Exchange |
| EEZ | Economic Exclusive Zone |
| EFA | Effective Financial Assurance |
| EIA | Environmental Impact Assessment |
| EITI | Extractive Industries Transparency Initiative |
| EMP | Environmental Management Plan |
| ERSUMA | Regional College for Magistrates |
| EU | European Union |
| FAGACE | African Economic Cooperation and Guarantee Fund |
| FAO | Food and Agriculture Organization |
| FED | European Development Fund |
| FEDERPESC | Italian National Fisheries Federation |
| FIAS | Foreign Investment Advisory Service |
| FISCAP | Department for Surveillance and Control of Fishing Activities |
| FUNDEI | Foundation for Industrial Development |
| GBC | Global Business Coalition |
| GDP | Gross Domestic Product |
| GEF | Global Environmental Facility |
| GNP | Gross National Product |
| HIPC | Heavily Indebted Poor Countries |
| IBAP | Institute of Biodiversity and Protected Areas |
| IBRD | International Bank for Reconstruction and Development |
| ICGB | Communications Institute of Guinea Bissau |
| ICMM | International Council on Mining and Metals |
| IDA | International Development Association |
| IFC | International Finance Corporation |
| IGV | General Sales Tax |
| IIED | International Institute for Environment and Development |
| ILO | International Labor Organisation |
| IMF | International Monetary Fund |
| IVA | Value Added Tax |
| JSAN | Joint Staff Advisory Note |
| LDP | Letter of Development Policy |
| MADR | Ministry of Agriculture and Rural Development |
| MCPP | Public Private Coordination Mechanism |
| MCS | Monitoring, Control and Surveillance |
| MCTA | Ministry of Trade, Tourism and Handicrafts |
| MDGs | Millennium Development Goals |
| MEPIR | Ministry of Economy, Planning and Regional Integration |
| MERN | Ministry of Energy and Natural Resources |
| MF | Ministry of Finance |
| MFI | Micro finance institution |
| MIGA | Multilateral Investment Guarantee Agency |
| MIOPCU | Ministry of Infrastructure, Public Works, Construction and Urbanism |
| MJ | Ministry of Justice |
| MMSD | Mining, Minerals and Sustainable Development Project |

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| MoF | Ministry of Fisheries |
| MPA | Marine Protected Areas |
| MTEF | Medium-Term Expenditure Framework |
| MW | Megawatts |
| NANA | Northwest Alaska Native Association Regional Corporation |
| NARS | National Agricultural Research System |
| NERICA | New Rice for Africa |
| NGO | Non-governmental Organization |
| NPC | Nominal Protection Coefficient |
| NSIA | New Inter-African Insurance Company |
| OHADA | Organisation for the Harmonisation of Business Law |
| OMVG | Organisation for the Development of the Gambia River |
| OMVS | Organisation for the Development of the Senegal River |
| PAED/MF | Program for the Support and Development of Microfinance |
| PAM | Policy Analysis Matrix |
| PAS | Strategic Action Plan of SRFC for 2002-10 |
| PDSFI | Plan for the Emergence of an Inclusive Financial Sector |
| PER | Public Expenditure Review |
| PGAO | West Africa Gas Pipeline |
| PNRC | Programme National de Renforcement des Capacit  |
| PPP | Public Private Partnership |
| PRDSP | Project for the Rehabilitation and Development of the Private Sector |
| PRDSP - IU | PRDSP Implementation Unit |
| RECOP/MF | Network of Professional Organisations of Microfinance |
| RER | Real Exchange Rate |
| SAHFI | Sahelian Finance Company |
| SDR | Special Drawing Rights |
| SETC | Secretary of State for Transport and Communications |
| SIA | Social Impact Assessment |
| SME | Small and Medium Enterprises |
| SRFC | Sub-regional Fisheries Commission |
| SYSCOA | West African Accounting System |
| TAC | Total Allowable Catch |
| UNDP | United Nations Development Program |
| VMS | Vessel Monitoring System |
| WAEMU | West African Economic and Monetary Union |
| WAPP | West Africa Power Pool |
| WARDA | West Africa Rice Development Association |
| WFP | World Food Program |
| WTO | World Trade Organization |

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REPUBLIC OF GUINEA-BISSAU
DIAGNOSTIC TRADE INTEGRATION STUDY

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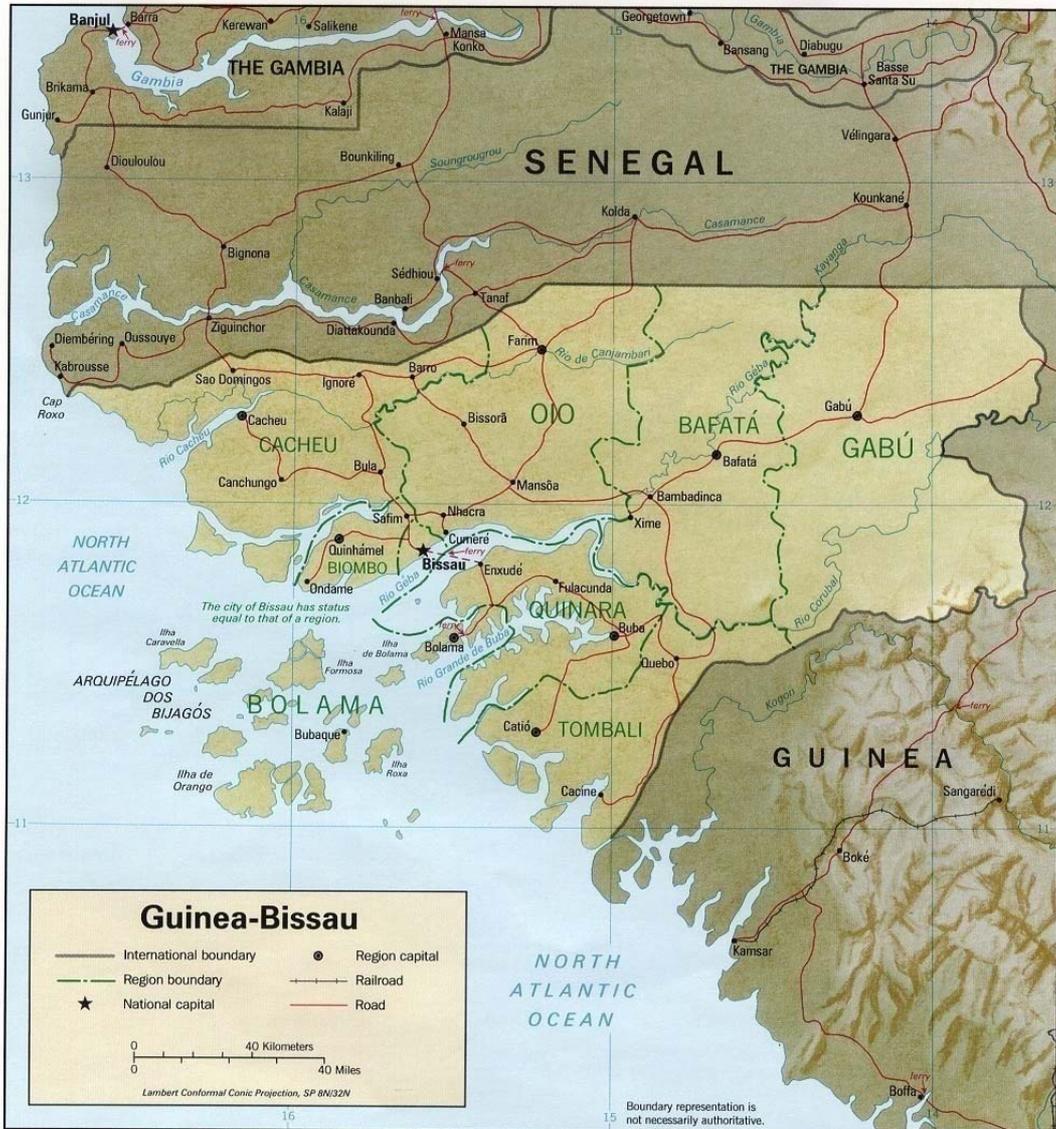
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Map of Guinea-Bissau



PREFACE AND ACKNOWLEDGEMENTS

In response to a request from the Government of Guinea Bissau, this Diagnostic Trade Integration Study (DTIS) has been prepared under the aegis of the Integrated Framework (IF) for Trade Related Technical Assistance to Least Developed Countries.¹ The ultimate objective of the study is to build the foundation for accelerated growth by enhancing the integration of its economy into regional and global markets.

A preliminary mission was held in March 2008 to discuss the objectives and priorities of the study and to promote ownership of the process by the authorities. Terms of reference were then prepared and transmitted to the Government for approval. The main mission, consisting of national and international consultants, visited Guinea Bissau in May-June 2008. A technical workshop was held in March 2009 to review the draft report. The study was then reviewed within the World Bank, and among the IF agencies and donors. The report and its Action Matrix were finally discussed and validated during a second workshop in October 2009 followed by a weekend retreat of senior government officials in December 2009.

The study was managed by Philip English (World Bank, task team leader), and led by Prof. Steven Kyle (macroeconomics, infrastructure, cashew) and the following consultants: Celestino Correia (infrastructure), Elke Kreuzwieser (trade policy), Gary McMahon and Vicente Co (mining), Henrique Mendes (cashew), Wouter Schalken and Mamadu Jaquite (tourism), Dunstan Spencer and Rui Djata (rice), Joaquim Tenreiro and Mario Dias Sami (fisheries), and Jan-Hendrik van Leeuwen and Josué De Almeida (investment climate and finance).

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¹The IF is a multi-agency, multi-donor program established to promote the integration of the least developed countries into the global economy. The participating agencies are the IMF, the ITC, UNCTAD, UNDP, the World Bank and the WTO. For additional details see <http://www.integratedframework.org/>.

REPUBLIC OF GUINEA-BISSAU
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EXECUTIVE SUMMARY AND PRIORITY ACTION MATRIX

Introduction

1. Guinea-Bissau is highly dependent on international trade even when compared to other nations of its size and income level. However, it is equally clear that the country could derive far more benefit from its international trade opportunities than it does at the present time. This study examines how to do this, looking not only at trade policy, the investment climate, and infrastructure, but also five key sectors where specific opportunities exist. There are three recommendations which stand out as having a particularly important and pervasive effect on trade and its potential role in raising incomes and reducing poverty. Indeed, they can be regarded as preconditions for significant progress.

2. **The port of Bissau is in urgent need of rehabilitation.** At the current rate of silting, the port will soon be inaccessible to most freighters, cutting off the country from direct access to international maritime trade. While the completion of the bridge linking Guinea-Bissau to ports in Senegal and The Gambia provides an alternative, the country will become a coastal country which depends on other countries for access to the sea. Proposals for alternative ports elsewhere in the country merit study as long term alternatives but cannot be considered to be substitutes for port access in the short to medium term. Apart from the work needed in terms of infrastructure and access, there is also a need for changes in port management, with the current state run entity being replaced by a privately managed operation. Modernization of customs operations is also an important priority.

3. **Eliminating the bureaucratic obstacles to doing business is a prerequisite for any growth in private investment in the country.** Guinea-Bissau ranks near the bottom of the World Bank's annual Survey of Doing Business, reflecting the extremely difficult bureaucratic and legal maze that must be dealt with by any entrepreneur seeking to operate a business in the country. This situation not only militates against private investment in any but resource extraction industries, but also makes even the simplest import/export operation an exercise in bureaucratic navigation.

4. **It is of primary importance that the job of formulating and implementing economic policy be put on a more stable and long term basis** The extreme instability in Guinea-Bissau's government has meant that cabinet ministers and lower officials change on an annual or even more frequent basis. This situation makes long term planning and sustained implementation virtually impossible and the formulation of coherent policy equally difficult.

5. These three issues overshadow all other trade related issues in that they are crosscutting and so touch upon all of the various more specific considerations discussed below. To these, one might add the illegal drug trade which can undermine the best economic policies through an escalation of crime, corruption and addiction, as already observed in some other countries. However, this important issue has not been addressed in this report.

Macroeconomy

6. The case of Guinea-Bissau is much influenced by four important facts. First, Guinea-Bissau has an extremely high level of dependence on a single export - cashew, which is grown by the vast majority of peasant farmers in the country, covers close to 5 percent of the total land area, and accounts for 98 percent of export revenue as well as 10 percent of government tax revenue. Second, Guinea-Bissau suffers from an extremely degraded infrastructural base. Third, Guinea-Bissau is heavily dependent on imports of its most important staple food, rice. Fourth, fish exports do not appear in trade data but are a major source of government revenues, through fishing agreements allowing foreign flagged vessels to operate in Guinea-Bissau waters but landing their catch elsewhere. It is important to note that trade policy itself is not the most important of the obstacles confronting Guinea-Bissau at this time. While there are certainly areas where some useful changes could be made, **Guinea-Bissau's accession to the WAEMU and BCEAO has brought its overall policies regarding external trade and financial arrangements in line with those of its neighbors, and has made them broadly conducive to progress in international trade relations.**

7. The prospect of significant mineral income from phosphate mining, bauxite and possibly oil threatens to lead to an appreciation of the real exchange rate in spite of the fixed nominal level of the CFA franc with respect to the Euro. Given the estimates that income from these sources could amount to as much as 30 percent of GDP, the possibility of Dutch disease or resource curse distortions are not at all academic – rather, they are a virtual certainty. Judging from conversations with various government officials, there is no awareness of these issues. Accordingly, it will be very important to **share information with economic managers regarding the potential problems of large mineral receipts in a small open economy and to implement policies to deal with mineral income compatible with EITI, and beyond, covering the entire chain of mining and oil exploitation.** In particular, the prospect of an appreciating exchange rate calls for concerted efforts to improve the competitiveness of non-mining sectors – including cashew and rice – to maintain income-generating opportunities for those outside of mining and support the diversification of the economy.

8. As already noted, a major problem is the extreme instability of government officials in any given post, leading to exceedingly short term planning horizons and an almost total absence of long run vision in policy formulation and implementation. Accordingly, this report recommends **the establishment of a policy analysis institute reporting directly to the Council of Ministers** capable of giving advice and analysis on important issues facing the government. It is important that this institute be able to attract the most skilled analysts and that it be insulated as far as possible from the vagaries of party politics. Indeed, it is likely that all political parties would welcome a neutral, analytical entity able to advocate policies on the basis of costs and benefits to the country as a whole.

Trade Profile and Policies

9. There is an important need for better trade data on which to base policy. While the composition of exports is remarkably simple, there is additional cross-border trade which is poorly understood, including cashew exports but extending to other products as well. Cross-border trade offers one solution to the urgent need to diversify exports; the sale of processed

cashews to consumer markets beyond India is another. Opportunities under AGOA for duty-free entry into the US should be explored.

10. The government of Guinea-Bissau has yet to adopt the 4-band tariff regime of WAEMU which other members adopted in 2000. **The authorities need to be engaged in the discussions in ECOWAS concerning the adoption of a new 5-band tariff regime so as to be aware of the potential loss of tariff revenues from EU imports and the impact on domestic consumers, notably if the tariff on rice is increased.** More generally, the government needs some capacity to analyze trade flows and develop trade policy proposals.

Business Environment and Finance

11. Guinea-Bissau scores very low on internationally recognized measures, being the lowest of any country in WAEMU and third from the bottom in the world overall in the World Bank's annual Doing Business Survey. It is indicative of the problems faced by potential entrepreneurs in Guinea-Bissau that just opening a business takes an average of 233 days and more than 250 percent of the per capita GDP in costs. Given the numerous potential locations for international businesses in West Africa and beyond, Guinea-Bissau's problem lies primarily in making the country one in which businesses will want to operate – a tall order given its relative standings vis-à-vis its neighbors. However, this report has a basically optimistic message: though there is much to be done, Guinea-Bissau does have the potential to become an attractive location for business, both domestic and international, thanks in particular to its natural resource base.

12. Perhaps the first and most important obstacle is the lack of information confronting an investor desiring to initiate a new activity in the country. Not only does Guinea-Bissau lack any service which could provide general information about the country, but even bureaucrats whose job it is to enforce regulations often do not understand the intricacies of the laws.

13. Second is the extreme complexity of the multiplicity of procedures required of private sector operators. These procedures are based on the idea that it is the job of the State to control and regulate private investments in all parts of the economy. There are numerous examples throughout the government of such requirements, but there is a corollary problem. Given the enormous number of requirements and the very weak ability to enforce or comply with them, there is inevitably a large gap between what the law requires and what is actually done in practice. There is a huge incentive to avoid the legal requirements wherever possible, giving rise to opportunities for officials to make money for not enforcing the letter of the law.

14. Improving this situation will take some effort and expense on the part of the government but there are some areas where improvements are clearly possible – these are summarized in the Action Matrix at the end of the Executive Summary. **There are several changes which could be made “at the stroke of a pen”, requiring no financial resources, and which could make a significant difference.** The adoption of the new Investment code and the elimination of import and export registration requirements are only two examples. These changes should be seriously considered as they would demonstrate the political will necessary to help procure funding to support further change.

Public Administration

15. A consistent observation in Guinea-Bissau is that the public administration is a major constraint to progress because of its weak commitment to public service. In addition to problems of late (and very low) salaries and lack of resources for everyday operations, a key problem is the justice system where the few courts are seriously overburdened. The complexity of the law has led to a high degree of variation in its application – there is no certainty as to what the courts will conclude in any given case. Part of this problem was addressed by the adoption of the OHADA regulations but there is a great deal of arbitrariness remaining, together with a lack of courts. This needs however to be followed by the adoption by Parliament of the relevant legal texts, as well as the development of judicial and administrative structures and practices that allow the laws to become operational and legal information to become accessible to the population.

16. Of particular relevance to international trade is the operation of Customs. This is part of the Ministry of Finance and though it is clear that the management of this Directorate wants to streamline and modernize, progress has been slow for several reasons. One is a large and often redundant workforce which cannot easily be downsized due to civil service regulations. Another is the need to implement modern computer based systems which are not only expensive, but which also require substantial staff training. Overall, it will be important in the short term to **invest in modernizing Customs operations and to vest authority for port clearance in Customs alone.**

Finance

17. A well functioning financial sector, providing access to finance to operators at all levels of export oriented value chains will be essential to the realization of Guinea-Bissau's ambitious economic growth objectives. **The implementation in the coming years of a comprehensive program to reinforce the sector as a whole, and the micro-finance sector in particular, will be critical for the sector to play its key role in the development of the country.** Several of the sectors below, including most notably agriculture and fisheries, depend a great deal on the successful development of financial institutions capable of operating at the micro level and decentralized so that dispersed populations can access them. Improving the government agencies responsible for oversight in this area will be an important part of promoting financial development, as will direct support of microfinance institutions, particularly in areas where producers of key products such as cashew, rice and fish are concentrated.

18. Among promising venues for financial development are the introduction of inventory-based credit (*warrantage*) which is particularly well suited to the nature of the cashew market, and equipment hire-purchase schemes which can assist in needed investments particularly with respect to rice production. Also important is the need to make access to term finance easier by reducing fees for registering assets as collateral and also revaluing balance sheets in CFAF.

Infrastructure

19. Guinea-Bissau's **infrastructure is in an extremely degraded condition** and is *the priority item* on needed investments to promote trade integration and indeed economic growth in general. The report singles out three main areas for attention: ports, roads and electricity.

Ports

20. **Guinea-Bissau is in imminent danger of losing its direct access to seaborne trade through the degradation of the physical condition of its port in Bissau.** The ports of Senegal or The Gambia are already competitive in cost terms given the extremely high cost of shipping through Bissau (an additional US\$1,000/container as compared to Banjul). Construction is now complete on two bridges on the main route north from Bissau to Senegal which permits direct trucking of cargo to ports in Senegal and The Gambia without the need for transshipping on ferries to cross rivers. Given the significantly lower port costs in Banjul and Dakar, these have become the least cost alternatives for shipping into and out of Guinea-Bissau.

21. The problems lie in several areas, but clearly the most pressing is the need to ensure physical access to the port itself. Dredging and marking the approaches to the port and the harbor are tasks which require ongoing maintenance but have been neglected for many years. Also very important are port operations themselves. Though the government port authority APGB has improved somewhat in the past two years, it is still an overstuffed bureaucracy. The physical condition of the port and its associated machinery is also a significant constraint. Work is under way to improve access roads and to pave container areas within the port. Expansion of the area available through demolition of disused buildings is also planned. However, an upgrading of the mechanical underpinnings of port operations (cranes, container movement, etc.) is also needed.

22. Much discussion has centered around the possibility of constructing an alternative deep water port either in Buba or in Biombo. These ideas merit study and may well be a long run solution for the country. However, **there is no substitute for rehabilitation of the Port of Bissau since that facility will, without some immediate action, cease to be functional long before the process of constructing a new port can be completed.**

Roads

23. The primary road network in Guinea-Bissau has recently been rehabilitated through programs funded by the EU, and is in good condition at the present time. Continuing maintenance to avoid a renewed degradation will be an important task for the future. The Fundo Rodoviario has been set up for this purpose - ensuring that these funds are in fact used for this purpose will be key to maintaining the primary roads in their current condition. **Secondary roads are still in an extremely degraded condition, leaving many areas with only intermittent access.** During the rainy season some areas, especially in the south of the country, have no road access at all, a particularly problematic issue given that the principal export crop, cashew, is harvested at that time.

Electricity

24. The situation in the electricity sector is a major problem. Only 20 percent of the population has access to public electricity, exclusively in major cities and towns and primarily in Bissau. Even in these areas, the electric company is only able to supply power 70 percent of the time. The electricity company (EAGB, Empresa Publica de Electricidade e Aguas da Guine

Bissau) has major financial constraints, including difficulty in collecting bills, as well as problems with adequately trained personnel and availability of spare parts.

25. Lack of electricity is a major constraint to the development of manufacturing and other activities which require power. The government needs to act immediately to restore generation capacity to internationally acceptable levels of service in the city of Bissau and address both technical and administrative (e.g. tariff structures and ensuring collection of payments) problems with generation and with the operational capacity of EAGB.

Cashew

26. Cashew is by far the most important cash crop grown in Guinea-Bissau. Indeed, the degree of export dependence on this crop exceeds even the dependence of most members of OPEC on oil exports. However laudable diversification may be (and indeed, it is a worthy goal not only to raise incomes but also to decrease the risk characteristics of export earnings), **it is impossible to achieve broad based success in export promotion and poverty reduction without a high degree of success in the cashew sector.** Most rural households are involved in this sector, while the fisheries and any future mining industry will have only a limited direct impact on employment and incomes.

27. It is abundantly clear that Guinea-Bissau possesses near optimal conditions for cashew production. Indeed, not only is cashew produced virtually without purchased inputs in most cases, but the quality of the nuts is superior to those from many other exporters and so is capable of commanding a premium on the international market. Furthermore, the vast majority of the cashew crop is produced by small farmers. In many areas it is hard to find small farmers who do not grow at least some cashew. This is extremely important in that it means that alterations in the farm gate price of cashews have a greater impact on the incomes of the poorest than any other variable in the economy.

28. The government is determined to pursue development of the cashew sector as demonstrated in the 2008 National Cashew Conference, in the adoption of a national strategy, and in the creation of the National Cashew Institute (INCA). Many of the key recommendations of this report were also emphasized in this conference – clearing the way for a consensus between the government and the donor community on an appropriate path for the future. Among the areas where action is needed in the short run are the following:

- Funding of research and extension – The national agricultural research institute, INPA, should rapidly reinforce and support its program in cashew with the assistance of Brazil’s EMBRAPA. Early action is key in preventing the spread of disease in what is essentially a country-wide monocultural production system.

- Quality Control/Grading of Nuts – In order to maximize the premium commanded by Guinean nuts on the world market and to allow Guinean cashews to meet phytosanitary standards in consuming countries, a program of grading and incentive payments for high quality is an important step,.

- Develop and Implement a Cashew Processing Promotion Program in order to recoup a greater share of the value added inherent in cashew production and processing.

Promotion of decentralized domestic processing can reduce the problems inherent in selling to what is essentially a monopsony (Indian processors) while reducing the volatility of export earnings. The viability of the Mozambican model has been proven and it is very likely that it can be replicated successfully in Guinea-Bissau given the low cost conditions for production there and recent experience with labor-intensive methods.

Rice

29. Rice has long been the staple food of Guinea-Bissau, but has in recent years been displaced to some extent by cashew, with the latter being used in exchange for rice as well as for cash. However, the food price crisis of 2008 and the prospect of future rice prices which are substantially higher by historical standards calls for a re-examination of rice policy. Based on a review of existing information together with a survey of costs relating to rice production at the farm level, this report recommends an effort to **promote expanded rice production, particularly in the mangrove systems typical along the many rivers in Guinea-Bissau as well as to rehabilitate some of the irrigated perimeters already in existence.** Cost studies show that Guinea-Bissau has a substantial comparative advantage in rice production and also has a number of unexploited opportunities to increase both area and yields in the rice sector.

30. Upland rice systems do not appear to be as competitive, even without accounting for the environmental costs associated with clearing forest for crop production. In contrast, the traditional system of mangrove swamp rice production appears to be deserving of investment judging from the low Domestic Resource Cost estimates. This production system involves construction and maintenance of anti-salt dykes and contour bunds as well as manual performance of all agricultural practices, resulting in a very labor intensive system. Of the 51,000 ha developed for mangrove rice cultivation, about 20,000 ha are estimated to have been abandoned or to have never been put into full use because of broken dykes and/or improper field preparations. An improved system of mangrove rice production has the potential to increase yields to as much as 3-3.5 MT/ha at a cost of \$2,500-5,000/ha. It is estimated that there are about 24,000 ha in the Geba river valley suitable for development of irrigated perimeters for rice and vegetable cultivation. Of these 10,000 ha can be developed without the need for major infrastructure works or additional water from the River Carubal.

31. There is an important need for rehabilitation and adequate funding of the national agricultural research institute's (INPA) rice research program. INPA lost all its genetic materials during the 1998 civil war, and only re-launched its variety improvement trials in 2008 at Contuboel. However, there are apparently no new varieties being tested yet for the mangrove swamps. Re-establishing a research program aimed at improving yields in the mangrove system will be an important priority for INPA in the future.

32. There are a number of steps that are recommended for Guinea-Bissau to better exploit the comparative advantage of its rice production systems in supplying its domestic market, thus substituting for imported rice. The most important include:

- **Upgrading of INPA's capacity for rice research** to generate improved technologies for mangrove and irrigated systems including those for variety testing, agronomic practices, improved labor use efficiency, and post harvest systems;

- **Encouraging the establishment of extension activities** based on such models as the Farmer’s Field Schools at least in major rice farming areas. These could be State run or NGO activities;
- **Investments in improved rural infrastructure, particularly rural roads, in key rice growing areas.**

Mining and Petroleum

33. Historically, the mining and petroleum sectors of Guinea-Bissau have been non-existent except for quarrying and a small amount of artisanal mining. While it has been known since the 1970s that there are potentially significant deposits of bauxite and phosphates, due to quality and infrastructure concerns, low international prices, and political instability, these were never fully explored. However, in recent years both the bauxite (2007) and phosphate (1997) areas have entered long-term exploration leases; in the case of phosphate, a decision may soon be made on the feasibility of developing a large mine, which would be the largest investment in the history of Guinea-Bissau. There also have been several offshore discoveries of heavy oil deposits. Although an economically exploitable deposit has yet to be found, several companies are currently active in the field. **If any of the above opportunities are realized, it would have a profound impact on national income, fiscal revenues, and foreign exchange earnings for Guinea-Bissau.**

34. The resource that is the closest to realizing its potential is phosphate. Exploitation of the higher quality reserves would last about 40 years, with an additional 200 years if the lower quality deposit is commercially viable. At the projected long-term price of US\$150 per ton, 600,000 tons per year of phosphate would gross US\$90 million. There are an estimated 113 million tons of bauxite reserves - if 5 million tons of ore were mined per year and the price for Guinea-Bissau’s bauxite was US\$25 per ton, the mine would gross US\$125 million per year over its lifetime. Clearly, these are big numbers compared to Guinea-Bissau’s GDP of about US\$360 million in 2007.

35. There are numerous examples of countries where the large majority of the population not only did not benefit but was eventually left worse off after the discovery and exploitation of large oil or mineral deposits, a phenomenon sometimes called the “resource curse”. One instrument a country can use to diminish the impact of the natural resource curse is to join the Extractive Industries Transparency Initiative (EITI). In the case of Guinea-Bissau, however, implementation of the EITI is not likely to be enough. If any of the ongoing exploration activities is ultimately successful, the impact on government revenues would put great pressure on the government to satisfy the demands of its supporters, special interest groups, and rent-seekers in general. There is a considerable danger that short-term political economy pressures would dominate long-term socio-economic considerations when making decisions on the use of the increased fiscal revenues. Accordingly, **it would be prudent for the government of Guinea-Bissau, with support from civil society, to ensure transparency on the amounts of revenues paid and received as well as covering the entire value chain of activities surrounding the extraction of minerals, oil or gas.** These include the awarding of contracts, collecting taxes, better management of price and foreign exchange volatility, and investing the

revenues effectively in sustainable development. In addition, recently-approved environmental laws will need to be enforced, and the integrity of national parks respected.

Tourism

36. Though Guinea-Bissau has virtually no tradition as a tourism destination, there is potential for growth in this area. A comprehensive tourism development strategy was formulated in 2001 in close cooperation with the Director-General of Tourism in the Ministry of Trade and Industry. That strategy identified both strategic and practical interventions none of which have been implemented to date. In order to avoid the possibly irreversible consequences of unplanned future investments, an updating and implementation of this strategy is essential.

37. **The primary resource of Guinea-Bissau is the Bijagós Archipelago.** It is West Africa's only archipelago, protected by swift tides and sandbanks, and boasting an impressive variety of marine life as well as unique mammals (e.g. the salt water hippo) and endangered species (e.g. sea turtles). The archipelago consists of some 80 islands of varying size. An additional value is found in a rich, traditional culture of the Bijagós people which the character of the islands has sustained for many years. Many sections of the islands – both beaches and forest areas – are sacred to the Bijagos people and play an important role in their daily culture. The old capital of Bolama (on Bolama Island) is a very interesting attraction where colonial history is clearly visible. Similar places in West Africa (notably Elmina and Cape Coast in Ghana) have made this their main tourism asset.

38. The Cantanhez Forest reserve, with a predominant semi-humid forest and mangroves located in the Tombali district, about 6 hours south of Bissau by road has some potential as a tourism destination but cannot be considered as a short term priority. Similarly, there are some attractive beach locations, particularly at Varela, that merit attention at some point in the future.

39. Clearly, the attraction of Guinea-Bissau's tourist sites is the combination of biodiversity and historical importance. To sustain biodiversity, a comprehensive view of costs and benefits needs to be made: covering the full range of protected area costs, ensuring that those who bear protected area costs are recognized and adequately compensated, and that those who benefit from protected areas make a fair contribution to their maintenance. In the short term, the priority actions that need to be taken include **the establishment and implementation of tourism management plans which include integration of protected areas into surrounding economies for the Bijagós, creation of a central hub for tourism at Bolama, which should be declared a national monument, and efforts to attract private sector tour operators capable of marketing to a broader audience.** The authorities should resist proposals which promise lucrative short-term gains but threaten the environmental assets which could sustain a vibrant tourism industry in the long-term.

Fisheries

40. The coastal area of Guinea-Bissau has waters with some of the highest primary productivity in the world. Industrial and artisanal fishing fleets intensively exploit a significant part of these resources. However, the fishery management systems of the countries of the region are, in general, ineffective, particularly with regard to controlling the movements of fishing fleets

that share among themselves most of the resources. Due to the predominance of an agricultural tradition in Guinea-Bissau, foreign artisanal and industrial fishermen catch most of the fishing produce in the country's coastal waters, part of which is undertaken outside the control of the fisheries administration. Some operate under the EU fisheries agreement which generates significant annual payments for the Government. However, as over-fishing reduces the size of their catch, the willingness to pay is declining. **Immediate actions are necessary to improve the monitoring and surveillance capacity of the Ministry of Fisheries, together with steps to enforce collection of revenue from foreign flagged vessels.** A temporary reduction in fishing licenses may be necessary to permit the re-building of fish stocks.

41. In the medium to longer term, it will be important to support both artisanal fishing, and the development of a national industrial fleet through improvement in post-catch infrastructure in Guinea-Bissau. However, these efforts cannot hope to achieve success without prior development of supporting investments in areas such as roads, electricity and credit markets. Given the important role fisheries revenue plays in Guinea-Bissau and the obvious potential for a greater share of the value added to be captured in-country, there is a clear need for the short run actions aimed at improving regulation and licensing to be followed in the medium and long term by actions designed to sell products directly to the international market, particularly Europe.

Priority Action Matrix

(a complete action matrix can be found in Annex 1)

| Objectives | Recommended Actions and Need for Technical Assistance | Implementing Institutions | Time Frame |
|--|--|------------------------------|---------------------|
| Macroeconomy | | | |
| Establish policy analysis capacity | Create permanent policy analysis capacity to report to Council of Ministers with analysis of regulatory, legal and policy reforms. | MF, MEPIR | Immediate |
| Prepare for Management of Mineral Revenue | Educate economic managers regarding the potential problems associated with large inflows of mineral receipts. Donors can assist through seminars and study trips to other African nations suffering from Dutch Disease and Resource Curse problems | MF, MEPIR, MERN | Immediate |
| Creating a Favorable Business Environment | | | |
| Facilitate the process of hiring workers | Eliminate the obligatory filing of all labor contracts with the IGT | MAPT; IGT; MEPIR; CCIA; MCPP | Immediate |
| Facilitate international trade | Eliminate the need for prior registration of imports and exports (<i>BRPI</i> and <i>BRPE</i>). | MCTA; MEPIR; MF; DGA; CCIA | Immediate |
| Facilitate private foreign investment | Adopt the proposed new Investment Code by the Council of Ministers | MEPIR; PRDSP | As soon as possible |
| Facilitate obtaining building permits | Adopt and disseminate the new law for urban buildings (Decree N° 8/2006, 31 June) | MIOPCU; CMB; MCPP; CCIA | As soon as possible |
| Prevent existing problems in fiscal system | Perform an audit and diagnostic for restructuring of the DGCI. | AFRITAC/FMI; FIAS/BM | Immediate |
| | Training and assistance in the area of SYSCOA for both fiscal inspectors and the private sector | IFC; WAEMU; DGCI; CCIA; UCGB | Immediate |
| Finance | | | |
| Eliminate Obstacles to Term Finance | Reduce fees for revaluation of corporate balance sheets necessitated by accession to FCFA zone and the cost of registering assets as collateral | MF, MEPIR | Short term |
| Leverage private funds by reducing risks | Establish partial credit guarantee fund with proceeds from cashew tax | CCIA | |
| Energy and Telecommunications | | | |
| Finish privatization of telephone sector | Sell the government's share of Guiné-Telecom and Guinetel | SETC; MEPIR; ICGB; CCIA | Immediate |
| Create conditions for private participation in energy production | Create new regulations and rate policies to permit private operators to recoup their investments and improve the quality of service | MF, MEPIR; MERN; PMRI; EAGB | Short term |
| | Proceed with evaluation of the possibilities for energy production at Saltinho | MERN | Short term |
| Transport and Customs | | | |
| Maintain road system | Fully fund Fundo Rodoviario | MIOPCU | Immediate |
| Rehabilitate Port of | Perform needed rehabilitation to port approaches, buoyage and port itself | SETC | Highest priority |

| Objectives | Recommended Actions and Need for Technical Assistance | Implementing Institutions | Time Frame |
|---|---|--|--------------------|
| Bissau | Reach settlement with previous port operator (TERTIR); identify new private sector partners. | MF, MEPIR, SETC | Immediate |
| | Streamline Customs operations; Assistance to implement and train staff in ASYCUDA++ | MF/Customs Directorate | Within a year |
| Agriculture | | | |
| Launch Pilot Research Program in Cashew | Establish cooperation between INPA and EMBRAPA | INPA, EMBRAPA, CNC | Immediately |
| Develop Cashew Processing Promotion Project | Consider feasibility of replicating the Mozambican model of decentralized processing facilities coupled with electricity generation | MADR, CNC | Immediately |
| Expand production in mangrove and irrigated rice perimeters | Establish necessary equipment availability for reconstruction of earth dykes, dams, waterways, etc. | FAO, MADR | Short term/Ongoing |
| Strengthen research program in rice | Improve rice research capacity of INPA | MADR, INPA, WARDA, IRRI | Immediate |
| Extractive Industries | | | |
| Improve the investment climate for extractive industries | Revise the 2000 Mining Law and the 1982 Hydrocarbon Law with emphasis on any areas that are not transparent or potentially ambiguous in their interpretation, including the responsibilities of companies and different levels of government. Ministerial discretion should be avoided. | DGM, MERN, Petroguin | Immediate |
| Increase the local benefits of extractive industries | Enter into the EITI++ process, which includes transparency on the amounts of fiscal revenues generated, their internal distribution, the awarding of contracts, management of price and foreign exchange volatility, and investment of revenues in sustainable development. | MERN, MF | By end 2010 |
| | Undertake detailed studies of the impact of large mining operations in Farim (phosphates) and Boe (bauxite) to determine how communities can benefit, including the implications for local and regional governance. | DGM, MERN | Immediate |
| Tourism | | | |
| Structured approach to tourism development | Tourism plan for the Bijagós, Cantanhez and Varela | Tourism Directorate | Immediate |
| | Protected area tourism mechanisms in place and mandate formulated | Tourism directorate, IBAP, Ministry of Environment, others | Short-term |
| Improve access | Simplify visa requirements and allow visa on arrival for EU and US passports | Customs and Immigration | Immediate |
| Fisheries | | | |
| Improve fisheries administration | Fisheries research and monitoring, information and surveillance systems strengthened; | Ministry of Fisheries | Short-term |

1. THE MACROECONOMIC CONTEXT FOR TRADE

A. INTRODUCTION

1.1 Guinea-Bissau is a small country of 1.6 million people and 36,120 square kilometers located on the west coast of Africa between Senegal on the north and Guinea on the south and east. Both cross-border and sea-borne trade are important with exports and imports amounting to more than 70 percent of GDP.

1.2 The case of Guinea-Bissau is much influenced by four important facts. First, Guinea-Bissau has an extremely high level of dependence on a single export - cashew, which is grown by the vast majority of peasant farmers in the country, covers close to 5 percent of the total land area, and accounts for 98 percent of export revenue as well as 10 percent of government revenue. Second, Guinea-Bissau suffers from an extremely degraded infrastructural base, with both roads and port facilities receiving little maintenance or improvement in the years since independence in 1975 and still suffering from the effects of the civil war that took place in 1998-99. Third, Guinea-Bissau is heavily dependent on imports of its most important staple food, rice, and has therefore been hit hard by the recent spike in world rice prices. Fourth, fish exports are a major source of government revenues, even though they do not figure in trade data. Fishing agreements allowing foreign vessels to operate in Guinea-Bissau waters but land their catch in other countries have accounted for over 50 percent of government revenues in the recent past.

B. THE MACROECONOMIC CONTEXT FOR TRADE, GROWTH, AND POVERTY REDUCTION

Poverty and Growth

1.3 Guinea-Bissau is one of the poorest countries in the world, with more than two thirds of the population falling below US\$2/day income and more than 21 percent below US\$1/day.² It is 175th out of 177 countries on the Human Development Index. Literacy is low at approximately one third of the population and while primary school enrollment is between 55 and 60 percent there is a much lower primary school completion rate than these figures might suggest. At 45 years, life expectancy is among the lowest anywhere. Per capita income declined over the period from 2001-2007. Table A1.1 (see end of chapter) shows summary data for key social and economic indicators over the past several years.

1.4 Guinea-Bissau suffered a short but intense civil war in 1998/99 which is estimated to have destroyed over one-third of the economy. A period of political instability followed until the President was removed through a bloodless coup in 2003. Fresh Presidential elections were held in 2005 after which the country has begun to rebuild. In 2009, the country is still recovering from the destruction and economic dislocation that resulted. Indeed, large parts of the countryside remain inaccessible during the rainy season and access is difficult even at the best of times.

1.5 The government has produced a strategy to reduce poverty in the country called the DENARP (Documento de Estrategia de Reducao da Pobreza) issued in 2006. After its recent updating, the DENARP is an accurate statement of the government's intentions. In the most general terms, the strategy endorses four pillars: modernizing public administration while

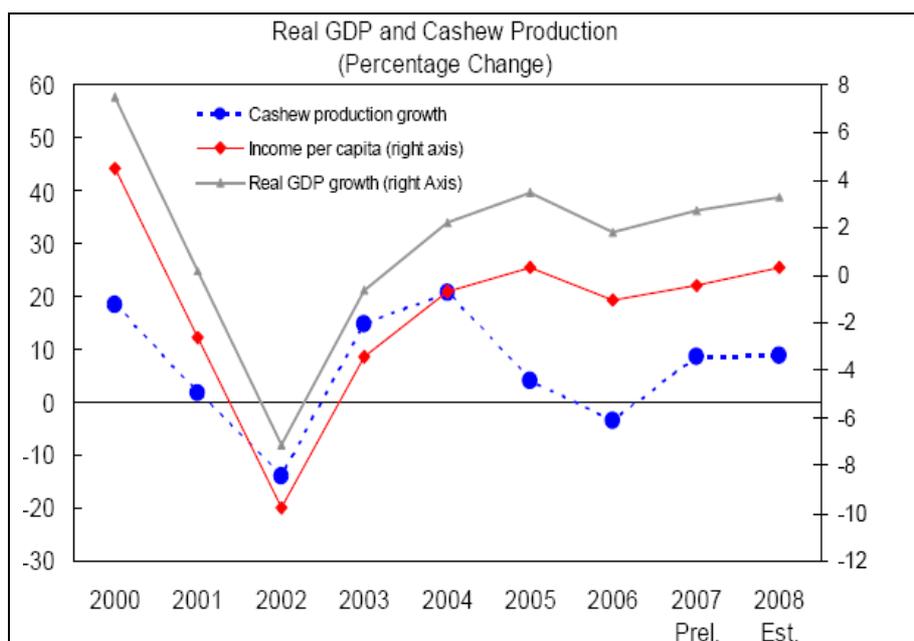
² See UNDP Human Development Report 2006

improving governance and working to ensure macroeconomic stability; promoting economic growth; increasing access to social services and public infrastructure; and improving the living conditions of the most vulnerable. However, with two thirds of the population living in poverty it is clear that this is a major undertaking and will take time to accomplish.

1.6 The majority of the extremely poor live in rural areas; almost three-quarters of the poorest third of Guineans earn their primary income from agriculture and almost all of the remainder in this tercile list agriculture as their second most important source of income. The middle tercile of the income distribution also is predominantly agricultural, with more than 60 percent listing this as their primary source of income. (See Boubacar-Sid et al. 2007)

1.7 Thus, it is essential to improve agricultural incomes if poverty is to be addressed in any meaningful and sustainable way. The intersection of poverty and trade is clear. The main cash crop in the country, cashew, is also the main export. The main staple grain, rice, is one of the main imports. The Government’s trade policy with respect to these two crops will be key to its success in reducing poverty. Indeed, as can be seen in Figure 1.1, overall growth in the economy tracks growth in cashew production quite closely.

Figure 1.1: Real GDP and Cashew production



Source: IMF

1.8 The vast majority of the cashew crop is produced by small farmers. Indeed, in many areas it is hard to find small farmers who do not grow at least some cashew. This is extremely important in that it means that changes in the farm gate price or production of cashews have a greater impact on the incomes of the poorest than any other variable in the economy. One study by Boubacar-Sid et al. concluded that a 15 percent increase in the farm gate price of cashew could result in an increase in consumption of the extreme poor of 9.5 percent and by the poor of 3.3 percent.

1.9 Rice is the traditional staple grain and accounts for nearly two thirds of the grain production in the country and three quarters of consumption, with the difference being made up

by imports. Rice production has stagnated in recent years and it has been observed that many farmers have switched to cashew production, preferring to barter this for rice rather than grow it themselves. Clearly, labor requirements for cashew production are far less than those for rice production, but there is in principle no reason why the two crops should conflict in terms of land allocation, particularly given the ready availability of fallow land in many parts of the country. Rice production could easily surpass domestic needs given yield improvements which would seem to be within reach. (See Chapter 6 below)

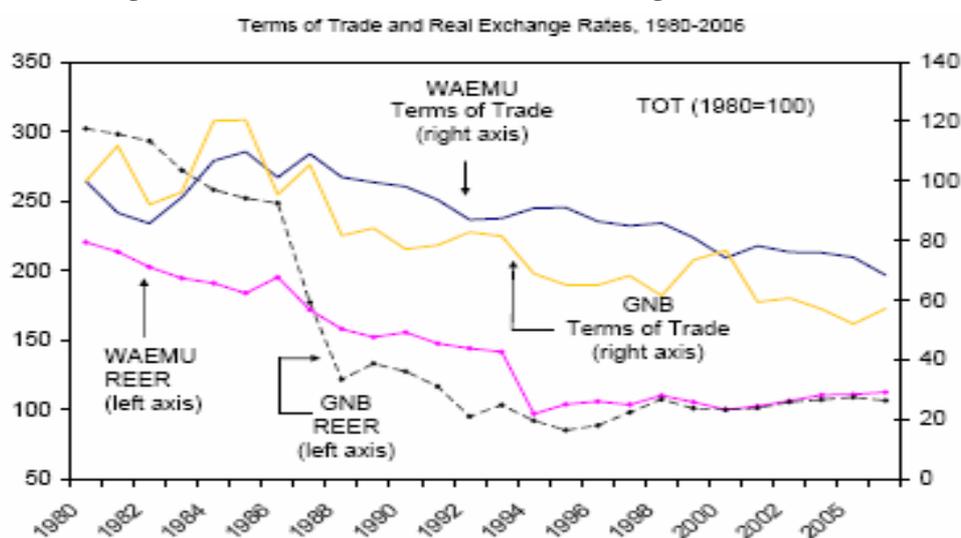
1.10 Of particular importance, however, is the obvious responsiveness of poor farmers to price and market incentives that are available to them. As the cashew sector took off during the 1990s many farmers switched to this crop, with a consequent negative effect on growth in rice production. (See Table A1.3 at the end of the chapter)

Recent Economic Performance

1.11 The economy recovered strongly in 1999 and 2000, before stagnating again in the period 2001-03. Average economic growth picked up to 3.4 percent by the end of 2005, but deteriorated sharply in 2006 due to inappropriate policies in marketing the cashew crop. In 2007 growth was just 2.7 percent due to late rains and consequently lower rice production, but rose to 3.3 percent in 2008.

1.12 Declining terms of trade also took a toll, with declining cashew prices and higher oil prices. (See Figure 1.2) This problem worsened further in 2008 as world oil prices and rice import prices spiked higher. More generally, inflation has been low, thanks largely to Guinea-Bissau's membership in the CFAF monetary zone. Inflation was 4.6 percent in 2007 but increased to 10.5 percent in 2008. Broad money growth amounting to 25 percent in 2007 played an important role in generating this result, as did increases in food prices.

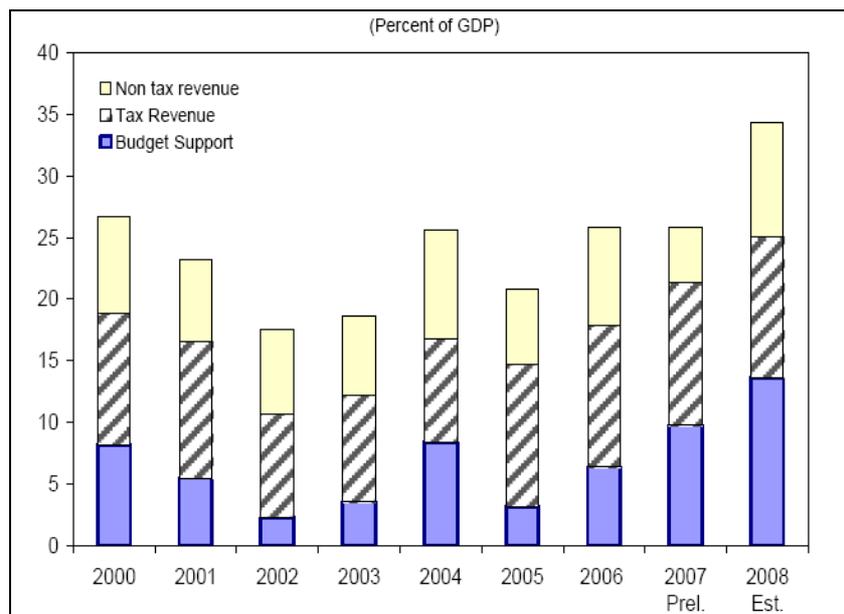
Figure 1.2: Terms of Trade and Real Exchange Rates, 1980-2006



Source: IMF Article IV Report, August 2007.

1.13 The authorities have concentrated efforts in the second half of 2007 and in early 2008 on stabilizing the fiscal situation of the government by improving budgetary controls and increasing revenue, particularly from customs. High public sector wage bills have been identified as a particular problem needing to be addressed. In spite of progress in this area, the country remains dependent on donors to bridge remaining financial gaps. (See Figure 1.3)

Figure 1.3: Sources of Revenue



Source: IMF

1.14 Customs receipts are a major contributor to government finances as can be seen in Table 1.1. Customs has contributed between 35 percent and 40 percent of the total tax take over the past three years and this figure has grown substantially over that period. The cashew export tax – 8 percent of an administratively determined price – remains an important contributor, at CFAF 1.9 billion in 2007. Fisheries revenues – primarily from the fisheries agreement with the EU – are even more important, accounting for roughly CFAF7.2 billion in 2006 (22.5 percent of total government revenues). The tariff exemption for rice imports, introduced in 2006 to offset rising import prices has resulted in a loss of CFAF678 million to the budget, or nearly 10 percent of the total contribution from international taxes.

1.15 Agriculture is by far the most important sector, accounting for about 60 percent of total GDP. Commerce, restaurants and hotels is next in importance at about 16 percent while industry (which includes utilities) amounts to a maximum of 9 percent, only slightly more than public administration (8.9 percent). These facts underscore the observation that higher GDP growth requires adequate growth in agriculture, even if there is success in diversifying into other sectors.

1.16 The government's fiscal balance is still quite precarious in that expenditures financed from donors or outstanding obligations to the BCEAO have remained quite large. In discussions with external donors the government pledged to make additional efforts to improve tax collection and to minimize recourse to domestic bank financing. Extremely tight spending limits have been

imposed in all areas as well as improved expenditure controls through the Treasury and the BCEAO. Donor support is, however, essential to closing remaining financing gaps.

Table 1.1: Tax Revenue 2005-2007 (Millions of CFAF)

| | 2005 | 2006 | 2007 |
|-------------------------------------|-----------------|-----------------|-----------------|
| | 27,978.0 | 32,106.3 | 26,618.3 |
| Tax Receipts | 18,333.7 | 18,473.6 | 18,793.0 |
| Direct Taxes | 4,113.4 | 4,621.7 | 4,710.4 |
| Indirect Taxes | 14,220.2 | 13,851.8 | 14,082.6 |
| Taxes on International Transactions | 6,426.0 | 6,807.1 | 7,027.5 |
| Tariffs (DI) | 3,754.4 | 4,479.3 | 4,207.4 |
| Fuel | 858.6 | | |
| Rice | 678.4 | | |
| Other Imports | 2,217.4 | | |
| Export Taxes | 0.0 | | |
| Cashew export tax | 2,009.8 | 1,606.2 | 1,897.9 |
| Customs Services Tax | 0.0 | 721.6 | |
| Others | 661.8 | | 922.2 |
| Community Solidarity Tax (ICS) | 254.1 | | 101.0 |
| Computer Tax (RS-1%) | 266.9 | | 102.0 |
| Economic Community Tax (PC- | 140.9 | | 51.6 |

Source: Ministry of Finance and IMF Staff Estimates

1.17 In order to address issues requiring investment in key sectors such as infrastructure, it will be important for fiscal restraint to be quite tight in other areas. Recent discussions with the Government have focused on the extent to which the public sector wage bill may crowd out other needs such as those that may be identified in this study. Tax receipts are relatively stable compared to total revenue and amounted to about three quarters of total receipts in the most recent year for which information is available.

1.18 Also important will be the role of the government's internal and external debt overhang in crowding out priority expenditures. Though Guinea-Bissau is a candidate for debt relief it is likely that there will be a substantial burden even after relief is achieved. Long term international debt amounted to approximately US\$830 million at year end 2007, though debt relief amounting to US\$180 million was reportedly approved by the Paris Club in February 2008. Even the lower debt remaining after relief is still quite high when compared to GDP at slightly more than US\$300 million. (See Africa Research Bulletin, March 2008).

Exchange Rate and Real Exchange Rate

1.19 Guinea-Bissau is a member of the West African Economic and Monetary Union (WAEMU) and shares its common currency, the CFA franc, which is pegged to the Euro, and the Central Bank of WAEMU, the BCEAO. Accordingly, there is no scope for exchange rate management by policy makers. However, there remains the potential for significant third party exchange rate effects. For example, between 2003 and 2008, the US dollar fell in value by 40 percent with respect to the Euro, and hence also in relation to the CFA franc. Insofar as Guinea-Bissau trades with the US or other countries which link their currencies to the US dollar, such shifts can be expected to have an effect on international trade. In addition, the principal export

crop, cashew, is priced in dollars on international markets and there may be some tendency for a decline in its CFAF price as the dollar falls.

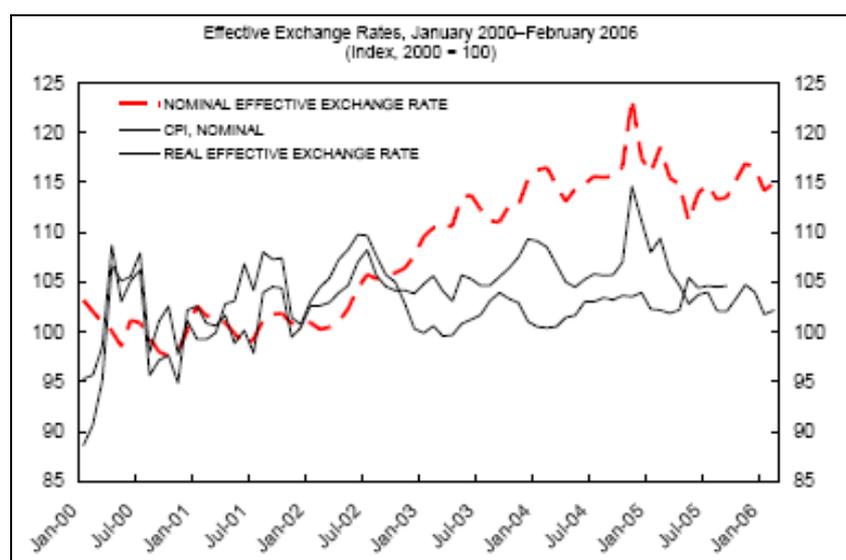
1.20 The real exchange rate (RER) is probably the single most important macroeconomic variable affecting incentives to export and import. In Guinea-Bissau the government's ability to affect the real exchange rate is limited by its use of the CFA franc. This means that changes in the real exchange rate can come from only two sources. First and most important is changes in the domestic price level which result in inflation differentials between Guinea-Bissau and its trading partners. The second is third party effects where changes in exchange rates between the euro/CFAF area and e.g. the dollar, alter incentives to trade.

1.21 Overall, the real exchange rate for Guinea-Bissau has remained stable for the past decade as the value of the RER for Guinea-Bissau has tracked closely that of the rest of the WAEMU area. As noted above, this is in line with inflation performance, which has been quite close to that of its monetary partners, though these are not its major trading partners (See Figure 1.6). Inflation surged at the end of 2007 and in 2008, largely due to increases in the world prices of food and oil, with a figure of 10.5 percent registered in 2008 after a much lower 3.7 percent average during the first 11 months in 2007. However, inflation has come down quite significantly in 2009.

1.22 Though inflation is typically a major issue in real exchange rate movements and relative competitiveness vis-à-vis other countries, to the extent Guinea-Bissau's inflation stems from factors affecting all of its trading partners, its relative position will remain largely the same insofar as imports are equally important in each of the countries. Clearly this is the case in both world oil and grain markets, though of course governments have some ability to affect actual domestic prices of the commodities involved, and the extent of pass-through to domestic prices may vary across countries.

1.23 To the extent that Guinea-Bissau's inflation is greater than other WAEMU countries, it will lose competitiveness with respect to its neighbors (but not necessarily with its major trading partners since Guinea-Bissau's exports consist mainly of cashew, which is not the case with its neighbors). Inflation in the EU zone is well below that in Guinea-Bissau, indicating that a real appreciation has in fact occurred vis-à-vis one of the country's most important trading partners.

Figure 1.4: Effective Exchange Rates



Source: IMF Article IV Report, August 2007.

1.24 Looking at the historical record (See Figures 1.2 and 1.4), Guinea-Bissau has been largely free from major shifts in its RER since 1994, a period spanning its civil war and the consequent massive economic upheaval. The post-war period has seen major inflows of foreign assistance, something which would in ordinary circumstances give rise to some symptoms of Dutch Disease. That this did not happen can be attributed to the large amount of excess productive capacity resulting from the approximately one-third drop in GDP during the 1998/99 civil war. As long as most sectors are in a position to easily expand supply, and/or aid is heavily import-intensive, foreign funded increases in aggregate demand could take place with relatively small inflationary impacts.

1.25 This phase may be coming to an end given the inflation performance of 2008. Some supply side bottlenecks are becoming apparent and the risk of inflation is consequently higher than before, particularly given the sharp increases in the prices of important traded goods on the both the export and import sides.

Mineral Income and Macroeconomic Stability

1.26 The prospect of significant mineral income from phosphate mining, bauxite and possibly oil presents exciting possibilities but also raises the question of real exchange rate movements in the near future. Given that income from these sources could amount to as much as 30 percent of GDP (see Chapter 7 on mining), the possibility of Dutch Disease or Resource Curse distortions are not at all academic – rather, they are a virtual certainty.

1.27 Briefly, a common pattern would be to see increasing expenditure in the central apparatus of the government and in the capital city, while the inflation occasioned by these expenses resulted in an appreciation of the real exchange rate. The increased costs of inputs such as labor and transport would in turn adversely affect producers of other traded goods (e.g. cashew and rice) who would not themselves benefit from the mineral revenue. Commonly suggested solutions to this problem are to smooth the time profile of expenditures through some oil funds

and to focus on investments with a large import content and/or that can reduce costs and enhance the competitiveness of activities in which the country has an underlying comparative advantage.

1.28 Government officials appear to have little awareness of these issues. In contrast to the need for transparency in the disposal of mineral income (adherence to the EITI recommendations is discussed below in the context of mineral income), the idea that even perfectly transparent accounting could nevertheless result in economic problems given the size and distribution of spending was not well understood. It will be important to engage in awareness-raising and educational efforts to alert the government's leading economic policy makers and civil society to the issues involved. Seminars using examples from the recent history of other Sub Saharan countries could be quite productive. Further analysis of this issue, and a discussion of appropriate policy responses, should be an immediate priority.

C. THE POLICY REFORM PROCESS

Policy Reform – The Importance of an Effective Process

1.29 While there is a general consensus that significant improvements are required in the policy and regulatory environment in order to facilitate private sector investment and growth, specific efforts for improvement have rarely met with success. Key factors that contribute to the impasse in the reform process include:

1. The internal instability of the Government with frequent changes of ministers and ministerial staffs. This tendency has accelerated since the civil war with several ministries, including the Ministry of Commerce, experiencing an almost yearly turnover;
2. The ambiguous distribution of power, with the executive authority being split between the elected President and a Prime Minister who is appointed by parliament;
3. The lack of adequate analytical and technical capability within the Government to prepare solid and well reasoned proposals for policy reform;
4. The absence of a structured public-private sector consultative mechanism to achieve consensus on reform priorities and monitor the implementation of reform policies.

1.30 A recent World Bank study³ analyzes the policy reform process in a number of countries (Botswana, Cape Verde, Malaysia, Mauritius, and Taiwan) which have experienced rapid growth and poverty reduction, and concludes that the key element which these countries had in common was the presence of a small dedicated and empowered reform team. These teams shared certain characteristics in that they were apolitical in nature and enjoyed a high degree of autonomy, engaged the private sector but kept them at arm's length, remained one step removed from the political frontline, and had access to resources. This way they were able to avoid being captured by private sector interest groups or by government political factions, and could ensure follow-up

³ Alberto Criscuolo and Vincent Palmade: *Reform Teams – How the Most Successful Reformers Organized Themselves*, World Bank Public Policy for the Private Sector, Note No. 318, February 2008.

on their proposals. This is particularly important in Guinea-Bissau given the very high turnover in high level government positions. The functions of these teams typically included:

- Designing reform strategies which focus on a select number of policy obstacles; the key turned out to be the ability to agree on a set of priority reforms and focus on them, as the capacity to implement many policy reforms at once usually is not present;
- Facilitating and leading an effective policy reform dialogue with the private sector to create a consensus for reform and in the process, identifying and nurturing “champions for change”;
- Coaching political leaders and providing them with technical support to enable them to become more effective agents for change;
- Bringing to bear their expertise in conducting critical policy negotiations with and on behalf of domestic and international companies;
- Providing support in mobilizing and allocating resources for the implementation of strategies, particularly by coordinating donor support; and
- Compelling the administration to act by agreeing with the implementing agencies on specific targets, budgets and responsibilities, monitoring their progress and suggesting corrective actions to the national leadership.

1.31 The study identifies three key success factors shared by these teams which are: an appropriate mix of skills, an assured and continued access to key government decision makers, and adequate resources. Also, in several of these countries the authorities had decided to install such reform teams during a period of profound change, following independence or civil war.

1.32 Currently, there is no such reform entity in Guinea-Bissau. At one time, the most closely comparable institution would have been the INEP (*Instituto Nacional de Estudos e Pesquisa* – National Institute for Studies and Research) which played a key role in the preparation of “*Djitu Ten*”, the long-term Government Strategy Paper which was formulated in 1996 with a development vision covering a period until 2025. As with other government institutions, INEP has suffered greatly from the civil war and continues to suffer from a lack of financial and human resources; being part of the Ministry of Education it enjoys limited independence or influence and its stability is undermined by frequent turnovers in the Ministry.

1.33 The National Cashew Council (NCC) is the institution responsible for advising Government on all issues related to the development of the most important sector of the economy. However, due to its ambiguous organizational structure and inadequate resources it has so far been unable to play an effective coordinating role in developing a development strategy for the sector.⁴ Moreover, as a sectoral organization it cannot be counted on to develop proposals for the reform of the general policy and regulatory environment.

1.34 The Project Implementation Unit of the Private Sector Rehabilitation and Development Project (PSRDP) increasingly has contributed to the preparation of reform proposals, reaching

⁴ See Chapter 6 for a description of this organization, its strengths and weaknesses, and recommendations for its restructuring and reinforcement.

out to different ministries and constituencies. It has been given the responsibility for review and follow-up of the annual “Doing Business Survey” and so far, it has succeeded in reducing the startup time for new businesses and reducing the corporate income tax. Its role in the reform process has become more visible since its organization of the 2007 public-private sector investment forum. However, this forum has remained without significant follow-up and it is unclear whether the unit can sustain its work beyond the closing date of PSRDP, scheduled for mid-2009.

Recent Developments

1.35 A proposal has been submitted with the African Capacity Building Foundation (ACBF)⁵ to establish a “Center for Strategic Transformation and Leadership” which would capitalize on the policy expertise that has been built up in the course of the PSRDP. The proposal calls for the creation of a private, independent and non-partisan center that would:

- Conduct strategic analyses and, through a participatory process involving sectoral organizations and stakeholders, design sectoral development strategies and action plans;
- Conduct regional planning analyses and formulate regional development strategies;
- Analyze public finance procedures to improve budget formulation and public revenue generation;
- Advocate for the implementation of existing recommendations by mobilizing stakeholders; and
- Serve as a repository and custodian of national institutional memory in an environment of frequent changes in government structures.

1.36 The mission and role of this center would be directly in line with the vision of *Djitu Ten* which has identified the need for the creation of such capacity to achieve an improved policy environment. The proposed governance structure of the center calls for linkages with members of the Diaspora, an approach which has proven to be particularly effective in a number of successful reforming countries. If implemented as planned, this center could develop into a solid building block for a sustainable policy reform process.

1.37 During its initial phase, the center would be largely dependent on outside financing but as the private sector develops and gains strength, it could evolve into a self-sustaining, independent reform entity, much like the Mauritius Joint Economic Council (JEC) and the *Confederação das Associações Económicas de Moçambique* (Mozambique Federation of Business Associations – CTA). Both these organizations have established themselves as essential and effective partners to their Governments in the pursuit of economic development, and are largely financed by the contributions of their members which include multi-sectoral institutions such as the chambers of commerce, industry and agriculture, and sectoral associations.

⁵ ACBF was established in 1991 by the World Bank, the African Development Bank and UNDP, and its membership comprises the IMF and 41 African and non-African countries. Its mission is to build and strengthen indigenous capacity in macro-economic policy analysis and development in order to improve the quality of public policy and promote good governance and sustainable development. It has helped set up and finance many of the think tanks and policy units across the continent.

Next Steps for Continued Policy Reform

1.38 The key element that is currently missing in Guinea-Bissau's policy reform process and which has led to a situation where reform priorities fail to get addressed or adopted measures fail to get implemented, is the presence of a small dedicated and permanent team of experts that has been tasked to get the job done. The investment in human and physical resources required to make such a team effective would be relatively limited. Far more important would be the buy-in among the highest levels of policy decision makers into the concept and their commitment to make it work.

1.39 Once this commitment has been made, it would be useful to examine agencies with a similar mission, ranging from APIX (the *Agence Nationale Chargée de la Promotion de l'Investissement et des Grands Travaux*) in neighboring Senegal, to the CTA in Mozambique and the JEC in Mauritius. Given the Guinea-Bissau environment, the entity should probably consist of a small team of experts with the resources to outsource specific technical assignments to domestic and international experts. The lessons learned from the experiences elsewhere should be adapted to the context of the Guinea-Bissau environment and this process should lead to decisions on such key aspects as the appropriate institutional set-up and governance structure, operating procedures, and a work plan for the startup phase.

1.40 An essential part of the process would be that the work plan is regularly reviewed and updated and based on a consensus between the administration and the private sector on reform priorities. The reform team should be charged with turning the public-private investment forum into a periodic event to monitor progress achieved on previously adopted reform proposals, and formulate a limited set of specific proposals for policy reform in the upcoming period.

1.41 The 2006 DENARP includes a budget line for the reinforcement of macro-economic management capacity. A portion of this budget provision could be allocated to the reform team to be leveraged with donor funding. Additional resources could be drawn from the Enhanced Integrated Framework which envisages the creation of a unit for the implementation of the DTIS action plan. While it can be envisioned that a combination of government and donor funding would finance the team during its initial years, a financing plan should be developed from the start to provide for the continuation of the team's work once initial donor support has run out. Given the interests at stake and the fact that the business community is an essential stakeholder to the reform process, it should be expected that the private sector gradually takes over an increasing portion of the budget.

Table A1.1: Basic Social and Economic Data for Guinea-Bissau

| | 2000 | 2005 | 2006 |
|---|---------------|---------------|---------------|
| People | | | |
| <u>Population, total</u> | 1.4 million | 1.6 million | 1.6 million |
| <u>Population growth (annual %)</u> | 2.8 | 3.0 | 2.9 |
| <u>Life expectancy at birth, total (years)</u> | 44.5 | 45.1 | .. |
| <u>Fertility rate, total (births per woman)</u> | 7.1 | 7.1 | .. |
| <u>Mortality rate, infant (per 1,000 live births)</u> | 132.0 | 124.0 | .. |
| <u>Mortality rate, under-5 (per 1,000)</u> | 215.0 | 200.0 | .. |
| <u>Births attended by skilled health staff (% of total)</u> | 34.7 | .. | .. |
| <u>Malnutrition prevalence, weight for age (% of</u> | 25.0 | .. | .. |
| <u>Immunization, measles (% of children ages 12-23</u> | 59.0 | 80.0 | .. |
| <u>Prevalence of HIV, total (% of population ages 15-</u> | .. | 3.8 | .. |
| <u>Primary completion rate, total (% of relevant age</u> | 27.0 | .. | .. |
| <u>School enrollment, primary (% gross)</u> | 69.8 | .. | .. |
| <u>School enrollment, secondary (% gross)</u> | 17.8 | .. | .. |
| <u>School enrollment, tertiary (% gross)</u> | 0.4 | .. | .. |
| <u>Ratio of girls to boys in primary and secondary</u> | 64.9 | .. | .. |
| Environment | | | |
| <u>Surface area (sq. km)</u> | 36,120.0 | 36,120.0 | 36,120.0 |
| <u>Forest area (sq. km)</u> | 21,200.0 | 20,720.0 | .. |
| <u>Agricultural land (% of land area)</u> | 57.9 | .. | .. |
| <u>CO2 emissions (metric tons per capita)</u> | 0.2 | .. | .. |
| <u>Improved water source (% of population with</u> | 58.0 | .. | .. |
| <u>Improved sanitation facilities, urban (% of urban</u> | 57.0 | .. | .. |
| Economy | | | |
| <u>GNI, Atlas method (current US\$)</u> | 217.4 million | 282.4 million | 306.9 million |
| <u>GNI per capita, Atlas method (current US\$)</u> | 160.0 | 180.0 | 190.0 |
| <u>GDP (current US\$)</u> | 215.5 million | 301.1 million | 304.5 million |
| <u>GDP growth (annual %)</u> | 7.5 | 3.5 | 4.2 |
| <u>Inflation, GDP deflator (annual %)</u> | 3.3 | 7.6 | -3.8 |
| <u>Agriculture, value added (% of GDP)</u> | 56.4 | 60.3 | 61.8 |
| <u>Industry, value added (% of GDP)</u> | 13.0 | 11.7 | 11.5 |
| <u>Services, etc., value added (% of GDP)</u> | 30.6 | 28.1 | 26.8 |
| <u>Exports of goods and services (% of GDP)</u> | 31.8 | 37.7 | 42.2 |
| <u>Imports of goods and services (% of GDP)</u> | 51.6 | 50.8 | 53.2 |
| <u>Gross capital formation (% of GDP)</u> | 11.3 | 14.6 | 17.2 |
| States and Market | | | |
| <u>Time required to start a business (days)</u> | .. | .. | 233.0 |
| <u>Military expenditure (% of GDP)</u> | 4.4 | .. | .. |
| <u>Fixed line and mobile phone subscribers (per 1,000</u> | 8.1 | .. | .. |
| <u>Internet users (per 1,000 people)</u> | 2.2 | 19.5 | .. |
| <u>Roads, paved (% of total roads)</u> | .. | .. | .. |
| Global Links | | | |
| <u>Merchandise trade (% of GDP)</u> | 56.2 | 72.4 | 60.8 |
| <u>Net barter terms of trade (2000 = 100)</u> | 100.0 | 86.1 | .. |
| <u>Foreign direct investment, net inflows (BoP, current</u> | 702.3 | 10.0 million | .. |
| <u>Long-term debt (DOD, current US\$)</u> | 715.5 million | 671.3 million | .. |
| <u>Present value of debt (% of GNI)</u> | .. | 289.8 | .. |
| <u>Total debt service (% of exports of goods, services</u> | .. | .. | .. |
| <u>Official development assistance and official aid</u> | 80.3 million | 79.1 million | .. |
| <u>Workers' remittances and compensation of</u> | 2.0 million | 28.0 million | 28.0 million |

Source: World Development Indicators database, April 2007.

Table A1.2: Balance of Payments 2005-2007 (billions of CFA)

| | 2005 | 2006 | 2007 |
|--|-------|-------|-------|
| Goods and services | -26.8 | -54.8 | -35.6 |
| Goods | -8.7 | -34.2 | -23.4 |
| Exports, f.o.b | 47.2 | 29.0 | 31.7 |
| <i>Of which: cashew nuts</i> | 44.7 | 26.6 | 29.0 |
| Imports, f.o.b | -55.9 | -63.2 | -55.1 |
| Of which: food products | -26.7 | -34.3 | -27.1 |
| Of which: petroleum products | -16.8 | -23.2 | -19.3 |
| Services (net) | -18.1 | -20.6 | -12.2 |
| Credit | 2.6 | 4.7 | 4.4 |
| Debit | -20.7 | -25.3 | -16.5 |
| Income (interest scheduled) | -6.3 | -4.5 | -3.3 |
| Current transfers (net) | 25.0 | 35.8 | 30.2 |
| Official ^{1,2} | 12.1 | 21.6 | 17.0 |
| <i>Of which: balance of payments support grants</i> | 5.1 | 10.2 | 17.0 |
| <i>Of which: EU fishing compensation</i> | 4.8 | 4.8 | 0.0 |
| Private | 12.9 | 14.2 | 13.2 |
| <i>Of which: fishing license fees</i> | 2.8 | 2.4 | 0.0 |
| Current account | | | |
| Including official transfers | -8.0 | -23.5 | -8.7 |
| Excluding official transfers | -15.4 | -40.3 | -25.7 |
| Excluding official transfers and interest payments | -9.1 | -35.8 | -22.4 |
| Capital and financial balance | -5.4 | 4.8 | 7.3 |
| Capital account ³ | 23.7 | 17.4 | 12.1 |
| Financial account | -29.1 | -12.6 | -4.7 |
| Official medium- and long-term disbursements | 6.2 | 8.8 | 11.6 |
| Balance of payments support | 0.0 | 0.0 | 0.0 |
| Projects | 6.2 | 8.8 | 11.6 |
| Scheduled amortization | -17.9 | -12.3 | -11.3 |
| Treasury bills and regional financing | 10.0 | -1.1 | -1.3 |
| Commercial bank net foreign assets | 3.1 | -4.6 | 1.1 |
| Private net foreign assets and errors and omissions ⁴ | -30.5 | -3.4 | -4.8 |
| Overall balance | -13.4 | -18.7 | -1.3 |
| Financing | 13.4 | 18.7 | 1.3 |
| Net foreign assets (increase -) ⁴ | -10.3 | 3.0 | -10.5 |
| <i>Of which: net IMF credits</i> | -1.1 | -2.2 | -1.9 |
| Purchases and loans | 0.0 | 0.0 | 0.0 |
| Repurchases and repayments | -1.1 | -2.2 | -1.9 |
| Debt relief | 5.3 | 4.9 | 3.4 |
| Change in debt-service arrears (decrease -) | 17.1 | 10.9 | 9.5 |
| Gross Financing gap | 0.0 | -0.1 | -1.1 |
| Of which: net IMF credits | | | |
| <i>Memorandum items</i> | | | |
| Export volume growth (percent) | 0.8 | -18.3 | 14.1 |
| Import volume growth (percent) | 16.7 | 16.3 | -15.5 |
| Scheduled debt service | | | |
| Percent of exports and service credits | 48.5 | 49.8 | 40.6 |
| Percent of total government revenue | 86.4 | 53.3 | 55.0 |
| Trade balance (Percent of GDP) | -16.9 | -34.1 | -20.7 |
| Current account balance (percent of GDP) | | | |
| Including official transfers | -5.1 | -15.9 | -5.6 |
| Excluding official transfers | -9.8 | -30.6 | -16.7 |
| Stock of external arrears, end of period | 152.6 | 163.4 | 173.0 |
| Overall balance (percent of GDP) | -8.4 | -11.6 | -0.8 |
| Gross Financing gap (percent of GDP) | 0.0 | -0.1 | -0.6 |

Sources: BCEAO and IMF staff estimates and projections.

¹ Including food aid and technical assistance to projects.

² For 2007, official transfers exclude Angola.

³ Excludes proposed 2008 EPCA drawings.

⁴ Excludes the financing gap, BCEAO includes the financing gap in the capital account.

Table A1.3: Guinea-Bissau: Output of Main Crops, 1997-2006
(Thousands of metric tons)

| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|----------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Rice | 137.8 | 124 | 138.7 | 80.2 | 88.4 | 87.9 | 88.3 | 89.1 | 98.3 | 106 |
| Other cereals | 61.8 | 55.6 | 59.4 | 62 | 75.8 | 66.8 | 58.9 | 75.4 | 79.5 | 83.6 |
| Manioc | 31.7 | 32 | 32 | 32 | 34 | 34 | 38 | 38 | 38 | 38 |
| Sweet potatoes | 22.5 | 14.6 | 25.7 | 26.8 | 27.8 | 29.2 | 29.6 | 29.3 | 29.3 | 29.3 |
| Coconut | 45 | 45 | 45 | 45 | 45 | 45 | 45 | 45 | 45 | 45 |
| Sugarcane | 72.5 | 48.4 | 24.4 | 25 | 25.6 | 26.9 | 27.2 | 28.3 | 29.4 | 30.4 |
| Vegetables | 9.2 | 7 | 7.4 | 7.5 | 7.7 | 7.9 | 8 | 8.2 | 8.3 | 8.5 |
| Fresh fruit | 327.4 | 278.3 | 333.9 | 283.9 | 340.6 | 289.5 | 247.4 | 295.3 | 354.4 | 301.2 |
| Of which: | | | | | | | | | | |
| cashews | 258.5 | 195 | 308 | 87.6 | 91.1 | 94.8 | 98.6 | 102.5 | 106.6 | 103 |
| Cashew nuts | 51.7 | 39 | 65 | 77 | 78 | 87.9 | 87.9 | 87 | 97 | 93.7 |
| Groundnuts | 15.8 | 12 | 12.5 | 16.2 | 16.7 | 17.2 | 17.7 | 18.2 | 18.8 | 19.3 |
| Cotton | 0.6 | 1.8 | 1.4 | 1.9 | 1.6 | 1.6 | 4.5 | 4.5 | 2.7 | 2.7 |

Source: Ministry of Agriculture and IMF Article 4 report, November 2007

2. TRADE PROFILE AND POLICY

A. TRADE FLOWS

2.1 Analysis of trade flows in and out of Guinea-Bissau is a difficult undertaking because of serious problems with data availability and quality. There are several sources, each of them with their own specific considerations and shortcomings, as described in Annex 2.1. Transit trade is particularly problematic – both in-coming and out-going. The former often creates a misleading impression of the originating country supplying the imports; the latter can create confusion over the actual export performance of the country under study. Cross-border trade between neighboring countries in Africa is typically under-reported, often by large amounts.

2.2 Given the huge discrepancies in Guinea-Bissau's trade statistics from different sources, no attempt has been made to engage in what would be a time-consuming (and possibly fruitless) effort to reconcile the available data. Data from several sources is used to describe orders of magnitude and important trends, while quoting each time the data source.

Trade Flows

2.3 The sum of the total trade of goods and commercial services (exports + imports at current prices divided by GDP) is often called the "trade openness ratio". In small, open economies, the share of trade in GDP is usually above 50 percent. Guinea-Bissau has a very high trade-to-GDP ratio, substantially higher than the WAEMU average (second only to Côte d'Ivoire) and closer to the average of other developing countries. The ratio has increased sharply between 1990 and 2005, following the same trend as in the WAEMU region and in other developing countries.

Table 2.1: Share of trade (imports + exports) as % of GDP⁶

| | 1990 | 2005 |
|----------------------|--------|--------|
| Developing countries | 43.1 % | 71.4 % |
| WAEMU | 36.6 % | 55.1 % |
| Guinea-Bissau | 45.1 % | 73.2 % |

Source: UNCTAD

2.4 Guinea-Bissau has traditionally run a large trade deficit (see Table 2.2). The rapid increase in cashew exports has contributed to the reduction of the merchandise trade deficit in recent years (with even a surplus in 2004), but the overall trade balance still ran a deficit ranging from 11 to 28 percent of GDP between 2004 and 2007. The respective contributions of goods and services to the trade deficit vary significantly, in part due to the fluctuation in commodity prices on both the import and export side. But the trade in services deficit is exceptionally large and its share in the total trade deficit never fell below 50 percent during the 2000-2007 period – with the exception of the unusual year 2006 when Guinea-Bissau experienced a temporary but dramatic fall in cashew exports. Services exports jumped to CFAF16 billion in 2007 from a low

⁶ Guinea Bissau's share of trade in GDP is 76.5 % in 2005 according to the balance of payment data in Table 2.2 : Trade in goods and services, based on BCEAO / IMF statistics. We retained the UNCTAD values to have comparators from the same source.

level between CFAF1.8 and 4.1 billion in the previous three years. It is not clear to which development this change is due, and if it represents an exceptional event or a new trend.

Table 2.2: Trade in goods and services

| | (CFAF billions) | | | | | | | |
|-------------------------------------|-----------------|-------|-------|-------|--------|-------|-------|-------|
| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
| Goods and services | -42.7 | -50.0 | -30.4 | -19.4 | -17.0 | -22.2 | -46.5 | -30.4 |
| Goods | -8.9 | -20.7 | -11.8 | -5.0 | 2.3 | -2.9 | -27.6 | -13.7 |
| Exports, f.o.b | 62.1 | 36.6 | 37.2 | 36.1 | 44.3 | 47.1 | 29.2 | 35.1 |
| <i>of which: cashew nuts</i> | 59.8 | 34.5 | 32.9 | 32.3 | 38.4 | 44.7 | 29.0 | 34.6 |
| Imports, f.o.b | 71.0 | 57.4 | 49.1 | 41.1 | 42.0 | 50.0 | 56.8 | 48.8 |
| <i>of which: food products</i> | | | | 19.8 | 16.9 | 17.9 | 21.0 | 15.5 |
| <i>of which: petroleum products</i> | | | | 6.7 | 8.4 | 11.3 | 14.0 | 11.0 |
| <i>of which: other</i> | | | | 14.5 | 16.7 | 20.8 | 21.7 | 22.3 |
| Services (net) | -33.7 | -29.3 | -18.5 | -14.4 | -19.3 | -19.3 | -18.9 | -16.7 |
| Credit | 6.4 | 5.4 | 5.1 | 5.0 | 4.1 | 2.7 | 1.8 | 16.0 |
| Debit | 40.1 | 34.6 | 23.6 | 19.4 | 23.4 | 22.0 | 20.7 | 32.7 |
| Nominal GDP at market prices | 153.4 | 145.9 | 141.9 | 137.1 | 150.6 | 159.2 | 165.8 | 182.8 |
| Trade deficit as % of GDP | 27.8% | 34.3% | 21.4% | 14.1% | 11.3% | 13.9% | 28.0% | 16.6% |
| Goods as % of trade deficit | 20.8% | 41.5% | 39.0% | 25.7% | -13.5% | 13.1% | 59.4% | 45.1% |
| Services as % of trade deficit | 79.0% | 58.5% | 61.0% | 74.3% | 113.5% | 86.9% | 40.6% | 54.9% |

Source: BCEAO data and IMF staff calculations.

NB: these data include an adjustment for informal trade, especially for cashew exports.

Exports

2.5 The usual presentation of exports as a breakdown by products and destinations can be easily summarized for Guinea-Bissau. One dominant export product: cashew nuts. One main destination: India, where raw cashew nuts are further processed.

2.6 The country is indeed almost totally dependent on cashew nuts for export sales. Cashew nuts represented between 88 and 99 percent of total export revenue between 1999 and 2007, according to BCEAO / IMF sources. The bulk of cashew nuts exports go to India (between 95 percent and 99 percent in the most recent years, according to the Customs administration) where the raw nuts are further processed for local consumption and re-exported to East Asia and developed countries' markets.

Table 2.3: Cashew nut exports as share of total exports

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|----------------------------------|---------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | (Millions of U.S.dollars) | | | | | | | | |
| Total merchandise exports | 51.2 | 87.5 | 50.0 | 53.6 | 62.2 | 84.0 | 89.4 | 55.9 | 73.3 |
| Cashew nuts | 48.6 | 84.3* | 47.2 | 47.3 | 55.7 | 72.8 | 84.7 | 55.5 | 72.4 |
| as % of total exports | 94.8% | 96.3% | 94.3% | 88.3% | 89.5% | 86.7% | 94.7% | 99.3% | 98.8% |

Source: BCEAO data and IMF staff calculations.

* corrected figure

2.7 An export share of 99 percent for one single product makes Guinea-Bissau the African country with the highest export concentration, even higher than oil exporters Nigeria and Equatorial Guinea. It is not clear if the increase of the share of cashew nuts to 99 percent in 2006 and 2007 compared to a somewhat lower share in previous years is due to the disappearance of other marginal export products or to a change in statistical methodology.

2.8 This picture is somewhat misleading, however, as significant volumes of fish are also exported from Guinea-Bissau waters. Fish exports do not show up in the official export statistics due to the peculiar construct of the rules of origin for fish. Fish takes the nationality of the vessel which catches the fish, independently of the location where it is fished.⁷ EU vessels have shipping rights in Guinea-Bissau, paid for under an EU fisheries agreement, and their fish shipments appear in the balance of payment under a subcategory of *transfers*, entitled “fishing rights”. In the recent past, revenues from this fishing agreement have accounted for as much as 40 percent of government revenues.

Export structure by destination

2.9 The following tables from the Comtrade data base and the IMF show the breakdown by destination of exports. Countries listed are those which have recorded at least 5 percent of exports at any time during the period 2000-2007. Since Comtrade includes import data from trading partners, some fish exports are captured in the first set of data. IMF data show a similar structure and trend towards the increasing importance of India as the main destination of exports (although total exports recorded differ in value from the Comtrade source above).

**Table 2.4: Main destinations for Guinea-Bissau's exports
(US\$ millions)**

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|----------|------|------|------|------|------|------|------|------|
| India | 62.7 | 9.8 | 47.2 | 51.8 | 70.3 | 96.5 | 49.6 | 72.1 |
| Italy | 1.8 | 1.6 | 3.4 | 5.9 | 4.3 | 2.6 | 2.0 | 0.2 |
| Nigeria | 0.8 | 0.5 | 2.6 | 12.9 | 0.0 | 0.0 | 1.0 | 0.0 |
| Thailand | 0.2 | 42.5 | 24.0 | 0.0 | 0.3 | 0.0 | 0.0 | 0.0 |
| Uruguay | 56.9 | 23.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| USA | 0.5 | 0.0 | 0.0 | 2.1 | 28.1 | 0.1 | 0.5 | 0.0 |
| Other | 7.0 | 7.8 | 12.8 | 3.9 | 10.0 | 7.8 | 5.9 | 6.1 |

Source: Comtrade

⁷ Despite the special rules of origin for fish, UN Comtrade data for Guinea Bissau's trading partners (so-called mirror data) show imports of fish from Guinea Bissau.

Share in %

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|----------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| India | 48.2% | 11.5% | 52.4% | 67.6% | 62.3% | 90.1% | 84.0% | 92.0% |
| Italy | 1.4% | 1.9% | 3.8% | 7.6% | 3.8% | 2.4% | 3.4% | 0.2% |
| Nigeria | 0.7% | 0.6% | 2.9% | 16.8% | 0.0% | 0.0% | 1.7% | 0.0% |
| Thailand | 0.2% | 49.8% | 26.7% | 0.0% | 0.2% | 0.0% | 0.0% | 0.0% |
| Uruguay | 43.7% | 27.1% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| USA | 0.4% | 0.0% | 0.0% | 2.8% | 24.9% | 0.1% | 0.8% | 0.1% |
| Other | 5.4% | 9.2% | 14.2% | 5.1% | 8.9% | 7.3% | 10.0% | 7.8% |
| Total exports | 100.0% |

Source: Comtrade partner data, recorded as imports c.i.f. from Guinea-Bissau

According to IMF DOTS (US\$ millions)

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|--------------------|--------------|--------------|-------------|-------------|--------------|--------------|--------------|--------------|
| India | 50.3 | 55.5 | 34.5 | 46.5 | 60.2 | 81.6 | 100.9 | 125.2 |
| Nigeria | 0.8 | 0.4 | 2.3 | 11.7 | 15.3 | 19.4 | 24.0 | 31.1 |
| Italy | 1.7 | 1.4 | 3.1 | 5.4 | 3.9 | 2.4 | 1.8 | 0.2 |
| United States | 0.5 | 0.0 | 0.0 | 1.9 | 25.6 | 0.2 | 0.5 | 0.0 |
| Thailand | 0.2 | 38.9 | 22.7 | 0.0 | 0.3 | 0.0 | 0.0 | 0.0 |
| Uruguay | 51.7 | 21.0 | 22.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other | 6.7 | 7.4 | 10.0 | 5.1 | 4.8 | 5.2 | 5.5 | 6.9 |
| World Total | 111.8 | 124.6 | 95.5 | 70.7 | 110.0 | 108.8 | 132.7 | 163.3 |

Source: IMF DOTS, exports f.o.b.

Share in %

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|----------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| India | 45.0 | 44.5 | 36.1 | 65.8 | 54.7 | 75.0 | 76.0 | 76.7 |
| Nigeria | 0.7 | 0.4 | 2.5 | 16.6 | 13.9 | 17.8 | 18.1 | 19.0 |
| Italy | 1.5 | 1.1 | 3.3 | 7.6 | 3.5 | 2.2 | 1.4 | 0.1 |
| United States | 0.4 | 0.0 | 0.0 | 2.7 | 23.3 | 0.2 | 0.3 | 0.0 |
| Thailand | 0.2 | 31.2 | 23.8 | 0.0 | 0.2 | 0.0 | 0.0 | 0.0 |
| Uruguay | 46.2 | 16.8 | 23.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other | 6.0 | 5.9 | 10.5 | 7.3 | 4.3 | 4.8 | 4.2 | 4.2 |
| Total exports | 100.0 |

2.10 Both the IMF and Comtrade record exports to Uruguay in 2000 and 2001, and to Thailand in 2001 and 2002, and both record significant shipments to the USA in 2004. Only the IMF records significant and increasing shipments to Nigeria over the 2003 to 2007 period. These could well be cashew shipments whose final destination is India, transiting through Nigeria or bought up by Nigerian traders.

Imports

2.11 The value of imports consistently exceeds the value of exports, contributing to a large trade deficit. As mentioned, there are considerable variations in the estimates of the value of imports.

Table 2.5: Imports by Guinea-Bissau (goods)

| Source | Currency | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|-----------------|----------|-------|-------|-------|-------|-------|-------|-------|-------|
| A | FCFA mia | 71.0 | 57.4 | 49.1 | 41.1 | 42.0 | 50.0 | 56.8 | 48.8 |
| A | m\$ | 116.7 | 94.9 | 85.6 | 85.8 | 113.2 | 123.4 | 123.9 | 116.2 |
| B | m\$ | 105.5 | 108.4 | 101.9 | 158.9 | 135.7 | 213.0 | 200.1 | 240.1 |
| C | m\$ | 89.0 | 78.7 | 83.0 | 104.2 | 114.3 | 186.7 | 156.0 | 204.6 |
| cif / fob ratio | | | | | | | | | |
| A | | 1.17 | 1.21 | 1.21 | 1.21 | 1.42 | 1.30 | 1.14 | 1.14 |

Sources: (a) BCEAO and IMF staff calculations; (b) IMF DOTS database, accessed online April 30, 2009; and (c) Comtrade, partner countries exports f.o.b., accessed online April 30, 2009

2.12 The discrepancies between the IMF data reported c.i.f. and the Comtrade data reported f.o.b. could be explained by a c.i.f./ f.o.b. ratio of about 1.2 (i.e. freight and insurance represent on average 20 percent of the f.o.b. value). The discrepancy with the A series is more difficult to explain and could point in the direction of undervaluation or use of administrative values for a taxation basis different from market values.

Imports by product category

2.13 Food and fuel products represent on average respectively 38.6 and 21.2 percent of total merchandise imports over the 2003-2007 period.⁸

**Table 2.6: Share of food and petroleum imports in total imports
(as percent of total imports of goods)**

| | 2003 | 2004 | 2005 | 2006 | 2007 | Average |
|-------------------|-------|-------|-------|-------|-------|---------|
| Food imports | 48.3% | 40.2% | 35.8% | 37.0% | 31.8% | 38.6% |
| Petroleum imports | 16.4% | 20.0% | 22.6% | 24.6% | 22.5% | 21.2% |

Source: BCEAO data and IMF staff calculations

⁸ Source: BCEAO /IMF data, April 2009. The CESO-CI report indicates a 2003-2007 average of 40% for food imports, calculated from UNCTAD and customs statistics. The two sources are very close.

2.14 As world prices for these product categories fluctuate sharply, import shares tend to vary accordingly. But despite the world wide rise in food prices in 2006-2007 (most notably cereals), a declining trend for food imports as a share of total imports stands out over the 5-year period. It is not clear if this development is due to increased local production of food staples or to a surge in “informal” imports. In any event, this trend is likely to have been reversed at least temporarily in 2008 with the spike in food prices, notably for rice. As expected, the share of fuel imports in total imports increases with the rise in world oil prices. Among food imports, rice represents the most important single item with about 12 percent, whereas flour, sugar and soy oil each represent about 2 percent of total imports.⁹ Among non-food and non-fuel imports, road construction machinery figures prominently, followed by vehicles and cement. Guinea-Bissau also imports almost all consumer goods as the already small industrial production base has further declined during the armed conflict.

Import structure by country / region of origin

2.15 Guinea-Bissau’s integration into the WAEMU economic and monetary zone has brought about some changes in the origin of imported goods. Imports from the EU fell from 57 percent during the 1990-1992 period to an average of 46.5 percent during 2004-2006, according to IMF data. But the decline has slowed somewhat during the most recent years.

2.16 The decrease in the share of imports from EU countries is in line with other sub-Saharan and West African countries over the same period. For Guinea-Bissau, this trend is mostly due to a fall of imports from Portugal, from an average of 30 percent during 1990-92 to about 16.4 percent during 2004-2006. Imports from China are on the rise, but according to the IMF, they are still below 5 percent during 2004-2006.¹⁰ It is surprising that almost no import flows seem to have developed in recent years with India (less than 1 percent of imports), although this country receives between 90 and 95 percent of Guinea-Bissau’s exports, has low-priced consumer goods to offer, and the additional advantage of the presence of a large trading community in West Africa.

2.17 The Comtrade mirror data go broadly in the same direction. During the 2000 – 2007 period, imports from the EU¹¹ haven fallen from 53 percent (2000) of Guinea-Bissau’s total imports to 43.1 percent (2007), in parallel with imports from Portugal which fell from 28.7 percent to 23.1 percent during the same period. Imports from China (including China, Hong Kong) seem stable over the period (5.2 percent in 2000 and 5.7 percent in 2007). According to Comtrade, imports from India (as measured by exports to Guinea-Bissau from India) represented an exceptional peak of 16.5 percent of Guinea-Bissau’s imports in 2000, but have since fallen to 1.8 percent in 2007.

⁹ These shares come from customs statistics, as the IMF source (DOTS) is based on Balance of Payment data and has no detailed breakdown by product.

¹⁰ This is one more instance where the accuracy of the statistics is dubious, as they conflict with *de visu* evidence on any outdoor market. A possible explanation could be that merchandise from China clears customs in Senegal or Gambia and is then informally exported to Guinea Bissau. Or the value of imports is underreported.

¹¹ EU-15 in 2000 and EU-27 in 2007. As EU exports are f.o.b., Guinea Bissau’s corresponding imports would also be on a f.o.b. basis (including transport and insurance), as are imports from the IMF DOTS source. But import statistics from Customs would be c.i.f.

2.18 Since Guinea-Bissau joined WAEMU, imports from Senegal have increased steadily and have gradually overtaken Portugal as the most important source of imports. From less than 3 percent during the 1990-1992 comparison period, imports jumped to 11 percent in 1997¹² (when Guinea-Bissau joined WAEMU and adopted the CFAF), steadily increasing ever since to an average level of 24 percent during the 2004-2006 period. Imports from other countries in the sub region (WAEMU other than Senegal, and other ECOWAS) represent a small share of imports: less than 4 percent, mainly from Côte d'Ivoire.

2.19 However, it is impossible to confirm that all goods shown as “origin Senegal” are actually produced in Senegal: part of these goods is probably “*provenance Senegal*” with Senegal serving as a transit country.¹³ By analyzing Comtrade mirror data, one finds that in some years, Senegal reports a significant part of its exports to Guinea-Bissau as “re-exports”, i.e. most often merchandise imported under suspension of customs duties (e.g. into a bonded warehouse) and subsequently re-exported. Normally such merchandise would have to be declared upon entry into Guinea-Bissau as imported from their initial country of origin, while adding the optional “*provenance Senegal*”. But apparently the customs administration does not apply this rule rigorously.

Table 2.7: Imports by Guinea-Bissau from Senegal
(US\$ millions)

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|----------------------------|------|------|------|------|------|------|------|------|
| Imports from Senegal | 11.7 | 14.4 | 21.2 | 27.2 | 46.0 | 47.7 | 41.3 | 51.1 |
| o/w re-exports by Senegal | n.d. | n.d. | 13.2 | n.d. | n.d. | n.d. | 27.1 | n.a. |
| HS 27 fuels | | | 8.2 | | | | 7.3 | |
| HS 10 cereals | | | 1.5 | | | | 8.1 | |
| HS 39 plastic articles | | | 1.7 | | | | 3.8 | |
| o/w imports origin Senegal | n.d. | n.d. | 8.0 | n.d. | n.d. | n.d. | 14.2 | n.a. |

n.d. = not declared o/w = of which

Source: Comtrade, accessed online April 2009, search criteria: exports and re-exports

2.20 While there is no indication at this point that the failure to identify re-exports from Senegal involves fraudulent practices and entails customs revenue losses, it makes it very difficult to carry out reliable revenue impact simulations of trade agreements (e.g. ECOWAS, EPA). At present, industrial products circulating within WAEMU and ECOWAS need a certificate of origin established by a national authority (Ministry of Industry or Customs administration) to be eligible for preferential treatment (tariff rate reduction or exemption). The imports (after re-exports) from Senegal most likely do not satisfy the requirements for Senegalese origin and are therefore fully dutiable. But Guinea-Bissau needs to know if these imports (1) have indeed been produced in Senegal and could satisfy the origin requirements; (2) are originating from an EU country and would therefore be exempt from duty under a future

¹² During the same year 1997, according to the DOTS, imports from Portugal fell to 0 % compared to 28% the previous year. As mentioned before, there is no point in dwelling on statistics for on particular year. Only multi-year averages and trends are relevant considering the poor quality of data.

¹³ DOTS gives a 2004-2006 average of 24% for “origin Senegal,” INEC gives 35% for merchandise ‘*en provenance du Senegal*’ for 2005 and 52% for 2006.

EPA (unless the product is on the exclusion list); or (3) are from a third country and will not be affected by existing trade arrangements or those under negotiation.

Origin of imports by product group

2.21 In the food and beverages product group, the most important suppliers are the European Union, Thailand (rice) and Senegal. These countries supplied respectively 40 percent, 20 percent and 12 percent of imports in the food category, based on 2007 Customs data. (once again, these data are not entirely consistent with other sources used in this chapter). For petroleum products, Senegal seems to be the most important supplier, followed by Côte d'Ivoire (54 percent and 25 percent respectively in 2007, Customs data). However, for both food and petroleum imports, the "origin" Senegal is far from certain: while Senegal does operate an oil refinery (processing imported raw oil), it is itself a food importer and it is highly unlikely that Senegal would export significant quantities of cereals.

Informal Trade

2.22 Informal trade flows are important in Guinea-Bissau as in most African countries. By definition, it is very difficult to obtain estimates. For cashew nuts, some reports give an estimate of 30 percent for informal exports, mainly through Senegal and The Gambia. The government has long taken a negative view of such shipments, particularly as they avoid paying the required export tax. While the ECOWAS free trade area allows for duty free importation of goods originating in member countries, it does not remove the obligation to pay export taxes. Reports in 2008 stated that the government was actively seeking to close the northern border to cashew shipments, but in reality there is no way to effectively accomplish this. Furthermore, the very high prices obtaining during the 2008 harvest period provided a strong incentive to sell output inside the country rather than transporting it to neighboring ports.

2.23 In general, the primary incentive to engage in cross border trade of this kind is to lower costs. With port costs at Banjul and Ziguinchor well below those in Bissau, with better roads and comparable distances, it is no surprise to find exporters seeking to avoid the delays and excessive costs of the Port of Bissau. The appropriate solution is not to hire more border guards in order to impede the flow of goods and services since that is not only expensive but also contrary to the spirit of the free trade zone of which Guinea-Bissau is a member. It would also result in lower farmgate prices paid to poor farmers, by imposing higher costs on traders. Rather, success in lowering port costs and delays in Bissau together with improvements in roads into the capital should tilt incentives toward selling via Bissau. From the point of view of the government, there should be no bias toward one or the other export channel providing payment of the export tax is made. Accordingly, a reasonable approach would couple port improvements with efforts to facilitate tax payment and shipment at land border crossing points with a concomitant effort to eliminate delays and corruption at these points.

B. TARIFF REGIME

2.24 As a member of the West African Economic and Monetary union, Guinea-Bissau applies the WAEMU common external tariff but it still uses the 1997 5-band structure rather than the 2000 4-band one.

Table 2.8: Tariff regime

| | Description | Rate |
|------------|--|------|
| category 1 | Special products of social relevance (pharmaceuticals, books, hygienic articles of rubber, medical devices etc.) | 0 % |
| category 2 | Basic necessities, industrial equipment, raw materials and specific inputs | 5 % |
| category 3 | Semi-finished goods and other inputs | 10 % |
| category 4 | Mixture of intermediate and final consumer goods | 15 % |
| category 5 | Final consumer goods | 20 % |

2.25 In addition to customs duty and possible application of the above protective taxes, the following duties levies are collected by the customs department at import:

Table 2.9: Other taxes collected at the border

| | | Nature | Rate |
|------|---|---|------------------------|
| RS | taxa informatica | statistics tax | 1% |
| IGV | Imposto general sub venda | sales tax | 15% |
| DGCI | contribuicao Industrial | enterprise tax | 3% |
| IEC | imposto especial sub consumo | consumption / excise tax | 5,10,20% (variable) |
| PCS | prélèvement communautaire de solidarité | WAEMU tax (finances WAEMU institutions) | 1 % |
| PC | prélèvement communautaire | ECOWAS tax (finances ECOWAS institutions) | 0.5% |

2.26 The government has also established reference prices to calculate import duties for rice and diesel imports that are much lower than actual import prices. These measures are expected to alleviate some of the impact of higher import prices, particularly for rice, the main staple, on the most vulnerable groups, especially the urban poor, but will have a fiscal cost in terms of lost revenue. As a temporary measure, since March 2008, all rice imports have been exempted from customs duties and taxes. The IGV sales tax is scheduled to be replaced by a deductible value added tax as in other WAEMU and most ECOWAS countries.

2.27 As a member of WAEMU, Guinea-Bissau has a simple average MFN tariff of 11.9 percent (the same as in as other member countries), whereas the trade weighted average is slightly lower at 10.9 percent. About 40 percent of tariff lines carry rates equal to or higher than 15 percent and are considered by international definition as tariff peaks.

Table 2.10: Comparison of average tariff rates

| Country | MFN applied tariff - Simple Average - All Goods (%) | MFN applied Tariff - Weighted Average - All Goods (%) | Share of Tariff Lines with International Peaks - All Goods (%) |
|----------------------------|---|---|--|
| Year | 2007 | 2007 | 2007 |
| Low Income Average | 11.97 | 9.57 | 31.47 |
| Sub-Saharan Africa Average | 12.40 | 10.84 | 35.74 |
| ECOWAS Average | 12.52 | 11.71 | 44.29 |
| UEMOA Average | 11.93 | 11.24 | 40.72 |
| Guinea-Bissau | 11.93 | 10.94 | 40.72 |

Source: World Bank Trade Indicators

C. TRADE POLICY AND ISSUES

Guinea-Bissau is a member or several regional and multilateral trading arrangements:

- WAEMU since 1997
- ECOWAS since its foundation in 1975
- WTO since 1995
- Cotonou Agreements (2000)

2.28 The implications of these memberships on Guinea-Bissau's trade policy are analyzed in further detail below, and the two main issues highlighted: the ECOWAS common external tariff and the EPA with the European Union.

2.29 In 1997, Guinea-Bissau joined the West African Economic and Monetary Union (WAEMU)¹⁴ created in 1994 among 7 West African member countries of the Franc zone (Benin, Burkina, Côte d'Ivoire, Mali, Niger, Senegal and Togo).¹⁵ Entry into WAEMU also entailed adoption of the CFA Franc, a common currency linked to the Euro (to the French Franc before introduction of the Euro in 2002) at a fixed exchange rate of 656 CFAF / Euro. WAEMU implements a free-trade scheme among member countries for goods which satisfy its rules of origin¹⁶ in addition to a 4-band common external tariff (CET) described above.

2.30 Guinea-Bissau is also a founding member of the Economic Community of West African States, or ECOWAS, created in 1975 among 15 West African countries.¹⁷ Among the first objectives to be achieved, the treaty mandated the elimination of tariff and non-tariff barriers

¹⁴ WAEMU was created on January 10, 1994, two days before the devaluation of the CFAF. It is a successor organization to CEAO (Economic Community of West African States - only francophone countries) and of the West African Monetary Union. The CEAO had preferential tariffs for trade between member states, but no common external tariff. Guinea-Bissau joined in May 1997, as the only non French speaking member country.

¹⁵ Neighboring Guinea is not a member of WAEMU. It has its own currency: first the "sily" and presently the "Guinean Franc."

¹⁶ 30 % of value added within WAEMU as a percentage of ex-factory cost, or change-in-tariff-heading at the HS 4-digit level.

¹⁷ Cape Verde joined in 1977, but Mauritania left in 1999 to join the Arab Maghreb union (AMU). Mauritania is however part of the ECOWAS EPA negotiating group.

among member states and the establishment of a CET and commercial policy towards non-members. Subsequent aspirations include a common market and a single currency. Progress towards achieving the more limited trade integration objectives has been slow, in part because of diverging economic interests among the 15 member countries, in part because the most influential member country - Nigeria - pursues one of the most restrictive and highly protective trade policies on the continent, including import bans. But preparation and decision-making, and above all implementation of decisions, have sped up in recent years, with the adoption of an ECOWAS Trade Liberalization Scheme (ETLS) on intra-regional trade.¹⁸

2.31 A CET has been under preparation for several years and the lengthy process received additional impetus from the ongoing EPA negotiations as ECOWAS was intent on concluding an EPA as a formal customs union.¹⁹ The proposed CET was initially modeled on the 4-band WAEMU CET, but Nigeria pushed for higher protection as a condition to adhere to an ECOWAS-wide common tariff. The CET adopted in July 2008 hence contains a 5th band at 35 percent. There is no information available at this point (April 2009) about the actual implementation modalities of the 5th tariff band, especially the number of tariff lines on which it will be imposed and the nature of the products. If the number of tariff lines in the 5th band is substantial and covers a large range of consumer products, its implementation could pose problems for Guinea-Bissau in two respects: (1) if the 5th band is implemented successfully, customs revenue, but also the price of imported consumer goods would rise accordingly – probably not a desirable outcome in the present difficult economic situation and a potential source of social problems; on the other hand, more industrialized ECOWAS countries like Senegal, Côte d’Ivoire, Ghana and Nigeria could increase their exports to Guinea-Bissau and other member countries behind high tariff walls and would benefit; (2) the more likely outcome, in a relatively open economy like Guinea-Bissau, would be an increase in “parallel” informal sector imports and hence a revenue loss.²⁰

2.32 WTO and Doha Round: Guinea-Bissau is a WTO member, but has not yet undergone a Trade Policy Review. In the Doha Round multilateral negotiations, WAEMU member states have adopted a common position annexed to Directive 02/2005/cm/UEMOA. The directive spells out that the negotiation strategy will maintain the solidarity with other ECOWAS member states, the LDC group, the African Union (AU) and the ACP states. The annex is thought to include important issues like the defense of the special safeguard clause to protect strategic agricultural products (granted by the 6th Ministerial in Hong Kong in 2005) and agricultural subsidies and support measures by developed countries.

2.33 Cotonou Agreement and EPA negotiations: Like other ACP states, Guinea-Bissau is a signatory of the Cotonou Agreement (2000, successor of the Lomé Conventions) with the EU. The Cotonou Agreement stipulated that the trade relations between the ACP states and the EU – especially preferential access to the EU market – would need to be renegotiated before end of December 2007, the expiration date of a waiver granted by the WTO. Negotiations were to take

¹⁸ Same rules of origin as WAEMU.

¹⁹ When the deadline of the expiring WTO waiver of end December 2007 was approaching, ECOWAS members Côte d’Ivoire and Ghana went ahead and concluded separate “interim” EPAs to preserve their preferential market access to the EU.

²⁰ In other words, a case of negative revenue elasticity. National customs officials usually have a good sense of the acceptable tariff levels for specific product categories, taking into account the ease of smuggling for each product category. It would be unwise to overrule their judgment in such cases.

place within self-determined negotiating groups, in the case of West Africa constituted by the ECOWAS Secretariat / Commission. The group was unable to sign an agreement before the deadline: member countries Côte d'Ivoire and Ghana signed separate interim EPA agreements and Nigeria reverted to the normal EU GSP regime. All other ECOWAS member countries, including Guinea-Bissau, are LDCs and can access the EU market through the EU's special GSP regime for LDCs, the so-called Everything But Arms (EBA) initiative. Negotiations between the EU and ECOWAS to conclude a full EPA continued in 2008 and 2009 and the present (as of April 2009) target date for reaching an agreement is set for June / July 2009.

2.34 Impact of an ECOWAS-EPA for Guinea-Bissau. To satisfy WTO requirements, EPAs will be based on reciprocal (but asymmetrical) trade relationships. The EU offers signatory states immediate tariff and quota free access to its market,²¹ while EPA signatory states will grant duty free access to at least 80 percent of imports from the EU, to be implemented over an extended transition period of up to 15 years. Twenty percent of imports from the EU can remain on the exclusion list (goods not be liberalized) even at the end of the transition period.²² On the market access side, Guinea-Bissau will not achieve any immediate additional gains for its exports from an EPA, as it already has complete quota-free tariff-free access to the EU market through Everything But Arms (EBA). The EBA has slightly less favorable (i.e. more restrictive) rules of origin than a future EPA is likely to include,²³ but there is no difference for raw cashew nuts (the bulk of which is anyhow exported to India, not to the EU). Guinea-Bissau might however benefit from more favorable rules of origin in the future once its exports are more diversified, including processed cashew nuts.

2.35 Impact evaluations of an EPA for Guinea-Bissau have mainly concentrated on the revenue side, i.e. the revenue loss from no longer collecting duties on part of future imports from the EU. An impact study was carried out in 2006. Such impact studies are by nature very problematic and assumptions need to be spelled out clearly. Some studies published in recent years assume immediate liberalization after signature of EPAs, and most do not take into account the exclusion list of about 20 percent of imports (i.e. products which will not be liberalized even after full implementation of EPAs).²⁴ In other studies, estimated revenue loss is calculated from published tariffs, not actual duties collected on specific imports part of which are exempted (public works equipment, donor financed projects etc.). And last but not least, these estimates are static: they are based on the import structure at the time of the study, not the import structure which will prevail in 15 years when EPAs will be fully implemented. Over the past decades, there has been a clear trend in West Africa of falling import shares from the EU and rising shares from low-cost East Asian countries. Moreover, increasing regional integration coupled with trade and transport facilitation will hopefully lead to higher trade flows between African customs

²¹ This is a significant improvement over the Lomé Convention / Cotonou Agreement under which about 900 agricultural tariff lines were excluded from complete quota and/or tariff-free access to the EU market. EPAs will also include a transition period for "Protocol" goods bananas, rice and sugar.

²² The WTO definition of trade liberalization does not give precise percentages, but contains the wording of "reasonably all trade" which has been interpreted in the past as being satisfied by 90% of trade of bilateral. Asymmetric liberalization of 100% by the EU and 80% by ACP states is deemed satisfactory under this definition.

²³ EPA rules of origin are still being negotiated.

²⁴ This exclusion list is not known before the signature and usually includes the product categories with the highest taxation.

unions at the expense of third-country imports, including from the EU. Estimates of revenue losses to occur 15 years from now have therefore a limited usefulness.

2.36 More generally, the trade aspects of EPAs are only part of the economic partnership although they have polarized attention. The most important issue will remain in which ways EPAs can contribute to long term sustainable development in Africa and advance regional integration.

2.37 The African Growth and Opportunity Act (AGOA) is not a trade agreement, but a system of unilateral preferences granted by the US to sub-Saharan countries under certain conditions. Guinea-Bissau is eligible since 2000, but exports to the US are negligible in value: US\$ 38,000 in 2007 and US\$ 164,000 in 2008.²⁵ Past exports in 2003 and 2004 had reached US\$2.1 and US\$28 million respectively.²⁶ However, according to the AGOA website, none of these exports to the US qualified for duty-free access under AGOA, either in 2003-2004 or in the more recent years. This issue should be further investigated.

D. TRADE INSTITUTIONS

2.38 Trade policy formulation is a competence of the General Directorate of Commerce and Competition in the Ministry of Commerce and Industry. The Directorate includes a Department of studies and capacity building with about 6-7 professional staff. The staff has been able to follow some training courses organized by the WTO and UNCTAD / JTAP, but no follow up in terms of trade-related assistance has taken place. In 2008, the ECOWAS Commission organized a training course in trade negotiations. Authority for negotiating the EPAs for West Africa has been delegated to the ECOWAS Commission, but a local negotiating committee comprising public and private sector representatives provides thematic inputs and data to the Commission. Moreover, the studies and capacity building department of the Ministry includes a focal point for EPAs.

2.39 In terms of immediate requirements, the department is lacking modern computer equipment needed for data processing, retrieving of information on the internet, etc. Existing computers are about 10 years old, and even the computers in the WTO Reference Center (placed in the studies and capacity building department) date back to 2001. There is an urgent need to equip the Department with sufficient and up-to-date computer capacity.

E. RECOMMENDATIONS AND NEXT STEPS

2.40 It is important to improve the quality of trade statistics through a concerted effort between the Customs Directorate, INEC and the Central Bank (possibly a workshop to discuss the different approaches and retain clear definitions and follow-up through rigorous application of concepts). Incentives for the creation of a professional and well-trained body of customs brokers (see Chapter III) will also improve the quality of customs declarations and subsequently

²⁵ Source: AGOA online statistics accessed in April 2009 at http://www.agoa.info/index.php?view=trade_stats&story=agoa_trade

²⁶ According to verbal information, the factory exporting to the US closed down and operations have restarted only recently under a new owner.

of trade statistics. Better understanding of the trade flows is a prerequisite for the formulation of a sound trade policy.

2.41 Cross-border trade is the main area where accurate knowledge is lacking. It would be useful to understand this trade better – not to prevent it, but to determine if there are promising products which could be encouraged, while also ensuring that cashew exports pay the appropriate taxes. Cross-border trade offers one way to diversify the composition of exports.

2.42 The overwhelming reliance on cashew exports is an obvious source of concern, all the more so given the dominance of a single destination, India. This exposes Guinea-Bissau to great risks of price and demand volatility. Direct sale of processed cashews to consuming markets such as the US and the EU is one way to diversify. It would be useful to understand why past exports of cashew nuts to the US were not admitted under AGOA status should be explored, with a view to exploiting this opportunity in future.

2.43 The government of Guinea-Bissau has yet to adopt the 4-band tariff regime of WAEMU which other members adopted in 2000. The authorities need to be engaged in the discussions in ECOWAS concerning the adoption of a new 5-band tariff regime so as to be aware of potential implications for revenues and domestic consumers, and to understand the options which might be available – notably for rice imports.

2.44 The studies and capacity department of the Ministry of Commerce and Industry would benefit from upgraded computer equipment, a training needs assessment, and specific training opportunities to fill gaps identified. However, it will also be useful to develop a research capacity outside of the Ministry to inform policy-making – a unit which will not be drawn into day-to-day administrative requirements and which can attract staff with strong research skills. As mentioned in Chapter I, discussions are under way with the African Capacity Building Foundation for the establishment of a think tank/economic policy formulation unit or center. Trade policy should be included in its mandate as there is no other unit capable of conducting policy-relevant research.

Appendix 1: Trade Data Sources

1. The most obvious source is the national customs administration (General Directorate of Customs) and the national statistical institute INEC. Another source is the Central Bank, in Guinea-Bissau the national directorate of the Central Bank of West African States (BCEAO). The most widely used international databases are the IMF's *Directions of Trade Statistics (DOTS)* and the UN's *Comtrade*. Member states of the International Monetary Fund are required by the Articles of Agreement to provide the Fund with export and import data by country of destination and origin, through their designated correspondent (statistical office, customs administration, or central bank). The Fund's Statistical Department collects and processes the data for the publication of the *Direction of Trade Statistics (DOTS)*, available as yearbooks and now online for registered users. In cases where data is transmitted with substantial delays or seems incomplete or unreliable, it is replaced or complemented by data from trading partners. Moreover, IMF staff use Art. IV reviews and other missions to collect and update country data including on trade.

2. The UN's *Comtrade* data base compiles import and export statistics reported by member countries; it reports data as missing and does not replace them with partners' trade statistics like *DOTS*. However, many experienced *Comtrade* users resort to "mirror" data (i.e. the partner countries' reported statistics) to fill in for missing data or information deemed unreliable. Guinea-Bissau does not seem to report trade statistics to the United Nations Statistical Division UNSD as queries for Guinea-Bissau as "reporter" yield no results. Wherever *Comtrade* is quoted as a source in this chapter, the information is based on "mirror" data reported by Guinea-Bissau's trading partners. *Comtrade* reports value, volume and breakdown by commodity (HS or SITC), whereas *DOTS* reports only values. For trade flows with European Union members, *EUROSTAT* is also a useful statistical resource.

3. Data discrepancies between national and international sources, and even among widely used international data bases like *DOTS*, *Comtrade*, and *Eurostat*, are common, even more so for trade data of sub-Saharan African countries. Guinea-Bissau is no exception in this regard. But in many cases, a more detailed analysis turns up at least partial explanations for the discrepancies. These discrepancies can arise from any of the following methodological issues and practices:

4. Coverage: According to UN guidelines, the coverage of international trade statistics should be sufficiently broad to encompass all merchandise entering or leaving a country, except goods being transported through a territory, i.e. transit trade. The movements of goods *under temporary admission* (like public works machinery imported for limited periods by international construction firms) should also be excluded. Military goods and goods received under foreign aid programs are supposed to be included, but the practice is not consistent in many countries.

5. Valuation : Exports should be valued f.o.b. (free on board) and imports c.i.f. (cost, insurance, freight), and at the transaction value, i.e. the value existing in the market between exporters and importers. In practice however, there are wide variations. In many countries, official standard prices or "reference prices" or "mercurial values" are used for determination of import duties or export levies. Problems may also arise from deliberate over- or under invoicing of exports or imports, either to reduce the payment of duties or to transfer funds illegally among countries.

6. Timing: The dates at which exports and imports are officially recorded are usually the ones when the merchandise passes customs. The date by which export of country A is recorded, and the date by which it is recorded as import in country B, can be separated by a substantial interval if sea transport is involved. Normally these differences should smooth out if there are regular trade patterns between two countries, but in the case of major one-time transactions, they could account for discrepancies in import and export values of two trading partners. Moreover, the time during which goods are stored in warehouses before customs clearance also accounts for differences in recording.

7. Trade systems: There are two recognized systems of recording external trade statistics – general trade and special trade. The conceptual difference lies in the timing of recording: i.e. movement of goods across national boundaries vs. after customs clearance. The practical relevance is that general trade includes goods moving through customs-bonded storage areas (like warehouses and export processing zones), whereas special trade excludes those goods and includes only merchandise cleared by customs for home consumption. Exports of goods that have previously been imported (e.g. after warehousing, reconditioning etc.) are called “re-exports”. The *Comtrade* export statistics include re-exports by default, but also allow obtaining re-exports separately. The distinction between general trade and special trade is very relevant in the context of many African countries where extended warehousing (often for re-export to neighboring landlocked countries) is a common feature. Although computerized systems like Sydonia have detailed codes for each procedure, the distinction usually does not appear in national trade statistics and often gets lost when reported to *DOTS* or *Comtrade*.

8. Partner country: origin or provenance. The country of origin is the country in which the goods have been produced, according to criteria defined in applicable rules of origin. The country of consignment or provenance is the intermediate country from where goods were dispatched without any commercial transaction taking place. If the distinction is not adhered to, imports shipped through another country (often after warehousing, not in direct transit) may appear as originating from this country (see below the case of Guinea-Bissau’s imports from Senegal).

9. And finally some discrepancies are due to unreliable administrative procedures or to outright mistakes in processing the data.

Appendix Table 1: Guinea-Bissau: Merchandise Exports, f.o.b., 2000-06

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 Prel |
|---------------------------|-------------------------------|-------|-------|-------|-------|-------|--------------|
| | (Millions of U.S. dollars) | | | | | | |
| Total merchandise exports | 62.1 | 50 | 53.6 | 62.2 | 75.8 | 89.6 | 61.5 |
| Agricultural products | 60.7 | 48.5 | 49 | 56.7 | 73.2 | 85.1 | 56.7 |
| Groundnuts | 0 | 0 | 0 | 0 | 0.2 | 0.1 | 0.1 |
| Cotton | 0.5 | 1.3 | 1.6 | 0.9 | 0.1 | 0 | 0 |
| Cashew nuts | 59.8 | 47.2 | 47.3 | 55.7 | 72.8 | 84.9 | 56.5 |
| Other | 0.3 | 0 | 0 | 0 | 0.1 | 0.1 | 0.1 |
| Fish products | 0.2 | 0.8 | 0.1 | 0.2 | 0.3 | 0.9 | 1 |
| Fish | 0 | 0 | 0.1 | 0.1 | 0.2 | 0.6 | 0.7 |
| Shrimp | 0.1 | 0.8 | 0 | 0.1 | 0.1 | 0.3 | 0.3 |
| Other | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Wood products | 0.4 | 0.4 | 0.9 | 0.9 | 0.2 | 0.2 | 0.2 |
| Swan wood | 0.1 | 0 | 0.6 | 0.6 | 0.2 | 0.2 | 0.2 |
| Logs | 0.3 | 0.4 | 0.3 | 0.3 | 0 | 0 | 0 |
| Other | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Miscellaneous | 0.8 | 0.2 | 3.6 | 4.5 | 2.1 | 3.4 | 3.6 |
| | (U.S. dollars per metric ton) | | | | | | |
| Unit prices | | | | | | | |
| Groundnuts | 786 | 753 | 655 | 856 | 910 | 769 | 829 |
| Cotton | 59 | 48 | 46 | 63 | 62 | 55 | 58 |
| Cashew nuts | 817 | 600 | 546 | 581 | 721 | 747 | 613 |
| Fish | 452 | 530 | 646 | 650 | 693 | 744 | 1,074 |
| Shrimp | 3,029 | 3,098 | 3,121 | 3,304 | 3,304 | 3,304 | 4,769 |
| Swan wood | 285 | 283 | 273 | 284 | 324 | 328 | 342 |
| Logs | 181 | 158 | 146 | 146 | 174 | 182 | 187 |

Source: Central Bank of West African States, and IMF staff estimates.

Appendix Table 2: Guinea-Bissau: Merchandise Imports, c.i.f., 2000-06

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|--------------------------------|------|------|----------------------------|------|-------|-------|-------|
| | | | (Millions of U.S. dollars) | | | | |
| Total merchandise imports | 86.3 | 95.2 | 85.4 | 85.8 | 116.2 | 123.4 | 134.1 |
| Foodstuffs | 21.5 | 14.8 | 17 | 25.8 | 19.1 | 26.5 | 31.2 |
| Rice | 13.9 | 9.2 | 11.8 | 18.2 | 12.7 | 16.8 | 14.8 |
| Wheat flour | 1.5 | 1.2 | 1.4 | 2.5 | 1.8 | 3.4 | 5.5 |
| Sugar | 0.4 | 0.2 | 0.7 | 0.7 | 0.8 | 1.3 | 3.8 |
| Oil | 2.8 | 1.1 | 1.5 | 2.1 | 1 | 1.3 | 1.8 |
| Dairy products | 0.5 | 0.5 | 0.4 | 0.5 | 0.9 | 0.8 | 1.9 |
| Others | 2.5 | 2.7 | 1.1 | 1.8 | 1.9 | 3 | 3.4 |
| Beverages and tobacco | 6 | 4.9 | 4.9 | 5.5 | 4.9 | 6.9 | 6.6 |
| Other consumer goods | 4.7 | 4.1 | 3.9 | 5 | 9.8 | 9.3 | 10.4 |
| Clothing and shoes | 0.5 | 0.4 | 0.3 | 0.6 | 1.5 | 0.8 | 0.5 |
| Durable consumer goods | 2.8 | 3.7 | 3.7 | 4.5 | 5.7 | 3.7 | 4.7 |
| Nondurable consumer goods | 1.4 | 0 | 0 | 0 | 2.6 | 4.8 | 5.2 |
| Petroleum products | 4.7 | 5.5 | 5.5 | 8.7 | 12.5 | 16.7 | 21.1 |
| Diesel and gasoline | 4.4 | 5.1 | 5 | 7.7 | 8.9 | 13.8 | 19.2 |
| Gas | 0.1 | 0.2 | 0.2 | 0.3 | 1.4 | 0 | 0 |
| Other | 0.3 | 0.2 | 0.2 | 0.7 | 2.2 | 2.8 | 1.9 |
| Construction material | 6.5 | 2.8 | 4.2 | 7.2 | 12.5 | 7.6 | 7.4 |
| Transport equipment | 9.4 | 6.3 | 4.5 | 4.9 | 10.2 | 7.5 | 8 |
| Passenger vehicles | 5.2 | 4.5 | 3.2 | 3.4 | 7.5 | 5 | 5.8 |
| Freight vehicles | 3.4 | 1.4 | 1 | 1.1 | 2.1 | 2 | 1.5 |
| Vehicle parts | 0.9 | 0.3 | 0.3 | 0.5 | 0.6 | 0.5 | 0.7 |
| Electrical equipment/machinery | 5.4 | 3.7 | 2.3 | 6 | 10.6 | 7.4 | 5.4 |
| Parts, accessories, and others | 0.2 | 1 | 0.7 | 1.6 | 0.2 | 1 | 3.4 |
| Nonregistered trade | 27.9 | 52.1 | 42.4 | 21.1 | 36.4 | 40.6 | 40.5 |

Source: Central Bank of West African States, and IMF staff estimates.

3. THE ENVIRONMENT FOR DOING BUSINESS²⁷

A. INTRODUCTION

3.1 This chapter examines the overall environment for doing business in Guinea-Bissau. It draws on the well known Ease of Doing Business Index compiled by the World Bank for all member countries but also goes into detail in specific areas of interest in Guinea-Bissau. In general, Guinea-Bissau scores very low on internationally recognized measures, being the lowest of any country in WAEMU and third from the bottom in the world overall. (See Table 3.1) It is indicative of the problems faced by potential entrepreneurs in Guinea-Bissau that just opening a business takes an average of 233 days and more than 250 percent of the per capita GDP in costs. Improving this situation will take some effort and expense on the part of the government but there are some areas where improvements are clearly possible – these will be detailed in the conclusions to this chapter and are included in the Action Matrix for the report overall.

Table 3.1: Comparison of Guinea-Bissau with other countries in the region

| Classification | Guinea-Bissau | Senegal | Gambia | Guinea | Burkina Fasso | Cabo Verde |
|--------------------------------|---------------|---------|--------|--------|---------------|------------|
| Ease of Doing Business | 176 | 162 | 131 | 166 | 161 | 132 |
| Starting a Business | 178 | 159 | 94 | 171 | 105 | 156 |
| Obtaining Licenses and Permits | 101 | 64 | 70 | 158 | 169 | 79 |
| Hiring/Firing Workers | 174 | 160 | 29 | 99 | 152 | 143 |
| Registering Properties | 164 | 155 | 133 | 151 | 170 | 127 |
| Obtaining Credit | 135 | 135 | 135 | 135 | 115 | 68 |
| Protecting Investors | 122 | 158 | 165 | 165 | 138 | 122 |
| Paying Taxes | 112 | 164 | 173 | 163 | 133 | 117 |
| Trading Across Borders | 109 | 136 | 73 | 102 | 170 | 51 |
| Contract Enforcement | 137 | 148 | 61 | 127 | 109 | 56 |
| Closing a Business | 178 | 73 | 116 | 111 | 91 | 178 |

3.2 It is inescapable that progress for the country will be dependent on progress in the areas discussed in this chapter. Many observers describe the situation using terms such as “strangulation”. Given the numerous potential locations for international businesses in West Africa and beyond, Guinea-Bissau’s problem is primarily in making the country one in which

²⁷This chapter draws on background reports by Josue Gomes de Almeida, Steven Kyle, and Jan-Hendrik van Leeuwen.

businesses will want to operate. This report has a basically optimistic message: though there is much to be done, Guinea-Bissau does have the potential to become an attractive location for business, both domestic and international, thanks in particular to its natural resource base.

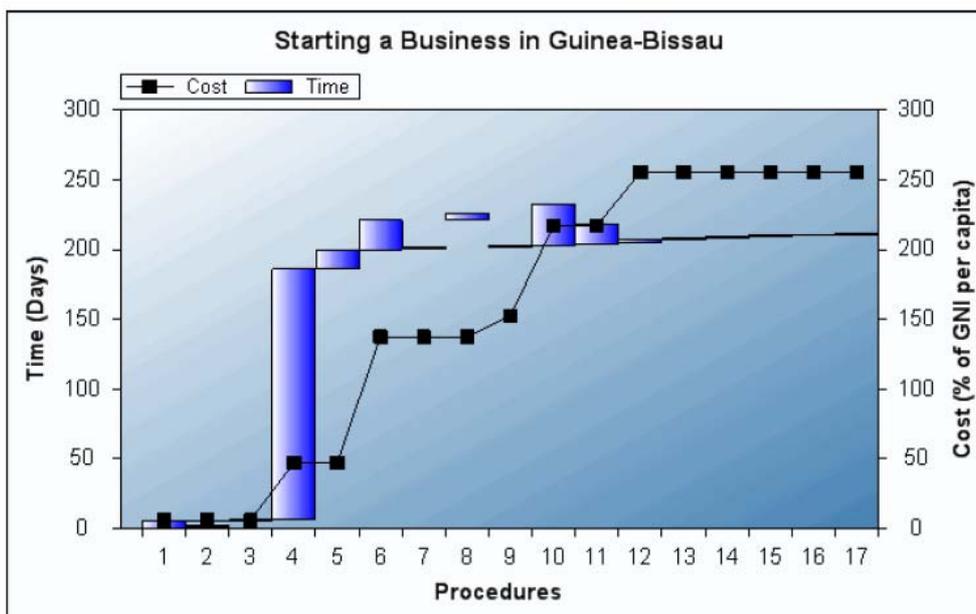
3.3 “Business environment” is a rather broad category and we divide it here into two main components – Institutional and Physical. The institutional aspect encompasses the various regulations, laws and taxes affecting businesses that seek to operate in Guinea-Bissau as well as the financial sector which supports it. This chapter will focus on legal and regulatory issues while the financial sector will be covered in Chapter III. The physical aspect refers primarily to the infrastructure that enables activity, particularly in the areas of transportation, communications, and energy, and will be covered in Chapter IV.

B. LEGAL AND REGULATORY CONTEXT FOR BUSINESS IN GUINEA-BISSAU

The Regulatory Framework for Business

3.4 The regulatory framework for business in Guinea-Bissau is a major factor in preventing private sector investment and growth. The series of procedures that must be followed in order for a business to become operational can take a very long time, and the costs and delays involved are by themselves often enough of an impediment to discourage private sector activity. (See Figure 3.1) This is as true for domestic businesses as it is for international ones, with those outside of the capital being particularly disadvantaged due to the complete absence of such services as notary publics, without which it is impossible to register a business.

Figure 3.1: Cost and time to initiate a new business in Guinea-Bissau



3.5 However, perhaps the first and most important obstacle is the near total lack of information confronting an investor desiring to start a business or simply initiate a new activity in the country. Not only does Guinea-Bissau lack any service which could provide general information about the country, but even bureaucrats whose job it is to enforce regulations often do not understand the laws.

3.6 Second and contributing to the first problem, is the extreme complexity of the multiplicity of procedures required of private sector operators. These procedures are based on the idea that it is the job of the State to control and regulate private investments in all parts of the economy. Many of these controls are *ex ante* in nature, requiring onerous bureaucratic procedures which have no corresponding purpose *ex post* in terms of regulation or control. That is, the paperwork and procedures are simply a hurdle for the business to get over, and serve no purpose whatever after they are completed and the business is operational. One such example is the requirement to get government approval for all hiring and to submit each case for registration at the Ministry of Labor. However, once collected this information is never used again.

3.7 There are numerous examples throughout the government of such requirements, but there is a corollary problem. Given the enormous number of requirements and the very weak ability to enforce or comply with them there is inevitably a large gap between what the law requires and what is actually done in practice. There is a huge incentive to simply avoid the legal requirements wherever possible, giving rise to opportunities for officials to make money for not enforcing the letter of the law.

3.8 Guinea-Bissau is not the only country in the world or the region that suffers from these problems but they are particularly acute in Guinea-Bissau due to the fragility of the institutions and the weak capacity of their personnel to enforce what is required. This is a powerful reason to encourage the authorities to simplify the requirements for investments as rapidly as possible. This would allow the Government to focus its efforts in more important areas and make more efficient use of its scarce resources.

3.9 The experience in Senegal is illustrative. Progress was accomplished through the rationalization of administrative procedures and creation of a “one-stop-shop” for private investors. In mid-2005, a new Law was adopted to further streamline entry procedures in Senegal that led in 2007 to a reduction in the time required to register an enterprise, from 58 days to only 8. As a result, roughly 2,500 enterprises were registered during the next six months, including 1,000 new ones.

Recent Evolution of the Regulatory Framework

3.10 The issue of regulatory obstacles to business growth was addressed in a study conducted in 2001 during the preparation phase of the Private Sector Rehabilitation and Development Project (PRDSP) project. At that time the situation was described as follows: “Administrative obstacles existing at the present time in Guinea-Bissau seriously aggravate the difficulties faced by enterprises. The procedures required for a company to become operational can take 2 to 3 years, and that is without taking into account the important aspect of access to land. These delays and the associated costs are enough to discourage any investor no matter how well

intentioned, particularly if they do not have high level administrative contacts inside the country. This situation affects international investors as well as small domestic entrepreneurs”.

3.11 Since that time numerous improvements have been made, many of them inspired by the Bank-funded PRDSP, but these are only a small step in the right direction given the extremely low ranking of Guinea-Bissau in the Doing Business report. Even so, it is worth noting some of the steps that have been taken over the past seven years:

- Reform of telecommunications, air transport, ports, energy and water, resulting in privatization of various state entities as well as investment in infrastructure, particularly in the area of telecommunications and water. These areas are treated in more detail in Chapter IV.
- Modernization of commercial law to make it more accessible and equitable for individuals and the private sector. This includes improvements in the court system and harmonization of laws with the OHADA standard for treatment of investment that is used by the rest of the ECOWAS countries.

3.12 Several studies were undertaken with the support of the Foreign Investment Advisory Service (FIAS):

- “Roteiro do Investidor” detailing the steps a potential investor must take to initiate a business;
- “Analysis of the System of Taxes and Incentives for Companies” which recommended the elimination of various taxes as well as a reduction in the profit tax;
- “Revision of the Investment Code” which recommended streamlined procedures for investments.

3.13 These studies contributed to the following positive developments:

- Reduction of taxes on enterprises;
 - Reduction of Industrial Contribution tax by 25 percent;
 - Property transfer tax reduced from 10 percent to 2 percent;
 - Imposto Profissional (income tax on salaries) reduced from 20 percent to 12 percent;
 - Contribuicao Predial Urbana (Building tax) reduced to 10 and 15 percent from the previous levels of 15 and 20 percent;
- Revision of the Investment Code;
- Regulations for the Land Law formulated and expected to be approved;
- Conflict Resolution Center now fully functioning;
- General Labor Law under review;
- Investment laws now harmonized with OHADA;
- Telecommunications law modernized to allow competition, resulting in several new entries into this market;

- Public Private Partnership law developed and awaiting approval by Parliament.

3.14 Though these advances are important, there still remain several areas where progress has been more difficult, particularly in the area of labor law, licensing in various sectors but most importantly in fishing and tourism, and simplification of the procedures for export and import. Implementation is generally difficult due to the slow pace of any changes in public administration but also because of acute budget limitations which limit the ability to pursue any reform which requires expenditure. Change in public administration is particularly difficult to implement given the reluctance to eliminate civil service jobs even when they are redundant.

Recent Changes in the Legal Framework for Business

3.15 Details of the recent changes in the legal framework for private investment and business operation are laid out in the following sections.

OHADA and its Implementation

3.16 Guinea-Bissau is a founding member of OHADA and adoption of its uniform code for investment will put it on a level playing field with other members of the organization. It has been a slow and difficult process to harmonize laws covering investment and incorporation which in some cases date from the 19th century. However, this has been largely accomplished though there remain difficulties in educating and training Guineans in the new code, particularly since most regional partners use French rather than Portuguese, the language used by the majority of Guinean lawyers and judges.

Investment Code

3.17 The current Investment Code was approved by Decree-Law No. 4/91. This law was a clear improvement over the older law, but it is now regarded by all as obsolete given the new realities facing Guinea-Bissau. The entry of Guinea-Bissau into WAEMU in particular generated a need for change, which has been answered with a proposal for legal reform. The following proposals have yet to be adopted and have been under discussion and development for the past two years:

- Incentives should be considered automatic, removing the discretion that could be exercised by government officials under the old law. Indeed, the allocation of incentives was often negotiated on a case by case basis;
- Discrimination among projects on the basis of size should end;
- The multiplicity of investment regimes should be eliminated to remove confusion and reduce fraud and evasion;
- The opacity of rules regarding sanctions and the uncertainty with which they were applied should be ended to put Guinea-Bissau in line with international practice;
- Most important is the innovation of tax credits. That is, enterprises can greatly simplify their payments to the government by allowing the consolidation of incentives and taxes in an automatic and transparent manner.

Labor Code

3.18 The current labor law is 22 years old and predates even the Constitution of the Republic and is considered to be a major constraint to business. Among the provisions that are considered particularly onerous and should be removed are:

- Obligatory registration of workers with the labor inspector (Inspeccao do Trabalho);
- Obligatory annual submission of personnel lists to the government;
- Obligatory review of all employment contracts by the government

3.19 Other provisions which are needlessly constraining and/or which would allow additional flexibility in workplace incentives include:

- Conditions of fixed term work contracts;
- Need for prior authorization for economic lay-offs;
- Provisions to allow payment linked to output

Land Law

3.20 The Constitution of Guinea-Bissau states that all land belongs to the state. However, in spite of the Land Law having been revised in 1998, it is still not in force due to delays in agreeing on implementing regulations. Thus, potential investors are confronted with a new law that has yet to be applied, an old law which has already been declared obsolete and numerous conflicting claims over land sometimes dating from colonial times.

3.21 Enforcing the Land Law and finalizing the implementing regulations should be considered a very high priority given the extreme difficulty and uncertainty surrounding land at the present time. Security of tenure is precarious for many given the lack of an accurate registry of ownership. Likewise, a well functioning land market is impossible given the difficulty in transferring rights to land in a transparent and reliable manner. An accurate cadastre is a good first step in dealing with issues surrounding land in the country.²⁸

Competition Law

3.22 WAEMU adopted a regional competition policy in 2003 but it has yet to be applied in Guinea-Bissau. Nevertheless, the existence of competitive markets is important for the growth and development of businesses as well as for individuals. Anti-competitive practices can indeed prevent the development of markets but care must be taken that in trying to prevent such abuses excessive regulation and control is not inadvertently implemented.

Recent Efforts at Reform of Public Administration

3.23 A consistent observation in Guinea-Bissau is that the public administration is a major constraint to progress because of its weak commitment to public service, even when compared to other countries in the sub-region. One reason is the unstable political situation which has

²⁸The World Bank has developed a project to do this, but to date it has not been financed.

afflicted the country since 1975. Indeed, even committed government officials have limited capacity to fulfill their duties given the rapid turnover in most higher-level positions.

3.24 Furthermore, government salaries are extremely low and often not paid on time. This leads to widespread absenteeism which contributes to the general perception that the government has little commitment to completing its duties. Chronic shortages of equipment, poor working conditions and lack of adequate budgetary support make many government entities incapable of performing the duties assigned to them.

3.25 The justice system is an area where public sector performance has been noted by many as deficient both in terms of the delays in getting resolution to legal proceedings and in terms of the fairness and transparency of the process. The few courts are so overburdened that it has led to the observation that “there are too many laws and too few courts”. Part of this problem was resolved by the adoption of the OHADA regulations but there is a great deal of arbitrariness remaining, together with a lack of adequately functioning courts.

3.26 Large parts of the relevant body of law, including part or all of the Labor Law, the Industrial Code, the Commercial Registry, etc. date from either the colonial period or from prior to the government’s reform initiative. Though revised versions are in the process of being drafted, in many cases the old statutes remain in force. Even in cases where laws or regulations have been repealed many continue to regulate activity either through inertia or ignorance. New laws which are passed are often unknown, inadequately publicized, and only sporadically applied. This situation gives rise to the uncertainty and risk which is cited as a major impediment to doing business in the country.

3.27 One suggestion, similar to proposals implemented in Mozambique, is to promote an ongoing public-private dialogue to enable the private sector to tell the government directly what its needs are and to have a direct role in the formulation of policies. While this cannot directly address problems stemming from inadequate resources or poorly trained personnel, it can help focus government efforts in areas where they are most needed as well as pointing out any areas where needless regulation or controls can simply be scrapped. Permanent working groups in each economic sector could go far to orienting the government as to what the private sector needs and wants.

C. CUSTOMS ADMINISTRATION

Structure

3.28 The Directorate of Customs reports to the Minister of Finance and consists of three main departments. First is Customs of Bissau (Alfandegas de Bissau) which includes the functions of inspection, verification, accounting, tariff collections and storage. Second is the Fiscal Police, which is the enforcement arm of the Customs service. Both of these departments have subordinate field offices in the airport and the official entry points of Gabu, Bafata, S. Domingos, Farim and Quebo. There are also several other fiscal posts (Postos Fiscais) in various locations. The third department is the Central Services department which takes care of administrative functions such as human resources, computers and statistics, and regulation and fraud.

3.29 There are currently 1,550 employees, many of whom are redundant or inadequately trained for their jobs. Accordingly, one of the recognized needs of the Customs Directorate is for training personnel. Some employees have gone outside the country to be trained in France and Morocco, but a more cost effective method is needed. The Customs Service has proposed the establishment of a school for customs officials in Guinea-Bissau itself, but this seems unlikely to be as cost effective as training in other WAEMU countries, e.g. Senegal. Some reduction in staff may also be required. Overstaffing in other countries has often led to the maintenance of manual procedures alongside computerized ones – and even the introduction of new procedures – to the detriment of trade facilitation.

3.30 The Customs Directorate has also recognized the need for a reorganization of its structure, particularly in response to the ongoing implementation of a computerized system of Customs Administration. The ASYCUDA++ software is currently in use in every other country in ECOWAS. It will reduce errors of transcription and speed up clearance procedures by connecting the customs declaration with the contents of the bill of lading, and generally increase the productivity of Customs staff. This software would also enable adoption of the HS2007 customs nomenclature, also used by the rest of ECOWAS. There is no discussion of the pros and cons of different systems since the need to harmonize with fellow members of this regional economic community is obvious. The migration to this new system is underway. The ADB has promised a large share of the funding, as has the government of Portugal, but there remains a small funding gap. High priority should be attached to the introduction of this software, upgrading of equipment as necessary, and training of staff.

3.31 Another identified need is the development of a corps of “Despachantes Oficiais” who would be trained and certified to guide exporters and importers through the Customs process thus eliminating the need to deal with or train a multitude of private sector actors in the requirements of the Customs system. This proposal, together with a more general proposal to streamline Customs procedures, has been studied by consultants approved by both the Government and the IMF but has yet to be implemented.

Equipment Needs

3.32 Another most pressing need for customs is in the area of communications equipment. At the present time, there is no internal communications system at all, so that all links and transfers of information are conducted on the basis of paper documents. It has been proposed that an Intranet system with voice-over-internet (VoIP) capability be installed at a cost of CFAF 37.6 million.

3.33 Also lacking is any means of communication between customs and ships or between various customs posts. No radios exist in the Directorate. Customs has no capacity to transport itself or to inspect sea borne commerce outside of the port since they have no boats. One proposal is to purchase two small boats for coastal use at a cost of EUR\$180,000 each.

Customs Procedures

3.34 A high priority must be given to simplification of Customs procedures and the reactivation of the one-stop shop (Guichet Unico), which was abandoned some years ago. A real effort to include all necessary entities in the process would do more to simplify and speed up documentation than any other single initiative.

3.35 Also important is the elimination of the BRPI (Boletim de Registo Previo de Importacoes) which is a process for prior registration of imports. This requirement is a holdover from the time of import controls and quantitative restrictions which serves no real purpose and can be eliminated at no cost to the government, with savings in time and money to importers. The same applies to the export form, BRPE.

3.36 One of the strongest criticisms of the port and customs is the poorly defined limits of jurisdiction over the process of importing and exporting. It is difficult for an importer to know exactly who has the authority to sign off on the process and allow them to freely exit the port with their merchandise. In theory, Customs has primary jurisdiction, but in practice an importer is also confronted with Border Guards, Security Police, tax collectors from other ministries, etc.

3.37 There is no issue in terms of logistical possibilities to accommodate any number of requirements for exiting the port – indeed the new computer system ASYCUDA++ has the capacity to accommodate a virtually infinite number of requirements. Rather, the issue is at the political level, where a decision is required to give the authority to a single entity, presumably Customs since that is the practice in almost all other countries. For example, it should not be necessary for a different police force to inspect each shipment for e.g. under-invoicing, drugs, contraband, etc. Rather, one entity should search and call in appropriate authorities when needed. A properly invoiced and legal shipment should undergo one inspection, and be free to go.

D. PRIVATE SECTOR SUPPORT INSTITUTIONS

The Institutional Landscape

3.38 The Chamber of Commerce, Industry and Agriculture (CCIA) is the only officially recognized private sector interlocutor with the Government. Traditionally, it has also been the sole private sector support institution which can claim to be representative of the entire private sector. CCIA includes 34 private sector associations from the commercial, industrial and agriculture sectors and has 12,000 members, both from the formal and informal sectors. Its revenue base is secured by a levy on cashew exports of FCFA 1.50 per kg, a levy on imports of rice and cement of FCFA 1 per kg, sales proceeds of export documents, and membership fees. Its statutory base ensures a greater degree of independence from the Government than is usually the case in Francophone Africa, being a private sector institution with a private sector board and a president that is elected by the members.

3.39 Following a period when the chamber had split up into two separate institutions, it has recently reunited into a single entity with the support of IFC – PEP Africa, which is also assisting the organization in formulating a two-year business plan. The organization is currently in a

transitional period during which it has to agree on an organizational structure and statutes that are acceptable to both factions. Part of the membership would like to adopt a not-for-profit public structure so that it can provide more public services; others would prefer to maintain its independence from the Government. The success of the efforts to reconcile these two factions will largely determine whether the chamber can regain its former effectiveness.

3.40 Institutionally-based business management training is still in its infancy in Guinea-Bissau. CENFA (the National Administrative Training Center) is a public training institute that concentrates on public administration but offers business management and accounting courses as a sideline. Its facilities were seriously damaged during the civil war and the quality of its faculty suffers from lack of training and inadequate public sector salaries. The Poverty Reduction Strategy Paper (DENARP) includes the renovation of CENFA's facilities and reportedly, the Brazilian Development Agency has plans to provide the institution with capacity building assistance.

3.41 A number of donor organizations are providing a variety of sector specific and general training to private business, notably the Africa Capacity Building Foundation (ACBF) which is financing the Training Support Unit (*Cellule d'Appui à la Formation*, CAF) as part of its National Program for Capacity-Building (*Programme National de Renforcement des Capacités*, PNRC). Although CAF's primary focus is on public sector capacity building, it has supported training in business administration through courses and scholarships.

3.42 The problem with many donor-financed business development services (BDS) is that they tend to be ad hoc and dispersed, without an institutional base, and while the demand for BDS may be persistent, the supply is determined by the limited project duration. Moreover, the domestic pool of qualified independent business consultants and trainers is rather limited at the present time because the commercial market for their expertise has been too small to build a sustainable business, while the market offered by donor sponsored programs has been unreliable. Their ability to tap into the regional market is restricted due to language obstacles. As a result, donor programs have to source a significant portion of the required expertise from abroad (90 percent in the case of IFC).

Recent Developments

3.43 A request has been submitted with the ACBF to establish a new training center which could provide an institutional base for the CAF activities. There are discussions underway to establish a SME development agency in Guinea-Bissau patterned after SEBRAE, the Brazilian agency for support of micro, small and medium enterprise. SEBRAE has been established as a public interest institution, financed by private sector contributions. It provides capacity building services and advocacy for MSME's and micro-finance institutions throughout Brazil, employs 4,500 people and works with a network of more than 9,000 BDS providers. With its strong track record and extensive resources, SEBRAE could be a powerful and effective partner for a private sector development agency in Guinea-Bissau. To finance the venture, additional funding sources are being explored from other donor agencies, including the IFC.

E. NEXT STEPS IN IMPROVING THE ENVIRONMENT FOR BUSINESS

Public Administration

3.44 In the short term, it is preferable for the government to embark on a step by step reduction in bureaucratic requirements rather than embarking on a grand campaign of reform that may take a long time to materialize. Not only are such broad-based efforts difficult to bring to fruition, but private sector operators are more likely to respond positively to concrete actions rather than good intentions to be made concrete at some future date.

3.45 Accordingly, one possible approach would be to make direct use of the rankings contained in the World Bank's Ease of Doing Business survey. The goal would be to raise Guinea-Bissau from the third-to-last place ranking in which it has been mired for a number of years. This would mean directly addressing each of the sub-categories and simplifying or eliminating procedures wherever possible. Such progress has already been achieved in the area of fiscal reform, which resulted in a rise of 14 places in the rankings on this indicator since 2006.

3.46 In addition, the following are some of the key reforms which could be implemented as a priority:

1. Implement a new system of tax collection and credits which would be centralized and would greatly simplify both compliance and fiscal control.
2. Transition from the current General Sales Tax to a Value Added Tax.
3. Use WAEMU regulations for accounting practices as well as the application of the simplified accounting rules envisioned under SYSCOA for small and medium enterprises.
4. Create a professional accounting organization for application of the WAEMU rules.
5. Audit the Direccao Geral de Contribuicao e Impostos to improve fiscal controls and eliminate conflicts of interest.
6. Simplify regulations for fiscal control in municipalities.
7. Eliminate the charge for Emolumentos Pessoais levied on imports (1.5 percent) and exports (1 percent)
8. Transfer responsibility for charging the Contribuicao Industrial to the DGCI for those enterprises which demonstrate the required accounting.

3.47 It will also be important to reform the Direccao de Promocao do Investimento Privado (DPIP) in order to align its functions more closely to the newly proposed revised investment code. Two main roles would be performed by the DPIP:

- To act as a “Guichet Unico” or “one stop shop” for registration of enterprises. It is important to note that this will only be a positive development if the “Guichet” is in fact “Unico”. That is, that it is not merely *another* layer of bureaucracy and that all requirements are in fact met under one roof.
- To be a proactive promoter of investment, working as a marketing agent to attract new enterprises and as a source of information. While this was in fact the original vision of the DPIP it has yet to really perform in this manner.

3.48 Reform of the public administration needs also to be a critical element of the Government’s efforts to improve the environment for businesses. Though the authorities are well aware that the size and cost of their civil service are neither financially sustainable nor conducive to the development of an efficient public administration, reforms in this area had stalled in recent years in the face of political and macroeconomic instability. The authorities intend to revive this agenda. However, given the country’s fragile political and social environment, this reform will likely be gradual. Of urgent need is the preparation of a coherent strategy and building of internal consensus to sustain its implementation. The EU, together with the UN, AfDB and bilateral donors are making considerable efforts to assist the government in reforming the public administration. The EU Program to support Public Administration Reform (PARAP) has been assigned the task of mapping a multi-year strategy that would address performance and incentive issues, as well as supporting interventions such as training. Initial Bank support to the PARAP team will include analytical and advisory support under the recently launched Public Expenditure Management and Financial Accountability Review.

3.49 Privatization of the system of registration of property and enterprises (sistema notarial) as envisioned by OHADA is necessary as it is currently run by the government but widely regarded as a bottleneck in the process of setting up a business. Many areas of the country do not have access to the current system and even in Bissau delays are routine.

3.50 Active support of a Conflict Resolution Center and a Commercial Tribunal would assist in the rapid resolution of disputes. The inability to enforce contracts has been cited as a major impediment to business.

Customs Administration

3.51 Key recommendations include:

- Finish implementing the new ASYCUDA++ computer system together with associated training;
- Implement training program within ECOWAS zone for customs officials;
- Purchase communications equipment for Customs, (radios, internet, etc.);
- Purchase boats for Fiscal Police to facilitate inspection and regulation;
- Take the political decision to vest authority for port clearance in Customs alone. Other police agencies can be called in as needed but should not constitute additional layers of search and inspection.

Private Sector Support Institutions

3.52 There is an enormous unfulfilled need for the strengthening of management and technical expertise at all levels of the private sector. Available business development services are mostly donor financed, delivered in a sporadic and uncoordinated fashion and driven by supply rather than demand. Nevertheless, the serious expertise gaps that exist call for a large scale and comprehensive approach towards skills development to enable the private sector to play its essential role in the realization of the nation's growth objectives.

3.53 At the same time, both on the demand and the supply side the factors are not yet in place for the development of a purely commercial BDS market. This market failure justifies the use of subsidy mechanisms to make BDS services affordable to the business community and provide incentives for domestic BDS suppliers to develop the market. Under these circumstances, a matching grant mechanism, providing partial grants to make the purchase of BDS services affordable, has proven to be the most effective instrument to channel expertise into the private sector provided the following operational principles are respected:

- A flexible and demand driven mechanism, managed efficiently and transparently and responsive to the clients' needs.
- A decision making process that is free from political interference, notwithstanding the fact that public funds are being used to subsidize private entrepreneurs.
- Transparent procurement procedures that conform to the standards imposed by the Government or the donor organization, combined with efficient funds disbursement procedures to conform to private sector needs.
- Guided by the overriding necessity to achieve the maximum value added with a limited amount of funds; and
- A strategy to assist the beneficiaries in identifying the appropriate expertise either domestically or abroad.

3.54 The latter will prove to be a particular challenge in Guinea-Bissau which is a relatively isolated economy that has been cut off from world standards of competitiveness and where, as a result, the expertise required to improve enterprise competitiveness is rare or non-existent.

3.55 For the moment, the CCIA would be best positioned to provide the institutional base for the execution of a program to upgrade technical and management skills within the private sector, provided it maintains its status as an independent private sector institution. The establishment of a new SME development agency patterned after and partnered with SEBRAE, giving it direct access to a substantial resource base and a large network of international expertise, could have a tremendously positive impact on the provision of BDS services in Guinea-Bissau. Given the current state of the investment climate, it would be premature to establish an investment promotion agency, but as the climate improves the planned SME development agency could enlarge its scope of work and initiate investment promotion activities.

4. THE FINANCIAL SECTOR

A. INTRODUCTION

4.1 A well functioning financial sector, providing access to finance to operators at all levels of export oriented value chains will be essential to the realization of Guinea-Bissau's ambitious economic growth objectives. Agricultural producers need access to micro-finance to increase their production and productivity; further down agricultural value chains, processors need access to term and working capital finance to take advantage of the new investment opportunities in local processing that are opening up due to sharply increasing international transport costs; and exporters need access to trade finance to allow them to diversify their exports and target new markets.

4.2 The following section describes a financial sector that in many aspects is still in its infancy. The implementation in the coming years of a comprehensive program to reinforce the sector as a whole and the micro-finance sector in particular, will be critical for the sector to play its key role in the development of the country. The section concludes with a set of recommendations that would be essential elements of such a program, including regulatory reform, capacity building both at the oversight level and within the financial institutions, the establishment of durable linkages between commercial banks and micro-finance institutions, and support for pilot operations to introduce new financial instruments.

4.3 Since Guinea-Bissau joined the *Union Economique et Monétaire Ouest Africaine* (UEMOA) in 1997, the local branch of the *Banque Centrale des Etats de l'Afrique de l'Ouest* (BCEAO) acts as the country's central bank. Guinea-Bissau's financial sector comprises four commercial banks, three insurance companies, and 102 formal and informal micro-finance institutions (as of December 2007). The country does not have a development bank or a specialized agricultural bank.

4.4 The financial sector is relatively shallow and its activities do not reflect the importance of the different sectors of the economy. Agriculture, which accounts for more than 60 percent of GDP, 95 percent of export revenues and employs 80 percent of the active population, holds only 1 percent of all outstanding formal financial credit. As recently as 2005, when the country had only one commercial bank, private sector credit as a whole represented barely 2 percent of GDP. The situation has substantially improved since, with the opening of three new banks but the financial sector still plays an extremely limited role in the development of the country's main productive sectors, in particular agriculture and agro-processing.

4.5 The 2009 "Doing Business Survey" which ranks a total of 181 countries around the world on a number of business indicators, includes several indicators that point at a business environment that is not conducive to a vibrant financial sector as the following table illustrates:

Table 4.1: Selected Indicators for Guinea-Bissau from the 2009 “Doing Business Survey”

| Indicator | 2008 Rank | 2009 Rank | Change in Rank |
|------------------------|------------------|------------------|-----------------------|
| Overall ranking | 179 | 179 | 0 |
| Ease of getting credit | 141 | 145 | -4 |
| Contract enforcement | 138 | 139 | -1 |
| Property registration | 167 | 170 | -3 |

Note: Doing Business 2008 rankings have been recalculated to reflect [changes to the methodology](#) and the addition of three new countries.

4.6 For several indicators that are particularly relevant to the functioning of the financial sector Guinea-Bissau’s ranking has actually deteriorated between 2008 and 2009. Among these are contract enforcement where the country’s ranks as 139 out of the 181 countries surveyed; enforcing a contract in Guinea-Bissau using the judicial system requires an average of 41 procedures which can take almost four years and end up costing up to 25 percent of the value of the claim. In property registration Guinea-Bissau ranks 170 - registering a property requires 9 separate procedures and takes up to 211 days, well above the average in the sub-region.

4.7 Other obstacles concern the paucity of acceptable guarantees which is partially a result of the failure of the Government to implement an updated land law which was adopted back in 1998. Ownership of many landholdings is not yet formally recognized and in some instances ethnic traditions rule against women’s ownership of land, particularly in rural areas where much of the land allocation is still controlled by traditional authorities. The same holds true for buildings where ownership by women is still relatively rare. The cadastre is in bad need of being updated as well, and local titles, if they are available at all, are considered highly unreliable and this, combined with the bad functioning of the judicial system in Guinea-Bissau often leads a financial institution to insist on a foreign registered property, particularly in Senegal or Portugal, for it to be an acceptable guarantee. These types of policy obstacles explain why the country is ranked in the bottom tier of the countries surveyed in terms of ease of getting credit.

B. THE BANKING SECTOR

4.8 Guinea-Bissau’s banking sector is undergoing rapid change. Upon the closure of the nation’s largest bank – *Banco Internacional da Guinea-Bissau* (BIGB) – in 2004, there followed a short period when the country was left with only one commercial bank. In recent years, three additional banks have opened local offices, two of which – Ecobank and BRS²⁹ – have extensive operations elsewhere in the region. Reportedly, two additional international banks are considering starting a local operation as well. As the financial performance of the sector is still tentative, a likely scenario calls for a period of increased competition, followed by a period of consolidation.

²⁹ The *Banque Régionale de Solidarité* (BRS) was established in 2004 at the initiative of the BCEAO and the *Banque Ouest Africaine de Développement* (BOAD). The principal shareholders are the governments of the UEMOA countries, UEOMOA and BOAD. Its mission is to provide financial services to clients who have no access to the traditional banking system and includes providing lines of credit to MFIs. As a government owned banking group its interest is free of VAT. Headquartered in Niamey, Niger, the BRS has opened bank operations in all eight UEMOA countries.

4.9 Although the new banks have adopted a cautious strategy for now, there are indications that the increased competition is already leading to improved access to finance for local business. In several instances cashew exporters have been able to obtain pre-export financing using their inventory as collateral, which was unheard of before. Both BRS and Ecobank have introduced hire-purchase schemes, the latter in collaboration with the French multinational *Compagnie Française de l'Afrique Occidentale* (CFAO) for the financing of vehicles and boats. As a result, private sector credit as percentage of GDP almost tripled in less than three years to 6 percent, and following increased bank credit to the cashew sector during the 2008 season, the ratio reached 14.2 percent in 2008 and is approaching the average ratio of the UEMOA zone of 16.1 percent.

4.10 With 6 out of the 8 bank branches concentrated in the capital city, there is little or no competition between the banks in the agricultural areas and bank credit to agricultural producers is still in its infancy. The agricultural sector is still considered too risky for commercial bank finance, not only because of the traditional risk factors such as climate shocks and seasonal production variations, but also because the agricultural sub-sectors are highly disorganized and functioning producer associations are still in their infancy.

4.11 Term finance is rarely granted and represents less than 10 percent of all outstanding credit. Factors that lead to this reluctance include: (i) the lack of long term resources (90 percent of bank deposits are short term); (ii) the inability of most business clients to produce adequate financial statements (reportedly, only three companies in the country are capable of keeping records that fully conform to SYSCOA³⁰ procedures); (iii) the absence of a functioning credit and debt information system; and (iv) a severely dysfunctional judiciary sector which makes the recuperation of collateral assets in case of default highly problematic.

4.12 In addition, there are a number of regulatory obstacles to term finance that remain to be addressed, specifically: (i) the high cost of registering assets as collateral; and (ii) the high fees a company has to pay when it revalues its balance sheet; most corporate balance sheets are still denominated in the old currency and have to be revalued now that Guinea-Bissau has joined the FCFA zone; the process would allow many companies to revalue their equity base upwards and increase their capacity to take on debt.

4.13 The IFC has recently completed the first phase of a training program targeting banks, SME's and business associations with training courses in SYSCOA accounting and OHADA regulations to support the transition away from the previous Portuguese inspired accounting system and commercial legislation.

C. NON-BANK FINANCIAL INSTITUTIONS

4.14 This category includes the insurance company *Nouvelle Société Interafricaine d'Assurances* (NSIA) which is headquartered in Abidjan, has operations in nine countries in West and Central Africa, and partnerships with major insurance companies in Europe. Another non-bank financial institution is the *Fonds Africain de Garantie et de Coopération Economique* (FAGACE), a regional credit guarantee fund financed by twelve member states in the sub-region. Both institutions recently have opened offices in Guinea-Bissau but while NSIA has

³⁰ *Système Comptable Ouest Aricain*

already played an instrumental role in introducing pre-export financing, FAGACE's role has so far remained limited as Guinea-Bissau has yet to pay its capital contribution and companies have found it difficult to submit guarantee applications that comply with FAGACE's standards.

4.15 To address the quasi total absence of equity finance, the World Bank, as part of the Private Sector Rehabilitation and Development Project (PSRDP), has helped introduce a facility that finances equity on a matching grant basis. The uptake under this facility has remained limited and a proposal has been submitted to the West African Development Bank to study the feasibility of introducing a partial credit guarantee facility based on the lessons learned from this experience. One option would be to establish a partial credit guarantee fund patterned after the credit guarantee scheme in Niger, the *Société Sahélienne de Financement* (SAHFI) which is funded by the European Commission and managed by TANYO, a private sector association of local banks and business representatives.³¹ Additional lessons could be drawn from the experience with the guarantee fund for the cashew sector in Mozambique, which is part of the USAID funded Center for the Promotion of Rural Financial Services ([*Centro de Promoção de Serviços Financeiros Rurais*](#) - CPSFR) and targets processors.

4.16 Another source of term finance has been FUNDEI which started out as a SIDA-funded development project and evolved into an independent NGO, providing technical assistance and term finance for up to 10 years for amounts up to US\$145,000. It has financed a total of 90 projects and experienced reasonably high repayment rates until the start of the civil war. Repayment rates have declined sharply since then, and FUNDEI has suspended its finance operations to concentrate on its advisory services.

D. MICRO-FINANCE

4.17 **The Sector** The micro-finance sector in Guinea-Bissau is still in its infancy. The first micro-finance schemes date back to the late 90s and were usually run by project-related NGOs at highly subsidized interest rates. The first officially registered micro-finance institution (MFI) was established in 2003. MFIs generally can be divided into three categories:

- Savings and loan institutions, offering both savings and credit services. This category includes mutual S&L associations and cooperatives, as well as S&L groups. Typically, the mutuals are somewhat larger and have professional management, whereas the S&L groups tend to be village-based and managed by the members on a voluntary basis. Both types operate on the principle that their capacity to lend is strictly related to their capacity to collect savings from their members.
- Micro-credit institutions that can provide credit based on their equity capital or credit lines that they manage on behalf of local or international partners. As of now, Guinea-Bissau does not have any micro-credit institutions.

³¹ Under this scheme TANYO provides assistance to the preparation of project proposals to be submitted to one of three local banks; these banks act as intermediary for a line of credit financed by the European Investment Bank to provide SMEs with access to term finance. SAHFI was created using the remaining funds of a matching grant scheme that was financed by the European Commission and backs these credits up with guarantees of up to 50%. The scheme was started in 2005 and reportedly operates satisfactorily.

- Micro-finance related projects, NGOs and government initiatives; they can provide micro-credit directly to target populations or through other MFIs. Some of these projects can evolve into more formal types of MFIs as has been the case in Guinea-Bissau.

4.18 As of December 2007, only 13 out of these 102 MFIs are formally registered, the remainder essentially operates in the informal sector. Table 4.2 illustrates the breakdown and recent evolution of the sector:

Table 4.2: Guinea-Bissau – Types of Micro-Finance Institutions

| | 2006 | 2007 |
|------------------------------------|------|------|
| Mutual Savings & Loan Associations | 22 | 41 |
| Savings & Loan Groups | 50 | 49 |
| Project Related Credit Lines | 6 | 7 |
| Savings Associations | 1 | 4 |
| Other Credit Schemes | 19 | 1 |
| Total | 98 | 102 |

Source: CADESPC/RECOP

4.19 In spite of its relatively rapid growth, the outreach of the sector remains limited: the ratio between micro-finance clients and the number of households is 10.2 percent as of the end of 2007 while it is double or triple that in most other countries in the WAEMU zone and reaches as high as 78 percent in Benin.

4.20 The legal framework for the micro-finance sector in Guinea-Bissau is provided by the PARMEC law which was passed by the BCEAO to create an institutional structure for mutual societies. The Ministry of Finance is responsible for implementing the law and providing details on licensing and regulation. The law is being revised to provide an institutional structure for credit institutions as well, and introduce standard charts of accounts and an adapted system of accounting for MFIs.

4.21 The oversight body for the sector is the CADESPC (*Cellule d'Appui au Développement de l'Economie Solidaire, de l'Epargne et du Crédit*) which is part of the Ministry of Finance and is responsible for evaluating applications for MFI registration, monitoring compliance with performance criteria, and imposing sanctions. A sector association, RECOP/MF (*Réseau de Concertation des Organisations Professionnelles de Micro-Finance*) was created in 2007 and so far includes 23 member MFIs but is still too young to play any effective role in representing the sector's interests.

4.22 Since 2006, the sector has benefitted substantially from the UNDP financed *Programme d'Appui à l'Emergence et au Développement de la Microfinance* (PAED-MF) in the form of capacity building support for CADESPC, RECOP and 4 selected MFIs, and training courses for MFI personnel and beneficiaries. Another source of support has been CAPAF (*Programme de renforcement des capacités des institutions de microfinance en Afrique Francophone*), an initiative of CGAP (Consultative Group to Assist the Poor) which has provided training, training of trainers and audits of MFIs, and the Dutch development agency SNV which has provided grassroots assistance to establish community based rotating savings and loan schemes.

4.23 **Critical Issues.** According to a recent UNDP assessment, only four of the 13 officially registered micro-finance institutions can be considered as potentially viable, and the financial health of the unregistered institutions is even more questionable. The credibility of the sector was seriously affected recently when a combination of mismanagement and fraud led to two MFIs being put under receivership. A combination of factors – poor management, inadequate oversight, a weak “repayment culture” – has led to a rapidly increasing credit default rate in the sector. As the following table illustrates, the credit default rate of the officially registered MFIs increased to an alarming 32.5 percent by June 2007, and only recently has started to decline somewhat:

Table 4.3: Formal Micro-Finance in Guinea-Bissau – Performance Indicators

| | June '06 | June '07 | December '07 |
|-----------------------------------|----------|----------|--------------|
| # of registered MFI's | 10 | 12 | 13 |
| # of branches | 60 | 65 | 66 |
| # of clients (000s) | 9.3 | 10.5 | 13.1 |
| Deposits (million FCFA) | 177.7 | 280.1 | 296.9 |
| Outstanding credit (million FCFA) | 170.7 | 317.6 | 228.7 |
| Credit Overdue (in %) | 11.4 | 32.5 | 28.9 |

Source: BCEAO

4.24 The sector's rapid growth indicates that there is a clear demand for MFI services. However, both tables also indicate that this growth has been rather haphazard with most of the growth in the form of unregistered, informal micro-finance schemes that are not subject to any regulatory oversight. Without a comprehensive sector strategy there is a serious risk that this growth will inevitably lead to more foreclosures and to the sector's failure to play an effective role in economic development.

4.25 Key issues that will need to be addressed urgently to bring credit default rates back to a sustainable level and ensure the financial health and sustainable growth of the micro-finance sector include:

- The inability of CADESPC to rigorously evaluate applications for registration by MFIs and provide adequate oversight services. The effectiveness of the agency is undermined by frequent staff turnover which has led to loss of capacity, and inadequate budget allocations which have led to salary arrears and low staff morale.
- BCEAO regulations impose a 27 percent interest rate cap on micro-finance. However, experience has shown that providing micro-finance is not cheap and it can therefore be questioned whether this cap allows for profitable and sustainable micro-finance operations. Outside the UEMOA zone where this cap does not exist, market-based micro-finance interest rates tend to be higher.
- The serious lack of capacity within the MFIs themselves. Reportedly, less than 10 of the registered MFIs are capable of producing periodic financial statements and only four of them submit statements to CADESPC and the BCEAO that are of acceptable quality.

- A similar information asymmetry affects the relationship between the MFI and banking sectors: lack of transparency in MFI record-keeping and financial statements has so far kept the banking sector - which enjoys satisfactory liquidity – from refinancing MFIs to improve their limited liquidity. The absence of a functioning portfolio guarantee mechanism only reinforces the banking sector's reluctance to build durable linkages with MFIs.
- The national legislation only permits the establishment of mutual credit and loan societies and, so far, does not provide for the establishment of credit institutions, which limits the proactive role the MFI sector could potentially play in economic development.
- The MFI sector has yet to develop the financial products that correspond to the needs of the micro, small and medium businesses that could most benefit from them, and that for the foreseeable future will have limited or no access to commercial bank credit. This is particularly true for agricultural MSMEs. Without these products micro-finance will remain primarily a means to provide some additional security rather than an instrument for economic development.

4.26 **Recent Developments.** There are several recent developments that could have a positive impact on the reinforcement of the micro-finance sector in Guinea-Bissau. Most importantly, there are efforts underway towards the formulation of a comprehensive sector strategy. UNDP recently has submitted a draft plan, the *Plan Directeur pour l'Emergence d'un Secteur Financier Inclusif* (PDSFI) which could serve as an important building block for such a strategy. A recent study sponsored by CGAP³² which reviewed 29 national micro-finance strategies around the world concluded that in order for such a strategy to be effective it would have to be formulated through a consultative process, emphasize the importance of linkages between MFIs and the commercial banking sector, and take precautions against political interference. The latter is particularly important in light of the Government's intention, as specified in the 2006 Poverty Reduction Strategy Paper (DENARP), to introduce a micro-credit scheme for young entrepreneurs. Experience with these types of schemes elsewhere has shown that they tend to be subject to strong political interference.

4.27 As a member of WAEMU, Guinea-Bissau is expected to adopt upcoming legislation by the BCEAO which will facilitate the establishment of micro-credit institutions. Not only would this open the door to a broadening and deepening of the sector, it could also make it easier for commercial banks to consider injecting liquidity into the sector. Micro-credit institutions are subject to stricter capitalization rules and performance criteria than mutual associations and hence, tend to be better managed; moreover, their capacity to extend credit is not strictly tied to their deposit base which makes it easier for them to take on a commercial bank line of credit for on-lending purposes.

4.28 It is expected that the BCEAO through its *Direction des Systèmes Financiers Décentralisés* (DSFD) will play a more direct role in overseeing the sector. Henceforth, applications for the registration of a new MFI are to be reviewed not only by the Ministry of Finance through its CADESPC, but also by the DSFD. The soon-to-be-introduced accounting

³² Jasmine Glisovic-Mezieres, Eric Duflos: *National Microfinance Strategies, CGAP Briefing Paper, June 2008.*

system should make it easier for MFIs to produce transparent accounts and, for CADESPC and the DSFD to execute adequate monitoring and oversight.

4.29 The UNDP is committed to continuing its support for CADESPC under its PAED program. This support does not cover the agency's salaries and operating expenses which remain the responsibility of the Government but it provides for additional time to reinforce the agency's capacity and facilitate its transition towards a sustainable entity.

4.30 Finally, Ecobank in collaboration with the international NGO Accion is exploring the opportunity to extend its operations into micro-finance. Such a venture would inject a welcome dose of professionalism and liquidity into the sector, as well as better credit risk assessment. For it to work, the operation would have to be set up as a separate venture in order not to be subject to the 18 percent interest rate cap that BCEAO regulations impose on commercial banking. However, it is not clear that the small size of the domestic market would justify the operating costs of a self-standing entity; an alternative that is being explored is the creation of a specialized institution that would operate on a regional basis in order to achieve operating efficiencies - a potentially interesting approach but it is not yet clear to what extent BCEAO regulations would allow for it. In general, regulations should be adapted to encourage commercial banks to participate in microfinance as this is the most likely way for them to develop a presence in agriculture and rural development.

Potential New Micro-Finance Instruments

4.31 ***Inventory Based Credit.*** Inventory-based credit (*warrantage*) is a means to obtain financing against stocks of agricultural products that are held in a bonded warehouse. It is based on a tripartite arrangement between the borrower, the finance institution, and the warehouse operator.³³ The borrower can be a group of farmers, a commercial farmer, processor or trader. The warehouse operator generally is an individual or entity that is specialized in the field and that does not trade in the produce stored to avoid conflicts of interest. The produce usually is a cash crop that is subject to seasonal surpluses and is destined for the domestic or export market. A typical arrangement would involve a borrower negotiating a line of credit with a bank or MFI, to be made available against the presentation of a warehouse receipt. At harvest time, the borrower deposits produce at the warehouse as security for a loan. The proceeds of the loan can then be used to purchase agricultural inputs or finance an income generating activity. Alternatively, loan proceeds can be used to purchase more produce, which can itself be pledged as security for an additional loan. This way the borrower's stocks can be increased well beyond his or her initial means. When market prices rise, the borrower repays the finance institution, either in full or in part, pays the warehousing charges and withdraws the equivalent quantity of produce for sale on the market. If the borrower does not repay the loan by the due date, the finance institution seizes the produce and sells it to a third party.

4.32 The advantage of this product is that it not only increases producers' access to finance but also reduces their exposure to price fluctuations for their crops as they are not forced to sell their

³³ This segment quotes extensively from a note prepared by Andrew Shepherd (FAO) and Jonathan Coulter (Natural Resources Institute, UK): *Inventory Credit - An Approach to Developing Agricultural Markets, FAO Agricultural Services Bulletin No. 120.*

produce all at once at harvest time, during a period of seasonal glut when prices tend to be at their lowest. Moreover, it gives finance institutions an opportunity to increase their outreach into the rural sector. Inventory-based credit has been used extensively in Ghana and to a lesser extent, in Mali and Niger. In areas where inventory-based credit has been introduced it is not unusual to see ten percent or more of the local agricultural production being used as collateral. Participating MFIs generally consider the product as one of the best in their portfolio and, in some cases, even the only one through which they extend credit to the agricultural sector.

4.33 For the scheme to work it is essential that the price increase of the produce between the moment of the loan and the moment of reimbursement exceeds the total cost that the borrower incurs, including interest, storage fees and related expenses. These costs approximate 30 percent which compares favorably with the cost of alternative sources of finance that agricultural producers traditionally have access to.

4.34 Important lessons that have been learned from the experience with inventory-based credit elsewhere include the need for: (i) having the warehouses managed by dedicated and reliable operators; (ii) reinforcing participating MFIs' management capacity through advisory services and the formalization of procedures; (iii) access to adequate price intelligence to assess risk and monitor price fluctuations; (iv) access to additional financial resources for participating MFIs, possibly through refinancing linkages with the commercial banking sector; and (v) a review of the regulatory framework for this finance product and filling in the missing elements.

4.35 It should be noted that Guinea-Bissau's main export crop, cashews, is eminently suitable for this type of instrument as it is subject to strong seasonal price fluctuations between the beginning and the end of the campaign and is not very perishable. Obstacles to a widespread introduction of this form of credit in Guinea-Bissau include: (i) the shallowness of the MFI network; (ii) lack of capacity within the MFIs to conduct adequate risk assessments; (iii) MFIs' lack of financial resources; and (iv) lack of appropriate storage facilities.

4.36 **Equipment Hire-Purchase.** Equipment hire-purchase schemes are a form of equipment leasing, with the main distinction that under a lease agreement the asset remains the property of the lessor, while under a hire-purchase agreement the ownership of the asset is transferred to the hirer at the end of the fixed term, usually at a symbolic price. There can also be differences in tax treatment as the lease payments usually are treated as an operating expense and as such, are tax deductible, whereas hire-purchase is treated as an installment credit where only the interest portion is considered as an operating expense and the remainder as installment payments towards the purchase of the asset. In both cases, the ownership of the asset remains with the original owner for the duration of the agreement which – in principle - should make repossession in case of default relatively easy.

4.37 Under a recent pilot initiative by the regional development organization *Organisation pour la Mise en Valeur du Fleuve Gambie* (OMVG) agricultural equipment is being put at the disposal of agricultural producers under a US\$770,000 hire-purchase scheme in collaboration with a selected local MFI. The MFI has been put under contract to conclude and manage the hire-purchase contracts and collect the payments which are deposited in a revolving fund to finance future purchases. This pilot initiative should provide valuable lessons for other MFIs on

such issues as: (i) what capacity is required to manage such a scheme, and (ii) whether the 12 percent interest rate that is being charged is adequate for the scheme to be financially sustainable.

E. CONCLUSIONS AND RECOMMENDATIONS

4.38 To ensure that credit-worthy needs are being met and bankable projects are financed there is an overriding need for training and capacity building both at the level of the economic operators that require access to finance, and at the level of the institutions that can provide them with it.

4.39 Based on agricultural development experience around the world, there is a growing consensus that MFIs are best positioned to extend credit to agricultural producers, provided they have established durable linkages with the banking sector to allow them to grow and introduce new micro-finance instruments. Subsidized credit schemes may be politically advantageous in the short term but constitute serious impediments to the development of a sustainable micro-finance sector. The more advisable approach would be to provide capacity building support to reinforce promising MFIs and turn them into reliable partners for the banking sector.

4.40 To achieve the objective of increasing local value added, particularly in the cashew sector, a new risk-sharing arrangement needs to be introduced to convince commercial banks to extend term and working capital finance to processors of agricultural produce. The same is true for suppliers of equipment and agricultural inputs and agricultural exporters who without some form of risk sharing represent an unacceptable credit risk to the banks.

4.41 The following are a set of recommendations that constitute building blocks for a comprehensive program to improve the functioning of the financial sector in Guinea-Bissau. Some key policy and regulatory issues remain to be addressed to improve the environment that the financial sector operates in, such as land reform, contract enforcement and judiciary reform.

Recommendations to improve the functioning of the financial sector as a whole

4.42 Other recommendations to improve the functioning of the financial sector as a whole can be summarized as follows:

- **Scale up and expand IFC's recent training program to provide courses in SYSCOA accounting procedures and the preparation and evaluation of project proposals;** in a first phase, a local cadre of trainers should be trained and officially accredited to build local training capacity, and in a subsequent phase, a program should be rolled out nationwide, preferably under sponsorship from the Chamber of Commerce to train staff of SMEs, banks, MFIs and business associations.
- **Introduce a comprehensive, integrated and accessible credit and debt information system;** the system should include an information center at the Central Bank level which would record bank borrower experience to allow banks to check loan applicants and assess credit risks, complemented by a comprehensive loan registry, recording the details of debts and the collaterals involved. Ideally, both the center and the registry should be linked to other sources of credit information such as court records and utility companies.

Once the system is up and running, support should be provided to the establishment of one or more private agencies which would provide credit information for a fee to any potential creditor.

- **Eliminate policy obstacles to term finance**, specifically: (i) the high fees imposed on revaluing corporate balance sheets which is required to reflect Guinea-Bissau's joining of the FCFA zone; and (ii) the high cost of registering assets as collateral.
- **Establish a partial credit guarantee fund**, to create an incentive for commercial banks to extend medium to long-term credit to SMEs, particularly agricultural processors, and refinance MFIs. The scheme could conceivably consist of three components: (i) an APEX line of medium to long-term credit to increase the capacity of participating banks to extend term credit to their customers; (ii) backed up by a partial credit guarantee fund; and (iii) a facility to provide advisory services for the preparation of credit applications. The scheme could be modeled after the SAHFI/TANYO approach in Niger.
- **Support a scaling up of the recent experience in providing pre-export finance**; the arrangement calls for a risk sharing between three parties: agricultural exporters who put up their stock of agricultural produce as collateral, the commercial bank that provides a pre-export credit line, and the insurance company that insures the stock against potential loss. Support for scaling up the arrangement could be in the form of technical assistance, including the formulation of a standardized framework agreement, providing all necessary legal and due diligence forms to enable the three parties to structure and complete the transaction. Once formulated and tested, the framework agreement could be adapted for other risk sharing arrangements, such as suppliers of agricultural equipment and inputs who would obtain bank finance to enable them to provide credit to their customers, with insurance companies and donors as additional partners in the arrangement to share the risk.

Recommendations to reinforce the micro-finance sector

4.43 To establish the framework for the sustainable development of the micro-finance sector it will be essential to **formulate and implement a comprehensive sector development strategy**, building on the elements provided by the PDSFI. The process that would lead to the formulation of such a strategy could be initiated by the BCEAO and chaired by the Minister of Finance, and should involve such strategic partners as the UNDP, FAO, IMF, ACBF, FAGACE, FUNDEI, SNV, OMVG, and above all, the commercial banks that have expressed interest in extending their operations into the rural sector. The strategy should specify a set of short and medium term objectives and a mechanism to monitor progress and should include the following critical elements:

- **Reinforce the capacity of CADESPC** to evaluate applications by MFIs to be formally registered, particularly applications by micro-credit institutions once the new legislation will allow for them, and monitor their performance. To this end the planned UNDP assistance should be backed up by a government commitment to reduce the agency's staff turnover and gradually increase public budget allocations for its operating expenses (it should be pointed out that the current version of DENARP does not include any budget

provisions for the agency). In an environment where government budget resources are likely to remain limited for the foreseeable future, options for additional sources of revenue should be explored for making the agency financially sustainable, for instance by gradually having the MFIs contribute to cover a portion of the operating costs of the agency through a levy scheme. An argument could be made that such an arrangement would constitute a conflict of interest but there is a precedent for this approach in some countries in the region where insurance companies contribute to the operating costs of the regulatory and supervisory agency that provides oversight to the insurance sector. Experience has shown that for such an approach to be effective, the contributions should be treated as direct earmarks for the supervisory agency rather than become part of the general tax revenues. Finally, CADESPC's operating procedures should be improved and patterned after the best practices of similar agencies elsewhere in the region.

- **Reinforce the capacity of MFIs** to install adequate and standardized administrative and record keeping procedures to enable them inter alia, to provide transparent and reliable financial reports to their commercial bank partners; this will require a substantial scaling up of existing management training programs and the introduction of a comprehensive new training program to train MFI staff in the new adapted MFI accounting system. Existing partners such as CAPAF should be involved in the implementation of these programs and RECOP as the sector association should be given the opportunity to act as the sponsoring agent.
- **Review and update the MFI legislation** to bring it in compliance with the new PARMEC law and provide for the introduction of new micro-finance instruments. Best practices should be examined to formulate stipulations that cover such issues as the recuperation and ownership transfer of assets.
- **Introduce new micro-finance instruments on a pilot basis and as part of a multi-partner program.** Based on the first results of the equipment hire-purchase scheme, the OMVG should be encouraged to accompany the scaling up of its pilot initiative to include a select number of MFIs. Inventory-based credit could be introduced with support from the FAO which has built up an extensive experience with these schemes. The Government has set aside a budget in the DENARP for the establishment of agricultural storage facilities; some of these could conceivably be adapted for the use as bonded storage facilities. SNV with its extensive grassroots experience could be called upon to reinforce the capacity of selected farmers associations to manage bonded storage facilities and train their members how to participate in the hire-purchase and inventory-based credit schemes. UNDP through PAED could accompany participating MFIs in mastering the mechanics of extending these forms of credit. Finally, commercial banks should be invited to become partners of the program and provide participating MFIs with additional sources of liquidity.

5. TRANSPORT, ELECTRICITY, WATER AND COMMUNICATIONS

A. ROADS

5.1 A recent study of the transport sector in Guinea-Bissau³⁴ reported that the country has 4,380 km of roads, of which a little more than two thirds are not paved. This gives a road density of 0.12 km/ km² in a country with a population density of 2.9/ km.² The government has defined a “priority network” of roads made up of the primary network and a portion of the secondary network which is targeted for more intensive maintenance and upkeep. Ninety percent of this priority network is paved at the present time. Table 5.1 shows data on the extent of the national network and the proportions of it that is paved and unpaved. It can be seen that the majority of national primary roads is paved and most of the rest is graded dirt while more than two thirds of roads overall are dirt.

Table 5.1: Road Network

| | Paved Roads | | Unpaved Roads | | | | | Total Network | |
|-----------------|-------------|-------|---------------|-------------|-----------------|-------|-------|---------------|-------|
| | | | Dirt | Graded Dirt | New Branch Road | Total | | | |
| National Routes | 468 | 32.6% | 144 | 353 | 89 | 586 | 19.9% | 1,054 | 24.0% |
| Regional Routes | 199 | 13.8% | 204 | 180 | 0 | 384 | 13.0% | 583 | 13.3% |
| Local Roads | 770 | 53.6% | 1,010 | 877 | 89 | 1,976 | 67.1% | 2,746 | 62.7% |
| Total | 1,437 | 100% | 1,358 | 1,410 | 178 | 2,946 | 100% | 4,383 | 100% |
| | 32.8% | | 67.2% | | | | | | |

Source: African Development Bank – *Estudo Integrado do Sector dos Transportes em Quatro Países Lusofonos*, May 2007.

5.2 The primary road network (Estradas Nacionais) is in good condition at the present time as it has all been recently resurfaced under various European Commission projects over the past few years. In addition, the EC has also funded the construction of two bridges on the main road between Bissau and Ziguinchor in Senegal, with onward connection to Banjul in The Gambia, freeing traffic of the need to take two ferries across the intervening rivers. The first of these bridges was finished in 2008 while the second was completed in 2009.

5.3 In essence, this will open a second port for exporters from Guinea-Bissau. Given the chronic problems and high costs at the Port of Bissau the incentive to go to the lower cost option just across the border will be high, especially for production originating in the northern parts of the country.

5.4 The southern part of the country is still much more difficult to reach, requiring a long detour inland before the intervening river can be crossed. Much of this road has also been resurfaced, though this is still a work in progress. Traffic to Conakry is still not possible since

³⁴ African Development Bank – *Estudo Integrado do Sector dos Transportes em Quatro Países Lusofonos*, May 2007.

the necessary link roads do not exist on either side of the border. However, a project has been designed under the auspices of WAEMU to construct the necessary linkages between the two countries. This would open up a border that is inaccessible to normal commercial traffic.

5.5 The biggest problem in the road network is the state of the secondary network during the rainy season. As can be seen in Table 5.1 most of these roads are dirt and many become impassable when the rains start. This is a particular problem in terms of the cashew harvest since this continues into the rainy season in most years, but is also a problem in that many rural areas become virtually cut off from the rest of the country for several months each year. This is particularly true in the southern region of the country which in colonial times used rivers as a principal means of transport and communications with the rest of the country, but which now does not have any regular river transport service.

5.6 Repair and maintenance of roads is the responsibility of the Direccao Geral de Pontes e Estradas. There is a chronic lack of finances to perform this function adequately, though the recent resurfacing of most priority national roads through the EC-funded project has reduced the immediate need on those roads. However, there are chronic problems in addressing repair issues in a timely fashion as well as a chronic problem on dirt roads in the rainy season. Table 5.2 shows maintenance costs for different types of roads.

Table 5.2: Road Maintenance Costs

| | Annual Maintenance | Periodic Maintenance | Rehabilitation | Construction |
|-------------|---------------------------|-----------------------------|-----------------------|---------------------|
| 1000 CFA/KM | | | | |
| Paved | 980 | 30,000 | 80,000 | |
| Dirt | 200 | 25,000 | 15,000 | 45,000 |

Source: African Development Bank – *Estudo Integrado do Sector dos Transportes em Quatro Países Lusofonos*.

5.7 The number of freight and passenger vehicles in the country is shown in Table 5.3. It is clear that freight capacity is not large, though Bissau itself is well served in terms of intra-urban passenger traffic. There are currently no limits on licenses given nor are there any limits on who can own and operate such vehicles.

Table 5.3: Passenger and Freight Vehicles Registered

| | Registered Vehicles |
|---|----------------------------|
| Collective Taxis | 609 |
| Collective Taxi/Vans | 105 |
| Urban Transports | 596 |
| Urban Passenger Transports | 7 |
| Mixed Passenger/Freight Interurban Transports | 629 |
| Inter-urban Passenger Transports | 5 |
| Light Trucks | 21 |
| Trucks | 87 |
| International Transports | 21 |

Source: African Development Bank – *Estudo Integrado do Sector dos Transportes em Quatro Países Lusofonos*, May 2007 – 2005 figures.

5.8 It is reported by the Transporters Association that the biggest problem facing private trucking operators is the lack of credit with which to purchase trucks. There are various facets to this problem, the first being that banks are not currently willing to lend for the 4-5 year period required to finance a freight truck. In addition, it is reportedly not possible to fully insure vehicles that are not purchased new – and this is typically required by banks in order to extend credit.

5.9 A study performed in late 2008 of the costs of transport within Guinea-Bissau showed that fully two thirds of the cost of trucking lies in charges incurred at the many roadblocks throughout the country. These fees and charges have no legal basis but are in many cases the primary source of income for the police and other officials involved. However, if these costs are in fact twice as large as the fuel and other costs associated with trucking, it is clear that they have become a major impediment to internal trade in the country. Given that all exports and imports must also travel on these same routes, this amounts to a tax on international trade as well.

5.10 Table 5.4 shows reported approximate shipping costs from the interior of Guinea-Bissau to Bissau and also the rates between Bissau and other regional ports. These rates were reported to be somewhat inflated due to the usual need to wait to unload at the port. Waits of as much as a week are common and though trucks can park at the port for free for two days they are charged CFAF 10,000 for each day after that.

Table 5.4: Freight Costs in Guinea-Bissau* (CFA / 30 MT load)

| Typical Charges for Transport within Guinea-Bissau | |
|---|---------------|
| Bissau – Buba | 230 – 300,000 |
| Bissau – Gabu | 300,000 |
| <i>Typical Charges for International Routes</i> | |
| Dakar – Bissau | 950,000 |
| Banjul – Bissau | 950,000 |
| Conakry – Gabu | 1,200,000 |

Source: Interview with Associação de Transportadores. Rates based on 30MT truck.

‘Fundo Rodoviário’

5.11 The EC has stated that it will be ending its campaign of road improvement when the main road in the south of the country is resurfaced in the near future. Instead it will direct its efforts toward maintenance, supporting the Fundo Rodoviário. The Fundo Rodoviário is designed to provide a sustainable financing mechanism for maintenance and repair of the priority portions of the road system, consisting of most (though not all) of the Estradas Nacionais as well as some of the Estradas Regionais. As can be seen in Table 5.2 these costs can be substantial. The Fundo Rodoviário is responsible for funding these costs and gets its revenue from a portion of the tax

on imported petroleum products as well as tolls on the bridges and an annual fee for each vehicle registered in the country.

5.12 These tolls are currently at a level of CFAF 1,000 for cars and CFAF 20,000 for heavy trucks. Though this is a considerable expense it must be realized that the time savings and cost savings through avoiding the need to go on the ferries compensate for the additional cost. The Fundo is considering the institution of a toll on the principal national highways but no decision has been reached on this.

5.13 The most important source of funds (in theory) for the Fundo Rodoviario is from the 4 percent tax on all fuels imported into the country. This money has not, however, been forthcoming to date as it is first paid into the Treasury but is not subsequently transferred to the accounts of the Fundo Rodoviario. In the past year, only about CFAF 70 million were transferred out of a total of CFAF 234 million. Efforts to transfer the remainder continue with the support of the EU, which signed a contract with the government conditioning continued financing of road rehabilitation on adequate funding for maintenance.

5.14 Maintenance funded by the Fundo is contracted out through the Ministry of Public Works. Though there are few contractors with the necessary equipment and financial means, it was reported that at least four routinely compete for the business. There are various smaller contractors but these are more difficult to work with since they have no capital and therefore need payment in advance in addition to lacking much of the necessary equipment to do the work.

B. PORTS

5.15 Currently, the Port of Bissau is the only major functioning international port in the country. As such it is the principal gateway for all exports and imports and its smooth functioning is key to the efficient transport of the vast majority of traded goods exiting and entering the country. Current estimates are that 85 percent of exports move through the Port of Bissau while more than 90 percent of imports do the same. At the present time, the port is operating well in excess of its designed capacity. Originally constructed to move 5,000 containers per year, the port is now moving approximately 20,000, though with considerable delays.

5.16 One cannot overemphasize the importance of improving port operations for the success of virtually every other activity covered in this report. Almost every interview conducted in the preparation of this study generated comments about the importance of port rehabilitation, with its current state often characterized as “terrible”.

5.17 The port is currently managed by a government entity, Administracao dos Porto da Guinea-Bissau (APGB), which took over from a private firm, Tertir, in 1999. There are still some outstanding financial issues related to this transfer which need to be resolved in order to proceed with any kind of contracting of port services or public-private partnership. Settlement of these issues with Tertir is necessary before re-privatizing the operations. Negotiations have occurred and it is apparent that an agreement is possible, though it has not yet been finalized.

5.18 Several observers noted that APGB had been used as a conduit for patronage appointments over the years and that this has resulted in a highly paid and redundant staff.

According to one observer, no more than one third of the approximately 800 current employees may actually be needed to run the operations of APGB. A review of staffing and training needs may be appropriate to ensure that excess costs are not loaded onto port fees paid by exporters and importers.

5.19 However, given the stated intention of the government to privatize direct management of the port (thus leaving APGB in the role of regulatory agency) it is far preferable to proceed with the privatization as rapidly as possible and leave staffing decisions to the new port operator. Indeed, contracting out these direct management responsibilities would further reduce the staffing needs of APGB. However, in order to be able to negotiate effectively with potential private sector operators, it will be essential to ensure rehabilitation of at least some of the basic infrastructural needs of the port since it cannot be expected that port management operators can effectively implement the wide range of rehabilitation needs. In particular, it is clearly the government's responsibility to ensure that the approach channels and the harbor itself are dredged to a depth sufficient to allow access. It is also clearly within the government's responsibility to ensure adequate road access to the port as well as paving those areas designated for container storage. These issues are discussed below in more detail. Generally speaking, the better the condition of the port, the more favorable a contract can be negotiated by the government.

5.20 The main physical problems with the port of Bissau are clear and stem from neglect and growth over many years. These can be summarized as follows: insufficient capacity and inadequate container equipment, insufficient depth of port and approaches, and lack of navigational aids.

Insufficient Capacity and Inadequate Container Equipment

5.21 As noted above, the container facilities at the port were originally designed for 5,000 containers per year but are currently transiting approximately 4 times that number. This has resulted in extreme delays and congestion in the port itself as well as in access roads through the City of Bissau. At the time of writing, work was in progress to address some of these issues.

5.22 First, the access roads to the port are being paved using resources of the port authority. This will be essential to adequate traffic flow, particularly for the peak traffic season during the cashew harvest. This period, from May through July, coincides with the beginning of the rainy season and it is essential to have adequate all weather roads for the large trucks which transport cashews to the port. Consideration is already being given to the construction of a second access road to expand capacity.

5.23 Second, there is currently insufficient space in which to store containers within the port. As of May 2008 work was in progress to demolish some old warehouses in order to make way for additional areas in which to store containers. All container areas are slated to be paved in the near future, but this will wait until after the current harvest and rainy season.

5.24 Third, the port currently has insufficient machinery to move containers and what it does have is in poor condition, necessitating constant stoppages for repair. Indeed, at the time of writing, there were no functional container carriers in the port, though one was being repaired by

mechanics brought in from Dakar. A study performed under the Project estimated that this problem could be remedied at a cost of Euro 1.1 million.

Dredging

5.25 Located on a river estuary, Bissau and its approaches suffer from constant silting which reduces the maximum draft of vessels which can load and unload in the port. Until 1972, the port and its approaches were regularly dredged to a depth that allowed large merchant vessels to dock. However, at the present time it has been 36 years since this was last done with the result that the water depth has been reduced to 3-4 meters. This limits the size of the ships that can enter to 20,000 tons.

5.26 Preliminary design and feasibility studies for dredging the port and its access channels was completed in 2006 under the Private Sector Development Project. Dredging to a depth of at least 5 meters would allow ships of up to 30,000 tons to enter the port, greatly expanding the ability of shipping companies to service Bissau, and reducing the unit cost for exporters and importers. However, this work must be repeated periodically to avoid having the same problems arise in the future. Hiring dredging services from other ports (e.g. Banjul) along the coast would eliminate the need to purchase dedicated dredging equipment for Bissau since this is likely to be prohibitively expensive.

5.27 An additional task needed to make the port fully functional is the removal of several wrecks which block access to some of the facilities. Unlike wrecks further out in the approaches which can be simply marked to ensure that ships avoid them, those wrecks at the docks will need to be removed.

Aids to Navigation

5.28 Over the years the previous buoys, lighthouses and range markers which guided shipping into the port have either disappeared or become non-functional due to lack of maintenance. Regular maintenance on at least an annual basis is essential to any installation located in the ocean or on exposed areas. The buoys marking the main channel were last replaced in 1995 but are now all either gone or non-functional.

5.29 The project design and feasibility study performed in 2006 details the necessary improvements as well as the need for establishing a regular maintenance schedule in order to avoid another round of neglect and deterioration. The total cost for Bissau alone amounted to Euro 1.13 million. The benefits of doing this in terms of reducing shipping costs accrue in several different ways. First and most obvious is the fact that ships will no longer need to wait for daylight hours to enter or leave the port. Second, the time and cost of bringing on board a pilot before entering the harbor will be eliminated. Third, insurance costs will be reduced since Bissau is now regarded as a dangerous port given the lack of any aids to navigation and the existence of shallow areas and wrecks.

On the Priority of Port Rehabilitation

5.30 The action items listed below are *virtually identical to the action items contained in a report on the condition of the port dated July of 1997*³⁵ and repeated in numerous reports by various observers since that time. The messages are clear:

- The problems with the port are well known and have been studied for more than a decade;
- The necessary studies have been done;
- All that remains is to find the financing and the political will to go ahead.

5.31 Proposals to conduct further studies which do not directly lead to the initiation of the required work should be resisted. This is the highest priority identified in this report and should be regarded as a necessary condition for any other trade-related activities to achieve success.

5.32 And yet, the urgency of rehabilitating the port is still not clearly understood by many observers. Rather it is implicitly assumed that the port is the only viable means of importing into and exporting from the country. This may be essentially true at present but within a year the Port of Bissau will be undercut by the Port of Banjul as the lowest cost alternative to import containers and export cashews. Cashew traders who moved to Banjul as a result of the civil war are already handling some of the Guinea-Bissau harvest.

5.33 At the present time there is no direct land route for large trucks from Banjul and Dakar to get to Bissau. The main road crosses two major rivers, one of which still has no bridge, with ferry service that is inadequate for large numbers of large vehicles. However, this situation will change in 2009 with the completion of the bridge at Sao Vicente. At that point it will be cheaper to ship goods through Banjul and even Dakar.

Table 5.5: Comparison of West African Port Costs

| | 20 ft. container US\$/ton | Average Freight Cost | Port Cost | Tax | Total |
|------------------|------------------------------|----------------------------|-----------|------|-------|
| Guinea-Bissau | 95-120 | 107.5 | 57 | 82.5 | 247 |
| Nigeria | 45-50 | 47.5 | 40 | 0 | 87.5 |
| Ivory Coast | 55-70 | 62.5 | 40 | 31 | 134 |
| Benin | 55-60 | 57.5 | 33 | 0 | 90.5 |
| Ghana | 45-50 | 47.5 | 25 | 0 | 72.5 |
| Senegal (Zig) | 95-100 | 97.5 | 36 | 0 | 134 |
| Senegal (Gambia) | 95-100 | 97.5 | 68 | 0 | 166 |
| Gambia | 95-100 | 97.5 | 21 | 10.5 | 129 |

Source: African Cashew Alliance.

5.34 Consider the figures in Table 5.5 which show costs in various ports in the subregion. Banjul is US\$118 per ton cheaper than Bissau. As shown in Table 5.4, a container can be transported for CFAF 950,000 between the two cities. Assuming a load of 20 MT and an

³⁵ Berg-Andreassen, Jan, "Avaliacao do Porto da Guine-Bissau," TIPS Report No. 90^a, Sept. 1997.

exchange rate of CFAF 420 to the dollar, this works out to an additional cost of about US\$113, resulting in a saving of US\$5 per ton even without the bridge. The estimated trucking costs after the bridge is in place will undoubtedly drop lower.

5.35 There is one caveat. Though Guinea-Bissau, Senegal and The Gambia are all in the ECOWAS free trade zone, the theoretical free passage of goods and services across the border does not in fact exist. Border guards can and do impose costs at the border, sometimes for extended periods of time, and other unofficial roadside taxes also exist. However, efforts are under way to facilitate genuine free trade, and even if some payments are still required, they will likely be absorbed as a relatively minor cost of doing business. The port and customs in Banjul have a reputation for speedy service, at least by the standards of the region, which will prove very attractive in comparison to Bissau.

5.36 The bottom line is clear: unless the Port of Bissau is rehabilitated to the point where it is competitive with Banjul and Dakar it will lose the vast majority of the traffic to those two destinations. Instead of providing revenue to the government it will become an expensive but little used facility. Even worse, if dredging is not done soon, and the port and approaches continue to silt up at the rate they have in recent years, it will within a very few years be impossible for freighters to enter. The port will cease to be a viable entry point and the country will be dependent on its neighbors for access to international markets.

Construction of a Second Port at Buba and/or Biombo

5.37 As noted elsewhere in this report, the proposed mining projects for phosphates and bauxite include the construction of rail lines to a proposed new port near Buba.³⁶ First proposed in the 1940s, the port was seen as a way to link the isolated southern region to the outside world as well as a route through which the bauxite deposits identified in that region could be shipped. A second major international port would also relieve the pressure on Bissau. Other proposals have centered on a new port at Biombo, which is a deep water location where a new port would avoid many of the problems currently suffered in Bissau itself, but which is at the present time completely undeveloped.

5.38 Studies in the early 1980s concluded that economic viability depended on use of the port at Buba for regional trade and not solely mineral exports. Trade originating only in the southern region of Guinea-Bissau could not by itself provide enough justification for the project – the port would have to be viewed as a regional hub for neighboring countries in order to generate a sufficient economic return. Among the other countries suggested as potential users of the port are Senegal, Mali, and Guinea-Conakry.

5.39 Involving a huge investment in regional rail lines as well as associated infrastructure, the proposed Port of Buba is a project of international scope which would require a high degree of international cooperation and financing. The project also raises serious environmental concerns. Not only would the mines pose threats to the rivers and the fishing industry they support, but

³⁶ See, for example, Republica da Guine Bissau – Comissao para o Relancamento e Dinaminazacao do Projecto do Porto Regional de Buba-Boe, “ Apresentacao e Proposta de Relancamento do Projecto do Porto Regional de Buba” 2007, and Republica da Guine Bissau, Projet du Port de Buba July 2001.

both the railway and the port itself are proposed for environmentally sensitive areas that are already demarcated as protected zones. Recently, work on approach roads has been started even though necessary environmental impact studies have not been performed. The railroad is reportedly not contemplated in the immediate future, with shipments from the proposed bauxite mine to be done via road. However, Buba as yet lacks adequate road connections to the rest of the country and will in any case not be complete for at least several more years. Given the urgency of the situation in the Port of Bissau, and the long lead time needed to construct an entirely new port in a location such as Biombo, neither of these can be viewed as an alternative to rehabilitation of the Port of Bissau. Even if either or both of these options provide a long term solution to the problem of direct access to international maritime trade, neither can be depended on to solve the urgent short run need to ensure a functioning port.

5.40 Perhaps more important is the fact that there is *already* a “second port” under construction in that the road to Banjul in the Gambia and Dakar in Senegal will by the end of next year be free of the need to use ferries. With the second EU-funded bridge already under construction the trip from Bissau to Ziguinchor will soon be made in two hours on an all-weather road, and the cities of Banjul and Dakar within a day. There is, therefore, every reason to regard this possibility as a viable alternative to Bissau, and consequently less incentive to construct a second port in Guinea-Bissau.

C. RIVER TRANSPORT

5.41 In colonial times river transport was used extensively and most rivers and plantations had docks and associated infrastructure to make use of this mode of travel. Since that time, however, river traffic has all but disappeared apart from artisanal canoes and one ferry which goes to the islands from the mainland.

5.42 Various suggestions have been made in recent years to rehabilitate river freight traffic but there has been no investment in the needed infrastructure. Indeed there is reason to question the viability of investments in this area given that virtually the entire fleet of river transport boats is no longer in existence.

5.43 However, there is one proposal, estimated at US\$3.1 million in 2002, which would link the southern region and the islands to Bissau.³⁷ This proposal would encompass the purchase of a 200 ton ship, 4 barges, and the rehabilitation of the necessary docks and landing facilities. It is clear that the transportation options to the islands and to the south of the country are inadequate at the present time. Indeed, the various proposals for development of tourism in the islands will require far better transportation options than are now in existence. However, it is unclear that a project of this size is justifiable given the ongoing efforts to improve road access to the south and the fact that the islands can be adequately served by much smaller vessels. It would also seem that private sector leadership is required if this project is to be sustainable.

³⁷ Republica da Guine Bissau, “Projecto de Relancamento de Servico Publico de Transporte Fluvial de Passageiros e Cargas,” July 2002.

5.44 Accordingly, it is premature to recommend these investments for priority action. It is very possible that given a suitable private partner, government investment in needed infrastructure could provide an adequate return compared to other options to improve links with the islands and the south of the country. However, the pressing needs in Bissau itself and the high cost of pursuing this project mean that it must depend on a willing private sector partner to be viable.

D. AIR TRANSPORT

5.45 The airport at Bissau is the only international airport in the country. At the present time traffic is far below capacity, with no more than two international flights even on the busiest days and many days with only one flight to Dakar. It is reported that this situation will improve somewhat by the end of the year as TAP moves from a single weekly flight to three flights a week but low traffic volume and little competition lead to high ticket prices.

5.46 There have been some recent improvements at the airport with the installation of lights permitting night time landings and training for some staff. However, airport operations are still problematic with reports of lost bags and delayed flights in what is an aging facility in need of some renovation. The government may wish to review its contract with the private sector operator of the airport given that adequate performance on these issues is clearly expected under the contract terms.

5.47 There are, therefore, limited opportunities to piggy-back on passenger flights by using their excess cargo space for high-value exports. But even if it did exist, there are few enterprises which could take advantage of such an alternative, and little reason to think that Guinea-Bissau could successfully compete with other regional exporters of perishable products with far better facilities and a far wider menu of options in terms of air shipment.

E. ELECTRICITY AND WATER

5.48 Guinea-Bissau has abundant water, being a country crossed by numerous rivers and with a relatively low lying topography with an accessible water table in most areas. This means that locating decentralized industrial facilities (e.g. cashew shelling plants) is not constrained on the basis of water availability. However, the urban water supply system in Bissau is in poor condition. Work is under way to build a new reservoir, distribution system and public fountains.

5.49 The situation in the electricity sector is more of a problem. Only 20 percent of the population has access to public electricity, exclusively in major cities and towns and primarily in Bissau. Even in these areas, the electric company is only able to supply power 70 percent of the time. In the interior of the country most areas have no electricity at all though there have been recent extensions of the grid to seven urban centers.

5.50 The EAGB (Empresa Pública de Electricidade e Águas da Guine-Bissau) has major financial constraints as well as problems with adequately trained personnel and availability of spare parts. In particular it has had difficulty in collecting bills though there has been recent improvement in this area.

5.51 Lack of electricity is a major constraint to the development of manufacturing and other activities which require power. Cashew processing is perhaps the only major counter example since it is not dependent on electricity supply but can itself provide surplus electricity through the burning of shells. This has already been done in some installations, notably SICAJU, and should be considered as an important benefit when evaluating the economic viability of cashew transformation projects.

5.52 At the present time virtually all electricity generation is diesel with an installed capacity of 11MW. The recent increases in the prices of oil products has made energy production extremely expensive, prohibitively so for some uses.

5.53 Accordingly, a strategic vision is needed for electricity development that can support growth in both urban and rural areas in the future. The following points are taken from the most recent investment program in the sector, prepared by the government:

In the short run:

- Restore generation capacity to internationally acceptable levels of service in the city of Bissau;
- Address technical problems with generation and the operational capacity of EAGB;
- Increase collection rates for electricity supply charges from 40 percent to 80 percent to restore EAGB to a viable financial footing;
- Revise the tariff structure to allow differential pricing for alternative types of energy demand, e.g. industrial vs. residential, high voltage vs. low, off peak vs. peak;
- Identify future energy sources to mobilize needed investments, particularly in rural areas where decentralized sources and private suppliers can play a greater role.

In the longer term:

- Wherever possible and financially viable, combine cashew transformation projects with electricity supply in order to allow more remote areas to be served;
- Pursue regional initiatives which can allow Guinea-Bissau access to much cheaper hydroelectricity through an interconnected regional grid. The OMVG project studied by the African Development Bank is an example of one such possibility.³⁸

F. COMMUNICATIONS

5.54 Telecommunications is an area which has experienced probably the greatest growth and transformation over recent years, and is a testament to the ability of reform and conducive regulatory structures to allow and promote private sector investment.

5.55 Two private sector cell phone operators are now competing with the previous government run system and have created a competitive market that provides an excellent product. Indeed, sales of cell phones and associated cards and accessories are a major industry in virtually all parts of Bissau as well as major regional towns.

³⁸ OMVG is the Office pour la Mise en Valeur du fleuve Gambie, or the Gambia River Valley Development Organisation.

5.56 Perhaps the two most important remaining tasks are to submit to Parliament the Telecommunication Law for adoption to revise the sector regulatory framework and for the government to sell its stake in Guine-Telecom and Guinetel given the obvious comparative advantage of private operators in this area. This, together with new regulation promoting interconnection between different systems and a more flexible access to public fixed networks, can go far toward completing the transformation of this sector.

5.57 However, there is still a gap in that the fixed telephone network, which is essential to high speed data transmission, is still in very poor condition. Indeed, the migration of many households to the mobile network has reduced the revenue base substantially. Proposals to add fiber optic capacity between cities in Guinea-Bissau to the existing line to Dakar could help spur the needed development, but substantial investment is needed to bring this network up to a level that can be considered adequate. Given the lack of resources available to the government (and to its state run phone company) this is an area where private investment can and should be promoted.

6. CASHEW: FOUNDATION OF THE ECONOMY

A. CASHEW, POVERTY, AND THE MACROECONOMY

6.1 Cashew is by far the most important cash crop grown in Guinea-Bissau. Indeed, the degree of export dependence on this crop exceeds even the export dependence of most members of OPEC on oil exports. This fact has led many observers to promote diversification away from cashew as a primary objective of any trade promotion effort. However laudable diversification may be (and indeed, it is a worthy goal not only to raise incomes but also to decrease the risk characteristics of export earnings), it is impossible to achieve broad based success in export promotion without a high degree of success in the cashew sector.

6.2 Simple arithmetic underscores this observation – with 98 percent of export earnings and 10 percent of fiscal revenue derived from this crop, even unprecedented success with other products can yield only a marginal increase in the total. However, much more than arithmetic dictates that a primary goal of any trade effort be directed toward the cashew sector.

6.3 First, Guinea-Bissau possesses near optimal conditions for cashew production. Indeed, not only is cashew produced virtually without purchased inputs in most cases, but the quality of the nuts is superior to those from many other exporters and so is capable of commanding a premium on the international market. The rise of cashew cultivation is therefore no accident – producers are behaving very much in accord with what the standard predictions of comparative advantage would have them do. They gravitate toward a product in which they have relatively lower costs than do other producers.

6.4 Second, the vast majority of the cashew crop is produced by small farmers. In many areas it is hard to find small farmers who do not grow at least some cashew. According to recent estimates, more than 85 percent of the population is involved in cashew production in some way.³⁹ This is extremely important in that it means that alterations in the farm gate price of cashews have a greater impact on the incomes of the poorest than any other variable in the economy. One study by Boubacar-Sid et al. concluded that a 15 percent increase in the farm gate price of cashew could result in an increase in consumption of the extreme poor of 9.5 percent and by the poor of 3.3 percent.

6.5 Estimates of the percentage of the export price actually received by farmers vary from as little as 20 percent⁴⁰ to as much as 70 percent.⁴¹ Reports from the cashew harvest of 2008 support an even higher figure of about 78 percent.⁴² Given the stop-go nature of government interventions in the sector in recent years it is entirely possible for this percentage to have varied enough for all of these analyses to be accurate for different years. (It is worth noting that the low end figure of 20 percent reflects the extraordinary situation of 2006 and is not a “normal” occurrence.) Table 6.1 shows a breakdown of the cashew marketing chain for 2007.

³⁹ See Mendes 2009.

⁴⁰ Boubacar-Sid et. al. op. cit. page 70.

⁴¹ See Jaeger and Lynn 2004.

⁴² See Mendes op. cit.

Table 6.1: Cost Structure of Cashew Marketing 1 MT – 2007 Harvest

| | CFA |
|--------------------------------------|----------------|
| Acquisition price of trader | 200,000 |
| Trader margin | 25,000 |
| Transport from Interior | 14,400 |
| Trader price in Bissau | 239,400 |
| Acquisition price of exporter | 239,400 |
| Customs tax (6% of FOB value Bissau) | 17,280 |
| CPR/DGCI (2% o FOB value Bissau) | 5,760 |
| ACI/DGCI (CFA 27/ s5kg) | 6,750 |
| APGB | 4,650 |
| Transport from warehouse to port | 3,158 |
| Loading and Unloading | 2,500 |
| Pre-embarcation weighing | 259 |
| Bank Costs | 12,384 |
| Sacks | 6,250 |
| Certificate of Origin | 1,500 |
| Phytosanitary certificate | 53 |
| Despachante fee | 413 |
| SGS (certification fee) | 1,500 |
| Warehouse rental | 1,500 |
| Sub Total | 303,357 |
| Administrative Costs | 25 |
| Spoilage | 1,296 |
| Contingencies | 500 |
| Exporter Margin | 25,000 |
| Sub Total | 26,821 |
| Export Price | 330,178 |

Source: CNC *Caderno de Exportação* 2008

6.6 Table 6.2 shows the relationship between international prices and domestic prices at the port (i.e. farmgate plus internal marketing margins). Late accounts from the 2008 harvest reported prices to producers equivalent to as much as US\$950 US/MT and export prices (CIF) as high as US\$1,300.⁴³ These prices imply that producers were receiving about 73 percent of the international price, again in about the same range as prior years. However, these figures are extremely high in absolute terms and indicate that Guinea-Bissau has benefited from what is perhaps the best year in history for cashew exports; average prices to producers are somewhat lower at US\$820/MT, reflecting the sharply rising trend through the latest harvest season.

⁴³ See Relatorio da Iia Conferencia Nacional do Caju, 7-9 Outubro de 2008.

Table 6.2: Cashew Prices (US Dollars / Metric Ton)

| Year | Domestic Purchase Price in Bissau | International Price | Domestic Price as % of International |
|-------------|--|----------------------------|---|
| 1998 | \$ 589 | \$ 739 | 80 % |
| 1999 | 714 | 844 | 85 |
| 2000 | 595 | 745 | 80 |
| 2001 | 600 | 730 | 82 |
| 2002 | 380 | 500 | 76 |
| 2003 | 545 | 675 | 81 |
| 2004 | 550 | 700 | 79 |
| 2005 | 523 | 658 | 79 |
| 2006 | 505 | 652 | 77 |
| 2007 | 470 | 621 | 76 |
| 2008 | 821 | 1050 | 78 |

Source: 1998-2007 *Ministério de Comércio, Indústria e Artesanato*; 2008 *Mendes 2009*.

6.7 The government's determination to pursue development of the cashew sector was clearly demonstrated in the October 2008 National Cashew Conference in which it was agreed that promotion of processing and improved production and marketing would be key elements of a national strategy. Implementation would be led by a newly created National Cashew Institute (INCA) which would operate similarly to the analogous INCAJU in Mozambique. Many of the key recommendations of this report were also emphasized in this conference – clearing the way for a consensus between the government and the donor community on an appropriate path for the future.

B. CASHEW PRODUCTION⁴⁴

Cashew Producers and Production

6.8 It is estimated that cashews cover more than 6.7 percent of the national territory or about 210,000 ha. and that each Bissau Guinean produces an average of more than 53 kg of raw cashew each year.⁴⁵ The majority of families have at least some producing cashew plants. It is estimated that the cashew area is increasing at the rate of 4 percent per year though output is increasing at a rate of 10 percent due to the fact that many recently planted trees are only now reaching their period of highest productivity. Table 6.3 shows cashew production figures for Guinea-Bissau and other African cashew producing countries.

6.9 Small farms account for about 80 percent of cashew plantations, with the average smallholder plantation being between 2 and 3 ha. Larger plantations account for the balance, with one plantation of 1,300 ha. associated with a processing facility. Though no detailed evaluation of the state of the trees themselves has been undertaken, it is obvious from the high growth of area under cashew in recent years that most are quite young and are therefore either in or close to their phase of maximum yield. Growth in production will thus continue for the next

⁴⁴ This section draws on ; Jaeger and Lynn 2004, Chausse 2006 and Paiva 2007.

⁴⁵ See Mendes, op. cit.

several years even without further planting as young plantations come on stream and reach full potential. At the current rate of growth, production should reach 150,000 MT by 2010.

Table 6.3: Cashew Production in Sub Saharan Africa

| Country | 2008 Production in MT |
|----------------|------------------------------|
| Ivory Coast | 220,000 |
| Guinea-Bissau | 130,000 |
| Tanzania | 100,000 |
| Nigeria | 75,000* |
| Mozambique | 80,000 |
| Benin | 65,000 |
| Senegal | 15,000* |
| Togo | 3,000* |
| Ghana | 10,000* |
| Kenya | 5,000* |
| Burkina Faso | 5,000* |
| Mali | 3,000* |
| Guinea Conakry | 3,000* |

*2006 figures

Source: African Cashew Alliance

6.10 Cashew trees are established by direct seeding using random seeds and random spacing. There is little attention to the selection of seed nuts or parent plants or use of grafted seedlings. There has therefore been no genetic improvement of planting material and productive potential. Husbandry practices are poor, with little or no thinning or pruning of trees. In spite of this, yields appear relatively acceptable at 500-600 kg/ha., comparable to those in India and Brazil (although far from those achieved in Vietnam). Harvest and post harvest techniques are often inadequate (premature harvesting, inadequate drying, handling and storing), which generates losses in quantity and quality of nuts.

Common Cashew Diseases, Research and Extension

6.11 There is at the present time no effective extension presence in any agricultural areas. There is a National Agricultural Research Institute in Guinea-Bissau (INPA) which was in the past largely funded by donors but has been unfunded for several years and has therefore been essentially dormant. What little (applied) research has taken place recently has been funded by private sector operators. However, little or none of this reaches the smallholders who constitute 80 percent of production in the country.

6.12 Disease has not yet affected production in any substantial way in Guinea-Bissau. Anthracnose and Oidium both exist but are not widespread and have so far caused only limited damage, indicating that the Guinean cashew variety may be relatively resistant. Brazilian varieties introduced for their nut size have reportedly not had this resistance and have consequently been infected. This indicates that there is an obvious case for conducting adaptive research to try to produce varieties that would incorporate local disease resistance characteristics into higher yielding varieties with larger nuts.

6.13 Farmers use no inputs or treatment. This reduces cost and opens the possibility of niche markets for “organic” cashew⁴⁶. However, it is unlikely that the current situation can last indefinitely. There are already some worrying signs of (localized) dying trees and experience shows that the development of a crop under monoculture conditions such as cashew in Guinea-Bissau is affected by pests and diseases that either adapt to local conditions or are inadvertently imported. It is thus of the utmost importance that efficient crop protection services be urgently re-established. Indeed, experience with Oidium and Anthracnose in other cashew producing countries (e.g. Mozambique) demonstrate that early action is essential in limiting losses to these problems.

6.14 There is no doubt that there are very clear public good characteristics of cashew research and extension. Accordingly, it is essential that the government do whatever is necessary to revive INPA and reestablish collaboration with EMBRAPA in Brazil in order to quickly put in place an active research and extension program in cashew in Guinea-Bissau.

6.15 Fortunately, the legal foundation for a funding mechanism is already in place though it has not been actually funded in recent years. Of the revenue collected from the 8.6 percent cashew export tax, 5 percent of the total is supposed to be diverted to the Conselho Nacional do Caju for purposes of research and development benefiting all growers. Diverting all or part of this income to cashew research and extension would be entirely in line with the intention of the original law but would require a political decision to ensure that the flow of funds actual occurs. At present none of this money has been returned to the cashew sector in any form.

C. MARKETS, PRICES AND PROCESSING

Markets and Prices

6.16 Guinea-Bissau exports most (more than 95 percent) of its crop as dried-shell nuts to India where it is processed into kernels for consumption in the terminal markets. World demand for kernels has grown strongly (10 percent p.a.) over the last ten years. In 2004, total consumption was estimated at about 300,000 tons with the main markets being: the North America (120,000 tons); India (80,000 tons); and Western Europe (60,000 tons). Demand is also exploding in East Asia and middle income countries in Eastern Europe and the Middle-East. World demand is expected to increase by 5-8 percent per years over the next decade. The national market is very small, estimated at less than 20 tons for the formal market (informal consumption unknown). The Dakar and Banjul market is larger, but probably doesn't exceed a few hundred tons and it is reported to be supplied by unregistered exports from Guinea-Bissau.

6.17 The processing of raw nuts for supplying end-markets is dominated by three countries: India (58 percent), Vietnam (25 percent) and Brazil (15 percent). African countries (Tanzania, Guinea-Bissau, Côte d'Ivoire, Mozambique, Nigeria and Benin) account for close to 40 percent of total raw nut production and almost 100 percent of raw nut exports (almost exclusively to India) but they account for less than 2 percent of total processing. The price of cashew nuts is derived from that of the kernel on end-markets (itself sensitive to the supply of substitute nuts such as almonds), and the market anticipation and short-term needs of the (Indian) processors

⁴⁶ Agri-Bissau demonstrated the feasibility of doing this prior to its closure, for unrelated reasons, in 2006.

which try to optimize the throughput of their plants. This induces a much higher price volatility for raw nuts than for finished products (kernels) both from year to year and, for a particular producing country, during the same season. After a sharp drop in 2000, the price of raw nuts recovered in 2003 and was in the US\$650-900/ton range depending on origin and nut size in 2006. In 2008 prices were extremely high with contracts for Guinea-Bissau's product ranging as high as US\$1,050/ton. Guinea-Bissau produces good quality nuts highly sought after by processors because of a high outturn (kernel to unshelled nut) ratio.⁴⁷ Guinea nuts command a premium over other origins (about US\$60-100/ton).

Domestic Marketing and Export

6.18 Domestic marketing and exports are carried out by traders and exporters in a relatively liberalized environment. There are currently about 300 licensed (and many more unlicensed) traders operating in the interior and delivering nuts to Bissau warehouses and plants, and 40 licensed exporters. The law regulating the activities of traders and exporters was recently modified to eliminate entry barriers and lower entry costs.⁴⁸ As a result, competition has increased and marketing margins appear to have decreased. In addition, the National Farmers Association (ANAG) has been active in providing price information to farmers, though at the present time the government has ceased attempts to influence the farmgate price after the disastrous experience in 2006. It is estimated that under normal circumstances,⁴⁹ farm-gate prices average between 60 and 70 percent of fob prices. There is thus little evidence of obvious profiteering in the marketing chain since the high costs of marketing in Guinea-Bissau, including both internal transport and port costs, explain the difference between farmgate and international prices.

6.19 In spite of the reasonable efficiency of marketing agents, the cost of domestic marketing and exporting raw nuts (and kernels) is extremely high in Guinea-Bissau. It is estimated that it costs up to US\$300/ton to move nuts from farm-gate to processors in India.

- The cost of freight to India is much higher than that from East Africa but also from other West African countries: about US\$90/ton against US\$40/ton from Abidjan. This is due the low traffic touching port in Bissau, the shallowness of the harbor (compounded by the lack of dredging over an extended period) which limits the size of the ships that can dock and the perceived risk of accessing Bissau harbor. This represents foregone earnings for the country in the order of US\$5.0 million per 100,000 MT exported. Given the expectation of greater production figures in the future, the expected losses should rise proportionately.

⁴⁷ According to reports cited in the recent Cashew Conference in October of 2008, Guinea-Bissau's raw nuts enjoy an outturn ratio of 48-56%, which compares well with India, at 50-56% the world leader, and with Brazil, the largest producer with an average outturn of 50-55%. No other African country produces nuts of a quality equivalent to Guinea-Bissau.

⁴⁸ Although there are recurrent calls by nationals for excluding non-nationals from these activities and the law may not always be applied with consistency.

⁴⁹ This was not the case during the 2006 season because of government's intervention (see below) and the resulting uncertainty it created for traders activities.

- Port charges are also extraordinarily high (about US\$40/ton against less than US\$10/ton in other West African countries) due to inadequate or missing loading equipment, inefficient services and a lack of security resulting in a high rate of theft. The rehabilitation of the Bissau harbor (both in terms of access to the port and in terms of port efficiency), planned since 1997, has not yet been achieved though work has begun on improvements in the access roads (See Chapter 5).
- Expensive and bureaucratic export procedures including: high cost of transport and handling⁵⁰; lengthy and expensive administrative procedures; an export tax (and related charges) of 8.6 percent of fob price⁵¹ (for nuts); and a certification (SGS) fee of about 4 percent of the fob price. It is estimated that it takes 9 different documents, 30 days and US\$1,550 to export a 20 ft container. Export procedures can and should be streamlined through a one-stop export window (a good example of such a mechanism is the *Centre de Facilitation aux Filieres d'Exportation* –CAFEX—in Guinea).
- Domestic marketing costs are also high (about US\$180/ton), in spite of adequate competition among traders, due to the poor state of the transport network which makes transport expensive in particular during the rainy season and the illegal levies collected at road blocks by government officials and armed forces.

6.20 Improvement at every level of the marketing chain is thus critical to improve competitiveness and producers' income. This should be a central focus of Government attention for supporting the development of the sector.

Table 6.4: Cashew Processing in Sub Saharan Africa in 2006

| Country | Processing (for Export) | Processing (for domestic market) |
|----------------|-------------------------|----------------------------------|
| Mozambique | 25,000 | |
| Nigeria | 16,000 | 2,500 |
| Tanzania | 15,000 | |
| Kenya | 5,000 | |
| Ivory Coast | 5,000 | 500 |
| Guinea-Bissau | 2,500 | 500 |
| Benin | 1,500 | 80 |
| Burkina Faso | 900 | |
| Ghana | 500 | 80 |
| Senegal | | 150 |
| Togo | | 80 |
| Mali | | |
| Guinea Conakry | | |
| Total | 71,400 | 3,860 |

Source: African Cashew Alliance

⁵⁰ The warehouse (Bissau) to port cost for a 16t container of kernel is estimated at US\$1,500, i.e, US\$100/ton.

⁵¹ This levy can be justified in economic terms if it were to be used for research or other public good ends which benefited all producers.

Domestic Processing

6.21 As shown in Table 6.4, there is very little processing of cashew nuts in Africa. However, there are currently three large scale processing units in Guinea-Bissau. Two –Agri-Bissau and Sicaju-- have a capacity of one container of kernels per month (about 16 tons) and the third – B&B Caju – a capacity of 8.6 tons per month.⁵² These plants export on the international market (EU, USA). Although they appear reasonably efficient, they operate under rather precarious conditions because of the difficult business environment in Guinea-Bissau. In addition, there are 21 small processing units established with Enterprise Works' assistance under the USAID-funded TIPS project, with combined production capacity of about 13 tons of kernel per month.

6.22 Guinean processors face several disadvantages:

- *Competition with exporters* - The main issue is that of securing the procurement of raw nuts in the context of a strong competition with raw nut exporters. International nut buyers want to ensure their own supply of nuts (as long as there is strong demand and unused capacity in India and Vietnam, which is going to be the case for the near future, though India does have a long term policy of achieving self sufficiency in raw cashew production) and thus compete with local processing by offering high prices and accepting little or no margin on their procurement operations. This problem was particularly evident in 2008, with prices in Bissau reportedly reaching as high as CFAF 430/kg., a price that domestic processors cannot pay and remain profitable under current international market conditions.
- *Small plant size* - Only three plants currently have the minimum economic size (about 1,000 MT/year). The other local processors, established under the TIPS program, are too small to meet importers requirements in terms of quality and quantity (minimum one container/16 tons per month). Their main outlets are the limited domestic and regional markets. These plants will not be able to export until their production is marketed/exported through a central unit.⁵³
- *High investment costs* - The cost of establishing a processing plant appears extremely high when compared to other African countries such as Tanzania and Mozambique, and even higher when compared to India. The cost of a 1,200 MT/year plant is reported to about US\$800,000 against US\$ 250,000 in Mozambique. High investment costs have been attributed to (i) the cost of land (though this problem can be overcome if plants are located in rural areas rather than Bissau), (ii) the cost of construction; (iii) the cost of equipment (imported from Brazil or Portugal, though there is no apparent reason Guinea-Bissau cannot access the same suppliers as Mozambique); and (iv) import duties (5 percent) and taxes paid on imported equipment (though this would appear to be a problem entirely under the control of the government). This cost difference needs to be investigated in detail, though it appears that lower cost options exist.

⁵² A fourth unit – GETA—(belongs to the Minister of Finance) is non-operational at the moment, in need of rehabilitation, but, being of the mechanized OLTRAMARE technology, it is not viable/competitive and shouldn't be rehabilitated.

⁵³ Many small units have sold to/through BBCaju to achieve the minimum shipment of one container/month.

- *Need to constitute stocks* - Cashew processors need to build substantial nut inventories since harvest takes place during a 4-5 month period whereas kernel production is spread over the entire year. It is estimated that a local plant of 1,200 MT capacity needs to secure an inventory about 700 tons of nuts for processing after the harvest period, at a total cost of about US\$300,000. This is not the case for Indian processors who can import nuts from different countries throughout the year.
- *Lack of/high cost of credit* - High investment costs and the need to constitute substantial inventories are compounded by the difficulty of accessing investment or working capital credit from local financial institutions (most investments have been financed from own funds and off-shore sources) and the very high cost of commercial bank funding (14-19 percent p.a.).
- *Low labor productivity* - Processing is highly labor intensive and labor productivity is thus a major determinant of competitiveness. Processors complain of the handicap imposed by low labor productivity (lack of skills, absenteeism) and the current wage policy (which makes firing an employee extremely difficult and costly). In particular, they strongly favor a more flexible wage policy and, to increase productivity, a performance-based payment system where employees are paid by the piece.
- *Small domestic market* - The domestic market in Guinea-Bissau lacks the capacity to absorb a significant amount of kernels (in addition to those of a lower quality, produced by cottage industry) and/or cashew by-products (except cashew liquor or *aguardente*) such as cashew jam, juice/wine and other secondary products. The national market is very small, estimated at less than 20 tons for the formal market (informal consumption unknown).

6.23 It is clear that a strategy of promoting processing of the cashew crop can not only increase the value added accruing to the country but can also reduce the risk associated with cashew dependence due to the much higher volatility of raw nut prices as compared to processed. This alone is a prima facie case for some level of protection to promote the industry, as is the cost of start-up noted above.

6.24 However, before embarking on such an effort it will be necessary to thoroughly examine the relative price relationships between raw and processed nuts to confirm whether Guinea-Bissau can realistically expect to be able to compete with Indian purchasers operating on much narrower margins. The answer to this in the Mozambican case is clearly yes, which would seem to indicate that it is at least plausible to think that Guinea-Bissau could also do so. But in doing so it is important to bear in mind that the Mozambican model uses a somewhat different organization for its processing sector (medium sized plants located in or near producing areas) and does not face some of the high cost of doing business that apparently plague operators in Guinea-Bissau. In addition, an 18 percent export tax is imposed on raw nuts.

6.25 However, it is eminently justifiable in theoretical terms to regard the difficulties associated with doing business in Guinea-Bissau as a form of market failure requiring

government intervention to alleviate the problem. However, it is far more desirable to effect the needed protection through targeted efforts at the high production and financing costs for processing startup than to raise export taxes though the Mozambican experience shows that this is a viable method to promote processing.

6.26 Such targeted efforts could include efforts to lower land costs through use of government land in selected areas, exemption from import duties on all equipment and construction materials, tax holidays, or other means to reduce the costs associated with setting up processing facilities.

6.27 For the moment, local processors benefit from a moderate protection through an 8.6 percent tax on raw nut exports. This protection, although higher than in other West African countries, is lower than in the countries that have been successful at developing a domestic processing sector (Brazil and India, but also Vietnam and Mozambique). Given the fact that there is some degree of investment taking place already⁵⁴ it is likely that the needed assistance can be achieved at a relatively modest cost. Until Guinea-Bissau has the capacity to process all its nuts, an export tax on raw cashew would mean lower incomes for 100,000s of poor farmers in order to help a relatively small number of employees and owners of processing plants. Thus it would seem advisable to focus first on reducing costs. A targeted study of exactly what would be needed is clearly indicated.

6.28 The export tax is 6 percent of the government's established export reference price (US\$600/ton in 2008) to which is added a "tax on rural enterprises" and a tax on industrial enterprises" of respectively 2.0 and 0.6 percent of the reference price. It is important to note that these taxes, based as they are on a fixed price⁵⁵ ("base tributaria") are NOT ad valorem taxes within any marketing year. If, as is the case in 2008, the actual export prices are higher than the price upon which taxes are based then the tax remains constant in absolute terms, affording a consequently lower level of protection than the 8.6 percent figure seems to indicate. For example, the current "base tributaria" of US\$600 yields a rate of protection of only 4.9 percent on actual export prices of US\$1,050.

6.29 It is also important to note that cashew processing should not be evaluated solely on the basis of a strict comparison of costs and benefits accruing to the cashew processors alone. Rather, it is possible and indeed likely that there may be significant social benefits to a processing sector that should also weigh in the calculation. It is clear that development in the broadest sense involves a process of successfully diversifying the economy into progressively higher value-added forms of production as this permits higher outputs and incomes per worker and promotes the development of an industrial labor force able to be productive in a broad

⁵⁴ New entries are apparently taking place: Brazilian investors are to open a factory in Quinhamel (Northern part of the country), and the existing enterprise operating in Bolama (Island) is about to expand to Binta (Eastern Region of the country). New investors have also recently purchased the plantation and processing facilities of Agri-Bissau, which had been closed.

⁵⁵ The base tributaria is not to be confused with the reference price of previous marketing years. It is NOT a government indicated fixed price for marketing purposes. Rather, it is simply an accounting convention used to compute the export tax due on any given shipment of cashew. Rather than looking at actual current contract values, all that is needed is to weigh the shipment and calculate the tax due based on the base price specified for that marketing year.

spectrum of activities. It is also usually the case that the best candidate for such activities is to enter into transformation of raw materials already in abundant supply in the country in question. In Guinea-Bissau this clearly points toward the cashew sector.

6.30 In addition, it is also the case that a strictly static view of the question may not be entirely appropriate – though Guinea-Bissau may face higher costs in the short run, this is not at all given in the long run, adding to the case for investigating the needs for a viable cashew processing sector. This is particularly true if India achieves its long term goal of self sufficiency in raw nuts. Finally, there may also be some degree of subsidization of competing processors elsewhere in the world – indeed, their current willingness to pay CFAF 340/kg when international prices are in the range of US\$800-900/MT would seem to provide some evidence in favor of this possibility – and this subsidization may also not be something that will be a permanent state of affairs.

Cashew Processing Technology

6.31 Cashew development in other African countries has in some cases been plagued by debates over the appropriate technology to use in processing. Mozambique is perhaps the most obvious example of this. However, this experience also points the way to a viable strategy for Guinea-Bissau.

6.32 The competitiveness of the local processing industry largely hinges on the processing efficiency (kernel outturn) and operating costs of the processing technology. Past experience in Guinea-Bissau, Mozambique, Benin and Tanzania, indicates that the plants set up in the 1980s-1990s using mechanized technology (Ultramare) are not competitive because of high investment and operating costs and low kernel outturn. These technologies are clearly uncompetitive with the operating cost and efficiency of manual technologies used in India, and they have all closed down even when benefiting from substantial protection from competition. The model developed by Enterprise Works, although it requires very little initial investment, has also proved uncompetitive. It has too small a size to achieve economies of scale and meet importers requirements in terms of minimum quantity.

6.33 A model developed in Mozambique by Technoserve appears much more promising. It is based on a comprehensive approach that addresses all important aspects of cashew processing:

- Small scale plants (between 1,000 and 1,500 MT/year) using a manual technology derived from the Indian model, which (i) requires a low investment (about US\$300,000 or less than 30 percent of that of a large scale mechanized plant on a per ton basis), has a low operating cost (less than 40 percent of a large plant); and (iii) produces a high net yield (21 percent) and high whole nut yield (over 70 percent);
- A manual technology that creates about 300 jobs per processing unit, with a high proportion of female labor;
- Plants located in prime producing regions which is suitable for procuring from smallholders, decreases transport cost and improves their contact with farmers and ability to provide services (contract farming);

- The provision of professional assistance to entrepreneurs on many aspects, from market access to plant and quality management (HACCP certification) to services to farmers.

6.34 There are now 15 such units operating in Mozambique, processing about 20,000 MT of nuts produced by some 100,000 smallholders. These plants have been able to pay around 20 percent more for the nuts than exporters and a premium of about 15 percent for high quality nuts (albeit with a protection against raw nut exports of an export tax of 18 percent).

6.35 The main issues that require attention in developing a strategy for promoting cashew processing in Guinea-Bissau are: (i) investment costs as discussed above; (ii) operating costs, including labor productivity; (iii) the location of processing facilities; and (iv) the incentives that would be necessary to encourage private investments. They are briefly discussed in the following sections.

Operating costs: labor wages/productivity and access to finance

6.36 The major operating costs are (i) the cost and productivity of labor; and (ii) the cost of procuring the raw material, including the cost of financing the necessary inventory of nuts.

- Labor costs represent about 45 percent of total operating costs. The competitiveness of cashew processing is thus highly sensitive to labor costs and productivity. This underlines the critical importance to be given to labor training to improve throughput efficiency and the quality of kernels (in order to eventually achieve the level of Indian performance of 80 percent whole kernels), and a performance-based labor compensation system.
- Cashew processing requires substantial working capital for funding the inventory of nuts bought during the three months harvest period. The level of interest rates is thus an important factor in processing competitiveness. One option would be to rely on commercial sources, though this exposes operators to the risk of spikes in interest rates. Another option to explore would be the establishment of a credit guarantee scheme similar to that operating in Mozambique (funded by USAID) which provides a guarantee of up to 50 percent of the credit to qualifying enterprises. However, the latter would have to meet the BCEAO requirement that borrowers have a satisfactory accounting system (SYSCOA) to access commercial bank funding. The recent Cashew Conference in Bissau in October of 2008 endorsed an effort to develop along the lines of the Mozambican model, and particularly endorsed the establishment of a guarantee system to be funded via the existing export tax on cashews. Twenty percent of these receipts would be dedicated to the newly created guarantee fund which would be administered by a new institution – The National Cashew Institute.

Location

6.37 One way to minimize the cost of access to utilities and other basic services is to establish “industrial parks” to facilitate “enterprises clustering”. However, in the case of cashew processing it appears that this “solution” is in fact aimed at a problem which does not necessarily affect this particular activity. Indeed, cashew processing generates its own energy (and can even sell excess electricity to neighboring users) and water supply is generally abundant in the country. In addition, decentralizing processing on the Technoserve model: (i) decreases the cost of land; (ii) permits direct procurement of nuts from producers thus eliminating middlemen and lowering marketing margins; (iii) decreases transportation costs; and (iv) allows processing plants to operate as well as service centers for delivering planting material and advice to producers.

D. POLICY AND INSTITUTIONAL ENVIRONMENT

6.38 The history of government policy in the cashew sector has had a major impact on performance over the past few years, with prices varying from as low as CFAF50 to more than CFAF430 per kilo. This range of variation is far greater than that in international prices and is a prima facie case for an end to government intervention in order to stabilize the market. In 2006 the government initially set a price of CFAF350 in response to a perception that international traders were colluding to depress domestic prices. The resulting withdrawal of traders at these unrealistic price levels resulted in a drop in prices offered and accumulating stocks. The government eventually had to lower export taxes to encourage traders to buy up the remaining harvest. Smuggling also increased significantly. As a result, fiscal revenues, foreign exchange earnings and farmers’ incomes all declined.

6.39 The consequences of this intervention have led the government to state its commitment to avoid any price setting in the cashew sector going forward, but there does remain some government intervention. For example, the government still makes it a point to mark the traditional opening of the cashew harvest even though the date on which this is done is in fact after the point at which some of the harvest has already ripened. There is also still a feeling within Government that international traders and exporters may collude in Guinea-Bissau so that the possibility of government intervention remains a concern in the minds of many market participants.

6.40 All observers both inside Guinea-Bissau and outside the country are in agreement that improving the performance of the cashew sector is essential to growth and poverty alleviation in the country. Further, there is clear agreement that improvements are needed at the levels of production, marketing and processing. However, there is still no clear statement of what the role of government is vis-à-vis the private sector, and no road map of how to achieve the goals desired. In spite of the lack of a clear statement by the government, the experience of the past few years has crystallized perceptions among most observers as to what such a statement should contain. It is essential that such a clear statement be made, with the following points needing to be included in any consensus document produced by the government together with the private sector:

1. It is the responsibility of the private sector to carry out all activities related directly to production, marketing and processing of cashew.
2. It is the responsibility of the government to ensure the viability of private sector activities through the provision of the following public goods:
 - Research into improved varieties of cashew and into methods needed to limit the spread of common diseases and pests.
 - Extension of the results to smallholders.
 - Adequate infrastructure, particularly secondary and primary roads and port facilities.
 - Enabling business environment.

6.41 The experience with government intervention in the cashew market in 2006 has had a profound effect on public perceptions of the desirability of further government efforts to “stabilize” this sector. The end result of the stop-go government pricing initiatives in that year was to reduce the average price received by producers to about CFAF110/kg. With well-functioning markets, the producer price would have averaged, as in previous years, about 60-70 percent of the fob price, i.e. about CFAF200/kg. Government actions thus induced a loss for farmers of at least CFAF90/kg. With a crop estimated at over 100,000 tons, this amounted to a total loss of income of close to CFAF10.0 billion (US\$20 million) for cashew producers (a near halving of the potential income).

6.42 The marketing difficulties experienced in 2006 also induced a substantial increase in the smuggling of nuts through Senegal, Guinea and The Gambia. Although actual data is missing, it is estimated that illegal nuts exports of 40,000 tons represented about US\$20.0 million in lost foreign exchange earnings and US\$ 2.5 million in lost export taxes. Finally, the lowering of export taxes in December 2006 may have cost up to CFAF300.0 million (for 20,000 tons).

6.43 Since that time the government has studiously avoided direct intervention in the market and this together with higher international prices has resulted in an average price to farmers that is estimated to be in the vicinity of CFA 225-250. In addition, the higher prices paid in the countryside and Bissau itself have reduced the incentives to smuggle to Senegal.

6.44 In essence, the experience of the past three years has made clear what the government should not do. What is less clear is the essential need for the government to actively do those things that the private sector cannot – in particular, activities related to research, extension, and provision of the conditions and incentives needed for growth of a processing sector. The following section summarizes areas where an active government action is needed.

Areas of Government Responsibility in Support of the Cashew Sector

6.45 Government support or action is needed in the following areas:

6.46 *Provision of funding for needed public sector activities* - Donor-funded projects supporting the sector (USAID-TIPS) closed in 2003. As a result, critical public services are non-existent: the plant protection services of the Ministry of Agriculture are not operational; The

*National Agricultural Research Institute (INPA)*⁵⁶ has no research activity on cashew and there are no extension programs; and there is no support for farmer organizations. By law (Law N1/2000), the Government must transfer 5 percent of the total amount of taxes collected on cashew exports to three institutions critical for sector development: CNC, IMPA and ANAG. However, this has never been done. As a result, these institutions have been largely non-functional.

6.47 *Compensate for Credit Market Failures* - Cashew producers have no access to credit: commercial banks do not finance producers, micro-finance institutions are not present in most rural areas and processing plants do not engage in contract farming arrangements (in part because they themselves have difficulty in accessing credit for working capital needs). Traders, exporters and processors have a very limited access to financial services. For the most part, the purchase of nuts from producers is funded either by traders on their own funds (small local and Mauritanian traders) or international buyers who arrange off-shore credit for exporters who in turn pre-finance their up-country buyers. There are four commercial banks operating in Guinea-Bissau. These are all fairly liquid and the local BCEAO offers refinancing facilities for financing the purchase of the crop. However, the risk perceived by banks, and BCEAO requirement that borrowers demonstrate that they have a satisfactory accounting system (Systeme de Comptabilite Ouest Africaine SYSCOA) largely prevent most private operators from accessing commercial bank funding. The newly created *Banque Regionale de Solidarite* (BRS) has also opened a branch in Bissau. However, its operating policies, mostly targeting “vulnerable groups” and providing financing for “micro-projects”, are not suitable for financing cashew marketing or processing activities. Finally, FUNDEI, a credit program supported by the Swedish Development Agency (SIDA), has provided funding to local processors for financing raw nut inventories, though it is no longer functioning. Funding, in particular for investments in processing facilities and for funding the large working capital required will be a major constraint to the development of local processing.

6.48 It is recommended that the government not engage in direct credit provision through a development bank or directly administered fund. Rather, a credit guarantee mechanism such as that used with the Technoserve model in Mozambique could be implemented in Guinea-Bissau given the creation of the necessary institutional mechanisms.

6.49 *Quality Control/Grading of Nuts* - There is no laboratory specializing in quality control of exported nuts or kernels. As a result, the quality of nuts is assessed by international buyers who tend to minimize it. This has a depressing effect on producer prices. At present, kernel exports are not subjected to stringent demands in terms of safety standards or code of practices. All these issues are however receiving increasing attention in Europe and North America and attention will turn to nuts as well. Indeed, cashew processing has a poor reputation for standard of hygiene and social responsibility with respect to workers conditions. Traceability will become increasingly important and factories will need to gain accreditation to standards such as HACCP and ISO. Guinea-Bissau is not equipped to face the quality/safety requirements for kernels that were introduced by consuming countries (EU) in January 2008. Meeting these food safety standards will require that processing plants be “certified” and that kernel exports be analyzed by an authorized laboratory. An EU/UEMOA program is currently being implemented to address

⁵⁶ INPA has some staff but no operating budget so that currently it has no active research program.

general food safety issues. However, there is an urgent need for assistance to (i) establish a licensed laboratory and standards testing facility for the sector; and (ii) help local processing plants making the investments required for their certification (“mise a niveau”).

6.50 *Strategic Coordination* - Private operators are organized in several “interest groups”. ANAG represents agricultural and thus cashew producers. It is active in policy discussions. However, it lacks adequate funding to develop its advocacy, capacity-building and field services. Traders, exporters and processors have also formed their respective associations. All these organizations are represented, along with Government’s ministries, on the *National Cashew Council (CNC)* which is the institution responsible for advising government on all cashew-related issues. Under its current structure/mandate, however, the CNC is a hybrid, dysfunctional organization:⁵⁷ (i) its mandate is unclear;⁵⁸ and (ii) it doesn’t have any resources to carry out its activities. Its mixed membership – public and private – makes for an unclear mandate. At the same time it performs the functions of an advisory body helping shape policy; an advocacy body representing specific private interests; a regulatory body; and a body managing private stakeholders’ common interests. It therefore appears necessary to reassess the mandate and composition of the CNC separating public goods/regulatory functions from private sector interests and collective actions and to give this institution the resources needed for undertaking collective action on behalf of its stakeholders.

E. NEXT STEPS

- **Launch the pilot research program** - The joint cashew research program between IMPA and EMBRAPA, the Brazilian agricultural research institute, should be launched without delay. Its content should be developed in close collaboration with all stakeholders, in particular the CNC, and focus in priority on measures for disease control and improving productivity at farm level, including selection and genetic improvement. During the implementation of this joint program, INPA should develop a highly prioritized medium-term research program to be funded through the transfer of export revenues mentioned above.
- **Develop and Implement a Cashew Processing Promotion Project** – Successful development of cashew processing is key to the future development of the sector. Use of the Mozambican model of decentralized processing facilities should be seriously considered, together with a package of incentives designed to overcome the high cost of doing business in Guinea-Bissau. Among these are: the high cost of land, the high taxes on inputs, machinery, etc.; the lack of available financing; and the rigidity of existing labor laws.
- **Addressing priority safety standard issues** - As noted above, Guinean kernel will be required to meet strict safety standards for exports to the EU if it is to export processed product directly. It is thus necessary to (i) assist the existing processing plants to carry out a detailed technical audit of their operations and undertake the upgrading necessary for

⁵⁷ CNC’s powerlessness was illustrated by its inability to prevent government from fixing a totally unrealistic producer price for the 2006 season. That this has not been done since that time is more a tribute to the obvious negative consequences in 2006 than to the influence of the CNC.

⁵⁸ The president of the CNC is a civil servant in the Ministry of Trade, complicating the status of the organization as a supposedly independent entity.

obtaining their certification; and (ii) undertake an assessment of the complementary investment necessary to upgrade one of the existing laboratories in the country to the level required for carrying out internationally accepted pre-shipment inspection of kernel exports.

- **Streamlining export procedures** - It is estimated that the export of one container of cashew (up to FOB level) requires close to 27 days and 6 different administrative procedures, and costs US\$1,445.⁵⁹ Serious consideration should be immediately given to establishing in Guinea-Bissau a one-stop export window similar to the “*Centre de Facilitation aux Filieres d’Exportation – (CAFEX)*” operating satisfactorily in Guinea.
- **Preparing a prioritized operational strategy** - The government, in close collaboration with all stakeholders, should immediately prepare an operational strategy and medium-term program for the development of the cashew sector. This strategy/program should focus on achieving the following objectives: (i) sustained productivity increases at farm level, (ii) increased efficiency at all levels of the value chain, and (iii) increased value added through local processing. It should also specify clearly the institutional framework (as mentioned above) and establish sustainable mechanisms for addressing critical farm productivity issues (research, access to agricultural advice), strengthening farmer organizations, improving access to international markets, and promoting efficient local processing. The participatory preparation of this strategy/program would be a powerful instrument to build the capacity of all stakeholders to analyze issues and options and to undertake collective action on common priorities.

⁵⁹ Source: Doing Business 2008, World Bank.

7. RICE: THE NEGLECTED SECTOR

A. INTRODUCTION

7.1 Rice has long been the staple food of Guinea-Bissau, but has in recent years been displaced to some extent by cashew cultivation, with the cash crop being used in exchange for rice as well as for cash. With the declining share of national grain needs being satisfied by domestic production, imports have filled the gap. Given the volatile and often high prices for staple grains in international markets it is important to clarify the extent to which Guinea-Bissau has a comparative advantage in rice production and the extent to which expanded rice cultivation can both contribute to balance in international payments as well as contributing to incomes and welfare at the micro level. Accordingly, rice was the subject of an in-depth analysis including field surveys of producing regions in order to clarify the tradeoffs involved.

7.2 Field visits distinguished between the mangrove swamp rice systems in the North and South of the country, as well as between cultivation of rice in irrigated perimeters in the rainy season relying only on rainfall, and double cropping in such perimeters using pump irrigation. Also distinguishable are rainfed upland rice farming and rainfed lowland cultivation for which there are only minor differences in different parts of the country. A questionnaire was prepared and pre-tested and a small survey of about 150 farm families.⁶⁰ The objective was to collect input-output data on the five rice farming systems for computation of Domestic resource Costs (DRC) ratios and other measures of productivity and efficiency.

B. THE RICE VALUE CHAIN

Agro-climatic Conditions for Rice Production

7.3 The agro-climatic situation in Guinea-Bissau is very suitable for all types of rice cultivation. The water resources and general characteristics of the country's hydrological system can be summarized as follows: in coastal areas, the sea has invaded the lower reaches of former rivers, transforming them into estuaries and creating a complex system of water ways. The estuaries and their tides (up to 7 m) play an important role in the country's economic life, providing major channels for transport and irrigation. In the interior, the fresh watercourses diminish substantially during the dry season. The main rivers are Cacheu, Rio Grande de Buba, Cacine, Geba and Corubal. Geba and Corubal have the greatest potential for development of

⁶⁰ Farmers were interviewed in:

- Mangrove system – North (Biombo area) – 30 farmers (5 in each of 6 perimeters);
- Mangrove system – South (Tombali area) – 30 farmers ((5 in each of 6 perimeters);
- Irrigated system – East (Bafata area) – 30 farmers (8 men & 8 women from Bafata perimeter, 7 farmers from Contoeboul, 7 farmers from Carantaba);
- Traditional Upland – 15 farmers (5 each from South, North and East);
- Traditional Lowland – 15 farmers (5 each from South, North and East).
-

agro-industrial activities. Lake formations are limited to shallow freshwater lagoons. Groundwater sources are abundant and of variable quality.

7.4 Three main agro-ecological zones can be distinguished – the Eastern, Northern and Southern. (See map). The Eastern agro-ecological zone is characterized by a Sudan climate with two distinct seasons – a dry season between November and May and the rainy season from June to October. Average annual rainfall varies between 1200-1500mm in 107 rainy days. Average annual evapotranspiration is 2,507mm. The annual average temperature is 27.4°C with relative humidity of 26 percent. Because of the irregularity of precipitation this zone has the lowest potential for rainfed upland rice but there is great potential for irrigated rice with an estimated potential of more than 25,000ha of irrigable lowland in the Geba River valley alone.

7.5 The Southern agro-ecological zone comprises the regions of Tombali, Quinara and Bolama/Bijagos and is characterized by a humid subtropical climate. Average precipitation is 2,000-2,500mm in 125 rainy days with 70 percent of the precipitation in July, August and September. Annual average temperature is 26.9°C with relative humidity of 70 percent and annual evapotranspiration of 1,458mm. This is the agro-ecological zone with the greatest agricultural potential in Guinea-Bissau particularly for mangrove swamp rice. It contains the Cumbidja River valley which is considered the main mangrove swamp rice-growing area with an estimated potential of 22,000 ha.

7.6 The Northern agro-ecological zone (Oio, Cacheu, Biombo) is characterized by a Guinean maritime climate. Average annual precipitation varies from 1500-1877mm in 122 rainy days with annual evaporate-transpiration of 1,837mm. Average annual temperature is 26.6°C. The zone has good agricultural potential for mangrove as well as lowland rice production. The Mansoa River valley represents the main rice-growing potential, estimated at 19,000 ha.

History of Rice Production

7.7 Rice cultivation started with mangrove rice cultivation in the Mansoa River valley in the Northern agro-ecological zone in the pre-colonial period over 500 years ago when youths provided most of the labor and there was abundant rain and high soil fertility. The traditional Balanta farmers claimed fields from the sea, desalinated them by constructing dykes around them and allowing leaching by rain water before cultivating rice.

7.8 Because of the repressive conditions imposed by the Colonial regime in the North there was massive migration of peoples from the “mother country” to new locations in the south, in the area of Catio, Tombali Region where the immigrants established rice growing systems where the agro-ecological conditions were suitable. In these systems rice was produced for commercial purposes in addition to subsistence production. As a result national rice production rose again between 1930 and 1960 and the country exported small quantities with a peak between 1940 and 1955. Average annual production was estimated at 45,000 tons of paddy or 30,000 tons of clean white rice, out of which 7,000 tons of white rice were exported.

7.9 During the national liberation war (1955-1960) and the civil war that followed (1963 – 1973) rice production declined due to social disturbances, terror and dislocation. Rice fields were bombed by the Portuguese military destroying hydraulic infrastructure (bridges and anti-salt

dykes) in order to cut off food supplies to the liberated zones. Also the relationships of authority between the old and young, one of the pillars on which rice-growing sustained itself, was eroded with consequent migration of mangrove rice cultivators, ending in total abandonment of many mangrove swamp rice perimeters. Urban centers under the control of the colonialists had to import rice and in the liberated zones controlled by PAIGC, the producers were forced to develop subsistence rice cultivation on the much less productive uplands (Mpam-pam).

7.10 The period immediately after the National Liberation war (1973-1987) was characterized by a program to re-launch agricultural production. One of the main pillars in the attempt to reach food self sufficiency was to expand the area of mangrove swamp rice cultivation by the rehabilitation of sea dykes, construction of sluice gates and mangrove swamp rice perimeters. Thirty-nine dykes and sluices were constructed during the period with nine more after 1988 totaling 48 anti-salt sluices protecting more than 100,000 ha with an average investment per sluice estimated by FAO at around US\$40,000. However, it is estimated that rehabilitated areas served by 23 of the sluice gates were not cultivated which corresponds to 50 percent of the area of abandoned mangrove swamp cultivation in the country.

7.11 Lowland rice cultivation in small valleys was also encouraged in the in the East with women predominating in the activity and an estimated 29,400 ha being put under cultivation by 1995. Upland rice cultivation was actively discouraged by the Government.

Current Rice Production Systems

7.12 Rice is the main staple food for Guinea-Bissau, accounting for 37 percent of the value of food consumption and about 40 percent of daily caloric intake of the average household. According to the International Rice Research Institute (IRRI), Guinea-Bissau's rice consumption per person per year was estimated at 87.3 kg in 1999. With a population currently estimated at 1.6 million and, using current rice consumption rates per person per year, the country requires 139,680 tons of milled rice annually, the equivalent of about 235,000 tons of paddy to reach national rice self sufficiency.

7.13 Table 7.1 shows the evolution of domestic rice production in Guinea-Bissau in recent decades indicating that production peaked in the first half of the 1990s and has not fully recovered since then.

Table 7.1: Area Harvested, Yield and Average Annual Production of Rice (paddy) in Guinea-Bissau

| Year | Area | Yield | Production |
|------------------|-------------|--------------|-------------------|
| | Ha | Kg/ha | Metric Tons |
| 1961/65 | 66,200 | 741 | 48,400 |
| 1966/70 | 34,000 | 1,187 | 40,100 |
| 1971/75 | 44,400 | 859 | 37,800 |
| 1976/80 | 70,000 | 734 | 52,400 |
| 1081/85 | 102,600 | 1,024 | 95,630 |
| 1986/90 | 53,707 | 2,037 | 109,370 |
| 1991/95 | 65,084 | 1,959 | 127,413 |
| 1996/2000 | 65,613 | 1,512 | 98,746 |
| 2001/05 | 66,384 | 1,354 | 89,767 |

| | | | |
|-------------|--------|-------|---------|
| 2006 | 65,000 | 1,631 | 106,000 |
| 2007 | 65,000 | 1,365 | 88,700 |

Source: FAO Stats, 2008.

Upland Rice

7.14 The traditional slash and burn system of upland rice production is practiced in all agro-ecological zones. The usual practice is multiple cropping of rice, maize, grains, leguminous cultures, fruits and roots, etc. After one year of cultivation the land is either planted to cashew or left fallow for 5 – 15 years depending on population density and availability of arable land in the community. The system has a negative impact on the environment causing loss of vegetation cover and biological diversity. It is estimated that there are less than 40,000 upland rice farms cultivated annually in Guinea-Bissau covering about 26,000 ha with yields of 400 – 600 Kg per ha, and normally producing about 10 percent of national paddy production (46 percent in 2008) with no purchased inputs used by farmers.

Lowland Rice

7.15 Although found in all agro-ecological zones, the lowland or inland valley rice production system predominates in the Eastern agro-ecological zone. Rice is grown in depressions which have hydromorphic conditions during part of the year. It is estimated that there are more than 200,000 ha potentially suitable for rainfed and irrigated lowland rice production, out of which about 27,000 ha are cultivated under rainfed conditions by small farmers with yields ranging between 800 to 1,200 kg/ha.

7.16 Rice cultivation practices in the rainfed lowlands depend on traditions in each region. In Oio in the Northern agro-ecological zone rice is planted in “camaleoes” or in separated small depressions with or without making small dykes and drainage systems around them. The land is normally puddled and the rice transplanted with all family members (male and female) working in the fields. In the Eastern agro-ecological zone the land is occupied mainly by the Islamic population where there is a clear distribution of tasks based on gender, with the women practicing lowland rice planting. Valleys are leveled and divided into small interconnected family plots of about 0.25 ha each separated by dykes and contour bunds. The land is puddled and rice transplanted.

7.17 Some of the lowlands and river terraces in the East particularly of the Geba River have been developed further into irrigated perimeters usually with Government or foreign donor funding and divided into 0.25 ha plots which are leased to farmers on a long term basis. Irrigation is almost exclusively by motor pump and improved varieties and purchased inputs are used. Land preparation is often by tractors. Presently, irrigated production centers are in Bafata (154 ha), Carantaba (35 ha) and Contubuel (135.5 ha). With proper management two crops are taken a year with yields ranging from 3-5 tons in each crop season and up to 7 tons/ha in the dry season. Total annual production from the lowlands (rainfed and irrigated) is historically about 10 percent of national production, increasing in recent years particularly in bad rainfall years such as 2007 when it is estimated to have produced about 33 percent of national rice production.

Mangrove Swamp Rice

7.18 This is the most extensive system of rice cultivation in Guinea-Bissau and is widely practiced in coastal regions. Rice paddies are established by building anti-salt dykes along the

banks and parallel to the estuaries with sluice gates. These anti-salt dykes prevent salt water intrusion into the rice fields and retain fresh water from rain necessary for the process of rice growth. Dykes are usually constructed by manual labor. Mechanical construction has also taken place using a service provided in the past by the Government but is currently unavailable.

7.19 It is estimated that there are more than 106,000 ha potentially suitable for mangrove rice production, out of which 50,000 ha have been reclaimed and are partially managed by the farmers. However only 16,564 ha are estimated to have been cultivated in 2007 due to poor rainfall conditions with yields of 1,800 to 2,600 kg/ha. Fields are puddled and rice transplanted. No mineral fertilizers are applied. Mangrove swamp rice production traditionally accounts for up to 80 percent of annual rice production, but is estimated to have only accounted for 20 percent in 2007.

Rice Marketing System

Processing

7.20 Hand pounding using the traditional mortar and pestle is the most common means of rice processing in the country.

During the period of surplus rice production (1940 – 1955) a few Portuguese trading houses, as was common during colonial rule in all West African countries, established and operated large scale rice mills which purchased paddy from farmers as well as small merchants using a system of production credit in the form of supplies of consumer goods (brandy, tobacco, clothes, small agricultural materials) as well as cash. These mills processed and sold rice to merchants and institutions in the capital city with small quantities exported. They included the Goveia enterprise with a rice mill on Rei Island and the Sociedade Comercial Ultramarina (S.Ü) which had its unit in Bolola, Bissau. The mills ceased to operate when supplies became scarce in 1960s. In more recent times a large rice mill (2 tons/hour) was established by the Xayanga Agro-Industrial complex. The mill is currently non operational because of poor location, poor supplies and bad management.

7.21 In the period after independence small scale rice mills were distributed all over the country by the Government and NGO projects, the latest being the KR2 project. The KR2 project provided SATAKE SB5B with a capacity of 450-500 kilogram's/hour and the SB10D with a capacity of 950-1,000 kilogram's/hour of paddy rice at the subsidized price of 6.65 million CFA for the SATAKE SB 10D (30 percent subsidy). Some units were supplied before the project was terminated by the military conflict that erupted in 1998. Very few small rice mills are currently in operation in the country. Most provided custom milling service to consumers and small merchants at a fee. Most have broken down as a result of poor maintenance due to lack of spare parts and inefficient operations. Guinea-Bissau's experience with mechanical rice processing can therefore be classed as dismal.

Domestic Rice Marketing

7.22 There is very little marketing of domestic rice in Guinea-Bissau with most production being consumed by producing households. Table 6.2 shows that less than a third of producers

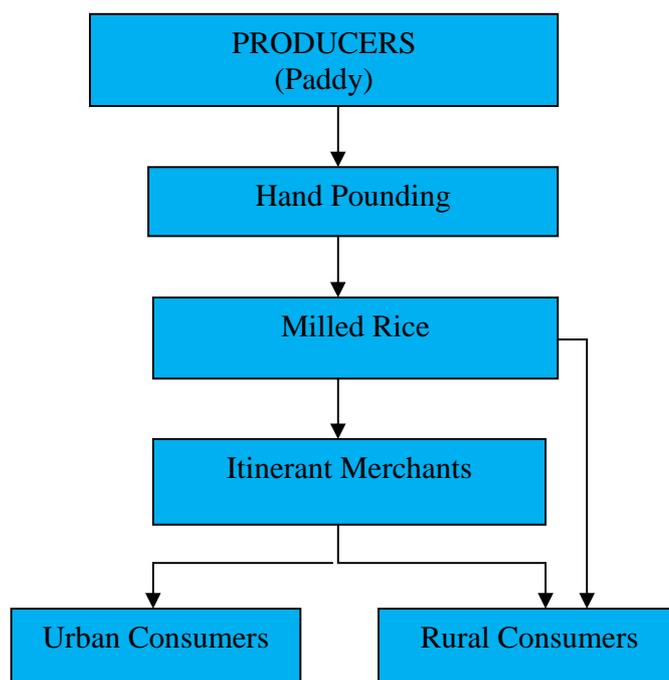
usually make sales and then only of small quantities to neighboring villages and towns although small quantities find their way to Bissau and other major urban centers. In the latter case milled rice, almost all hand pounded, is purchased by small itinerant merchants in village markets and transported to the urban centers. Figure 7.1 illustrates the common marketing channels for domestic rice.

Table 7.2: Percent of farmers reporting that they made some sales of domestic rice in 2007

| Rice Production System | Percent Farmers Making Sale |
|------------------------|-----------------------------|
| Mangrove Swamp – North | 13 |
| Mangrove Swamp – South | 36 |
| Irrigated – Rainfed | 0 |
| Irrigated – Pumping | 31 |
| Upland | 20 |
| Lowland | 8 |

Source: Field survey

Figure 7.1: Marketing Channel for domestic Rice in Guinea-Bissau



Imported Rice Marketing

7.23 Rice constitutes about 16 percent of total imports of Guinea-Bissau. Rice is imported into Guinea-Bissau by four Government licensed merchant houses (Gomes and Gomes, Cogequi, Socobis and Agencia Bijagos). The main suppliers are China, Vietnam and Thailand and various qualities are imported (white long whole grain, white 5 percent, 15 percent and 100 percent broken). Urban consumers appear to prefer 100 percent broken, but as this is the most expensive grade they often consume the other grades as well. Table 7.3 shows the evolution of rice imports over the last 5 decades. It is estimated that 50 percent - 70 percent of imported rice is currently used in barter trade for cashew. (Farmers supply cashew to merchants and receive rice in return). Figure 7.2 shows the marketing channels.

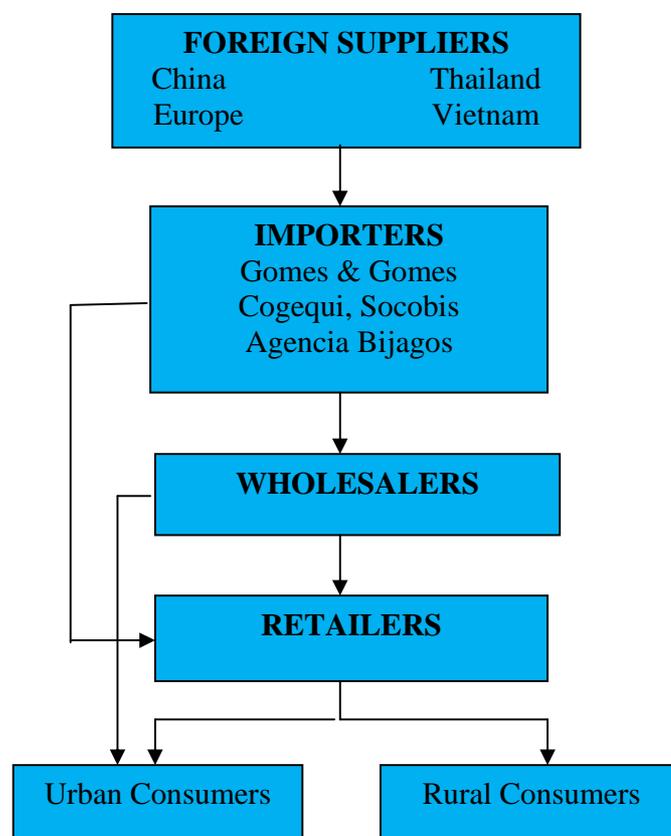
7.24 The retail price of rice is set by the Government in consultation with the importers, and is the same throughout the country. In negotiating the retail price importers arrive at a cost per bag ex-warehouse in Bissau by adding a mark up on the CIF cost per bag. From information supplied by one importer this totaled about 18 percent of the CIF value in the first quarter of 2008, made up of customs duty (12.5 percent in 2007, reduced to 2.5 percent in March 2008 to cushion the effect of global rice price increases on consumers), port charges (CFA 2800/ton), cost of Letters of Credit and suppliers fees (5 percent), transfer fee (1.25 percent), stevedoring (CFA 110 per bag), transport from the port to importer's warehouse (CFA 100 per bag), administrative costs (3 percent), SGS import inspection fee (1.7 percent), transportation to retailers (1 percent), and shortage (1 percent)

Table 7.3: Average Annual Milled Rice Imports and Exports in Guinea-Bissau

| | Imports | Imports Value | Exports | Exports Value |
|------------------|----------------|----------------------|----------------|----------------------|
| | (tons) | (1000 \$) | (tons) | (1000 \$) |
| 1961/65 | 5,389.6 | 684.4 | 175.2 | 20.0 |
| 1966/70 | 12,261.6 | 1,840.6 | 4.2 | 0.6 |
| 1971/75 | 24,795.0 | 5,889.6 | 60.6 | 32.2 |
| 1976/80 | 20,125.2 | 5,551.6 | 0.0 | 0.0 |
| 1981/85 | 22,311.4 | 7,154.4 | 0.0 | 0.0 |
| 1986/90 | 38,898.8 | 12,044.6 | 0.0 | 0.0 |
| 1991/95 | 64,118.6 | 18,195.2 | 0.0 | 0.0 |
| 1996/2000 | 61,138.0 | 15,115.2 | 0.0 | 0.0 |
| 2001/2005 | 51,936.8 | 14,540.0 | 0.0 | 0.0 |
| 2006 | 78,218.8 | | | |
| 2007 | 86,491.3 | | | |

Source: FAO Stats and Guinea-Bissau Customs Department (2006 & 2007)

Figure 7.2: Marketing Channels for Imported Rice in Guinea-Bissau



7.25 The importers usually transport milled rice from their warehouses to those of their retail customers, located in most urban areas, in their own fleet of trucks at no additional cost to the retailers. This situation is acceptable to the importers as they are all exporters of cashew and the trucks usually return to Bissau loaded with cashew.

C. OPPORTUNITIES AND CONSTRAINTS

Opportunities for Increased Rice Production

7.26 Guinea-Bissau has a total surface area of 3,363,700 ha out of which about 1,410,000 ha are estimated to be arable, and only about 381,332 ha (or about 27 percent of the arable total) are currently under food and cash crop cultivation. As far as water resources are concerned, rainfall is abundant with mean annual precipitation ranging from 2,500 mm in the South to 1,200 mm to the East. Surface and ground water are also abundant. The country therefore has good potential for increasing the area under rice cultivation, in addition to increasing yield potential by adopting improved techniques of production. A number of opportunities for increased national rice production, constraints and bottlenecks, are discussed in this section and their potential

competitiveness in supplying domestic as well as regional market demand are assessed in the next section.

Expanding and modernizing mangrove swamp rice production

7.27 The traditional system of mangrove swamp rice production described earlier involves construction and maintenance of anti-salt dykes and contour bunds as well as manual performance of all agricultural practices, resulting in a very labor intensive system.

7.28 As indicated earlier, of the 51,000 ha developed for mangrove rice cultivation, about 20,000 ha are estimated to have been abandoned or to have never been put into full use because of broken dykes and/or improper field preparations. While rehabilitation of these areas can be done manually, it appears very unlikely that agricultural labor will be available in sufficient quantities to meet the needs, given the opportunity cost of such labor particularly in cashew production. Specialized mechanized units will need to be set up to carry out the tasks, equipped with heavy earth moving machines (bulldozer, excavators, trucks, etc). These can be set up and operated by the private sector but the cost of land development is unlikely to proceed without heavy subsidization from the Government. An improved system of mangrove rice production has the potential to increase yields to as much as 3-3.5 MT/ha at a cost of \$2,500-5,000/ha. A description of this method is contained in the appendix to this chapter and merits consideration for adoption.

Expanding irrigated rice production

7.29 It is estimated that there are about 24,000 ha in the Geba river valley suitable for development of irrigated perimeters for rice and vegetable cultivation. Of these 10,000 ha can be developed without the need for major infrastructure works or additional water from the River Carubal.

7.30 Development of the 10,000 ha will involve construction of irrigation and drainage canals, field bunds, installation of irrigation pumps for each perimeter, and dredging of the River Geba to increase the amount of water available, particularly in the dry season. Improved agronomic practices (use of improved varieties e.g. NERICAs, improved fertilizer regimes and improved water management) as well appropriate levels of mechanization (small tractors and power tillers, rice threshers and small rice mills) will also be needed. Most of these techniques except the NERICA varieties are well known and have been used in such perimeters as that in Bafata. Infrastructure development costs are estimated at between US\$3,500⁶¹ and US\$4,000 per ha (FAO, 2005).

Expanding the use of modern inputs

7.31 Selecting and using improved varieties: The National Institute for Agricultural Research (INPA) lost all its genetic materials during the 1998 civil war. It re-launched its variety improvement trials only this year in 2008 at Contuboeil with materials received from WARDA despite the fact that the materials arrived late. The materials include 43 upland and 93 lowland NERICA varieties.

⁶¹ Personal communication with rural engineer in charge of the Bafata perimeter.

7.32 There are apparently no new varieties being tested yet for the Mangrove swamps. The short duration ROK 5 tested by INPA in the late 1970s and early 1980s, and disseminated to farmers who named it “Depa” the old acronym of INPA, has been widely adopted (WARDA, 1998)⁶² but is now much adulterated and the seed stock lost to the research system. Re-establishing a research program aimed at improving yields in the mangrove system will be an important priority for INPA in the future.

7.33 Encouraging private sector input distribution: A critical constraint to on-farm productivity in Guinea-Bissau is access to inputs. Addressing this constraint will lead to better producer incentives for adoption of modern production techniques.

7.34 Making available agricultural inputs such as good quality certified seeds and complementary agricultural implements to small-scale poor farmers to increase the productivity of key staples and rehabilitate degraded land and support small scale water structures is essential. In addition to rice, planting material may be distributed for semi-traded food staples, like cassava and sweet potatoes.

7.35 Opportunities exist in Guinea-Bissau to introduce and support the development of the private sector input supply systems (seed companies and stockists) in the country, drawing from the experiences of the Citizens Network for Foreign Affairs Inc (CNFA) in eastern and southern Africa, now being promoted by such organizations as AGRA and Africa Seed Systems etc

7.36 Improving extension delivery: As confirmed in the WARDA adoption study referred to above, extension contact is important in getting farmers to adopt improved technology. Concerted effort will therefore be needed to distribute and provide good agronomic advice on modern varieties of rice and on appropriate fertilizer applications and other agronomic practices. Opportunities exist for the use of the Farmer Field Schools model through farmer-based organizations as one mechanism to deliver extension services; utilization of local NGOs familiar with experience on organizing and training farmers may be another.

Institutional Bottlenecks and Constraints to Increased Rice Production

7.37 In addition to the overarching problems relating to weak governance, problematic budget execution and lack of a rural credit system, there are some particular issues impinging directly on the rice sector. It is also worth noting that poor infrastructure, especially transport, is a serious constraint to marketing of all agricultural outputs and inputs including rice.

Weak research and extension systems

7.38 The National Institute for Agricultural Research (Instituto Nacional de Pesquisa Agrária – INPA) has the principal mandate for agricultural research in Guinea-Bissau. Other institutions

⁶² Results obtained in a study by WARDA indicated that adoption of the modern rice varieties in the Tombali (Southern Mangrove swamp) area spread over a ten year period from 1983 to 1993. By 1983 only 13% of farmers had adopted the improved varieties, by 1989 the figure rose to 50%, and by 1993 it had reached 70%. Probability of adoption was found to be low (0.1 - 0.15) for farmers with no extension contact. For farmers (both subsistence and commercial) with extension contacts the predicted adoption probabilities ranged from 0.32 to 0.45. Thus, adoption increased with shifts in farmers’ objectives from subsistence to commercial/ market orientation.

such as the National Institute for Studies and the National Institute of Applied Technologies also have mandates for aspects of agricultural research. INPA has four agricultural research centers – Contuboel for lowland rice research, Caboxanque for mangrove swamp rice research, Bissora for livestock and Quebo for fruits and horticulture. As with most facilities in rural areas, those of the Institute were virtually all destroyed during the civil war. The current infrastructure in all the Centers is dilapidated and equipment mostly broken down or obsolete.

7.39 Staffing is also inadequate with only one professional staff at Contuboel and none currently at Caboxanque. The other nine senior staff of the Institute are based at headquarters in Bissau (4 including the Director General and other administrators), Bissora (4) and Colli (1).

7.40 On the bright side INPA re-launched its variety improvement work in 2008 in collaboration with the West Africa Rice Development Association (WARDA). Forty-three upland and 93 lowland NERICA rice varieties are under test. The primary objective is to provide appropriate varieties for the modernization of rice cultivation in Guinea-Bissau including widespread adoption of double and triple cropping in the lowlands. INPA is also establishing links with other National Agricultural Research Systems (NARS) in Africa which would allow it access to the experience in the region.

7.41 The Ministry of Agriculture and Rural Development has the national mandate for agricultural extension in Guinea-Bissau. Its role is to supervise and coordinate the extension activities undertaken by different players – agricultural development projects and NGOs, and to establish a consultative forum for the different organizations. Because of finance and other problems the Ministry has not been able to meet its obligations. NGOs and projects therefore undertake extension activities without any policy guidance or support from the State. The result is that agricultural extension activities in Guinea-Bissau suffer from a number of shortcomings including the existence of a multitude of policies and approaches – each institution adopting its own approach, with virtually no linkage to or support for research, input supply, credit and marketing systems which provide services to producers.

Weak private sector input/output marketing

7.42 There is no formal marketing system for domestic rice. All the private sector importers interviewed as part of this study indicated that they were not interested in the marketing of domestic rice because of the high assembly costs associated with marketing of the produce of small rice farmers.

7.43 There is no formal seed production and distribution system in the country. Most of the experience gained in the past by agricultural development projects has been lost. There is no variety release policy or legislation, nor is there a phyto-sanitary regulation or quarantine system.

D. COMPETITIVENESS OF DOMESTIC RICE PRODUCTION

Analytical Approach and Base Case Results

7.44 As indicated above, data on costs of production were collected from a sample of farmers using the single visit technique. The single visit technique has a number of implications. Firstly, it is well recognized that collection of non registered input-output data, such as labor use in farm

production, using single visit techniques makes the data subject to bias, due to failures in respondents' memory recall, etc. Generally, one expects output to be underestimated and inputs, especially labor use, to be overestimated. Using such information in private and social profitability analysis is therefore likely to lead to an overestimation of the cost of production and underestimation of revenues with resultant underestimation of the profitability of the enterprise.

7.45 In the survey in Guinea-Bissau the possibility of bias in estimation of area cultivated was eliminated by direct measurement of crop/plot area using Global Positioning System (GPS) equipment. However, it was not possible to obtain rice output figures per plot or farm from respondents. Farmers claimed that they were unable to remember and estimate their outputs due to the fact that agricultural campaign in 2007/2008 was constrained by the irregularity of rainfall. In the analysis that follows rice yields estimates provided by the Statistical Service shown in Table 7.4 were therefore used.

Table 7.4: Average rice yields in Guinea-Bissau

| Rice crop type | Yield Range (bad year – good year) | Mean yield |
|---------------------|---------------------------------------|------------|
| | Tons/ha | Tons/ha |
| Mangrove – N | 1.8-2.6 | 2.2 |
| Mangrove – S | 1.8-2.6 | 2.2 |
| Irrigated – rainfed | 3.0-4.0 | 3.5 |
| Irrigated – Pump | 5.0-6.0 | 5.5 |
| Lowland | 0.8-1.2 | 1.0 |
| Upland | 0.4-0.6 | 0.5 |

Source: National Statistics Service

7.46 Furthermore, it is evident that there was significant over estimation of the labor input particularly for the irrigated systems – survey data yielded labor input data per ha that are even higher than the traditional mangrove swamp cultivation system known to be the most labor intensive rice production system in Guinea-Bissau. In the calculations in this report hired labor use has therefore been adjusted downwards using information from key informants. Average hired labor use per ha in the irrigated systems and lowlands are assumed to be the same as that for the mangrove swamps in the south while that for the upland system is assumed to be 80 percent of that for the mangrove swamps in the south.

7.47 In the rest of this section an assessment of financial or "private" profitability is conducted for all designated rice production-processing-distribution channels. Each channel refers to a particular combination of technology, starting from the traditional and including improved systems. Production, processing, and marketing budgets are constructed for each stage of the value chain, using market prices to assess costs of inputs as well as gross returns to production. For the traditional systems, rice processing is assumed to be by hand using family labor. Costs of family labor are not included; instead returns to family labor are calculated providing an estimate of the opportunity cost of this labor.

7.48 Analysis of economic opportunity costs for products and inputs is then used to determine social profitability for the same selection of production and marketing activities. The economic

value, or efficiency price, of tradable inputs, as well as the rice product, are evaluated using world prices adjusted to relevant points of comparison. Economic values of non-tradable inputs are broken down into their tradable and non-tradable factor components.

7.49 The Domestic Resource Cost (DRC) coefficient is used as an indicator of comparative advantage for each channel in two senses. First, it measures the relative economic efficiency of alternative uses of the nation's resources. Second, it compares the efficiency of resource use between channels.⁶³

7.50 In order to enable the DRC analysis to include sensitivity analysis of border prices, rice yield, discount rates and transportation costs, etc. a Policy Analysis Matrix (PAM) approach is used (Monke and Pearson, 1989). This framework allows the analysis to incorporate all such scenarios, and information on financial and economic prices, costs, profitability, and policy distortions or incentives into a comprehensive framework.

7.51 In the base PAM the existing production systems are modeled with land development cost as a sunk investment cost except for the irrigated systems where average land rents and water charges obtained from the field survey were used. Average rice yields (Table 7.4) are assumed. While the same average 2007 urban prices are used for all systems, farm gate prices are discounted to varying degrees depending on average distances from Bissau and Bafata, the two major urban centers. The financial cost of capital is assumed to be 6.25 percent with the social cost based on the global inflation rate of the US dollar estimated at 2.06 percent. The results in Table 7.5 show that all the existing rice systems except the traditional upland rice system have comparative advantage in supplying the domestic urban market.⁶⁴

⁶³ The Domestic Resource Cost ratio, or DRC, measures the ratio of domestic factors used to produce one unit of rice (e.g. labor and capital invested in the production) to the added value generated by this unit of rice (i.e. the value of the production minus all the investment costs, e.g. seed, fertilizer, energy, etc). The DRC is estimated using social prices - that is, prices that would prevail in the absence of government intervention on input and output markets (e.g. subsidies on fertilizer sales price, duty on rice imports) or market failure (monopoly). If the ratio is greater than one, more domestic resources are invested in producing the commodity than the added value generated by the production activity—there is no comparative advantage in producing the commodity and the domestic resources would be more efficiently utilized if allocated to another productive activity. Conversely, if the ratio is below one, the commodity is produced using less domestic resources than the added value generated—rice producers do have a comparative advantage. (WARDA, Annual Report 2001-2).

⁶⁴ It should be pointed out that if the hired labor figures obtained during the field survey are used the lowland and rainfed irrigated systems also show DRCs above 1 indicating lack of comparative advantage for supplying the domestic urban markets.

Table 7.5: Base Case - Estimated Competitiveness of Existing Rice Production Systems in Guinea-Bissau in a Normal Rainfall Year with 2007 Rice Prices

| INDICATORS | Mangrove Swamp – N | Mangrove Swamp - S | Irrigated - Rainfed | Irrigated – Pump | Lowland | Upland |
|---|--------------------|--------------------|---------------------|------------------|-------------|-------------|
| Farm/Plot Size (ha) | 2.62 | 4.20 | 0.62 | 0.70 | 0.50 | 1.20 |
| Family Labor per ha (person days) | 319 | 184 | 1,755 | 923 | 1,148 | 906 |
| Hired Labor per ha (person days) | 74 | 29 | 29 | 29 | 29 | 23 |
| Paddy Yield (Kg per ha) | 2,200 | 2,200 | 3,500 | 5,500 | 1,000 | 500 |
| Returns to Fam Lab per farm (CFA) | 490,212 | 805,625 | 202,707 | 159,334 | 14,150 | -2,392 |
| Returns to Fam Lab per ha (CFA) | 187,104 | 191,815 | 326,946 | 227,620 | 28,301 | -1,994 |
| Returns to Fam Lab per day (CFA) | 587 | 1,045 | 186 | 247 | 25 | -2 |
| Private Profits (CFA/kg) (PP) | 189 | 249 | 204 | 205 | 104 | 76 |
| Social Profits (CFA/kg) (SP) | 100 | 161 | 130 | 127 | 45 | -47 |
| Private Cost Ratio (PCR) | 0.19 | 0.15 | 0.16 | 0.24 | 0.30 | 0.37 |
| Domestic Resource Cost (DRC) | 0.45 | 0.33 | 0.35 | 0.43 | 0.65 | 2.40 |
| Nominal Protection Coeff (NPC) - On tradable Outputs | 114.29% | 114.29% | 114.29% | 114.29% | 114.29% | 114.29% |
| - On tradable Inputs | 92.75% | 87.34% | 90.20% | 75.18% | 111.32% | 84.06% |
| Effective Protection Coeff (EPC) | 129.16% | 121.43% | 121.72% | 120.94% | 118.55% | 358.08% |

Note: PP = (Private Revenue - Overall Costs @ market prices)
 SP = (Social Revenue - Overall Costs @ social prices)
 PCR = (Non-Tradable Costs) / (Revenue - Tradable Costs) @ market prices
 DRC = (Non-Tradable Costs) / (Revenue - Tradable Costs) @ social prices
 NPC = (Private Revenue @ market prices) / (Social Revenue @ social prices)
 NPC = (Tradable Costs @ market prices) / (Tradable Costs @ social prices)
 EPC = (Private Revenue - Tradable Costs @ market prices) / (Soc Rev - Trad Costs @ social prices)

Sensitivity Analysis - Rainfall and International Prices

7.52 In a bad rainfall year such as 2007, rice yields drop. Table 7.6 shows that in addition to the upland rice system the traditional lowland rice system would then also not be competitive in supplying domestic rice needs.

Table 7.6: Estimated competitiveness of Existing rice Production Systems in Guinea-Bissau in a Bad Rainfall Year with 2007 Rice Prices

| INDICATORS | Mangrove Swamp – N | Mangrove Swamp - S | Irrigated - Rainfed | Irrigated - Pump | Lowland | Upland |
|-----------------------------------|--------------------|--------------------|---------------------|------------------|-------------|--------------|
| Farm/Plot Size (ha) | 2.62 | 4.20 | 0.62 | 0.70 | 0.50 | 1.20 |
| Family Labor per ha (person days) | 319 | 184 | 1,755 | 923 | 1,148 | 906 |
| Hired Labor per ha (person days) | 74 | 29 | 29 | 29 | 29 | 23 |
| Paddy Yield (Kg per ha) | 1,800 | 1,800 | 3,000 | 5,500 | 800 | 400 |
| Returns to Fam Lab per farm (CFA) | 333,012 | 604,025 | 165,507 | 159,334 | 2,150 | -16,792 |
| Returns to Fam Lab per ha (CFA) | 127,104 | 143,815 | 266,946 | 227,620 | 4,301 | -13,994 |
| Returns to Fam Lab per day (CFA) | 399 | 783 | 152 | 247 | 4 | -15 |
| Private Profits (CFA/kg) (PP) | 163 | 236 | 195 | 205 | 54 | 19 |
| Social Profits (CFA/kg) (SP) | 72 | 147 | 119 | 127 | -1 | -115 |
| Private Cost Ratio (PCR) | 0.22 | 0.16 | 0.17 | 0.24 | 0.46 | 0.71 |
| Domestic Resource Cost (DRC) | 0.53 | 0.36 | 0.37 | 0.43 | 1.01 | -2.36 |
| Nominal Protection Coeff (NPC) | | | | | | |
| - On tradable Outputs | 114.29% | 114.29% | 114.29% | 114.29% | 114.29% | 114.29% |
| - On tradable Inputs | 92.75% | 87.34% | 90.20% | 75.18% | 111.32% | 84.06% |
| Effective Protection Coeff (EPC) | 135.76% | 123.57% | 123.43% | 120.94% | 122.62% | -185.58% |

7.53 Guinea-Bissau has been hard hit by rising international food and fuel prices. The country's 12-month inflation rate rose to 9.3 percent by end-2007, from 3.2 percent at end-2006, driven mainly by a 14 percent rise in food prices. Annual inflation has remained high in 2008, at 9.1 percent at end-May, while food prices rose by 15.5 percent during the period. Consumer prices for rice, the most important and preferred staple food, reportedly have risen from CFAF250/kg (ca. US\$0.61, at current exchange rate) to CFAF430/kg (ca. US\$1.05) i.e. a 72 percent increase over the last few months. The inflationary trend is likely to persist over the medium term (World Bank, 2008). FAO statistics show that international rice export prices rose about 94 percent between the first half of 2007 and the first half of 2008 (FAO, 2008). In a positive sense these rising prices constitute an incentive for farmers to engage in rice production for both food security and household income. Table 7.7 shows the effect on competitiveness of domestic rice production using a projected 100 percent increase in rice prices, indicating that even in bad rainfall years production for the domestic market would be highly competitive.

Table 7.7: Estimated Competiveness of Existing Rice Production Systems in Guinea-Bissau in a Bad Rainfall Year with High World Rice Prices

| INDICATORS | Mangrove Swamp - N | Mangrove Swamp - S | Irrigated - Rainfed | Irrigated - Pump | Lowland | Upland |
|------------------------------------|--------------------|--------------------|---------------------|------------------|-------------|-------------|
| Farm/Plot Size (ha) | 2.62 | 4.20 | 0.62 | 0.70 | 0.50 | 1.20 |
| Family Labor per ha (person days) | 319 | 184 | 1,755 | 923 | 1,148 | 906 |
| Hired Labor per ha (person days) | 74 | 29 | 29 | 29 | 29 | 23 |
| Paddy Yield (Kg per ha) | 1,800 | 1,800 | 3,000 | 5,500 | 800 | 400 |
| Returns to Fam Lab per farm (CFA) | 1,040,412 | 1,511,225 | 388,707 | 621,334 | 50,150 | 40,808 |
| Returns to Fam Lab per ha (CFA) | 397,104 | 359,815 | 626,946 | 887,620 | 100,301 | 34,006 |
| Returns to Fam Lab per day (CFA) | 1,246 | 1,960 | 357 | 962 | 87 | 38 |
| Private Profits (CFA/kg) (PP) | 469 | 550 | 447 | 473 | 271 | 307 |
| Social Profits (CFA/kg) (SP) | 305 | 382 | 316 | 329 | 204 | 112 |
| Private Cost Ratio (PCR) | 0.15 | 0.13 | 0.14 | 0.17 | 0.23 | 0.21 |
| Domestic Resource Cost Ratio (DRC) | 0.33 | 0.28 | 0.29 | 0.32 | 0.43 | 0.57 |
| Nominal Protection Coeff. (NPC) | | | | | | |
| - On tradable Outputs | 114.29% | 114.29% | 114.29% | 114.29% | 114.29% | 114.29% |
| - On tradable Inputs | 96.98% | 88.85% | 106.30% | 79.66% | 135.16% | 89.64% |
| Effective Protection Coeff. (EPC) | 120.20% | 118.05% | 115.68% | 117.06% | 99.09% | 147.03% |

Source:

Expansion of Mangrove Swamp and Irrigated Rice Production

7.54 The discussion earlier pointed out that the country has the potential for expanding the mangrove swamp rice area by rehabilitating up to 20,000 ha of mangrove swamp lands at a cost of about \$5000 per ha and developing 10,000 ha for irrigated rice production at a cost of \$4000 per ha.

7.55 Table 7.8 shows the estimated competitiveness of the new systems and indicates that the irrigated system is likely to have a comparative advantage even under current conditions, but that the rehabilitated mangrove swamp perimeters must either achieve higher yields than the current average (3.5 rather than 2.2 tons per ha) or must have higher prices than the 2007 prices (e.g. continuation of the current high rice prices) to be competitive.

Table 7.8: Estimated competitiveness of new rice production systems in Guinea-Bissau*

| INDICATORS | Mangrove – Model 1 | Mangrove – Model 2 | Mangrove – Model 3 | Irrigated – Model 1 | Irrigated – Model 2 | Irrigated – Model 3 |
|-----------------------------------|--------------------|--------------------|--------------------|---------------------|---------------------|---------------------|
| Farm/Plot Size (ha) | 4.20 | 4.20 | 4.20 | 0.70 | 0.70 | 0.70 |
| Family Labor per ha (person days) | 184 | 184 | 184 | 923 | 923 | 923 |
| Hired Labor per ha (person days) | 29 | 29 | 29 | 29 | 29 | 29 |
| Paddy Yield (Kg per ha) | 3,500 | 2,200 | 2,200 | 6,000 | 5,500 | 5,500 |
| Returns to Fam Lab per farm (CFA) | 2,124,665 | 814,265 | -294,535 | 464,516 | 380,516 | -81,484 |
| Returns to Fam Lab per ha (CFA) | 505,873 | 193,873 | -70,127 | 663,595 | 543,595 | -116,405 |
| Returns to Fam Lab per day (CFA) | 2,756 | 1,056 | -382 | 719 | 589 | -126 |
| Private Profits (CFA/kg) (PP) | 446 | 346 | 33 | 406 | 395 | 127 |
| Social Profits (CFA/kg) (SP) | 286 | 183 | -52 | 234 | 220 | 18 |
| Private Cost Ratio (PCR) | 0.31 | 0.44 | 0.88 | 0.24 | 0.25 | 0.44 |
| Domestic Resource Cost (DRC) | 0.49 | 0.65 | 1.24 | 0.44 | 0.47 | 0.88 |
| Nominal Protection Coeff (NPC) | | | | | | |
| - On tradable Outputs | 114.29% | 114.29% | 114.29% | 114.29% | 114.29% | 114.29% |
| - On tradable Inputs | 97.58% | 95.33% | 93.62% | 65.87% | 65.60% | 64.30% |
| Effective Protection Coeff (EPC) | 115.98% | 117.50% | 122.61% | 126.32% | 127.77% | 152.22% |

*Model 1: High rice prices, high yields; Model 2: Current yields, high prices; Model 3: Current yields, 2007 prices

Rice Sector Performance in Comparison to Other West African Countries

7.56 Table 7.9 shows the DRC estimates for rice systems in a number of West African compared with those estimated here for Guinea-Bissau. In all cases DRC for rice have improved since 1978 showing that production systems can change if there is a concerted effort and policy support to realize a shift. Although comparable estimates are not available for the other countries in recent years when rice production technologies and prices have improved, the estimates for Guinea-Bissau imply that its main rice production systems are as competitive for supplying its domestic market as are those in other West African countries.

Table 7.9: West African DRC Comparisons for Rice

| Country | Rice System | 1978 | 1996 | 2003 | 2006 | 2007 |
|---------------|-------------|------|------|------|------|-------------|
| Cote D'Ivoire | Irrigated | 1.68 | 0.73 | | | |
| Mali | Irrigated | 0.69 | 0.40 | | | |
| Senegal | Irrigated | 1.66 | 1.12 | | | |
| Sierra Leone | Irrigated | 0.83 | 0.70 | 0.20 | | |
| | Mangrove | 0.84 | 0.42 | 0.68 | | |
| Guinea-Bissau | Mangrove | | | | | 0.33 |
| | Irrigated | | | | | 0.43 |
| | Lowland | | | | | 0.65 |
| Liberia | Lowland | | | | 0.30 | |

Sources: WARDA, 2003; Spencer, 1997; Government of Sierra Leone (2003), Republic of Liberia, 2007

Complementarities/Trade off with Cashew

7.57 The cultivation of cashew has had a strong negative effect on the development of rice production in Guinea-Bissau. In the first place cashew production competes for labor, offering much higher wages than those offered for work in labor intensive mangrove swamp rice production.

7.58 Secondly, because cashew is a purely commercial export crop, it has engendered a change in the socio economic outlook of farmers who naturally prefer the less labor demanding but more profitable cashew culture. This has been reinforced by the cashew – rice barter system which is now common in the country – farmers' exchange their cashew for imported rice supplied by cashew exporters. It is estimated that between 50 percent and 70 percent of all imported rice is currently used in bartering. While there are advantages to the bartering system, in that it helps address the primary needs - access to rice - of households particularly in the early parts of the cashew harvest season, it often means that cash does not enter the cashew value chain, and small farmers do not get the maximum benefit from the value of the cashew that they produce. At the same time, the incentive to grow rice is much reduced.

E. THE WAY FORWARD - ISSUES FOR FUTURE ACTION

7.59 There are a number of steps that Guinea-Bissau needs to take to better exploit the comparative advantage of its rice production systems in supplying its domestic markets thus substituting for imported rice. They include:

- Upgrading of INPA's capacity for rice research to generate improved technologies for mangrove and irrigated systems including those for variety testing, agronomic practices, improved labor use efficiency, and post harvest systems;
- Encouraging the establishment of extension activities based on such models as the Farmer's Field Schools at least in major rice farming areas. These could be state run or NGO activities;
- Investments in improved rural infrastructure, particularly rural roads, in key rice growing areas;

- Establishment of a machinery pool for use in rehabilitation and construction of new mangrove swamp rice perimeters. This could be done by re-establishing the capacity for such work by the Rural Engineering Division of the Ministry of Agriculture or encouraging the set up of such units by the private sector;
- Encouraging the private sector to establish medium scale rice processing and marketing systems in areas of potential surplus by such incentives as tax credits etc.;
- Reforming and updating the phytosanitary policy and import quarantine system including enactment of the necessary legislations
- Improving agricultural credit availability by encouraging banks to move more aggressively into this area, testing such schemes as the use of warehouse receipts, expansion of micro-credit schemes to provide medium term investment credit, etc.

7.60 In all the above areas appropriate feasibility studies will be needed to better detail actions to be undertaken, responsible parties and expected returns.

Appendix 2: Improved System for Mangrove Rice Production

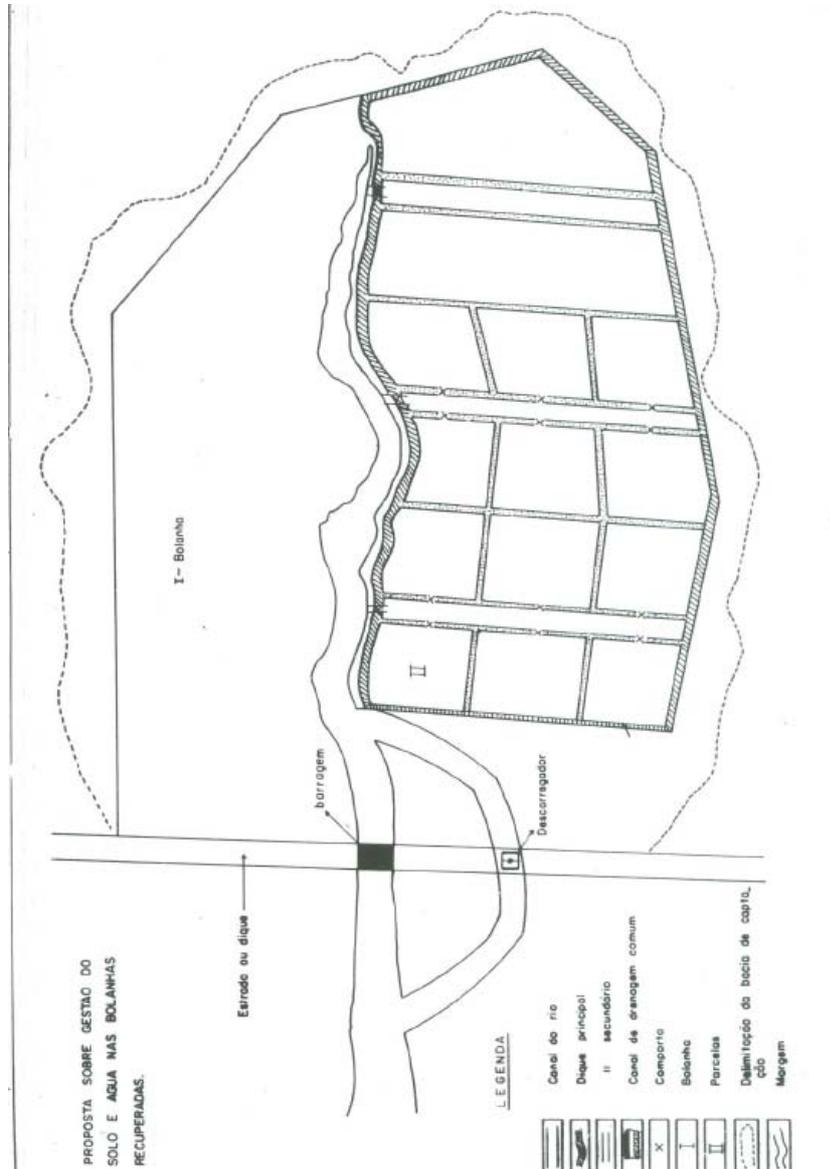
1. The improved system of mangrove swamp development is illustrated in Figure 3 and has the following features:

- An anti salt barrage to prevent salty water intrusion into the rice fields;
- A discharge with the double purpose of draining fresh water in the rainy season and flooding the fields with salt water in the dry season;
- Main and secondary dykes for water control;
- Gates to evacuate excess water at any period of the year;
- Contour bunds inside the perimeter separating individual plots (“bolanhas”) to allow leaching out of salts at the start of the rainy season and to store as much rain water as possible in the plots and keep the soil wet for as long as possible;
- Common drainage channels for each group of 6 plots (0.25 ha each).

2. Once reclaimed, perimeters will require 3-5 years for leaching of accumulated salt from the soils and for farmers to construct contour bunds and do some leveling within the plots before commencement of rice cultivation. The costs of development are estimated at between \$2,500 and \$5,000 per ha.⁶⁵ This cost could partially be recovered from beneficiary farmers by charging land rents after a grace period of 3 – 5 years. Improved agronomic practices such as the use of good quality seed of improved salt tolerant varieties distributed by private seed companies (discussed below) and timely operations will allow yields of 3 – 3.5 tons per ha to be obtained.

⁶⁵ Cost estimate based on cost of construction of the 72.5 ha Cupedo perimeter in 1996 by the Rural Engineering Department. It includes the cost of depreciation of heavy earth moving equipment. The 85m anti salt barrage is 25m at base and 14m at the top, and the 249m lateral dyke is 5m wide at the base and 4m at the top. The cost of farmers’ construction of contour bunds within the perimeter is not included. Including such cost would raise the total investment cost to about \$5,000 per ha.

Figure Appendix 2.1: Layout of Improved Mangrove Swamp Perimeter (from data)



8. MINING AND PETROLEUM: PROMISES AND PROBLEMS

A. INTRODUCTION

8.1 Historically, the mining and petroleum sectors of Guinea-Bissau have been non-existent except for quarrying and a small amount of artisanal mining. While it has been known since the 1970s that there are potentially significant deposits of bauxite and phosphates, due to quality and infrastructure concerns, low international prices, and political instability, these were never fully explored. However, in recent years both the bauxite (2007) and phosphate (1997) areas have entered long-term exploration leases; in the case of phosphate, a decision may be made this year on the feasibility of developing a large mine, which would be the largest investment in the history of Guinea-Bissau. There have also been several offshore discoveries of heavy oil deposits. Although an economically exploitable deposit has yet to be found, several companies are currently active in the field. If any of the above opportunities are realized, it would have a profound impact on national income, fiscal revenues, and foreign exchange earnings for Guinea-Bissau.

8.2 Nevertheless, there are numerous examples of countries where the large majority of the population not only did not benefit but was eventually left worse off after the discovery and exploitation of large oil or mineral deposits. Specific policies and programs will need to be undertaken to ensure that the benefits of resource exploitation are widespread and the new developmental opportunities are realized. In short, resource exploitation will only lead to sustainable socio-economic development in Guinea-Bissau if policies and programs are implemented to ensure that natural capital is turned into human capital and infrastructure.

8.3 In the next section an overview of the current and potential mining and oil situation in Guinea-Bissau is presented. In sections C and D the regulatory and legal aspects of mining and petroleum, respectively, in Guinea-Bissau are discussed and analyzed with respect to the fiscal framework, social and environmental impacts, local community development, and attractiveness to investors. In section E the phosphate deposit in Farim is discussed in greater detail. Membership in the Extractive Industries Transparency Initiative is discussed briefly in section F. The final section contains conclusions and recommendations with respect to policy reforms and complementary programs.

B. EXTRACTIVE INDUSTRIES IN GUINEA-BISSAU: CURRENT SITUATION AND FUTURE POTENTIAL

8.4 The only operating extractive industries in Guinea-Bissau are small quarries for construction materials, such as granite, limestone, clay, and sand. There are not and have never been any medium-scale or large-scale mines or oil wells in Guinea-Bissau. Nevertheless, the future of Guinea-Bissau's extractive industry sector is promising, albeit filled with uncertainty with respect to the commercial viability of the main prospects—phosphate, bauxite, and petroleum. If exploitation of any of these deposits is commercially viable, it would immediately result in the largest industry in the history of the country, as well as have an enormous impact on foreign exchange and fiscal revenues.

8.5 The resource that is the closest to realizing its potential is phosphate. The project is located near the northern town of Farim, population 10,000, 25 kilometers from the border with Senegal and 100 kilometers from Bissau. It is a few kilometers from the Cacheu River in an area comprised of small farms and bush, from which local residents harvest various

products. If mined, the phosphate would either be shipped down the Cacheu River or trucked to the port in Bissau.

8.6 The deposit was first identified by UNDP in 1978; Sofremines prepared a positive pre-feasibility study in 1986. However, due to market conditions and infrastructure concerns, there was no movement on the deposit until Champion Resources of Canada took over the lease in 1997. Champion's assessment of the property was highly positive, indicating reserves of about 100 million tons of high quality clay bounded ore, which makes beneficiation easy, with 30.1 percent raw phosphate rock. Moreover, they estimated an additional 400 million tons of lower quality calcium bounded rock. Exploitation of the higher quality reserves would last about 40 years, with an additional 200 years if the lower quality deposit is commercially viable.⁶⁶ The spot price of phosphate has reached US\$ 300 per ton recently, although long-term prices are estimated between US\$ 120 and US\$ 150 per ton. 600,000 tons per year of phosphate (30 percent of 2.5 million tons of ore) would gross US\$ 90 million per year at US\$150 per ton.

8.7 Champion Resources never developed the property. In 2006, the Government of Guinea-Bissau cancelled the contract and eventually awarded the lease to an international consortium, Guinea-Bissau Phosphate Mining Ltd. It has recently hired an Italian company, Trevi, to further assess the quality of the deposits and a local firm, Alskon, to evaluate technical problems associated with high water table levels, which can lead to continuous flooding of the open pit mine during exploitation. While it is likely that a decision will be made whether to exploit the deposit in the next few months, Guinea-Bissau Phosphate itself does not have the technical capability to do so. It has indicated that it would contract exploitation to another company. However, for a mine of this size, it is very rare that another (senior) company takes the work on a contract basis, so it is more likely that Guinea-Bissau Phosphate will eventually sell its rights.

8.8 There are five closely situated bauxite deposits in Boe in the southeast of the country. These were first identified by the Dutch in early 1950s with additional exploration by the Soviets in the 1970s and early 1980s. There are an estimated 113 million tons of reserves with average alumina and silica content of 44.9 percent and 3.7 percent, respectively.⁶⁷ Although of marginal quality at the average historic real price for bauxite (US\$10 to 15 per ton), at today's price of over US\$60 per ton they should be very commercially viable. Of course, the real viability of the mine will depend on the long-run price of bauxite; although likely to fall significantly from current prices, given the global growth in mineral demand and prices in general, it does not seem likely to sink back to historic levels. It would also be necessary to build a rail line to Buba, 165 kilometers from Boe, and a deep water port at Buba.⁶⁸ Note that, for example, if 5 million tons of ore were mined per year and the price for Guinea-Bissau's bauxite was US\$25 per ton, the mine would gross US\$125 million per year over its lifetime.

8.9 In 2007, a lease to the bauxite region was granted to Bauxite Angola. They have announced an investment of US\$ 321 million in the region, including US\$200,000 for the

⁶⁶ The most recent assessment by Guinea-Bissau Phosphate Mining (2006) largely restates the results of previous work by Champion Resources.

⁶⁷ Bauxite is refined to extract alumina, which in turn is smelted into aluminum. The higher the alumina content the better but, as silica is difficult and costly to remove, the lower the silica content the better.

⁶⁸ Alternatively, the bauxite could be transported to the recently expanded port at Kamsar in Guinea. While farther than Buba, it would only be necessary to build a new rail line to the Boe bauxite area of Guinea and use existing infrastructure.

construction of local infrastructure before activities begin. The mine would be owned by Bauxite Angola (70 percent), the Government of Angola (20 percent), and the Government of Guinea-Bissau (10 percent). While the company announced that full-scale production will begin in 2011, considerable work has to be done in assessing the overall viability of the deposits before any significant portion of these funds are actually invested.⁶⁹ Moreover, some of the deposits are located in an area which is in the national parks ‘pipeline’, and the rail line from Boe to Buba would likely have to traverse an existing national park.

8.10 There have been several finds in exploratory off-shore drilling for petroleum in Guinea-Bissau but to date no commercially viable discoveries. The petroleum areas are divided into the northern and southern areas, the first of which is shared with Senegal. Several operators—including Eni (Italy), Sterling Energy (UK), and Marmore (Malaysia)—have carried out exploratory drilling in the northern area. Substantial deposits of heavy oil have been found but further tests are necessary to determine whether these deposits can be commercially developed.

8.11 In the southern area, Premier Oil (UK), Svenska (Sweden), Maurel & Prom (France), Sociedade de Hidrocarbonetos de Angola (Angola), and Supernova (Netherlands) have been undertaking exploration in joint ventures with Petrolífera da Guiné Bissau (PetroGuin), a state owned enterprise. Some oil industry experts believe the country could produce 30,000 to 60,000 barrels per day, which, assuming an average price of US\$100 per barrel, could earn up to US\$2 billion in annual exports, more than five times the country's GDP. However, to date none of the discoveries made have been determined to be commercially viable (Economist Intelligence Unit, 2008).

C. LEGAL AND REGULATORY ASPECTS OF MINING IN GUINEA-BISSAU

8.12 The Government of Guinea-Bissau introduced a new Mining Law in 2000 (Government of Guinea-Bissau, 2000). While it aspired to best international standards, it has a number of potential shortcomings, some of which are attributable to developments in the industry since that time, particularly with respect to royalties and local community development.⁷⁰ A further weakness of the law was due to the lack of a modern Environmental Law and a complete absence of legislation on environmental impact assessment (EIA). However, an Environmental Law is now before Congress and a law and regulations on EIA were recently passed. An institution in charge of implementing EIAs, Celula de Avalicao de Impacte Ambiental (CAIA), has also been developed and has issued its first terms of reference to the potential developers of the phosphate deposit.

8.13 The 2000 Mining Law has most of the elements that investors are looking for—security of ownership, a predictable (although not completely stable) and generous fiscal structure, the ability to transfer ownership, and ability to repatriate profits. While the Government of Guinea-Bissau may be giving away too much in the current global situation on mineral products, companies also may be uncomfortable with the several gaps in the law, fearing that they may be filled with requirements that will affect the profitability of future operations or lead to contentious disputes.

⁶⁹ There is limited information concerning this arrangement. Bauxite Angola paid the Government of Guinea-Bissau US\$ 13 million for the lease, which is considerable for an exploration lease, although not unreasonable for an exploitation lease for proven reserves. Little is known about the ownership of Bauxite Angola or its mining capacity.

⁷⁰ International standards and experience on mining and petroleum laws and fiscal structures are discussed in the Annex.

8.14 With respect to royalties, the Mining Law calls for a fixed amount of 5 percent of the value of production (article 43). Although at the time the Law was written the global trend was against royalties, as a result of the large increase in current mineral prices and the likely increase in the secular trend, the ‘bargaining power’ has now shifted from the large mining companies to the mineral rich countries. Accordingly, many countries are now introducing royalties or increasing their levels. Given that mineral prices are highly variable, it is becoming common to move to a sliding scale royalty rate; i.e. the higher the price of the mineral, the higher the percentage royalty rate.

8.15 The 2000 Mining Law contains very little on community development, in contrast to almost all mining laws developed since that time. The only reference to the rights of the local communities except for compensation for any crops and structures lost or removed and the right to arbitration is one single sentence paragraph (article 89, paragraph 7). This requires the mining company to include a section on the following in its request for authorization to develop the mine:

“The request for authorization for mineral exploitation should include a social program, with respect to national citizens, which refers to their hiring, professional formation, conditions of employment, including measures on housing, schooling, and medical assistance for employees, as well as their legal spouses and children.”

8.16 There are several shortcomings with this paragraph. First, there is no reference to the local community residents, only the citizens of the country at large. Second, and furthermore, there is no reference to social services of local community members except for employees of the mine. Third, there is no compulsion for the mining company to provide any of the listed measures; it only has to say what it intends to do, which presumably could lead to negotiations at the Minister’s discretion. Fourth, there are no benchmarks that have to be reached, such as after five years a certain percentage of employees should be locals (nationals). Fifth, there is no requirement for stakeholder consultations, particularly tripartite discussions involving representatives of the local community, government and the company. Sixth, there is no reference to local or national outsourcing requirements by the mining company; this is crucial as in general modern mines employ more people through outsourcing than direct employment. Seventh, and finally, there is no reference to upstream or downstream linkages.

8.17 If local community members are not happy with their compensation or negative externalities of the mining operation, they can always resort to arbitration (article 180). However, given the high costs associated with arbitration, it is doubtful that this would normally be a reasonable option for a farming community. It would be preferable to have as first resort a mediation process with an independent (perhaps even external) mediator.

8.18 Other potential problems with the Mining Law, a revision of which is being strongly considered, include:

- A reliance at times on ministerial discretion—e.g. financial surety for environmental reclamation (article 92), transfer of mining rights (articles 126-126), extension of mining lease (articles 79-81)—which can have important repercussions on the rest of the Mining Law.
- A section on artisanal mining (articles 33-43) that largely ignores the enormous governance problems associated with this activity.

- Very small payments for licenses, which could result in companies holding on to leases for very long periods for speculative purposes; moreover, such payments do not depend on the size of the mine and are not indexed to inflation.
- No discussion or reference to a capital amortization schedule.
- Inadequate funding for the DGM to implement its responsibilities under the law, partially due to the small license payments and partly due to the fact that the Ministry of Natural Resources, in which it is located, does not pass on these payments.

8.19 The DGM has begun the process of contracting an expert to help in the revision of the Law. It will be important that special care is taken with respect to provisions in the Law on community benefits, dispute settlement, financial sureties for environmental reclamation, royalties, distribution of mining revenues across different levels of government, ministerial discretion, granting of mining leases, and amortization of investment. It is suggested, in particular, that the obligations of the company and the government to the local communities be made much more specific, a mediation system be set-up for the inevitable disputes that arise, and a financial surety and sliding scale of royalties linked to international prices be introduced.

8.20 Even with a revision of the Mining Law that takes into account all or most of the recommendations above, the weak institutional situation in Guinea-Bissau will mean that implementation will be difficult for a variety of reasons—including political will and related political economy, a low level of human capital in all facets of the mining sector, and a very rudimentary and heavily underfunded justice system. It will be important to identify where the main problems and opportunities are likely to arise and fill the gaps in innovative ways.

8.21 The first step will be to develop a system for identifying priorities, which should be done with a large amount of stakeholder interaction. The second step will be to develop a workable way of resolving conflicts among stakeholders, which should be part of the tripartite consultation between the affected communities, the various levels of government, and the companies. The third step will be to develop a pragmatic way of monitoring and evaluating the economic, social and environmental effects of the mining operations and associated programs. The fourth and perhaps most difficult step will be to develop the ability to change policies or programs when they are not effective.

8.22 While each mining operation is different to some extent, possible priority areas in Guinea-Bissau are the following. There have recently been rapid strides in the development of a new Environmental Law and a law covering EIA. They are still lacking standards with respect to the permissible amounts of toxic substances and rely heavily on identifying damage at the end. It is important to quickly develop standards for the most likely sources of contamination. It is also essential to clarify the process under which extractive industries can work in protected areas or national parks. Tailings storage is an issue for both phosphate and bauxite, and in both cases there would be a large amount of land to be reclaimed. Hence, it is essential that there is some mechanism and funding to meet these challenges. In addition, given the limited funding and capacity constraints of the government environmental agencies, the public will likely have to play an important role in monitoring the environmental performance of mining companies. This means that there must be easy access to both mining sites and dispute resolution mechanisms.

8.23 The main health consequences are likely to be sexual diseases, particularly HIV/AIDS, and the development of water and sanitation systems to adequately manage a

large increase in the local population that inevitably comes with a large mining operation. As it is unlikely that local government would be able to manage either of these problems—impossible under current funding arrangements—there will need to be alternative solutions, in which, the mining company play an important role.

8.24 The main economic and social priorities are likely to revolve around land (and asset) compensation and resettlement, local employment in the mine, training, outsourcing, and infrastructure issues. There is a need for participatory mechanisms to resolve these issues before mine development begins. It will be essential to avoid short-sighted agreements that would eventually put the future livelihoods of local community members in jeopardy. Similar to environmental issues, civil society will likely have to play a large role in monitoring and evaluating the outcomes of negotiations and implementation.

D. LEGAL AND REGULATORY ASPECTS OF PETROLEUM EXTRACTION

8.25 The main Petroleum Law was introduced in 1982, with small revisions in 1985 and 2006 (Government of Guinea-Bissau, 1982, 1985, 2006). There is an interest in revising the law but it is not moving forward at this time. Given the age of the Law, it would seem that, at a minimum, an international specialist in petroleum laws and related fiscal structures should be contracted to review its strengths and weaknesses.

8.26 As oil discoveries in Guinea-Bissau have all been offshore, the community development issues are not as complex as in hard rock mining. However, some potential areas of exploitation are in the national parks surrounding the offshore islands. Amongst other benefits, these waters are important for fishing and the beaches contain important sea turtle nesting areas. Moreover, there is a nascent tourism area in these picturesque islands, one with a strong potential for a significant expansion in the long-run. Before undertaking any significant action, the oil company has to prepare an EIA type study and present it to Petroguin, the state-owned oil company, who distributes it to concerned stakeholders and has an assessment undertaken by CAIA.

8.27 The Petroleum Law of 1982 and its revisions are relatively short and simple. The main provisions of note are that ‘blocks’ are auctioned off and that drilling and exploitation can only take place in the context of a joint venture with Petroguin. Note that companies bid on what they can bring to the agreement and not on what they are willing to pay for access to the block. The reason given for this arrangement is that the area is very high risk. The companies only pay administration and training fees, which are used to fund Petroguin. They then negotiate the details of a model contract, the most important element of which is the amount belonging to Petroguin (and ultimately the Government). In general, these amounts are lower the deeper is the water.

8.28 The joint venture agreement is a carried interest one in which Petroguin automatically owns part of a successful find but does not pay for any drilling costs. In fact, as Petroguin does not cover the operating costs of exploitation, the end result is that it is really a profit sharing agreement. It is not clear what the advantage of the joint venture setup is to the Government of Guinea-Bissau. It would seem to be much clearer to grant concessions based on bidding with profit sharing or royalties that slide with respect to prices and water depth. Joint venture agreements are increasingly rare in the petroleum industry as they constrict the companies’ room for movement, including selling their concessions or forming operating agreements with other companies. They can be more susceptible to corruption than other

types of petroleum agreements given that they essentially have a state-owned company that acts as owner and administrator (Van Meurs 2008, slides 57-61).

8.29 There are no special articles on community development in the Petroleum Law, largely as exploration and potentially viable deposits have always been offshore. Given the size of the Guinea-Bissau economy, it does not seem likely that there will be significant upstream and downstream linkages in the industry even if commercially viable deposits are discovered.

E. THE FARIM PHOSPHATE DEPOSIT

8.30 Although its commercial viability is uncertain, development of the Farim phosphate deposit is the most likely large mining or oil project to begin in the near future. Hence, it is important that the Government and people of Guinea-Bissau are prepared to take advantage of the new opportunities if they arise as well as to manage any negative externalities.

8.31 The mining operation would occur in an area of relatively heavy population—estimated to be about 10,000 in the immediate area of the mining lease—almost all farmers with a reliance on cashew, mango, rice, and access to very good fishing grounds and numerous forest products. While there is a widespread awareness of the right to compensation and resettlement for their crops, there is much less awareness of other ecosystem benefits, and almost none on the potential benefits of the mining project to the local community. In a recent stakeholder meeting held at the main village of Saliquinhe, the only concern of the local people seemed to be compensation for their crops, particularly the cashew and mango trees. It was quite clear that community leaders had given little thought on how the existence of a large mining operation in their area would likely have repercussions on the choices, livelihoods, and cultural behavior of nearly everyone in the village—not to mention its effects on existing power structures, both formal and informal.

8.32 There is an imminent need in the Farim area to assess the economic opportunities that the construction and operation of a large phosphate mine would bring to the local and regional population. This assessment should include an analysis of the types and amounts of training that would be needed to work in the mine and to provide goods and services to the mine, including specific opportunities for women. If progress is not made in this direction, it is inevitable that there will eventually be conflicts between the mining companies and local communities.⁷¹ It is equally pressing to assess the social and cultural impacts that construction and operation of the mine would likely have on the community and surrounding areas. The influx of people, money, and opportunities would lead to an influx of illegal elements, diseases (especially but not only sexual), and governance problems. The mine would bring a demand for new services—health and education—and infrastructure—particularly electricity, water supply, and roads. It would likely have a strong impact on existing social hierarchies, including the authority of traditional rulers.

8.33 Development of the phosphate mine would also bring significant environmental challenges with respect to both exploitation of the deposit and shipping of the phosphate rock. Compared to other minerals, the environmental impacts of phosphate mining are relatively limited unless the beneficiated phosphate is further processed into phosphoric acid, which is very unlikely in Guinea-Bissau. However, in the beneficiation process small

⁷¹ On the positive side, we were informed by GB-Phosphate that almost all the workers involved in digging the existing pit and maintaining the machinery are national citizens.

particles of clay separated from the phosphate rock must be pumped to clay settling ponds, which take two to five years for the top two to three feet of the settling area to dry and be able to support weight. The soil beneath the top crust, however, remains a muck-like substance for many years, making it difficult to reclaim clay settling areas, which can cover 40 percent of the mined land (Florida Institute of Phosphate Research, 2008). Hence, a large amount of the mined land in Guinea-Bissau would be difficult to reclaim; in addition, the settling ponds would have to be managed properly to ensure that there is no spillover of fine (potentially fish killing) particles into the nearby waterways. While Guinea-Bissau Phosphate has indicated that it may export raw phosphate rock, it is not clear that there is a market for non-beneficiated phosphate, which would transfer the environmental consequences of beneficiation to the importing company (and country). There is also potential for the water table—very high at Farim—to be affected by the mining operation. As virtually the entire local population depends on well water, this danger must be completely resolved before mining begins.

8.34 The beneficiated phosphate would either be shipped down the Cacheu River and off-loaded on to ocean going ships or transported by truck to the port at Bissau. If sent down the Cacheu River, the most likely option, the materials would pass through important fishing areas and a national park, so proper safeguards would need to be in place. If transported by road, half of which is currently in good condition, there would be an enormous increase in traffic. Except close to Bissau, there is not much vehicular traffic on the existing road, although there is substantial pedestrian and bicycle traffic.

8.35 Under the new EIA law, an assessment of the environmental and social implications will be mandatory and terms of reference have already been drafted. However, the true challenge will be the implementation of the recommendations of the EIA, particularly in light of the very weak governance institutions in Guinea-Bissau.

F. THE EXTRACTIVE INDUSTRIES TRANSPARENCY INITIATIVE

8.36 The development of any of the potential opportunities in mining and oil in Guinea-Bissau would have enormous consequences for both economic development and macroeconomic management. Many countries have seen limited benefits from natural resource booms, at times eventually becoming worse off than before the boom. Still, several developing countries have benefited from the exploitation of minerals, oil or gas, including Botswana, Chile, Malaysia, and, more recently, Ghana.

8.37 One of the main explanations on why a natural resource boom does not lead to sustainable growth is the natural resource curse.⁷² This focuses on the political economy aspects of the boom, with large revenue increases leading to distributional conflicts. Energies and other resources in the country are diverted more towards obtaining part of the rents rather than exploiting new economic opportunities. Moreover, governments often use a large part of the rents to develop other industries in a non-competitive manner, which in turn are often captured by their beneficiaries. These industries, whether publicly or privately owned, are very difficult to close even when they become an enormous drain on the government budget.

⁷² See section the Annex for a discussion of the natural resource curse and related Dutch disease in Guinea-Bissau. Examples of the enormous international literature on the subjects are McMahon (1997) and Auty (2001).

8.38 Guinea-Bissau could be very susceptible to the natural resource curse. If any of the potential mining or oil opportunities proceed, the unprecedented increase in foreign exchange and fiscal revenues could easily set off a massive distributional conflict if a great deal of care—and transparency—is not taken in managing the revenues. Many groups and individuals would view the new found wealth as the means for the government to start the industrialization process in Guinea-Bissau. Other groups would simply see it as an important source of rent-seeking. In either case there would be great pressures on the state to distribute the revenues in one form or another to its supporters and special interest groups in general.

8.39 One instrument a country can use to diminish the impact of the natural resource curse is to join the Extractive Industries Transparency Initiative (EITI), for which there is widespread support in Guinea-Bissau. For all member countries of the EITI, both companies and governments report the amount of payments made and received from large extractive industry operations (mining, oil and gas), subject to a credible, independent audit, applying international auditing standards. A conference on EITI is being organized in Guinea-Bissau for October 2008 by The Transparency Initiative and CAIA.

8.40 When a country joins EITI, it is a clear signal indication that the government is trying to improve governance and the investment climate, which in turn should promote economic and political stability. In turn, companies and investors benefit from lower political and reputational risks. Transparency of payments made to a government also helps demonstrate the contribution that a company is making to the country. Civil society benefits from the increased amount of information in the public domain about the size of the government's revenues, thereby making governments more accountable.⁷³

8.41 In the case of Guinea-Bissau, however, EITI is not likely to be enough. If any of the ongoing exploration activities is ultimately successful, the impact on government revenues would put great pressure on the Government of Guinea-Bissau to satisfy the demands of its supporters, special interest groups, and rent-seekers in general. There is a considerable danger that short-term political economy pressures would dominate long-term socio-economic considerations when making decisions on the use of the increased fiscal revenues. Accordingly, it would be prudent for the Government of Guinea-Bissau, with support from civil society, to consider broadening the EITI process from attention on the amounts of revenues paid and received to cover the entire chain of activities surrounding the extraction of minerals, oil or gas. These include the awarding of contracts, collecting taxes, better management of price and foreign exchange volatility, and, investing the revenues effectively in sustainable development. Countries who sign on to EITI++ become eligible for technical assistance in all facets of the value chain.

G. CONCLUSIONS AND RECOMMENDATIONS

8.42 It is no exaggeration to say that if one or two of the mineral and petroleum deposits in Guinea-Bissau that are currently being explored turn out to be commercially viable, economic development of the county will move on to a completely different path. Whether this will be a path that is beneficial to the majority of the citizens of the country and is sustainable in the long-run is another question, whose answer will largely depend on the policy and institutional choices made by the Government of Guinea-Bissau and its citizens in the near future. Successful discoveries could easily double or triple the foreign exchange and fiscal revenues of Guinea-Bissau. These revenues could be used to move the country to a

⁷³ This paragraph was adapted from the EITI website: <http://www.eitransparency.org/eiti/benefits>.

much higher level of socio-economic development or they could become a source of conflict and rent-seeking, and lower competitiveness of current exports.

8.43 Our investigations suggest that the country is not prepared for the economic shock that such developments would result in. Even the unit in charge of mining, the DGM, does not have financing to undertake serious preparatory work, and the local communities and state governments are even worse off. There seems to be little coordination between the various government ministries, particularly important given the repercussions of mineral and oil extraction on migration, rural development, the demand for social services, employment and training, the national park system and, of course, the amount and distribution of fiscal revenues.

8.44 Even though none of the exploration activities have yet definitely resulted in an industrial mining or oil development, it is important that Guinea-Bissau be prepared if and when this comes, as the impact will be immediate. In this regard, the following recommendations are offered:

1. The DGM continue with its plans to revise the 2000 Mining Law. Particular attention should be paid to community benefits, dispute settlement, financial sureties for environmental reclamation, royalties, distribution of mining revenues across levels of government, and transparency of the decision making process.
2. Irrespective of progress on the Mining Law, a detailed study should be made on: (a) what has to be done so that local communities in the Farim (phosphate) and Boe (bauxite) areas can prepare themselves to benefit from these potential mining developments; and (b) what are the implications for local and regional governance. The methodology of this study should put an emphasis on the identification of priorities by affected stakeholders. Site visits to successful cases in nearby countries by stakeholder representatives may be warranted.
3. An independent dispute resolution mechanism for the extractive industries should be established that is accessible by and affordable to all affected populations.
4. Pragmatic processes should be established for monitoring and evaluating the social, environmental and economic impacts of mining and petroleum operations.
5. In the environmental area, the main priorities are to: (a) build the capacity to assess EIAs and SIAs; (b) develop standards on contaminants, beginning with those most relevant for phosphate, bauxite, and petroleum; (c) clarify the relationship between national parks and extractive industries; and (d) strengthen government and civil society capacity for monitoring and evaluation.
6. An international expert in legal and fiscal frameworks for the petroleum sector should be contracted to review the 1982 Hydrocarbon Law (and subsequent amendments) and determine if a major revision would be beneficial to the country and its citizens; particular attention should be paid to the costs and benefits of requiring foreign companies to enter into joint ventures with Petroguin.
7. It is recommended that the Government of Guinea-Bissau adhere to the EITI initiative and expand it to cover the whole chain of activities surrounding the extraction of minerals, oil and gas; support for this process could be provided by the relevant international agencies.

9. TOURISM: OPPORTUNITIES FOR THE FUTURE

A. INTRODUCTION

9.1 Although Guinea-Bissau has no tradition as a tourism destination, there is potential for growth in this area. The large Bijagós archipelago of islands just off its offers particularly interesting possibilities, with some small hotels and sport fishing being the only tourist related developments to date. It is important for the government to develop an updated strategy for planning and promoting tourism before private investors make decisions that prove sub-optimal or even counter-productive. It will also be useful to identify some concrete opportunities for the government to promote tourism growth by making strategic investments that can promote private investment and channel it in desirable areas.

9.2 A comprehensive tourism development strategy was formulated in 2001 in close cooperation with the Director-General of Tourism in the Ministry of Trade and Industry. That strategy identified both strategic and practical interventions none of which have been implemented to date. This chapter will identify barriers that hinder a pro-active approach to tourism development in Guinea-Bissau as well as recommending steps to overcome them.

B. RECENT DEVELOPMENTS AND PROSPECTS

Background

9.3 A well planned tourism sector has the potential to bring high foreign exchange returns for relatively low capital investment while also being an appealing private sector enterprise capable of increasing incomes for the poor. Tourism is not directed to commercial or population centres but in most cases towards natural and cultural resources and therefore has the power to play a significant role in areas of a country where other commercial activities are limited. International tourism to developing countries has been significant and increasing in recent years. The growth rate in international arrivals to low- and lower middle- income countries between 2001 and 2006 was 71 percent.

9.4 The West African Region has, however, lagged far behind other regions in Africa in visitor arrivals. Projected arrival numbers (Source: World Tourism Organisation) for West Africa are 4.6 million compared to 36 million for Southern Africa, 19 million for North Africa and 17 million for East Africa by the year 2020.

9.5 Air access to the sub-region is still expensive and likely to remain so for the future although air charter traffic has increased. Tourism has in recent years also developed an “eco profile” where sustainability has been a main focus for travelers who may also want other activities such as beach resorts or historical tours. Community development and the sustainable conservation and use of the environment are the key components of ecotourism development across the world and therefore apply to West Africa as well. Increase in leisure travel sees an interesting pattern of “local knowledge operators”. West African nationals, residing in tourism source markets like the U.K, Germany and the U.S.A are increasingly organizing conducted tours to their countries of origin. Their local insight enables efficient itineraries that become popular and serve a pioneering role in tourism development. Ghana and Benin are experiencing rapid growth with these types of charter tours.

9.6 Support for tourism development in the region is inconsistent and ad-hoc. Tourism master plans have been developed for all nations but program support is limited. In many countries, tourism development is a component of a larger conservation program – Ghana, Benin and even Côte d’Ivoire (until recently) have received major support for protected (forest) area management from which interesting lessons can be learned for Guinea-Bissau.

9.7 For a long-term, meaningful development of a tourism system, various obstacles still need to be overcome. Access to resources, user-rights, market access and land tenure are just a few of the issues that limit the benefits from tourism. But above all, the appropriate capacity of the government, communities/community members and stakeholders to enable, direct and support tourism development initiatives forms the key to success.

Current Trends

9.8 Prices of crude oil reached record highs in the first half of 2008 and as with many other industries, this put the travel and tourism industry under pressure with increased prices for all transport related operations. While prices have dropped since that time, most observers project a long run rising trend in transport costs over the next decades. In Guinea-Bissau, where the majority of daily consumer goods for tourists are imported from Europe, this will not only make getting to the country more expensive but also increases the cost of local transport, food and beverages and accommodation where generators provide electricity 24 hours a day.⁷⁴

9.9 The oil price affects consumers all over the country and luxury goods like long-haul holidays are among the first items to suffer. In an industry under pressure from such global trends, the introduction of a new destination is extremely difficult. Not only will the prospective visitor think twice about booking an expensive destination, but the outbound industry in major origin countries like Germany, France and the UK will consider carefully before including a new and unknown destination in their portfolio.

9.10 The image of West Africa is still troublesome in the market. The sub-region also lacks a history of tourism and many of the early successes in the 1970s have been destroyed by civil war and armed conflict. Compared to East and Southern Africa, the West-African nations have not been able to substantially target markets outside their former colonial powers. This keeps market volume low and tends to create strong seasonality.

Resource Inventory

9.11 Summary tables of each of the main tourism resources can be found in the Appendix.

⁷⁴ General shortages in oil products were evident in June 2008 during the DTIS mission itself.

Bijagos Archipelago

9.12 The primary tourism resource of Guinea-Bissau is the Bijagós Archipelago. It is West Africa's only archipelago, protected by swift tides and sandbanks, and boasting an impressive variety of marine life as well as unique mammals (e.g. the salt water hippo) and endangered species (e.g. sea turtles). Formed over centuries by deposits from the Geba River, the archipelago consists of some 80 islands of varying size.

9.13 The presence of mammal species is more diverse than might be expected, with Bushbuck (*Tragelaphus scriptus*) and Vervet monkey (*Cercopithecus aethiops*) found on the same islands as Crocodile (*Crocodylus niloticus*), Hippo (*Hippopotamus amphibious*) and Manatee (*Trichechus senegalensis*). The spread of various animal species across the islands is interesting – both from a biodiversity as well as tourism point of view with the range of certain species (turtle, snakes, antelope) limited to single islands. Many trophy fish species are found around the islands currently attracting the only notable market segment of sports fishing.

9.14 An additional value is found in a rich, traditional culture of the Bijagós people which the character of the islands has sustained for many years. Many sections of the islands – both beaches and forest areas – are sacred to the Bijagos people and play an important role in the daily culture on the island.

9.15 Some of the beaches are of pristine sandy quality but tidal changes create large sand banks that influence the aesthetic appeal. The old capital of Bolama (on Bolama island) is a very interesting attraction where colonial history is clearly visible. Similar places in West Africa (notably Elmina and Cape Coast in Ghana) have made this their main tourism asset.

Catanhez Forest

9.16 The Cantanhez Forest is a reserve with a predominant semi-humid forest and mangroves located in the Tombali district, about 6 hours south of Bissau by road. The forest at Cantanhez is part of a range of mixed vegetation, drained by the Cacine River whose valley supports various agricultural livelihoods for its 20,000 residents. The management is in the hands of the IBAB project whose staff is to be incorporated into the Government Forestry Division in 2009.

9.17 There are a good number of primates and other large mammal species in the reserve. Threatened primate species are the Western chimpanzee and Red Colobus Monkey. Other threatened mammals are Leopard, Water Chevrotain, Black Duiker, Maxwell Duiker, Forest Elephant and Forest Buffalo.

9.18 Three plant communities can be distinguished in the Cantanhez Forest namely, farm bush and thicket, inland freshwater swamp forest and young to mature secondary moist forest.

9.19 Forest areas (protected or not), especially moist, evergreen forests, are a challenge for the development of a visitor experience. High temperatures and humidity for most of the year as well as rainfall and poor access roads make this a challenge during the rainy season. Although

challenging for many western visitors, there is also a high appeal as the experience of visiting a moist, tropical evergreen forest is unique for many tourists.

9.20 Although the attraction is primarily found in the biodiversity of a forest area, the product should allow for the sighting of animals to enhance the visitor experience. The visitor product should be adapted for certain animals with greater chances of being spotted such as buffalo, chimps (at nests), and duikers (from hides). Birds should be targeted close to nest sites.

Varela

9.21 The third resource for tourism is found at Varela in the northwest coastal area of the country. Plans existed back in 1994 to proclaim this area of pristine beach as a national park.

9.22 Beach areas are popular throughout the world. A combination of soft and clean sand and water is a prerequisite for a popular beach. As a family destination with smaller children, the character of the tide, current and drop of the ocean floor is important to ensure safety. Beaches are almost always public areas and the issue of management, maintenance and construction of facilities rests with public authority/local government. Guinea-Bissau does not have legislation that makes a provision for the establishment of beach parks and the development of the Varela beach lacks a legislative framework.

9.23 The construction of a bridge over the Rio Cacheu will enable a fast connection from Bissau to Sao Domingos but the road between Sao Domingos and Susana/Varela is in extremely poor condition. Conditions are even worse in the rainy season.

9.24 Guinea-Bissau likes to compare the beach of Varela with that of Cap Skiring just across the border with Senegal, where a successful Club Med has operated for over 30 years. The potential for development depends to a large extent on the demand from Guinea-Bissau residents. Improved road access could attract more people from Bissau but the demand will be limited to weekends and to the availability of access.

Current State of Tourism

9.25 Tourism in Guinea-Bissau is more a phenomenon than an industry. There are various actors, both operational as well as regulatory but efforts are ad-hoc and uncoordinated. It is difficult for a prospective tourist to obtain any general visitor information on the country, published, commercial or even through Internet search engines.

9.26 The existing enterprises are accommodation establishments which all attract their own niche visitors. In the capital Bissau these are predominantly visitors from bi- and multilateral donor agencies as well as some commercial business interest.

9.27 There are four hotels of international quality in Bissau – the Palace Hotel, Hotel Malaika, Lybie Hotel and the Hotel Azalai – 24 de Setembro. The latter two have more than 100 rooms each with the “24 September” currently being renovated after being partly privatized. Registered as a “residence” and therefore not mentioned under hotels, is the Residencial Coimbra of international standard and popular with aid organisation staff. A visitor product is not really offered by any of these Bissau establishments. Upon request, excursions can be organised but none of these are packaged and priced in advance giving visitors options to choose from.

9.28 A few accommodation establishments are dotted across the country mainly focussing on (bird) hunting and fishing as well as one ecotourism initiative in the Cantanhez Forest. Only one of these, Hotel Uaque can be considered of international quality.

9.29 Classic leisure tourism products are found on the Bijagós Islands. Although the Archipelago consists of more than 80 islands, only 15 are of importance for tourism (as an industry) and the general socio-economic life of the indigenous island population. There are five establishments of international standard found on the islands: Hotel Ponta Anchaca (20 beds, Ilha de Ruban), Orango Park Hotel (10 beds/Orango), Chez Claude & Club Tuboron (12 and 14 beds/Joao Vieira) and Casa Africana (20 beds/Bubaque). These establishments offer a package product that includes transfers, meals and (fishing) activities.

9.30 The country is a popular destination with Portuguese nationals who either visit relatives and friends or who have worked and lived in the country during the colonial era. Currently still a substantial segment their number can be expected to decline rapidly in years to come due to old age.

9.31 Some business travel occurs by government and the international donor community. Two travel agents supporting outbound travel exist and one official car hire company exists. There is no evidence of any joint efforts by tourism ventures to promote the country. The few establishments with functioning websites do not have a link to each other.

9.32 The authorities of Guinea-Bissau are not able to produce arrival statistics. A lack of correct and detailed statistics makes it difficult to measure and manage the tourism industry. The Directorate of Tourism employs 17 hotel inspectors, which should make it possible to obtain up-to-date data. The most recent figure documented is 7,754 visitors in 2001 and WAEMU reports published in 2008 exclude accommodation facilities on the Bijagós. The airport authority has published statistics for 2005 that total 52,499 passengers which – assuming all people arriving by plane, depart by plane – would mean some 26,000 arrivals in total. This includes business and government as well as nationals travelling abroad but also includes holiday visitors. The general indication by industry and stakeholders is that the season for tourism in the country is only some six months long – from November to May. Rain makes travelling outside this period difficult and unpleasant.

9.33 European air access to Bissau is limited to a TAP/Air Portugal scheduled flight from Lisbon twice weekly. Air Senegal International operates a daily connection with Dakar – in code share with Cape Verde Airlines. Overall this represents limited options and frequencies and yields are down from tourism reports published in 2000/2001.

Regulatory and Enabling Environment for Tourism

Institutional Set-up

9.34 Tourism in Guinea-Bissau falls under the authority of the Ministry of Tourism and Crafts. A minister is responsible for tourism and crafts and oversees six directorates:

- General administration and finance
- Tourism fund

- Marketing and promotion
- Tourism activities & enterprises
- Inspection
- Crafts

9.35 The Tourism Directorate has no budget and no money to conduct any activities. The office is ill equipped but staff is motivated to support the development of tourism and do what they can without any substantial resources. A promotional publication has been organised with advertising funds and printed in Portugal – but no funds are available for distribution.

9.36 Tourism is guided by an old policy document and there is no evidence that the two large tourism studies conducted in 2000 and 2001 have been translated into government action plans. The mandate of the directorate is unclear with investment and enterprise regulation the responsibility of other government institutions and protected area resources the responsibility of the IBAB (Instituto da Biodiversidade e Areas Protectadas) project and the Ministry of Natural Resources and Environment.

9.37 The directorate does however have one clear objective which is the control of the tourism development fund. This fund, established in 2003, is earmarked to support the development of tourism and the activities of the Directorate towards that objective. In theory, the taxes applicable for tourism enterprises (18, 21 or 23 percent of invoice amounts depending on type of enterprise) are paid into the tourism fund held by a commercial bank through the revenue office. Twenty five percent is allocated to the receiver, another 25 percent is earmarked for staff costs of the Directorate and 50 percent should be allocated to tourism development. However, the collection of these taxes does not function and therefore the fund practically does not exist.

9.38 The private sector is organised under the Hotel, Restaurant and Tourism Association (AHRGTGB). Currently, there is no mandate and no formal objectives are described beyond the objective to “develop the industry”. A nominal membership fee is paid but no activities can be undertaken with own resources.

Resource control

9.39 Control over Guinea-Bissau’s primary tourism resources is scattered across various authorities. The Bijagós archipelago is communal land managed under common property rights based on traditional structures. On top of that, it is administrated as a region with the governor residing in Bolama (Bolama Region). The two proclaimed national parks fall under the auspices of IBAB.

The historic town of Bolama is still administered through title deeds for almost all properties although some are disputed because of family conflicts arising from inheritance.

9.40 The biosphere reserve status of the Bijagós reflects certain objectives:

- The biosphere reserve conserves examples of characteristic ecosystems of one of the world's natural regions, managed for their protection and study.

- It is a land and coastal/marine area in which people are an integral component, and which is managed for objectives ranging from complete protection to intensive yet sustainable production.
- It is a regional centre for monitoring, research, education and training on natural and managed ecosystems.
- It is a place where government decision makers, scientists, managers and local people cooperate in developing a model programme for managing land and water to meet human needs while conserving natural processes and biological resources.
- It is a symbol of voluntary cooperation to conserve and use resources for the well being of people everywhere.

9.41 A planning framework for the reserve has been formulated with project support but this is not used as a basis for tourism planning and no criteria have been formulated that can be used by the Tourism Directorate if requested to approve a tourism development.

9.42 The management of protected areas is the responsibility of the IBAB project. Income generating opportunities are not part of the objectives of IBAB and therefore tourism is not addressed in its management plans. There is no formalized cooperation between the tourism authority and the park authority and with the exception of the proclaimed protected areas of the Bijagós, the parks are not known amongst the staff of the Tourism Directorate.

9.43 This is unfortunate as the relation between tourism and protected areas is strong and forms a valuable international trend in Africa. Tourism generating markets are aware of the pressure and threats on the environment in Africa (and the rest of the world) and protected areas are often seen as the last safe havens, and their sustainable utilization – through (eco-) tourism - is the key to conserve what little is left. A protected status is often considered a prerequisite for an attraction – if it is worth visiting, it would be protected. This is why tourism development in many African countries starts in national parks. A protected status says something about scarcity – if the resource is available everywhere there would be no reason to give it special protection. This principle is behind both official government controlled parks and reserves as well as community and privately controlled areas' entry in to the market of tourism and should apply to Cantanhez and the Bijagós.

9.44 But sustainable management of biodiversity is expensive. To sustain biodiversity, a comprehensive view of costs and benefits needs to be made: covering the full range of protected area costs, ensuring that those who bear protected area costs are recognized and adequately compensated, and that those who benefit from protected areas make a fair contribution to their maintenance.⁷⁵

9.45 Donor interventions are often found related to ecotourism development in state-owned protected areas, as financing systems for those protected areas are unsustainable and tourism is able to contribute to making conservation management more sustainable. In many cases, the protected status is passive, offering nothing more than the proclaimed status. In government controlled protected areas, where priority rests with conservation as an objective of the state, this often creates the expectation of “free for the public” based on the perception of a public asset.

⁷⁵ “Sustainable financing of protected areas – Lucy Emerton et al, IUCN 2005.”

9.46 An official and recognizable protected area system is likely to attract a willingness to pay amongst individual visitors and the tourism industry. Such possible sources of direct revenue in protected areas include entrance fees, merchandising, concession fees and licenses and permits.⁷⁶ Studies frequently show that tourists are willing to pay significantly higher entrance fees than protected areas currently charge⁷⁷ although in the case of Guinea-Bissau, no fees are applicable at present.

9.47 Tourism also has a beneficial (indirect) economic impact in the local communities within and surrounding protected areas. This can take the form of payment for provision of tourism services such as guides, accommodation, meals, transport, purchase of souvenirs, etc. all of which contribute additional turnover and income to the local economy. When these funds are then spent locally, this has a knock-on effect supporting further jobs within the local economy.

9.48 Whether directly generated revenue from protected areas is actually used to support that park or reserve depends on the management structure and capacity – funds can simply be sent to the treasury for inclusion in the general government revenue budget, earmarked to the protected area's authority or retained within the protected area management from which they were generated. In Guinea-Bissau, the IBAB needs to create appropriate regulations for this.

9.49 For the development of tourism in a new destination like Guinea-Bissau, the management mechanisms are often limited. Protected areas legislation often offers various tools to be used for tourism development. Concessions and licences for hunting reserves can be one such tool and need to be explored further as does the forest reserve status which allows for user rights that can be related to tourism ventures and activities.

9.50 The improved development and utilisation of protected area resources – and possible proclamation of the Varela beach as a protected area – can make Guinea-Bissau an attractive ecotourism destination. However, it is worth stressing that this is not the classic African wildlife tourism experience of big game in the open savannah grasslands typical of much of Eastern and Southern Africa.

9.51 Specifically for the Cantanhez Forest it must be stated that the development of a tourism product around a secondary moist forest is not easy. It might form the most westerly range for the Western chimpanzee but these are difficult to spot, unlike the buffalo and elephant. Although accurate data is missing, it is likely that the forest reserve is more a seasonal dispersal range shared with Guinea Conakry.

9.52 The principles of community based resource management have been introduced successfully amongst the communities but this is difficult to sustain if no income from forest resources is achieved. Currently, there are a few guest rooms and a small information centre that

⁷⁶ IBAB has supported the formulation of such fees for the Parque Natural das Lagoas Cufada (May 2006) where entrance fees of CFA 1,000 (forest) and CFA 5,000 (lake) have been determined without a tourism plan as basis for such fees. Here, capturing more of tourists' willingness to pay for protected area use and conservation through innovative pricing and payment systems could be more important. Pricing structures can differentiate according to tourist market segments.

⁷⁷ Loomis and Walsh, 1997, Mantua et al, 2001 and Naidoo, 2005 – the latter, a recent example from Uganda.

form part of the forest management offices. An expanded eco-tourism product can make such a contribution and needs to be developed.

Review of the Existing Strategy

9.53 In 2000 a comprehensive strategy documents was commissioned by the government of Guinea-Bissau with funding from the World Tourism Organisation. An EU funded Diagnostic Report was conducted in 2001. Both have similar conclusions and recommendations but no actions have been taken and no significant progress has been made.

9.54 The analysis of the 2001 EU Study (Developpement du secteur privé – secteur du tourisme: Rapport Diagnostic) described four main challenges.

- An insufficient tourism infrastructure – poor air access, poor road transport, difficult telecommunication, weak organisation level of the industry and limited choice of tourism products.
- A private tourism sector with negligible turn-over figures and effectively non-existent
- Complex tenure of investment and a heavy bureaucratic structure effectively blocking direct foreign investment.
- The inability to privatize the state-run hotels.

9.55 The first two statements still remain a challenge to date and are realistically not going to change soon. The last two statements have seen positive development. This is however not a reflection of improved government procedures in attracting direct investments but much more a determination by private (corporate) entrepreneurs⁷⁸ to benefit from market developments and meet demand.

9.56 The comprehensive and well-written 2000 strategy document (Strategie et Plan D'actions pour le developpement du tourisme en Guinee Bissau) identified similar challenges. However, the fact that no action has been taken requires a change from generic master planning towards specific (meso-level) interventions. This is important in the light of current global challenges (oil prices), the image of the destination and the general socio-economic challenges of the country. Also, the seasonality of the tourism product (October – May) still applies but is not reflected in the tourism strategy. It requires a different approach to tourism as well as consideration for labor regulations. Although much of the data on accommodation, air access, etc. is not applicable anymore, the proposed priority and mid-term interventions proposed are still valid.

C. TOWARDS THE DEVELOPMENT OF TOURISM TRADE IN GUINEA-BISSAU

9.57 Tourism follows an almost organic growth path and cannot be made (with the exception of man-made attractions such as those found in Dubai, Eurodisney, etc). The resources and dynamics of the destination create the opportunities and limits of the developments. Guinea-Bissau is currently going through the normal tourism development phases of an emerging market. At the present time there are encouraging signs that the pioneering level has been

⁷⁸ Personal statements. In one major example, the Mali based Azalai Group has taken control over the government owned Hotel 24 de Setembro which has long been seen as a problem for tourism due to dilapidated structures.

reached with individual entrepreneurs and a few corporate (West African) enterprises having created new establishments. None of the strategic plans formulated so far have contributed to this. It has been the work of individual small-scale operators who have established their own niche markets.

Tourism planning

9.58 To create employment and income generating opportunities so desperately needed, tourism can achieve more if a pro-active approach by the Government of Guinea-Bissau in tourism development is pursued. This requires an improved enabling environment as well as diversified visitor products. Both these interventions need to be based on guiding principles for tourism in the country such as preservation of environmental assets, emphasis on the country's manmade and natural resources, consistency with preserving national pride and dignity and the need to involve local communities so that they share a stake in the operation and success of tourism destinations.

9.59 A key resource for the further development of tourism is the protected areas of Guinea-Bissau. The purpose of protected areas includes the maintenance of relatively unspoiled areas for posterity and biodiversity improvement. These areas need to fulfill their potential in a responsible manner as engines of growth. If done properly, improved management should also be a consequence of this approach.

9.60 Both the two tourism studies as well as all documents and other publications mentioning the islands are unanimous in their praise of the natural and cultural resource base of the archipelago. The challenge of tourism development is found in turning a resource into an augmented product able to create income and employment opportunities for legitimate resource owners. Based on carefully planned exercises, the protected areas should be utilized to an increased extent for the benefit of diversifying and complementing the tourism product of the country. National Parks (Biosphere reserve) and natural parks form the core attraction in Africa and, in Guinea-Bissau, there is scope to increase the international drawing power by increasing the utilisation of the protected areas in a sustainable manner.

Requirements:

- The establishment and implementation of tourism management plans which include integration of protected areas into surrounding economies for the Bijagós and the Cantanhez Forest.
- Implementation of the draft environmental legislation of 2008.
- The clarification of and enabling legislation for the rights of people living within parks.
- Standards, monitoring and evaluation of protected area products.
- Understanding of park management issues related to tourism.

Institutional requirements

9.61 Arguably for an embryonic industry and a non-functioning tourism development fund, the size and structure of the Ministry of Tourism and Crafts exceeds the mandate, resources and

capacities. For example, hotel inspectors total 17 people with no resources (vehicles) to conduct any inspections. None of the four tourism promotion staff have a computer or internet access or are the attractions of the country fully known to them. There are also four staff members assigned to the tourism fund that is not operational.

9.62 The Ministry should determine its role based on what the country needs to achieve its tourism goals. This could enable a streamlining of the administration and, for example, the transfer of its accommodation registration to regional authorities and the introduction of a paid system for grading which ensures inclusion in the marketing and promotion activities of the Ministry.

9.63 To enable an up-scaling and diversification of the tourism product, the Ministry should ideally concentrate on the following fields of responsibility:

- Tourism planning for the Bijagós Reserve and all protected areas as well as the Varela beach
- Marketing and promotion of attractions and graded enterprises.
- Compilation of the tourism data and the formulation/ production of an investor portfolio
- Tourism help-desk function providing assistance to credible investors

9.64 These are core activities that do not cost much in terms of recurring costs that require government budget support, with the exception of marketing and promotion. For this important activity it is recommended to concentrate on two efforts:

- The creation of a website hosted through a public-private partnership with a commercial company
- Attendance of sponsored trade fairs in Europe for which the European Commission (http://europa.eu.int/comm/enterprise/services/tourism/index_en.htm) and CBI (www.cbi.eu) provide financial and technical support.

9.65 The proposed tourism plans also serve to establish criteria for the approval of investment guidelines. There is currently no evidence that the existing tax and investment regulation have hindered potential investors. There seems to be a general perception among the business community in Guinea-Bissau that business operations are cumbersome due to poorly resourced government institutions and infrastructure limitations much more than the regulatory framework. They feel that the legislation and policies associated with setting-up of (tourism) enterprises are not the limiting factor for further growth but rather the fact that government staff is difficult to reach because phones do not work and/or no transport is available, document processing takes a long time because computers are not available, as well as problems with power outages and lack of copies of relevant documents.

9.66 The formulation of a detailed tourism plan for the three primary resources in Guinea-Bissau can provide the necessary description of incentives to be offered by government and provide selection criteria for investment proposals received. These will be required, as the seasonality of the destination will make investment returns and operational costs relatively high. It also affects the labor agreements required as few full time positions will be developed. Employment creation is often mentioned as a key benefit from tourism but it is important to determine the type of employment created.

9.67 This issue becomes even more challenging when staff training is required and no government support exists. The seasonality of the tourism product creates much demand for casual and temporary labor that limits career and skills development. Investment incentives should therefore definitely address human resource development. All other possible incentives should come from the detailed tourism plans.

9.68 An integration of protected area management and tourism – currently two different structures - needs to take place as neither one of these can exist in its own right. The protected areas need tourism utilization to sustain and tourism requires the protected areas as attraction.

Products

9.69 For a beneficial utilization of the resource base available to Guinea-Bissau, the following tourism products and tourism infrastructure requirements should be considered for further development:

Bijagos Archipelago

1. Creation of central “hub” for tourism at Bolama. Its location close to Bissau and available historical resources make it suitable to serve as a gateway for further exploration of the islands. Infrastructure and facilities need upgrading which could be initiated through the creation of a “home owner scheme” where legitimate owners can receive grants for the restoration of their property if an economic utilization of the property is guaranteed. Guesthouse, museum, restaurant/café could be allowed uses that can initiate visits by tourists. Bolama should be declared a national monument. Cooperation with the Instituto Português do Património Arquitectónico (www.ippar.pt) for technical assistance and funding could be sought.
2. Provision of a logistical tourism center at Bubaque where diesel fuel for transport is available as well as other supplies and a possible conference/training facility as a focal point for coordinated efforts of Biosphere Management and tourism training. Such a facility should serve as the “reception” to the proclaimed national park through the provision of permits, collection of entrance fees and other permit fees (fishing, concessions and licences). This venture should be a co-management effort by the park authority and the Tourism Directorate which could strengthen the cooperation.
3. Licence for a daily Bijagós Ferry (in season) and 3 times weekly (off-season) combining the islands with tourism facilities in a safe and punctual itinerary with Bissau. Proposed route should include Bolama and Bubaque.
4. Registration of eco-guides association – operating from Bolama, able to conduct boat and foot safaris to the national parks. Provision of hides at strategic sites for the observation of rare species on selected islands (determined by the Bijagós tourism plan).
5. Lease of one or two islands to private tour operators with international market linkages to establish international drawing power for the Bijagós as a tourism destination. If one or two top African operators (such as Wilderness Safaris or CC Africa) would operate in Guinea-Bissau, the country would receive valuable exposure. Such efforts should be conducted

through the provision of an international call for expression of interest for which a detailed portfolio document should be created.

6. Enhance the sport fishing product in Guinea-Bissau. Currently several establishments offer excursions, sometimes combined with land based activities. The country should market itself more vigorously, and investigate the potential for public private partnerships in this area as well as a dedicated website in various languages.

Cantanhez Forest

Visits to the forest would be greatly facilitated by a centrally located visitor center where information could be found and entrance fees paid. Registration of ecological guides would also be beneficial, perhaps through an association. Within the park, development of observation points for rare species and the creation of various walking trails devoted to particular species/ecosystems (e.g. primates, trees, birds) can formalize the provision of the product and increase willingness to pay. Also important are the construction of infrastructure for concessions – restaurants, rest areas, and improved access roads.

Valera Beach

9.70 Concessions could be granted for “local beach products” with the proceeds devoted to general maintenance, garbage collection and washroom facilities. These facilities are non-permanent and are not bigger than 300m² and offer basic facilities as well as meals and drinks on request. This makes them affordable to the local market and therefore enables regular use on weekends and school holiday. Development of a more formal beach resort hotel could be considered for the future.

Bissau

9.71 The Ministry should consider the establishment of a centrally located promotion and information office as well as a craft market on the main street of Bissau. Space could be rented to craft associations to recover costs, as could also be done for a café. In addition, formalized provision of “tour operator licenses” could help promote demand for and acceptance of the various tourism opportunities that exist.

9.72 Establishment of a tourism website – www.guineabissau.org - with images of the photo library and hosted by a professional company able to update and monitor the use of the website would help raise the profile of the country. Portuguese, French and English text is essential.

9.73 The interventions proposed above allow for a realistic growth of tourism in Guinea-Bissau – the outcome of which should form the basis for a new, autonomous system of tourism development in the country. This holds more value than trying to create a theoretical system for tourism growth and expecting the various stakeholders to implement it. Well-intended strategic ideas from the various studies have not been implemented, mainly because little demand existed. That is why the proposed actions are primarily aimed at making the country known as a tourism destination in order to increase visitor numbers. The approach suggested foresees a private sector driven industry guided by realistic tourism development plans for the identified key resource areas.

Summary of Tourism Attractions

| Bijagós Archipelago | | | | | | | |
|---------------------------------------|--|---------------------------------------|------------------------------------|-----------------------|----------------------|-----------------------|-----------------------|
| Scope: | Primary scope based on unique mixture of natural, cultural and historical resources under a proclaimed (but under-utilised) Biosphere Reserve status. Two national parks (Parque Nacional de Orango and Parque Nacional Marinha da Ilha João Vieira o de Poilão) and the historical town of Bolama which was the first capital of the country under Portuguese rule. A variety of rare and endangered animal species, sandy beaches and interesting indigenous culture is found throughout the islands and each of the almost 80 islands has something different to offer. However, the unique and interesting range of mammals is difficult to see. Some species like Manatee are notoriously shy and Nile crocodile and Bush buck difficult to spot around mangroves and thickets of vegetation. Good sport fishing location and a variety of entrepreneurs (predominantly French) at various islands with proper facilities | | | | | | |
| Access: | Access is difficult to, as well as between, the islands. Regular boat transfers are limited to Fridays and Sundays only and limited to the Island of Bolama and Bubaque from Bissau. Access is made even more difficult due to swift tides and treacherous sandbanks limiting boat access to high tide only. Information on access is difficult and limited telecommunication exists on the largest two islands only but fuel for boats is unavailable. Sacred status of beaches and forests further limits access to the archipelago. The islands are on average only some 6 meters above sea level and lack elevation differences making it difficult to spot wildlife. "Game viewing" by boat is again limited by the tide and is generally not a preferred method as boat engines announce their presence too early to game. | | | | | | |
| Location | Located off the mainland with the closest island of Bolama some 40 km from Bissau. The largest populated site on the Bijagos - Bubaque, is located almost in the centre of the archipelago with the proclaimed national parks creating a southern boundary. The time it takes from arriving at Bissau to "having your feet in the sand" is at least 6 hours and more likely 12 due to general infrastructure deficiencies in accessing the islands. | | | | | | |
| Drawing Power | International drawing power possible based on interesting mix of resources and protected area status. Weekend destination of Bissau residents looking for a good time on an urban beach setting at Bubaque. | | | | | | |
| Destination Facilities | <ul style="list-style-type: none"> - Orango Parque Hotel at Ilha de Orango - Chez Dora at Bubaque - Hotel Ponto Anchaca at Rubane - Chez Claude and Club Tubaron at Ilha João Vieira - Others <p>The islands lack a logistical centre (although Bubaque often claims such role) where provisions can be found or which can act as a hub for visitors and an information/communication centre.</p> | | | | | | |
| Prices: | <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;">Entrance fees protected areas:</td> <td>No entrance fees at present</td> </tr> <tr> <td>Boat transfer:</td> <td>From CFA 2000</td> </tr> <tr> <td>Accommodation:</td> <td>From CFA 15000</td> </tr> </table> | Entrance fees protected areas: | No entrance fees at present | Boat transfer: | From CFA 2000 | Accommodation: | From CFA 15000 |
| Entrance fees protected areas: | No entrance fees at present | | | | | | |
| Boat transfer: | From CFA 2000 | | | | | | |
| Accommodation: | From CFA 15000 | | | | | | |

| Cantanhez Forest | | |
|-------------------------------|--|------------------------------------|
| Scope: | Primary scope based on evergreen moist forest, bird and mammal species and an interesting indigenous culture. Challenging to create tourism benefits as with all forest products. Community based management system in place as basis for visitor management structure. | |
| Access: | Challenging access during dry season due to limited road network and poor quality of existing roads. During rainy season access might be impossible for large parts of the forest. Poor road signs and limited tracks exist. No infrastructure support in the area for petrol, communication and limited for food provisions. No obvious entrance exists although project office with accommodation exists at Iemberem. River based access holds potential for seasonal extension (to be explored further). | |
| Location | Located along the Rio Cacine on the Guinea Conakry border of the Tombal Region. The location does not allow for obvious linkages with other existing and potential attractions making the Forest a destination in its own right. | |
| Drawing Power | Regional drawing power possible when attracting visitors from Bissau or as an add-on to a Bijagós visit. Likelihood of more potential if a tourism inventory is to be conducted for the area | |
| Destination Facilities | Rest Camp at Iemberem | |
| Prices: | Entrance fee for Forest Reserve | No entrance fees at present |
| | Accommodation | From CFA 10,000 |

| Varela | | |
|-------------------------------|---|--|
| Scope: | Primary scope based on beautiful beach. | |
| Access: | Poor access to extremely poor access during rainy season. Single road entry and exit only via Sao Domingos and Susana. Currently visitors need to use ferry crossing at Cacheu although a bridge is being constructed. No infrastructure in the area – no amenities and limited restaurant and shop options at Varela village. | |
| Location | The location is both its appeal and threat. The distance (in time) to Bissau excludes a ready local market to the area but also create the biggest potential as an unspoilt quality beach experience for resort development. | |
| Drawing Power | Local drawing power but international potential if the beach product and access are well developed. | |
| Destination Facilities | Small accommodation establishment – Chez Helene | |
| Prices: | From CFA 15,000 | |

10. FISHERIES: ASSETS IN PERIL

A. OVERVIEW

10.1 Thanks to very favorable environmental conditions in the West Africa region, resulting both from the phenomenon of up-welling currents during the cool season and from the inflow of masses of fresh water during the hot season, the coastal area of Guinea-Bissau has waters with some of the highest primary productivity in the world. Industrial and artisanal fishing fleets intensively exploit a significant part of these resources. However, the fishery management systems of the countries of the region are, in general, ineffective, particularly with regard to controlling the movements of fishing fleets that share among themselves most of the resources.

10.2 Despite a coastline of only 280 km, the continental shelf of Guinea-Bissau covers approximately 45,000 of the 150,000 km² of its Exclusive Economic Zone (EEZ), with shallow depths, making it one of the largest among the countries of West Africa. The results of various studies carried out in the maritime waters of Guinea-Bissau indicated a biomass of about 900,000-1,100,000 tonnes, of which 250,000-350,000 tonnes can be caught annually without stock degeneration with the following estimates: (i) approximately 250,000 tonnes of pelagic species, (ii) 50,000 tonnes of demersal species, and (iii) 15,000 tonnes of tuna, and (iv) about 4,000 tonnes of various species of shrimp. As for inland waters, it is thought that around 20,000 tonnes/year of fish and 1,000 tonnes/year of shrimp can be caught.

10.3 Due to the predominance of an agricultural tradition in Guinea-Bissau, foreign artisanal and industrial fishermen catch most of the fishing produce in the country's coastal waters, part of which is undertaken outside the control of the fisheries administration.

10.4 *Artisanal fishing* takes place mainly in the April-May and October-December periods and is concentrated in the rivers and estuaries along the coast, particularly in the Bijagós archipelago and Cacheu. The resources of mullet and shad constitute about 80 percent of these catches. Artisanal fishermen have exclusive fishing rights within 12 nautical miles. The number of national and foreign artisanal fishermen has been estimated at between 3,362 and 10,000. They use between 656 and 1,200 canoes, of which about 14-20 percent are motorized. In the 1991-93 period, the artisanal catches were estimated at 26,000 to 30,000 MT (with a total value of US\$ 17 to 19 million) and in 1995 at 50,000 MT, mostly sold in neighboring Senegal and Guinea-Conakry. In 1997, the FAO estimated the domestic artisanal catches at 5,400 MT, underlining the secondary nature of fishing for the coastal population who dedicate their time mostly to agriculture.

10.5 *Industrial fishing* is undertaken beyond 12 nautical miles from the coast. In the 2004-06 period, between 215 and 237 fishing licenses were granted to industrial vessels for periods that varied between 3 and 12 months. However, the average monthly presence of these vessels has declined from 103 to 83 vessels as well as the catch per unit of effort, particularly in the prawn and cephalopod trawling fleets. A significant number of vessels operate illegally in the waters under Guinea-Bissau's jurisdiction. In 2006, 99 fishing boats were intercepted, 13 of which were fined for fishing without a license.

10.6 *Post-catch activities* are very limited in Guinea-Bissau. Practically all fishing vessels unload their catch in Dakar, Abidjan and Las Palmas, and it is then sent on to the regional and European markets. Artisanal processing currently reaches the equivalent of 30,000 to 40,000 MT/year of fresh fishing produce, of which about 5,400 MT comes from national operators, an important part of which is processed by artisanal methods. This situation results from the small size of the local market and the lack of adequate infrastructures and services, fiscal regime and other unfavorable conditions.

10.7 Guinea-Bissau possesses some port infrastructures, notably the Bissau commercial port, where industrial fishing vessels can unload their catch. However, several constraints of a technical nature and the defective level of the available services make this port unattractive. (See Chapter 5) Also in Bissau, at Alto Bandim, there is a quay with refrigerated installations and ice available for artisanal vessels that supply fishing produce to the population of the Bissau area. The construction of a fishing port at this place is envisaged, with a quay of 360x60 m, a slipway, 20 ha adjacent for setting up units linked to the fishing industry, drainage of the area, water and electricity networks, a hangar for repairing nets, a fish market and fencing. So far, US\$4 million is available out of a total required of US\$8.2 million.

10.8 There are some fishing produce conservation infrastructures, most of which are located in Bissau. In 2006, the ice production capacity in the country, distributed among 19 units, 8 of which were outside Bissau (Catió, Bolama, Bubaque, Uracane Island, two in Cacheu, Buba and Bafatá), was 129 MT daily. At the Alto Bandim quay, there is a cold storage depot with a 400-500 MT capacity. For specific services for the fishing industry, there is a naval dockyard recently set up in Bissau. Normally, commercial artisanal fishermen acquire their inputs in Senegal when they disembark there.

10.9 There are no precise data on the performance of the sector. Among other causes, this situation results from insufficient presence throughout the territory and the capacity of the fisheries administration, but also from the great dispersion and large number of unloading points. The industrial and artisanal catches intended for the local market provide an annual per capita consumption, estimates of which have varied between 7 and 28 kg.

10.10 Government revenue originating in the fisheries sector currently comes mainly from the sale of fishing licenses and the compensation associated with the fishing agreements with other countries. The situation was not always like this: between 1987 and 2003, fishing produce exported fell from 17 percent to 0.5 percent of the total value of the country's exports. More recently in 2006, government revenue from fishing licenses and from compensations fell from US\$19.1 million in 2003 to US\$14.4 million. Even so, together with the budgetary revenue, it represents at least a third of the government's total revenue.

Fisheries Institutions, Sector Fisheries Policies, and Resource Management

10.11 The Ministry of Fisheries (MoF) is responsible for administering the sector. In the MoF are the following bodies: (i) The General Directorate for Industrial Fisheries (DGPI), responsible for licensing foreign industrial vessels, accompanying the fishing agreements, maintaining and managing an inclusive data base on fishing licenses; (ii) The General Directorate for Artisanal Fisheries (DGPA), responsible for coordinating projects to develop artisanal fisheries, in the

framework of applying the artisanal fisheries development policy; (iii) The Fisheries Center of Applied Research (CIPA), responsible for assessing and monitoring fishing resources and, recently, indicated as responsible to create a Fish Inspection Service; (iv) Inspection and Control of Fishing Activities (FISCAP), responsible for the coordination and implementation of activities to protect fisheries, with six bases or stations along the coast which are being built or rehabilitated, three naval vessels for coastal patrols (1x20m and 2x15m), managed by the Navy, four rigid inflatable boats (RIBs of 12m). With donor support, new boats are being acquired.

10.12 There are also at least two fishermen's organizations that are represented in Bissau: the National Association of Fishing Entrepreneurs (ANEP) and the National Association of Artisanal Fishing Boat-owners (ANAPA).

10.13 Annual management plans were established by the Government in 1995 and 1996 which set total allowable catches (TACs) for the main commercial species and indicated ways of improving control of off-shore fishing activities. In 1997, a Master Plan for Industrial Fisheries was produced and is still in force, although its implementation was not effective given the instability which the country experienced in the late 1990s, and which has lasted to the present.

10.14 The current legal and regulatory framework for the sector dates from 1986, when the first Fisheries Law was passed (Decree-Law 2/86) which was slightly modified in 1994 and revised in 2001. The 1986 regulations should have been replaced by new regulations arising from the 1994 Fisheries Law, but it has continued to be used (art. 70) under the argument that it was not expressly revoked by the new law. In 2005, the EC sponsored a study of the legal framework, which recommended an overall revision and an updating of the law and its respective regulations.

10.15 Several fishing management measures have been taken in Guinea-Bissau. A more general one concerns the division of the Exclusive Economic Zone (EEZ): the area within 12 nautical miles from the coast baseline is reserved for artisanal fishing, although with some restrictions because of protected areas, and the area beyond 12 nautical miles is the only one which industrial fleets can access.

10.16 Despite proposals submitted in 1996 for the establishment of total allowable catches and effort (TAE), these limits have not been confirmed officially and are now probably outdated owing to pressure on resources arising from the use of increasingly sophisticated fishing gear (e.g. electronic fishing aids). There are also mesh limitations for different types of fishing licenses, but sometimes fisheries agreements contradict existing legislation. There are restrictions to prevent mesh obstruction by fishing gear, and also on the size and weight of fishing nets, protection of species such as mammals, turtles and seabirds, and in fisheries agreements, regarding the imposition of the use of devices for by-catch exclusion.

10.17 Surveillance of fishing activities has seen significant efforts towards its strengthening. Following problems with the MCS system at the end of the 1990s, naval and air patrols were carried out by both CSRP and Guinea Bissau's neighboring countries. A strategy for MCS activities was designed in 2006 covering the short and medium term. The plan foresees, in the short term, the acquisition and rehabilitation of naval vessels and chartering of neighboring countries vessels for patrolling both inside 12 nautical miles and at high sea, and the installation

and equipping of FISCAP as well as training of its staff. It is estimated that these resources represent an annual charge of around US\$1.4 million. In the long term, starting at the same time as short term actions, the plan foresees: first, the rehabilitation of facilities and establishment of a surveillance and institutional framework; in a second phase, the creation of decentralized MCS databases and the purchase of additional operational resources, improvement of the regional program of observers and improvement of information systems useful for the MCS and, finally, in a third phase, the installation of a VMS, a reduction in the number of patrolling missions and optimization of operations in general and the evaluation of decentralization results.

10.18 These efforts for the development of the MCS system have produced some significant results, expressed in the number of vessels detected fishing illegally in 2006 (40 of 99 industrial fishing vessels of the 260 that were detained and 132 artisanal fishing boats) and the fact that 13 percent of industrial ships and 39 percent of artisanal vessels were allowed to fish in Guinea-Bissau's EEZ, and the more frequent detection in the industrial fishing area was due to breach of limits on by-catch by industrial fishing vessels.

10.19 The development of artisanal fishing activities in Guinea-Bissau is totally outside government's control. There is very little enforcement, the estimated level of non-licensed vessels in the fishery exceeds 90 percent, and knowledge about the status and trends of stock is heavily based on subjective evidence. In such a context, it is very difficult or even impossible to make management decisions on fishing or prepare a functional working plan for its management.

10.20 The importance of routine collection of information cannot be overemphasized. However, data collection is difficult in complex geographical situations such as that of Guinea-Bissau, with a highly indented coast, a large archipelago of islands and a diverse ethnic range of fishermen (with 15 identified ethnic groups), using many different techniques, often beyond the means and technical capacity of national authorities. The FAO has developed a monitoring approach and a software for artisanal fishing that can deal with many difficulties and find solutions for the monitoring of artisanal fishing for almost all coastal situations and limited institutional contexts. The software package is known as ArtFish, and member countries can request support for the development of a system suitable to their specific context. It has been field-tested in a variety of artisanal fishery environments and is a reasonable approach to a situation where there is virtually no data collection on artisanal fisheries. It is recommended that Guinea-Bissau explore this possibility and, pending a positive assessment, implement the system.

Fishing Agreements

10.21 Europe is the main actor, as well as the preferred market for demersal fish, cephalopods and shrimps, and China for demersal fish and shrimps, while African countries' consumption centers on small pelagic fish and salted/dried produce. Each market has its business rules. Exports to African countries, essentially Guinea-Conakry, Senegal, Sierra Leone, Liberia and Ghana, follow the framework of bilateral trade agreements under the Economic Community of West Africa States (ECOWSA). Exports to Europe are set under the framework of the Cotonou agreement while exports to China are placed under bilateral China/Guinea-Bissau agreements.

10.22 The country has no national fleet. The state relies on foreign fleets for the exploitation of its sea resources through the granting of individual fishing licenses or in the context of fisheries

agreements in exchange for financial or other compensation. The European Union and Guinea-Bissau have been linked since 1980 by a framework agreement that has been the subject of ten successive protocols. The latest protocol was completed in June 2007 covering a period of four years, i.e. until June 2011, including an annual financial compensation in the order of €7.5 million. But this figure has declined from a previous level €10.2 million. Opportunities offered by the fisheries agreement have not been fully exploited by European ships, which has caused a loss of revenue. Despite this, both parties have made a positive assessment of the agreement.

10.23 The agreement with China National Fisheries Corporation (CNFC) dates back to 1984, when the owner started its fishing activities. The protocol currently in force was signed in 2006 for a period of four years and provides for the granting of fishing rights to 14 shrimp-fishing vessels, 6 for cephalopods and 2 fish trawlers. The compensation mechanism agreed takes place predominantly as investment into the Guinea-Bissau fisheries sector (part of which is subject to depreciation through revenue arising from the granting of fishing licenses to Chinese fishing vessels) and the requirement that Chinese ships take on local staff and contribute to supplying the local market with fish. The use of the opportunities offered by this agreement is very high (88-100 percent in terms of gross registered tonnage (GRT) and 100 percent on the number of licenses).

10.24 The agreement with Senegal was signed in 1978. It aimed at regulating the presence in Guinea-Bissau waters of a large number of Senegalese vessels and the formation of a shared fishing zone to be exploited by both nations. However, the first protocol to implement it was only signed in 1995. A protocol was in force in 2006-07 stating that, in addition to the 300 artisanal canoes, 33 Senegalese industrial vessels (6 for shrimp, 6 for cephalopods, 10 for fin-fish trawling, 1 for small pelagics and 10 for tuna, also expressed in GRT).

10.25 The agreement with Cape Verde allows the arrival of 10 industrial tuna vessels (using fishing rods) without compensation.

10.26 These agreements, in particular those established with the EU and China, by setting out limits on the annual allowable effort both regarding the number of vessels and GRT, provide greater flexibility to ship owners but represent a risk to the management of the resource, due to the concentration of the fishing effort in certain seasons. Monitoring the catches of these fleets is ineffective at best, causing the loss of revenue. Monitoring on a regional scale could make it easier to solve these difficulties.

Constraints

The major obstacles to the development of fisheries in Guinea-Bissau include the following:

1. Lack of a national fishing fleet as a result of the following factors: (i) high cost of company registration, (ii) high cost for flagging ships, (iii) excessive spending on national registries, (iv) public fees, (v) taxes, (vi) fees and (vii) bank charges.
2. Lack of fast banking services, notarial monopoly and excessive red tape stemming from the legislation in force for the registration of private companies.

3. Very high costs required for fishing vessels' registration and flagging.
4. Lack of protection for the marine environment and shortage of specialists with adequate training and experience.
5. Increase in illegal, unreported and unregulated fishing, a spectrum whose eradication in all coastal countries is urgent.
6. Setting up of illegal encampments of artisanal fishermen in ecologically sensitive areas and abusive and uncontrolled felling of mangroves.
7. Insufficient scientific research, training and participation of public and coastal communities in sustainable conservation and management of seas, rivers, waterways and coastal areas in general.
8. Lack of statistical data on catch levels and marketing of fisheries products.
9. Lack of essential infrastructure both for unloading fish and its supply to inland markets.
10. Lack of a fishing port and port-related services.
11. Lack of ramps to unload produce from artisanal fisheries in hygienic and sanitary conditions in accordance with commonly accepted standards and fish-conditioning structures: cold storage rooms, ice plants and storage silos in major locations.
12. Lack of efficient networks for nationwide fish marketing.
13. Lack of means of transportation (land and sea) suitable for evacuation of fishery products from production places to the main urban centres, i.e., national markets.
14. Small number of commercial banks in the country and their focus concentration on short-term financing.
15. Lack of medium- or long-term credit and other types of credit utilised to finance working capital and export activities.
16. Low capacity for industrial projects' analysis by banks, especially those pertaining to the fisheries sector.
17. High level of collateral required to contract loans and entrepreneurs' difficulties to provide real guarantees.
18. Lack of an organized entrepreneurial class.

Conditions required to improve current sector performance

1. Improving local knowledge of marine resources: (i) Regular access to key reserves, (ii) monitor catches and fishing effort, (iii) performing fisheries surveillance and judicial systems, (iv) vessel- and equipment-monitoring system; (v) effective legal system and (vi) legal reforms.
2. Artisanal fisheries management and its development: (i) supporting framework (extension, training and co-management), (ii) micro-credit in coastal regions and islands, co-management support for legal reforms, and (iii) ensure an effective supply of materials and fishing gear, to gradually abolish the current practice of influencing prices of fish products.
3. Improving management and expanding protected marine areas: (i) establishing sustainable fishing and management of protected marine areas, (ii) establishing a small community for management of AMP's.
4. Obtaining strategic and legal assistance in the renegotiation of fishing agreements.
5. Developing policy governing the granting of license and procedures based on the annual plan for resource management.
6. Improving quality control of fishing products: (i) improving the existing infrastructure, the creation of a laboratory for quality control and introduction of a regulatory framework of HACCP (ii) creating a sustainable fund and train laboratory technicians, (iii) appointing infrastructure inspectors for joint processing with the laboratory for the certification of fishing products for export, and (iv) obtaining EU certificate.
7. Preparing and implementing a strategy for the fish market and fish products' distribution in Guinea-Bissau local markets.
8. Create and implement an annual plan for the management of fishing resources based on an evaluation of stocks (reserves) and catch data, set annual TACs for species of high commercial value and launching of some required, adoption of entry restrictions, and carrying out of investment.
9. Decentralizing monitoring, control and surveillance activities within the EEZ under national jurisdiction.
10. Entering of partnership agreements with the aim of involving/engaging major stakeholders to promote their activities geared to the fisheries sector concerning the monitoring, control and surveillance of Guinea Bissau maritime waters.
11. Construction of a fishing port in Guinea-Bissau and other infrastructure essential to the operations of landing and marketing of fishing products.

12. Setting up funds to foster the private sector and a legal framework regulating private operators' activities.
13. Reducing taxes arising from the operation of fishing vessels, and port charges;
14. Streamlining public investment bureaucracy;
15. Improving sector management through: (i) a streamlining of customs and port fees, (ii) efficiency and effectiveness of utilities for the supply of fuel, electricity and water, and (iii) revision of labour laws;
16. Setting up viable onshore processing industry for the private sector.
17. Encouraging foreign investment in existing centres;
18. Gradually increasing control on local and foreign fleets;
19. Using foreign fleets to achieve objectives set out under the proposed strategy;
20. Promoting foreign investment onshore: foreign investment coupled with a more intensive involvement of foreign partners in land infrastructure will enable a better catch control and curtail illegal activities;
21. Creating an enabling environment for investment in the sector: (1) adoption of regulations and laws, (ii) improvement of performance by customs and banking sector, and (iii) improve port services,
22. Health certification of fish products;
23. Fisheries Management Plan to achieve a level of sustainable exploitation of fisheries resources;
24. Setting of ceilings on the number of licenses issued by Government;
25. Significant improvement of fisheries monitoring, control and surveillance;
26. Using the rate of license fees and priority of access to resources according to the degree of onshore integration;
27. License fees for vessels whose owners have no investment in land has to be higher;
28. License fees to entrepreneurs and ships integrated into the national economy should be reduced in the near future;
29. Construction of fishing port;

30. Construction of ramps and cold storage in major locations for the unloading and marketing of fishing products, thus creating facilities for inland produce unloading and conservation, and the supply of fuels and lubricants;
31. Setting up of ship repair yards, mechanic shops and stocks of spare parts;
32. Networking for marketing of artisanal fishing products;
33. Deployment in different localities throughout the country of conditioning structures: cold storage chambers, ice plants and respective storage units;
34. Purchase of (land and sea) means of transportation suitable for evacuation of fishing products to major urban centres;
35. Construction of warehouses for sale in locations with the highest concentration rates of consumers;
36. Training of traders geared for the fishing sector;
37. Setting up of a Support and Guarantee Fund for private investment in fisheries, and strengthening of domestic entrepreneurs' technical and organizational capacity;
38. Setting up of new marketing networks and improve existing ones, particularly as regards hygiene conditions;
39. Improving the fish collection and transportation chain;
40. Reducing post-catch losses;
41. Improving existing knowledge on the use of improved techniques for fish storage and transportation.

Key Measures

1. Increase national control of fishing activities and other activities related to integration of the fisheries sector into the national economy and the processing of fishing products onshore and their marketing;
2. Ship owners' requirement to give priority to the employment of local labour, i.e., Guinean crews;
3. Greater rigor in tax collection and its channeling to the Treasury;
4. Purchase of food, water, materials, fuel, and others by ship owners in Guinea-Bissau;

5. Processing of fishing products onshore and/or transshipment, catch storage and export from Guinean ports;
6. Increase the protection of fisheries resources, and launch a fishing surveillance program aiming at: a) reducing illegal fishing; b) strict catch monitoring;
7. Introduction of the annual fishing resources management plan;
8. Gradually change the principle of selling licenses according to GRT toward a distribution of resources seconds as per TAC (volumes of authorized species and areas of fishing allowed);
9. Applied Fishing Research: An initial assessment of the status of the most commercially important stocks followed by a continuous monitoring supported by bilateral and regional projects and benefiting also from technical assistance;
10. Encourage the commercial nature of fishing agreements established for the purpose of securing a balance between: (i) catch value, and (ii) the price of licenses or rights of access to fishing resources;
11. Make recourse to foreign partners to enlist their help or collaboration in the control and monitoring of fishing activities at sea;
12. Resources of high commercial value (shrimp, demersal) earmarked only for ships permanently based in Guinea-Bissau.
13. Enhance the monitoring and licensing of tuna vessels incorporating elements of regional collaboration/control.

Sector Priorities

1. Setting up of infrastructure that will facilitate the emergence of a national fleet;
2. Capacity building and improvement of monitoring, control and surveillance of fishing activities within EEZs under national jurisdiction;
3. Promotion of partnership initiatives with the private sector;
4. Steps to define the authority responsible for quality control and certification of fishing products for the domestic market and export;
5. Institutional reorganization of Bolama Fisheries Training Centre.

B. STRATEGY FOR FISHERIES DEVELOPMENT

Strategic Objective of Fisheries Development

10.27 The fisheries sector is a key element of the country's general development efforts, providing a major contribution to fiscal revenue and foreign exchange as well as being important to the national strategy for the struggle against poverty and for the country's food security. Increasing these contributions is the immediate objective of fisheries development. The total potential catch is estimated to be at least 215,000 MT corresponding to a total value of US\$121 million. With value added on land and additional services of 33 percent and 25 percent, respectively, the potential gross value of the fishing produce should be around US\$191 million⁷⁹. Under this scenario, it is estimated that government revenue could reach US\$19 million from taxes and licensing fees and US\$9.5 million from compensation and cooperation – twice the amount obtained in 2006 (see Appendix 3).

10.28 The sector objective is contained in the Program of the Government to 2008 and in the National Strategy Document for Poverty Reduction 2006-08 (DENARP 2006-08). The strategic objective can be formulated as follows: *Economically and environmentally sustainable exploitation of the marine resources achieved, that contributes increasingly to the development of the national economy and well-being.*

Essential Aspects of the Industrial Fisheries Development Strategy

10.29 There is a consensus that the current model of fisheries development is exhausted. If it continues as it has done to date, the current regime of fisheries exploitation will not provide the financial resources desired, will generate few benefits for the private sector, and will inevitably lead to the degradation of the resource base. Thus, it is not the basis for lasting development and will not lead to the above objectives of national, and particularly sector, development. It is time for a change in fisheries policy because the benefits gathered are declining, and there is no expectation that it will be possible to reverse this trend. There are no optimistic expectations for renegotiating the fishing agreements, because the main partners intend to reduce the amount of compensation and the number of ships with fishing rights in waters under Guinean jurisdiction, supposedly because fishing is not providing as favorable results as in the past.

10.30 Thus, it is appropriate for Guinea-Bissau to consider a development strategy that incorporates into the national economy this offshore economy created by the sale of fishing licenses. As the long-term vision outlined in Appendix 3 is not feasible immediately, it is important to agree on a medium-term strategy, which enjoys broad national consensus among the main stakeholders in the sector.

10.31 **A medium term plan.** One can start reforms in the sector that place it on the path for long-term development based on a growing integration of the current offshore fishing economy into the national economy. Such a change could result in the following medium term effects:

⁷⁹ In *Diagnosis and emergency restructuring plan to enhance the domestic benefits of the fishing sector and its integration in the world economy*. Joint FAO/WB Fisheries Sector Memorandum 2003.

- A fisheries administration structured according to its essential functions, present throughout the country, dedicated to creating a regulatory framework and business environment conducive to the development of industrial fishing, commercial fishing and other activities complementary to fishing;
- A fisheries management system whose decisions are increasingly based on a sound knowledge of the status of exploitation of fisheries resources and the economic and social conditions surrounding fisheries;
- A fish inspection service recognized as the competent authority for certification of fishing products;
- Infrastructure set up and operating regularly in Bissau, supporting the integration of commercial industrial and artisanal fleets into the national economy;
- Some ship owners are settled or being settled in the country, not only as a base for fishing operations but also for processing and export of fishing products, provision of technical assistance and supply, etc., in partnership or not with national ship owners;
- New forms of benefits, in principle more stable ones, would arise from such a change through increased tax revenues (or export and import duties, taxes on profits, etc.) and the induction of complementary fishing activities, both upstream (port services, storage and marketing of inputs, catering, etc.) and downstream (mainly, fish processing, conservation of fishing products and export). In addition, these fleets' recruitment of a larger number of national workers would lead to a significant social and economic

10.32 Despite these obvious advantages, such a strategy also carries some risks. The most important of these risks is a temporary decline, but rather more accentuated, of revenues generated by fishing agreements (compensation and fishing licenses) and fines for poaching and violations of the terms of fishing licenses (these are done on a random basis, anyway). It may also happen that the new strategy takes time before its advantages become visible since the accounting of benefits is much more scattered and therefore will generate some internal scepticism. Finally, these facts may cause some political misunderstandings, triggering opposition and even external pressures resulting from adjustments in fishing agreements and licensing arrangements.

10.33 Given that these changes cannot occur immediately, it is important to consider a phased strategy. In the case of the industrial fisheries priority actions essential for undertaking a change in this sub-sector are:

- In the short term (Years 1-3): Improved control and surveillance of fishing operations in order to bring the fleets that are fishing illegally to the negotiating table, increasing fiscal revenues and reassuring those who are paying that is worthwhile to keep operating;
- In the medium to long term: Fisheries infrastructures and support services can be finalized and available, a favorable environment established for private investment, a fish inspection system set up and foreign industrial and small scale fishing activities negotiated and gradually integrated into the national economy, preferentially through setting up joint ventures between foreigners and nationals owners.

A medium-term strategic plan

10.34 A medium-term strategic plan has recently been developed and validated, with financial and technical support from the FAO and the World Bank. The sector development objective is formulated as follows:

Increased contribution of the Fisheries sector to the development of the national economy and well-being based on economically and environmentally sustainable exploitation of its marine fishing resources, consisting of:

(i) A fisheries administration committed to the definition of development policies and strategies, the regulation of the sector, the promotion of an environment favorable to investment and arbitration;

(ii) The current offshore fishing economy (industrial and commercial artisanal fisheries), created through the fishing license regime, gradually integrated into the national economy; and

(iii) Strengthened contribution of artisanal fisheries to the country's social and economic development, through increasing the well-being of the population dependent on artisanal fisheries, and greater participation in food security, in the framework of respect for environmental durability.

10.35 A substantial part of the Fisheries development effort has been financed by bilateral and multilateral international development cooperation agencies. Maintaining or, if possible, increasing this support is crucial for the take-off and implementation of the proposed strategy. It is, however, unlikely that the total funding required for the development of the sector will come from international assistance. It is thus very important that the sector clearly determines the priorities and appropriate phasing arising from the strategy and tries to identify domestic financial resources to cover the running costs of the fisheries administration.

10.36 It would facilitate this objective if an arrangement analogous to what is already in effect (management fund) were established to cover the running costs of the fisheries public administration. To this end, a pre-determined percentage of the revenue of the public administration originating from the industrial and artisanal licenses, quality certification of fishing produce etc. could be allocated. This sum should not exceed a pre-determined percentage of the total value of the catches (e.g. 5 percent), a measure that would contain the size of the sector administration.

10.37 A long-term strategy should be based on reassessing the situation arising from the medium term sector plan. It is expected that, after implementation of these interim objectives, the development of the fisheries sector will be able to show a growing inclusion of the foreign fleets into the national economy through the use of Guinea-Bissau as a base of operations, and it is eventually hoped that this will result in the creation of companies under Guinea law (joint ventures or not) and the recruitment of crew members, supplies, and participation of national private partners. The precision of the later strategy and the design of a long-term development

plan (or master plan) should be based on this assessment of the situation in the sector. The new strategy and the respective medium term plan should be validated at a National Fisheries Conference.

Appendix 3: A Fisheries Success Scenario and Project Proposals

| Catch/ Scenario indicator | Catch | US\$/tonne | Potential Value (\$'000) |
|--|---------|------------|--------------------------|
| Shrimp | 5,000 | 7,500 | 37,500 |
| Lobster | 200 | 12,000 | 2,400 |
| Crabs | 500 | 3,000 | 1,500 |
| Cephalopods | 5,000 | 3,000 | 15,000 |
| Sciaenids | 45,000 | 350 | 15,750 |
| Sparids | 5,000 | 1,000 | 5,000 |
| Demersal fish | 20,000 | 800 | 16,000 |
| Coastal small pelagic | 100,000 | 150 | 15,000 |
| Coastal large pelagic | 10,000 | 500 | 5,000 |
| Tuna | 5,000 | 1,200 | 6,000 |
| Other species | 20,000 | 100 | 2,000 |
| Landed value | | | 121,150 |
| Value added onshore (+33% assumed) | | | 39,980 |
| Additional services (+25% assumed) | | | 30,288 |
| Gross potential value | | | 191,417 |
| Government revenues (taxes and licence fees) - 10% | | | 19,142 |
| Government revenues (EU subsidies and aid) +5% | | | 9,500 |

Source: *Diagnosis and emergency restructuring plan to enhance the domestic benefits of the fishing sector and its integration in the world economy*. Joint FAO/World Bank Fisheries Sector Memorandum. 2003.

Program 1: Development of the Institutional Capacity of the Fisheries Public Administration

| | |
|--|--|
| <p>Objective of the Guinea-Bissau Fisheries Strategic Plan (Medium term) and target group</p> | <p><i>Increased contribution of the Fisheries sector to the development of the national economy and well-being based on economically and environmentally sustainable exploitation of its marine fishing resources.</i></p> <p>The <i>target group</i> consists of the population of Guinea-Bissau, which is expected to benefit directly from job opportunities and from an improved supply of fishing produce and, indirectly, from a greater economic contribution of the sector to the general improvement of the country's economic and social conditions.</p> |
| <p>Objective of the Program and target group</p> | <p><i>A fisheries administration committed to the definition of development policies and strategies, the regulation of the sector, the promotion of an environment favorable to investment and arbitration.</i></p> <p>The <i>target group at the level of the program</i> consists of the Fisheries administration staff, particularly the technical staff and leaders, in that strengthening their technical and management capacities will result in greater development of the sector.</p> |
| <p>Projects that comprise the Program</p> | <p><u>Project 1.1:</u> Restructuring of the fisheries public administration (covers the functional analysis and the development of human resources); <u>Project 1.2:</u> Institutional support for the Ministry of Fisheries (covers the capacity for formulating policies and studies; drafting of fisheries legislation; strengthening international cooperation; strengthening planning; improving the fisheries information system); study n the integration of the fisheries sector into the international economy; <u>Project 1.3:</u> Institutional support for fisheries research; <u>Project 1.4:</u> Institutional support for fisheries administration; <u>Project 1.5:</u> Institutional support for fisheries surveillance; <u>Project 1.6:</u> Creation of a national fish inspection service.</p> <p><u>Project 3.1:</u> Institutional support for promoting the development of artisanal fisheries (included in the component of Development of Artisanal Fisheries/Program 3, covering very specific aspects).</p> |
| <p>Estimate of the value required for the Program</p> | <p>Project 1.1: US\$ 254,500 Project 1.2: 1,691,700 Project 1.3: 7,233,800 Project 1.4: 1,044,000 Project 1.5: n.e. Project 1.6: 1,980,000 Total: US\$ 12,204,000</p> |

Program 2: Development of Industrial Fisheries

| | |
|--|---|
| <p>Objective of the Guinea-Bissau Fisheries Strategic Plan (Medium term) and target group</p> | <p><i>Increased contribution of the Fisheries sector to the development of the national economy and well-being based on economically and environmentally sustainable exploitation of its marine fishing resources.</i></p> <p>The <i>target group</i> consists of the population of Guinea-Bissau, which is expected to benefit directly from job opportunities and from an improved supply of fishing produce and, indirectly, from a greater economic contribution of the sector to the general improvement of the country's economic and social conditions.</p> |
| <p>Objective of the Program and target group</p> | <p><i>The current offshore fishing economy (industrial and commercial artisanal fisheries) created through the fishing license regime gradually integrated into the national economy.</i></p> <p>The <i>target group at the level of the development of industrial fisheries</i> consists of the industrial ship-owners, including the Guinean ones who wish to participate in exploiting the fishing resources in association or not with foreign ship-owners. Other beneficiaries are the Fisheries administration staff involved in the negotiations with the ship-owners.</p> |
| <p>Projects that comprise the Program</p> | <p><u>Project 2.1</u>: Creation of fishing infrastructures to support industrial fishing fleets (and artisanal commercial boats);</p> <p><u>Project 2.2</u>: Support for negotiations to integrate the foreign ship-owners, processing and other activities that complement fishing activities into the national economy.</p> |
| <p>Estimate of the value required for the Program</p> | <p>Project 2.1: US\$ 8,230,000 Project 2.2: 450,000 Total: US\$ 8,680,000</p> |

Program 3: Development of Artisanal Fisheries

| | |
|--|--|
| <p>Objective of the Guinea-Bissau Fisheries Strategic Plan (Medium term) and target group</p> | <p><i>Increased contribution of the Fisheries sector to the development of the national economy and well-being based on economically and environmentally sustainable exploitation of its marine fishing resources.</i></p> <p>The <i>target group</i> consists of the population of Guinea-Bissau, which is expected to benefit directly from job opportunities and from an improved supply of fishing produce and, indirectly, from a greater economic contribution of the sector to the general improvement of the country's economic and social conditions.</p> |
| <p>Objective of the Program and target group</p> | <p><i>Strengthened contribution of artisanal fisheries for the social and economic development of the country, through increasing the well-being of the population dependent on artisanal fisheries and a greater participation in food security, in the context of respect for environmental durability.</i></p> <p>The <i>target group at the level of the development of artisanal fisheries</i> consists of the artisanal fishermen in general, and other artisanal or small scale producers, integrated into communities that depend mostly or partly on fishing for their subsistence.</p> |
| <p>Projects that comprise the Program</p> | <p><u>Project: 3.1:</u> Institutional support for promoting the development of artisanal fisheries; <u>Project: 3.2:</u> Support for private artisanal activities; <u>Project: 3.3:</u> Creation of structuring poles of development.</p> |
| <p>Estimate of the value required for the Program</p> | <p>Project 3.1: US\$ 2,598,300 Project 3.2: 1,046,000 Project 1.3: 24,855,000 Total: US\$ 28,499,300</p> |

**Annex 1 : Complete Action Matrix
(priority actions are indicated in bold)**

| Objectives | Recommended Actions and Need for Technical Assistance | Implementing Institutions | Existing Donor Support | Time Frame |
|---|---|---------------------------------|------------------------|------------------------------|
| Macroeconomy | | | | |
| Establish permanent policy analysis capacity | Create permanent policy analysis structure to report to Council of Ministers with analysis of regulatory, legal and policy reforms. | MF; MEPIR. | | Immediate |
| Prepare for Management of Mineral Revenue | Educate economic managers regarding the potential problems associated with large inflows of mineral receipts. Donors can assist through seminars and study trips to other African nations suffering from Dutch Disease and Resource Curse problems | MF; MEPIR; MERN | | Immediate |
| | Study and implement policies to comply with EITI; donor assistance could include funding of seminars and training in implementation of EITI recommendations | MF; MEPIR | | Immediate |
| Creating a Favorable Business Environment | | | | |
| Facilitate the creation of enterprises and jobs by simplifying systems of registration and licensing | Guarantee the effective implementation of orders of the Ministry of Justice, principally those which refer to the adoption of measures which permit documents and to be notarized and corporations to be officially registered. Donors can assist by supporting reforms to permit implementation of OHADA | MJ; SN; CRPA; TC | | Ongoing/short to medium term |
| | The steps required to officially register corporations need to be harmonized with the existing legal code. | MJ; FDB; OAGB; CCIA; COHADA; | | Immediate |
| | Guarantee the implementation of the new Code for notarial services | MJ; SN | | As soon as possible |
| | Coordinate the procedures for licensing in order to avoid duplication of efforts among the various branches of the Public Administration | MJ; TC; MCTA; CCIA; MEPIR; CMB; | | As soon as possible |
| | Finish the process of harmonization with the African Union, creating a Commercial Register and Investment Loans. Reform commercial registry deriving from <i>Conservatória do Registo Predial, Comercial e Automóvel de Bissau</i> of MJ and <i>Serviços de Registo de Comerciantes</i> of the MCTA | MJ; TC; MCTA; CCIA; MCPP | | As soon as possible |
| | Reinforce the capacity of the services which deal with the process of licensing and registry of enterprises and properties | MJ; TC; SN; COHADA | | Ongoing/short to medium term |
| | Decentralize and/or privatize notarial services as soon as possible | MJ; MF; MEPIR; MCPP; CCIA | | Medium term |
| | Revise taxes and fees with by fixing maximum rates for notarial services | MJ; CCIA; MCPP | | Immediate |
| Create a website for the dissemination of the complete text of laws in force in the country regarding the creation and functioning of enterprises | FDB; MJ; MEPIR; CCIA; DGCI; DGA; COHADA; ICGB; CCIA; MCPP | | Immediate | |

| Objectives | Recommended Actions and Need for Technical Assistance | Implementing Institutions | Existing Donor Support | Time Frame |
|---|---|-------------------------------------|------------------------|----------------------|
| Introduce reforms in the General Labor Law reducing constraints on investments and creation of jobs | Introduce reforms in the requirements for terminating employment for economic reasons in order to reduce investment risks and promote a labor market responsive to market forces | MAPT; MJ; ME; ANP; CCIA; SINDICATOS | | Immediate |
| | Define a legal framework for conflict resolution and mediation of labor disputes outside of the court system | CA; CCIA; MJ; ME | | Medium term |
| Facilitate the process of hiring workers | Eliminate the obligatory filing of all labor contracts with the IGT | MAPT; IGT; CCIA; MCPP | | Immediate |
| Facilitate the creation of enterprises | Eliminate the need to obtain permits for all but specific cases related to public health, protection or management of natural resources | MCTA; MIE; CCIA; MCPP; PRDSP | | Immediate |
| Facilitate international trade | Eliminate the need for prior registration of imports and exports (BRPI and BRPE). | MCTA; ME; MF; DGA; CCIA | | Immediate |
| Facilitate private foreign investment | Adopt the proposed new Investment Code by the Council of Ministers | ME; PRDSP | | Immediate |
| Reduce and/or eliminate the impediments to obtaining, exchanging and using the rights of use of land for collateral | Analyze the prerequisites for obtaining rights for land use in order to identify reforms which, without contradicting the constitution, permit the simplification and acceleration of the process, adopting the principal of gradual and systematic titling of land and the free exchange of use rights without regard to titling | MCPP; MIOPCU; ME; CMB; CER | | Short/Medium term |
| | Adopt legislative reforms and create the necessary institutions to support a free market in the use rights to land | MIOPCU; MADR; CMB; CER; CCIA; MCPP | | Medium term |
| | Create a digital system of national cadastre permitting free access to information, including zoning for some sectors (agriculture, industry, tourism, etc.) | MIOPCU; MADR; CMB, CER | | Medium to long term |
| | Disseminate the legal framework relating to the use of transferrable land use right as collateral | ME; MJ; AB; OAGB; MIOPCU | | Medium term |
| | Create conditions for the rapid implementation of the regulations for the Land Law and the creation of the management and regulatory entities | MIOPCU; MADR; MF; ME; CMB; CER | | Medium to long term |
| | Promote the ongoing training of bureaucrats responsible for the granting of land use rights | MIOPCU; CMB; CER; CF; | | Ongoing |
| Facilitate getting building permits | Adopt and disseminate the new law for urban buildings (Decree N° 8/2006, of June 31) | MIOPCU; CMB; MCPP; CCIA | | As soon as possible |
| Strengthen contract enforcement | Finish the reform of the Civil and Commercial Codes and the legal framework referring to payment of debts and default | Min. Justice; STJ; COHADA; | | Short to medium term |
| | Analyze each procedure relating to the resolution of conflicts caused by debts and contracts in order to identify possibilities for simplification and streamlining of the process | Min. Justice; CSM; STJ | | Short to Medium term |
| | Define performance goals for the justice system, regularly publish reports on cases resolved and waiting periods for completion of legal processes | CSM; Min. Justice; STJ | | Medium term |
| | Strengthen the training of all members of the judicial branch who deal with commercial cases, including training for managers as well as for technical staff | CSM; STJ; Min. Justice | | Ongoing |
| | Identify administrative responsibilities related to the completion of contracts that can be dealt with by private sector managers | CSM; STJ; Min. Justice; MCPP | | Medium term |

| Objectives | Recommended Actions and Need for Technical Assistance | Implementing Institutions | Existing Donor Support | Time Frame |
|---|--|---|------------------------|-------------------|
| | Create conditions for the reinforcement of the institutional capacity permitting the effective functioning of the commercial court | Min. Justice; CSM; STJ | | Short term |
| | Create a training program for judges in the new Tribunal de Comércio | Min. Justice; CSM; STJ; COHADA | | Ongoing |
| | Reinforce the institutional and technical capacity of the Center for Conflict Resolution and Mediation | CCIA; Min. Justice; MEPIR | | Ongoing |
| Improve governance and reduce corruption in order to diminish barriers to investment and reduce the costs of doing business | Create training programs for all departments dealing with aspects which have an important effect on the business climate | MCPP | | Medium term |
| | Broaden programs for control of corruption to include behavioral codes, educational programs, public information campaigns, improved salary scales | ALCC; IGF; TC; MCPP | | Immediate/ongoing |
| | Reduce the opportunities for corruption through the following measures: (1) improve public accountability, auditing and presentation of accounts (2) elimination of unnecessary requirements, inspections and controls | MJ; MEPIR; MCPP; CCIA; ALCC; IGF; TC | | Immediate/ongoing |
| Develop a competition policy | Create conditions for the implementation of the UEMOA Competition Law | MCTA; UEMOA | | Medium term |
| | Improve competition and efficiency by removing barriers that impede the creation of new enterprises | MJ; MEPIR; CCIA; MCPP | | Short term |
| Fiscal System | | | | |
| Prevent existing problems in the fiscal system | Make laws, regulations and procedures more transparent as well as making the fiscal burden more adequate to the economic reality of the country | MF; MEPIR; DGCI; CCIA | | Ongoing |
| | Review all aspects of the fiscal system in order to simplify the bureaucratic requirements and minimize the discretionary power of the bureaucracy in MF | CCIA; | | Ongoing |
| | Create conditions for transition from the current IGV to a true value added tax (IVS) in line with commitments to the UEMOA | AFRITAC; UEMOA | | Medium term |
| | Evaluate options for the creation of alternative mechanisms for conflict resolution | MF, MEPIR, MJ; C. Conflict Resolution; CCIA | | Short term |
| | Strengthen training of fiscal system bureaucrats | MF, MEPIR | | Ongoing |
| | Include fiscal policy and administration in public-private dialogue | MCPP | | Ongoing |
| | Develop simpler forms and procedures for reimbursement of the IVA and ACI | MF; DGCI; DGA; CCIA | | Medium term |
| | Create conditions at the level of Management of large enterprises for the implementation of a new <i>Sistema de Gestão do novo Crédito ao Imposto</i> , to operate under the new Investment Code | MEPIR; MF; DGCI | | Short/Medium term |
| | Creation of an initial framework and information and awareness effort to promote adherence by taxpayers to the fiscal system | MF; DGCI; DGA | | Short term |
| | Perform an audit and diagnostic for restructuring of the DGCI. | AFRITAC/FMI; FIAS/BM; | | Immediate |
| | Training and assistance in the area of SYSCOA for both fiscal inspectors and the private sector | IFC; UEMOA; DGCI; CCIA; UCGB | | Immediate |
| | Technical assistance for the management of large enterprises | AFRITAC; UEMOA | | Short term |

| Objectives | Recommended Actions and Need for Technical Assistance | Implementing Institutions | Existing Donor Support | Time Frame |
|---|--|---------------------------|------------------------|---|
| Finance | | | | |
| Improve Depth of Financial System and its Capacity to Lend to Agriculture and Other Productive Sectors | Scale up training program to provide courses in SYSCOA accounting procedures and project evaluation | MF, MEPIR | IFC training program | Medium/Long term |
| | Introduce integrated credit and debt information system | MF, MEPIR | | |
| | Reinforce CADESPC to increase capacity to evaluate MFI applications | MF, MEPIR | | |
| | Reinforce capacity of MFI's to install adequate accounting and management procedures | MF, MEPIR | | |
| | Review and update MFI legislation | MF, MEPIR | | |
| | Introduce new MFI instruments on pilot basis | MF, MEPIR | | |
| Eliminate Obstacles to Term Finance | Reduce fees for revaluation of corporate balance sheets necessitated by accession to CFAF zone | MF, MEPIR | | Short term |
| | Reduce high cost of registering assets as collateral | MF, MEPIR | | |
| Leverage private sector investment funds by reducing risks | Establish partial credit guarantee fund with proceeds from cashew tax | CCIA | | |
| Telecommunications | | | | |
| Introduce more reforms to avoid the Government having the role of both player and referee in the sector | Introduce reforms to promote greater competition in telecommunications | SETC; MEPIR; ICGB | | Short term Ongoing Immediate Ongoing Short term |
| | Ensure that the ARN is as independent as possible of both the government and private sector operators in its role as regulator of the sector | SETC; ICGB | | |
| | Ensure that ARN is technically and professionally capable of exercising its functions, particularly at the level of economic regulation | ICGB | | |
| | Support continuous training of all agents in the sector in knowledge of current laws and regulations | ICGB | | |
| | Sell the government's share of Guiné-Telecom and Guinetel | SETC; MEPIR; ICGB; CCIA | | |
| | Participate actively in regional initiatives through a permanent national institution created for this purpose | SETC | | |
| | Eliminate the discriminatory fiscal practices related to fiscal incentives for particular enterprises | MF; MEPIR; SETC; ICGB; | | |
| Energy | | | | |
| Create conditions for private sector participation in managing and developing infrastructure in this | Reorganize legal and institutional framework of the sector to clarify and define the functions of the various partners | MERN; PMRI | | Short/Medium |
| | Review taxes on petroleum products | MF, MEPIR, MERN | | |
| | Create new regulations and rate policies to permit private operators to | MF, MEPIR, MERN; | | |

| Objectives | Recommended Actions and Need for Technical Assistance | Implementing Institutions | Existing Donor Support | Time Frame |
|--|--|-------------------------------------|------------------------|--------------------|
| sector | recoup their investments and improve the quality of service | PMRI; EAGB | | term |
| | Perform an in-depth study of electricity demand and willingness to pay | PMRI | | |
| | Study the experience of the use of cashew nut shells for power generation and generate a technical, financial and economic evaluation | PMRI; MEPIR, MERN | | Short term |
| | Create a permanent structure responsible for study of regional initiatives in energy generation (CEDEAO and OMVG) | MERN, PMRI | | Short term/Ongoing |
| | Proceed with evaluation of the possibilities for energy production at Saltinho | MERN | | Short term |
| Transport | | | | |
| Maintain road system | Fully fund Fundo Rodoviario | MIOPCU | | Immediate |
| | Improve Secondary Road network | MIOPCU | | Immediate/Ongoing |
| Improve river / island transport | Develop plan for reestablishing water transport to islands and river ports in south | MIOPCU | | Medium term |
| Rehabilitate Port of Bissau | Perform needed rehabilitation to port approaches, buoys and port itself | SETC | | Highest priority |
| | Reach settlement with previous port operator (TERTIR); identify new private sector partner | APGB | | Immediate |
| Customs and Cross-border trade | | | | |
| Increase the flow of trade between member countries of ECOWAS & WAEMU. | Streamline Customs operations; Assistance to implement and train staff in Sydonia ++ and AYSCUDA is needed | MF/Customs Directorate | | Within a year |
| | Continue to support the creation of joint customs posts to facilitate cooperation and reduce the possibilities for avoidance | CEDEAO; UEMOA | USAID; BM; UE | Short term |
| | Disseminate information on the free movement of persons and goods within the CEDEAO to enable traders and the public in general to improve their ability to deal with police, border guards and customs. | ME; DGIR; CCIA; MCPP | | Ongoing |
| | Training of trainers at the community level (producer association) who engage in cross border trade | ME; DGIR; CCIA; MCPP | IFC | Medium term |
| | Proceed with the work on observing and disseminating information on the illicit costs of doing business via the main trade routes with neighboring countries | CEDEAO; UEMOA; ME; DGIR; CCIA; MCPP | | Ongoing |
| | Improve pay levels for personnel working at frontier posts to eliminate need for bribes; purchase communications equipment | MF; ME | | Immediate |
| | Purchase boat for Fiscal Police to facilitate inspection and regulation | MF, SETC | | |
| | Take political decision to vest authority for port clearance in Customs alone. Other police agencies can be called in as needed. | MF | | |

| Objectives | Recommended Actions and Need for Technical Assistance | Implementing Institutions | Existing Donor Support | Time Frame |
|---|---|----------------------------|------------------------------|--------------------|
| Agriculture | | | | |
| Launch Pilot Research Program in Cashew | Establish ongoing cooperation between INPA and EMBRAPA without delay | INPA, EMBRAPA, CNC | | Immediately |
| Develop Cashew Processing Promotion Project | Consider feasibility of replicating the Mozambican model of decentralized processing facilities coupled with electricity generation | MADR, CNC | | Immediately |
| | Upgrade Phytosanitary and grading capability for cashew production | MADR, CNC | | Short term |
| Expand production in mangrove and irrigated rice perimeters | Establish necessary equipment availability for reconstruction of earth dykes, dams, waterways, etc. | FAO, MADR | | Short term/Ongoing |
| Strengthen research program in Rice | Fund necessary linkages with WARDA and IRRI; fund operations for INPA | MADR, INPA, WARDA, IRRI | | Immediate |
| Reinforce Crop Improvement and Extension | Establish minimum capacity for principal cash and food crops including but not limited to cashew, rice and cassava | INPA, MADR | | |
| Improve Roads to ports/urban markets | Improve secondary roads in principal production areas for rice and cashew | MADR, MIOPCU | EU | Short/Medium term |
| Expand rural credit availability | Promote microfinance institutions in rural areas | MF, MADR | | Medium term |
| Extractive Industries | | | | |
| Improve the investment climate for extractive industries | Revise the 2000 Mining Law with particular emphasis on any areas that are not transparent or potentially ambiguous in their interpretation, including the responsibilities of companies and different levels of government. Ministerial discretion should be avoided. | DGM, MERN | | Immediate |
| | Review the 1982 Hydrocarbon Law in the context of current best practice, including the current need for foreign companies to enter into joint ventures with Petroquin. | MERN, Petroquin | | |
| Maximize long-term fiscal revenues | Review and revise the fiscal structure in mining and petroleum in the context of current international best practice. | MF, MERN | | |
| Increase the local benefits of extractive industries | In the revision of the 2000 Mining Law introduce mandatory benefits (social services, training direct employment, outsourcing) to communities in mining areas, including a tripartite negotiating process for determining the details, the responsibility for delivery, and the sources of funding for such benefits. | DGM, MERN, MF | | Short term |
| | Establish a dispute resolution mechanism that is accessible by and affordable to local community members. | Dept of Justice, DGM, MERN | | |
| | Enter into the EITI++ process, which includes transparency on the amounts of fiscal revenues, their internal distribution, the awarding of contracts, management of price and foreign exchange volatility, and investment in sustainable development. | MERN, MF | Bilateral donors, World Bank | |

| Objectives | Recommended Actions and Need for Technical Assistance | Implementing Institutions | Existing Donor Support | Time Frame |
|--|--|--|------------------------|---|
| | Undertake detailed studies of the impact of large mining operations in Farim (phosphates) and Boe (bauxite) to determine how communities can benefit, including the implications for local and regional governance. | DGM, MERN | | Immediate |
| Reduce negative social and environmental impacts of extractive industries. | Continue to build capacity to undertake and assess EIAs and SIAs. | CAIA, MERN | World Bank | Ongoing |
| | Develop standards on contaminants, beginning with those most relevant for phosphate, bauxite, and petroleum. | CAIA, DGM, MERN | | Short term. |
| | Introduce a system of financial sureties for environmental reclamation by extractive industries. | DGM, MERN, MF | | Short term |
| | Clarify the relationship between national parks and extractive industries. | MNR, DGM, MERN, Petroguin, CAIA | World Bank? | |
| | Introduce processes for monitoring and evaluating the social, environmental and economic impacts of extractive industries, including easy access to sites and transparency of information for NGOs and other civil society groups. | DMG, MERN, MJ | | Immediate |
| | Increase license fees at various stages of mining to be consistent with international practice; transfer in part to DMG and other institutions responsible for monitoring and enforcement of laws and regulations. | DGM, MERN, MF | | Immediate |
| Tourism | | | | |
| Structured approach to tourism development | Tourism plan for the Bijagós, Cantanhez and Varela | Tourism Directorate | | High Priority |
| | Protected area tourism mechanisms in place and mandate formulated | Tourism directorate, IBAP, Ministry of Environment, others | | High Priority, immediate start of process |
| Tourism directorate repositioning | Guidelines and criteria for approval of tourism ventures developed | Tourism Directorate | | High Priority |
| | Introduction of a tourism grading system as part of its promotional mandate | Tourism Directorate | | Medium Term |
| Human Resource Development | Tax incentives for accredited training of staff and for full-time labour agreements to be designed | Tourism Directorate and MF | | Medium Term |
| Tourism product development | Investment portfolio for two islands of the Bijagós as identified in the tourism plan and published/facilitated internationally. | Tourism Directorate with consultants | | Medium term |
| | Bolama Home Owner Scheme project | Tourism Directorate | | Medium term |
| | Bubaque biosphere centre project | Tourism directorate, IBAP, Ministry of Environment, others | | Medium term |
| | Bissau tourism centre housing the Directorate of Tourism, craft market and café | Tourism Directorate | | High priority |
| | Tour operator licence and ferry licence | Tourism Directorate | | High priority |
| | Harbour lounge | Tourism Directorate | | Long Term |
| | Varela Beach Project (licensing of private sector initiatives) | Tourism Directorate | | Medium/Long Term |
| | Cantanhez Ecotourism Project -visitor centre, tour guide services, hides and trail development | Tourism directorate, IBAP, Ministry of Environment, others | | Medium/Long Term |

| Objectives | Recommended Actions and Need for Technical Assistance | Implementing Institutions | Existing Donor Support | Time Frame |
|--|---|--------------------------------------|------------------------|----------------------|
| Make Guinea-Bissau known in markets | Website hosting managed as PPP, image library, promotional publications and | Tourism Directorate | | Immediate |
| Diversified generating markets | Functioning tourism office in Bissau and trade fair participation | Tourism Directorate with consultants | | High priority |
| Improve access to Guinea-Bissau | Simplify visa requirements and allow visa on arrival for EU and US passports | Customs and Immigration | | Short-term |
| Increase sport fishing | PPP for promotion as fishing destination, specialist trade fair participation and dedicated multilingual website | Ministry of Tourism | | Medium term |
| Fisheries | | | | |
| Improve Fisheries Administration | Training for staff of MoF | Min. of Fisheries | | Ongoing |
| | Review policies and studies relating to fisheries; draft and implement updated Fisheries legislation (laws, regulations etc.) | Min. of Fisheries | | Short Term |
| | Fisheries research and monitoring, information and surveillance systems strengthened; | Min. of Fisheries | | Short to Medium Term |
| | The fish inspection service strengthened; | Min. of Fisheries | | Medium to long term |
| Develop Artisanal Fisheries | Improve supporting infrastructure in regional poles | Min. of Fisheries | | Medium to long term |
| | Improve access to credit in rural areas | Min. of Fisheries; Min. Finance | | Medium to long term |
| Develop Industrial Fisheries and integrate offshore fleets into national economy | Establish Infrastructure necessary for industrial fleets- unloading; repair; fuel, etc. | Min. of Fisheries | | Medium to long term |

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