

## PPIAF Assistance in the Republic of Guinea-Bissau

The Republic of Guinea-Bissau (Guinea-Bissau), with a population of 1.6 million, is emerging from a prolonged period of civil strife that has left the country one of the poorest in the world (GNP/capita of \$180), with very low levels of access to infrastructure services (around 18–25% of the population has access to water and electricity). The services that exist are mainly concentrated in urban areas, and the substantial rural population suffers from a lack of access to markets, unsafe and unreliable water supplies, and a dependence on traditional biomass forms of energy or high-cost alternatives. The government, with support from the donor community (World Bank, European Union, etc.), is currently undertaking an infrastructure rehabilitation and development program, and is seeking to promote the engagement of private sector participation in the financing and operation of its infrastructure sectors.

Against this background, the government of Guinea-Bissau requested PPIAF's assistance to strengthen the investment climate and help develop environments that are favorable to private investments in infrastructure sectors. Since 2007 PPIAF has supported four activities in Guinea-Bissau, including technical assistance to strengthen the public-private partnership (PPP) legal framework and strategic sectors such as ports, water, and electricity.

### Technical Assistance for Guinea-Bissau's PPP Legal Framework

In 2007 the Ministry of Economy of Guinea-Bissau requested PPIAF support to establish a framework to develop and manage PPPs in a transparent, fiscally and economically sound manner, taking into account international experience and emerging best practices in this area. The government's approach to PPPs was not consistent because of the absence of 1) a clear allocation of responsibilities within the government with respect to PPPs, and 2) a coherent PPP regulatory and institutional framework. This had generated significant inefficiencies and uncertainties within these processes. More importantly, perhaps these shortcomings had led sector ministries to commit government funds, provide guarantees, and grant unwarranted monopoly rights without proper review. Addressing these problems was essential for the country to be able to attract long-term private investment and rehabilitate its infrastructure development program.

The PPIAF activity produced a diagnostic of the current legal and regulatory rules and procedures for PPPs and a review of key institutions in place. Based on this diagnostic, it developed a draft PPP Law, and proposed amendments to the Code of Public Contracts. In addition to these amendments, the report included several key recommendations for the design and successful implementation of the government PPP program. The report also stressed the need to further develop the administrative legal framework beyond the basic legislation proposed under the activity. It highlighted the pressing need to establish a PPP unit in the Ministry of Finance, distinct from the existing Directorate for Public Contracts, with specific responsibilities for PPPs, adequate training, and an operations manual that could serve as guidance for their work. Finally, it recommended the creation of authorities to regulate certain public services. A workshop with the various government stakeholders was held to present the results of the work and discuss the proposed draft legislation and other recommendations.

The government endorsed the key results of this PPIAF-financed activity and the PPP law was enacted by the Council of Ministers in April 2009. Following the enactment of that law, the government has initiated a program to design and implement PPP projects in the transport and electricity sectors, and is also considering establishing a PPP unit and regulatory agencies. Furthermore, in line with the recommendations to develop a more comprehensive legal and regulatory framework, the Parliament approved and the President enacted the Telecom Law in May 2010, formalizing the regulatory framework for telecommunications in support of a rapidly expanding and employment-generating sector, and paving the way for further private sector participation.<sup>1</sup>

<sup>1</sup> IDA-R2011-185-1 IDA Program Document-Guinea-Bissau-3<sup>rd</sup> Economic Governance Reform Grant p. 27, par. 5.32, May 24, 2011.

## Results of PPIAF's Activities in Assisting Guinea-Bissau's PPP Legal Framework

Category	Outputs
<b>Enabling environment reform</b>	
<i>Analyses/assessments prepared</i>	<ul style="list-style-type: none"> <li>Diagnostic Review of current legal and regulatory rules and procedures for PPPs, 2009</li> </ul>
<i>Policies prepared or legal or regulatory changes recommended</i>	<ul style="list-style-type: none"> <li>Draft PPP Law, 2009</li> <li>Amendments to the Code of Public Contracts, 2009</li> </ul>
<b>Capacity and awareness building</b>	
<i>Workshops/seminars</i>	<ul style="list-style-type: none"> <li>Workshop organized in close collaboration with the government to present and discuss the main finding of the diagnostic and the content of the draft legislation, June 2010</li> </ul>

Category	Outcomes
<b>Enabling environment reform</b>	
<i>Policies adopted, legislation passed/amended, or regulation issued/revised</i>	<ul style="list-style-type: none"> <li>Parliament approved and the President enacted the Telecom Law in May 2010</li> <li>PPP law enacted by the Council of Ministers, April 2009</li> </ul>

### **Technical Assistance for Guinea-Bissau's Transport Sector**

The Port of Bissau plays a crucial role in the Guinea-Bissau economy as it carries 80% of the country's international trade transactions. However, the port has performed very poorly and faces steep competition from other ports in neighboring countries such as Senegal and Guinea. A concession was granted in 1991 but it was ultimately unsuccessful because of deficient planning and inadequate procedures (without any bid tenders or adequate preparatory studies). Thus, the concession was cancelled in 1999. The port is again under the management of a public entity (*Administração Portuária da Guiné-Bissau (APGB)*), and its operations are characterized by significant technical and managerial inefficiencies. As a result, the port has fallen into a vicious circle, wherein inefficiencies lead to a decline of activities and decrease in revenues, which in turn lead to a lack of equipment maintenance, which results in a further decline in activities, etc. Poor performance of the port represents one of the biggest constraints, along with energy deficiencies, for the improvement of the country's competitiveness on the international arena. For instance, a lack of adequate port facilities has hindered the efforts of Guinea-Bissau to improve the competitiveness of its cashew crops, the main export product of the country, even though their cashews are considered among the best in the world. Options for building a second port in the country (e.g., in Buba or Biombo) or to use ports in neighboring countries have been considered in the past, but until now, the Port of Bissau continues to be the only existing port in the country.

Due to this critical situation, the government of Guinea-Bissau requested PPIAF support in 2010 to develop options for improving the operational and financial performance of the Port of Bissau. The objective of the PPIAF activity was to identify measures that could break the vicious circle and trigger more efficiency in port operations and better economic growth in the country. Specifically, the government commissioned an options study to establish the state of the port's operational and financial situation, ascertain the feasibility of involving the private sector in the port's operations, identify the key obstacles to this involvement (legal, labor, technical, etc.), and propose solutions to overcome the problems.

The final report of this PPIAF activity presented a sequenced and progressive investment plan totaling about \$60 million and split into four phases, describing the required extensions and modifications that will have to accompany the organizational port reforms. The report recommended an appropriate model for a

PPP for the Port of Bissau based on a landlord port model and proposed an institutional framework for the port wherein the policymaking and regulatory role of the government will be separated from the operation and management of ports. The report also proposed a model of a request for proposals and of contracts for a potential engagement of the private sector in the management of the port. Finally, the report recommended a gradual approach toward private involvement, and stressed the need in the short-term to attract first private expertise through a technical assistance program for APGB, which together with reforms in the governance and regulation oversight of the company would allow initial improvements in the management and performance of the port. The government discussed and endorsed the report in a workshop in Bissau that took place in June 2010.

The work financed by PPIAF played a pivotal role in the dialogue of the International Financial Institutions with the government to the extent that it articulated very clearly not only the problems of the port but also the proposed action plan with short-, medium-, and long-term measures that could be actionable if the political will was present and if donors provided the funding needed to finance the proposed reforms and investment program. The report constituted the main input for the World Bank's 2010 Country Economic Memorandum for Guinea-Bissau Ports, and since then several actions have been taken that came out from the recommendations of the PPIAF-funded report. The first phase of the investment plan has been on-going since March 2011, financed by a local private bank (Banco de Africa Occidental) and APGB's own revenues. It covers the paving of the container storage area, the purchase of three high-capacity generators, the construction of a drinkable water reservoir, the demolition of the old warehouses (to be replaced by a much smaller one due to world-wide containerization), a proper drainage system, compliance with the international norms, installation of two weighbridges, etc. This is a significant step forward compared to the earlier situation and signals the willingness and commitment of APGB. The second tranche of the investment program is currently in discussion with the West African Bank for Development for CFA Francs 12 million. The government has also expressed interest in resolving the disagreement with the former concessionaire TERTIR. Following the recommendations of the report, a regulatory body was created in October 2011, the Instituto Marítimo e Portuário, but it has yet to be staffed and operationalized.

Much work remains to be done, but these actions show the government's commitment to proceed with the necessary reforms to improve the performance of the port in Guinea-Bissau and the willingness of the international community to support these efforts. As already mentioned, technical assistance is needed to strengthen the core business functions of APGB, build the capacity of the personnel, and improve the availability and credibility of critical operational data. The regulatory body, Instituto Marítimo e Portuário, needs to be staffed and trained in order to fulfill its regulatory responsibilities. A final agreement with respect to the dispute with TERTIR needs to be agreed, to avoid future liabilities for a new concessionaire interested in the Port of Bissau. Finally, the possibility and eventual location for a second port needs to be assessed.

### **Results of PPIAF's Activities in Guinea-Bissau's Transport Sector**

Category	Outputs
<b>Enabling environment reform</b>	
<i>Plans/strategies prepared</i>	<ul style="list-style-type: none"> <li>• Diagnostic report on the port of Bissau, including a proposed action plan to improve operational and financial performance of APGB, an investment plan, a proposal for institutional reforms in the sector, recommendations on improving the legal and regulatory frameworks, and a menu of options for possible PPP schemes, as well as a transition path for involving the private sector, June 2010</li> </ul>
<b>Project cycle-related assistance</b>	
<i>Transaction support</i>	<ul style="list-style-type: none"> <li>• Model documents for request for proposal and contract in the context of a PPP in ports for a landlord port model, June 2010</li> </ul>

Capacity and awareness building	
<i>Workshops/seminars</i>	<ul style="list-style-type: none"> <li>• Consensus building around the recommendations of the report through a workshop in Bissau with key stakeholders, June 2010</li> </ul>

Category	Outcomes
<b>Enabling environment reform</b>	
<i>Institutions created or strengthened</i>	<ul style="list-style-type: none"> <li>• The Instituto Marítimo e Portuário, a regulatory body for ports, was created in October 2011</li> </ul>
<i>Plans/strategies adopted</i>	<ul style="list-style-type: none"> <li>• Action plan to improve the operational and financial performance of APGB, a proposal for institutional reforms in the sector, and a menu of options for possible PPP schemes, as well as a transition path for involving the private sector was adopted by the government in March 2011.</li> <li>• The first phase of proposed investment plan is now under implementation, and financing of the second phase is currently in discussion with the African Development Bank. Discussions with the World Bank are ongoing for further technical assistance to APGB, as recommended in the report, March 2011</li> </ul>

### Technical Assistance for Guinea-Bissau's Electricity and Water Sectors

Difficulties with the supply of electricity are among the greatest obstacles to economic and social development in Guinea-Bissau. Only 5.7% of the population has access to electricity, which is only supplied at irregular intervals. Electricity and water production and distribution in Guinea-Bissau have virtually collapsed since 2000. The country's state-owned water and electricity utility company, Electricidade e Águas da Guiné-Bissau (EAGB), is in a particularly dire situation. The inadequate technical performance has deteriorated the utility's financial position and its ability to operate and maintain its facilities.

Currently, the World Bank is executing several focused programs in the water and power sectors, and the International Finance Corporation is providing advisory and technical assistance for restructuring EAGB under a PPP arrangement. PPIAF provided a grant in 2010 to finance part of the studies needed for this restructuring, and the work is currently under way. These initiatives are the first steps to address the situation in the electricity sector as part of a longer term strategy that focuses on: 1) the development of new infrastructure projects; 2) the liberalization of various sectors; and 3) the strengthening of the legal and statutory framework. Moreover, partnerships between public and private sectors will go a long way in accelerating the delivery of much needed infrastructures.

As part of this effort to strengthen and restructure EAGB and to further advance the dialogue with the government in other sectors, PPIAF co-financed a training seminar on PPPs in November 2011. The three-day workshop aimed to strengthen the capacity of government officials involved in the reform of the water and electricity distribution company (members of the inter-ministerial commission and management of EAGB), as well as to a larger audience of government officials involved in other sectors with a significant potential to attract private sector interest, such as telecommunications, transport, and irrigation. The seminar was attended by about 50 government officials, with 30–35 attending each day depending on the sector discussed. The Minister of Economy participated actively and emphasized how private sector participation was seen as a very important part of the solution for Guinea-Bissau to relaunch its economy on a path to sustainable growth. The first day of the seminar introduced the concept of different themes related to PPPs to ensure a common basic understanding of the topic. The second and third days

built on the basic PPP concepts and focused on the water and electricity sectors, followed by presentations and discussions on PPPs experiences in other sectors. The participants actively contributed throughout the workshop, and both the structure of the workshop and content of the presentations proved to be appropriate to the level of understanding of the audience.

It is too early still for outcomes from this activity to have materialized, but it is clear that the PPP training created a momentum around the PPP as a tool for infrastructure development. It generated many discussions about what the government and the public utilities need to do to attract the private sector, not only in the electricity and water sectors, but also in other sectors where the private sector could be interested to invest if the right conditions are in place.

**Results of PPIAF’s Activities in Guinea-Bissau’s Electricity and Water Sectors**

Category	Outputs
<b>Capacity and awareness building</b>	
<i>Workshops/seminars</i>	<ul style="list-style-type: none"> <li>• Three-day PPP training workshop in Bissau for the electricity and water authorities, and for representatives from the telecommunications, transport, and other infrastructure sectors, November 2011</li> </ul>

**Looking Ahead: PPIAF and the PPP Agenda in Guinea-Bissau**

PPIAF has enjoyed significant success supporting the development of infrastructure services and the PPP agenda in middle-income countries. A renewed focus on low-income countries and fragile states has reinforced PPIAF’s interest in supporting the PPP agenda in countries such as Guinea-Bissau. PPIAF continues to play a leading role in shaping this agenda in Guinea-Bissau’s electricity and water sectors, as it is currently financing technical assistance activities to support the restructuring of EAGB and assess possible options for introducing a PPP. PPIAF has also received requests from the government to support the regulator of the telecommunications sector in order to create a level playing field for all investors interested in that sector. Finally, additional support is also needed in Guinea-Bissau’s port sector, where the recommendations formulated in the PPIAF-financed port strategy have started to be implemented.