

# Escaping the Low-Growth Trap

## Guinea-Bissau

### Country Economic Memorandum



Macroeconomics, Trade and Investment Global Practice  
AFCFI Country Management Unit  
Africa Region

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## Acronyms

AU	African Union
CEM	Country Economic Memorandum
CIMAN	Business Environment Reform Commission
CPLC	Community of Portuguese Language Countries
CSO	Civil society organization
DSSR	Defense and security sector reforms
ECOMIB	ECOWAS Mission in Guinea-Bissau
ECOWAS	Economic Community of West African States
ESP	Education Strategic Plan for 2017-2025
EU	European Union
FCFA	West African CFA franc
FDI	Foreign direct investment
GEP	Global Economic Prospects
HCI	Human Capital Index
HHS	Harmonized Household Survey
ICT	Information and communications technology
IMF	International Monetary Fund
MICS	Multiple Indicator Cluster Survey
MSE	Micro and small enterprise
NGO	Non-government organization
OHADA	Organization for Harmonization of Business Law in Africa
P5	Group of international partner organizations in Guinea-Bissau (ECOWAS, African Union, UN, Community of Portuguese Language Countries, and the EU)
PAIGC	African Party for the Independence of Guinea and Cabo Verde
PASEC	Program for the Analysis of Education Systems
PER	Public Expenditure Review
RMSPE	Root Mean Square Prediction Error
SCM	Synthetic control method
SDI	Service Delivery Indicator
SSA	Sub-Saharan Africa
UN	United Nations
UNICEF	United Nations Children's Fund
WAEMU	West African Economic and Monetary Union
WDI	World Development Indicators

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## Executive Summary

1. **Guinea-Bissau is a small state in West Africa, with a population of around 1.9 million, and is endowed with rich natural resources.** The country enjoys an advantageous geographical location and is made up of a mainland and a large archipelago (the *Bijagós*) consisting of over 100 islands. It has the highest proportion of natural wealth per capita in West Africa. Its natural capital includes agricultural land, fisheries, forests (timber and non-timber), as well as natural habitats and ecosystems protected in national parks. Its continental shelf is home to rich and diverse fishery resources. Despite this untapped potential, poverty and inequality remain high. Two-thirds of the population live below the international poverty line of US\$1.90 a day and one-third live in extreme poverty, on \$1.25 or less a day. Perennial political instability and the absence of basic institutions have made it one of the poorest and most fragile countries in the world.
2. **This country economic memorandum (CEM) provides an in-depth analysis of Guinea-Bissau's economic performance over the past decade.** It examines what has been driving growth, what is holding it back, and what it takes to accelerate growth. It identifies three key constraints to sustained and inclusive growth: fragility and political instability, weak human capital base, and a 'missing' private sector. It analyzes the main challenges and opportunities in each area and provides options for policy reform. Throughout the CEM, Guinea-Bissau is systematically benchmarked against relevant peers to gain insights into areas where reforms could help promote sustained growth. The present CEM takes stock of developments since the 2015 CEM, while adopting a different approach in terms of content and process. In terms of content, it selectively addresses three areas that are among the key constraints to sustained high and inclusive growth. In terms of process, the preparation of the present CEM followed the Bank's new CEM 2.0 guidelines.

## What does Guinea-Bissau's economy look like?

3. **An undiversified, mono-crop economy.** The structure of the economy has barely changed in the last two decades. It is almost entirely dependent on a single cash crop: cashew. Raw cashew nuts account for 90-98 percent of total export earnings. Agriculture accounts for more than 45 percent of gross domestic product (GDP) and employs 80 percent of the labor force. The bulk of the remaining workforce is employed in informal trade and distribution services. Services represent nearly 40 percent of GDP. Guinea-Bissau's poorly diversified economy makes it highly vulnerable to global shocks and adverse climatic conditions. It has the second least diversified export portfolio in sub-Saharan Africa (SSA). Although it used to be a net exporter of rice, its current rice production meets only a small portion of local demand.
4. **Low and volatile growth.** Guinea-Bissau has experienced several short-lived growth episodes, but high sustained growth remains elusive. The economy has been caught in a low and volatile growth trap for decades, with growth frequently interrupted either by political instability or adverse weather. Real GDP growth averaged 3.3 percent in 2000-2019—lower than the SSA average of 4.5 percent, respectively. When taking into consideration population growth, per capita growth has averaged less than 1 percent per year over the same period. Low and volatile growth has meant that the country's per capita income slightly declined from US\$636 in 1990 to \$622 in 2018, making it among the poorest countries in SSA.
5. **Growth was largely driven by agriculture and services, on the supply side, while investment contributed insignificantly,** on the demand side. Agriculture explains nearly 40 percent of growth in 2010-2018, while services account for a little over 50 percent. On the demand side, private and government consumption were the main growth contributors. Net exports have made a negative contribution, reflecting the country's undiversified export portfolio and vulnerability to adverse terms-of-trade developments.

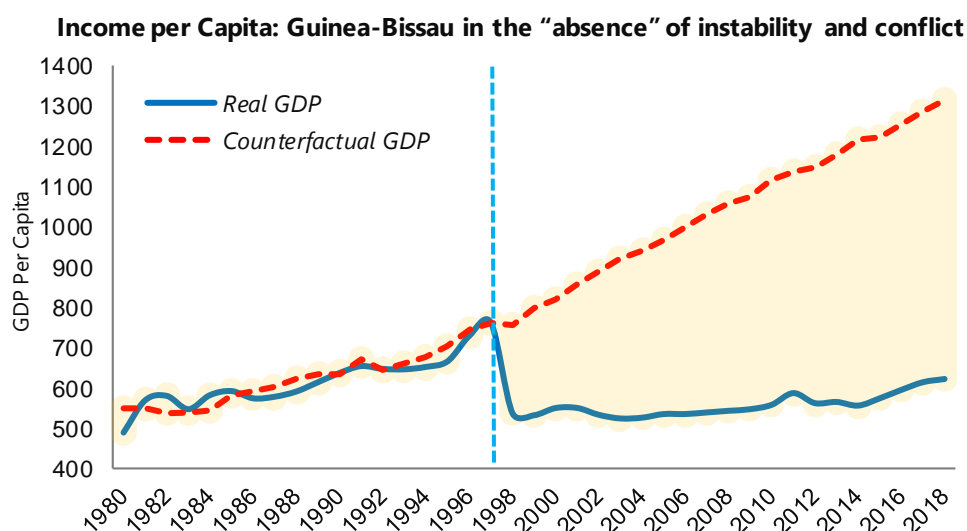
Growth accounting analysis shows that the modest growth was largely due to labor accumulation. Capital accumulation remained minimal, reflecting years of underinvestment in infrastructure and human capital.

### What is holding back inclusive growth?

6. **While political instability is a cross-cutting bottleneck, Guinea-Bissau suffers from a vicious cycle of low investment, low growth, weak public service delivery, and elite capture.** Economic theory provides alternative narratives around long-term drivers of growth. The pioneering work by Solow (1956) emphasized the importance of investment and productivity, while Romer (1990) identified human capital as essential to long-term growth. Building on these theories, Acemoglu and Robinson (2004; 2005) argued that whether or not a nation achieves sustained growth depends on the nature of existing political and economic institutions. Guinea-Bissau is facing critical challenges on all these fronts. First, weak growth performance is linked with political instability and fragility. Second, private investment is low—the second lowest in Africa—partly because of the uncertainty created by political turmoil, which increases the risk aversion of investors, and compounded by the difficult business environment. Third, an acute shortage of skilled workers is a constraint to inclusive growth and private sector development.

### Fragility and chronic political instability

7. **Guinea-Bissau’s real per capita income would have reached about US\$1,300 in 2018—double its current level—in the absence of the 1998 conflict and subsequent political instability.** It has a history of political and institutional fragility dating back to its independence from Portugal. Since independence, the country suffered four successful coups, with another 16 coups attempted, plotted, or alleged. Frequent changes of government maintain a climate of uncertainty. Lack of basic institutions remains a key challenge. The economic impact of political instability has been substantial. Analysis in this report estimates the accumulated economic impact of political instability and conflict between 1998 and 2018 at about US\$ 1.1 billion, nearly the same as the country’s GDP in 2018 (US\$ 1.2 billion).



8. **Weak state institutions and poor public administration are primary sources of fragility.** Institutions are key to development, but the newly independent state inherited weak institutions that remain poorly developed. State structures are either non-existent or not fully developed in many sectors and regions of the country. Guinea-Bissau ranks behind its fragile peers on most of the governance indicators in the *Worldwide Governance Indicator*. Fragile and weak public institutions lend themselves to an environment of weak transparency and accountability in the use of public resources. The country also faces substantial public financial management (PFM) challenges. The weak PFM framework is one of the main areas where lack of good governance is more evident. The overall legal and regulatory framework that governs the budget process is also weak. In addition, government cash resources remain fragmented and scattered across several bank accounts, notably in commercial banks. Strengthening expenditure controls at each phase of the expenditure chain (commitment, payment orders, and payment) would be critical for a transparent PFM.

9. **The deadlock in security sector reform is another source of fragility.** Over 30 percent of all public servants are employed in the security sector, even though Guinea-Bissau does not face significant external threats or active internal conflicts. The country is trying to reform the sector into a professional, republican force or security apparatus, but the retirement and demobilization of military and security personnel entails a huge financial burden.

#### ***A poorly educated and unskilled workforce***

10. **The acute shortage of a skilled workforce is a major constraint to inclusive growth.** Guinea-Bissau has made some progress in expanding basic education. But, as underscored by the 2018 *World Development Report*, schooling is not the same as learning. Like many other countries, Guinea-Bissau faces a learning crisis. The education system is characterized by low completion rates and alarmingly low levels of learning. Guinea-Bissau performs below its fragile peers across a variety of education indicators. A third of children between the ages of 6 and 11 have never attended school. For those children who do attend school, learning outcomes are much lower than in other SSA countries. The education system is also characterized by large gender and regional disparities.

11. **The poor quality of education is partly related to the low quality of the teaching force, low public spending, and weak governance.** There are substantial deficits in existing pre-service training programs. Teachers cannot teach what they do not know themselves. A regional assessment demonstrated that over 95 percent of grade 5 teachers were unable to correctly answer all questions in Portuguese and Mathematics. On average, 70 percent of permanent teachers have a teaching qualification, but this hides regressive regional disparities. For instance, between 30 and 50 percent of teachers in *Bafatá*, *Gabu* and *Oio* regions have no formal qualifications. Clear policies and regulations to govern the sector are lacking. The basic education curriculum is outdated, though efforts are underway to develop and roll-out a new one.

12. **Regular teacher strikes are the main source of disruption in the school year and one of the key drivers of poor-quality education.** For over a decade, teacher strikes have been used as an instrument to claim the payment of salary arrears and push for pay and benefit reforms. In the last five years, at least one-third of the school year has been negatively affected by teacher strikes. Teacher strikes are believed to be one of the key drivers of high student dropout. One of the root causes of the recurrent teacher strikes is political instability. Strikes often happen alongside periods of political instability. An analysis based on Google Trends shows this pattern over the last five years.



## **An almost non-existent private sector**

13. **Guinea-Bissau's weak growth performance coincides with its low level of private investment—at 2 percent of GDP—the second lowest in the world.** At 6.6 percent of GDP, public investment is only slightly lower than the SSA average, although it has been almost entirely financed by development partners. However, private investment is much smaller than the SSA average, at 15.5 percent of GDP, reflecting the uncertain policy and regulatory environment, high cost of doing business, and high political risk. Similarly, foreign direct investment (FDI) inflows compare unfavorably with most peers.

14. **The private sector faces a wide array of constraints.** Guinea-Bissau is among the most difficult places in the world to do business, according to the 2020 Doing Business report, which ranked it 175th (out of 190 countries). Political instability is a major deterrent to investment. In addition, poor and inadequate infrastructure (notably electricity) is a major barrier to private sector-led growth and expanding economic opportunities for households. Despite recent improvements, only 23 percent of the population has access to electricity, with tariffs remaining among the highest in SSA. Moreover, Guinea-Bissau has a complex and outdated regulatory framework, with some of them dating back to the colonial era. Complex and arbitrary import and export procedures constitute another key constraint to private sector development.

15. **Guinea-Bissau's regulatory framework is also characterized by gender inequalities, further constraining women's access to economic opportunities.** Women's participation in the labor market is marked by gender discrimination and informality. According to the Women, Business and the Law (WBL) Index, women enjoy less than half of the legal rights enjoyed by men, hampering their participation in the economy through the workforce and entrepreneurship. Guinea-Bissau has an overall Women, Business and the Law score of 42.5 points, far below the SSA average of 69.9 points and the global average of 75.2 points.

## **How will the COVID-19 crisis affect the economy?**

16. **The COVID-19 crisis will likely exacerbate the constraints outlined above and make it harder to achieve sustained high growth.** First, low commodity prices and subdued external demand could harm the country's growth prospects. Even before the crisis, Guinea-Bissau's export competitiveness was weakening with a rise in global cashew production. Second, lower aid inflows will likely slow down domestic investment as donors themselves are at the epicenter of the crisis. Financing development will require, more than ever, a steadfast commitment to structural reforms to strengthen domestic revenue mobilization and expenditure controls, which is hardly forthcoming in the immediate post-crisis period. Third, the country's nascent private sector has been hard hit by the crisis. Most firms are small and credit-constrained, and they will likely not afloat in the face of a massive crisis such as COVID-19. Fourth, the crisis may have a long-lasting impact on human capital development as the closure of schools could reverse the modest gains made in recent years. Finally, it could worsen the delicate political situation and trigger a social crisis.

17. **The crisis will further reduce learning and human capital accumulation.** All educational institutions have been closed since the third week of March 2020. The pandemic is creating a huge loss of learning time, preventing most school-age children from covering the material set out in this year's curriculum. This disruption to learning is adding to a turbulent academic year already affected by teacher strikes in January 2020. Without recent data on learning outcomes, it is challenging to estimate exactly the amount of learning-adjusted-years lost as a result of the pandemic. The losses in schooling in Guinea-Bissau are roughly estimated to lie somewhere in between those of two neighboring countries (Senegal and Guinea). Based on the announced re-opening of schools in July, losses in expected years of schooling may

range between 0.2-0.5 years. The immediate effects of current school closures due to COVID-19 in 2020 are comparable to the prolonged periods of school closures due teacher strikes that children in public schools already deal with on a regular basis.

18. **Post-COVID-19, it will be important to focus on policies that can stimulate fast recovery and support sustainable growth.** In the short-term, it is key to ensure that the recession has as few permanent impacts on the economy as possible. Higher public spending to support people and firms affected by the crisis, largely financed by external sources, would help prevent a sharper growth contraction by supporting domestic demand. As the government will have little or no fiscal space to finance public investment, it needs to tap into private sector financing. This makes reforms to improve the business climate all the more urgent. Sustainable growth will also require increased investments in human capital and policies to facilitate learning after COVID-19 is over, and to allow people to catch up with the learning missed during school closures. Promoting digital technologies could be one way forward.

### **Reform options for sustained growth**

19. **Sustained and shared economic growth is possible in spite of fragility if improvements are made to governance, public service delivery, and the conditions for private enterprise.** Lessons from elsewhere suggest that sustained growth can occur even in a context of political instability if supported by multi-pronged measures to improve governance and put in place basic institutions, and enhance the business climate to create jobs. Such measures can set in motion a *virtuous* cycle involving private sector-led growth and better governance. The feedback loop between governance and private economic activity operates both ways. A stronger economy can help bolster governance by empowering citizens. Better governance allows the government to carry out policies needed to support the private sector. It also means that the proceeds of growth can be distributed through public services or social assistance programs. Improving the conditions for private enterprise is thus as important as state building. These three areas represent priority areas to allow Guinea-Bissau to escape its persistent, low growth and endemic poverty.

20. **Experience from other fragile states suggests that progress can be made by focusing limited capacity on a realistic number of technically achievable reforms that enjoy clear political support.** However, there has been a tendency in such unstable environments to drive broad and overly ambitious reform agendas without clear priorities that take into account the technical capacities or the political commitment for such reforms. The result is that countries are often overwhelmed by a vast reform agenda, and in their desire to attract funding they often overcommit and underdeliver on an agenda that was not realistic in the first place and commands limited ownership. In addition, there is no standard or prescriptive sequence of reforms, and it is crucial to remain flexible and adjust reforms where there is real traction.

### **Strengthening governance**

- **Strengthen political leadership on public financial management (PFM) reforms,** given the political importance of such reforms. The starting point should be the development of an operational plan for PFM reforms, with clear and measurable indicators to be monitored.
- **Reestablish the Treasury Committee which had helped strengthen expenditure controls in precious years.** In 2017 and early 2018, given the lack of basic PFM systems and institutions, the Treasury Committee (TC) provided some control over cash management and public expenditure.

- **To improve transparency, it is important to make sure that the budget classification is fully in line with WAEMU guidelines.** It is also crucial to update the existing budget classification system to ensure that all employee compensation expenditures are appropriately accounted for.
- **Provide financial and administrative autonomy to the Court of Auditors** (*Tribunal de Contas*).
- **The Inspector General and separate entities** (*Inspecções Gerais*) needs to conduct (and publish) regular audits on government entities.
- **Establish a treasury single account at the Central Bank.** This will require conducting a census of all central government bank accounts and reduce the number of government bank accounts.
- **Secure political support for justice sector reforms from leaders across multiple levels of governance.** Guinea-Bissau may want to implement the Justice Reform Program (2015–2019).
- **Accelerate efforts to demobilize and retire military, police and national guard personnel.** The government could negotiate with the affected personnel to come up with a pragmatic pay-out mechanism and use it to mobilize funding from international partners.

### *Investing in human capital*

- **Build on existing teacher reforms to stabilize the system and reduce teacher strikes.** Implement the policies foreseen by the Teacher Career Reform—including teacher performance assessments and in-service teacher training—not just salary increases. Make better use of technology to speed up administrative procedures and improve monitoring and payment systems.
- **Improve teaching quality to achieve learning for all.** Modernize the basic education curriculum and strengthen in-service teacher training.
- **Prioritize improving literacy and numeracy in the early years of education.** Expand infrastructure and staff in pre-school education to enhance young children’s school readiness.
- **Strengthen governance and planning to improve data for decision making.** Stronger policies are needed for hiring and managing teachers, building schools, and cost control/financing. Data-collection process need to be simplified to provide the basic information needed to implement reforms and annual planning.
- **De-politicize the education system.** This involves making sure that all political actors share a common vision for the future of the education system and can be supported by external partners. A de-politicized system should allow the education system to continue running despite changes of government, and to quickly respond to the persistent learning crisis.

### *Improving the business climate*

- **Relaunch stalled reform and governance initiatives on ease of doing business.** Reinstate and operationalize the Business Environment Reform Commission at the Prime Minister’s Office level.
- **Promote the sustainable formalization of firms.** Pursue a comprehensive program to reduce the burden of procedures and fees, support business owners to access information on markets, and promote mobile financial services to increase financial inclusion.
- **Improve land tenure management.** Enhance legal security and transparency in land tenure management to induce investment. Establish the National Land Commission as a key body to

oversee implementation of the Land Law. Digitize land records and strengthen capacity at the *General Directorate of Geography and Cadastre (GDGC)*, Land Registry and Municipality of Bissau.

- **Address trade facilitation bottlenecks.** Enact recent regulations on streamlined customs procedures. To coordinate trade policy in the medium- to long-term, establish the National Trade Facilitation Committee and consider ratifying the WTO Trade Facilitation Agreement.
- **Strengthen the legislation on gender equality.** Allow women to get a job or pursue a profession in the same way as a man; to ensure equal remuneration for work of equal value; to introduce paid parental and maternity leave; and to prohibit discrimination based on gender in access to credit, registering a business, opening a bank account and owning property.

## Reform options for sustained growth

	Timeline
<b>Chapter 2: Fragility, Governance, and Growth</b>	
<b>To strengthen financial governance</b>	
- Strengthen political leadership on PFM reforms. Develop an operational plan for PFM reforms, with clear and measurable indicators to be monitored.	Short term
- Provide financial and administrative autonomy to the Court of Auditors ( <i>Tribunal de Contas</i> ).	ST- to MT
- The Government needs to regularly prepare annual budgets and submit them for approval by the National Assembly.	ST- to MT
- Consolidate government cash in a treasury single account	Medium-term
- Undertake a comprehensive assessment of extrabudgetary operations.	
- Reestablish the Treasury Committee.	Short term
<b>Chapter 3: Human Capital and Foundational Skills</b>	
<b>Prioritize and increase expenditures.</b>	
- Increase the budget share of non-salary school-level spending to improve learning outcomes	ST- to MT
<b>Teacher reforms to bring stability to the education system</b>	
- Implement the oral and written performance assessment system of teacher and in-service teacher training as described in the Teacher Career Reform	Medium term
- Implement an attendance-monitoring system to reduce absenteeism of teachers	Short term
<b>Transforming education quality to improve learning outcomes</b>	
- Strengthen in-service teacher training including through creating an assessment-based adaptive teaching culture which uses assessments regularly to monitor learning progress.	Medium term
<b>Planning and availability of data for decision-making</b>	
- Develop and validate clear criteria for the expansion of the current system both in terms of infrastructure and new hires.	Short term
- Establish regular standardized learning assessments in order to be able to track progress, or lack thereof, towards achieving competency in basic literacy and numeracy	Medium term
<b>Chapter 4: Private Sector Development</b>	
<b>The business environment</b>	
- Reinstate and operationalize the Business Environment Reform Commission at the Prime-Minister's Office level	Short-Term
- Update the 2019/2020 business environment reform action plan	Short-Term
- Strengthen the role of the CFE one-stop-shop, ensuring its financial sustainability and integrating additional procedures and services	Short-Term
- Review and streamline urban and land concession processes	Medium-Term
- Relaunch the arbitration and mediation body in collaboration with the Commerce Chambers	Medium-Term
<b>Labor market regulations</b>	
- Revise the existing 1986 Labor Code based on existing working drafts from 2015, streamlining the registration burden, increasing flexibility on types and duration of contracts, removing ex-ante approvals on contracts, among other simplifications.	Medium-Term
<b>Trade facilitation</b>	
- Ensure implementation of the 2017 revised customs decree, streamlining import procedures	Short-Term
- Leverage risk-management procedures to reduce physical inspection of goods	Short-Term
- Streamline procedures and costs to import/export through an IT-based Single Window for Import/Export, upgrading the existing system to Sydonia World in the process	Medium-Term

## 1. Overview of Economic Performance<sup>1</sup>

**Summary:** *Guinea-Bissau's massive economic potential has not so far translated into better livelihoods for its population. Growth per capita has averaged less than 1 percent per year over 2000-2019. This chapter provides an in-depth analysis of the factors behind the economic stagnation. An interplay of three constraints have impeded sustained high growth. First, the low and volatile growth performance is linked to fragility and political instability, which, together with a poorly diversified economy—with raw cashew nuts accounting for 95-98 percent of export earnings—help explain the stop-go growth cycle. Second, human capital accumulation remains low. An acute shortage of a skilled workforce is a major constraint to inclusive growth. The education system is marked by alarmingly low levels of learning. Third, private investment is particularly low—the second lowest in Africa. Years of underinvestment in infrastructure, energy, and human capital are holding the country back from achieving strong, enduring and inclusive growth. The chapter concludes by highlighting how the COVID-19 crisis exacerbates these constraints and discusses areas that could support sustainable growth.*

**The chapter is organized as follows:** *Section 1.1 presents a brief overview of the political and social context. Section 1.2 puts recent growth into historical and comparative perspective. Section 1.3 presents analysis that helps explain the low-growth trap and identifies possible areas that Guinea-Bissau could pursue to escape this trap. Finally, Section 1.4 discusses the economic impact of COVID-19 and potential pathways to recovery.*

### 1.1. Country Political and Social Context

1. **Guinea-Bissau is a small state in West Africa with a population of around 1.9 million.** It is host to a wide variety of ethnic groups, languages, and religions, but communal and ethnic-based violence remains low. The population is dominated by more than 20 African ethnicities, including the Balantas, Fulas, and Mandingas. It enjoys an advantageous geographical location and is endowed with rich natural resources and biodiversity. It is made up of a mainland, a large archipelago (the *Bijagós*) consisting of over 100 islands. The country has the highest proportion of natural wealth per capita in West Africa. These include agricultural land (crop and pasture), fisheries, forests (timber, non-timber forest resources, carbon), as well as natural habitats and ecosystems protected in national parks.

2. **Perennial political instability and the absence of basic institutions for decades have made Guinea-Bissau one of the poorest and most fragile countries in the world.** It faced much adversity in the pre-independence era. Unlike other Portuguese colonies, little, if any, effort was made to develop infrastructure, human capital, or state institutions during colonial times. From the 19<sup>th</sup> century until the mid-1970s, it was a largely neglected territory. It was not considered fit for large-scale settlement. Its struggle for independence was one of longest and bloodiest in Africa. Once independence was won in 1973, building a viable and prosperous state presented many challenges. Rising ethnic tensions led to a civil war in 1998, which took a heavy toll on human lives and the economy. A semblance of calm and progress emerged in 2009, only to be interrupted by a military coup in 2012. Despite attempts at conducting free and fair elections in 2014 and 2019, Guinea-Bissau still remains entangled in protracted political instability.

3. **Deep-seated fragility, weak governance, and an institutional vacuum are among the country's critical development constraints.** Fragility has continued to frame Guinea-Bissau's development

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<sup>1</sup> Prepared by Fiseha Haile (Economist, EAWM1) with contributions from Rosa Brito Delgado (Economist, EAWM1) and Luiz Felipe Almeida (consultant, EA2M1).

trajectory. The World Bank's 2011 *World Development Report* defines fragility as a period "when states or institutions lack the capacity, accountability, or legitimacy to mediate relations between citizen groups and between citizens and the state, making them vulnerable to violence." Guinea-Bissau lacks the most basic functions of responsible and accountable political and economic institutions. There is a huge disconnect between the state and society, with the state having limited presence outside the capital, Bissau. Weak governance has encouraged those at the top to take advantage of the lack of accountability and massive disenfranchisement of society. Like most fragile states, the country remains highly dependent on 'stop-go' foreign aid and rents from a single export product, cashew.

4. **Poverty and inequality remain high and are exacerbated by non-monetary deprivations.** Two-thirds of the population live below the international poverty line of US\$1.90 a day and one-third live in extreme poverty, on \$1.25 or less a day. Poverty reduction has been hampered by low and volatile growth. High and rising inequality—with the Gini coefficient at 0.51 in 2010<sup>2</sup>, compared to 0.35 in 2002—indicates that the top income groups are the main beneficiaries of the system. People in the lower quintiles are the most deprived in terms of asset ownership and access to basic social services. Despite progress on access to primary education, education outcomes are still weak. Health outcomes are equally poor, with infant, under-five, and maternal mortality rates among the highest in the world. Further, more than one-third of the population still lacks access to safe water for drinking and bathing. The decades-long failure to provide basic public goods has severely impaired the ability of poor households to participate in economic activities.

5. **Poverty reduction is further constrained by gender inequalities and systemic rural-urban disparities.** Women face disadvantages in access to education and health services. Despite relative gender parity in primary education, there is still a large gap at secondary level, where girls' attendance rates are lower than boys' by 10-15 percentage points (ppts). While statutory laws provide equal land rights to men and women, customary practices impede women's access to land and other assets, which is often dependent on their marital status. Geographically, standards of living are much lower in rural areas than in the capital, Bissau, reflecting more restricted access to markets and social services, poor rural infrastructure, and low agricultural productivity. Additionally, the COVID-19 crisis might have a disproportionate impact on women if sharp declines in the services and agriculture sectors materialize (Section 1.4).

6. **Throughout this report, Guinea-Bissau will be systematically benchmarked against relevant peers to gain insights into areas where reforms could help promote sustained growth.** The CEM uses a set of regional, structural, and aspirational peers.<sup>3</sup> Regional peers include the SSA average and member countries of the WAEMU to which Guinea-Bissau often looks for policy inspiration. A data-driven approach was used to identify structural and aspirational peers. Structural peers are defined as fragile countries that have similar structural characteristics to Guinea-Bissau: Burundi, Central African Republic, The Gambia, and Sierra Leone. Aspirational peers are countries that have set a good development precedent and which Guinea-Bissau may aspire to emulate: Laos, Rwanda, and Tajikistan. These countries have been able to grow much faster than Guinea-Bissau, despite their similar initial structural conditions. The analysis in this chapter focuses primarily on 2010-2018, while comparing with 2000-2010 where appropriate and possible. Data on national income accounts for 2019 are not yet available due to an ongoing rebasing exercise and the analysis in this chapter covers the period up to 2018.

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<sup>2</sup> 2010 is the most recent period for which data on the Gini coefficient are available.

<sup>3</sup> Structural peers were selected based on the following criteria: (i) population size; (ii) GDP per capita; (iii) dependence on agriculture; (iv) life expectancy; (v) trade-to-GDP ratio; (vi) government revenue (% of GDP). In addition to these criteria, aspirational peers represent countries that had a similar GDP per capita of +/- 30 percent of Guinea-Bissau's GDP per capita in 2000-2005, but that grew 2 ppts faster than the country in 2005-2018.



## 1.2 Economic Growth in Perspective

### 1.2.1 Recent Growth Trends

7. **Guinea-Bissau's economy is dominated by agriculture and is almost entirely dependent on a single cash crop: cashew.** It is the fifth largest exporter of (unprocessed) cashew nuts globally. Cashew nuts, on average, account for 90-98 percent of total export earnings. Although Guinea-Bissau used to be a net exporter of rice, its current rice production meets only a small portion of local demand.<sup>4</sup> The fisheries sector has substantial potential, but it remains underdeveloped. The structure of the economy has barely changed in the last two decades. Agriculture accounts for over 45 percent of GDP and employs 80 percent of the labor force, while services represent nearly 40 percent of GDP. The bulk of the remaining workforce is employed in informal trade and distribution services. Only a small fraction of the labor force—about 10 percent—is in salaried employment, mostly in a small, private, urban services sector.

8. **Economic growth has remained low and volatile for several decades.** Real GDP growth averaged 2.8 percent in 2000-2010 and rose to 3.9 percent in 2011-2019 (Figure 1.1a). This growth rate was stronger than the SSA average (3.1 percent), but lower than the average for WAEMU countries (6.1 percent). However, when taking into consideration population growth, per capita growth has averaged less than 1 percent per year over the last two decades. On average, Guinea-Bissau's growth rate over 2000-2019 was lower than the averages for WAEMU and SSA economies, which were 4.4 and 4.5 percent respectively. Low and volatile growth has meant that the country's per capita income slightly declined from US\$636 in 1990 to \$622 in 2018, making it among the poorest countries in SSA (Figure 1.1b). In fact, Guinea-Bissau's income path has been diverging from that of the average SSA and WAEMU economy since the early 2000s.

9. **Guinea-Bissau has experienced several short-lived growth episodes since the 1980s, but high sustained growth remains elusive.** Guinea-Bissau has not been able to accelerate and sustain growth for decades, with the economy caught in a low-and-volatile growth trap (Figure 1.1a). Its growth trajectory has been frequently interrupted either by adverse weather conditions or political instability. During 1980-2018, it witnessed only three short-lived growth spells:<sup>5</sup> 1987-1991 (4.9 percent), 2004-2011 (4.2 percent), and 2015-2017 (6.1 percent). The country's poorly diversified economy and high dependence on rain-fed agriculture exacerbate the growth impact of droughts. For instance, although Senegal has similar weather patterns to Guinea-Bissau, droughts have a less severe effect because of its more diversified economy.

### 1.2.2 Drivers of Growth

10. **On the demand side, private and government consumption were the main growth drivers, with a very small contribution from investment.** Domestic demand, driven by higher cashew prices and an increase in remittances, has been a key driver of growth in recent years (Figure 1.1d). Remittance inflows rose from US\$20 million in 2000-2005 to US\$70 million in 2015-2019, which helped stimulate private consumption. By contrast, net exports made a negative contribution, reflecting Guinea-Bissau's less diversified export portfolios and vulnerability to adverse terms-of-trade developments. The growth contribution of investment was generally insignificant. Investment contributed positively in the second half of the 2000s, supported by a rebound in donor-financed public investment. Public investment declined sharply again during the politically turbulent 2008-13 period and has remained low and stagnant ever since.

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<sup>4</sup> Since the mid-1990s, favorable cashew prices led many farmers to disregard rice, which has more intensive labor requirements, in favor of cashew. Rice still accounts for nearly three-quarters of total consumption in the country.

<sup>5</sup> Growth spells refer to periods of real per capita GDP growth in excess of 2 percent (Berg *et al.* 2012).



11. **On the supply side, agriculture and services were the main drivers of growth, with services playing an increasingly important role in recent years.** Agriculture accounted for about 1.6 ppts in 2010-2018—about 37 percent of growth—slightly higher than in the preceding decade, while services explained around 53 percent (Figure 1.1c). Within the agriculture sector, cashew remains the main contributor to growth. The growth contribution of industry stands at 10-15 percent over the same period, driven by the construction sector. Within services, wholesale and retail trade dominate.

12. **Labor accumulation and total factor productivity (TFP) accounted for most of the modest growth per capita over 2000–2017, while the contribution of capital was either low or negative** (Figure 1.1e). Growth can either be driven by an increase in the factors of production (labor and capital) or by a more efficient combination of resources to produce more output for a given level of input (TFP). The modest growth in the last two decades was largely due to an increase in labor accumulation, which accounted for three-quarters of GDP growth. Capital accumulation (or lack thereof) made a negative contribution in the 2000s, at -0.6 ppts, which turned slightly positive in 2011-2018. Firm-level evidence indicates that manufacturing firms use much less capital per worker than in other SSA countries.<sup>6</sup> Productivity is another factor that explains a significant portion of the gap in incomes between Guinea-Bissau and its peers (Figure 1.1f). The small contribution of TFP partly reflects the fact that land expansion, rather than productivity growth, has driven agricultural growth.

13. **Further analysis reveals that structural factors and favorable external conditions explain most of the growth in 2010-2018.** Figure 1.2a and Figure 1.2b examine the extent to which per capita growth can be traced to structural factors (infrastructure, financial deepening or credit growth, trade, education, government size, institutions), stabilization policies (inflation, exchange rate misalignment), and external conditions (terms of trade, export commodity prices). The analysis combines country-specific data with the results of a cross-country regression model. It finds that growth was driven by structural factors—notably financial deepening and trade—while infrastructure development played a small role, reflecting the low level of capital accumulation. Domestic credit to the private sector increased from 4 percent of GDP in 2005-2010 to 11 percent in 2011-2018, which was partly facilitated by restrained government consumption, as well as a prudent and accommodative regional monetary policy and improved financial regulation.<sup>7</sup>

14. **Lack of economic diversification reinforces the weak and volatile growth performance.** Growth is closely linked to cashew output growth (Figure 1.3a). Cashew prices also drive fiscal and external sector performance. Guinea-Bissau has the second least diversified export portfolio in SSA. The economy has become increasingly undiversified in recent decades with export growth in the intensive margin (i.e. in traditional products) dominating (Figure 1.3b and 1.4a). High dependence on cashew exports exposes the economy to global market fluctuations and weather shocks. Its exports are still raw material inputs for more sophisticated value chains, placing the country on only the first rung of the value-added ladder.<sup>8</sup>

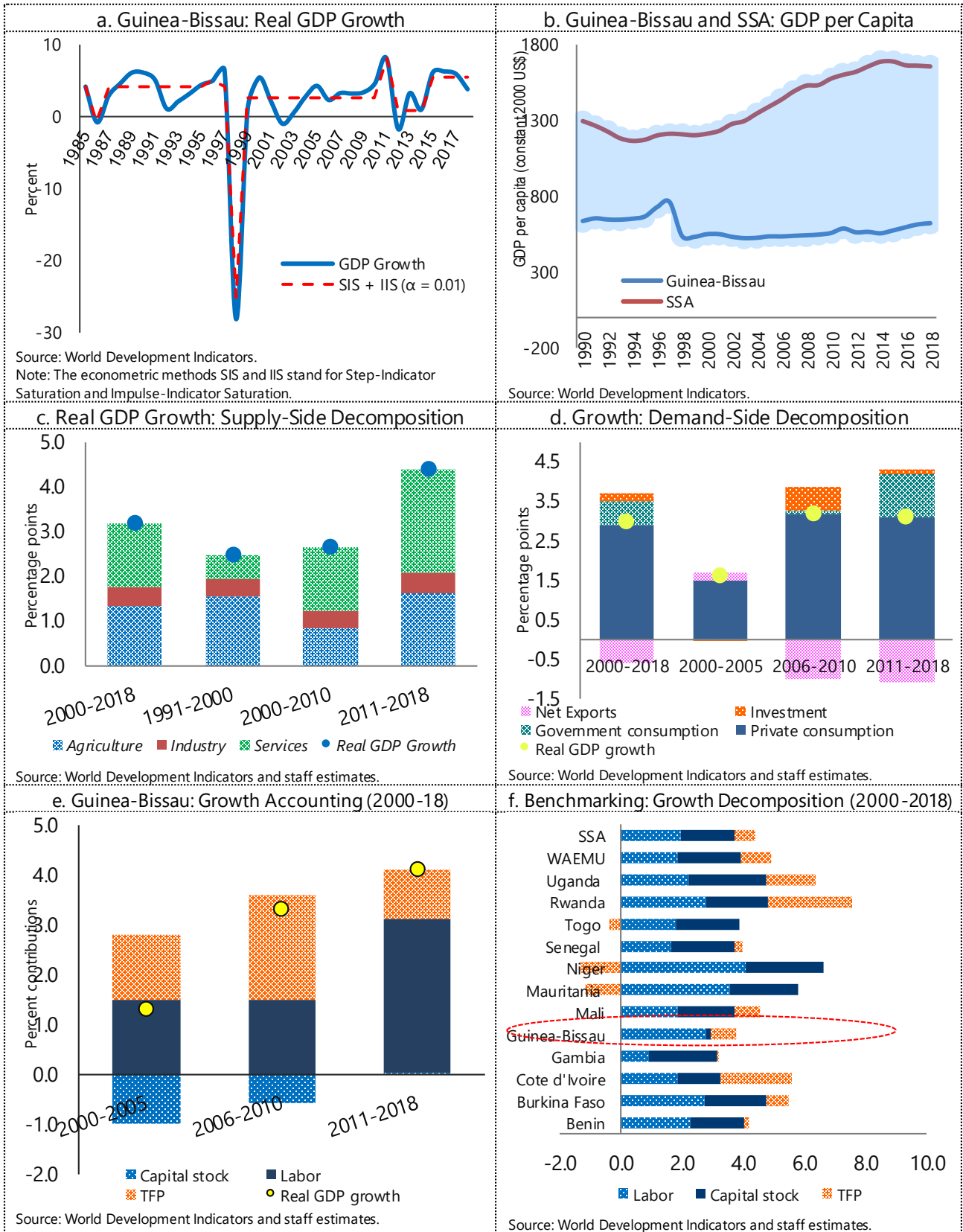
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<sup>6</sup> World Bank (2015). Country Economic Memorandum.

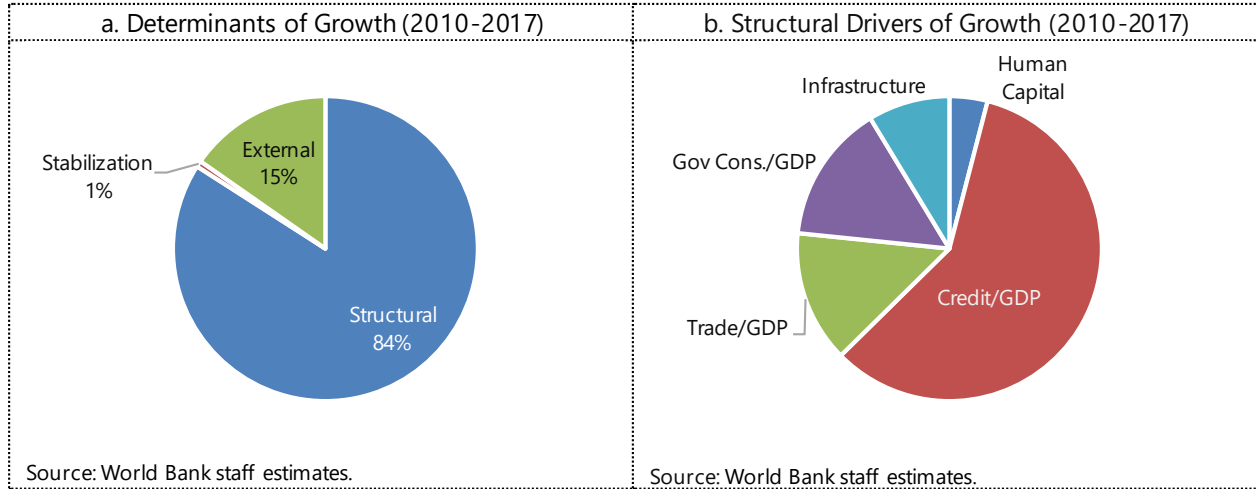
<sup>7</sup>See Haile and Moller (2018).

<sup>8</sup>Recent developments suggest that not only the processing of the cashew nut but also of the cashew apple for the production of beverages may become a lucrative option for export.

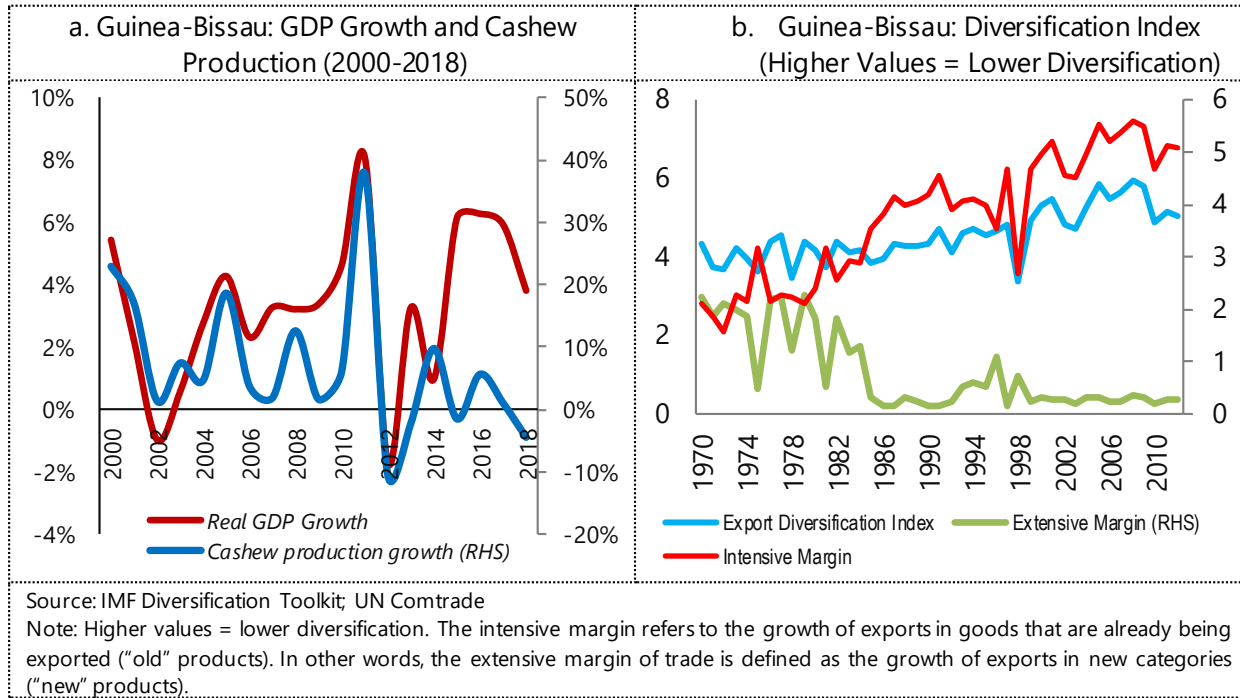
**Figure 1.1. Guinea-Bissau: Key Growth Trends and Drivers**



**Figure 1.2. Guinea-Bissau: Determinants of Growth**



**Figure 1.3. Poor Economic Diversification**

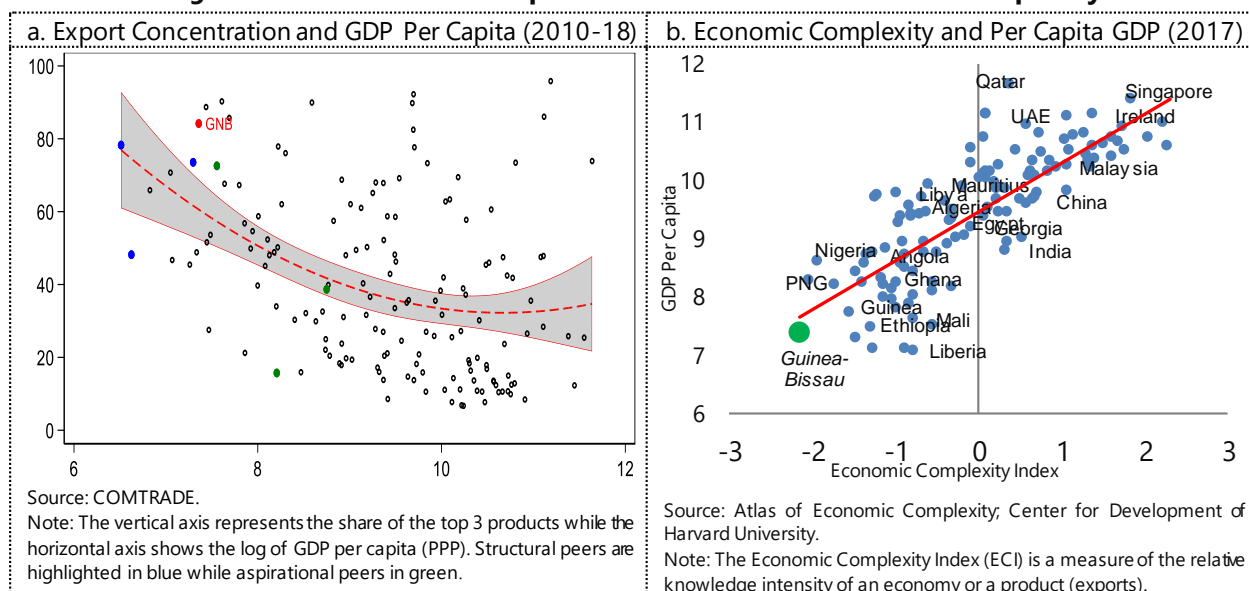


15. **The composition of exports reflects the unsophisticated and unchanged structure of the economy.** The product space<sup>9</sup> shows that Guinea-Bissau's export structure changed little over 2000-2018 (Annex Figure 1). Guinea-Bissau has one major export, cashew nuts, and one main destination, India, where the raw nuts are further processed for local consumption and re-exported to other Asian and/or developed

<sup>9</sup> Product space is a network representation of the relationship or proximity between products that a country produces. The core of the network consists of metal products, machinery and chemicals, while the periphery is made up of fishing, tropical farming and cereal farming.

countries.<sup>10</sup> The economy is open, with exports and imports by land and sea amounting to over 70 percent of GDP; however, openness on the import side reflects necessity as much as policy. By contrast, Laos, one of the country’s aspirational peers, has diversified into chemical and industrial products. Guinea-Bissau’s exports remain at the fringes of the product space. Not only has Guinea-Bissau failed to diversify its exports, its productive capabilities as measured by the Economic Complexity Index (ECI), are weaker than its structural and regional peers (Figure 1.4b).

**Figure 1.4. Guinea-Bissau: Export Concentration and Economic Complexity**



### 1.3. Three Critical Areas for Accelerating and Sustaining Growth

16. **This CEM provides an in-depth analysis of three areas critical to sustained, inclusive growth: governance (Chapter 2), human capital (Chapter 3) and private sector development (Chapter 4).** Economic theory provides alternative narratives around long-term drivers of growth. The pioneer work by Solow (1956) emphasized the importance of investment and productivity, while Romer (1990; 1986) identified human capital as essential to long-term growth. Building on these theories, Acemoglu and Robinson (2004; 2005) argued that whether or not a nation achieves sustained growth depends on the nature of existing political and economic institutions. Guinea-Bissau is facing critical challenges on all these fronts. First, weak growth performance is linked with political instability and fragility. Instability is at the heart of its decades-long economic stagnation. Second, private investment is particularly low—the second lowest in Africa. Third, an acute shortage of a skilled workforce is a major constraint to inclusive growth. Each of these three areas are discussed at length in this section.

17. **These key constraints were first identified from a Country Scan<sup>11</sup> that analyzed the main constraints to economic growth.**<sup>12</sup> They were then filtered using some prioritization criteria (consultation

<sup>10</sup>The balance of payments is dominated by cashew on the export side, and food and fuel on the import side. Terms-of-trade and climatic shocks can quickly translate into rising poverty and food insecurity.

<sup>11</sup> A Country Scan is the first output of the CEM 2.0 analysis. The Country Scan is a diagnostic exercise intended to guide the country economist and CEM team to better uncover a country’s growth story. By addressing the 20 guiding questions of the Country Scan Framework, teams are expected to build a storyline and make a case for the topics that merit in-depth analysis (module identification).

<sup>12</sup> World Bank (2019b).

with the client, national priorities as identified in the Government's development program, strategic relevance for the Bank's engagement, availability of recent work on the topic, and data availability). The themes were selected because they are of high program/strategic relevance but lacked recent analysis. They also support Guinea-Bissau's National Development Plan (NDP) which is based on five strategic priorities: (i) governance and peace; (ii) human capital; (iii) private sector development; (iv) infrastructure and urban development; and (v) biodiversity and natural capital. Finally, the thematic areas are also well aligned with the objectives of the World Bank Group's Country Partnership Framework or CPF (FY18–21). The present CEM takes stock of developments since the 2015 CEM, although it adopts a different approach in terms of content and process. In terms of content, this CEM selectively addresses three thematic areas that are among the most binding constraints to sustained high and inclusive growth. In terms of process, the preparation of the present CEM followed the Bank's new CEM 2.0 guidelines.

18. **Achieving sustained and shared growth is possible if governance, public service delivery, and the conditions for private enterprise are improved.** To break the cycles of political instability and fragility, national reformers and their international partners need to build (basic) legitimate institutions.<sup>13</sup> But state-building is always difficult, particularly in fragile situations, and takes time. Sustained growth can occur, despite political instability, if supported by multi-pronged measures to improve governance and put in place basic institutions that deliver citizen security and justice, and enhance the business climate to create jobs. Such measures can set in motion a virtuous cycle between private sector-led growth and better governance.<sup>14</sup> The feedback loop between governance and economic activity operates both ways. A stronger economy can help bolster governance by empowering citizens. Better governance would also allow the government to carry out policies needed to support the private sector. Improved governance means that the proceeds of growth can be distributed through public services or social assistance programs. Improving the conditions for private enterprise is thus as important as state-building. These three areas are priorities areas to allow Guinea-Bissau to escape its persistent, anemic growth and endemic poverty.

### 1.3.1 Political instability, Fragility, and Growth

19. **Fragility and chronic political instability pose a major challenge to sustained** growth (Figure 1.5). As shown in the 2011 *World Development Report*, people in fragile and conflict-affected states are more likely to be poor, to miss out on schooling, and to lack access to basic health services. Countries that have gone through major periods of instability have a poverty rate 21 ppts higher than countries that have not experienced violence. Children born in a fragile state are twice as likely to be undernourished and nearly twice as likely to lack access to improved water; those of primary-school age are three times as likely not to be enrolled in school; and children are nearly twice as likely to die before their fifth birthday. Similarly, fragile states account for 70 percent of infant deaths, 65 percent of people without access to safe water, and 77 of percent of children missing from primary school.

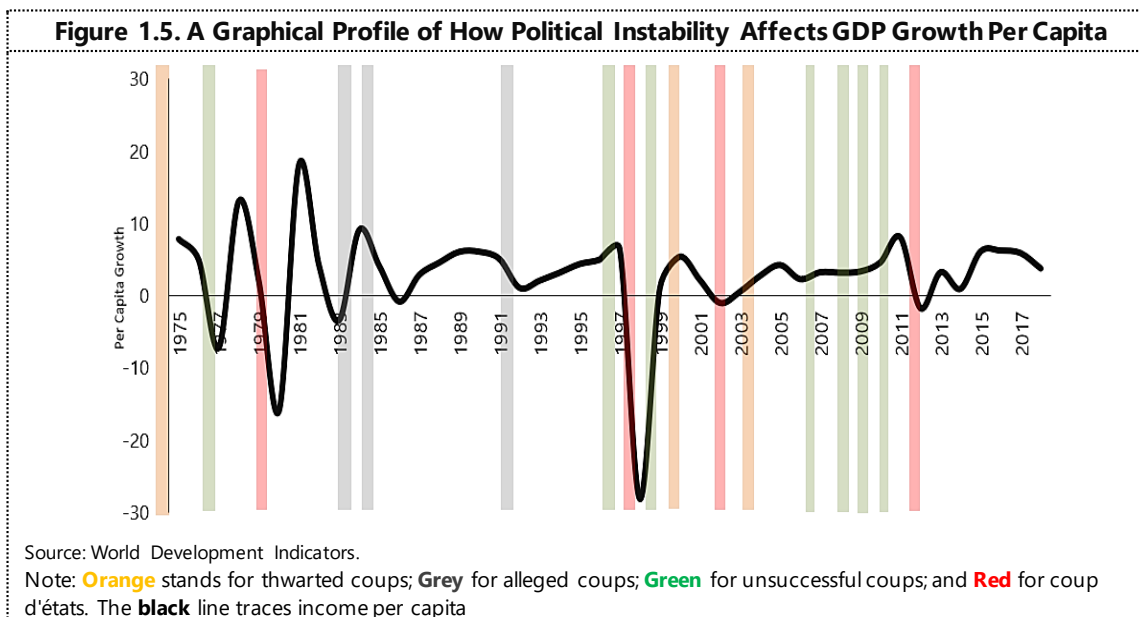
20. **Chronic political instability has been detrimental to the economy in several ways.** Investment and financing are two important channels. Political instability has been responsible for large falls in output, fiscal revenue, and donor grants (Figure 1.5). As over 95 percent of public investment is financed by donors, the effect of donor disengagement in the aftermath of instability is substantial. The decline in public

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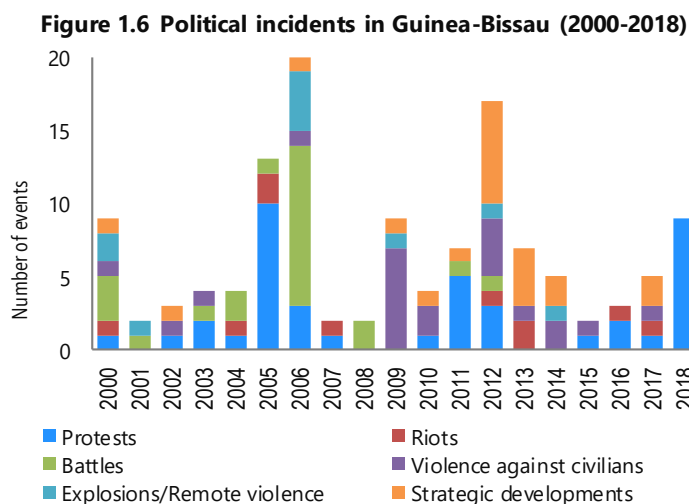
<sup>13</sup>As citizens benefit from better public policies, support for the state will grow. Citizens will accept the government's authority and in return demand accountability: a 'social compact'. As the rule of law strengthens, citizens will expect everyone to play by the rules of the game. Changing these rules unilaterally, for example via coups, will be increasingly unacceptable, especially as it threatens the provision of services citizens have come to expect from the state. A more legitimate state fosters the rule of law and reduces fragility.

<sup>14</sup>See the World Bank (2012, 2014) Country Economic Memoranda for Guinea-Bissau for more discussion on the feedbacks among governance, public service delivery, and the conditions for private enterprise.

investment was particularly sharp in the three years following the 1998 and 2003 coups, and the politically turbulent 2008–13 period. In addition, the uncertainty created by political turmoil increases the risk aversion of local entrepreneurs and foreign investors alike. Private investment has been low and stagnant for decades, reflecting the endemic uncertainty that entrepreneurs face.



21. **Guinea-Bissau has a history of political and institutional fragility dating back to its independence from Portugal.** Since independence, it has suffered four successful coups, with another 16 coups attempted, plotted, or alleged (Figure 1.6). Military coups are often symptomatic of weak institutions, fragmented elites, and high rent seeking. The country's institutional vacuum helps explain why political instability recurs in different forms. Together with Somalia, Guinea-Bissau has experienced the highest incidence of planned or actual coups recorded in the world, pointing to severe institutional constraints. In recent years, political fragility has manifested itself in frequent government turnovers.



22. **The quality of governance and institutions is among the lowest in the world and deteriorating** (see Chapter 2). Various measures reveal a weak governance and institutional setting that has only worsened over the years. The quality of Guinea-Bissau's public sector management and institutions is lower than those of its fragile peers. It ranks among the lowest compared to peers on the quality of governance. According to the 2019 *Ibrahim Index of Governance*, only four countries in Africa are ranked lower than Guinea-Bissau. This reflects poor regulatory frameworks and weak institutional capacity for enforcement, as well as problems in access to justice, judicial independence, and property rights.<sup>15</sup> Rule of law is lacking. The country's scores for government effectiveness and regulatory quality have deteriorated over the years. Corruption and mismanagement of state resources have increased in recent years without any improvements in the country's capacity to address them (World Bank, 2018b).

### 1.3.2 The 'Missing' Private Sector

23. **Guinea-Bissau's weak growth performance has coincided with its low level of private investment—at 2 percent of GDP the lowest in the world.** It has the second smallest private sector in SSA. At 6.6 percent of GDP, public investment is only slightly lower than the SSA average, although it has been almost entirely financed by development partners. However, private investment is much smaller than the SSA average, at 15.5 percent of GDP, reflecting the uncertain policy and regulatory environment, high cost of doing business, and high political risk. FDI also remains low, averaging 1.6 percent of GDP in the last decade. Removing constraints to private sector development would unlock the potential of private enterprises and support the virtuous cycle between governance and private sector-led growth.

24. **The country is among the most difficult places in the world to do business**, according to the 2020 Doing Business report, which ranked it 175th (out of 190 countries). Guinea-Bissau has made barely any progress over time: it ranked 181 in 2010, and 175 in 2019. In contrast, one of its aspirational peers—Rwanda—leapfrogged from rank 67 to 29. The business climate is characterized by poor governance, an outdated and weak regulatory framework, lack of transparency in tax administration, among others

25. **The private sector in Guinea-Bissau faces a wide array of constraints.** The policy uncertainty sparked by political instability is a major deterrent to private investment, including FDI. In addition, poor and inadequate infrastructure (notably electricity) is a key barrier to promote private sector-led growth and expanding economic opportunities for households.<sup>16</sup> Despite recent improvements, only 23 percent of the population has access to electricity, with tariffs remaining among the highest in SSA. Guinea-Bissau has also a complex and inefficient regulatory environment. Regulations in the areas of land use, construction permits, labor market, and tax structure are outdated, with some dating back to the colonial era. Complex and arbitrary import and export procedures are another key constraint. Although subsequent governments have made some sporadic efforts to improve the business climate, progress remains weak.

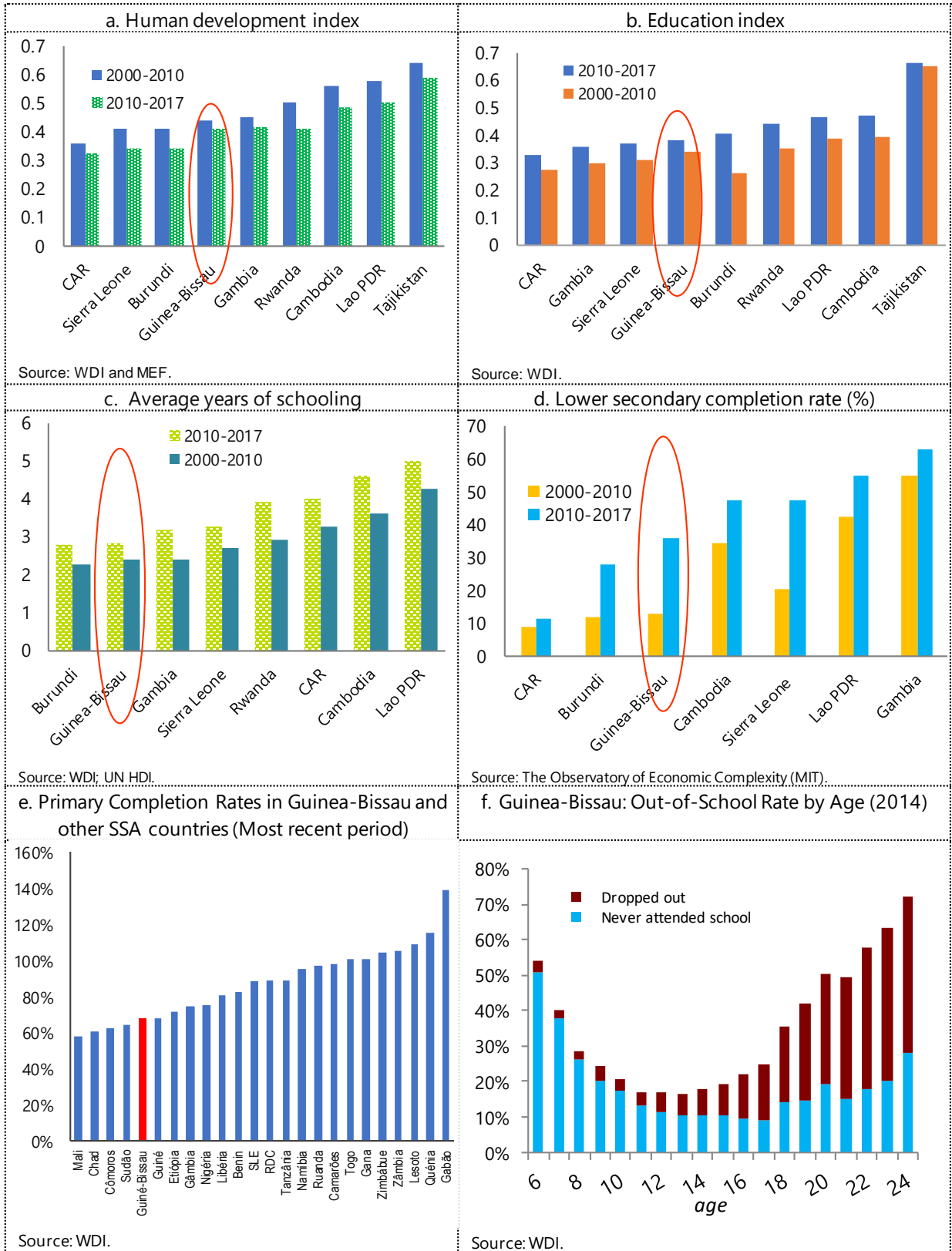
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<sup>15</sup> The justice system has limited capacity to perform the most basic functions of a responsible and accountable justice system. As a result, the bulk of the population relies on customary justice. Cases of politicians suspected of embezzling public money, or members of the security forces accused of involvement in violent crimes, if investigated at all, usually end up in judicial stand-offs. Police and magistrates are often the targets of corruption and intimidation, and the resulting impunity and the absence of rule of law have had a deleterious effect on judicial development.

<sup>16</sup> The infrastructure sector is discussed at length in World Bank (2019) *Policy Notes*, hence, this chapter pays more attention to the other constraints.



**Figure 1.7. Guinea-Bissau: Human Capital Indicators**





### Box 1.1. Economic Impacts of the COVID-19 crisis

**Context:** COVID-19 is a global health pandemic which evolved into a rapidly unfolding economic crisis of unseen proportions, with a substantial impact on developing economies. The crisis was triggered by a supply shock, but it is spilling over into domestic economies through both supply and demand channels as consumer spending and investor confidence decline. As major economies impose sweeping confinement measures, the disruption in global value chains is adversely affecting commodity markets, with oil prices hitting a 20-year low. The World Bank's latest Africa's Pulse report projects growth in Sub-Saharan Africa (SSA) to decline from 2.4 percent in 2019 to between -2.1 and -5.1 percent in 2020—the first recession in 25 years. Most countries have taken measures to contain COVID-19, although at the expense of bringing economies to near standstill. Global shocks and domestic contagion could hurt developing economies, such as Guinea-Bissau, disproportionately given their weak health systems, limited fiscal space, and large informal sectors. In most developing economies, per capita incomes are expected to shrink, tipping many millions back into poverty. The crisis is expected to do lasting damage to labor productivity and potential output.

**Key Channels:** Shocks related to COVID-19 are spilling over into the economy through both external and domestic channels. Externally, the most important impact channels are (i) falling global demand and prices for cashew; (ii) low international oil prices; and (iii) tighter financial conditions. Domestically, the crisis is affecting the economy through two main channels: (i) economic disruptions caused by the lockdown; and (ii) direct health impacts from a wider spread of COVID-19. Lockdowns are hurting the economy by lowering consumption and domestic investment, and disrupting trade. Domestic lockdown measures are disrupting the flow of people, goods, and capital, thereby amplifying the impact of external shocks. People's incomes will decrease significantly as most depend on outside work for subsistence. Additionally, the crisis risks provoking a series of other crises, including mass unemployment, bankruptcies, a rise in non-performing loans, and bank illiquidity or insolvency. In addition, lengthy lockdowns will have a disproportionately severe impact on the informal economy and firms. Over 90 percent of the labor force is engaged in informal MSMEs or self-employed in commerce and transport.

**Impact:** Growth is projected to decline in 2020 as lockdown weighs on domestic consumption and global cashew demand and prices decline. Real GDP growth would decline from 4.6 percent in 2019 to between -1.5 and 3 percent in 2020 and gradually recover to 2–3 percent in 2020. Higher public spending to support people and firms affected by the crisis, largely financed by external sources, would help prevent a sharper growth. Assisting households by offering cash transfers and ensuring liquidity for firms will help ensure economic players can exit the crisis quicker. Improving the business environment can also improve the recovery path. In the short-to-medium term, it is critical to streamline inefficiencies in import and export procedures, including through automatic renewal of export licenses and business permits. This would help strengthen economic efficiency and speed up recovery once risks related to COVID-19 recede.

**Short-term policy measures** to address the effects of COVID-19 are discussed at length in a Recent Brief – World Bank (2020). Section 1.4 for discussion on medium-term measures to support recovery and sustained growth.

### 1.3.3 Low Human Capital Investment

26. **The acute shortage of a skilled workforce is a major constraint to sustained and inclusive growth.** When delivered well, education “drives long-term growth, reduces poverty, spurs innovation, strengthens institutions, and fosters social cohesion” (World Bank, 2018a).<sup>17</sup> Guinea-Bissau has made some progress on basic education. The primary gross enrollment rate increased from 71.8 to 113.7 percent between 2000 and 2010. But, as underscored by the 2018 World Development Report, schooling is not the same as learning. The education system is characterized by low completion rates and alarmingly low levels of learning. Guinea-Bissau performs below its fragile peers across a variety of indicators (Figure ). With a

<sup>17</sup> Human capital is a key driver of labor productivity and growth. It also helps ensure inclusive growth and is an important pillar of social cohesion and trust in institutions. Societies with high human capital and more equal opportunities have greater social cohesion, are better able to find solutions to complex problems, and are ultimately more prosperous.

primary completion rate of 68 percent, Guinea-Bissau ranks near the bottom for SSA (Figure e). Due to late entry and high repetition rates, only 13 percent of children are in Grade 1 at the age of 6. High dropout rates mean that efficiency of resources is reduced, with nearly half of the resources allocated to primary education estimated to have been “lost”.<sup>18</sup> The proportion of out-of-school children is also large. A third of children between the ages of 6 and 11 have never attended school (Figure f).

27. **Guinea-Bissau has managed to increase the physical presence of children in school, without necessarily imparting basic reading and numeracy.** Learning outcomes are much lower than those for other SSA countries.<sup>19</sup> The poor quality of education is related to the low quality of the teaching force. Only a small portion of teachers possess the requisite knowledge and pedagogical skills needed to teach effectively. The low skill level of the workforce partly helps explain the low level of productivity in Guinea-Bissau. The proportion of workers with any kind of technical or vocational training is low (World Bank, 2014).

28. **In addition, the country is failing to provide learning for all.** The regional distribution is regressive, with the poorest regions receiving lower funding per student and having higher student-teacher ratios than the wealthiest ones (World Bank, 2018b). Although Guinea-Bissau has achieved gender parity in primary education, a gender gap exists in lower and upper secondary education, where girls’ attendance is lower than boys’ by 10 and 14 ppts. Girls generally benefit less from government spending overall. Retention rates are also estimated to be low amongst girls, and rural and poor populations.

29. **Poor governance of the sector has led to disruptions in education services.** The functioning of the educational system has been undermined by a multitude of political and social disturbances. For over a decade, teacher strikes have been used as an instrument to claim the payment of salary arrears, push for pay and benefit reforms, and to improve working conditions. They are the main source of disruption in the school year, contributing to poor quality education, the limited number of days of schooling per year, high student dropout and negative public perceptions of public schools.

## 1.4 The Economic Impact of the COVID-19 Crisis

30. **The COVID-19 crisis will likely exacerbate the constraints outlined above and make it harder to achieve high and sustained growth.** First, lower cashew demand and prices, due to slower global recovery, may cloud Guinea-Bissau’s growth prospects. Even before the crisis, its export competitiveness was weakening with a rise in global cashew production. Second, lower aid inflows will slow down domestic investment as donors themselves are at the epicenter of the crisis and may reprioritize resources to support their own economies. Over 95 percent of public investment is financed by donors. Financing development will require, more than ever, a steadfast commitment to structural reforms, which is hardly forthcoming in the immediate post-COVID-19 period. Third, the country’s nascent private sector has been hard hit by the crisis. Most firms are small and credit-constrained – they may not stay afloat in the face of a massive crisis such as COVID-19.<sup>20</sup> Fourth, COVID-19 may have a long-lasting impact on human capital development as the closure of schools could reverse the modest gains made in recent years. Finally, the crisis could worsen the delicate political situation and trigger a social crisis, which highlights the paramount importance of building social cohesion and trust between the government and citizens. The sharp reduction in economic activity due to COVID-19 could undo the modest gains made in poverty alleviation in recent years (Box 1.1).

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<sup>18</sup> The internal efficiency coefficient for Guinea-Bissau was estimated at 53.4 percent in 2010 (World Bank 2018b).

<sup>19</sup> UNESCO-Pôle de Dakar (2015).

<sup>20</sup> A recent survey identified close to 114,000 informal productive units in the non-agriculture sectors, of which 77 percent are self-employed individuals. About 93 percent of employment is informal (AFRISTAT 2019).

31. **Little is known about the long-term effects of the COVID-19 crisis.** The crisis has inflicted significant negative shocks on income, output, and employment. It has the potential to permanently reduce household consumption and investment spending, even in the absence of lockdowns. Firms will not invest in expanding capacity, due to low expected returns to assets, until they are confident that the virus will not return. Fiscal stimulus will be needed for an extended period, as lower consumption and weak investment will likely persist. However, Guinea-Bissau currently does not have fiscal space and public debt remains very high. To make it worse, it would come out of the crisis with a more difficult fiscal situation and limited access to international financing. As investors flock to “safety”, it will likely see its borrowing costs soar.

### ***Potential pathways for growth***

32. **What will drive growth in the post-COVID-19 world?** In the short-term, it is vital to ensure that the recession has as few permanent impacts on the economy as possible. Once the worst of the crisis is over, it will be important to focus on policies that can support sustainable growth. In the recovery phase, policies need to switch from crisis management to stimulus to set the foundations for future growth.

33. **Given that the cashew sector will continue to drive the economy in the medium term, efforts should be made to address key constraints to growth and competitiveness in the sector.** Despite the strong potential for diversification, private investment in cashew value chains has been impeded by a high level of risk (political, market, and climate). Simplifying and rationalizing the multiple and overlapping sets of taxes, fees, and charges on the cashew sector will be helpful. Cashew-specific taxes include: an export tax of 6 percent; industrial contribution of 3 percent; rural contribution of CFAF 15 per kg; sales taxes of 5 percent on services associated with the sector; and contributions to the Cashew National Agency of CFAF 5 per kg. Besides making the cashew sector less competitive globally, these taxes are highly regressive, given that cashew farmers are predominantly poor. It is thus important to streamline tax administration and eliminate hurdles in customs procedures. Addressing deficiencies in the current system of land rights and titling could improve households’ investment decisions inside and outside of the cashew sector.

34. **Post-COVID-19, the private sector needs to play a much greater role if Guinea-Bissau is to break out of the low and volatile growth trap.** As noted above, improving the conditions for economic activity will be key to encourage entrepreneurs to venture into new sectors. These conditions would also help attract foreign investors, which would in turn foster access to financing as well as new technologies and expertise. Political stability, especially in terms of policy predictability and credibility, remains indispensable. As the government will have little or no fiscal space to finance public investment post-COVID-19, and given the expected decline in external assistance, it needs to tap into private sector financing.

35. **Sustainable and inclusive growth will also require increased investments in human capital and policies to facilitate learning after COVID-19 is over,** including through promoting digital technologies. As outlined earlier, before the outbreak of COVID-19, Guinea-Bissau was already dealing with a learning crisis. The education system is now facing a new crisis with complete school closures since March 30. Extended school shutdowns may cause not only loss of learning in the short-term, but also further loss of human capital, reducing economic opportunities over the long-term. As seen from previous health emergencies, most recently the Ebola outbreak, the impact on education is likely to be most devastating in countries like Guinea-Bissau, with already low learning outcomes, high dropout rates, and low resilience to

shocks.<sup>21</sup> Improvements in human capital will also be critical to unlock 'new' digital sources of growth. Digital technologies have also proved to be game changers in times of crises, including through sustaining education efforts. However, Guinea-Bissau faces significant challenges in access to and the affordability of communication services, with the price of ICT services remaining exorbitant. Unlike the case in many SSA countries, lack of basic digital technologies means that Guinea-Bissau is missing out on remote learning which would have helped mitigate the loss of learning caused by the pandemic.

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<sup>21</sup> COVID-19 could affect human capital outcomes through different channels. First, there are the direct consequences of COVID-19 itself on the human capital or survival of those who become ill, unless it is contained. Second, the impact of the economic downturn could lead to choices and coping mechanisms that could affect human capital development. Third, government actions to address COVID-19 (e.g. school closures) could affect the availability and quality of services that contribute to human capital development.

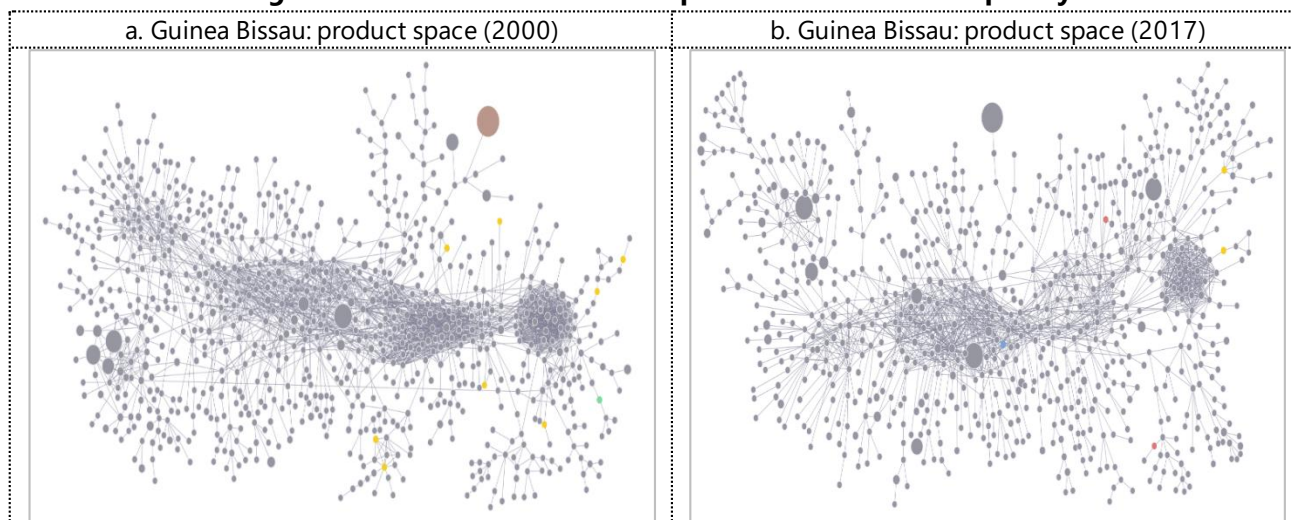
## Annex: Benchmarking analysis: countries and results

**Table 1. Guinea-Bissau and SSA average: Trends in long-term growth drivers (1990-2018)**

	Guinea-Bissau			SSA Average			Gap ( $\Delta$ ) <sup>*</sup>		
	1990-2000	2000-2010	2010-2018	1990-2000	2000-2010	2010-2018	1990-2000	2000-2010	2010-2018
<b>A. Human capital</b>									
School enrollment, secondary (% gross)	17.5	32.2	..	24.0	32.7	42.7	-6.5	-0.5	..
Adult literacy rate (15+, %)	41.4	..	45.6	54.8	58.4	62.6	-13.4	..	-17
Life expectancy at birth, total (years)	50.8	53.6	56.6	50.0	53.7	59.3	0.8	-0.1	-2.7
<b>B. Physical capital</b>									
Total investment (% GDP)	24.5	10.3	8.6	23.0	21.4	21.1	1.5	-11.1	-12.5
Access to electricity (% population)	..	8.8	17.9	28.0	32.1	39.7	..	-23.3	-21.8
Individuals using the internet (% population)	0.1	1.8	3.3	0.2	2.8	15.1	-0.1	-1	-11.8
<b>C. Financial development</b>									
Domestic credit to private sector (% GDP)	10.6	2.9	11.3	52.9	52.2	46.5	-42.3	-49.3	-35.2
<b>D. International trade</b>									
Trade (% GDP)	51.4	47.0	53.7	48.2	61.2	57.3	3.2	-14.2	-3.6
Export concentration index (0-1)	0.51	0.79	0.87	0.39	0.53	0.48	0.12	0.26	0.39
<b>E. Urbanization</b>									
Urban population (% of total population)	34.2	38.2	41.7	29.5	33.6	38.1	4.7	4.6	3.6
<b>F. Institutions/Governance</b>									
Gov. Effectiveness (-2.5 to 2.5)	-1.23	-1.16	-1.47	-0.65	-0.71	-0.77	-0.58	-0.45	-0.7
Regulatory Quality (-2.5 to 2.5)	-1.09	-1.06	-1.20	-0.73	-0.78	-0.77	-0.36	-0.28	-0.4
<b>G. Productivity</b>									
Real value added per worker (growth, %)	-0.003	-0.002	-0.011	0.003	0.030	0.032	-0.01	-0.03	-0.04

Source: World Development Indicators.

**Figure 1. Guinea-Bissau: Product Space and Economic Complexity**



Source: Atlas of Economic Complexity; Center for Development of Harvard University.

Notes: Nodes represent export products and lines indicate possible links between products. Product space is a network representation of the relationship or proximity between products that a country produces. The core of the network consists of metal products, machinery and chemicals, while the periphery is made up of fishing, tropical farming and cereal farming."

## 2. Fragility, Political Instability and Economic Growth<sup>22</sup>

**Summary:** *Guinea-Bissau is one of the world's most fragile countries. Without understanding and tackling the factors underlying its political instability and fragility, little progress is likely to be made. This chapter examines the link between political instability, fragility, and economic performance. It uses quantitative analysis to estimate the economic cost of political instability and conflict. Guinea-Bissau's real per capita income would have reached about US\$1,300 in 2018—double its current level—in the absence of the 1998 conflict and subsequent instability events. It asks why political instability and weak governance have proven so difficult to address and identifies the following, among others; a powerful elite, the weak relationship between the state and citizens, and the delicate balance between external support and the legitimacy of the state. Nonetheless, there are some signs of resilience and commitment to democracy which are cause for hope and which can be built upon in taking practical steps forward.*

### 2.1. Introduction

1. **Guinea-Bissau is a resource-rich but politically troubled country.** It gained independence from Portugal in 1973, after 11 years of bloody liberation struggle. The state was fragile from inception as the colonial administration never established formal state structures in the Bissau-Guinean territory. From the 15<sup>th</sup> to 16<sup>th</sup> century, the colonialists only established extractive institutions through which they expropriated the colony's resources (slaves, gold and ivory).<sup>23</sup> Since independence, it has suffered four successful coups, with another 16 coups attempted, plotted, or alleged. Political fragility is also evident in the frequent turnover of governments. Guinea-Bissau and Cabo Verde were under joint administration and when they parted ways in 1981 and the union was terminated, they were at roughly similar levels of income per capita. Since then, they have taken starkly distinct development trajectories—a textbook example of *extractive* versus *inclusive* institutions (Figure 2.1).

2. **Despite some recent progress, political instability remains deep-seated.** In 2020 President José Mário Vaz became the first Head of State in Guinea-Bissau's post-independence history to complete a full term in office. However, during his five-year mandate, the country had as many as seven successive Prime Ministers and governments, underlining the persistence of the political crisis. In-fighting within the ruling party—the African Party for the Independence of Guinea and Cabo Verde (PAIGC)—which has been the dominant party since independence, has further hindered the achievement of stable and functioning governments. The presidential elections in January 2020 remained 'inconclusive' due to a constitutional standoff that involved the Supreme Court and the National Electoral Commission (CEN) over recounting and confirmation of the disputed ballots. In February 2020, the leading candidate, Umaro Sissico Embalo, an ex-army General, took over the affairs of the state with the support of the army.

3. **The economic impact of this instability is substantial.** The analysis in this chapter estimates the accumulated economic impact of political instability and conflict between 1998 and 2018 to be US\$ 1.1 billion, nearly the same as the country's GDP in 2018 (US\$ 1.2 billion). Chronic political instability has been

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<sup>22</sup> Prepared by Habibu Yaya Bappah (Consultant) with inputs from Samer Matta (Economist, EAWM1), under the guidance of Fiseha Haile (Economist and TTL, EAWM1).

<sup>23</sup> Acemoglu and Robinson (2012) argue that whether or not a nation achieves sustained growth depends on the existing political and economic institutions, which they classify into *inclusive* versus *extractive*. "Inclusive institutions are ... those that allow and encourage participation by the great mass of people in economic activities that make the best use of their talents and skills" (p. 144). On the other hand, extractive institutions favor the elite who are in charge, allowing them to extract rents from those that live under them.



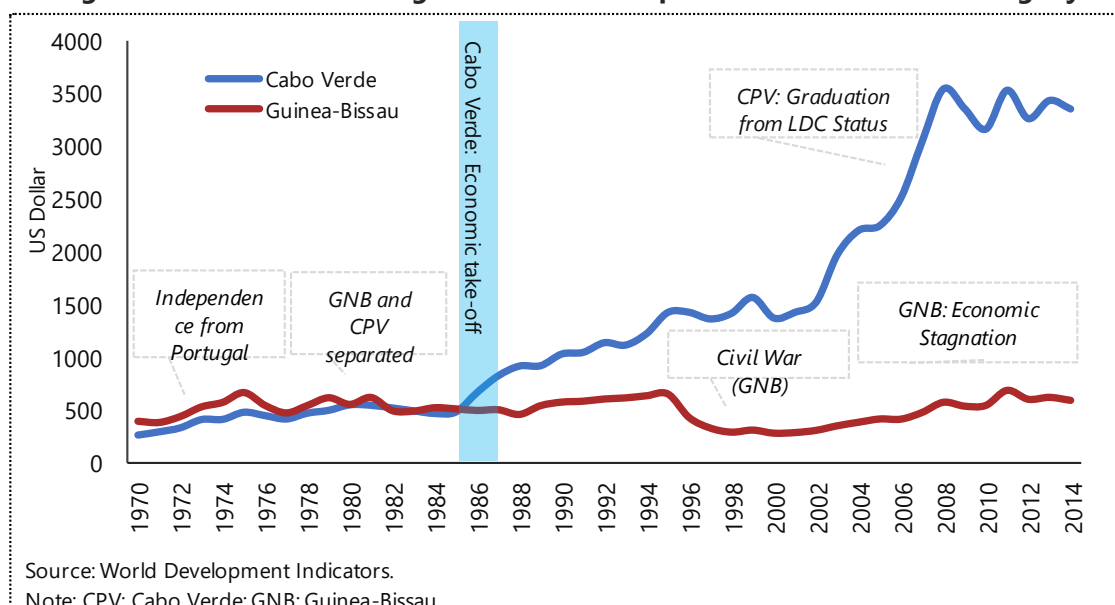
detrimental to the economy in several ways, including through causing a sharp decline in investment and development financing. As over 95 percent of public investment is financed by donors, the effect of donor disengagement in the aftermath of instability is substantial. In addition, the uncertainty created by political turmoil increases the risk aversion of local entrepreneurs and foreign investors alike.

4. **This chapter examines the nexus between governance, fragility, and economic performance.** Using a political economy approach, it demonstrates how intermittent political instability and external shocks have made resolving fragility and weak governance difficult. The context, actors and factors that drive the persistent political instability have endured for decades, giving a sense of *déjà vu* as one peruses historical accounts. The chapter specifically explores the following questions: (i) What has been the economic cost of political instability? (Section 2.2) (ii) What are the key sources of fragility and poor governance? (Section 2.3) (iii) Why have political instability and weak governance proven so difficult to address? (Section 2.4); and (iv) What are the most feasible reform options to strengthen legitimate institutions and improve governance? (Section 2.5).

## 2.2. The Economic Cost of Political Instability<sup>24</sup>

5. **This section seeks to quantify the impact of chronic political instability on Guinea-Bissau's economic performance, as measured by total economic output or GDP.** The analysis estimates the economic output forgone due to the 1998 armed conflict and subsequent political events. As noted in Chapter 1, economic performance has been deteriorating in recent decades. Even disregarding the sharp drop in 1998–1999 due to the civil war, per capita growth has hovered around zero percent between 1990 and 2019. In addition, the coups in 2002 and 2012 had a large negative impact on the economy.

**Figure 2.1. “The Great Divergence”: The cost of political and institutional fragility**



<sup>24</sup> This section draws on a background note prepared for this report: Matta (2019).

6. **The economy-wide cost of conflict and state fragility is high.** The literature on the cost of political instability focuses on the consequences of conflicts, typically civil wars. The impacts of violent conflicts are self-evident, be it in the destruction of physical capital, the loss of lives, or the dismantling of social fabric and culture. In this context, The World Bank (2017) estimated the cumulative loss in Syrian GDP due to the conflict over 2011–2016 at \$226 billion, four times the size of its GDP in 2010.<sup>25</sup> Similarly, Lopez and Wodon (2005) found that Rwanda’s GDP per capita in 2001 could have been 25–30 percent higher without the genocide. Abadie and Gardeazabal (2003) examined the effects of terrorist conflict in the Basque Country and concluded that the region’s GDP per capita could have been 10 percent higher over 30 years.

7. **The high cost of fragility in Guinea-Bissau is evident when comparing its development trajectory with that of Cabo Verde.** Both countries were under joint administration until 1981 when they parted ways. Since independence, the two nations have taken starkly distinct development trajectories (Annex Figure 1), although initial conditions somewhat differed (see Section 2.6). Unlike other Portuguese colonies, including Cabo Verde, Guinea-Bissau was not considered fit for settlement, and the colonial administration did not make significant investments in the infrastructure, human capital, or institutions beyond what was required to extract natural resources. Also, Cabo Verde has not experienced a civil war—which evidently helped its development. Starting out at roughly equal levels of income per capita, today Cabo Verde is more than four times as wealthy as Guinea-Bissau (Figure 2.1). Cabo Verde joined the middle-income club in 2007, while Guinea-Bissau remains one of the poorest countries in the world.

8. **Political instability in Guinea-Bissau, while not involving loss of life, also imposes large economic costs.** The country has witnessed different forms of political instability, ranging from its most extreme forms—*coup d’état*—to frequent government turnovers (Figure 2.2). The economic costs of this type of instability are not as explicit as those that result from violent conflicts or civil wars. However, chronic political instability can have a lasting impact on development prospects. No studies to date have estimated the impact of this situation on the economy.<sup>26</sup> Like civil wars, political instability can, in principle, be brought to a halt if a society-wide consensus to do so is reached. The fact that its true costs are not obvious makes it harder to build broad-based consensus among society about its harmful effects.

9. **Chronic political instability is detrimental to the economy in several ways.** Some channels through which instability affects the economy are easier to capture than others, such as investment and financing. Political instability has been responsible for large falls in investment, fiscal revenue, and donor grants. The decline in public investment was particularly sharp in the three years following the 1998 and 2003 coups, and the politically turbulent 2008–13 period. Donor grants declined from 9 percent of GDP in 2014 to 4.5 percent in 2018 in the context of political turmoil and subsequent economic mismanagement. In addition, private investment has been low and stagnant for decades, reflecting the endemic uncertainty that entrepreneurs face. Other channels are harder to measure by their very nature. Corruption, bad governance and policy discontinuity are also powerful deterrents to reforms. The growth effects of the non-implementation of reforms are difficult to measure, despite their importance to economic performance.

### **The Aggregate Impact of Political Instability**

10. **There is no perfect outcome indicator that captures the full extent of the impact of political instability and conflict.** Aggregate indicators, such as income (or GDP), help capture the more ‘tangible’

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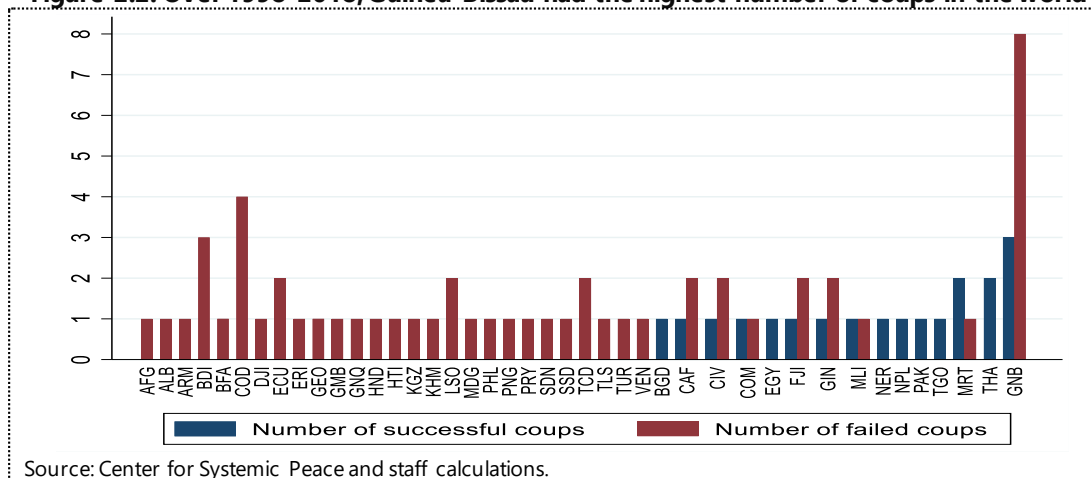
<sup>25</sup> World Bank (2017). The Toll of War: The Economic and Social Consequences of the Conflict in Syria.

<sup>26</sup> The only exception is IMF (2015), which adopted a more descriptive approach by assuming that GDP per capita could have grown linearly similar to the pre-instability average growth rate. However, this approach does not capture global economic shocks that could have happened in the post-treatment period (Matta *et al.*, 2019).



impact of political crises; however, they do not necessarily reflect the full economic and welfare costs of a crisis. In addition to their direct economic impacts, political instability and conflicts can cause a deterioration of institutions and governance, among others, which in turn can have lasting impacts on economic development and the well-being of a population. However, these impacts are difficult to measure. Assessing them requires a good understanding of what would have happened if they had not occurred. A simple comparison of outcomes before and after a crisis does not necessarily reflect the 'impact' of the crisis. To quantify this impact, actual economic outcomes need to be compared with 'counterfactual outcomes', i.e. where Guinea-Bissau would have been today had there been no instability (Figure 2.3.a).<sup>27</sup>

**Figure 2.2. Over 1998-2018, Guinea-Bissau had the highest number of coups in the world**



11. **The analysis uses the synthetic control method (SCM)<sup>28</sup> to generate a counterfactual path for Guinea-Bissau's GDP per capita.** This is then compared with the actual GDP series to quantify the impact of political instability and the civil war on outcome variables. The SCM creates a counterfactual (synthetic control) income path based on a weighted average of the income paths of selected countries that were not affected by the events that occurred in Guinea-Bissau, but which had almost identical economic structures as Guinea-Bissau prior to the 1998 conflict. The causal impact of the conflict is then calculated as the difference between Guinea-Bissau's real GDP per capita and that of each control country for every year starting from 1998. The analysis controls for several factors (the quality of institutions, human capital, physical capital, trade, commodity dependence, population size, etc.). This method is commonly used to estimate the impact of significant events. It was most recently used by The World Bank (2017) to estimate the consequences of the conflict in Syria, and by IMF (2016) to estimate the effects of reforms.

12. **The analysis finds that Guinea-Bissau's real per capita GDP is more than 50 percent lower than it would have been had the 1998 conflict and subsequent political instability events not taken place.** The economic structure of synthetic Guinea-Bissau closely resembled that of actual Guinea-Bissau in

<sup>27</sup> However, given the substantial changes in external conditions, it is difficult to precisely estimate how the economy would have evolved in the absence of political instability and bad governance. In the absence of a reliable counterfactual, the options are limited. Simple benchmarking is not very helpful, because the set of comparable countries have not been fully exposed to the changes Guinea-Bissau would have experienced even in the absence of political instability. In other words, the 'political instability' itself is an outcome of various factors; for instance, the quality of institutions. For these reasons, it is difficult to estimate accurately what Guinea-Bissau would look like in the absence of political instability and conflict.

<sup>28</sup>The SCM was developed by Abadie and Gardeazabal (2003) and Abadie et al. (2010). It has been used extensively to estimate the cost of various political instability events (Bilgel and Karahasan, 2019; García-enríquez and Echevarría, 2019; Matta *et al.*, 2019).

the pre-1998 period (Figure 2.3.a). The income per capita paths of *actual* and *synthetic* Guinea-Bissau were almost identical up to 1997, and then diverged markedly thereafter. The 1998 conflict had a significant long-term impact on GDP per capita. The conflict caused a 29.1 percent drop in real GDP per capita in 1998; by 2018 Guinea-Bissau's per capita income was more than 50 percent lower than it would have been in the absence of the conflict and the subsequent political instability. From 1998 to 2018, the accumulated impact on real GDP is estimated to be US\$1.1 billion, nearly equivalent to the GDP in 2019 (US\$ 1.2 billion).

13. **In addition to the 1998 conflict, subsequent (successful) coups further aggravated the situation and prevented the economy from reverting to its pre-conflict performance.** Since the 1998 conflict, Guinea-Bissau has suffered numerous coups which have contributed to the economic stagnation. The country experienced the highest number of coups in the world between 1998 and 2018, with three successful coups and eight failed coups attempts, according to data from the Center for Systematic Peace (Figure ). The regression results presented in column (1) of Table 2.3 in Box 2.2 show that successful coups have had a significant negative impact on the gap between growth in actual and synthetic GDP per capita. This result holds when controlling for the 1998 conflict (column 2) and world growth (column 3).

14. **The baseline results are also robust to country exclusions.** Along the lines of Abadie *et al.* (2015), the sensitivity of the baseline results to changes in the country weights in Table 2.1 is tested by excluding the countries in the control group, one at a time. Figure 2.3.c shows the results. The blue solid line is the *actual* real GDP per capita, the red dashed line is the *synthetic* GDP per capita based on all nine weight-assigned countries, while non-blue lines are the leave-one-out estimates. The leave-one-out estimates yield very good fits. In the post-conflict period, the leave-one-out estimates of the synthetic control yield an average gap in GDP per capita of about 28.2 and 51.9 percent in 1998 and 2018, very close to the original estimated gaps of 29.1 and 52.7 percent. Most importantly, the average of all leave-one-out estimates for the synthetic control is only 1.2 ppts lower than the original synthetic control estimate in the post-conflict period. This suggests that the baseline results are extremely robust to country exclusions.

### 2.3. Key Sources of Fragility and Political Instability

15. **Guinea Bissau possesses many elements that make it fragile, the essentials of which are the absence of capacity and/or legitimacy to function effectively.** State fragility is characterized by the lack of exercise of monopoly on the legitimate use of force; absence of the provision of basic public services for citizens; lack of legitimacy of the state; lack of bureaucratic capacity; lack of rule of law and basic institutions; and lack of significant territorial control.<sup>29</sup> Most of these characteristics are present in Guinea Bissau.<sup>1</sup> This section builds on the 2019 World Bank-AfDB Risk and Resilience Assessment (RRA).

16. **This section examines the key sources of fragility and poor governance in Guinea-Bissau.** These factors, which are mutually reinforcing, include elite competition for state capture and control; lack of basic institutions and poor governance; and the challenges involved in reforming the security sector. To better understand these sources, this chapter uses a framework that analyses the nature of the political settlement and social contract. Social contracts<sup>30</sup> lie at the intersection between society's expectations of what it should receive from the state, and what the state can legitimately demand from citizens in return. The framework highlights contestation between political elites ('horizontal contestation'), relations between the state and society ('vertical contestation') and the relationship between social groups ('social cohesion').<sup>31</sup>

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<sup>29</sup> Perera (2015).

<sup>30</sup> Social contract is often defined as a "dynamic agreement between state and society on their mutual roles and responsibilities" (IEG, 2019).

<sup>31</sup> IEG (2019).

### Box 2.1: Analysis based on the synthetic control method

The SCM enables the creation of a control group based on a combination of comparator countries that best approximate the characteristics of Guinea-Bissau in the pre-conflict period. This approach avoids the arbitrariness that is often involved in the selection of benchmark countries. A combination of comparator countries is likely to produce a better comparison group for the country than any individual unit alone. The quality of a control group is judged by the pre-shock differences in the outcome variables between Guinea-Bissau and the *synthetic* Guinea-Bissau.<sup>32</sup> Comparator countries are those that best predict historical developments in Guinea-Bissau prior to 1998. Countries are then assigned weights based on the degree to which they approximate the pre-shock characteristics of Guinea-Bissau. The weights are then used to construct a synthetic Guinea-Bissau. The synthetic GDP per capita is constructed as a weighted average of nine countries, with Mali, Malawi, Sierra Leone, and Nepal having the highest weights (Table 2.1). The outcome variable is real GDP per capita and the set of regressors is chosen based on the growth literature (Table 2.2).<sup>33</sup>

Table 2.1. Weights of countries that make up the synthetic control group

Country	Weight (%)
Mali	43.6
Malawi	15.6
Sierra Leone	14.5
Nepal	9.5
Burkina Faso	6.6
Togo	3.3
Haiti	2.9
South Korea	2.1
Albania	1.9

Source: Matta (2019).

Table 2.2. Economic Structure (1980-1997): 'Actual' Guinea-Bissau and Synthetic Guinea-Bissau

	Guinea-Bissau	Synthetic Guinea-Bissau
GDP per capita (constant 2000 US\$)	617	625
GDP per capita growth (%)	0.1	0.3
Life expectancy (years)	46.8	46.6
Population growth (%)	2.1	2.2
Polity2 (score)	-4.5	-3.1
Trade openness (% of GDP)	51.1	49.9
Agriculture GDP (% of total GDP)	50.1	37.5
Commodity price index (score)	98.4	98.9

Source: Matta (2019).

*The estimated effect of the 1998 armed conflict is statistically significant.* Following Abadie *et al.* (2010), the analysis performs an "in-space placebo" test, in which countries in the control group are artificially treated as if they had been exposed to a conflict in 1998 (Figure 2.3.b). Confidence in the negative impact of the conflict would be undermined if similar or larger estimated GDP losses are observed in countries that did not experience the 1998 conflict. To compare the impact of the conflict in Guinea-Bissau with the other countries, the analysis calculates the ratio of the post-1998 Root Mean Square Prediction Error (RMSPE) to the pre-1998 RSMPE for each placebo country. Figure 4b shows that if a country had been randomly selected from the sample, the probability of obtaining a post/pre-conflict RMSPE ratio as high as that of Guinea-Bissau would be  $2/66 = 0.03$ . This ratio can be interpreted as the *p*-value at which the null hypothesis of no causal effect can be rejected, meaning that the initial result is statistically significant.

Source: Matta (2019).

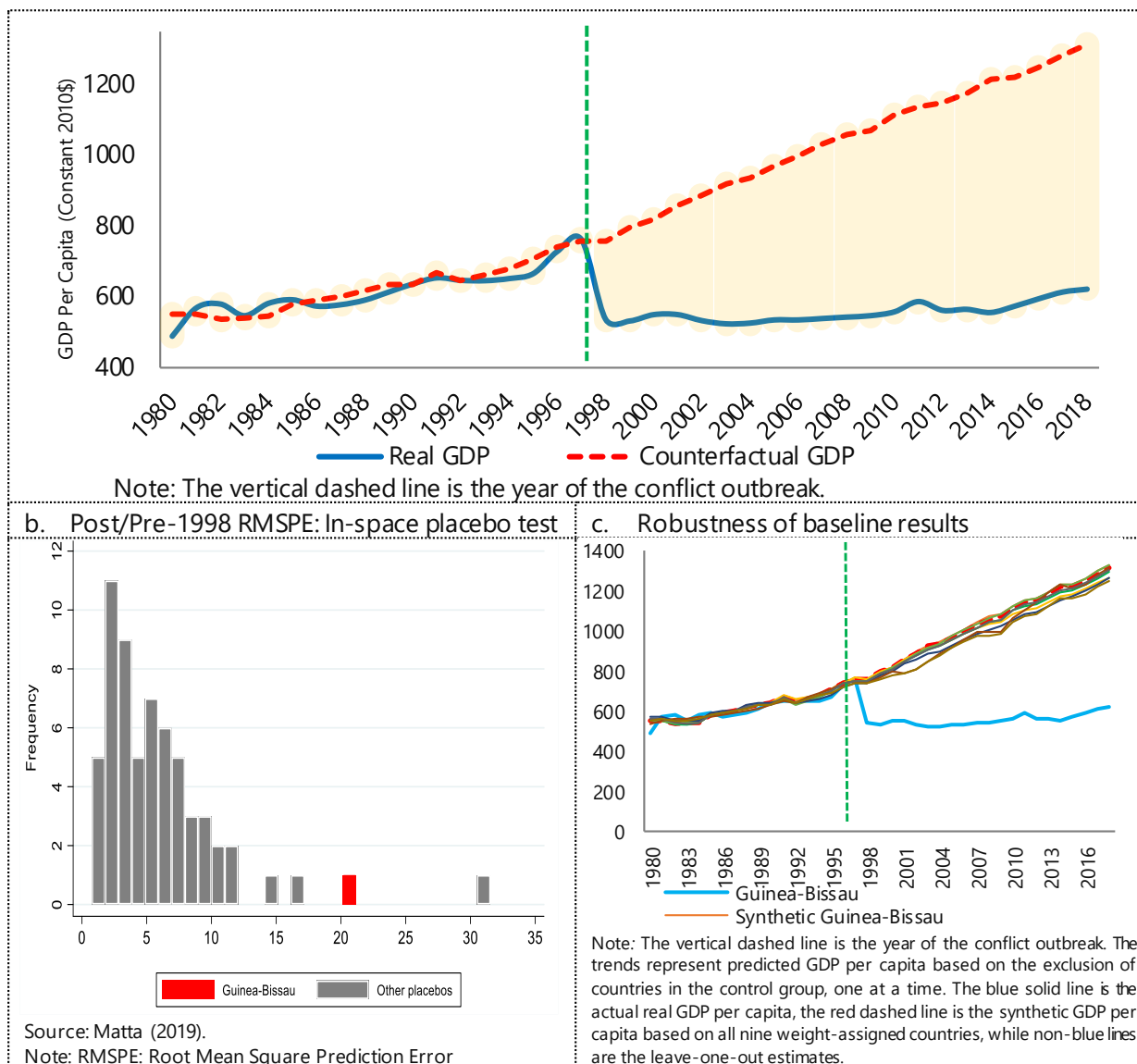
Note: RMSPE: Root Mean Square Prediction Error

### Figure 2.3. Guinea-Bissau and Synthetic Guinea-Bissau: Baseline results and robustness checks

#### a. Real GDP per Capita: Guinea-Bissau versus Synthetic Guinea-Bissau

<sup>32</sup> To construct the synthetic path, the analysis used panel data for all countries in the world from 1980 to 2018. This period is then split into two: 1980-1997 (pre-treatment period) and 1998-2018 (post-treatment), where 1998 is the year of the armed conflict. Ideally, a longer pre-treatment period would be desirable to improve the fit between the treated and the synthetic unit prior to the armed conflict (García-enríquez and Echevarría, 2019). In our case, it is not possible to extend the pre-treatment period prior to 1980 due to the lack of time series data for some important variables.

<sup>33</sup> Following the endogenous growth theory literature (Barro, 1996; and Bleaney and Nishiyama, 2002), the variables that were selected to explain growth include life expectancy, trade openness, population growth, and the level democracy and institutions. Given Guinea-Bissau's dependence on agriculture (notably cashew), the analysis also adds the agriculture-to-GDP ratio and commodity prices.



17. **However, other players—such as political and economic elites, NGOs, civil society or religious organizations—also contribute to shaping social contracts.** In some countries, military and organized groups can be influential actors as well. In fragile countries, where the state is absent from specific regions or sectors, non-state actors can *de facto* replace the state and provide basic services to the populace. Some of these take advantage of their power to shape policies to their own narrow advantage—so-called ‘state capture’. In addition to internal players, external actors also influence social contracts (from international agencies, to peacekeeping forces and foreign powers, and global market institutions and shocks).

## Box 2.2. Did the coups have an impact on economic activity?

In addition to the 1998 armed conflict, Guinea-Bissau experienced 3 successful coups and 8 failed coup attempts between 1998 and 2018. To evaluate the impact of these coups on output, we run the following model:

$$Gr_{diff,t} = c + \beta \cdot (Gr_{diff,t-1}) + \gamma_s \cdot Coup_{s,t} + \gamma_f \cdot Coup_{f,t} + \varepsilon_t$$

where  $Gr_{diff,t}$  is the difference between the growth rate of actual GDP and the growth rate of the synthetic GDP at time  $t$ , while  $Coup_s$  and  $Coup_f$  represent the number of successful and failed coups each year, respectively.

The regression results presented in column (1) of Table 2.3. show that only successful coups had a significantly negative impact on the difference between actual growth and the synthetic growth. This result holds when we control for the 1998 conflict (column 2) and the global GDP growth (column 3). In sum, this exercise shows that, in addition to the 1998 conflict which had a major impact on the economy, successful *coup d'états* further aggravated the situation and prevented the economy of Guinea-Bissau from reverting to its pre-conflict levels.

Table 2.3. Regression results: Coups and per capita growth

	(1)	(2)	(3)
Lag per capita growth diff	-0.005 (0.125)	0.054 (0.090)	0.064 (0.088)
Successful coup	-3.740** (1.776)	-4.327*** (1.078)	-4.246*** (1.087)
Failed coup	-2.417 (2.938)	0.333 (0.790)	0.382 (0.838)
Dummy(1998=1)		-28.855*** (0.732)	-28.879*** (0.745)
Global per capita growth			0.137 (0.348)
R <sup>2</sup>	0.08	0.73	0.73
Observations	37	37	37

Source: World Bank staff estimates.

Note: Robust standard errors in parenthesis. \*\*\*p < 0.01, \*\*p < 0.05, \*p < 0.1. The dependent variable is the difference in the growth rate of actual GDP and that of the synthetic GDP

Source: Matta (2019).

## Weak governance

18. **Guinea-Bissau faces substantial public financial management (PFM) challenges.**<sup>34</sup> The weak PFM framework is one of the main areas where the lack of good governance is more evident. There are notable weaknesses in budget classification and coverage. The lack of clarity around some important budget items, notably "other current expenditures" and transfers, makes it difficult to determine how public funds are spent with any certainty.<sup>35</sup> No precise data exist on extrabudgetary operations, which are believed to be substantial, and the financial performance of parastatals. Despite recent progress in legal and regulatory frameworks, compliance remains low (IMF, 2020). In addition, internal and external control and oversight remain weak. External control by the Court of Auditors and the National Assembly is weak.<sup>36</sup> Under

<sup>34</sup> See World Bank (2018) Public Expenditure Review and World Bank (2019) Policy Notes for more details.

<sup>35</sup> The budget classification system is similar, but not identical, to the 1998 WAEMU guidelines (Box 3.2). Unlike other WAEMU countries, Guinea-Bissau's economic classification includes a section called "other current expenditure". Expenses recorded under this category reached 10-20 percent of total expenditure in recent years.

<sup>36</sup> The last opinion (*parecer*) the TdC published on the government's accounts dates from 2010, and government expenditure is not subjected to any other external audit mechanism. The audits the TdC normally conducts on some central government bodies account for less than 50 percent of total government spending.

a 1992 law, the *Tribunal de Contas* lacks financial and administrative autonomy. The budget prepared by government is very general, which makes the legislature's oversight extremely limited. Further, government cash resources remain fragmented and scattered in several bank accounts, notably in commercial banks. There is no treasury single account system at the Central Bank, as stipulated by the WAEMU Organic Law on public finance. Strengthening expenditure controls at each phase of the expenditure chain (commitment, payment order, and payment) is critical for transparent PFM.

19. **Official and non-official public employee compensations account for nearly 90 percent of total tax revenues, but they benefit only top government officials.**<sup>37</sup> When non-wage employee compensation is accounted for, the public sector wage bill reaches about 8.9 percent of GDP. The official wage bill is relatively low, at 4.5 percent of GDP. However, official statistics do not provide a full picture of total government employment and compensation. Substantial government resources benefit central public sector personnel in various forms, including bonuses, salary top-ups, and health benefits. Several spending items are misclassified under different budget lines. Tax collection bonuses (*incentivos*) represent 1.3 percent of GDP (10 percent of tax revenues) but only benefit at most 2,000 people. More senior staff receive a larger share, and *incentivos* are not linked to individual performance. In addition, public service pension payments represent 1.2 percent of GDP, but they benefit only 2.3 percent of the labor force. Travel expense allowances (*ajuda de custo*) and salary top-ups for top officials (*representação de serviço*), are classified under "purchases of goods and services" and averaged 0.5 percent of GDP in 2018.

20. **Intensification of the international drug trade, which uses Guinea-Bissau as a transshipment location** (World Bank, 2017), adds to the country's governance challenges.<sup>38</sup> With many uninhabited islands, long unmanned borders, and inadequate governance structures, Guinea-Bissau has become an ideal location for drug trafficking. It is likely that the traffickers take advantage of the state's inherent weaknesses and poverty allowing the country to become a major transit point for drug trafficking to other parts of the world. In 2008, the UN declared Guinea-Bissau the first '*narco state*' in Africa, with nearly a quarter of all of Europe's cocaine being trans-shipped through the country at one point. Some military and government officials have been allegedly linked to drug trafficking. In 2014, for instance, Bubo Na Tchuto, former head of Guinea-Bissau's navy, pleaded guilty in an American court for importing narcotics into the US.<sup>39</sup> In September 2019, almost two tons of cocaine were seized by the judiciary police. That followed a seizure of around 800kg in March, just before the legislative elections. Although a relatively small elite network and their cronies are alleged to be involved in the drug business, it has arguably contributed to the persistence of political instability and fragility.<sup>40</sup>

21. **Poor governance of the fisheries and forestry sectors leaves them open to illegal practices, meaning much of their potential profits are lost** (SCD, 2017). The industrial fisheries sector contributes US \$416.2 million in landed value, of which \$260.7 million is illegal and unreported. Only 31 percent of the remaining value is subject to fishing fees and fishing agreements. Illegal and unreported fishing is a major economic issue as the state lacks the capacity to effectively regulate and monitor activities in its territorial waters. Illegal logging is another economic activity which would benefit from stronger governance. Timber exports from Guinea-Bissau to China, the world's largest importer of illegal Rosewood, surged from 61 tons of timber in 2007 to close to 98,000 tons in 2014. Illegal licenses were reportedly used to enable trade in endangered natural resources, including the Rosewood tree. Poor governance leads to a vicious cycle

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<sup>37</sup> World Bank (2018) Public Expenditure Review.

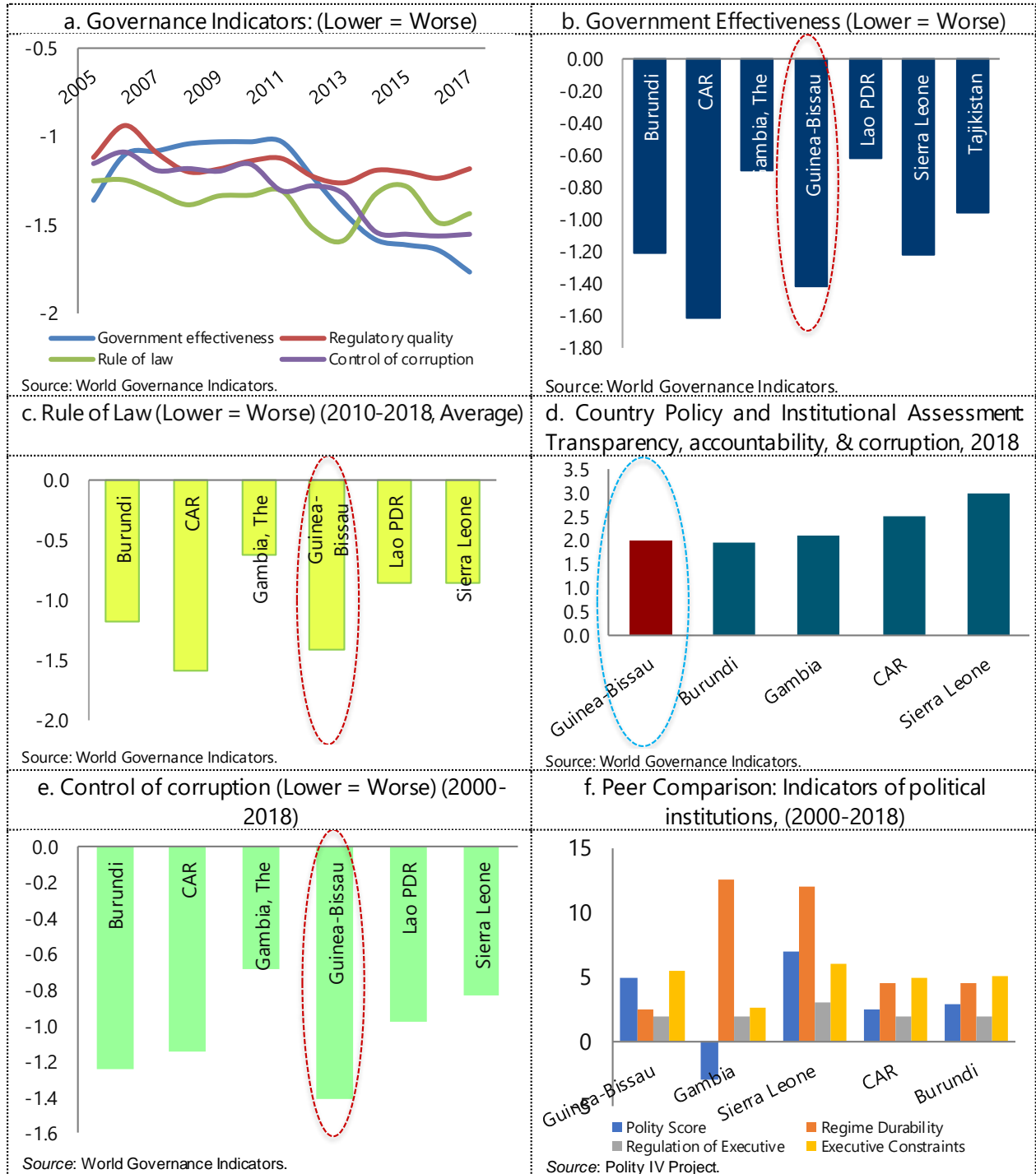
<sup>38</sup> UNIOGBIS (June 26, 2018). Corruption opens the door to drug trafficking and money laundering.

<sup>39</sup> Chabal and Green (2014).

<sup>40</sup> In addition, the United Nation Office on Drugs and Crimes (UNODC) has discovered cases of small-scale trafficking of illegal migrants and weapons, and sale of diplomatic passports in Guinea-Bissau.

whereby on the one hand, illegal logging allegedly fuels instability, while on the other, recurrent instability creates the conditions for timber trafficking.<sup>41</sup>

**Figure 2.4. Guinea-Bissau: Some Indicators of Governance**



Note: The polity2 score measures the degree of political constraints, political competition, and executive recruitment. It ranges between -10 to 10 with higher values denoting more democratic institutions.

<sup>41</sup> EIA (2018).

## **Lack of basic institutions**

22. **Institutions are key to development, but Guinea-Bissau has inherited weak ones.** According to academic research, institutions in the developing world derive from countries' colonial history (Acemoglu and Robinson, 2004, 2005). In countries where Europeans settled, they emulated European institutions, strongly based on property rights, and checks and balances on political power, provisions that in Europe were a consequence of popular opposition to excessive rent-extraction by absolutist monarchs. In countries where colonial powers did not settle but only exploited their colonies' resource wealth—or even traded in slaves—institutions were designed purely to extract rents (mainly in the form of resources).

23. **Political instability has undermined institution building.** Democratic transitions have always followed moments of instability. However, the gains have been difficult to sustain. For example, during the liberation struggle, the PAIGC - under its founding leader, Amilcar Cabral - made efforts to build a political system and state institutions. Using the party as the main framework of the new state, Village Committees (*Tabanca*) were established, which in the early years of independence would bring the state and citizens together. Schools, courts, as well as security and military institutions were established by the PAIGC in the heat of the war. However, this was short-lived, as Amilcar Cabral was assassinated months before the declaration of independence in 1973. Less than 10 years into the independence era, the failure of the state-led development policies led to economic deterioration. This was exacerbated by the political tensions and in-fighting between Cape Verdeans and the native Guineans within the PAIGC, leading to the country's first coup in 1980. The union between Guinea-Bissau and Cabo Verde was terminated, and Guinea-Bissau descended into an era of political instability. As a result, state structures, including the village committees, became almost completely defunct.

24. **Weak state institutions and poor public administration are primary sources of fragility.** There is growing consensus that weak institutional capacity, governance, and accountability are important factors in explaining why political instability and violence are repeated in the same countries or subnational regions (WDR, 2011). Guinea-Bissau ranks poorly on most of the governance indicators in the World Bank's Worldwide Governance Indicator (WGI). These indicators measure performance in control of corruption, government effectiveness, regulatory quality, and rule of law. Its performance has been low and deteriorating (Figure 2.4a), suggesting that the governance framework in Guinea-Bissau is extremely fragile. The country ranks in the bottom decile globally, scoring poorly on government effectiveness, the control of corruption, the quality of regulations, and the upholding and enforcement of the rule of law (Figure 2.4). Fragile and weak public institutions can result in weak transparency and accountability in the use of public resources. Weak institutions and governance can also be at the center of repeated cycles of instability and violence. For example, rule of law is lacking, and citizens generally remain distrustful of the court system (IMF, 2020). The complexity and opacity of the regulatory environment, including in the area of cashew trading, can create an environment in which corruption can flourish (Ibid.). Strengthening state institutions and governance is critical for addressing poverty reduction.

25. **Guinea-Bissau scores the lowest amongst peers on the WGI's 'control of corruption' index** (Figure 2.4e).<sup>42</sup> According to most indicators, it is among the countries with the highest perception of corruption (Figures 2.4d and 2.4e). It is ranked by Transparency International 168<sup>nd</sup> out of 180 countries, only outperforming countries in conflict or post-conflict, such as Afghanistan, Yemen, South Sudan, Syria and Somalia. According to the June 2020 IMF assessment: "Guinea-Bissau faces significant and systemic

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<sup>42</sup> IMF (June 2020). "Guinea-Bissau: Technical assistance report—Enhancing governance and the anti-corruption framework—next steps."



corruption risks emerging not only from the misuse of public resources but also from foreign drug traffickers that seek the assistance of the country's officials." As noted above, the country's institutional weaknesses have been manifesting themselves, among others, in weak public financial management, particularly insufficient internal and external controls. Despite some recent success on the part of the judiciary, including on the investigation of acts of corruption, credible follow-up by prosecutors and courts is lacking (IMF, 2020; World Bank, 2018).

26. **The political system requires a level of cooperation which is difficult to achieve.** This semi-presidential system has proven difficult to operate as the near equal distribution of constitutional political power among the sovereign organs of the state relies on consensus and cooperation.<sup>43</sup> However, as consensus and cooperation are often lacking among the key players and political factions, the elites can seek to control these sovereign organs to serve their own interests. The effect can be to cripple the state and impede it from fulfilling its core functions.

27. **Widespread poverty and lack of basic education mean that citizens are often powerless to demand change.** The state lacks a presence across a substantial part of the territory. Its administrative structures - the symbolic representations of the state - are dilapidated and undignified and thus perceived as a sign of state weakness.<sup>44</sup> At the sub-national level there is no effective state-citizen contract. In many parts of the country, people are neither informed nor involved in matters of the state apart from during elections. With widespread poverty and lack of basic education, citizens are powerless to demand change from the elites. These conditions, combined with poor education and poverty, have corruption to flourish, and undermine state accountability to citizens.

28. **Nonetheless, there are signs of progress in the political evolution of the country.** These include the completion of the full-term mandate of the President and head of state in 2020 even though it was a tumultuous term with high government turnovers. National cohesion persists despite the country's political, institutional and economic fragility. The country is largely safe, with lower levels of crime and violence than other countries in the West African sub-region. Despite the heterogenous nature of the country, people have largely co-existed peacefully and harmoniously. This is attributed to the strong legacy of national integration and to the ideology and policy of the PAIGC-led independence movement, and to the post-colonial state's advocacy for a national-unity-in-ethnic-diversity or tree-as-nation model, which portrays the Bissau-Guinean nation as an umbrella encompassing various ethnic groups. The PAIGC has actively encouraged national cohesion over division since the beginning of the struggle for liberation. Another sign of democratic reign is the space that exists for civil society organizations. Political rallies and protests have been held with minimal violence. These elements demonstrate positive commitments to democracy which can be built upon to develop a responsive and democratic developmental state in Guinea-Bissau.

### **Challenges involved in reforming the security sector<sup>45</sup>**

29. **Reforming the security sector will help to make Guinea-Bissau's public administration more efficient.** Public administration is undermined by a large bureaucracy, including an overrepresented military. The security sector accounts for over 30 percent of all public servants and 35 percent of the public sector wage bill, even though Guinea-Bissau does not face any internal conflicts or external threats. The national security institutions are byproducts of the independence guerilla movement, with the military and

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<sup>43</sup> Constitution of the Republic of Guinea-Bissau. Adopted in 1984, Amended in 1991, 1993, 1996, [https://www.icrc.org/applic/ihl/ihl-nat.nsf/0/8ff8cad34667b579c1257083002a6fa8/\\$FILE/Constitution%20Guinea%20Bissau.doc](https://www.icrc.org/applic/ihl/ihl-nat.nsf/0/8ff8cad34667b579c1257083002a6fa8/$FILE/Constitution%20Guinea%20Bissau.doc)

<sup>44</sup> World Bank and UN (2018).

<sup>45</sup> See World Bank (2018) Public Expenditure Review for more discussion on this.

other security forces retaining some political elements of a revolutionary army. The sector has proven difficult to reform into a professional, republican force or security apparatus, partly because of the huge cost involved in retiring and demobilizing military and security personnel. Feeling a sense of entitlement as liberators of the country, these officers are demanding huge gratuity and pensions for their retirement. The huge funds announced and funneled into the DSSR might have created a rent-seeking disposition on the part of those targeted by the reforms. At one point, the estimated sum for the gratuity was about US\$58 million (4 percent of GDP), which is above the amount for pensions, estimated at over \$24 million.

### **Box 2.3. How Covid-19 could Exacerbate the Governance Situation**

**The COVID-19 crisis is uncovering fragilities in governance, particularly government effectiveness, transparency and accountability.** Around the world, the crisis is testing the quality of governments. Many leaders have failed the test. In Guinea-Bissau, the responsibility that comes with effective handling of the pandemic by the state and its ability to demonstrate capacity for planning, accountability, and transparency have implications for legitimacy and continued support from international development organizations. Corruption and weak government institutions pose a challenge to the incumbent government to demonstrate responsiveness and responsibility to the people and earn their trust. If citizens sense a lack of effectiveness on the part of the government, they may revolt and refuse to obey the guidelines set by it. This could prove catastrophic to the pandemic response. In addition, the stimulus package and investments in the health sector raise the risk of corruption and mismanagement. This could lead to the suspension of support from international development partners. Hence, COVID-19 presents a real test to the fledgling government and to the prevailing, but fragile, stability.

**COVID-19 could also have an impact on the current political situation.** The legitimacy deficit of the incumbent government has, inadvertently, received an unwelcome boost in the context of the pandemic. The ECOWAS Authority of Heads of State and Government recognized the government ahead of its extra-ordinary summit on the regional response to COVID-19. The declaration of a state of emergency linked to the COVID-19 response gives the government exclusive control over the country's land, sea, and air space. The imposition of a nationwide nightly curfew, suspension of public transport and ban on public gatherings effectively consolidate the government's control. Within the context of the pandemic, the government is also initiating political reforms, including a reform of the constitution. A committee has been set up by the government to come up with proposals.<sup>46</sup> The opposition PAIGC, which dominates the National People's Assembly, is already challenging the legality of this as the constitution confers on the Assembly the powers to initiate constitutional reforms.

## **2.4. Why have Fragility and Weak Governance Proven Difficult to Address**

30. **The state is largely incapacitated by political instability and weak justice system.** With regard to conflicts among the political and military elites, the people feel that justice has rarely, if ever, been rendered to victims, promoting revenge and feeding the cycle of violence.<sup>47</sup> The absence of formal justice mechanisms can favor individual settlements, although the courts have passed some important verdicts and rulings in settling political disputes. An ambitious new Justice Reform Program (2015–2019) has been prepared but has been blocked by the political crisis and differences between the government (Ministry of Justice) and the judicial power (Supreme Court of Justice). It is crucial to create consensus on the implementation of this essential reform.<sup>48</sup>

<sup>46</sup> Vieira (2020).

<sup>47</sup> Carter (2018). In Guinea-Bissau, 81% of the population believes the distribution of wealth in their country is unjust; and 88% claim their government upholds the interest of a few powerful groups and not those of the people.

<sup>48</sup> This section benefits from UNIOGBIS & ISS (2018b).

31. **The weak relationship between the state and the citizens exacerbates the persistence of state fragility.** In many parts of the country, the state is absent, leaving the affairs of the people in the hands of traditional and religious leaders, and non-government organizations (NGOs). Where some state structures exist, such as police, schools, or courts, the people do not trust these institutions due to corruption and lack of capacity, or find them too poorly resourced to cater to their needs (IMF, 2020). For some of the communities, these public services are not within reach due to geographical remoteness and lack of transport infrastructure. Since the state is not able to provide social services, it is not able to command the respect and loyalty of the population. NGOs and other civil society organizations of various shades have stepped in to fill the gaps in the provision of public services. However, a complex relationship characterizes the relationships between the people on the one hand, and the NGOs and the state on the other.

32. **State fragility can undermine multi-stakeholder international interventions.** Ideally, the state institutions should coordinate and direct international assistance toward transforming the country's fortunes based on a nationally inspired plan. With the right kind of assistance, state institutions can constrain errant behavior and ensure compliance. As discussed in Section 2.3, the arrests surrounding cocaine transshipments, illegal fishing vessels and smuggling are indicators that, though fragile, the state has the potential for improving governance and legitimacy. Nonetheless, the regulatory frameworks in financial, security and bureaucratic administration are still weak.

33. **International political and economic actors may unwittingly perpetuate fragility.** Guinea-Bissau is host to many international organizations, such as the UN, European Union (EU) and ECOWAS, as well as international financial organizations. Each contribute in one form or another to the sustenance of the security and stability of the state. The efforts of the P5 group of international partner organizations in Guinea-Bissau (ECOWAS, African Union, UN, Community of Portuguese Language Countries, and the EU) to end political instability, as well as those of other international financial institutions to support the country's institutional, socio-economic recovery and development, have been remarkable and these partners continue to support the country. The most recent political effort was the 2016 Conakry Accord championed by ECOWAS and supported by the other P5 institutions. Major highlights of the accord, which was signed by the major political parties, religious leaders and civil society representatives, include a plan for national dialogue, review of the constitution and defense, security and justice sector reforms. However, the prolonged peacekeeping ECOWAS Mission in Guinea-Bissau (ECOMIB) and faltering defense and security sector reforms (DSSR) have created a stability heavily dependent on the presence of foreign forces. The DSSR has been stalled because of excessive expectations of benefits from the international community on the part of the old guard.

34. **The imposed nature of external assistance can reduce the value of the state in the eyes of the people, thereby further undermining its legitimacy.** Collier (2019) argues that the state, not foreign entities, must manifestly be in charge of public policy. Such actions only lead to situations in which governments sign up for undertakings that they have neither the capacity nor the intention to deliver. In dealing with fragile states, emphasis should be placed on the sovereignty of the state and seizing pivotal moments of opportunity (Collier, 2019). The state's intention is fundamental to successful change. If this condition is not present, there will be little that the international community can realistically do. Because fragile states have repeated cycles of crises and changes of leadership, there are pivotal moments when change can occur. International support needs to be sufficiently quick so that it can seize on such moments. Although they may not all be identified, the cost of missing one of these infrequent opportunities is likely to be far higher than intervening in situations that turn out not to be promising.

## 2.5. Options for Reform

35. **Guinea-Bissau has a long way to go to achieve the conditions in which fragility and political instability cease to undermine economic growth.** Though the path is long, this chapter has shown that some encouraging signs are present, and that practical steps are possible. This concluding section outlines a practical reform agenda for pursuit by national leaders; development, security, and diplomatic partners; and civil society to help set the nation back on a stable development path.

### *To strengthen PFM and improve the management of public resources*

- **It will be important to strengthen political leadership on public financial management (PFM) reforms.** Given the political importance of PFM reforms in Guinea-Bissau, political leadership is essential. The starting point should be the development of an operational plan for PFM reforms, with clear and measurable indicators to be monitored. Regular steering committees should then be held to measure progress, take strategic decisions, and resolve bottlenecks.
- **It is crucial to reestablish the Treasury Committee which had helped strengthen expenditure controls in precious years.** The TC meetings have been discontinued since 2019 given the recent bouts of political instability and difficulties to manage them effectively. In the past, the Treasury Committee (TC) carried an essential role for budget execution and provided some control over cash management and public expenditure, including reduction of the accumulation of payments arrears. The TC in Guinea-Bissau makes real-time decisions on expenditure allocation based on cash availability and some prioritization criteria. See World Bank (2018) and IMF (2020) for more discussion on the roles of and challenges faced by the TC.
- **Provide financial and administrative autonomy to the Court of Auditors (*Tribunal de Contas*).** External control by the Court of Auditors is weak or non-existent.<sup>49</sup> Under a 1992 law, the *Tribunal de Contas* lacks financial and administrative autonomy
- **The Inspector General and separate entities (*Inspecções Gerais*) needs to conduct (and publish) regular audits on government entities.**
- **The Government needs to regularly prepare annual budgets and submit them for approval by the National Assembly.** In recent years, the government's draft annual budgets have not been approved by the National Assembly, leading to their execution on the basis of the 2018 budget allocations. Due to the political impasse, the National Assembly has not functioned between 2015 and mid-April 2018 and no government program or budget has been approved during this time.
- **Establish a treasury single account at the Central Bank** pursuant to a treasury single account agreement between the Treasury and the Central Bank. In the short-term, it is critical conduct a comprehensive census of all central government bank accounts and reduce the number of government bank accounts.
- **Update the existing budget classification system** to ensure that all employee compensation expenditures are appropriately accounted for. It may also consider reducing non-wage benefits and linking them more closely to individual performance, with tax collection bonuses forming a central part of this.

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<sup>49</sup> The last opinion (*parecer*) the TdC published on the government's accounts dates from 2010, and government expenditure is not subjected to any other external audit mechanism. The audits the TdC normally conducts on some central government bodies account for less than 50 percent of total government spending.

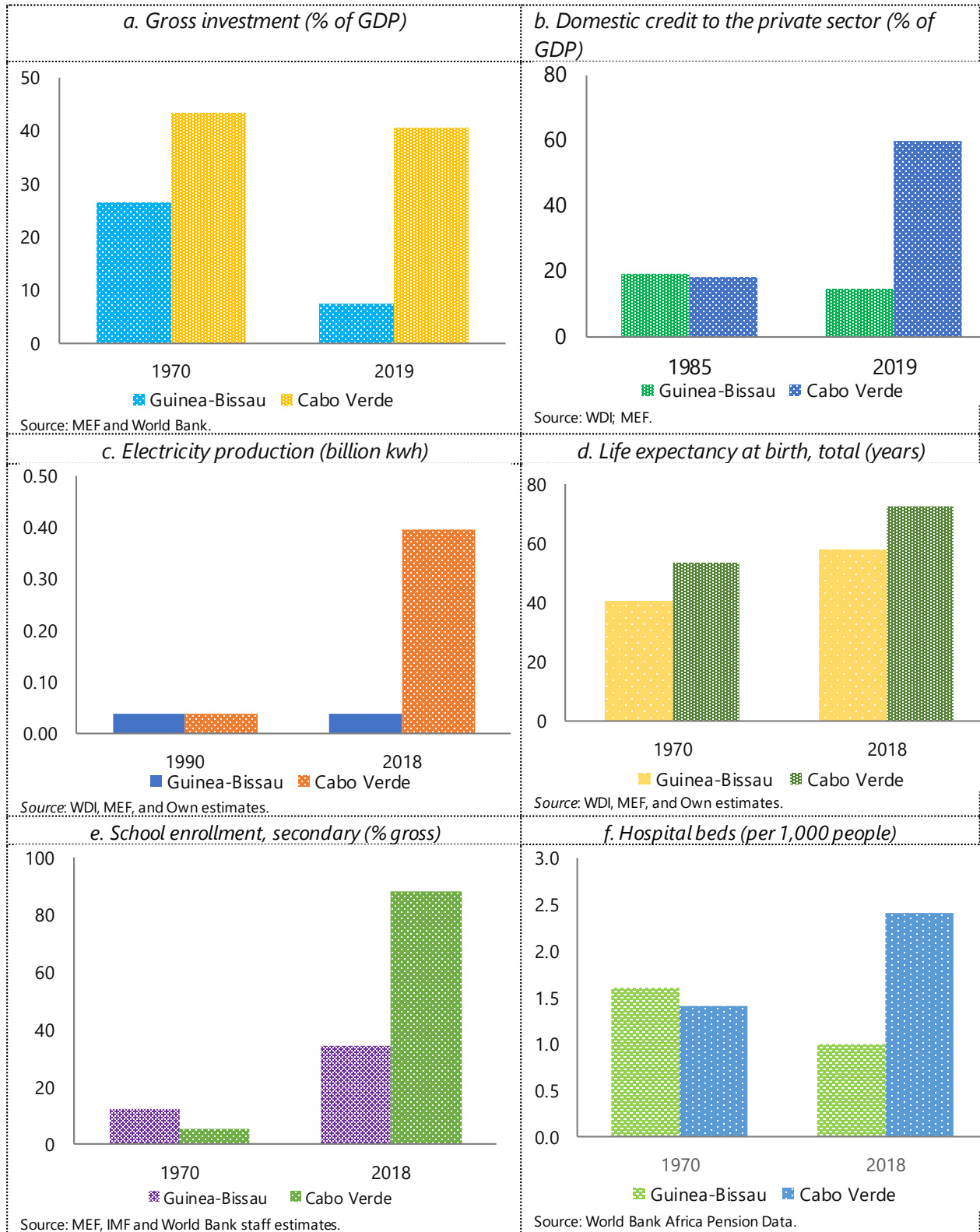
- **To improve transparency, the budget classification should be fully aligned with WAEMU guidelines**, which involves eliminating the additional category “other current expenditures” in the budget. In addition, the government needs to undertake a comprehensive inventory of extrabudgetary operations and expand budget coverage to incorporate the revenues and expenditures of sector ministries. The revenues of many sector ministries account for only a part of their spending (World Bank, 2018).
- **Government should consider strengthening payroll control and administration.** It needs to tighten its hiring processes and set a clear procedure for the approval of employees given the ineffectiveness of existing control practices. It will also be important to strengthen transaction controls, payroll reconciliations, and auditing. Over the medium term, the government should consider preparing multi-annual staffing plans as part of the process of approving and controlling the number of public sector employees.
- **Guinea-Bissau’s most urgent priority is to improve the reliability of its public finance data and increase transparency.** Without reliable public finance data, it is impossible to evaluate the impact of public policies, or whether spending reflects agreed priorities. The essential purpose of a good PFM system is to ensure that public finance data are reliable, and then to ensure transparency around public finance and hold public officials accountable for their management of public resources.

#### *To promote justice and security sector reforms*

- **Accelerate government efforts to demobilize and retire military, police and national guard personnel as part of the SSR.** An inventory of these personnel has already been done and the various allowances (Liberation War Allowance, Housing Allowance, Vehicle Allowance and Furniture Allowance), pensions and gratuities owed to them to allow them to retire have been calculated by the government. The cost remains a challenge; the government could negotiate with the affected personnel to come up with a pragmatic pay-out mechanism and use it to mobilize funding from international partners. See World Bank (2018) for more details on security and justice sector reforms.
- **Justice sector reforms needs to be strengthened.** Whether it be electoral disputes or land disputes, the justice system has an important role. The Justice Reform Program (2015–2019) needs to be revisited and implemented fully.
- **It is important to strengthen civil society organizations (CSOs) as well as religious and traditional leaders.** Citizens also have a responsibility to define and shape the agenda of their country. To enable the citizens to exercise this agency, CSOs need support. The international community should recognize and support initiatives by individuals and groups that chart a path towards progress and development of the country. While civil society receives a lot of support from NGOs, these NGOs have co-opted a section of the population into donor-dependent development and corruption. In addition, as custodians of tradition and actors at the grassroots level, these leaders have an important role in building the state. The trust and loyalty they enjoy from the people is an asset in government policies and projects. There is a need to give them better recognition and financial support to help them mobilize citizens for good governance and greater political participation.

**Annex: Guinea-Bissau and Cabo Verde compared**

**Annex Figure 1. Guinea-Bissau and Cabo Verde: Key Development Indicators**



### 3. Investing in Human Capital and Foundational Skills<sup>1</sup>

**Summary:** Human capital plays a key role in promoting economic growth, improving livelihoods and strengthening social cohesion. Guinea-Bissau's education system is characterized by low completion rates and alarmingly low levels of learning. It performs below its fragile peers across a variety of education indicators. The country has adopted an ambitious Education Strategic Plan (2017-2025) which aims to achieve universal basic primary education and improve education quality, among others. Regular teacher strikes are the main source of disruption in the school year. For the last five years, at least one-third of the school year has been negatively affected by teacher strikes. To address some of these challenges, it is important to build on existing teacher reforms to stabilize the system and reduce teacher strikes; transform the quality of education to improve learning outcomes; and strengthen governance and planning to improve data for decision making.

#### 3.1 Introduction

1. **One of the major constraints to Guinea-Bissau's economic development is its largely unskilled workforce and weak human capital.** Poor quality education and a lack of access have led to an acute shortage of skilled labor. The literacy rate for adults is around 57 percent on average, but this varies significantly between men and women as well as urban versus rural areas. On average, only 40 percent of adults living in rural areas are literate. For women in these areas, the percentage goes down to as little as 25 percent. Despite improvements in access to primary education in recent decades, there remains a considerable percentage of the population that continues to be underserved. Today, a third of children between the ages of 6 and 11 have never attended school and only 42 percent of 24-29-year-olds completed primary education.<sup>2</sup> Universal primary education is still far from a reality.

2. **Low educational attainment remains a major obstacle to improving labor productivity and generating income.** According to the 2019 UNDP Human Development Index (HDI), Guinea-Bissau ranked only 178 out of 189 countries in terms of human development.<sup>3</sup> Economies that have grown rapidly over an extended period have made substantial investments in the education of their citizens. In Guinea-Bissau, these efforts need to be urgent priority. Human capital is a key driver of labor productivity and inclusive growth. It is also an important pillar of social cohesion and trust in institutions. However, underinvestment in human capital, driven by weak and inefficient systems, and political instability (Chapter 2) have led to frequent strikes and disruptions in education services.

3. **Human capital plays a key role in generating high returns to economic growth and improving livelihoods.** Patrinos and Montenegro (2014) estimate that in low- and middle-income countries, on average, one additional year of education leads to a 10 percent increase in individual earnings, approximately. However, what matters for economic growth is not only the years of schooling completed, but rather the quality of learning. If students are failing to learn, then investments in education will not stimulate economic growth.<sup>4</sup> In order to help countries accelerate investments in human capital and bring about transformative change, the World Bank has developed the Human Capital Index (HCI) to better

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<sup>1</sup> Prepared by Giulio Schinaia (Consultant, EAWM1), with inputs and guidance from Emily Elaine Gardner (Senior Education Specialist).

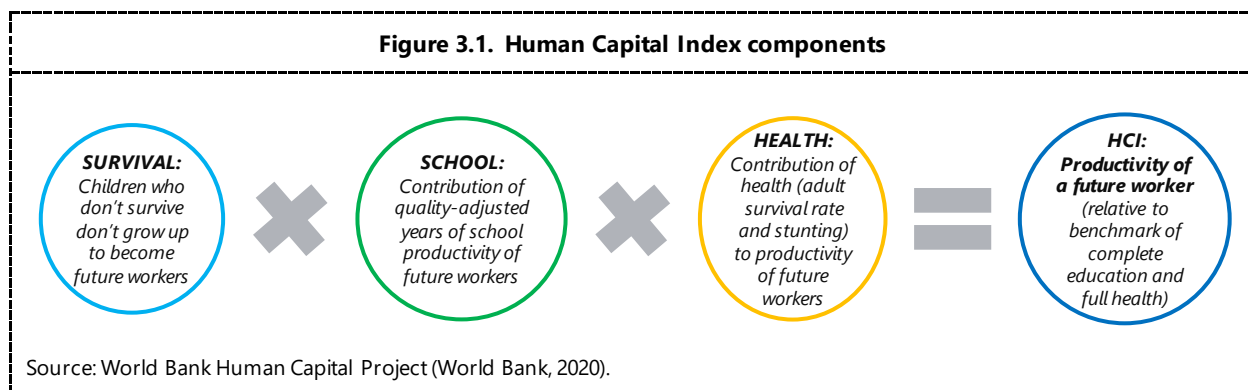
<sup>2</sup> School census 2014/15 and authors' calculations based on the Harmonized Household Survey 2019.

<sup>3</sup> UNDP (2019).

<sup>4</sup> Hanushek and Woessmann, 2012.



determine the productivity of the next generation of workers. The HCI is based on five variables within the three main components of survival, school, and health (Figure 3.1): (i) the survival rate of children past age 5; (ii) the expected number of years of school completed by youth (iii); the quality of learning in school; (iv) how long workers will remain in the workforce, as proxied by adult survival past 60; and (v) avoidance of stunting in young children. Guinea-Bissau has not yet been included in the HCI due to a lack of data.<sup>5</sup>



4. **In order to improve human capital in Guinea-Bissau, investments in education are urgent and should focus on increasing access to a quality basic education.** Although there is no HCI score for Guinea-Bissau, it is safe to assume that its education system needs significant improvements so that it can adequately prepare the current generations for a productive future. While all components of the index complement each other, Guinea-Bissau lags significantly behind its sub-Saharan peers for the HCI school variables (Table 3.1). A child in Guinea-Bissau who enters the education system at the age of 3 can expect to complete only 4.94 years of schooling by his or her 18th birthday, which is less even than the full primary school cycle. Based on existing data on learning outcomes,<sup>6</sup> it is expected that once the years of schooling are adjusted for quality, the actual years of learning would likely be considerably less.<sup>7</sup> As such, investments in education are urgently needed to improve the human capital and productivity of the population.

5. **Acquiring foundational skills, such as basic literacy and numeracy, is critical to improve Guinea-Bissau's human capital.** Being proficient in reading unlocks the door to the vast knowledge needed to access all other levels of education. Failure to acquire reading proficiency hinders a person's ability to learn throughout their social and working life. There is a trade-off between prioritizing investments in earlier years of education over those in post-primary education. Investments in the earlier years of education have the highest potential returns, but these often materialize in the future, after the completion of higher levels of education. Although investments in vocational training and the tertiary sector have the potential for quicker returns, if these students have significant gaps in their learning, these investments often have much lower rates of return than hoped. In Guinea-Bissau, learning gaps mean that vocational training programs have to spend considerable time reinforcing and teaching students the basics. Additionally, prospective employers maintain concerns about the level of proficiency of school graduates. Many graduates never even enter the labor market. Hence, ramping up investments to ensure students

<sup>5</sup> World Bank (2020).

<sup>6</sup> UNESCO-Pôle de Dakar (2015).

<sup>7</sup> The two school indicators of the HCI focus on collecting information on the quantity of education a child can expect to obtain by age 18, then combined with a second indicator to measure quality: how much children learn in school based on the country's performance on international student achievement tests. This combination produces the expected learning-adjusted years of education. By adjusting for quality, this indicator reflects the reality that due to poor quality, children in some countries learn far less than those in other countries, despite being in school for a similar amount of time.

receive a high-quality basic education is more likely to lead to greater employment opportunities and a more productive workforce.

**Table 3.1. Human Capital Index components for Guinea-Bissau, 2010, 2014 and most recent estimate (2016/2019)**

	2010			2014			Most recent estimate			(iv) SSA average (2018)
	All	Men	Women	All	Men	Women	All	Men	Women	All
<b>(i) School</b>										
Expected years of schooling	n/a	n/a	n/a	3.79	3.81	3.79	4.94	4.90	4.98	8.1
Harmonized test scores	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	381
<b>(ii) Survival</b>										
Probability of survival to age 5	0.886	0.87	0.896	0.905	0.897	0.913	0.912	0.905	0.92	0.93
<b>(iii) Health</b>										
Prob. of survival from age 15-60	0.713	0.687	0.737	0.727	0.7	0.752	0.738	0.712	0.763	0.732
Fraction of children under 5 not stunted	0.678	n/a	n/a	0.724	0.709	0.739	n/a	n/a	n/a	0.682

Sources: (i) School census (2014/15) and Harmonized Household Survey (Republic of Guinea-Bissau, 2019); (ii) UN Interagency Group for Child Mortality (2016); (iii) UN Population Division (2017); UNICEF-WHO-World Bank Joint Malnutrition Estimates (2014); (iv) World Bank Human Capital Project (2018).

Note: The figures are expressed in terms of probability going from 0 to 1. The higher the figure the higher the chance of survival.

6. **This chapter discusses some of the key ‘binding constraints’ to building human capital and offers some recommendations for addressing them.** In a context of very limited fiscal resources, efforts to improve human capital should focus on addressing these binding constraints: issues that are so severe that unless resolved, no amount of money or effort spent on other issues will yield any benefits.<sup>8</sup> In order to guide future investments and policy reforms to improve human capital, this chapter identifies and discusses three major constraints to human capital accumulation (Section 3.3): (i) chronic teacher strikes and poor governance of the education sector; (ii) low levels of learning in basic education; and (iii) the lack of data to inform decisions and monitor progress. Section 3.4 describes how the vocational and professional training sector can also better prepare youths in Guinea-Bissau enter the labor market. Section 3.5 provides recommendations for policies that could remove these binding constraints and unlock the potential of human capital as a source of economic development. The next section (3.2) provides a brief overview of the country’s education sector.

## 3.2 The Education Sector: A Brief Overview

### *Management and strategic direction*

7. **The management of the education sector at all levels, from the central ministry to the individual school, is affected by low capacity and poor governance.** Guinea-Bissau’s education system faces persistent challenges related to constantly recurring teacher strikes, an inadequate supply of trained teachers, low public spending, and weak governance. Clear policies and regulations to govern the education sector are lacking, including those related to the recruitment, training and management of teachers and school directors. The lack of a functional education management information system also limits the

<sup>8</sup> Van de Berg *et al.* (2016).

availability of timely and reliable data which is needed to guide the development of sector policies and to properly monitor and evaluate the implementation of sector programs. Despite having been stated as a priority sector for nearly all successive governments since 2014, the fiscal resources allocated to education are inadequate to meet its growing demand. The education sector budget is limited and highly reliant on donor financing. Over 90 percent of the education sector budget is allocated to covering teachers' salaries, leaving limited resources to address other needs of the sector. In addition, in recent years, not all teachers have been paid on a regular basis due to a lack of fiscal resources and accumulated wage arrears, resulting in frequent teachers' strikes and the suspension of classes.

8. **Education management is largely centralized.** Education falls under the responsibility of the Ministry of Education and Higher Education (MEHS). Administrative responsibilities are held by 11 Regional Education Directorates, corresponding to nine administrative regions and two educational sub-regions. According to the Education Law of 2011, Guinea-Bissau's formal education system includes three cycles of basic education (grades 1-9). The first two cycles are compulsory and free and constitute the full cycle of primary education; the third cycle is comparable to lower secondary school and requires students to pay a fee. Secondary education consists of grades 10-12, followed by various forms of technical and vocational training (Table 3.2).

**Table 3.2: Basic and Secondary Education Levels by Student Age**

<i>EB1</i> (Grades 1-4)	<i>EB 2</i> (Grades 5-6)	<i>EB 3</i> (Grades 7-9)	<i>Secondary</i> (Grades 10-12)	<i>Tertiary</i>
<b>Age 6-11</b>		<b>Age 12-14</b>	<b>Age 15-17</b>	<b>Age 18-21</b>

Note: Grades 1-4 (EB1) are the first cycle, Grades 5-6 (EB2) the second cycle, and Grades 7-9 (EB3) are the third cycle. Basic education is followed by three years of secondary education, both general and technical schools, before four years of higher and tertiary education.

9. **The public sector is the main provider of both basic and secondary education.** Out of nearly 460,000 students in 2014/15, 68 percent were enrolled in public schools, 15 percent in private schools, 15 percent in community schools, and 2 percent in Islamic schools (madrassa).<sup>9</sup> The performance of the public school system is poor, reflecting a lack of investment in infrastructure and weak governance, including frequent school closures due to teacher strikes. Private schools, notably in urban areas, tend to perform better than public schools due to the ability to remain open when the public schools are closed by strikes. The quality of education is, however, not necessarily better, as often the same public sector teachers also work in private schools.

10. **Guinea-Bissau has adopted an ambitious Education Strategic Plan for 2017-2025 (ESP) which sets out government priorities to guide investments in the education sector.** The plan prioritizes expanding education coverage to achieve at least universal basic primary education, improving education quality across all cycles of education, and supporting technical and vocational education and training and higher education. Further, it outlines a strategy for improving governance and overall management of the sector. The costing model used to calibrate the sector plan estimated that, in order to achieve universal

<sup>9</sup> Student figures come from the latest published school census (2014/15). The lack of recent reliable data is a chronic issue in Guinea-Bissau, with the government often relying on projections or incomplete data rather than actual figures to estimate its current student population

primary enrollment, while keeping the pupil-teacher ratio at 50, at least 500 new classrooms would need to be created between 2018 and 2025, at an additional cost of US\$ 8m over and beyond recurring expenditures. The recurring costs of salaries were estimated to increase annually by 3 percent, and 22 percent over the course of the whole plan, while the cost per pupil was estimated to be around US\$ 42 annually. Given the recent salary increases (discussed in the next section), these estimates are likely to be lower than the actual costs required for the system to achieve its targets. Additional resources will also be needed to alleviate the shortage of qualified teachers, and the lack of publicly provided inputs within schools that place serious constraints on the quality of the education sector.

11. **Although public education spending increased significantly over 2010-18, the sector remains largely underfunded.** The preparation of the ESP provides an opportunity to tackle the challenges in the sector and channel funding to priority areas. According to the 2018 Public Expenditure Review (PER), education spending almost doubled in real terms between 2010 and 2015, from US\$ 13.3 million to US\$31.7 million.<sup>10</sup> However, in 2017 and 2018, education spending remained at 2.2 percent of GDP, well below the 4-6 percent recommended by the Global Partnership for Education. More than 93 percent of current public education expenditures cover teacher and other staff salaries. The sector is heavily reliant on donor support for investments, funding nearly all non-recurring expenditures.<sup>11</sup> It needs a sustained increase in resources to finance the interventions identified in the ESP. However, available resources are limited, and significantly higher levels of spending are increasingly unlikely given the fiscal crisis being created by COVID-19 on a global scale (Chapter 1). It is therefore even more vital to vastly improve the efficiency with which existing resources are used—those from both the government and donors.<sup>12</sup>

12. **Guinea-Bissau spends more on secondary education than its peers.**<sup>13</sup> Its high share of spending on primary education can be attributed to the inclusion of EB3 expenditures under primary education, which would be classified as lower-secondary in most other countries. Its secondary education spending is also above the SSA average and puts Guinea-Bissau among countries with a high share of public secondary expenditures, which suggests that its spending might need to be re-distributed more towards the earlier years of education. Students in basic education constitute the vast majority of students in Guinea-Bissau: 87 percent of all enrolled students are still in basic education and only 10 percent and 3 percent are in secondary and post-secondary education (Figure 3.4).

13. **Pervasive teacher strikes have severely hampered education outcomes in recent years.** The underlying causes of the strikes need to be addressed to bring the stability to the system. Some of the causes of the recent teacher strikes were related to payroll management (salary arrears and adjustments), working conditions, and the implementation of the Teacher Career Reform. However, the root causes of the strikes lie in the political instability that has affected the country and the weak capacity of the institutions involved (Ministry of Education, Ministry of Economy and Finance and Ministry of Public Administration) to define clear rules and implement them effectively.

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<sup>10</sup> World Bank (2018a).

<sup>11</sup> Some of the national investments should have been categorized as current expenditures, making donor financing around 99 percent of capital available for investments in the sector (World Bank, (2018a).

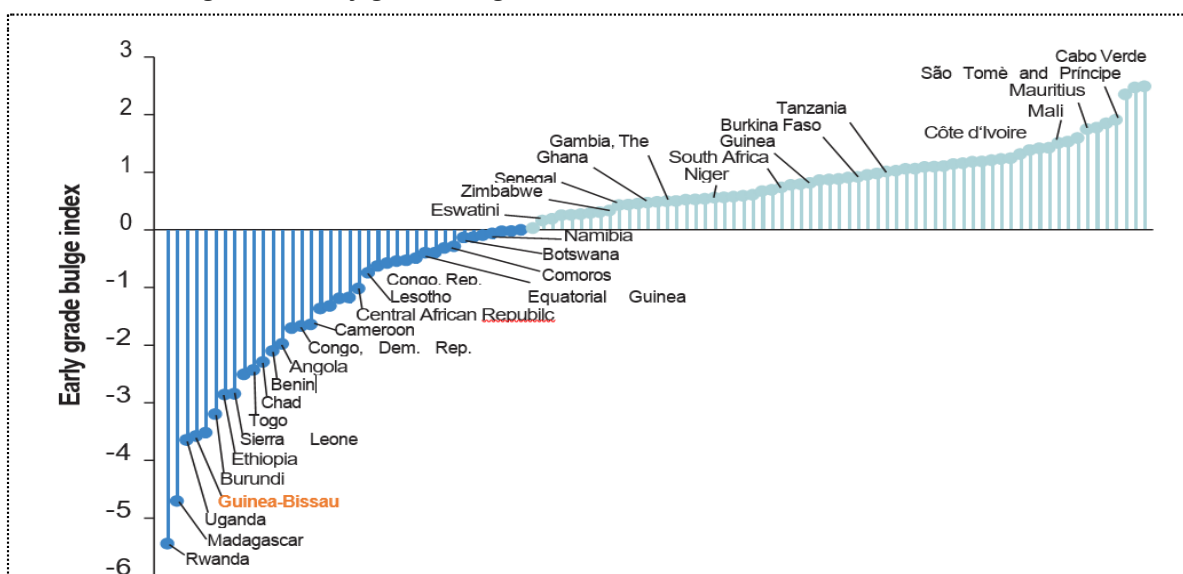
<sup>12</sup> Some key gains in efficiency could be achieved by: (i) increasing timely enrollment, reducing repetition rates, and improving primary completion rates; (ii) improving planning of new infrastructure to expand access; (iii) reducing teacher strikes; (iv) scaling up teacher training initiatives; and (v) focusing on improving students' learning outcomes.

<sup>13</sup> World Bank (2018a).

## Enrolment and completion rates

14. **Despite progress in overall enrolment levels over the last two decades, access to education remains a pressing issue.** While the primary gross enrollment rate increased from 71.8 to 123 percent between 2000 and 2015, net enrollment rates have not improved in recent decades.<sup>14</sup> Persistent late-entry and high repetition rates exacerbate primary net enrollment, which is around 68 percent according to both the 2019 Harmonized Household Survey (HHS) and the 2014 Multiple Indicator Cluster Survey (MICS). The current net enrollment rates are slightly below the 2010 estimate of 71 percent, but still above 2000 levels, which were only 48 percent. Currently, a third of children between the ages of 6 and 11 have never attended school, though they may enroll at an older age. The issue of late enrollment is particularly salient in Guinea-Bissau, as evidenced by the recent United Nations Children’s Fund (UNICEF) report on Out of School Children. Using the MICS data, the report estimates that in 2014 there were almost 100,000 children aged 6-11 who were not in school. However, after accounting for the fact that many of these children were in preschool or had not yet entered primary school, the number of children aged 6-11 that had already dropped out and were not expected to come back to school was estimated to be 25,000.<sup>15</sup>

Figure 3.2. Early-grade “bulge index” in Guinea-Bissau and select countries



Source: Bashir *et al.* (2018).

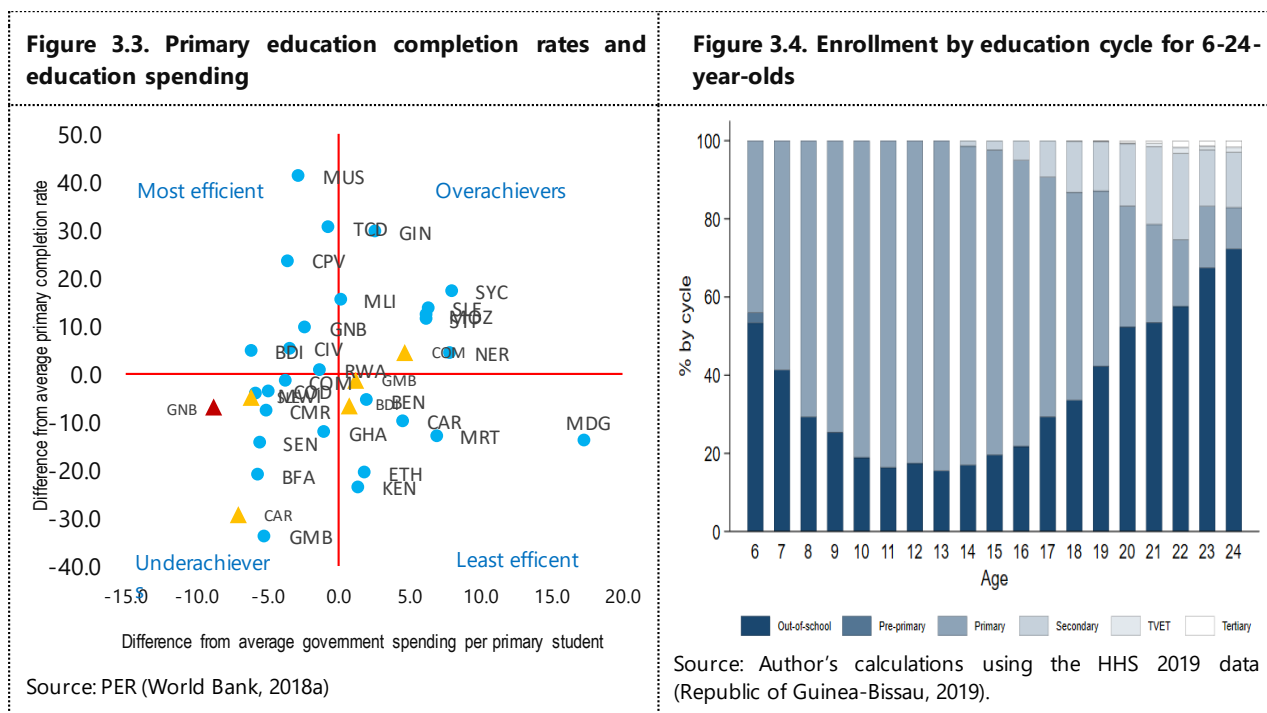
Note: Low values reflect high enrollment in grade one (1<sup>a</sup> classe) relative to the age group, low progression to EB2 (2<sup>a</sup> classe) (that is, many repeaters), and low pre-primary coverage. The value of the index is the standardized predicted score estimated after applying factor analysis to four indicators: the gross intake ratio in grade one, the enrollment ratio in grade one, the ratio of grade two to grade one enrollment, and the gross enrollment ratio in pre-primary education. Values over zero indicate better progression, and values under zero indicate lower progression, respectively, in the early grades. A country with a value of -2 or +2 is approximately 2 standard deviations away from the mean value of a linear combination of all indicators.

<sup>14</sup> The gross enrollment rate is the ratio between all students enrolled in primary education, regardless of age, and the population of official primary education age. The net enrollment ratio is the number of boys and girls of a particular level of education that are enrolled in that level of education, expressed as a percentage of the total population in that age group.

<sup>15</sup> Study on Out-of-school Children (UNICEF, 2018). According to the report, in 2000, the number of primary-school aged children that were out of school and were not expected to re-enrol was 80,000.

15. **The primary education completion rate is only 29 percent, which is partly explained by late entry and high repetition rates.** About 50 percent of 6-year-olds have never attended school and repetition rates across basic and secondary education remain high, between 10 and 20 percent – well-above the recommended rates. High repetition rates in the early grades increase the opportunity cost of completing primary and secondary education, exacerbating the risk of early dropout. Using the HHS 2019 data, the average number of years of schooling completed among 24-29 year-olds is only around 5 years. In this cohort, women complete less than 4 years of education on average. Moreover, only 42 percent of 24-29-year-olds have completed primary education, and less than half of them go on to complete secondary education.<sup>16</sup>

16. **In Guinea-Bissau, more than in most SSA countries, enrollments in grades one and two are substantially higher than the size of the relevant age cohorts** (Figure 3.2). Late-entry, high repetition rates and limited early childhood education to prepare children for formal school result in a large “bulge” of students in grade one. This lowers the likelihood of primary school completion and makes quality improvements difficult. These internal inefficiencies result in substantial costs for the government. The recent PER estimates the internal efficiency coefficient for Guinea-Bissau to be 53.4 percent, significantly lower than the 80 percent benchmark target, meaning that nearly half of the scarce public resources allocated to primary education are lost.<sup>17</sup> Guinea-Bissau underperforms on primary completion rates compared to its peers (Figure 3.3).



<sup>16</sup> School census 2014/15 and authors' calculations based on the Harmonized Household Survey 2019.

<sup>17</sup> The internal efficiency coefficient is calculated as the ratio of the ideal number of student-years required to produce a number of graduates from a given student cohort in basic/secondary education to the actual number of student-years spent to produce the same number of graduates, expressed as a percentage.

### Box 3.1: How is the education system in Guinea-Bissau dealing with the COVID-19 pandemic?

**Without preventative measures, the ongoing COVID-19 pandemic and global economic crisis will likely weaken Guinea-Bissau's human capital even further.** Learners are being negatively affected by COVID-19, with the effects of the crisis further exacerbated by political instability. In March 2020, a few weeks before the beginning of the state of emergency, a new government took office bringing in new ministers, as well as new appointments to most director general positions in the Ministry of Education. The abrupt change of leadership slowed down the ability of the Ministry of Education to develop a contingency plan for the education system during the state of emergency. The period of school closures mandated by the state is yet another disruption to the school calendar. Even before the school closures, the academic year 2020 had already started with teacher strikes, mostly concentrated in the capital. School closures have immediate negative effects through the loss of opportunity to learn, but the crisis is likely to have even longer-lasting negative effects on human capital, as dropouts are likely to increase and the losses in learning losses might be more difficult to recover.

**The education sector's contingency response to the crisis highlights the importance of the policies that should have been in place before the beginning of the COVID-19 pandemic.** The Ministry of Education, together with its partners, has been drafting an emergency plan that focuses on: communicating community-based containment strategies effectively to prevent the spread of the virus; ensuring that water and sanitation facilities are accessible to all students once schools re-open; and monitoring closely both teacher and student attendance once schools re-open. Distance learning programs have been challenging to implement and only benefit the richest households. Some of the proposed distance-learning measures during the school closures include broadcasting educational material through the national TV and community radio stations. However, few poor households own radios (though most mobile phones can connect to radios), and almost none own televisions (Figure 3.6), which will prevent their children from continuing learning during the period of school closures.

**Dropouts were already high before the pandemic and are likely to increase further once schools re-open.** A recent study found that during the 2014 Ebola crisis in Sierra Leone, in areas where community activities stopped and schools closed to prevent the spread of the disease, 12-17-year-old girls were more likely to experience out-of-wedlock pregnancies and as a result overall school enrollment post-crisis dropped by 16 ppts.<sup>18</sup> In an attempt to stimulate students' re-enrollment and prevent dropouts, the government has announced that school fees will be waived for the next academic year.<sup>19</sup> The rate of out-of-school children is already high in Guinea-Bissau and differs noticeably between boys and girls, urban versus rural households, and across wealth quintiles (Figure 3.5). Once schools re-open, the reduced re-enrollment rates are likely to affect rural and poorer households more, deepening these pre-existing inequalities.<sup>20</sup> In Guinea-Bissau, even before the pandemic, around 46 percent of the students enrolled in primary grades 1-6 were likely to drop out of primary school before completing grade six. This figure is significantly higher for girls (53 percent) than for boys (39 percent).<sup>21</sup>

17. **Guinea-Bissau has ramped up efforts in recent years to develop early childhood education, but supply is still unable to keep up with demand.** A large body of recent research confirms that attending a high-quality preschool can have long-lasting effects on a child's educational attainment and later-life educational and labor market outcomes. In the most recent learning assessment available, children in both grades 2 and 5 who had attended early-childhood education had scores that were 4 and 11 percent higher than their peers who had not gone through any pre-primary education.<sup>22</sup> World Bank (2018a)

<sup>18</sup> Bandiera et al. (2019).

<sup>19</sup> See <https://angnoticias.blogspot.com/2020/05/educacao-men-adopta-plano-de.html> (in Portuguese).

<sup>20</sup> Authors' calculations based on the HHS 2019 data.

<sup>21</sup> The Out-of-School-Children report (UNICEF 2018) calculated the percentages for primary and lower secondary "at risk" at risk of dropping out based on the UNESCO Institute for Statistics methodology.

<sup>22</sup> RESEN (2015). Education Status Report.



highlights that in Guinea-Bissau, pre-school education received only 2 percent of the national education budget in 2013 and a recent census of all pre-primary education institutions identified only 744 institutions offering pre-primary schooling. Most of these pre-schools are concentrated in Bissau (34 percent) and in the regions of Cacheu (17 percent) and Oio (14 percent), with the southern regions of Tombali and Quinara accounting only for 4 percent of all pre-schools. Between 2005 and 2013 the pre-school gross enrollment rate increased from 5 to 13 percent and the net enrollment rate estimated from the recent Harmonized Household Survey was 13 percent, still below the 20 percent target set for 2025.

18. **Although more children have enrolled in school in recent decades, most still leave school without mastering basic literacy and numeracy skills.** Results from a 2014 assessment based on the Program for the Analysis of Education Systems (PASEC) II methodology found that the median Grade 5 student in public schools could answer only 28 percent of the questions in mathematics correctly and 36 percent of the Portuguese questions. Alarming, 41 percent of students performed worse than if they had chosen their answers at random, since this assessment was based on multiple choice. The same assessment found that 98 percent and 94 percent of teachers in grade 5 were unable to answer all questions in mathematics and in Portuguese, respectively.<sup>23</sup>

### **Education in the context of COVID-19**

19. **The ongoing COVID-19 pandemic and global economic crisis will further reduce learning and human capital accumulation.** Guinea-Bissau is among more than 150 countries to have closed its schools to reduce the spread of COVID-19, imposing high social and economic costs for families and learners.<sup>24</sup> All educational institutions (from pre-school to higher education) have been closed since the third week of March 2020, with no date for their re-opening at the time of writing. The pandemic is creating a huge loss of learning time, preventing most school-age children from covering the material set out in this year's curriculum. The use of digital technologies for teaching is not an option for almost all students in the country, unlike many other countries. Additionally, school meals programs, which normally operate in around 40 percent of schools, are no longer accessible while schools are closed. This disruption to learning is adding to a turbulent academic year already affected by teacher strikes in January 2020. The time out of school is likely to increase dropouts among the most vulnerable. Box 3.1 discusses some of the likely impacts that the pandemic will have on learning and schooling outcomes.

20. **Without recent data on learning outcomes it is challenging to estimate exactly the amount of learning-adjusted-years lost as a result of the pandemic.** However, it is illustrative to compare the estimated human capital losses from neighboring countries as a result of the pandemic. The losses in Guinea-Bissau are likely to lie somewhere in between those of its two geographical neighbors (Senegal and Guinea). In Senegal, children could expect on average to complete 7.2 years of school by age 18 under normal circumstances. When years of schooling are adjusted for quality of learning, however, this is only equivalent to 4.8 years, i.e., a learning gap of 2.4 years. World Bank estimates for Senegal suggest that impacts of school closures are going to reduce expected years of schooling by around 0.2-0.5 years and learning-adjusted years by 0.2-0.4 years. In Guinea, children are expected to complete 6.9 years of schooling on average, or only 4.5 years adjusting for learning quality. The estimated losses in terms of expected years of schooling range between 0.2-0.4 years and are equivalent to 0.1-0.4 fewer learning-adjusted-school years.<sup>25</sup> Based on the announced re-opening of schools in July, losses in expected years of schooling in

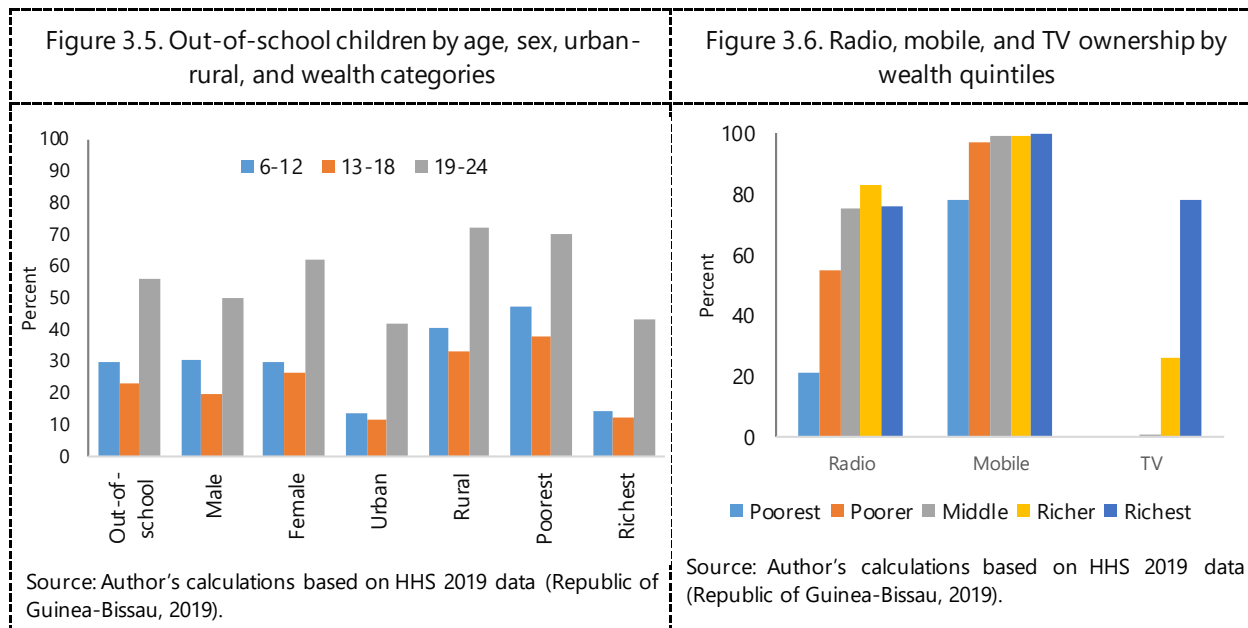
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<sup>23</sup> UNESCO-Pôle de Dakar (2015).

<sup>24</sup> See <https://en.unesco.org/covid19/educationresponse/> accessed on 23/05/2020.

<sup>25</sup> Estimates using Azevedo et al.'s (2020) simulation tool.

Guinea-Bissau may range between 0.2-0.5. The loss in quality-adjusted years of education is likely to lie in a similar range as that of its neighbors.



21. **The immediate effects of current school closures due to COVID-19 in 2020 are comparable to the prolonged periods of school closures due teacher strikes** that children in public schools already deal with on a regular basis (Section 3.3). However, the subsequent economic downturn and reduced fiscal capacity will reduce the government's ability to push for the implementation of reforms in the education sector, discussed below, which were intended to bring more stability and reduce disturbances in the system.

### 3.3 Binding constraints

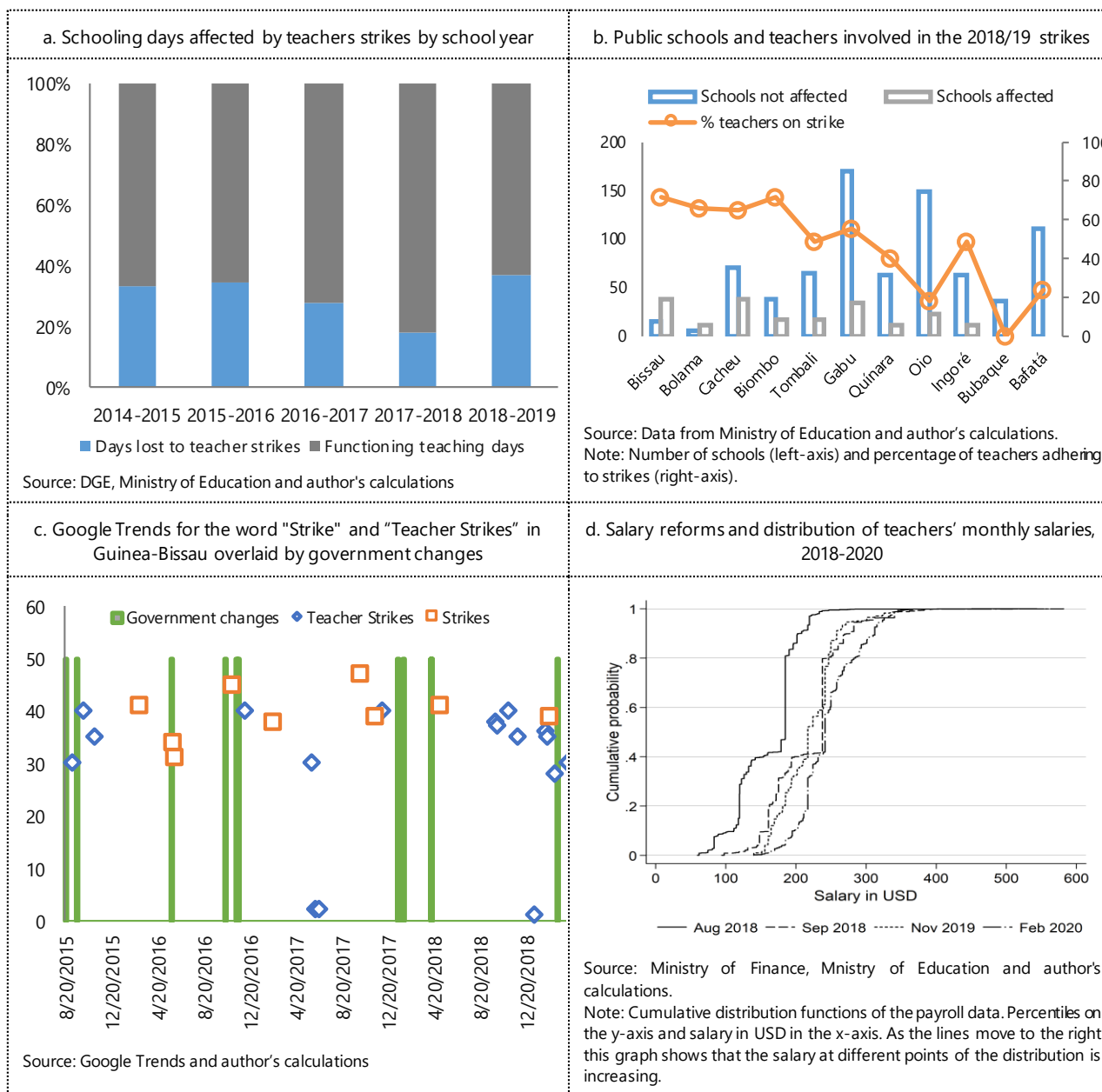
22. **"Binding constraints" are issues that are so severe that unless resolved, no amount of money or effort spent on other issues will yield any benefits.** In order to guide future investments and policy reforms to improve human capital, this section discusses three major constraints to human capital accumulation): (i) chronic teacher strikes and poor governance of the education sector; (ii) low levels of learning in basic education; and (iii) the lack of data to inform decisions and monitor progress.

#### *Pervasive teacher strikes and weak teacher policies*

23. **The educational system has been undermined by a multitude of political and social disturbances.** For over a decade, teacher strikes have been used to claim the payment of salary arrears, push for pay and benefit reforms, and to improve working conditions. They are the main source of disruption in the school year. Salary arrears most frequently affect new teachers entering the public system whose first salary payments often arrive months late.

24. **In the last five years, at least one-third of the school year has been negatively affected by teacher strikes** (Figure 3.7). According to sectoral stakeholders, teacher strikes are one of the key drivers of poor quality education, limited number of days of schooling per year (Figure 3.7a), high student dropout and negative public perceptions of public schools (UNICEF, 2018). The regular nature of the strikes have

made parents and students skeptical about the public education system. Once the strikes have ended, many students (notably in secondary schools) do not go back to class and school directors appeal to the media for them to return.<sup>26</sup> As striking teachers are often still paid because of a lack of efficient monitoring, up to 60 percent of all salaries paid to teachers may be paid to those who are not actually teaching because they are on strike.<sup>27</sup>



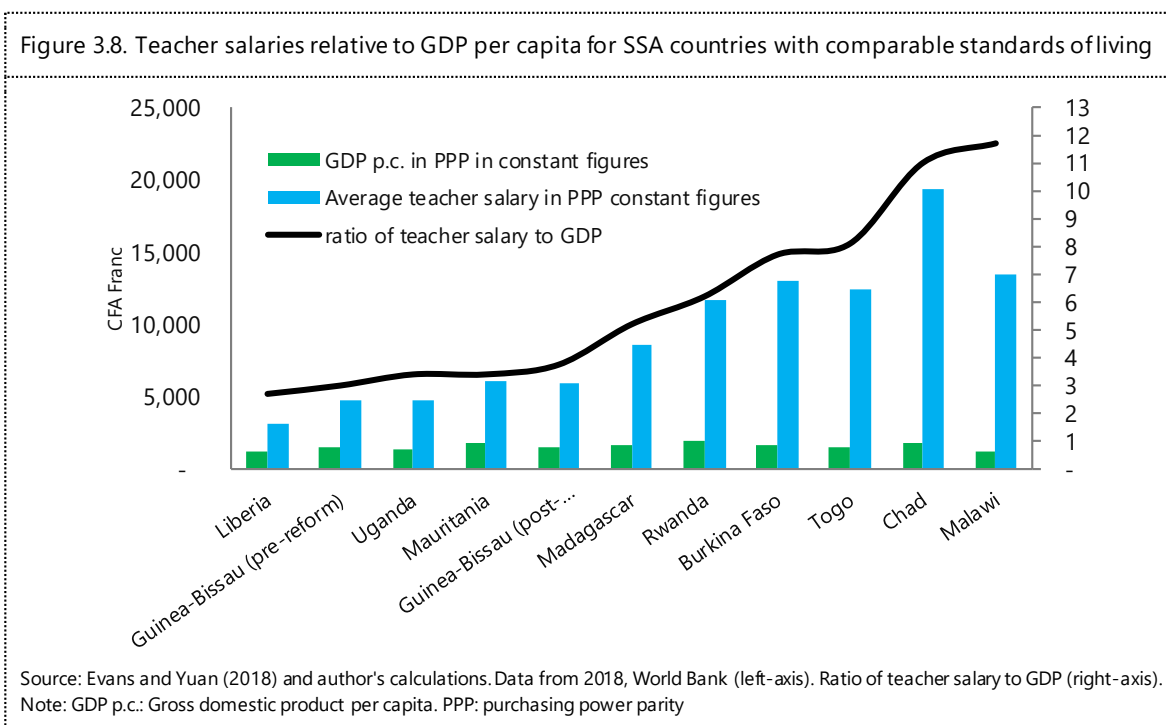
25. **One of the root causes of the recurring teacher strikes is political instability.** With frequent changes of government, newly appointed ministers and, often, senior civil servants find themselves negotiating with the teachers' unions. The union's demands are often such that fleeting governments are unlikely to stay in power long enough to achieve them; the inability to fulfill all their requests usually extends

<sup>26</sup> See, for example, [http://angnoticias.blogspot.com/2020/02/ensino-publico\\_14.html](http://angnoticias.blogspot.com/2020/02/ensino-publico_14.html).

<sup>27</sup> Estimate based on the number of teachers that were identified to be on strike between October-December 2018 and whose salaries were actually deducted using data from the Ministry of Education's Human Resource Department.

or prompts new strikes.<sup>28</sup> Moreover, the strikes often happen alongside periods of political instability. An analysis of internet searches based on Google Trends shows this pattern over the last five years, using internet searches as a proxy for the occurrence of the actual events (Figure 3.7c).

26. **In the last decade, teachers’ unions have lobbied for the revision and implementation of a Teacher Career Reform, which has further motivated recent strikes.** In a bid to “instill more incentives to the professional trajectory of teachers”, in 2011 the government approved the Teacher Career Reform (*“Estatuto Carreira Docente”* n°2 / 2011), which sets out the key duties and benefits of all public sector teachers in Guinea-Bissau. The original 2011 version of the law included several open-ended articles, which required further revision and updating. However, political instability has prevented this from happening. Given that the proposed reforms were expected to result in salary increases for the majority of teachers, the failure to implement them has become a major source of tension and one of the root causes of many of the teacher strikes.



27. **A comprehensive revision of the Teacher Career Law was approved by Parliament in October 2018 and the government has been making concrete efforts to put in place the changes set out by the updated reform.** The revised Teacher Career Law sets out a new and more generous payment structure for public sector teachers, along with other policies that might be more difficult to implement. It outlines an ambitious competitive performance evaluation system to grant promotions and salary increases, and clarifies teachers’ training rights, with a strong emphasis on the need for continued in-service training. The new payment structure assigns higher salaries to those teachers with higher qualifications (e.g. university degrees or teacher certificates) and those who have spent more years in the sector. It also introduces new

<sup>28</sup> For example, the situations that prevailed in 2011/2012 and 2012/2013 were particularly serious. After the coup d'état of April 12, 2012, the country had to face a month and a half without a functioning government. This political crisis raised educational concerns because of the risk of losing the academic year, increasing the risk of many students dropping out of the system. The risk of losing an academic year was also relevant during the periods of political instability between 2015-2019.

monetary incentives through a remoteness allowance,<sup>29</sup> to motivate teachers to accept positions in rural and more remote areas of the country. It also allows for a subsidy for supplies for teachers to use in their classrooms, known as the “chalk subsidy”.

28. **Teacher salaries increased in the last two years because of reforms specific to the Ministry of Education and the civil service as a whole.** Figure 3.7d shows the changes in teachers’ salaries over the months in which pay increases took place in the last three years. In September 2018, all civil servants were granted a pay-rise on the basis of a new salary grid, which unambiguously raised salaries for all teachers and set out a new minimum salary of FCFA 50,000 /month (around US\$90). In November 2019, the government also began to apply the new remoteness and chalk allowance set out in the revised Teacher Career Law. However, in order to implement these reforms, it was necessary to remove a subsidy under the previous law based on the number of shifts worked (known as *Carga Horaria*). This decreased the salaries of about a third of teachers, primarily those in Bissau and near the capital who do not benefit from the remoteness subsidy. Amid threats of more strikes, between December 2019 and February 2020, teachers with recognized higher qualifications were granted a further salary increase. This aimed to adapt the salary structure to the revised Teacher Career Law, which had originally been designed without taking into account the general civil service salary increases in 2018.

29. **Without increased funding for the sector and effective monitoring systems in human resource management, these recent salary increases are unlikely to be sustainable.** The monthly wage-bill for the Ministry of Education in August 2018, before the first salary increase, amounted to US\$1.3 million for 8,807 teachers and staff. In February 2020, after the salary increases and new hires of approximately 1,400 teachers, the wage-bill went up to US\$2.5 million (9,800 teachers and 940 administrative staff). A back-of-the-envelope estimate of the annual wage-bill would bring the total cost of permanent staff, excluding contract teachers, up to US\$30 million annually, which is nearly the entire national budget devoted to the education sector. Without an increase in the share of the national budget to the Ministry of Education, which is extremely unlikely given the current downward forecasts due to the economic recession, there might not be enough money to pay contract teachers and any other non-salary expenses. Despite these pay increases, average teacher salaries remain slightly below those in countries with a similar living standard (Figure 3.8). The pay increases between 2018 and 2020 increased the teacher salary-to-GDP per capita ratio from 3 to 3.8. This a commonly used indicator to measure teacher salaries.<sup>30</sup>

30. **It is unclear whether the extra expenditures will improve the quality of learning.** Research based on a teacher salary reform in Indonesia which nearly doubled teachers’ salaries showed that although teachers’ satisfaction increased, there was no connection between these increases and improved student performance.<sup>31</sup> It is possible that increases in salaries may attract high-quality candidates into the teaching workforce, improving learning outcomes in the long run. However, the recent increases in Guinea -Bissau were primarily intended to increase the buy-in of teachers’ unions in order to reduce the incidence of strikes. Investing to improve the quality of the teaching workforce through training (both in-service and pre-service) is more likely to increase learning outcomes than salary increases. A recent, comprehensive review of interventions to improve learning outcomes found the highest, most consistently large impacts from

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<sup>30</sup> This ratio varies great across countries, and is often higher in low-income countries than in high-income countries. However, because of differences in income levels and economic structure, teachers in countries with a higher ratio do not necessarily have a better standard of living. Figure 3.9 restricts the country comparison to those sub-Saharan countries with a GDP per capita in 2018 of between 1,000-2,000 in constant USD PPP.

<sup>31</sup> Chang et al. (2014); de Ree et al. (2018).

interventions that sought to improve the quality of teaching. These impacts were much greater than the impacts of efforts to improve school infrastructure, materials, or management.<sup>32</sup> Likewise, studies from countries as diverse as Ecuador and Pakistan have demonstrated that the difference in impact between a highly effective teacher and a less effective teacher is equivalent to the amount of learning that students normally gain over the course of a regular school year.<sup>33</sup>

### **Poor learning outcomes and low education quality**

31. **Like many other countries, Guinea-Bissau faces a learning crisis.** Many factors hinder the ability of those children who attend school to learn effectively: (i) poorly trained teachers who lack the necessary skills and knowledge to teach the material on the national curriculum; (ii) a lack of learning materials in schools; and (iii) teaching practices that inadequately address the different learning needs and speeds of students. Results from the (PASEC) II assessment revealed poor performance in Portuguese and mathematics: less than half of grade 2 students were able to answer questions correctly and scored on average only 48 percent and 50 percent, respectively.<sup>34</sup> By grade 5, students' scores decreased even further – only one-third were able to answer questions correctly, and scored in Portuguese and mathematics 39 percent and 31 percent on average, respectively. The poor performance of students is related to the low quality of the teaching force (see also Box 3.2). Only a small portion of teachers possess the requisite knowledge and pedagogical skills needed to teach effectively: only 68 percent of teachers possess the content knowledge required to teach Portuguese to grade 2 students. Similarly, only 46 percent of teachers possess the content knowledge required to teach mathematics to grade 2 students.<sup>35</sup> The same assessment found that 98 percent and 94 percent of teachers in grade 5 were unable to answer correctly more than 95 percent of questions in mathematics and in Portuguese, respectively.

32. **Improvements in the monitoring, auditing, and planning of the teaching workforce are needed in order to increase the attendance and retention of teachers, and guarantee that learners have regular access to competent instructors.** More than half of the permanent teachers have joined the system in the last 10 years. The retention rate of teachers is very low. In fact, the education sector acts as a springboard for citizens to enter the public administration. Once hired, many of them never attend the schools to which they were appointed, while others abandon education to join another sector after the first year is over. Every year, the ministry recruits between 600-1,200 new permanent teachers, depending on the number of graduates from teacher training schools. With the recent construction of three new teacher training centers, each with the capacity to train 300 more teachers per year, it is likely that the number of new hires will rise in coming years, reducing the need for contract teachers.

33. **The newly approved Teacher Career Law sketches out a performance assessment system to monitor the quality of teachers hired.** If put in place, the system would regularly review teachers' abilities in pedagogical and professional skills, through reviews done by the school director, inspectors, and a written-based assessment every three years. These assessments, particularly the written one, would confirm the physical presence of teachers, identify those in need of further in-service training, and grant promotions up the salary scale. However, to date only the salary increase provisions in the Teacher Career Law have

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<sup>32</sup> Snilstveit et al. (2015).

<sup>33</sup> Popova et al. (2018).

<sup>34</sup> UNESCO-Pôle de Dakar (2015).

<sup>35</sup> The test was designed so that teachers answering correctly at least 95 percent of questions were deemed to possess the appropriate content knowledge to teach a particular subject in grade 2 or grade 5. Using another threshold, the assessment found that 29 percent and 19 percent of grade 2 teachers could not even answer at least 85 percent of questions correctly in mathematics and Portuguese, respectively. Whereas, 93 percent and 68 percent of grade 5 teachers could not even answer at least 85 percent of questions correctly in mathematics and Portuguese, respectively.

been implemented; there are no concrete plans to implement the proposed assessment systems in the near future.

### **Box 3.2. Learning for children in remote areas: cause for hope?**

Children are failing to master literacy and numeracy skills in early grades, especially in remote areas. As part of a recent four-year study, an Early Grade Reading and Mathematics assessment (EGRA\EGMA) of 8-10-year-olds was conducted in a sample of 49 rural villages in the regions of Tombali and Quinara.<sup>36</sup> At the outset of the study, 19 of these villages had been randomly assigned to receive a comprehensive education program run by an international NGO, which provided additional resources and managed the local village school for four years.<sup>37</sup> At the end of the study, 72 percent of children in the 33 villages that did not receive the program were unable to perform basic math problems correctly, and 88 percent were not able to read any words in Portuguese. Children in the 19 treated villages performed more than 5 standard deviations better in EGMA and EGRA tests than the children in the control group. A lower bound of the benefit-to-cost ratio of this bundled intervention is 4.97, suggesting that large gains in basic skills are possible even in remote areas and that they are therefore worth the investment (the costs were approximately \$425/student per year). While these findings are not nationally representative, they highlight the starkly low levels of learning among children living in remote areas of the country and provide hope that comprehensive changes and significant investments in the education system could rapidly improve learning levels in Guinea-Bissau.

34. **On average 70 percent of permanent teachers have a teaching qualification: but this average hides regressive regional disparities that can deepen learning inequalities across students living in different regions.** As highlighted in the recent PER,<sup>38</sup> regional distribution of spending and teachers is regressive, with the poorest regions receiving lower funding per student and having higher student-teacher ratios than the wealthiest ones. The capital, Bissau, and its surrounding region, Biombo, have the highest share of permanent contract teachers who have gone to university (and who usually teach in secondary schools) and teacher training schools (Figure 3.9). On the other hand, between 30 and 50 percent of teachers in Bafatá, Gabu and Oio have no formal qualifications (so called “in-training” because these teachers still need further training to reach the same qualifications as other teachers) or have just attended a technical course. Technical training refers to courses shorter than three years that are either administered by NGOs and are often remedial in nature; or to older qualifications held by only around 250 teachers who have been in the system for more than 20 years and are nearing retirement.

35. **Between 1,000 and 2,000 contract teachers are recruited annually, most of whom lack any teaching qualifications.** According to the adapted Service Delivery Indicator (SDI) survey, which interviewed teachers in the three regions of Oio, Gabu, and Bafatá, most contract teachers had completed secondary school (65 percent), but only 40 percent had attended any specialised pedagogical training, most of which had been run by UNICEF, or other NGOs (e.g. Fé e Cooperação and the Portuguese Cooperation). In 2020, the Ministry of Education expected to hire around 1,600 contract teachers, most of whom had started working in January 2020. However, given the lockdown measures imposed since March 2020 due to

<sup>36</sup> Fazzio *et al.* (2019).

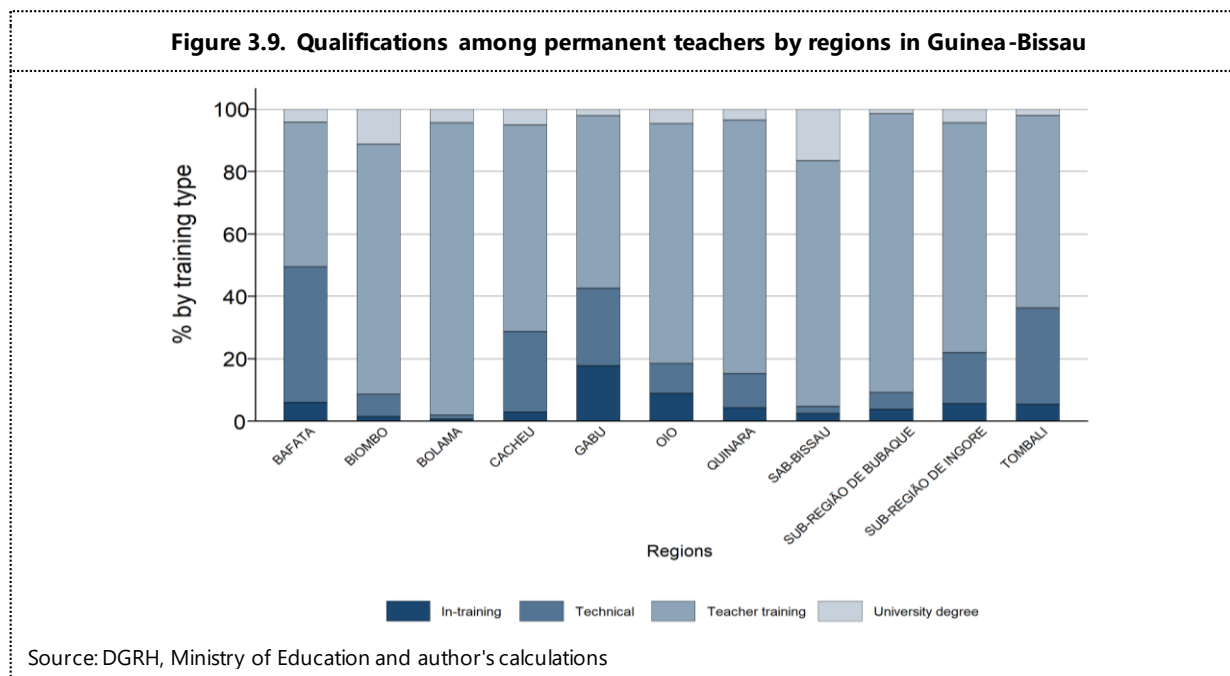
<sup>37</sup> The schools managed by the NGO had lower pupil-teacher ratios than the schools in the control group, hired qualified teachers and trained them to use a new curriculum that emphasised the acquisition of basic competencies with a 3-month intensive pre-service training program, provided continuous in-service training and coaching to their teachers, and regular monitoring and evaluation to adjust pedagogical practices throughout the four school years in which the study took place.

<sup>38</sup> World Bank (2018a).



COVID-19, it is unlikely that these teachers will be hired for the rest of the academic year, which would usually last until June-July.

36. **The basic education curriculum is outdated, though efforts are underway to develop, pilot, and roll-out a new one.** The last time the country adopted a new school curriculum was in the 1980s and there is a serious need to modernize and revamp the primary school curriculum. With support from UNICEF, staff at the Ministry of Education have been working with technical experts to develop a new primary school curriculum for grades 1-4. This new curriculum is more streamlined, integrates existing subjects, and encourages more active teaching pedagogies.



37. **The lack of adequate learning materials continues to hamper education quality.** According to the adapted SDI survey, 70 percent of school directors interviewed stated that the lack of pedagogical material was one of their most pressing concerns. Greater attention needs to be given to developing a textbook procurement and dissemination plan, and ensuring textbook storage and use in schools. While many donor-financed initiatives have aimed to provide textbooks to schools, dissemination is weak. Many schools fail to provide students with any learning materials. During the last textbook distribution in 2016, textbooks were being sold on the black market. A large number of these textbooks remain in central-level warehouses, and many of those delivered to schools are still in boxes that have never been opened.<sup>39</sup>

38. **Teachers cannot teach what they do not know themselves.** Until Guinea-Bissau's teachers are better equipped with content knowledge, students' learning gains through other interventions will be marginal. As noted in the introduction, the PASEC assessment was also administered to the teachers. The results demonstrated that nearly 94 percent of teachers in grade 5 were unable to correctly answer all the questions in Portuguese and 98 percent of those in Mathematics. The results also demonstrated that students taught by teachers who had been trained and were considered qualified did not perform any better

<sup>39</sup> The sampling frame of the adapted SDI was based on the list of schools that received books in the textbook distribution in 2016. Even so, 14 percent of these schools reported not having received any books.

than those who were taught by teachers that had not gone through any pre-service training. This suggests that there are significant deficits in existing pre-service training programs and that they are failing to adequately equip teachers with the skills required to teach effectively (MEN, 2015). Mastery of the Portuguese language is another significant obstacle to effective learning. Although Portuguese is the official language of instruction, it is a foreign language for most students and a second language for most teachers. As a result, many students do not understand well the lessons taught and often teachers lack the content knowledge required to teach effectively.

### **Poor governance and a lack of reliable and up-to-date data for decision making**

39. **Up-to-date statistics are required for implementing evidence-based reforms and planning efficiently.** Despite significant investments to improve education statistics and school-level data, availability of robust data continues to be an issue. In recent years, the Ministry of Education has struggled to keep its educational statistics updated. The most recently published school statistical yearbook was for the 2014-15 school year and covered 1,677 schools, with an estimated non-response rate of 13 percent.<sup>40</sup> Data from the 2018 adapted Service Delivery Indicator (SDI) survey show that many school directors did not complete and/or could not show the statistical school report which informs the annual yearbook (Figure 3.10a).<sup>41</sup> Without proper training, even when reports do arrive at the central ministry, the questionnaires are often full of errors and data entry/cleaning at the central level is a slow process. Schools in the Gabu region have been participating in a pilot educational statistics project financed by the EU. This project aims to support school directors to fill in the statistical reports. It also supports administrative staff at the regional level to collect these reports and digitalize them on a server-based database. There are plans to roll-out this software and methodology for data-processing across all other regions in the country.<sup>42</sup> The high turnover of school directors and regional directors hampers the ability to collect reliable school level data. Changes in government are typically associated with many changes in education staff.

40. **Guinea-Bissau has one of the highest variations in pupil-teacher ratios in the world, which is a cause for concern from an equity and efficiency point of view.** Figure 3.10b uses payroll data to show the highly skewed distribution of the number of teachers in public schools. A quarter of public schools have only a single teacher, and the median number of teachers in a school is four, whereas schools in the top percentile in terms of number of teachers, generally secondary schools, have more than 150 teachers. A recent study showed a large variation in student-teacher ratios across schools (Figueroa-Walter, 2020). The average ratio is 64.2 students per teacher, whereas the bottom 10 percent of schools have ratios below 37 and the top 10 percent have ratios over 102. The variation in ratios is also substantially larger within regions than between regions.

41. **The lack of up-to-date school-level data has stalled progress on key reforms to improve the efficiency of the sector.** Without an up-to-date school census, it has not been possible to assess the real demand at the national level for teachers and other resources, such as books, desks and chalk. It is also still

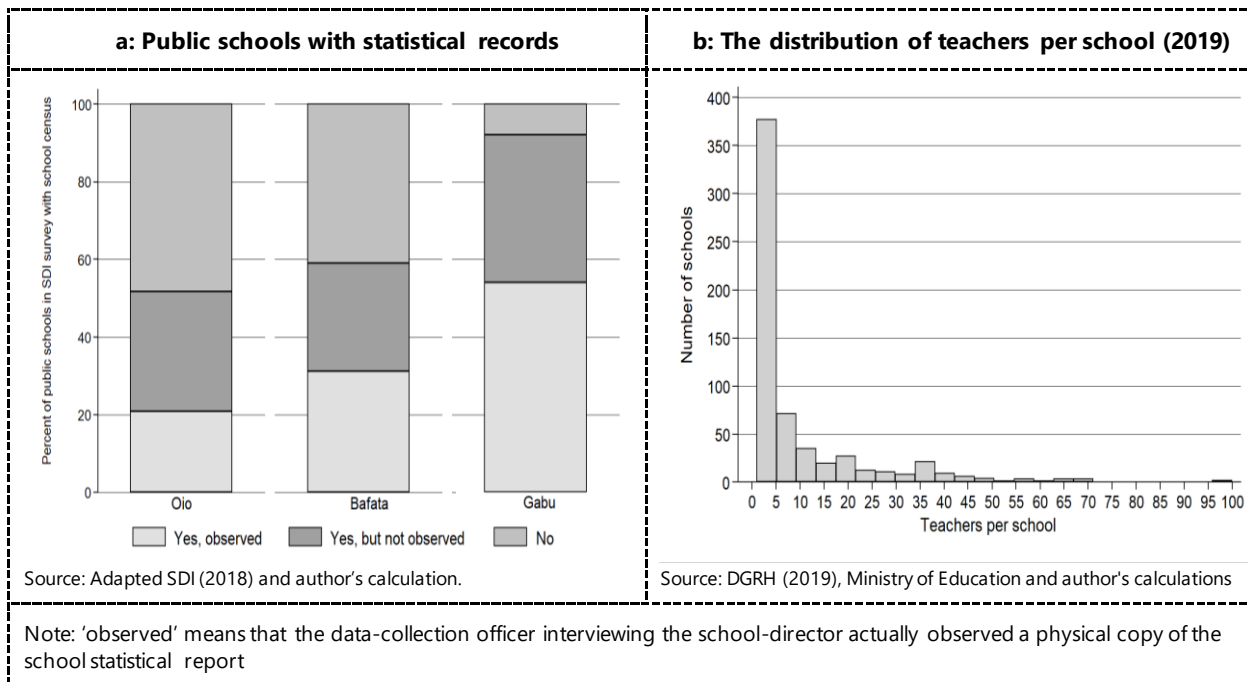
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<sup>40</sup> The 2015-16 attempt to compile a statistical yearbook only contained 483 schools. There was no data digitised for 2016/17, but in 2017/18 the central ministry managed to collect and digitalise data for approximately 1000 schools, which is a response rate of approximately 50 percent across all schools. The Inspection estimated 1157 public schools at the end of 2018 and the available EMIS data was collected for 627 schools, making a response across public schools approximately 54 percent in 2018.

<sup>41</sup> Only 39 percent of public schools visited could show the statistical report for the previous school year (2016/17). However, there were significant regional differences. For schools in the Gabu region, only 7 percent of public schools reported not having a statistical yearbook whereas the share of schools without any data was much higher in Bafatá and Oio, at 41 percent and 48 percent respectively (Figure 3.10a).

<sup>42</sup> The proposed expansion of the pilot is likely to also support capacity building of staff at all levels to manage the system, and also ensure that it aligns with the needs of the other departments beyond just the planning directorate.

difficult to obtain reliable estimates of the number of children in school.<sup>43</sup> Without such information, implementing reform plans to train, recruit, and deploy teachers where they are most needed remains challenging. As pointed out in Boxes 3.3 and 3.4, it is crucial to monitor learning outcomes in order to target teacher and student support where it is most needed.



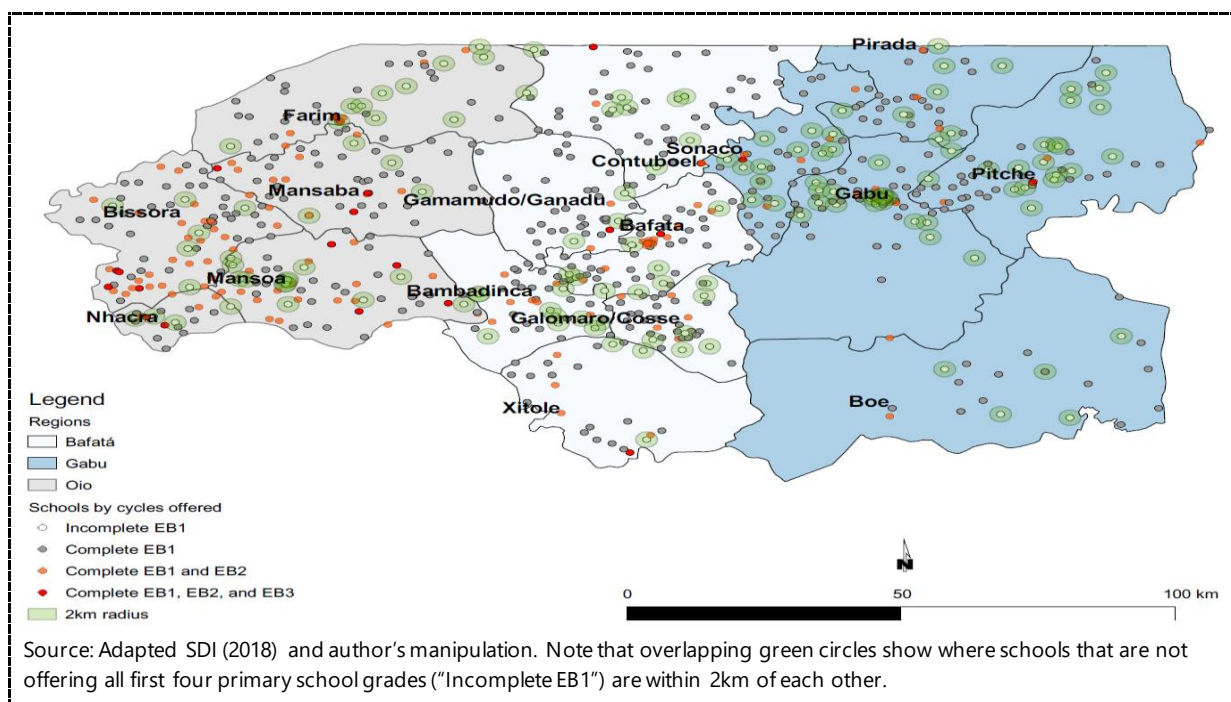
42. **Lack of a clear mapping and a careful needs analysis means that school expansions are not well-planned, creating inefficiencies and inequity in access.** Figure 3.11 maps the schools in three regions, highlighting which grades are offered by each school. Notably, most primary schools do not offer all six years of basic education or *Ensino Basico 1* (grey dots), and some do not even offer the first four grades (in white and circled by a 2km-buffer). Where the green 2km buffers overlap with other schools there is potential for mergers to offer children at least a full cycle of primary teaching. Many of the schools which lack the first four grades are community schools,<sup>44</sup> but some also have publicly paid teachers.

43. **There is an urgent need to clarify the terms of reference of administrative staff, including inspectors, across the ministry to improve the flow of information and use of this information for decision making.** For example, the role of inspectors and other regional administrative staff is not clearly demarcated. Inspectors may collect data on teachers, prepare statistical reports, or perform a parallel data-collection exercise. They should also be responsible for pedagogical monitoring and performance evaluation. Moreover, they could in principle be the financial auditors of secondary schools that earn an income from students' school fees.

<sup>43</sup> Schools that are supported by the school meals program financed by the World Food Program have up-to-date numbers of students as this information is a requirement for schools to receive support. School inspectors have also started collecting student numbers across most regions, but gaps in data are widespread.

<sup>44</sup> Over time community-driven initiatives seek to be absorbed by the state to guarantee continuity of financial resources to pay for the salaries of the contracted teachers.

**Figure 3.11. Cycles offered by primary schools in the regions covered by the 2018 adapted SDI**



### 3.4 Demand and supply of skills in the Bissau-Guinean labor market

44. **Despite the challenges in basic education, youth who are currently approaching the job market often turn to technical and vocational education and training (TVET) to help them to transition out of the education system, but TVET enrolment in Guinea-Bissau is low.** Census projections suggest that the population of 18-24 Bissau-Guineans will increase by roughly 5,000 per year between 2020 and 2025.<sup>45</sup> As more students complete primary and lower-secondary school, this population has the potential to meet significant needs for technicians coming from technical and vocational education, as well as for professional graduates who come from traditional higher education. Relative to the rest of the region, Guinea-Bissau has low TVET enrolment (Figure 3.12). Increasing numbers of training centers are opening in technical and vocational education and training (TVET), which doubled from 10 to 20 between 2004 and 2012. The supply of training is highly concentrated in a few geographic locations, specifically centers in Bissau, Cacheu and Oio, in the North-West of the country, account for 90 percent of all students enrolled. Private training centers account for 70 percent of all individuals enrolled in TVET.<sup>46</sup> According to the HHS 2019 data, only 0.8 percent of individuals aged 18-24 reported being enrolled in a TVET course.

45. **The supply of trained workers is misaligned with the sectors that demand their services and training programs are not aligned with the preferences of prospective employers.** 72 percent of employment is in the agri-business sector, however, training which opens up a job in this sector

<sup>45</sup>Pôle de Dakar (2017).

<sup>46</sup>Ibid.

concentrates only 6 percent of those enrolled in TVET.<sup>47</sup> In contrast, while the tertiary sector (services) accounts for 23 percent of jobs, the training courses that lead to it make-up 82 percent of trainees. Most are enrolled in accounting courses, an area for which there are not sufficient jobs to meet all the supply of new graduates.<sup>48</sup> Demand for technicians in the cold-chain, mechanics, electricians also remains unmet. Employers report demanding a different set of generic skills (e.g. teamwork, creativity, punctuality, and knowledge of English) relative to those that TVET trainees are developing during their courses.<sup>49</sup> This situation is exacerbated by the low quality of basic education of trainees entering training, with courses requiring extra-time to catch-up on basic non-technical subjects. There is no clear certification equivalence between technical and vocational training that could allow bridges between basic and secondary education with technical and vocational courses. Moreover, without a clear and credible certification framework, unemployed job-seekers cannot effectively signal their skills to prospective employers. There are only a handful of secondary schools that have a vocational track, mostly private, because of the lack of equipment to provide technical training.

**46. Involvement of private sector employers in skills development remains weak and the public institutions are ill-equipped to reform the sector.** The national training institute (INAFOR), which holds the responsibility to oversee professional and technical training, lacks the financial, technical and human resources necessary to regulate, plan, and implement professional training actions that meet quality standards of the few private formal enterprises in the country.<sup>50</sup> Employers in Guinea-Bissau stated that they most value workers with previous professional experience and qualifications that are suitable for the job. However, very few employers actively engaged in the training of prospective employees: only 20 percent of employers interviewed had any relationship with the TVET centers, and most of these relationships involved hiring graduates or training existing employees. As further explored in Box 3.3, private sector involvement through apprenticeships, co-design of curricula, and financing of the sector is crucial to align labor demand incentives with the supply of trained workers.

**47. Given the high levels of informality in the job market, self-employment remains one of the largest sources of income for the majority of the population but the skills necessary to become a successful entrepreneur are barely part of the education curriculum.** Beyond a few initiatives run by NGOs in Bissau and Bula, there is a lack of technical and financial support for entrepreneurs and coaching for how to run a profitable small business.<sup>51</sup> Innovative business training could provide aspiring entrepreneurs avenues to grow their enterprises: an impact evaluation in Togo, found that a personal initiative training that taught a proactive, self-starting approach to entrepreneurship increased profits more

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<sup>47</sup> There are no training centers specialized in training agro-food engineers and technicians that could support the adoption of a more capital-intensive production process to take advantage of the high agricultural potential of the country. Labor demand for workers trained to maintain and use agricultural machinery or in the processing of food products (fruit and horticultural production) has the potential to grow. The provision of technical training related to the fishing, aquaculture, and environmental conservation industries remains largely unexplored.

<sup>48</sup> Ibid.

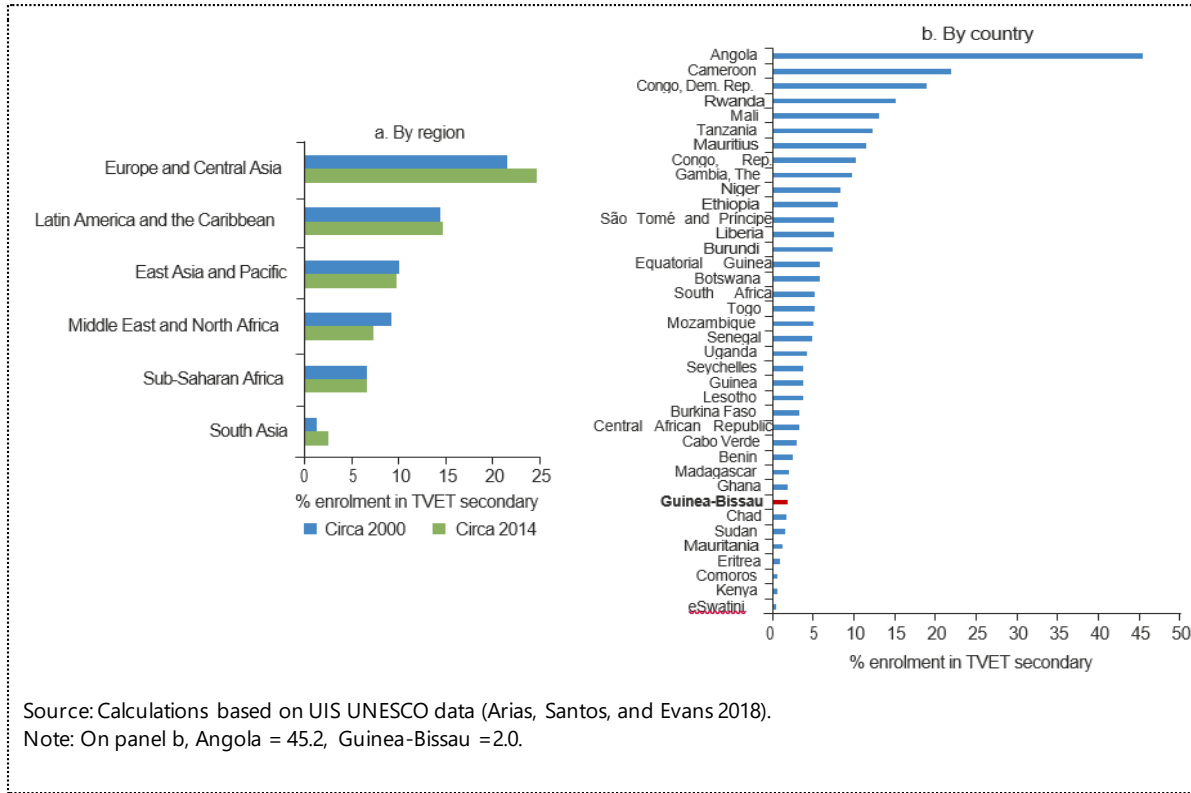
<sup>49</sup> Ibid.

<sup>50</sup> Training is mostly provided by the national industrial training center (CENFI), located in the autonomous sector of Bissau (SAB), and the community development center (Bedanda, Tombali). The center has very low activity with short courses for rural communities. Separately, the National Public Management School (ENA) provides administrative and accounting courses, which caters mostly for public-sector employment.

<sup>51</sup> For example, the NGO ENGIM, with financial support from the EU, has recently been providing small grants to youths that were successful in a business-plan competition and provided coaching to the winners through an incubator service in collaboration with the private training center CIFAP. Though promising, these efforts remain small in scale and geographically centered in Bissau and Bula, with a few hundreds of direct beneficiaries. Relatedly, the World Bank-financed project to Rehabilitate the private sector and support agribusiness developed several producer cooperatives for cashew producers.

than a traditional business training.<sup>52</sup> The innovative training focused on future-oriented, persistent behavior and developing “an entrepreneurial mindset.”<sup>53</sup>

**Figure 3.12. Enrollment in secondary technical and vocational education and training (TVET), by region and within Africa, circa 2000 and 2014**



48. **The economic crisis prompted by the COVID-19 pandemic will create both challenges and opportunities for the TVET sector.** The first years after entering the labor market are often the most productive period for secondary and post-secondary graduates. Not only do young workers suffer the highest unemployment rates in recessions, but the impacts persist well after economies recover. TVET centers should consider setting up guidance and counseling services to help trainees deal with the socio-emotional stress of employment search during a recession, through virtual sessions if necessary. Beyond the challenges of a tighter labor market, TVET centers should consider expanding their courses to train information technology and communication technicians, which are likely to be in high demand as the need for remote-based communication rose sharply since the pandemic.

<sup>52</sup> Campos et al. (2016).

<sup>53</sup> Increases in profits were strongest for women, whose profits increased on average by 40 percent, compared to a 5 percent increase for those who had traditional business training. Participants learn to look for ways to differentiate themselves from other businesses, as well as to anticipate problems, overcome setbacks, foster better planning skills for opportunities, and do other, long-term preparation.

### **Box 3.3: Leveraging the Private Sector in Sub-Saharan Africa for Skills Development in TVET**

**Several examples of public-private partnerships in TVET that have developed in West Africa in the last two decades**, as illustrated by Almeida et al. (2012): “[One example is] the Ghana Industrial Skills Development Center (GISDC), launched in 2005 to provide training in mechanical, electrical, and process engineering. The seeds for this initiative were sown when TexStyles Ghana Limited, a local subsidiary of the international firm Vlisco Helmond B.V., found that other factories shared its problem of being unable to find and retain employees who could service their machines. As a result, factories often had to fly in trouble-shooters from abroad. To overcome the problem, the governments of Ghana and the Netherlands joined forces with the Association of Ghana Industries to set up the GISDC in 2005. The GISDC is now operational, with a governance arrangement that includes industry representatives on its decision-making board and an impressive list of firms among its partners.

In Nigeria, the government has started processing the certification and accreditation of private providers meeting certain criteria (including a governance structure that includes industry representation) to qualify as vocational enterprise institutions (targeting persons with 9 years of schooling) or innovation enterprise institutions (targeting persons with 12 years of schooling). These institutions provide practical training in target areas, among them ICT, telecommunications, computer hardware engineering, refrigeration and air conditioning, and hospitality and tourism.”

These initiatives incorporate some of the lessons from successful new models of training: (1) coherence with the country’s economic development strategy; (2) training institutions that, at least to start, are outside of the traditional education and training system and thus better able to react quickly, flexibly, and innovatively to industry needs; and (3) governance arrangements in training institutions that encourage close involvement by industry in defining training curricula, in providing equipment and trainers, in providing finance, and in exposing students and faculty to industry-driven projects such as work placements.

## **3.4 Options for Reform**

49. **Without a rapid acceleration in improvements in human capital, new generations of Bissau-Guineans will not be equipped to succeed, and economic development will continue to stagnate.** For Guinea-Bissau to move from having policies on paper, such as free universal primary education for all, to actually providing them, it will be critical to determine cost-effective measures that can overcome the key binding constraints identified above. This section recommends some potential actions.

### ***Build on existing teacher reforms to stabilize the system and reduce teacher strikes***

50. **Implement all the policies that are part of the Teacher Career Reform – not just the increases in teacher salaries.** The government should strive to implement transparent performance reviews, with guidelines provided and written assessments, as outlined in the recent Teacher Career Reform. Moreover, performance reviews by school inspectors and school directors will be crucial after the end of the probation period of newly recruited teachers, so that entry into the teaching profession becomes more merit-based and attracts more effective teachers. Since the Teacher Career Reform introduced a remoteness subsidy to motivate teachers to work in remote areas, it will be important to ensure that staff mobility is limited during the school year and exceptional criteria for redeployment in schools in a different region are in place. Eliciting clear preferences over schools when teachers are first recruited and adhering to teacher preferences as much as possible can limit mobility throughout the year. It is also important to complete the planned



reforms to the teacher certification system and ensure that all teachers, including contract teachers, are identified and have the right qualifications to teach.

51. **Make better use of information technology to speed up administrative procedures and improve monitoring and payment systems.** Some examples of potential uses of existing technology include to: (i) reduce teacher absenteeism, set up an easy-to-use text messaging system that will allow school directors to report attendance via SMS to a public facing website in real-time for stakeholders to monitor and act upon; (ii) create a system where decisions on teachers' payments can be made closer to their duty locations and better hold teachers accountable; (iii) implement a salary payment such as mobile-money transfers to reduce need for teachers to be far away from their workplace to collect their salaries; (iv) create a database to identify understaffed and over-staffed schools and to define reallocations and additional human resources needs; and (v) cross-check payroll data from the Revenue Authority of private schools with the existing human resource database at the Ministry of Education to discourage moonlighting by public sector teachers. Priority should be given to eliminating payment to non-existent teaching staff (ghost workers). Achieving this requires regular payroll cleaning, together with a program to verify teachers (Box 3.4).

### *Transform the quality of education to improve learning outcomes*

52. **Improve teaching quality to achieve learning for all.** Béteille and Evans (2018) suggest the following principles to improve the quality of existing teachers and learning: (i) ensure teacher pre-service training includes a strong practical component where trainees teach to actual students, under the guidance of a more senior colleague, to ensure teachers are well-equipped to transition and perform effectively in the classroom; (ii) promote meritocratic selection of teachers, followed by a probationary period, to improve the quality of the teaching force; and (iii) provide continuous support and motivation, in the form of high-quality in-service training and strong school leadership, to allow teachers to continually improve, in line with the directives articulated in the Teacher Career Reform, and the new curricular reform. To put some of these principles into context: pre-service education includes a practical component in Guinea-Bissau, but there is still no meritocratic selection or probation selection of the teaching force. While the Teacher Career Reform sets out a clear structure for in-service training, the current provision is patchy and mostly donor-driven. Boosting teacher knowledge on its own is unlikely to lead to significant improvements in learning outcomes, however. Teachers also need to know how to translate that knowledge into effective learning in the classroom (Box 3.5).

53. **Train teachers in the new basic curriculum and provide additional support during its implementation.** Given teachers' limited capacity and based on positive experiences in other countries, additional support for teachers beyond just manuals is needed. Scripted teaching lessons and interactive radio instruction programs can help teachers augment their teaching practices and can have a significant impact on improving learning outcomes, particularly in the early grades. The key principles of successful interventions include: (i) providing teachers with support materials, like teaching guides, that can facilitate their day-to-day work; (ii) providing coaching and regular feedback to teachers to improve their classroom practices; (iii) ensuring that all children have reading material; and (iv) ensuring a simple and effective curriculum to guide teachers.

54. **Prioritize improving literacy and numeracy in the early years of education.** This requires a better reallocation of existing education spending to prioritize more basic education. As emphasized before, the earlier a country invests in a child, the longer it can reap the benefits. Moreover, the rate of return to

some investments may be lower if made later in life; for instance, it may be hard to achieve gains in cognitive abilities after a certain age.

#### **Box 3.4. Lessons from successful teacher reforms in Liberia and Peru**

**In 2018, in Liberia, the Ministry of Education, with technical and financial support from international donors, went from county to county, vetting and testing the entire 18,000-strong teacher workforce.** A written-based competency testing enabled the government of Liberia to remove 2,000 “ghosts” from its payroll, freeing up more than US\$ 3 million in annual savings. With this money, the ministry has employed about 1,800 new teachers, and training for existing, under-performing teachers is now underway. Throughout the process, an independent auditor validated the removal of teachers and the redeployment of these funds toward hiring new teachers and teacher training.

**When it comes to introducing and implementing teacher reforms, politics matter.** Peru’s government recognized the role that teachers play in the provision of quality education. In 2007, the government introduced a teachers’ reform called Ley de la Carrera Publica Magisterial (CPM). Its aim was to evaluate teachers’ competence in pedagogy and subject knowledge. The government initially ran into strong opposition from the teachers’ union. However, the government persisted, relying on a public messaging campaign, effective planning, and strategic coalition building. The CPM is one of the main factors contributing to the improved learning outcomes in Peru since 2007.<sup>54</sup>

55. **Continue to expand infrastructure and staff in pre-school education to enhance young children’s school readiness.** Scaling up investments in preschool education and early childhood development would be a highly cost-effective intervention to improve school readiness, lower repetition rates, improve on-time enrollment, and reduce the need for remedial education later. Along these lines, government officials have been working together with partner organizations to establish new policies and encourage greater investments in this sub-sector. A set of minimum standards for the operation of preschool services and a new national policy to guide pre-primary education have been created.

56. **Accelerate the development of distance learning programs for both in-school and out-of-school youth.** The World Bank and UNICEF are already financing the development of radio instruction programs, but it has not been possible to fully develop these programs during the recent period of political instability. However, the new urgency created by COVID-19, which has forced school closures nationwide, could be used as an opportunity to prioritize the development of at least pilot programs that could be implemented in the short term and then developed further in the near future.

#### ***Strengthen governance and planning to improve data for decision making***

57. **Develop clear criteria for the expansion of the current system, ensure adequate management of the sector and maintain a minimum level of quality.** This includes strengthening policies for hiring and managing teachers, building schools, and cost control/financing. In addition, there must also be a plan in place to ensure adequate financing to the sector. Resources must be available to pay teachers and provide at least a small operating budget for schools.

58. **Simplify the data-collection process to guarantee availability of the basic information needed to implement urgent reforms and annual planning.** Once the basic statistics can be regularly collected, efforts can be focused on strengthening the ministry’s statistical capabilities to collect and process detailed

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<sup>54</sup> Bruns and Luque (2014).

student-level information. Instead of the paper-based system of data collection, an SMS or phone-based system could be set up to collect the number of students by grade and gender (at least twice a year), and the number of teachers in each school. Such a system would be particularly relevant after school closures are lifted in 2020, to be able to quickly understand how many learners have left the education system because of the pandemic. Financial incentives and salary penalties for staff not complying with data requests could also be introduced.

59. **Enhance the capacity of administrative staff at both decentralized and centralized level to improve the flow and availability of information.** Strengthening the administrative capacities of regional directorates to keep records up to date and communicate information on a regular basis to the Ministry's Human Resource Department is crucial to maintaining an effective payroll management system. Measures that could be implemented to closely monitor the human resources of the ministry include: (i) the integration of (and reconciliation between) personnel records and payroll data; (ii) making timely changes to personnel records and the payroll; (iii) internal controls of changes to personnel records and the payroll; and (iv) payroll audits to identify control weaknesses. Processes for leave registration and salary deductions, where appropriate, also need to be strengthened.

60. **Establish regular standardized learning assessments in order to be able to track progress, or lack thereof, in achieving competency in basic literacy and numeracy.** Parents and local communities are intended to be active partners in Guinea-Bissau's education system. It is therefore also recommended that policies on the establishment of school and student assessments include rules on sharing the results of assessments in simple, uncomplicated language for parents and school communities. General guidelines should be created at the central level on what information to include in these simple status reports on school and student performance.

### *Improve skill provision to meet the demands of the labor market*

61. **Strengthen the provision of technical and vocational training.** Collection and dissemination of information on the quality of skills providers and the returns to different skills would encourage youth to participate in sectors with high returns and help to improve the quality of skills training programs. Like the education sector overall, the TVET sub-sector requires (a) setting a strategic direction, tone, and culture for efforts to improve workforce skills; (b) creating an organizational infrastructure with the appropriate governance design; and (c) fostering efficient and effective management of service delivery by providers.

62. **Improve the strategic plan of vocational and technical training to make sure that it keeps up with the competitive requirements of a globalized labor market.** In order to achieve this, it is important to: (i) guarantee continued financial and technical support to INAFOR to set the strategic direction of the sub-sector. (ii) Engaging the private sector, including SMEs, not just to hire trainees, but also to participate in curriculum-development, to offer apprenticeships, and participate in validation of certification scheme of technical and skills training. (iii) Creating public information campaigns to promote enrollment in courses related to the sectors that have higher demand for more workers with specific training and skills, such as information and communication technicians. (iv) Incorporating modules in existing technical and entrepreneurial trainings to develop socio-emotional skills, which address psychological factors that can improve worker productivity and entrepreneurs' profits.

63. **To conclude, low completion rates and poor learning outcomes suggest that more attention needs to be focused on bridging the gap between policy and implementation.** Guinea-Bissau is not alone among African countries in confronting a learning crisis in basic education. The World Bank's regional

study of basic education, *Facing Forward: Schooling with Learning in Africa*, identifies four top areas for action by countries—like Guinea-Bissau—that share this challenge: (i) completing the unfinished agenda of universalizing basic education with quality; (ii) ensuring effective management and support of teachers; (iii) increasing financing of education and focusing spending and budget processes on improving quality; and (iv) closing the institutional capacity gap.<sup>55</sup>

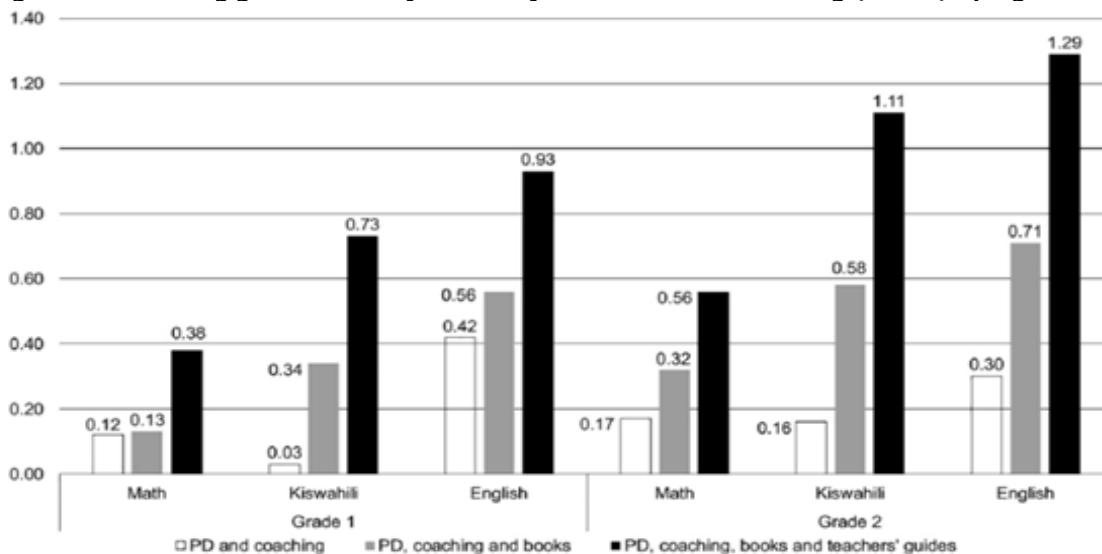
### Box 3.5. Successful interventions to improve teaching practices and learning

Recent research highlights two examples of successful interventions that were able to transform existing teacher's practices and improve learning outcomes at scale.

**Primary Mathematics and Reading Program in Kenya (PRIMR).** Under this program, the government implemented three different in-service teacher training courses with an aim to improve reading outcomes. Each course lasted 10 days, with follow-up visits by coaches. However, the content of the training varied: (i) one being solely based on the existing curriculum and reading materials; (ii) another used new content based on the latest research on literacy; and (iii) one used the new content together with teacher guides matched to textbooks. An independent impact evaluation of the program found positive effects on learning for all strategies, with the highest benefits gained from combining all components, and at marginal additional costs per pupil (Figure 3.12).

**Teaching-at-Right-Level (TaRL).** The Indian NGO Pratham has been supporting an approach that (i) divides children into classrooms based on learning needs rather than age or grade; (ii) dedicates specific time to basic skills rather than focusing solely on the curriculum; and (iii) regularly assesses student performance, rather than relying only on end-of-year examinations. TaRL instructors, who can be volunteers, government teachers, or even NGO staff, assess children, group them according to the results of the assessment, and facilitate engaging reading and mathematics activities to help them progress. Based on the demonstrated success of TaRL in India, several countries in sub-Saharan Africa are adapting this model and implementing similar programs. They include Ghana, Côte d'Ivoire, Kenya, Nigeria, and Zambia (Banarjee et al. 2017).

Figure 3.12: Learning gains from Kenya's Primary Mathematics and Reading (PRIMR)'s program



Source: Piper et al. (2018). PD stands for professional development (i.e. in-service training), left-axis is in standard deviations of the test scores.

<sup>55</sup> Bashir et al. (2018).

64. **Finally, the de-politicization of the education system remains challenging and yet of paramount importance.** De-politicizing the system involves making sure that all political actors share a common vision for the future of the education system in Guinea-Bissau.<sup>56</sup> External partners of Guinea-Bissau's education sector should consider lobbying political figures to adopt a common vision for the education system. Without a shared vision among all political parties, periods of crisis such as the current COVID-19 pandemic or periods of increased teacher unions pressure will continue to hamper the prospect of Bissau-Guineans to have a functioning and resilient education system. A depoliticized system can allow the education system to continue running despite changes of government and can quickly respond to the persistent learning crisis.

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<sup>56</sup> Depoliticizing the sector is an aspirational objective. It means that every political and official figure from the president at the top, to the key representatives of the main political parties, all the way down to teachers and school directors share a common interest in guaranteeing that the new generations of Bissau-Guinean workers are equipped with the human capital needed to succeed and improve economic development.

## 4. Priorities for Private Sector Development<sup>57</sup>

**Summary:** *Private investment in Guinea-Bissau—at 2 percent of GDP—is the second lowest in the world. The private sector needs to play a much greater role if Guinea-Bissau is to break out of its low growth trap. Achieving this will require an improvement in the business environment. Guinea-Bissau is a very difficult place to do business. This chapter outlines the main constraints to private sector development: political instability and poor governance; poor and inadequate infrastructure; and uncertain policy and regulatory environment. It also highlights the need for removing legal and regulatory bottlenecks to women’s economic participation. It concludes with some options for reform, including relaunching stalled reform to improve the ease of doing business, promoting the formalization of firms, strengthening the legislation on gender equality, improving land tenure management, and promoting trade facilitation.*

### 4.1 Introduction

1. **With the transition to a market-based economy in the mid-1980s, Guinea-Bissau gradually began to lay the groundwork for private sector activity.** In the immediate post-independence years, the economy was centrally planned, with no space for private initiatives. The management of markets and trading points, price setting, and the centralized purchase of goods took place through a network of public *Armazéns do Povo* (People’s Stores) and a single government-run import-export agency. Over time, a combination of factors—including price-setting at excessively low levels, profiteering by managers, and failure of government-led agricultural and industrial expansion programs—led to chronic shortages of essential goods and the prevalence of alternative informal barter trade. The resulting economic stagnation triggered the launch of structural adjustment programs in the mid-1980s, which aimed to encourage private enterprises, among other goals. These market-oriented reforms yielded early results but were eventually undermined by political instability.

2. **For decades, the private sector remained underdeveloped and anchored on agriculture and services, with formal business creation only incipient.** Today, about 93 percent of the active and employed population is in the informal sector, and formal workers remain concentrated in the non-agriculture sectors.<sup>58</sup> From its establishment in May 2011 until the end of 2018, the one-stop-shop for business incorporation (*Centro de Formalização de Empresas*) registered 2,878 new businesses (Figure 5a). These enterprises are largely based in Bissau and operate in the retail import/export sector. An estimated 80 to 90 percent of corporate income tax receipts originate from large taxpayers. Indirect taxation accounts for about 70 percent of state revenue and sales tax collection is concentrated on a few formal activities in urban areas.<sup>59</sup>

3. **The high level of informality is associated with weak business practices, and hinders access to credit, among others.** Recent estimates note that less than 5 percent of businesses registered with the tax administration maintain financial statements.<sup>60</sup> Firms in Guinea-Bissau frequently merge household and business finances, complicating record-keeping and inventory tracking. Financial institutions often mention

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<sup>57</sup> Prepared by Antonio Manuel Baptista (Consultant, EAWM1) with inputs from Paula Tavares (Senior Private Sector Development Specialist, DECVL) and Bienvenue Tien (Consultant, EAWPV). The team received guidance from Zenaida Hernandez Uriz (Senior Private Sector Specialist, EAEF2) and Fiseha Haile (Economist and TTL, EAWM1).

<sup>58</sup> AFRISTAT (2019).

<sup>59</sup> World Bank, (2018a).

<sup>60</sup> World Bank (2018a).

the lack of organized accounting and inadequate business plans as constraints when granting credit. Also, formal companies tend to underreport the size of their workforce to avoid rigid labor regulations. According to a recent informal sector survey, the top three reasons for not registering were a lack of knowledge of procedures (50.3 percent of respondents), perceptions that registration was non-mandatory (21.3 percent), and perceptions that registration was too complicated (14.1 percent).<sup>61</sup>

4. **Chronic political instability and an unfavorable investment climate have discouraged private investment, which remains extremely low.** Political instability has meant that the country has been unable to generate and attract significant private investment flows from domestic or international operators. Private investment averaged only slightly above 2 percent of GDP between 2010 and 2018, the second lowest in Africa, outperforming only Eritrea. Similarly, foreign direct investment (FDI) inflows also compare unfavorably with most peers, also averaging only 1.5 percent of GDP in the same period (Figure 5Figure 4.1c). FDI often help leverage new productive sectors through the introduction of technology, finance, and access to markets, but Guinea-Bissau misses out on these opportunities.

5. **In addition, Guinea-Bissau's regulatory framework is holding back women's labor market participation and access to economic opportunities.** While women's access to economic opportunities is linked to many factors, studies show that laws and regulations can influence their participation in the economy. Legal gender equality is associated with a range of outcomes, including higher female labor force participation, more women in parliament, and a lower gender wage gap. Yet in Guinea-Bissau women are underrepresented in public bodies, especially at a higher level, and have less opportunities than men to participate either in wage work or as entrepreneurs.

6. **This chapter discusses how these elements outlined above impede private sector growth and identifies some possible reform options for the country to pursue.** It is structured as follows: Section 4.2 discusses the main constraints for private sector development in Guinea-Bissau: political instability and institutional fragility; poor and inadequate infrastructure; an outdated regulatory environment and a judiciary in need of reform; and limited access to finance. Section 4.3 covers the regulatory framework and gender equality, and Section 4.4 presents some options for reform, including the business environment priorities for the short to medium term.

## 4.2 Main Constraints to Private Sector Development

7. **The constraints to private sector development are substantial and can be classified into five broad categories:** (i) political instability and institutional fragility; (ii) poor infrastructure; (iii) a weak regulatory environment with uneven enforcement of laws and regulations; (iv) limited access to finance; and (v) difficult access to markets.<sup>62</sup> The infrastructure sector is discussed at length in World Bank (2019) *Policy Notes*, hence, this chapter pays more attention to the other constraints.

### *Political Instability and Institutional Fragility*

8. **Political and institutional instability impedes progress in business environment reforms and private sector growth.** The uncertainty sparked by political instability is a significant deterrent to private investment, and FDI in particular. Periods of relative political stability and progress in reform implementation have been followed by reversals (see Chapter 2). Frequent changes of government have seen reforms

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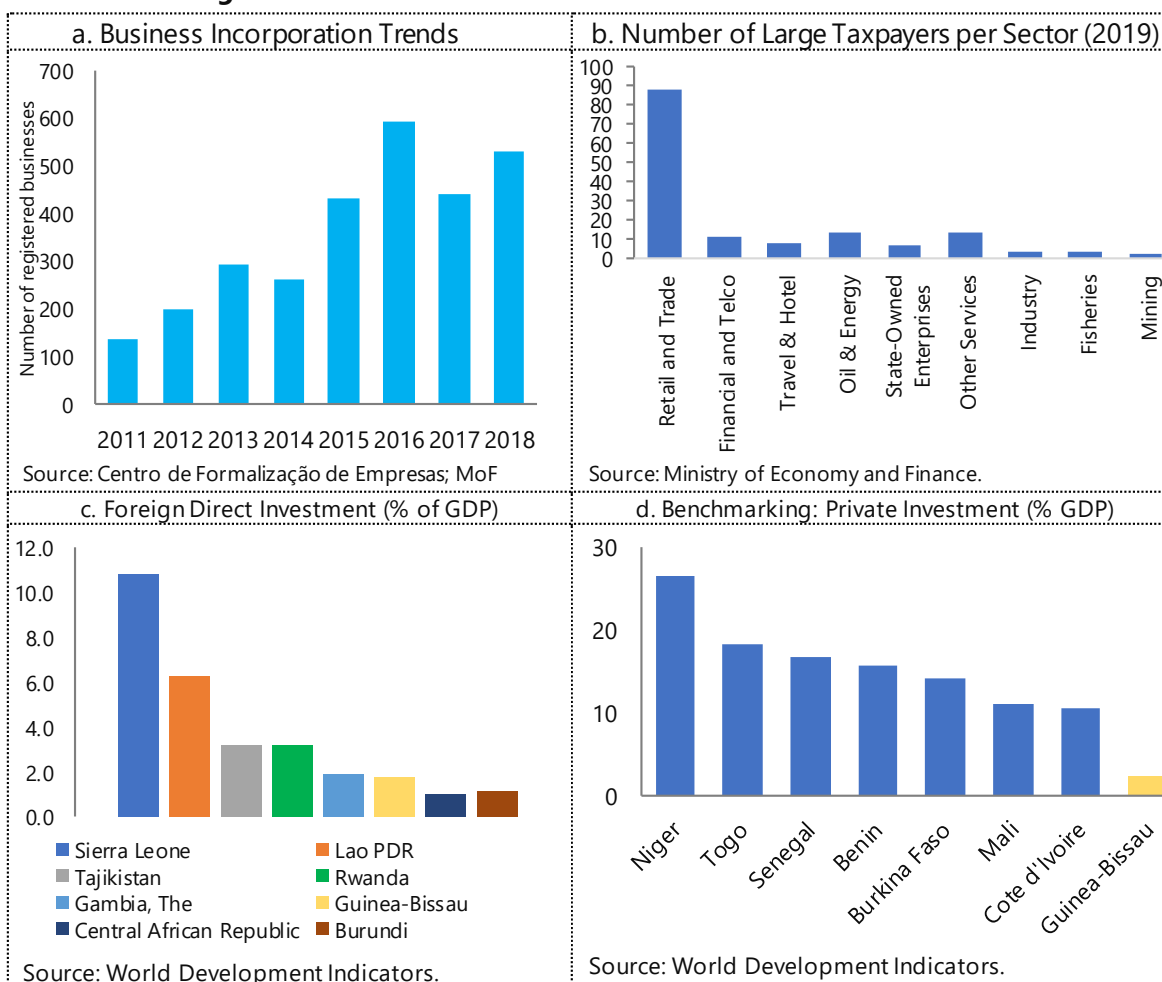
<sup>61</sup> AFRISTAT (2019).

<sup>62</sup> World Bank (2016).



backtrack or stall. For example, the 2012 coup meant that improvements such as the implementation of ASYCUDA+ +<sup>63</sup> in customs were reversed. Political crises prevent institutions, such as the National Assembly, from functioning normally, and hold back improvements in the legal framework. The frequent turnover in high-level officials compromises the leadership and oversight required to advance an agenda of business environment reforms. Political instability has also had adverse effects on public sector administrative capacity. The high turnover of mid-level directors jeopardizes investment in training and capacity building, perpetuating weaknesses in policy implementation capacity. Rent seeking and corruption also remain pervasive – in a context of weak rule of law, interactions with the private sector become an opportunity for low-paid government officials to obtain informal payments.

**Figure 5. Guinea-Bissau: Business Environment and Investment**

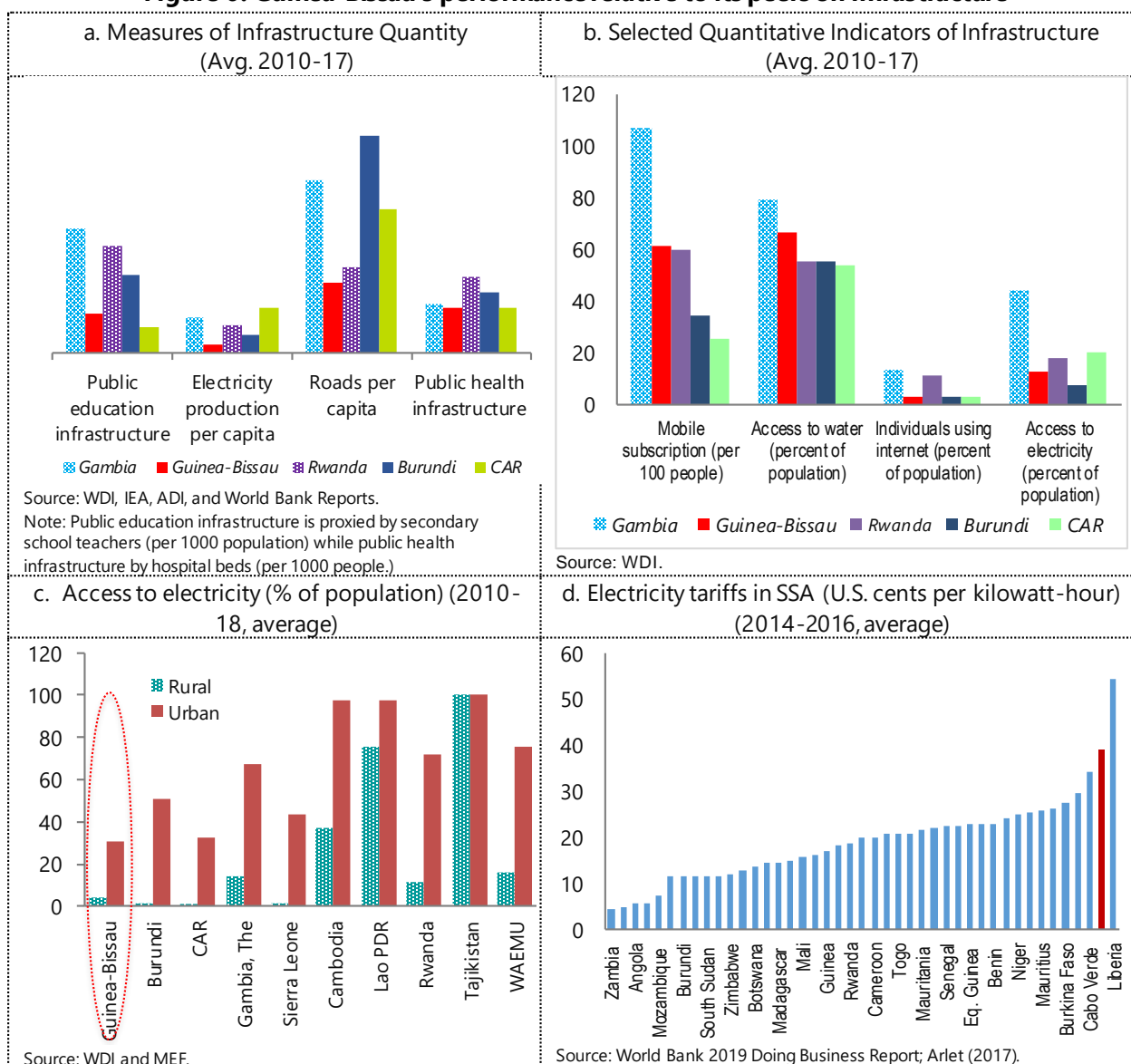


9. **Legal reforms are rarely followed up with complementary regulations or proper outreach and dissemination.** For example, various governments have had the political will to push for new framework legislation within Guinea-Bissau's membership in the Organization for the Harmonization of Business Law in Africa (OHADA). The streamlined guidelines and regulations issued by OHADA are issued through Uniform Acts, applicable to all member countries. They led to a revised Investment Code in 2011 which aimed to strengthen the principles of transparency, simplicity and non-discrimination when dealing with

<sup>63</sup> The UNCTAD Automated System for Customs Data (ASYCUDA) is an integrated customs management system for international trade and transport operations in a modern automated environment.

investors. The licensing reform of 2011 sought to streamline procedures for business incorporation by eliminating the need for licenses in certain low-risk activities. The Land Law (1998) sought to streamline and harmonize land tenure and registration procedures and is discussed in additional detail in the following sections. However, implementing regulations and the administrative apparatus are not adequately organized to deliver or enforce these new provisions. In addition, the absence of training and communication on new regulations for public officials adds to the difficulties and arbitrariness in implementation.

**Figure 6. Guinea-Bissau's performance relative to its peers on infrastructure**

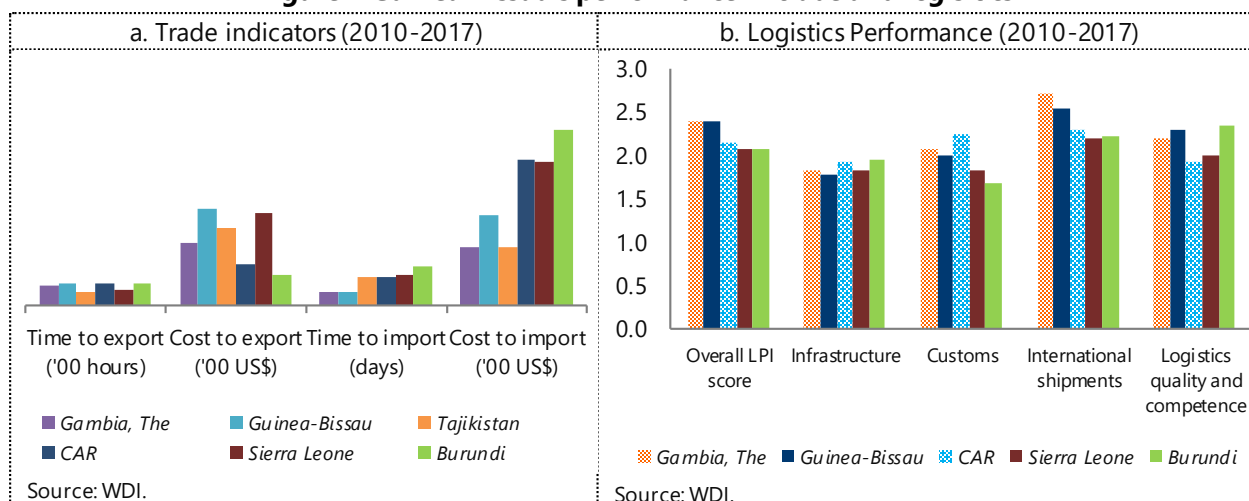


**Poor and Inadequate Infrastructure**

10. **Poor and inadequate infrastructure is a major barrier to sustaining private sector-led growth and expanding economic opportunities for households.** Guinea-Bissau is unable to provide its population or businesses with a reliable and affordable electricity supply, or with adequate transport

infrastructure. Access to electricity is extremely limited and expensive, at US\$0.50 per kWh, one of the highest rates in SSA (Figure 6d). Only 26 percent of the population has access to electricity across the country (Figure 6c).<sup>64</sup> Despite a high tariff rate of \$0.39 per kWh, the state-owned utility company is unable to cover generation costs, and its financial viability depends on annual government subsidies of US\$6 million (0.5 percent of GDP). Similarly, businesses in Guinea-Bissau face significant challenges in accessing and affording communication services (Figure 6b), with the price of ICT services remaining exorbitant. The price of a monthly subscription for mobile broadband service represents 127 percent of monthly gross national income per capita—the second highest in the world.

**Figure 7 Guinea-Bissau's performance in trade and logistics**



11. **The poor state of Guinea-Bissau's transport infrastructure is also hindering its economic development.** Roads and the port are in a woeful state, increasing the costs of accessing markets. Road density (per 100 square km of land area) per capita in Guinea-Bissau is the lowest amongst its structural peers (Figure 6a). In rural areas, the basic mobility needs of the population are largely unmet. Unpaved and poorly maintained rural roads mean large swathes of the rural population can only move on foot during the five-month rainy season, while inland waterways have largely fallen into disuse. This impedes access to local markets, and to basic services. Public transport in the capital is privately provided and relatively low cost. However, there is no formal planning or regulation of transport provision and the limited numbers of paved roads contributes to congestion on the few adequate arterial routes. The deep-water port of Bissau is strategically important and handles the bulk of Guinea-Bissau's imports and exports, but its productivity is low and costs high, making it cheaper to bring goods in overland from the Gambia.

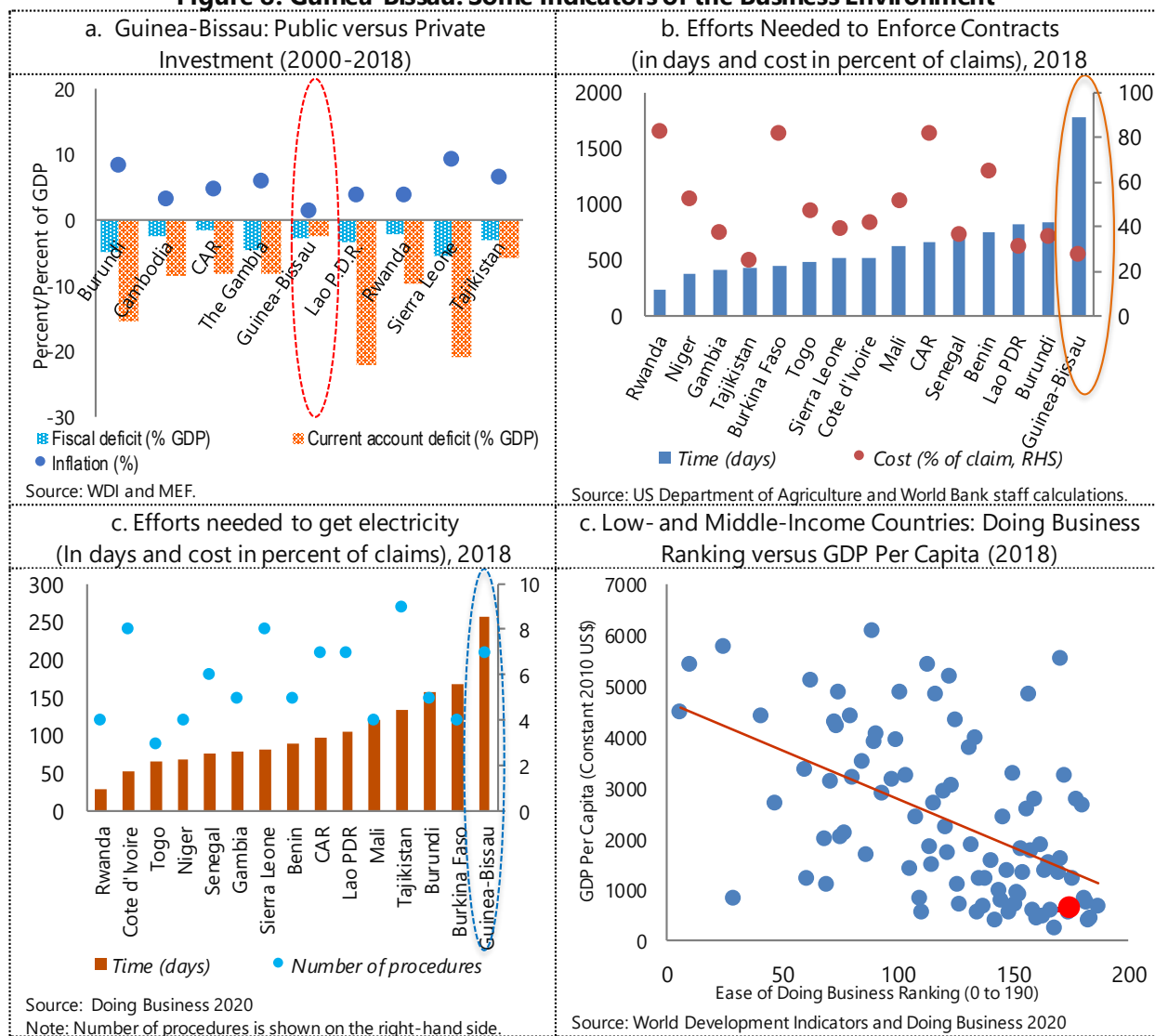
### **An Outdated Regulatory Environment and Judiciary in Need of Reform**

12. **Guinea-Bissau has a complex and inefficient regulatory environment and has made little reform progress in recent years.** The country ranks 174<sup>th</sup> out of 190 economies in the Doing Business 2020 report (Figure 8c). The only area of significant progress in the last decade has been in starting a business. Progress on all other indicators, particularly those crucial to export-driven economic competitiveness such as trading across borders, remains stagnant. Although OHADA membership provides a business law framework that is being updated gradually, regulations in other areas – such as those governing land use,

<sup>64</sup>Key challenges include high generation costs and poor management and performance of the state utility. The shift from the current diesel-based provider to a heavy fuel oil-based power supply contractor in 2019 is expected to increase supply while potentially halving production costs.

construction permits, labor market, and tax structure – are outdated and need revision to reflect current practices. Although Guinea-Bissau performs better than its peers on trade regulations and logistics (mainly reflecting its openness to imports), complex import and export procedures continue to hamper access to markets (Figure 7). Numerous approvals and documentary requirements are necessary both to import and export, and multiple fees are demanded, some of which lack a clear regulatory basis or justification. Improving import and export procedures requires building the technical capacity of customs and other agencies, and strengthening their coordination, as well as improving collaboration with the private sector.

**Figure 8. Guinea-Bissau: Some Indicators of the Business Environment**



13. **The opening of a one-stop-shop for business registration was the flagship reform of the last decade.** The launch of the CFE (*Centro de Formalidade de Empresas*) in 2010 has enabled a significant reduction in the time involved in starting a new business – from 213 days in 2010 to just 8 to 9 days in 2019.<sup>65</sup> The cost has also fallen over the same period, from 323 percent to 88.8 percent of income per capita.

<sup>65</sup> The variation is due to the extra procedure that only women must undertake at inception, i.e. obtain the husband's permission to conduct business.

The CFE has proved resilient during times of political strife, managing to maintain a good standard of service, e.g., during the 2012-2014 crisis. Ongoing reforms, such as the introduction of new software, should help to improve its efficiency further.

14. **The launch of the CFE also provided momentum to improve business registration regulations and land administration, particularly in the framework of Guinea-Bissau's OHADA membership.** A reduction in the minimum capital for limited liability companies in 2016 brought Guinea-Bissau in line with other OHADA members. Other legislative upgrades aligned with the organization's Uniform Act have been enacted in recent years, namely the reduction of the licensing burden and establishment of deadlines and terms for specific procedures. In 2018-2019, Guinea-Bissau approved and implemented the introduction of the entrepreneur regime to facilitate business registry for small-scale entrepreneurs in accordance with OHADA legislation (Box 4.1). Recent pilot programs in other WAEMU countries to enact OHADA's 2011 streamlined business registration regulations for entrepreneurs should provide lessons and guidance for further scaled-up interventions to help informal microenterprises register their businesses.

15. **However, outdated land administration systems and unclear land rights continue to hamper private investment.** Land transactions remain complex, time-consuming, and costly. Purchasing a property takes 48 days and land registration costs 5.4 percent of the value of a property.<sup>66</sup> Guinea-Bissau has a land law dating back to 1998 and a land governance strategy developed in 2014. The approval in 2018 of the implementing decree of the 1998 Land Law offers an opportunity to implement its key provisions, including the issuance of Rights of Private Use, the demarcation of local community land with a stronger focus on women's land rights, a system of Land Commissions, and a rural land tax. The 1998 Land Law provides for stronger security of tenure to attract private investment and to boost an emerging land market, while maintaining the constitutional principle of land as state property. Successive governments have considered the 1998 law, if implemented, an effective solution to the challenges that the country is currently facing.<sup>67</sup>

16. **Another major challenge in the land sector is that formal land administration services are highly centralized and have long been starved of any kind of reform and investment support.** This is true for both the rural and urban administrations. For instance, there is only one Land Registry for the entire country, which means that anybody who wants to register real property rights must visit the Land Registry in Bissau. The Land Registry is a small service with five staff: the head (conservator), head assistant (conservator-adjunto) and three registrars (escriturarios). Similarly, the GDGC has its headquarters in Bissau and a few staff located in the regional representations of the Ministry of Public Works in Gabu, Bissora, and Buba. It has only 23 staff, including four surveyors and one geodetic expert. Requests are processed manually. There are a few computers, but they are used to produce paper documents such as forms and maps that are attached to processes. In other words, public sector land administration institutions are extremely weak and inaccessible to the population.

17. **Not only does the GDGC lack the capacity to quickly process concession requests, but the procedures to acquire rural land concessions are burdensome and costly.** According to an assessment prepared with World Bank Group support in 2017, it takes 22 separate steps to obtain a concession from the GDGC. Beyond the essential step of obtaining agreement from the traditional authorities, the process includes multiple interactions with GDGC, the Ministry of Agriculture, and the Property Registry, among others. Costs include taxes and fees, including a legalization fee and a one-time occupation tax. For a one-hectare plot, the occupation tax would represent an upfront payment of CFAF 250,000 (US\$435). There are

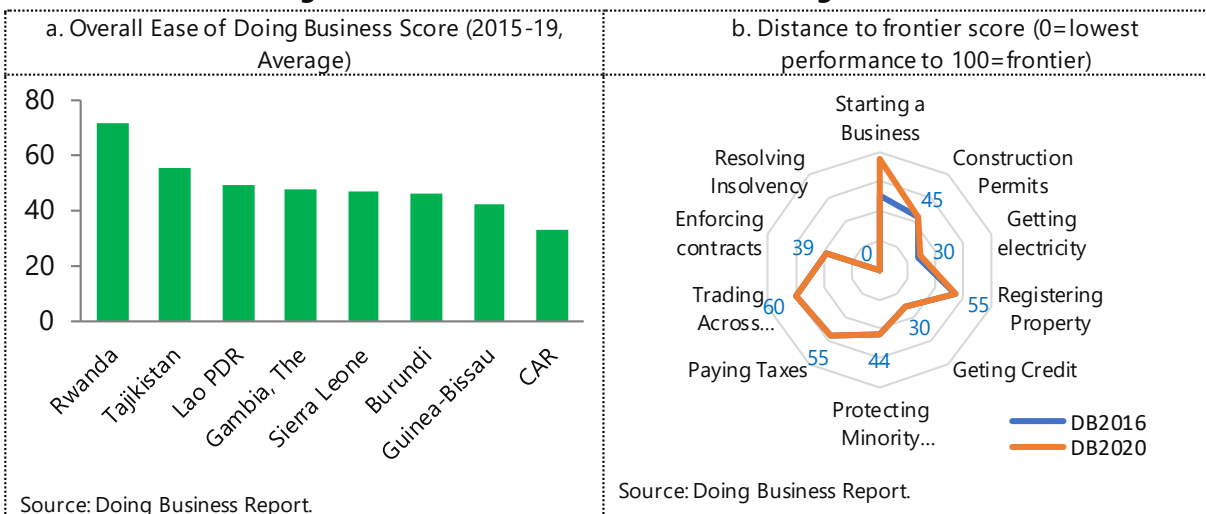
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<sup>66</sup> World Bank (2018a).

<sup>67</sup>The poorly regulated and dramatic expansion of cashew plantations over the last decade has resulted in the transfer of customary land into private concessions, affecting local land rights and livelihoods.

multiple additional costs, including stamp tax, notarization of documents, and transportation and per diems for the officials from the GDGC and other entities involved in the process. The complexity and costs of the concession process discourages many applicants from completing it. The GDGC estimates that it has between 1,000 and 1,500 processes that were initiated but were never formally completed. In the past, there have been instances of investors trying to bypass the established procedures to obtain concessions from high-level political institutions, but the documents obtained fail to confer full legal security of tenure.

**Figure 9. Guinea-Bissau: Indicators of Doing Business**



18. **Guinea-Bissau’s labor regulations are among the most rigid in SSA, according to the 2019 Doing Business report.**<sup>68</sup> The current Labor Code is obsolete and imposes onerous restrictions on the hiring and dismissal of workers, working hours, as well as the use of term contracts, which reduces incentives for firms to formally hire workers. Provisions that are particularly burdensome include the need to register all workers with the labor inspectorate; the need to submit a list of employees annually to the government; and obligatory review of all employment contracts by the government. Fixed-term contracts are not allowed for permanent tasks, and the maximum length of fixed-term contracts (including renewals) is just 12 months. Severance pay for redundancy dismissal, at 26 weeks of salary, is among the highest in the region. These laws are a hangover from the past, with the current labor law being 27 years old—pre-dating even the constitution. A new Labor Code has been discussed at the National Assembly for a few years, but political crisis has impeded its approval. The revised labor law aims to introduce more flexible labor regulations, while maintaining strong workers’ protections.

19. **The tax administration is overlyreliant on indirect taxation, and the lack of predictability and excessive bureaucracy impair the relationship with the private sector.** Recent estimates note that about 80 to 90 percent of corporate income tax receipts come solely from large taxpayers.<sup>69</sup> The lack of revenue collection capacity at source has placed an oversized burden on indirect taxes—responsible for between 60 to 75 percent of overall tax revenues. These are often preemptive and mostly collected at customs during import and export procedures.<sup>70</sup> Heavy reliance on indirect taxes has led to unpredictable changes to the application of taxes and fees, increasing uncertainty and non-compliance by firms. Guinea-Bissau ranks 155

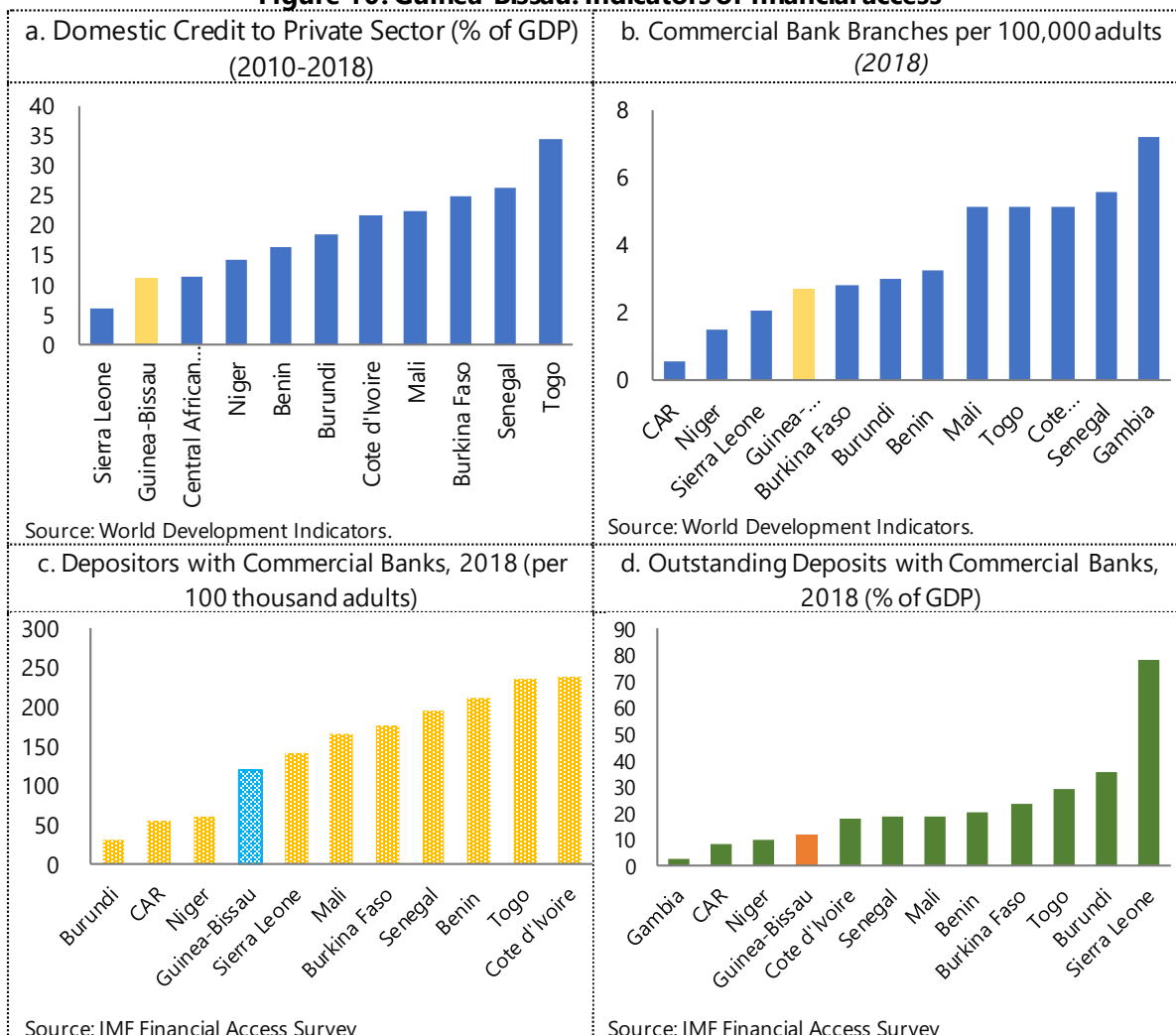
<sup>68</sup> World Bank (2019a).

<sup>69</sup> World Bank (2016).

<sup>70</sup> An example is the advance on the “*Contribuição Industrial*” Tax, corresponding to 3 percent of the transaction.

(out of 190 countries) in the paying taxes category of the 2020 Doing Business report, a position which has remained unchanged over the past ten years.

**Figure 10. Guinea-Bissau: Indicators of financial access**



20. **The justice system for the resolution of commercial disputes and insolvency is also a significant constraint for private sector activity.** The time needed to enforce a contract, as measured by the respective Doing Business indicator, is 1,785 days. This is one of the longest in the world, and has not changed since 2006 when Guinea-Bissau was first tracked in the ranking. The 2020 Doing Business report shows that, on average, roughly 61 percent of this time is spent in the trial and judgment phase, and 33 percent is spent on enforcement.<sup>71</sup> The latter stage is particularly problematic when the decision involves the seizure of assets since often these cannot be found, and lawyers use stalling tactics to cause continuous delays. The establishment of a Commercial Court in 2009 was a positive step, but it has struggled with insufficient human and physical resources.

<sup>71</sup> World Bank (2019a).



21. **Despite some legal advances, effective implementation of insolvency practice has not materialized, and alternative mediation forums are also ineffective.** Effective implementation of legal reforms has been limited, and the country remains no-practice<sup>72</sup> as measured by the resolving insolvency indicator in Doing Business. Regarding alternative dispute resolution mechanisms, the promising unveiling of an arbitration and mediation body with support from the Commerce Chambers in 2007 never achieved operational status. Successive government programs have included justice sector reform as a priority with the goal of improving its independence, efficacy, and integrity. Nonetheless, little progress has been made as the continuous political crisis has engulfed the judicial institutions.

### **Limited Access to Finance**

22. **Access to financial services is also severely limited and much lower than WAEMU peers.** Guinea-Bissau's financial sector is small and highly underdeveloped, making access to finance—especially start-up capital—a key obstacle for entrepreneurs. It is also characterized by weak governance and high risk aversion. Domestic credit to the private sector is low, though it has increased in recent years, reaching 12.4 percent of GDP in 2018. Access to formal banking services is very limited (Figure 10a). Guinea-Bissau has fewer banks than most other countries in SSA (Figure 10b). Banking penetration is low: only 6 percent of the adult population has bank deposits, compared to an average of 13 percent in WAEMU countries. For instance, it is difficult for farmers to access credit to buy fertilizer and market cashew. Small enterprises lack the capacity to navigate through the complex application procedures and to obtain the required collateral. The microfinance sector has failed to take off, but it could play a key role in expanding access to finance.<sup>73</sup>

23. **The microfinance sector is still emerging, and digital financial services are incipient.** The microfinance sector remains thin and affected by low repayment rates, lack of capital, and absence of contract enforcement mechanisms. Hence, it has not been able to provide an alternative source of capital for entrepreneurs—in 2012, assets in these institutions amounted to just 0.1 percent of GDP.<sup>74,75</sup> The penetration of innovative mobile-money platforms is still also residual, with Guinea-Bissau ranking last among WAEMU peers in the number of mobile money transactions per 100,000 adults, despite a high mobile penetration rate of about 61%.

24. **The complementary financial infrastructure is also underdeveloped, further constraining access to credit.** Besides the weaknesses in the banking and microfinance sectors, several structural factors constrain access to credit. On the supply side, credit provision is hampered by the absence of credit information on applicants. The credit bureau coverage (percent of adults) stands at 1.2 percent, significantly below the SSA average of 11 percent.<sup>76</sup> The approval of the WAEMU Credit Bureau Law in 2017 opened the door to the establishment of a regional credit bureau under an initiative led by the Central Bank of West African States (BCEAO), but implementation remains nascent (Box 4.2). Additional factors hampering credit include a weak judicial system for debt collection and legal insecurity regarding secured transactions. On

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<sup>72</sup> An economy receives a “no practice” classification if it had zero cases a year over the past five years involving a judicial reorganization, judicial liquidation or debt enforcement (foreclosure or receivership) procedure.

<sup>73</sup> Despite some progress in the late 2000s, low repayment rates, high administrative costs, depleted cash balances and lack of contract enforcement mechanisms led to the closure of many micro finance providers. One possibility to increase access to finance to the cashew sector is the introduction of warehouse receipt financing, a method of inventory financing in which loans are made against products held as collaterals.

<sup>74</sup> World Bank (2016).

<sup>75</sup> Despite some progress in the late 2000s, low repayment rates, high administrative costs, depleted cash balances and lack of contract enforcement mechanisms led to the closure of many microfinance providers.

<sup>76</sup> World Bank (2019b).

the demand side, challenges include a lack of eligible collateral and inadequate credit applications stemming from poor business plans, low financial literacy, and inadequate accounting practices in many firms.

#### **Box 4.2. WAEMU Regional Credit Bureau**

Against the backdrop of concentrated lending activities and shallow credit markets that prevailed across the WAEMU region, the Central Bank of West African States (BCEAO) started working in 2010 to develop a regional private credit bureau as a way to streamline and integrate the mushrooming of costly and fragmented individual country initiatives (e.g. in Benin, Côte d'Ivoire, and Senegal, as well as the BCEAO's own project for micro finance institutions).

The project was launched in 2013, with International Finance Corporation advisory and development partner funding. It aimed for a regional hub-and-spoke solution, serving all creditors (banks, non-banks, nontraditional credit providers, financial and nonfinancial lenders), with a scalable platform that would collect all relevant data (positive, negative, public, non-traditional, other) across all loan/services amounts and for all borrowers/clients based on the principles of consent and reciprocity.

Since inception, all eight countries in the West African Economic and Monetary Union (UEMOA) have passed credit reporting legislation concurrent with the Uniform Law for the system, and a contractor was selected (Creditinfo Volo) to develop the database system. This was rolled out in 2016, with the hub based in Abidjan. As of 2018, 152 member institutions were contributing data and the bureau held 6.9 million loan records, representing 3.5 million borrowers (individuals and enterprises); nearly 370,000 inquiries across all eight countries had been received.

Source: World Bank. (2019). *Credit Reporting Without Borders: A Regional Credit Reporting Project*.

25. **Complex and occasionally arbitrary import and export procedures constrain the development of value chains.** There are currently many approvals and documentary requirements, as well as various corresponding fees. A study conducted in 2015 noted that between 10 to 14 officials from distinct agencies intervene in the clearance process upon arrival of an import – including Customs, Fiscal Police, Border Guards, Security Police, and tax collectors from different ministers – sometimes without a clear legal basis, and often raising confusion and lack of transparency over which agencies have competent jurisdiction.<sup>77</sup> The country ranks 146<sup>th</sup> (out of 190 countries) in the 2020 Doing Business assessment in the area of 'trading across borders', lagging behind structural peers. In the disaggregated index, the ability to track and trace consignments was the area where most progress has been recorded since Guinea-Bissau started being tracked.

#### **Difficulties in Market Access**

26. **Significant reform efforts have been launched in the past decade, but progress generally remains limited given the volatile political cycles and lack of technical capacity.** The ASYCUDA++ electronic interchange system was launched in 2011, but political instability, lack of maintenance, and weak functional capacity at customs have slowed the benefits envisioned in the reform. Only recently has the system become functional nationwide, currently covering 98 percent of imports versus 58 percent in 2015. A one-stop-shop for cashew nut export (*Guichet Único da Exportação da Castanha de Caju*) has also been created. Although the exchange of information has improved, particularly with regards to revenue collection, it has not led to a significant reduction in export procedures. Further, the procedures for goods arriving via ports and land borders are different. A revised customs regulation decree, approved in 2017,

<sup>77</sup>World Bank (2016).

streamlined processes and the circuit for clearing imported goods from 26 to 9 steps, but implementation has been lagging as customs and the fiscal police report to different ministries.

#### **Box 4.3 Early Impact of the COVID-19 Crisis on Firms**

**Small firms will suffer from the crisis even with short-lived lockdown measures.** Most firms are small, and credit constrained, and they are struggling to stay afloat in the face of a large drop in sales. Due to very low internet penetration, even large firms are ill-equipped for alternative arrangements in a lockdown situation, such as remote work. Low banking penetration—with only 12 percent of the population having deposits in commercial banks—means limited savings to withstand the crisis. Local supply chains are also exhibiting strain due to reduced trade flows associated with the closed borders. Interviews with wholesale importers indicate that essential consumption goods may be in short supply. Except for rice, of which there is enough supply to cover months of domestic consumption, essential consumable products imported from main trading partners, such as Portugal, may experience shortages. The land border with Senegal may serve as a short-term alternative.

**Sectors such as hospitality and tourism are facing a strong negative shock with an uncertain medium-term outlook.** Financial services, tourism and hospitality sectors were the most affected. The suspension in tourism activity has affected most of the hotels in Bissau and emerging destinations outside of the capital, such as the islands of Bijágos, with indirect effects cascading to restaurants and other businesses in the supply chain. This has led to job losses for employees of hotels and tourist destinations, and no support has been provided so far by the government. The crisis has also raised constraints to the availability of inputs. Sectors, like non-food retail, construction and small industries, are also facing lower demand as well as constraints in importing inputs due to trade disruptions. Most firms were also hit by constraints on transportation and logistics. Despite the easing of confinement measures, public transport is operating far below potential as operators are not allowed to take full capacity or increase prices.

#### ***The Cashew Sector***

**The COVID-19 crisis has affected the regular launch of the cashew marketing campaign and the participation of all national and foreign actors.** The start of the campaign has been cautious as import and export wholesalers are adapting to a new, fast-changing context. In the physical absence of many players in the industry (notably foreign buyers), many contracts have been negotiated remotely via the internet, often with some degree of suspicion and caution. As an example, according to information collected from interviews, some buyers did not agree to cover the advance percentages typically made via bank deposits and subsequently used as collateral for bank loans to buy raw cashew nuts (RCN) from producers.

**Despite the challenging context, prices are still favorable to local producers, and output levels are stable.** The price in Bissau has risen from 200 CFAF/kg and is currently between 350 and 400 CFAF/kg. According to current estimates, between 50,000 and 80,000 tons of raw cashew nuts have already entered the Greater Bissau. A similar amount is estimated to be in the hands of producers in the hope that the price will rise even higher.

**In the medium term, the late start of the cashew campaign and the potential for large surpluses in the international market may place Guinea-Bissau at a disadvantage.** Although current favorable prices, supported by strong demand from Indian importers, is a positive sign, anecdotal evidence from interviews notes that large international cashew nut processors, such as Vietnam, have amassed large stocks purchased in 2019 from other producers who started the campaign before Guinea-Bissau. Most of these stocks have not been sold to the main final consumption markets, such as China, due to the international lockdown measures and associated international trade halts. The prospects and effects of the crisis on the international cashew nut export market are still uncertain. Some analysts consider that the demand loss is temporary and that consumption levels in the main destination markets will recover and rise as many households worldwide come out of confinement. Nonetheless, in a context of uncertainty, competing producers have already enacted aggressive measures to protect domestic production – Côte d'Ivoire has intervened in its market by buying 150,000 tons of its estimated domestic production of 700,000 tons and may yet purchase additional quantities.

27. **The COVID-19 crisis is exacerbating the impacts of the aforesaid constraints on the already weak private sector.**<sup>78</sup> Firms in Guinea-Bissau have faced the disruption of supply chains and temporary closures. COVID-19 is affecting firms through several channels: (i) demand shocks (lower domestic consumption); (ii) supply shocks (a decline in labor supply owing to mobility restrictions); and (iii) financial shocks (lower financial intermediation as small and micro-enterprises (MSMEs) mostly rely on commercial lending). Informal workers lack benefits such as health insurance, unemployment insurance, and paid leave. Rampant informality means that any relief and recovery measures aimed at formal labor (such as reduction in income taxes, telework, paid leave) will have very limited effects. The prevalence of the informal sector limited social safety nets and reduced remittances flows have negatively impacted households' income. Box 4.3 summarizes the early impacts of the crisis on firms in Guinea-Bissau.

### 4.3 Activating High-Growth Sectors for Diversification

28. **Guinea-Bissau is well endowed with renewable and non-renewable resources to support economic growth and shared prosperity.** While the economy is predominantly agricultural and very dependent on raw cashew nut plantation for roughly 50 percent of output and about 80 percent of employment, the country has substantial potential in other product niches and sectors. The national strategic plan "*Terra Ranka*," dated from 2015, laid out the vision and priorities for the country and highlighted additional subsectors and sectors such as rice, livestock, horticulture, fisheries (including aquaculture), tourism and extractive industries (primarily phosphate, bauxite in the shorter term, petroleum and gold for the longer term)<sup>79</sup>.

#### Agriculture

29. **The agri-food sector is key to the country's growth and development.** Agriculture is indeed the engine of Guinea-Bissau's economy and the principal source of public revenue. It comprises almost half of GDP and employs the vast majority of the labor force. Raw Cashew Nut (RCN) production is the main source of income for more than two-thirds of households. RCN exports account for more than 95 percent of the country's total export revenue. Over 75 percent of the population in Guinea-Bissau depends on the agricultural sector as a source of livelihood. In the country's strategic and operational plan for 2015-2020, "*Terra Ranka*", agriculture and agri-business have been identified among the four drivers of growth.<sup>80</sup>

30. **Guinea-Bissau has unique comparative advantages in the agriculture sector.** The country features a distinct geographical location as a coastal nation in the transition zone between the Sub-Saharan arid Savanah in the North and East and the humid tropical forest ecosystems in the South. This diverse climate and environmental context powers several enabling factors for agriculture such as plentiful water resources (45 million m<sup>3</sup> of rainwater and a dense network of small river basins), and 1.4 million hectares of arable land (about 30 percent of the country's land area) - of which 200,000 hectares are lowlands, 100,000 hectares are mangroves and 1.1 million hectares are highlands. Only 15 percent of the lowlands and 50 percent of mangroves are estimated to be used for agriculture. The range of viable crops include cereals

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<sup>78</sup> This section is based on information collected from field interviews conducted in Bissau during May-June 2020. A total of 34 individuals were interviewed, mostly from the private sector - entrepreneurs in retail, cashew processing, agriculture co-ops, private sector associations, hotel owners, consultants and commercial banks managers and senior staff. Public officials were also interviewed, as notably in customs and tax, in addition to an official representative of the BCEAO Central Bank.

<sup>79</sup> Governo da Guiné-Bissau. (2015). *Guiné-Bissau 2025 - Plano Estratégico e Operacional 2015-2020 "Terra Ranka"*. República da Guiné-Bissau.

<sup>80</sup> Guinea Bissau: Unlocking diversification to unleash agriculture growth (World Bank, 2019).

such as rice, millet, sorghum; cash crops like raw cashew nut, groundnuts, and cotton; fruits including mangoes, citrus fruit, papayas; and tubers like cassava and sweet potatoes<sup>81</sup>.

31. **Guinea-Bissau's raw cashew nut production, the mainstay of economic activity, struggles with low productivity and minimal local value-added due to limited post-harvest processing.** The country is the fourth globally in terms of raw cashew nut production, and this has been the cash-crop of choice with the best relative returns for local farmers. Cashew trees are well adapted to most of the soils and climate in the country, require less workforce, and are an accepted means of asserting ownership of land. Still, local producers only capture a small portion of the total value generated in the cashew value chain – an estimated less than 30 percent<sup>82</sup> –, and often suffer from lack of market access and information regarding the international reference price. Productivity is low versus other producers – an average of 320kg/ha versus 520kg/ha in the Ivory Coast or between 800 to 1000 kg/ha in top producers India and Vietnam. Local processing has increased from just 200 tons per year, to an expected 8,000 to 10,000 tons with a set of investments underway,<sup>83</sup> although it still represents a small fraction of the cashew produced (about 200,000 tons per year). Increasing the linkages between farmers and transformers is one of the key challenges to increase the positive spillover of the sector (see Box 2). Incipient efforts to achieve bio certification for locally processed cashew, built on traceable value chains, could open opportunities for accessing higher-value markets.

**Box 4.4 – Strengthening linkages between cashew farmers and transformers**

The Private Sector Rehabilitation and Agribusiness Development Project, financed by the World Bank and implemented from 2014 to 2019, supported pilot programs to increase linkages between cashew producers and transformers with encouraging results. The project supported producer cooperatives to rehabilitate warehouses, train farmers, and increase working capital availability. A local processing company, Arrey, committed to purchasing from these co-ops. Over the three years of the program, the price for producers supported by the linkages program was on average 21% higher than other farmers in the region. Impacts for producers were even higher when considering productivity enhancing impacts through improved skills, seeds, materials, and extension services. (Source: World Bank, 2019).

32. **The fragile environment in which agricultural sector stakeholders operate is not conducive to the generation of growth or employment.** The high level of agricultural risk (price, climatic, political), along with the high fragmentation of production and the scarce access to financing for the farmers in the country, limit the current private investment in the sector. Low productive diversification, alongside a frequent lack of assets to mitigate risks, increases the country's economy and two-third of its population's vulnerability to climate and market risks.

## Fisheries

33. **The fisheries sector has a great potential, but Guinea-Bissau is not reaping the full benefit of its natural advantages.** In recent decades, its waters have been increasingly exposed to fishing pressure from both foreign industrial trawling and regional artisanal operations. Current fishing practices are unsustainable, as shown by declining catches in all sectors, threatening the long-term viability of its marine resources. Fishing licenses account for 10 percent of domestic revenue but, given limited government capacity for monitoring fishing activity and enforcing compliance with access rules, under-reporting of

<sup>81</sup> (World Bank, 2019)

<sup>82</sup> For an order of magnitude of the whole value chain, the 2015 World Bank CEM compared the price of the raw cashew nut with the processed and packaged kernels – US 0,5 per kg vs US 7 kg, respectively.

<sup>83</sup> (World Bank, 2019)

catches is widespread. Foregone revenues from inefficient management of fisheries is high while license fees are low. The country's fish stocks are harvested mainly by foreign operators and shipped to foreign lands for processing and distribution.

34. **The country has excellent natural fishing assets, but the sector remains largely artisanal and underdeveloped.** Although having a relatively small coastline of 270km (not including islands), the country has several estuaries with large river outflows, and the vast archipelago of islands provides a broad and shallow nutrient-rich continental shelf - at 45,000 km<sup>2</sup>, it is one of the largest in West Africa. The active upwelling currents also facilitate the mixing and exchange of nutrients throughout the water column, enhancing the diversity and depth of fisheries' biodiversity. This geographical context, added to the humid tropical climate, offers favorable conditions for demersal species - such as fish (croakers, snappers, et others), shrimp, and cephalopods (octopus) -, as well as small pelagic species living in the water column, like sardines. Data from 2011 estimates the size of the sector at just 4 percent of GDP, compared with 10 to 12 percent in neighboring Mauritania<sup>84</sup>. In effect, fisheries are mostly an artisanal activity, and the level of industrial catch offloaded in the country remains nascent.

35. **The current context is challenging as industrial catches, mostly offloaded abroad, appear to have declined in recent years, and the sector is struggling with sustainability and environmental management.** The artisanal fishing fleet was tallied at about 980 canoes in 2017, many of which owned by fishermen from neighboring countries. The industrial fleets, made up of trawlers and purse seiners, tallied 133 boats in 2017. While the artisanal catches disembark an estimated 20,000 tons yearly, the recorded industrial catch was estimated at 115,000 tons in 2017, down from 184,000 in 2016, most of which landed outside of the country due to the lack of adequate infrastructure. The fall in reported catches and the widespread anecdotal evidence of illegal and unreported fishing implies the likely possibility of overfishing in some of the major groups – according to estimates compiled in 2011, the maximum yearly productivity was estimated at 230,000 tons<sup>85</sup>.

#### 4.4 Private Sector Matters for Job Creation

36. **Addressing job challenges, especially among young people, remains a development priority in Guinea-Bissau as elsewhere in the developing world.** In Guinea-Bissau, a country with weak or no social safety nets, implementing policies that are conducive to the creation of more and better jobs are needed more than ever. Creating employment opportunities helps safeguard 'the social contract' between the government and the people (Chapter 2). Sustainable job creation relies, among others, on the growth of a competitive private sector, which would, as noted above, require prioritizing policies conducive to private sector growth. Policies that aim to raise labor productivity, such as human capital (Chapter 3), and connecting the country's small farm producers to local value chains, will also be key for lifting individuals out of poverty. This section analyses the labor market and its implications for employment policy.

##### Overview of the labor market

37. **The youth dominate Guinea-Bissau's population.** Figure 4.7 presents a snapshot of the structure of the country's labor force make up. Results from the Guinea-Bissau household survey show that in 2018 the working-age population (15-64 years of age) was estimated at 932,562—accounting for 55.5 percent of the total population. About 64.9 percent of the working age population is composed of young people

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<sup>84</sup> (World Bank, 2014)

<sup>85</sup> (World Bank, 2018)

between 15 and 34 years of age (Figure 4.6). In addition, the employment-to-working age population, capturing employment opportunities available to the working-age individuals, is estimated at 65.9 percent. That is a little higher than the SSA average of 62.8 in 2018.

**Table 4.1. Inactivity by age group, gender and area of residence (%)**

Age group	All	Gender		Area of residence	
		Men	Women	Urban	Rural
15-24	50.2	45.3	54.7	70.2	30.0
25-34	26.6	19.4	32.6	37.5	15.9
35-64	18.5	10.8	24.9	23.1	14.9
Total	32.4	26.3	37.7	45.6	20.5

Source: Based on HHS 2018 (Republic of Guinea-Bissau, 2018)

38. **The labor force participation rate (LFPR) is slightly above the SSA average.** In 2018, 67.9 percent of adults of working age were active. The LFPR exhibits an inverted U-shape, which is more curved for men than women, suggestive of higher labor force participation for men of all age groups (Figure 4.9a). Nonetheless, it reaches a late peak in the age group 45-49 for both men and women, before slowly declining for men and more sharply for women (Figure 4.7c). LFPR is nearly 80 percent in rural areas, much higher than in urban areas (54.4 percent). Inactivity was the highest amongst the youth (aged 15-24), especially among those in urban areas, and women.<sup>86</sup> Labor force participation is lower among women than men. Around 37.7 percent of working age women are inactive compared with 26.3 percent for men (Table 4.1). These gender differences persist across all age cohorts. Several factors may explain women's low participation rate, including household responsibilities, such as child rearing. For instance, at 17, some 9.5 percent of working-age women were married compared to less than 1 percent for men, and by 22, 32.8 percent of working-age women were married compared to 4.5 percent of men of same age (Figure 4.6e).

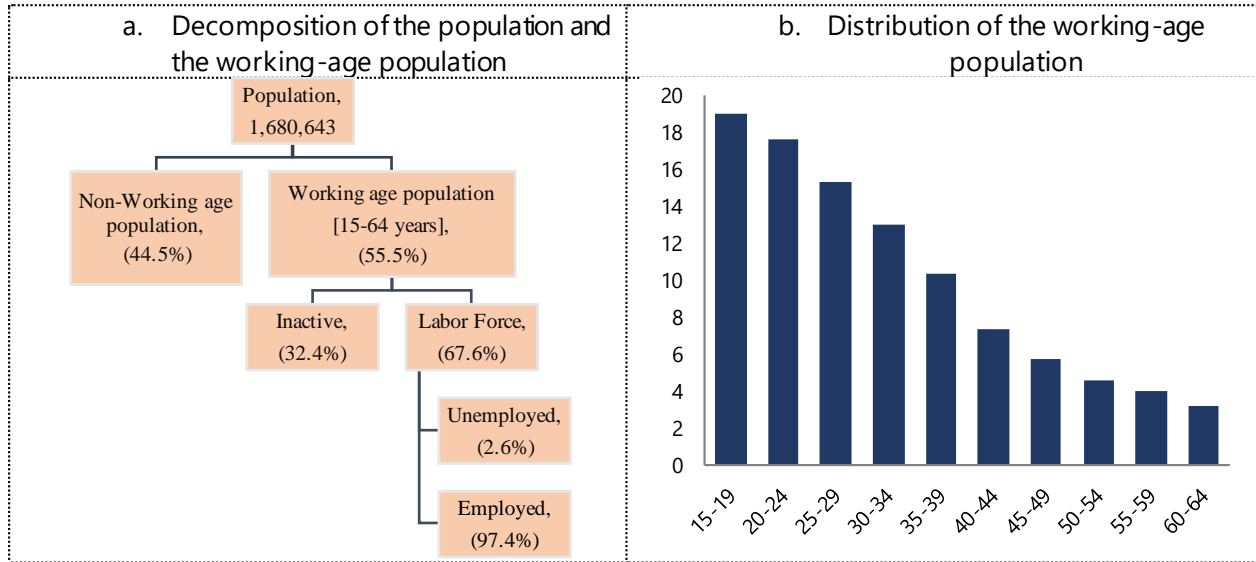
39. **In Guinea-Bissau, as in many low-income countries, unemployment and inactivity tend be concentrated within richer households and highly educated individuals.** Both unemployment and inactivity are low at the bottom of the wealth distribution (Figure 4.6f). This is because most of the poor—who are mostly in rural areas—cannot afford to stay for long in school, and join the labor market early. In other words, the poor cannot afford to be unemployed and/or inactive. Unemployment increases at higher levels of education (Figure 4.16). For example, only 1.2 percent of individuals with no education are unemployed, compared to more than 7 percent of individuals with at least upper secondary education.

40. **The preponderance of workers in low productive jobs is Guinea-Bissau's one of the most pressing development challenges.** Most employed people are in the agriculture sector (58.8 percent), followed by non-agricultural self-employment (27.5 percent), and wage employment (13.7 percent) (Figure 4.8a). Another key feature is that young workers are mainly in agriculture employment, with their access to wage employment remaining much lower (Figure 4.8b). This pattern of employment in Guinea-Bissau follows that of the SSA region, as described in Filmer and Fox (2014).

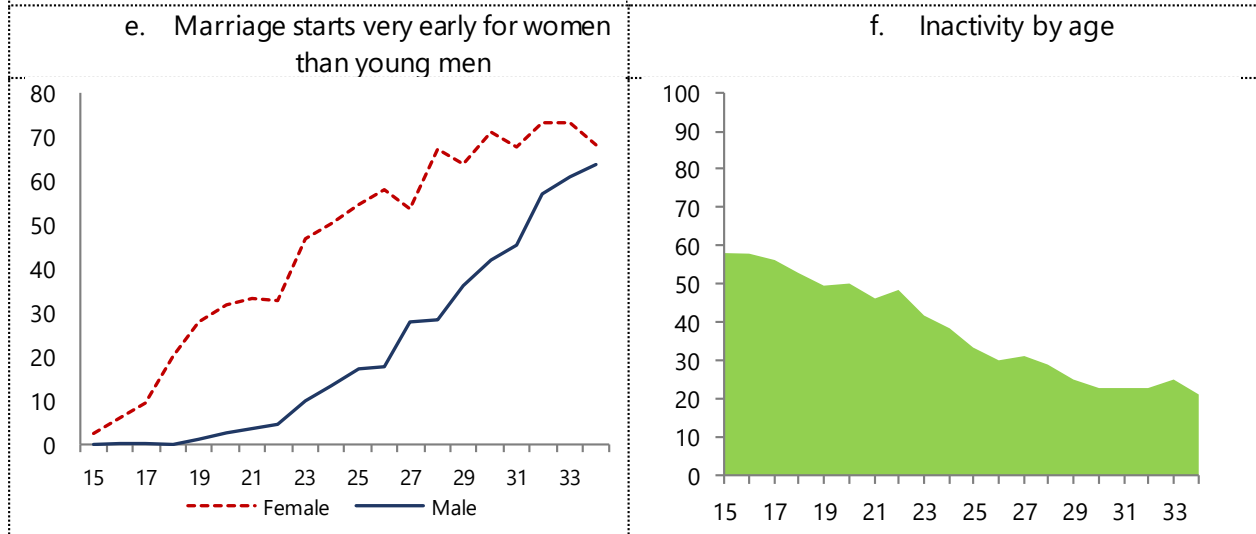
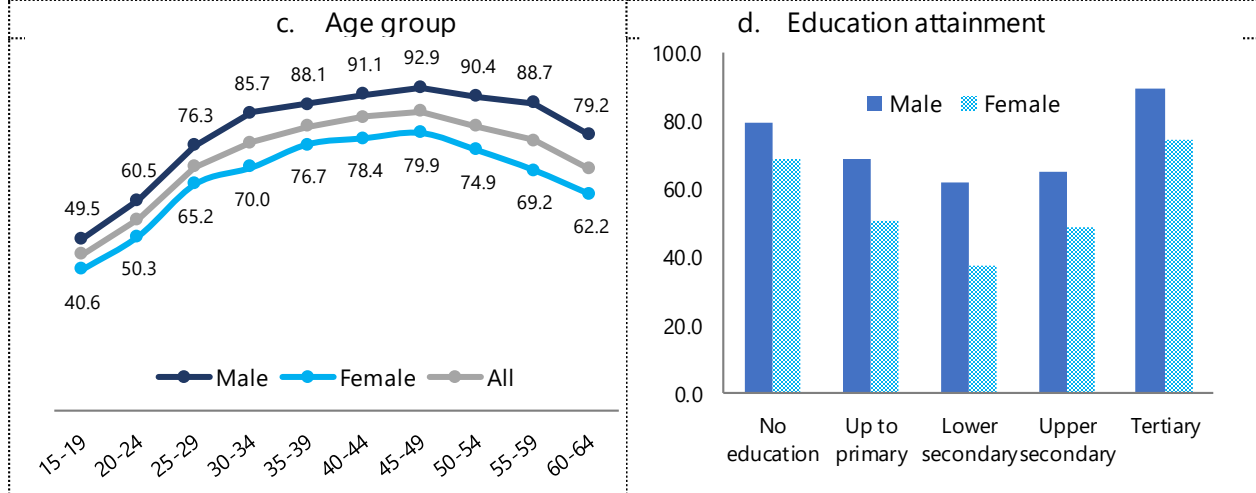
<sup>86</sup> These young people in theory have not yet left school to enter the labor force.



**Figure 4.7. Overview of the Labor Market**



**Figure 3: Labor force participation rate of men and women by**



Source: Based on GNB EHCVM2018

## Employment composition

41. **Women are mostly employed in less productive jobs, including agriculture and non-agricultural self-employment** (Table 4.3). Nationally, more than 64 percent of employed women are employed in agriculture compared with 54 percent of men. In contrast, the overall share of men in wage employment (19.8 percent) is more than twice that of women (7.4 percent). Of note, this gender divide persists across areas of residence, and is especially pronounced in urban areas. Equally important is that the poorest and most vulnerable people are in less productive employment. The non-poor are more represented in wage employment (20.2 percent).

**Table 4.2. Employment composition by gender and rural/urban location**

	Gender		Location		Rural, by Gender		Urban, by Gender	
	Male	Female	Urban	Rural	Male	Female	Male	Female
Wage employment	19.8	7.4	30.3	3.9	6.5	1.5	39.8	18.9
Nonagricultural self-employment	26.8	28.3	54.4	11.8	13.4	10.3	46.9	63.4
Agricultural self-employment	53.5	64.3	15.3	84.3	80.1	88.2	13.3	17.7
Total	100	100	100	100	100	100	100	100

Source: Based on HHS 2018 (Republic of Guinea-Bissau, 2018)

42. **Educational attainment remains the key factor in accessing better jobs.** The patterns of occupational selection by educational attainment are very strong and unidirectional: job quality increases with educational attainment. For instance, Figure 4.8f illustrates that individuals with no or low educational achievement end up in agriculture. Meanwhile, individuals with an upper secondary education and above have more access to wage employment.

## Wage employment and earnings

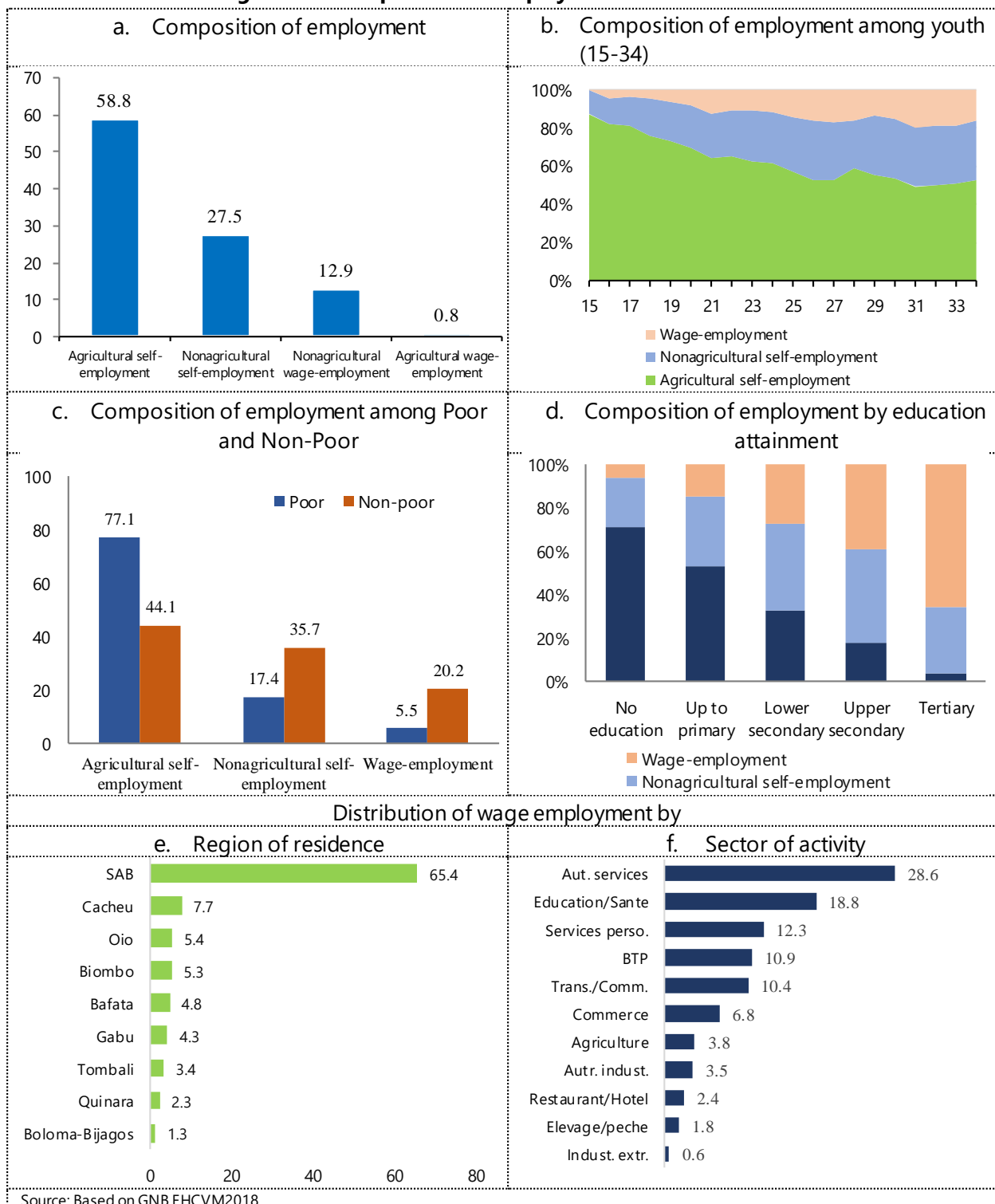
43. **Wage employment is largely the domain of men, and mostly concentrated in Bissau, especially in the services sector.** More than 65 percent of all those in wage employment are in Bissau (SAB in Figure 4.8e). The largest shares of wage workers are found in the service sector (including education, health, personal services and others). The service sector makes up nearly 60 percent of all wage employment (Figure 4.8e). In other words, most wage workers are not in labor-intensive sectors.

44. **Further, women, poor, rural residents, and poorly educated individuals in wage employment earn significantly less than their comparable counterparts.** The national median monthly wage is 65,000 CFAF, but for women this falls to CFAF 50,000 while for men it rises to 70,000 CFAF. Likewise, the median wage in rural areas is just CFAF 50,000, compared to CFAF 68,000 in urban settings. The median wage ranges regionally from CFAF 45,000 (in Gabu and in Tombali) to CFAF 72,000 (in the capital city, Bissau). Earnings also vary by sector. The median monthly wage ranges from CFAF 42,167 (the fisheries sector) to CFAF 80,000 (the extractive sector). Of note, the median wage in the fishing sector is well above the national average.

45. **The gender pay gap is stark.** Women's wages lag disproportionately behind those of their male counterparts. Nationally, women earn 71.4 percent of what men earn. At the educational level, the female-male earnings ratio ranges between 0.696 and 0.915. Looking exclusively at the sectoral level, it ranges between 0.347 and 1.250. In some sectors women's earnings are slightly higher than men's, especially in transport/commerce (25 percent higher), and in education and health (6.7 percent higher). Women in other

industrial sectors, outside the extractive sector, earn as much as their male counterparts. At the other extreme, despite the relatively high median wage in the fishing sector, women’s pay in the sector lags 34.7 percent behind men’s. Finally, women in Gabu earn on average 11.1 percent more than men.

**Figure 4.8. Composition of Employment in Guinea-Bissau**



## 4.5 The Regulatory Framework and Gender Equality

46. **Gender equality is an essential element of economic development.** Greater equality can boost productivity and improve development for the next generations. While women's access to economic opportunities is linked to many factors, studies show that laws and regulations can influence their participation in the economy. Legal gender equality is associated with a range of outcomes, including higher female labor force participation, more women in parliament, and a lower gender wage gap (Hyland *et al* 2019). Research further estimates that much of the difference in per capita GDP between countries can be attributed to gender inequality and that many countries can increase their GDP by removing gender barriers in the labor market (Cavalcanti and Tavares, 2015). Equal opportunities allow women to make the best choices for themselves, their families and their communities. However, equal opportunities in getting a job or starting a business do not exist with legal gender differences remaining prevalent.

47. **Women's disadvantaged position and lack of decision-making power in the social, economic and political spheres hinder their economic potential.** Women are underrepresented in public bodies, especially at a higher level and have less opportunities to participate either in wage work or as entrepreneurs. The National Gender Policy finds that men hold 69 percent of government positions and are over-represented in key ministries affecting women's economic empowerment, such as agriculture and education, where women hold just 14 percent and 26 percent of positions, respectively. The overall proportion of women in ministerial positions in 2018 was 16.7 percent.<sup>87</sup> Additionally, only 14 percent of women sit in parliament<sup>88</sup> and the presence of women in government and in the upper ranks of the Defense and Security Forces is very limited. This inequality in decision-making capacity hampers their ability to shape the country's socioeconomic development.

48. **Despite women's active economic engagement, their participation in the labor market is marked by strong gender discrimination and informality.** The latest household survey showed that approximately 80 percent of women aged over 15 were economically active (79 percent in Bissau and 81 percent in regions outside Bissau), compared to 90 percent of men. And while women represent more than half of the working-age population in Guinea-Bissau, only 66 percent of them participate in the labor market, compared to 79 percent for men.<sup>89</sup> In addition, women are more exposed to vulnerable employment (84 percent) than men (68 percent). Women also constitute a lower share of wage and salaried workers (15 percent) than men (30 percent).

49. **Guinea-Bissau's performance in the *Women, Business and the Law* index on legal gender equality shows significant opportunities for improvement.** The *Women, Business and the Law (WBL)* index is structured around the economic decisions women make as they go through different stages of their working lives. Thirty-five questions are scored across eight indicators. The index score for an economy is calculated as the unweighted average of all eight indicator scores on a scale of 0–100, with 100 representing the best overall score. Guinea-Bissau has an overall *Women, Business and the Law* score of 42.5 points (Figure 11), performing below the average for the sub-Saharan Africa region of 69.9 points as well as the global average of 75.2 points. Guinea-Bissau is also outperformed by most economies in the region including Angola (73.1 points), Mozambique (76.9 points) and São Tome and Principe (86.3 points). It only performs better than Sudan (29.4 points).

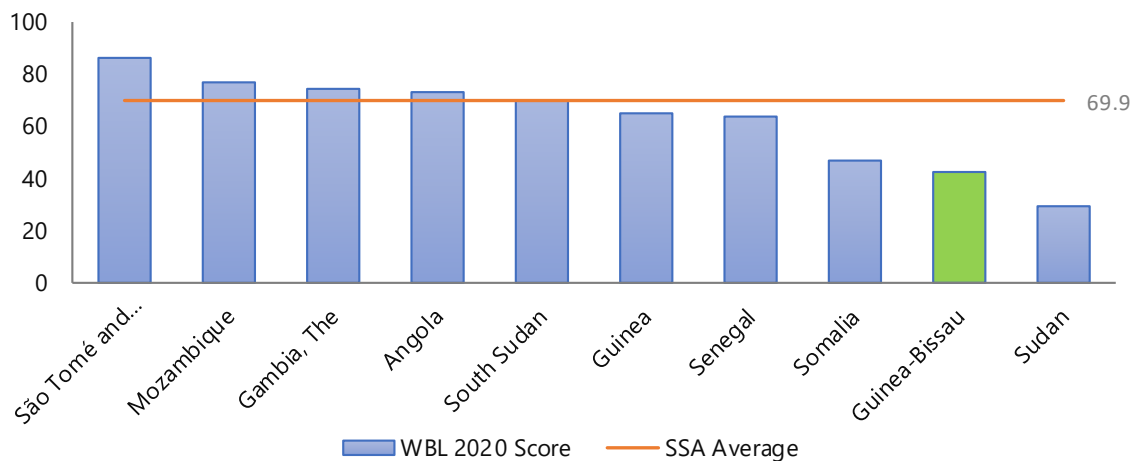
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<sup>87</sup> World Bank (DataBank) Gender Statistics. Accessed at <https://databank.worldbank.org/source/283?series=SG.GEN.MNST.ZS>

<sup>88</sup> World Development Indicators: Women and Development. Accessed at <http://wdi.worldbank.org/table/WV.5>

<sup>89</sup> World Bank Gender Data for Guinea-Bissau. Accessed at <http://datatopics.worldbank.org/gender/country/guinea-bissau>

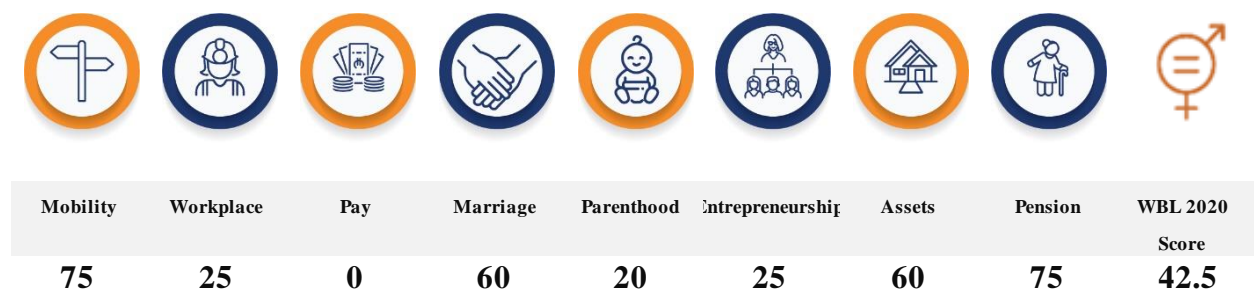
**Figure 11. Guinea-Bissau's performance in Women, Business and the Law 2020**



Source: Women, Business and the Law database. World Bank (2020).

50. **Guinea-Bissau's regulatory framework as measured by the WBL index reflects legal constraints to women's labor market participation and access to economic opportunities.** In *Women, Business and the Law 2020*, Guinea-Bissau's performance varies significantly across the eight indicators measured by the report (Figure 12). In particular, it performs best in *Mobility* (75 points) and *Pension* (75 points), relating to laws affecting women's ability to freely move and travel and to get a pension of equivalent size to that of men's. Guinea-Bissau however lags further behind in *Workplace* (25 points), *Pay* (0 points), *Marriage* (60 points), *Parenthood* (20 points), *Entrepreneurship* (25 points), and *Assets* (60 points), i.e. laws affecting women's ability to enter the labor market and choose the jobs of their choice, their capacity to earn an income in the same way as men, their legal decision making ability within marriage, their ability to return to work after having children, and their entrepreneurship and property rights.

**Figure 12. Reform opportunities to promote women's economic participation in eight regulatory areas**



Source: World Bank (2020).

#### 4.6 Options for Reform

51. **The private sector needs to play a much greater role if Guinea-Bissau is to break out of its low and volatile growth trap, especially in the post-COVID-19 era.** Given that the government will have little or no fiscal space to finance public investment post-COVID-19, and in a context of an expected decline in external assistance, the country needs to tap into private sector financing. This will require an improvement in the business environment. Guinea-Bissau is a very difficult place to do business. Removing these constraints would unlock the potential of private enterprises and support sustained growth. An

improved business climate would also help attract foreign investors, which would in turn foster access to financing as well as new technologies and expertise. Implementing the recommendations outlined below will help to remove the current roadblocks to private sector growth.

## Improving the Business Environment

52. **Recent government strategies and action plans have emphasized business environment reforms as critical to attracting private investment.** The 2015 'Terra Ranka' Government strategy formed a dedicated business climate pillar with three programs to facilitate diversification and private sector growth. A dedicated Business Environment Reform Commission (*Comissão de Melhoria do Ambiente de Negócios*, CIMAN), created in April 2015 under the Ministry of Economy and Finance with private sector participation, has been working intermittently ever since. The CIMAN played an important role in overseeing reform implementation, including identifying and addressing bottlenecks, and compiled an action plan for 2019/2020 containing 22 measures across 7 of the main areas of Doing Business. Although in the current context of political instability CIMAN is now dormant, its tenure has demonstrated that a simple inter-ministerial commission with private sector participation has the potential to unlock significant progress by coordinating and overseeing implementation. Its anchorage at the top level of government (the Prime Minister's office) is especially essential to troubleshoot and advance reform across the various line ministries. The work it began can be pursued once the situation becomes more stable.

53. **Implement an ambitious cross-sector reform plan backed by continuous investment in institutions and effective inter-agency coordination.** Lessons from top-tier reforming countries suggest that the first step should be to create a vision – this is already expressed in the Terra Ranka plan. This should subsequently be cascaded into a multi-year action plan with clear and quantifiable objectives, updated regularly. The continuous strengthening of the capacity of key implementing institutions (such as tax and customs, commercial and land registry, judiciary) is also a necessary condition for success.

54. **Create working groups and steering committees at mid and micro implementation tiers.** Although there is no one-size-fits-all model, best practice suggests at least three levels of reform coordination and implementation: (i) a high-level decision body (e.g., Council of Ministers) which should prioritize and make strategic and political decisions, validating the work of the technical groups and approving the related decrees, as well as submitting to the National Assembly when relevant; (ii) technical groups, created as needed for the main reform areas and responsible for developing the detailed technical parameters of the different measures, following-up on implementation, identifying bottlenecks and providing regular reporting on progress; and (iii) a reform coordination unit which monitors progress on a day-to-day basis, providing resources to the technical working groups (e.g., technical assistance, drafting of legal texts). In Guinea-Bissau, the office of the Director-General of Economy has been playing the role of Secretariat of the CIMAN. Following a return to stability, the CIMAN could be reinforced with technical assistance to support the implementation of the reform action plan.

55. **Focus efforts to tackle informality on actionable and realistic measures.** The approach to micro-entrepreneurs should be anchored in business development support as opposed to just pushing registration *per se*. A comprehensive program should seek to reduce the burden of procedures and fees and include support programs for business owners to access information on markets, introduce business development training, and promote mobile financial services to increase financial inclusion. OHADA's 2011 streamlined entrepreneur regime could provide a platform (Box 4.1), and low-cost approaches such as business plan competitions have had interesting results in spurring formal entrepreneurship. The scarce

resources for ensuring registration and tax compliance should be directed at medium and large enterprises that have more critical mass.

### ***Strengthening the Legislation on Gender Equality***

56. **Introduce reforms eliminating restrictions to women’s participation in the economy and thus close the gender gap.** Opportunities exist for the country to improve its legislation to promote women’s economic inclusion. On mobility, women could be allowed to choose their place of residence in the same way as a man. In the workplace, improvements could be made by allowing women to get a job or pursue a profession in the same way as a man and by adopting legislation prohibiting, criminalizing and providing for civil remedies for sexual harassment in employment. In pay, legislation could be introduced to ensure equal remuneration for work of equal value and to allow women to work at night and in the same types of jobs and industries as men. On parenthood, improvements could be made by introducing legislation providing for paid leave of at least 14 weeks to mothers and by introducing paid parental leave, and by prohibiting the dismissal of pregnant workers. In entrepreneurship, Guinea-Bissau could introduce legislation prohibiting discrimination based on gender in access to credit and by allowing women to register a business and open a bank account in the same way as a man. And in assets, Guinea-Bissau could improve by granting women equal ownership rights to immovable property and equal administrative authority over assets during marriage.<sup>90</sup>

### ***Managing Land Tenure***

57. **Enhance legal security and transparency in land tenure management to induce investment.** Recent legal reforms, e.g. the Land Law of 1998 and its more recent implementing regulations, provide an important foundation, but strengthening the administrative apparatus is essential to unlock progress. The Land Registry office for the whole country should be strengthened. The establishment of the National Land Commission, as foreseen in the law, needs to spearhead implementation efforts for the Land Law. In the long term, the development of an integrated national spatial data system in accordance with international best practice will be key to cement transparency and legal security in all land transactions.

### ***Improving Access to Finance***

58. **Improve access to credit through reforms to enhance the financial infrastructure.** Besides measures to improve the solvency and resilience of the financial system, the development of the microfinance and mobile-money segments could provide good potential for the financial inclusion of micro and small enterprises. Additional reforms to unlock access to credit include strengthening the credit information apparatus through the WAEMU’s Regional Credit Bureau initiative, as well as introducing movable collateral as a valid option to procure credit, again seizing on regional practices such as OHADA’s secured interest legislation. A system of warehouse-receipts financing would also provide a good lever for the agriculture sector.

### ***Optimizing the Taxation and Incentive Framework***

59. **Implement tax reform to improve dealings with private firms.** To improve tax collection capacity, Guinea-Bissau can learn from successful cases in other fragile states by combining policy measures – such as revising or streamlining existing fees – with administrative measures, including the rollout of IT-

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<sup>90</sup> World Bank (2020).



driven reforms. Tax administrative measures include easy-to-implement measures such as disseminating a unique tax identification number and introducing a new sales tax invoice. In other fragile countries like Burkina Faso, Liberia, and Rwanda, tax reform proved effective through a combination of legal and administrative measures, including increasing excise taxes, reducing exemptions, improving compliance through enforcement and outreach and training to taxpayers, promoting recovery programs for arrears, and ICT upgrades to the overall tax administration.<sup>91</sup>

60. **Strengthen the capacity of the judiciary to deal with commercial issues.** The establishment of a commercial court in 2009 was a positive step, but implementation has been challenging due to a lack of resources. The use of alternative dispute resolution mechanisms should be explored. In addition, despite having achieved alignment with OHADA's legal framework on insolvency since 2015, effective implementation has not yet expanded, and related outreach and training measures are necessary across all practitioners – judges, lawyers, and private sector firms.

### *Facilitating Trade*

61. **Do more to facilitate trade and access to world markets through a more effective administrative and policy mix.** The recent regulations on streamlined customs procedures should be fully enacted, leveraging the recent effective implementation of the ASYCUDA++ platform. Other avenues for quick gains include the use of risk-management approaches to reduce physical inspection of goods. To coordinate trade policy over the medium to long term, particularly considering the country's competitive sectors, Guinea-Bissau would gain from ratifying the World Trade Organization Trade Facilitation Agreement and accessing the corresponding technical assistance envelopes, establishing in the process the corresponding National Trade Facilitation Committee. In the medium-long term, the goal of establishing a single window for import and export would cement a streamlined legal and administrative practice.

62. **Implement sector-level extension programs to realize Guinea-Bissau's potential across the economic spectrum.** In the cashew sector, extension programs should contemplate support to the adoption of new inputs and technologies, training on new planting techniques, better soil and tree conservation, as well as expanded processing capacity in-country. The right policy and investment mix also have the potential to unlock quick gains in other agriculture value chains, e.g., in the cost-competitive lowland irrigated rice and traditional mangrove production systems or fruit cultures. The same is true to a lesser scale in the fisheries sector, supporting local catch and processing capacity. The management of environmental safeguards will be critical to successfully scaling-up the tourism sector in a sustainable manner, which is also a central preoccupation for dealing with current and potential future large-scale foreign investments in mining.

### *Enhancing Fisheries*

63. **Take steps to reduce national, regional, and international fishing efforts to sustainable levels.** In the short term, it is critical to increase license fees to maximize revenue, and issue licenses annually, limit catch capacity and adopt conservation measures such as increased mesh sizes, closed seasons, and evidence-based marine protected areas. The government will need to strengthen its regulations to require foreign operators to register in Guinea-Bissau and invest in its national infrastructure, and review agreements with regional countries and the European Union. It may also want to suspend industrial fishing

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<sup>91</sup> World Bank (2018c).

for a period to allow stocks to recover, before resuming using smaller vessels and mainly static fishing methods instead of trawling.

64. **To support these policies, Guinea-Bissau will need to improve its capacity to develop, monitor, and enforce its fishery regulations.** Guinea-Bissau could increase the efficiency of foreign industrial harvesting and the size of entire value chains by defining access rules and enhancing its capacity to administer, monitor, and enforce these rules. It will need to start with robust assessment of key marine stocks to provide a baseline, and monitor changes over time. It is key to reform fishery management institutions and build the personnel capacity to implement improved monitoring and enforcement systems. Guinea-Bissau could explore using international partnerships to improve its fisheries data collection and establish practical research programs.

### *Fostering Diversification*

65. **Set in place an enabling environment to foster farming systems diversification.** Farmers' decisions to diversify or specialize do not only rest on their understanding of the resulting impacts but are also influenced by the specific context in which the consideration is made. These conditions generate drivers of production decisions at the farm-level towards either diversification or specialization and can be influenced by policy decisions. Considering the current situation in Guinea-Bissau, the level of intervention needed to promote diversification via the development of the specific value chains present significant challenges. The following points will be key in unlocking the country's potential for diversification, though further interventions will also be needed on the medium to long-term.

66. **Access to inputs,** mainly to a diversified range of good quality seeds and fertilizers at the right time of the year will be crucial to drive farmers' decision to diversify their production. The development of local private suppliers is key to ensure this access to inputs in the long term.

67. **Access to knowledge.** The skills and knowledge of the rural workforce largely determine their ability to engage in the production of certain type of products oriented to demanding markets. The provision of training and more broadly of agricultural extension services is of importance to allow Guinea-Bissau's farmers to shift in their production methods and adopt new crops and practices, such as intercropping.

68. **Access to markets.** Well-functioning markets can support diversification, as farmers can respond to demand for a diverse range for agricultural products. Good infrastructure to transport products from farms to the conditioning and processing units are necessary for the success of the business, especially because the transport duration and conditions can severally affect the quality of the products. In Guinea-Bissau, due to the poor infrastructures and risky environment for the development of a vibrant private sector, farmers are dependent on the market infrastructure of the cashew value-chain. Strengthening the connectivity between rural and urban areas through transport connections, increased access to services and Information and Communication Technologies (ICT) can be an important driver of diversification. Increased connectivity with neighboring countries would also allow Guinean farmers to take advantage of the growing demand in the West Africa region. On a longer-term perspective, investment in export infrastructures and facilitated export procedures, in particular for fresh agricultural products such as horticultural products and fruits, and in a quality and standards monitoring system would allow Guinea-Bissau to take advantage of its proximity with European markets.

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