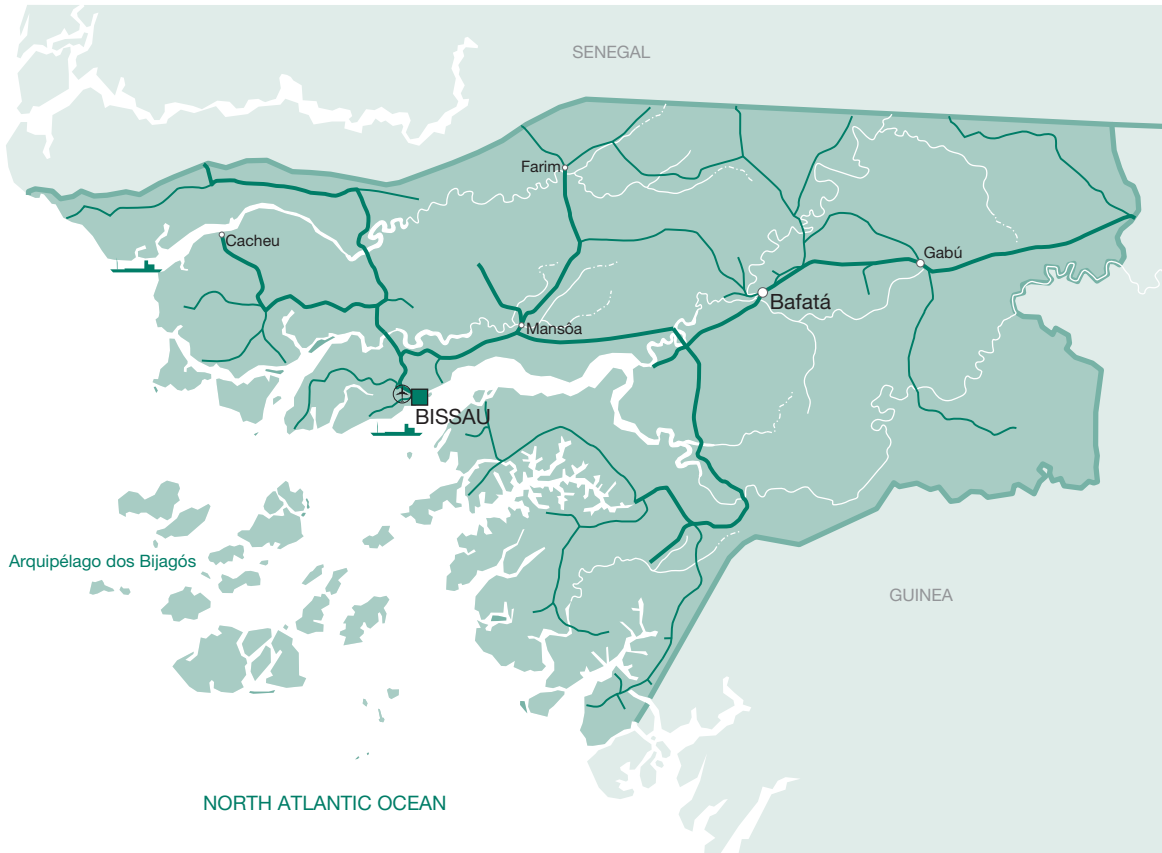



Guinea-Bissau





2011



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-  Commercial Port
-  Airport
-  Main Roads

-  National Capital (1 530 000 In., 2009)
-  over 20 000
-  over 10 000
-  over 5 000



This map is for illustrative purposes and is without prejudice to the status of or sovereignty over any territory covered by this map.

Guinea-Bissau

Overview

Economic growth in Guinea-Bissau picked up slightly to 3.6% in 2010 from 3.0% in 2009 thanks to higher cashew nut prices, sustained construction of private housing and major infrastructure projects. The indirect impact of the global economic crisis, felt mainly through lower government export revenues and remittances, has been mitigated by a strong increase in the world demand for cashew nuts. Heightened political instability, however, resulted in the withdrawal of budget support from the European Union (EU), one of the country's main development partners. Economic growth is expected to increase to 4.5% and 4.8% in 2011 and 2012, sustained by increased agricultural production, cashew nut exports and foreign direct investment (FDI) in mining projects and infrastructure. The major downside risk is persistent political instability, which could result in a further decrease in donor funding, hampering the execution of the public investment programme in the coming years. In the medium term, inflation is expected to remain within the Central Bank of West African States' (BCEAO) target of 3%, maintaining the good performance of 2010.

The normalisation of relations with the International Monetary Fund (IMF) in January 2008 continued to yield benefits in 2010. In May, Guinea-Bissau obtained a three-year Extended Credit Facility (ECF) worth 22.4 million Special Drawing Rights (SDR), on top of the Emergency Post Conflict Assistance (EPCA) facility to support the government's 2008 and 2009 economic programmes.

A weather-related drop in cashew nut export volume compared to last year's exceptional performance was offset by higher prices, boosting overall export value and reducing the trade deficit. This improvement in the terms of trade, however, did not compensate for the withdrawal of EU budget support in 2010, and the result was a gradual widening of the current account deficit.

Guinea-Bissau remains highly dependent on subsistence agriculture, the export of cashew nuts and foreign assistance. In order to diversify its economy and foster growth, Guinea-Bissau needs major reforms in public administration (in particular security and defence), as well as investment in agriculture, basic transport and energy infrastructure. The exploitation of its large minerals potential, likely to start soon, could generate substantial resources to finance these investments.

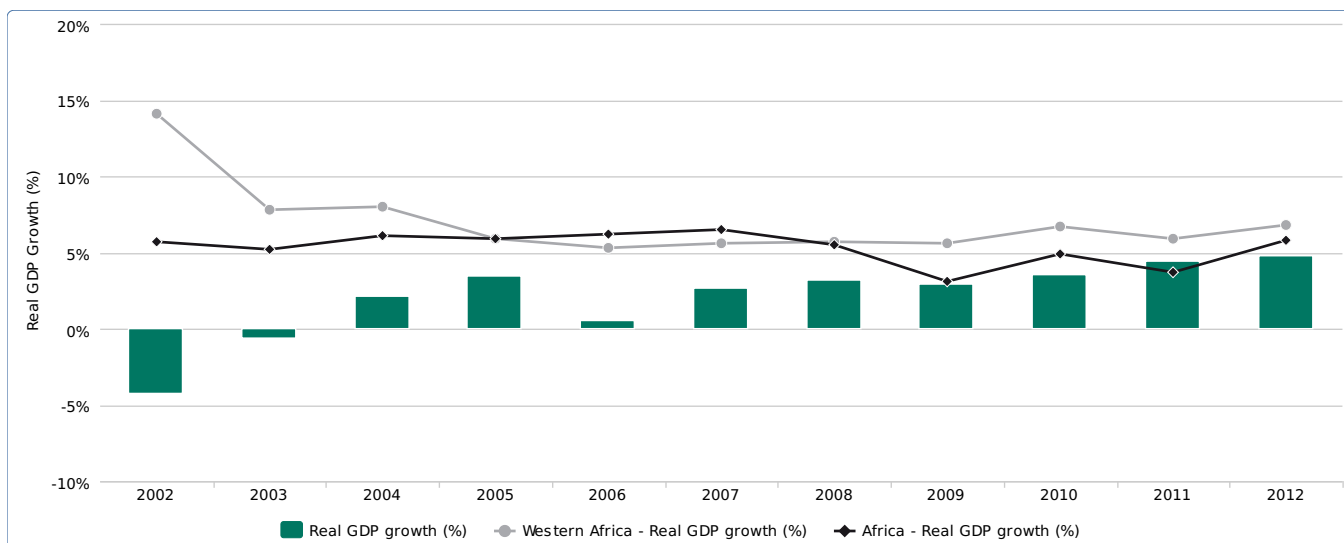
In December 2010, Guinea-Bissau reached completion point under the Heavily Indebted Poor Countries (HIPC) debt relief initiative, which should result in a debt reduction of 1.2 billion US dollars (USD) and qualifies the country for further debt relief under the Multilateral Debt Relief Initiative (MDRI).

Guinea-Bissau's main emerging partners are China, Brazil and India. China has been involved in the country mainly through bilateral co-operation and large infrastructure projects, while India has traditionally had strong trade ties in the cashew nut sector and has only recently started to intensify its bilateral co-operation. Brazil has long been a supporter of capacity-building projects in the education sector and is becoming a significant trade partner.

The attempted coup led by the army vice chief of staff, General Antonio Indjai, and his subsequent controversial appointment as head of the army dominated the political scene in 2010. Political developments resulted in the suspension of budget support from the EU, which had been funding defence and security sector reform (SSR) and paying for the salaries of teachers and civil servants. Donors' financial support in the medium term will depend to a large extent on the return of long-term political stability.

Creating political stability, implementing reforms in the defence sector and fighting the narcotics trade will be the new government's main political challenges in 2011. Economic performance will depend on the government's success in tackling these issues.

Figure 1: Real GDP growth (W)



Source: IMF and local authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink <http://dx.doi.org/10.1787/888932404180>

Table 1: Macroeconomic indicators

	2009	2010	2011	2012
Real GDP growth	3	3.6	4.5	4.8
CPI inflation	-1.6	2.6	2.7	2.6
Budget balance % GDP	2.8	-0.2	-2	-1.2
Current account % GDP	-4.1	-5.6	-6.2	-6.1

Source: National authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink <http://dx.doi.org/10.1787/888932406536>

Recent Economic Developments and Prospects

Table 2: GDP by sector (in percentage)

	2005	2010
Agriculture, forestry, fishing & hunting	44.6	42.5
Agriculture, livestock, fishery, forestry and logging	-	-
of which agriculture	-	-
of which food crops	-	-
Mining and quarrying	0.0	0.0
Mining, manufacturing and utilities	-	-
of which oil	-	-
Manufacturing	12.7	11.4
of which hydrocarbon	-	-
Electricity, gas and water	0.5	0.4
Electricity, water and sewerage	-	-
Construction	1	1.5
Wholesale and retail trade, hotels and restaurants	20.4	20.4
of which hotels and restaurants	-	-
Transport, storage and communication	3.7	5.4
Transport and storage, information and communication	-	-
Finance, real estate and business services	0.6	0.4
Financial intermediation, real estate services, business and other service activities	-	-
General government services	11.4	10.6
Public administration & defence; social security, education, health & social work	-	-
Public administration, education, health	-	-
Public administration, education, health & other social & personal services	-	-
Public administration, education, health & social work, community, social & personal services	-	-
Public administration, education, health & social work, community, social services	-	-
Other community, social & personal service activities	-	-
Other services	5	7.3
Gross domestic product at basic prices / factor cost	100	100

Source: AfDB Statistics Department; INS.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink  <http://dx.doi.org/10.1787/888932407505>

Real gross domestic product (GDP) growth has been resilient, improving slightly to 3.6% in 2010 from 3.0% in

2009, stimulated by improved terms of trade, sustained agricultural production and strong public investment in infrastructure. If political stability returns and the government's public investment programme is fully financed, economic growth could accelerate to 4.5% and 4.8% in 2011 and 2012. Agriculture and construction (in particular in infrastructure) will continue to drive economic expansion, while the contribution of mining and related services is expected to rise. These projections rely on a continued recovery of the world economy and increased production of cashew nuts.

Despite the big potential of its natural resources, the economy of Guinea-Bissau remains extremely concentrated on the production of cashew nuts. Agriculture accounts for 29.8% of GDP, 81% of exports and employs 90% of the population, mostly in cashew nut production. The primary sector's performance remained stable in 2010, growing by around 2.7%. The volume of cashew nut production dropped by an estimated 10%, but was offset by increased output in other crops, notably rice. Cashew nut production should pick up gradually, as newly planted trees will start producing in the coming years, and existing trees are progressively reaching their most productive ages. Yet the sector operates below its potential. A transition from bartering to cash payments, extra storage capacity and modern production technologies could raise income for both farmers and the government. The sector suffers also from an opaque land regulation, a poor judicial system, and limited access to credit and insurance, although commercial banks are gradually starting to finance agricultural campaigns.

These problems, in addition to the poor business environment, the high cost of energy and the lack of government support explain the underdevelopment of the cashew nut processing industry. Only between 1 and 2% of production is currently transformed in Guinea-Bissau. In the coming years, however, the processing capacity is expected to increase to 10% or even 15% of national production, thanks to a Libyan private investment.

Economic diversification is a priority if the country is to increase its resilience to external shocks. The country could benefit from better development and marketing of the most competitive crops. The Rural and Agricultural Sector Rehabilitation Project (PRESAR), financed by the African Development Bank (AfDB) until the end of 2011, aims to increase rice production from 2.9 tonnes per hectare to 5 tonnes/ha through the transfer of technology, wider provision of public services such as energy, water and transport, and anti-pest programmes. The project, implemented in five out of the country's eight regions including Bissau, also focuses on improving horticulture and livestock. Other donors, such as India and Brazil, are supporting research projects aimed at increasing agricultural productivity using modified seeds. Spanish investors have invested heavily in modern machinery and storage facilities to increase rice production in the region of Bafata. The first crops should be marketed in 2011, targeting local and regional consumption.

Guinea-Bissau's fishing industry has great potential. Non-compliance with European health and sanitary rules is currently preventing direct exports to Europe, however. Fishing licences to European fleets, due to expire in June 2011, constitute a major source of non-tax revenue. However, the disbursement of funds has been severely hampered by the lack of absorptive capacity and administrative skills of Guinea-Bissau's fishing authorities. The new fishing licences with the EU include conditions related to human rights and political stability in Guinea-Bissau. The agreement, worth EUR 500 000, will also focus on enhancing quality control and compliance to sanitary requirements.

In 2006 Guinea-Bissau became the first African country to sign a deep-water fishing agreement with China, allowing it to operate in its Exclusive Economic Zone (EEZ). This agreement provides for the operation of 15 Chinese vessels working offshore, including large freezer ships. By 2011, a new fishing port in Bissau, built by the Chinese, should help diversify rural revenues away from cashew nuts.

Production of bauxite, phosphates and oil could double or triple Guinea-Bissau's foreign exchange and fiscal revenues. Phosphate exploration near Farim has the greatest mining potential, and production is likely to begin soon. Guinea-Bissau Phosphate Mining Co., which holds the lease, brought in an Italian company, Trevi, and a local firm, Alcon, to evaluate the project. Potential gross revenues are conservatively estimated at USD 90 million annually. In addition, Bauxite Angola plans to invest USD 321 million in a bauxite project in Boe, which has the potential to double GDP. The mine should reach full-scale production during 2011 and would be jointly owned by Bauxite Angola (70%), and the governments of Angola (20%) and Guinea-Bissau (10%). Gold exploration also yielded promising results in 2010.

The oil potential is unclear, and territorial disputes between Guinea-Bissau and Senegal are affecting the sector's development. Current oil reserves are estimated at 1.1 billion barrels. According to Petroguin, the state-owned oil company, 14 offshore blocks are under exploration. Guinea-Bissau and Senegal are trying to create an agency to manage the sector.

The secondary sector contributed significantly to growth in 2010. Construction, which grew by around 10%, has been stimulated by both private investment and large public investment in infrastructure funded by donors.

A very large part of Guinea-Bissau's economy is informal. Besides widespread subsistence agriculture, retail and wholesale trade are the main source of income in the capital, Bissau, and remain almost totally informal. Only 75 companies are currently registered in the country, but according to unofficial estimates there could be as many as 8 000 concerns. Although measuring the informal sector is difficult, the authorities report that the tertiary sector grew by 3.4% in 2010.

The country has a huge but untapped tourism potential, starting with the Bijagos Archipelago, which UNESCO has declared a Biosphere Ecology Reserve. Political stability and basic infrastructure need to be in place for tourism to develop, however.

Private consumption, accounting for 92.2% of GDP, is the main component of domestic demand but barely increased in 2010 because of unpaid government salaries at the end of the year. Project grants related to construction programmes in energy and infrastructure underpinned public investment, which contributed 4.0% of GDP in 2010. Private investment remained somewhat depressed owing to the poor business environment and political instability in the first half of the year. External demand's contribution to growth remained positive thanks to a strong increase in exports, which rose by 13.2 % in value thanks to improved terms of trade.

Private consumption is expected to support growth over the medium term, sustained by higher cashew nut prices and remittances due to the improved global environment, as well as by the good performance and diversification of agriculture. Public expenditure should remain under control to address fiscal imbalances and gain donor and market confidence. Mining exploration could generate a substantial increase in private investment in the long term. Exports, driven by good cashew nut harvests, are expected to remain stable over the medium term. This outlook, however, is conditional on structural reforms, more stable politics and continued donor support. Guinea-Bissau's high vulnerability to external shocks and political instability could impact on export revenues, FDI and foreign assistance.

Table 3: Demand composition

	Percentage of GDP (current price)		Percentage changes, volume			Contribution to real GDP growth		
	2002	2009	2010	2011	2012	2010	2011	2012
Gross capital formation	8.5	8	4	7.9	8.4	0.4	0.9	0.9
Public	5.6	3.6	4	9	10	0.2	0.4	0.5
Private	2.9	4.4	4	7	7	0.2	0.4	0.4
Consumption	101.1	105.7	-0.1	3.8	3.8	-0.1	3.6	3.6
Public	14.9	13.5	-2.1	-0.2	1.8	-0.2	0	0.2
Private	86.2	92.2	0.2	4.3	4.1	0.1	3.6	3.4
External sector	-9.5	-13.7	-	-	-	3.2	0	0.3
Exports	15.7	15.3	13.2	4.2	5.5	3.5	1.2	1.6
Imports	-25.3	-29	0.8	3.5	3.8	-0.3	-1.2	-1.3
Real GDP growth rate	-	-	-	-	-	3.6	4.5	4.8

Source: Data from local authorities; estimates (e) and projections (p) based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink  <http://dx.doi.org/10.1787/888932408474>

Macroeconomic Policy

The government's economic programme is defined in the *Documento de Estratégia Nacional para a Redução da Pobreza* (DENARP), equivalent to a Poverty Reduction Strategy Paper (PRSP). It is expected that DENARP II, a revised and improved version of the document, will be finalised by March 2011. Four priority areas have been identified: education, health, infrastructure and agriculture. Financing for the entire programme needs to be secured before it can be implemented, however.

Guinea-Bissau has been part of the West Africa Economic and Monetary Union (WAEMU) since 1997. The common currency has helped keep inflation under control. Member countries are working towards common convergence criteria for fiscal policies, as well as for debt level and management. So far Guinea-Bissau has been struggling to meet these criteria.

In May 2010, Guinea-Bissau normalised relations with the IMF by signing a three-year External Credit Facility, worth SDR 22.4 million. This new programme will provide the country with the financial space needed to shift from supporting immediate needs to focusing on medium-term growth and development objectives.

Fiscal Policy

Since independence, Guinea-Bissau's fiscal situation has been marked by significant imbalances due to a weak capacity to raise domestic resources and dependence on export earnings closely tied to the cashew nut sector. The public sector remains bloated, notwithstanding a successful census of public administration that identified ghost workers and staff on multiple payrolls. Political instability, erratic donor support and scarce administrative capacity have hampered various reforms attempted since the 1990s.

The withdrawal of the EU budget support at the end of the year resulted in a fiscal deficit in 2010, following a surplus in 2009. The action resulted in an XOF 13 billion (CFA Franc BCEAO) shortfall in the 2010 budget. In addition, France and Spain both withdrew XOF 1 billion. The remaining budget support comes from the World Bank, the AfDB and the IMF. At the same time, the gradual recovery of economic activity and an increase in the international cashew nut price strengthened fiscal revenues through direct and indirect taxes. The strengthening of the tax administration, in particular inspections by customs officials has enabled the government to reap full the benefits from both developments. Full disbursement of the fishing compensations, however, has been undermined by the failure to comply with several project requirements owing to poor administration.

Despite the suspension of budget support due to political instability, government investment as a share of GDP increased slightly from 9.1% in 2009 to 9.4% in 2010. All public investment remains financed by donors, whose overall support increased significantly until the latter part of 2010.

In light of the uncertain renewal of donor support, the government maintains a prudent budget for 2011 by limiting the increase of public investments as well as social spending. To compensate for the planned hiring of teachers and health sector workers, a wage freeze has been announced.

Fiscal reform made significant headway in 2010. Public procurement reforms, including a new procurement law and the creation of a central procurement unit and its regulatory authority, were finalised in July 2010. The government started to provide parliament with quarterly updates on budget execution. In 2011, the government plans to undertake a thorough review of all custom exemptions in order to simplify and clarify existing practices. This includes raising the customs reference price of cashew nut exports and that of selected imported products that need valuation adjustments. The amount of tax on profits that firms advance to the tax authorities will rise from 3 to 5%. A transition from the general sales tax to VAT is in the policy agenda for 2011 and 2012. The model will be similar to the one currently in place in other WAEMU countries.

To correct fiscal imbalances, the government must contain the wage bill and avoid off-budget expenditure. The wage bill absorbs over 90% of fiscal revenues (compared with only 20% in 2000). Despite exceptional budget support from donors to help the government pay salaries, the excessive wage bill does not leave adequate resources for basic services. The planned modernisation and downsizing of public administration should relieve some pressure on the budget. Measures include strengthening civil service capacity and skills through the creation of a National School of Administration, as well as providing attractive compensation to retain fewer but more competent staff. The ongoing reforms to create more fiscal space aim to enable the government to implement DENARP.

Fiscal discipline, in line with the framework defined with the IMF, and the maintenance of official development assistance (ODA) at current levels will underpin a progressive reduction in fiscal imbalances over the medium term. The programme to eliminate domestic arrears with domestic banks and the private sector yielded positive results in 2010. Arrears declined from 47% of GDP in 2009 to 10.3% in 2010. Other reforms included the

establishment of a legal framework for the WAEMU budget classification and an integrated management system for public accounts. The new management system, currently in its testing phase in some ministries, is expected to improve expenditure monitoring by integrating budget preparation, execution and accounting.

In December 2010, Guinea-Bissau reached the completion point under the HIPC debt relief initiative. This has qualified the country to receive a USD 1.2 billion debt reduction. Reaching the HIPC completion point highlights the progress achieved by Guinea-Bissau in strengthening macroeconomic policies and performance following a prolonged period of political instability. Having reached the HIPC completion point, Guinea-Bissau has become eligible for further debt relief under MDRI. External debt levels are forecast to decline to less than 30% of GDP in 2011 compared to estimates of over 130% of GDP in 2009. Domestic debt stocks are also forecast to drop below 50% of GDP in 2011, compared with over 161% in 2009.

Table 4: Public finances (percentage of GDP)

	2002	2007	2008	2009	2010	2011	2012
Total revenue and grants	11.4	16.7	17.3	24.7	20.9	18.8	19.8
Tax revenue	4.2	5.7	5.5	6.7	6.8	6.7	6.7
Oil revenue	-	-	-	-	-	-	-
Grants	3.6	8.2	8.1	15.7	11.9	9.8	10.8
Other revenues	3.6	2.8	3.6	2.2	2.2	2.2	2.2
Total expenditure and net lending (a)	16.4	22	21.1	21.8	21.1	20.8	20.9
Current expenditure	11.9	16.1	13.9	12.7	11.6	11.1	10.9
Excluding interest	9.5	14.4	12	11.5	11.4	11	10.7
Wages and salaries	3.7	6.6	5.4	5.2	4.8	4.5	4.3
Goods and services	2.7	1.9	2.1	1.6	1.8	1.8	1.7
Interest	2.4	1.7	1.9	1.2	0.2	0.1	0.1
Capital expenditure	4.5	6	7.2	9.1	9.4	9.6	10
Primary balance	-2.5	-3.7	-1.9	4.1	0	-1.9	-1
Overall balance	-4.9	-5.4	-3.8	2.8	-0.2	-2	-1.2

a. Only major items are reported.

Source: Data from local authorities; estimates (e) and projections (p) based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink  <http://dx.doi.org/10.1787/888932409443>

Monetary Policy

As Guinea-Bissau is part of WAEMU its monetary policy is handled by the West African Central Bank. The overall WAEMU monetary policy stance in 2010 was accommodating. After a deflation rate of -1.6% in 2009 due to a sharp decrease in oil and food prices, inflation is projected to increase again to 2.7%, in line with the WAEMU inflation target of 3%. The acceleration of inflation is explained by the weaker euro, higher oil prices and stronger border controls, which raised tax pressures that were then passed on to consumers. These price fluctuations reflect the country's vulnerability to external shocks. Sound monetary policy and the improved performance of the agricultural sector should help limit further inflationary pressures, although the current trend of high food prices might put this scenario at risk in the short term. Inflation is expected to stabilise at 2.7% in 2011 and 2.6% in 2012.

External Position

Guinea-Bissau's trade deficit narrowed to 8.2% of GDP in 2010 thanks to a rebound in exports. Although production of cashew nuts, which accounts for more than 81% of Guinea-Bissau's exports, dropped by around 10% in 2010 to 120 000 tonnes, the decline in output was offset by higher prices, as a result of a contraction in world production. Cashew nut prices are expected to remain high in 2011. India, which processes the cashew nuts and re-exports them to the United States and other developed markets, purchases most of Guinea-Bissau's output. The remaining produce is re-exported through Senegal. An unknown yet considerable quantity is smuggled to neighbouring countries. China is showing increasing interest in purchasing cashew nuts from Guinea-Bissau, resulting in better bargaining power for local cashew producers.

The country imports almost all its consumer and capital goods. Food and oil accounted for 51% of imports in 2009; the share of oil alone was almost 20%. In 2010, the gradual recovery of the world economy pushed food and oil prices back to their pre-crisis levels. This resulted in an increase in the value of imports, while volumes increased only slightly. This did not offset the positive impact of rising export prices; however, with stable remittances and the lower than expected disbursements of fishing compensation, the external current account deficit widened to 5.6% of GDP in 2010.

The capital account failed fully to cover the current account deficit in 2010, resulting in a negative balance of payment. Current FDI inflows are below their potential because of the poor business environment, the lack of infrastructure, political uncertainty and the weak rule of law. Foreign investment is expected to pick up in the coming years, however, thanks to attractive prospects in the mining sector.

Foreign exchange reserves have been increasing regularly in recent years, reaching USD 168.8 million in 2009. The main sources of foreign exchange are the fishing licence with the EU, cashew nut export earnings and aid flows. Future foreign exchange inflows remain uncertain, as ODA is under pressure and the fishing agreement, which expires in June 2011, is currently being renegotiated. The gradual exploitation of mineral deposits and other natural resources, however, should help boost foreign exchange reserves in the medium term.

The country is highly dependent on external assistance, which accounted for 57% of total revenues in 2010. Its impact is to a large extent limited by poor governance, political instability and limited absorptive capacity. In addition, foreign aid has until recently been erratic, a result of weak political commitment and a lack of co-ordination among donors themselves. Weak administration has often resulted in a wasteful duplication of donor efforts and inefficient aid allocation. The share of budget support of external assistance has increased, but is often an exceptional measure to allow the government to pay salaries, rather than a co-ordinated effort to increase aid efficiency.

To alleviate the aid community's past shortcomings, the United Nations Development Programme (UNDP) launched an "aid co-ordination unit" to increase the government's capacity to prioritise and better co-ordinate existing aid programmes, as well as generate additional donor pledges. A common framework for budget support was agreed in 2010, and the idea was launched to revitalise the "donor group" – active in 2006-07 and presided jointly by the EU and the UNDP – during 2011. Progress has stalled, however, owing to the withdrawal by the EU of budget support following the violation of conditionalities related to good governance and respect for human rights.

Reaching the HIPC completion point in December 2010 is expected to result in debt service savings worth USD 1.2 billion. Additionally, bilateral debt from Angola, Cuba and China has also been cancelled. Notwithstanding the country's much improved external debt position, the government has made a commitment not to take on non-concessional or short-term external debt.

Table 5: Current account (percentage of GDP)

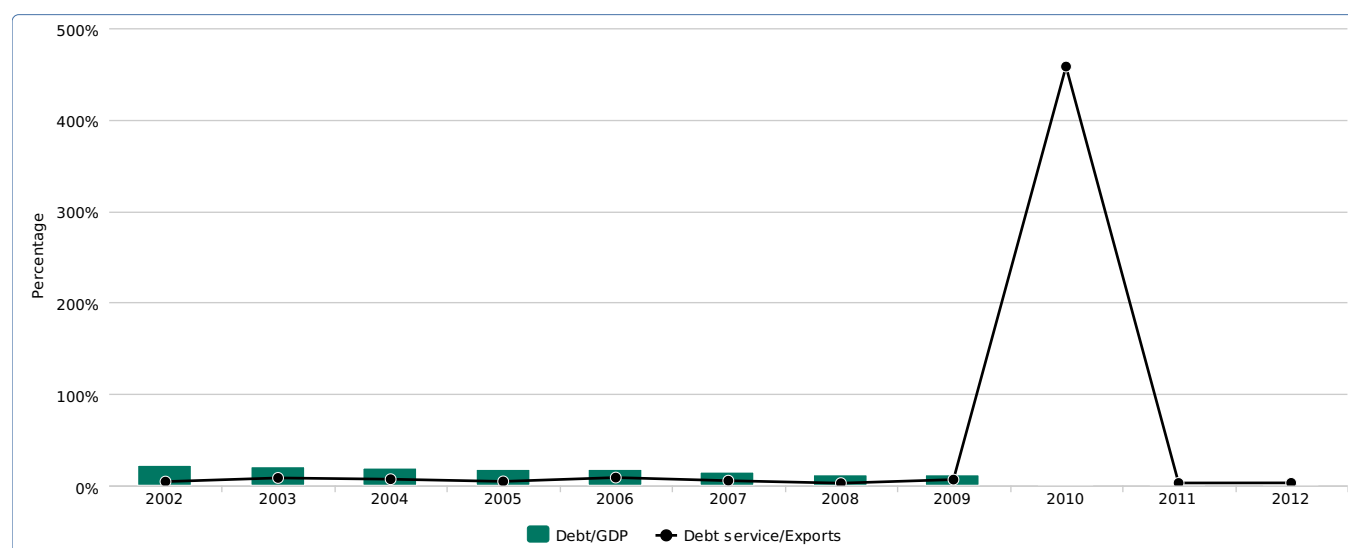
	2002	2007	2008	2009	2010	2011	2012
Trade balance	-1.9	-4.1	-8.4	-9.5	-8.2	-8.4	-8.3
Exports of goods (f.o.b.)	13.2	10.6	15.2	14.3	17	16.8	16.6
Imports of goods (f.o.b.)	15.1	14.7	23.6	23.8	25.2	25.2	24.9
Services	-6.6	-6.7	-4.9	-4.8	-4.7	-4.7	-4.3
Factor income	-2.2	-1.5	-1.6	-1.2	-0.1	-0.1	-0.1
Current transfers	7.5	7	10.8	11.4	7.4	7	6.6
Current account balance	-3.1	-5.3	-4.1	-4.1	-5.6	-6.2	-6.1

Source: Data from local authorities; estimates (e) and projections (p) based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink  <http://dx.doi.org/10.1787/888932410412>

Figure 2: Stock of total external debt (percentage of GDP) and debt service (percentage of exports of goods and services)



Source: IMF and local authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink  <http://dx.doi.org/10.1787/888932404180>

Structural Issues

Private Sector Development

Operating a business in Guinea-Bissau remains challenging, as reflected in the country's ranking in the lowest tier of the 2011 World Bank *Doing Business* survey. In addition to chronic political instability, the country's administrative labyrinth discourages potential investors. Cumbersome regulations also take a heavy toll on private investment, even though they are often not enforced. In 2010, it took an average 216 days to open a business, and the costs were prohibitive. A one-shop-window was launched in 2010 to facilitate the process, but it was shut most of the time. More traders and exporters have entered the cashew nut market, thanks to regulatory reforms that eliminated legal barriers and reduced entry costs. With more attractive investment opportunities in the region, the country's chances of competing depend largely on government willingness to further streamline procedures and create investment incentives. The 1998 constitutional law granting land ownership to the government and allowing renewable 90-year concessions to be granted to private investors has not yet been implemented.

Despite the presence of four commercial banks, 15 branches and over 100 microfinance institutions, financial intermediation in Guinea-Bissau remains low: about 2.5% of the population uses banking services, and only 25% of the money in circulation goes through the financial system. The largest commercial bank is the privately owned Banco da Africa Occidental (BAO), which has four branches. The typical commercial bank charges interest rates between 12% and 18% on loans, the highest rates in the region. The remuneration of deposits, on the other hand, seldom goes beyond 3%. The absence of adequate government regulation to protect investments and the non-functional judiciary hinder potential foreign investors in the banking sector. In addition, local businesses lack collateral and financial accounting capacity, although they have been obtaining better financing conditions thanks to increased competition in the banking system. Non-performing loans represent around 10% of total loans.

Deepening the financial sector and reaching out to rural areas remains challenging, as requirements for opening a bank account remain considerable in terms of deposits and fees. The mandatory deposit of state employee salaries is an attempt to tackle these structural obstacles to the financial sector's development. WAEMU is also actively helping the government to promote the benefits of banking. Mobile banking is under consideration, but the test phase is experiencing technical difficulties that may delay its implementation. The payment of government arrears is expected to boost the liquidity of commercial banks and result in an expansion of credit facilities to the private sector. The non-bank financial sector remains limited to some insurance companies with low activity.

Other Recent Developments

The privatisation process that began in 1987 has produced mixed results. Forty-four state-owned enterprises were identified for privatisation but only 15 have completed the process, and many have gone bankrupt. The Ministry of Economy promised participating companies benefits including a tax holiday and free equipment that were in many cases not delivered. An addendum to privatisation contracts is being negotiated to address this issue. State-controlled electricity, water and port firms are now under consideration for privatisation.

The port of Bissau, the country's only international port, processes 85% of exports and more than 90% of imports. The port handles four times its capacity of containers. It is estimated there are twice the number of often poorly trained workers required to carry out the work. The port infrastructure needs upgrading and better management is needed. Training programmes are scheduled to start in 2011 to address some of the managerial difficulties.

Construction of the expected second, deep-water port at Buba, to be built and managed by Bauxite Angola, has still not yet begun. The investment is worth USD 60 million for the first five years, totalling USD 320 million over the next 30 years. When the port becomes operational, which is expected in 2018, Buba should become an important trade hub for Senegal, Mali and Guinea. The project agreement signed in 2009 also includes the construction of 110 kilometres of railway from the mines to the port. Meanwhile, the government is focusing on revitalising the existing port in Bissau to bridge the gap until the port in Buba is completed.

There are 4 380 kilometres of roads in Guinea-Bissau, of which only about 10% are paved. The rest become unusable during the rainy season, isolating parts of the country for long periods and making food transport difficult. Primary roads are in good condition, but long-term maintenance and repair remain a challenge because of lack of funds. In 2010, the EU and the West African Development Bank began a 15-month project to rehabilitate the capital's major roads, while the AfDB will add 200 more kilometres of paved roads during 2011. In addition, talks have begun with development partners to connect Bissau by road with the south of the country as part of a project that should extend to Conakry.

In November 2010, Spanish companies Petromiralles and Saicus Air obtained a 30-year concession to manage and upgrade Bissau's Osvaldo Vieira airport. The EUR 30 million public-private partnership aims to boost the development of the tourism industry in the Bijagos Archipelago and in the Casamance region. In 2010, Saicus Air created Saicus Bissau, which is expected to operate regular cargo and passenger routes to Las Palmas (Spain) and neighbouring countries. The four airlines currently operating in Bissau — TAP, Saicus Bissau, TACV, and EuroAtlantic — carry around 75 000 passengers per year. This figure is expected to rise to 600 000 per year over the next decade.

Guinea-Bissau relies on electricity imported from Senegal. Only 20% of the population has access to electricity, which is limited to Bissau and seven other urban centres. The World Bank's USD 15 million Multi-sector Infrastructure Rehabilitation Project (MIRP) seeks to reactivate electricity generation and strengthen the state-owned electricity and water company, EAGB. In 2010, the EU financed a EUR 15 million project to create a distribution network throughout Bissau. Additionally, the government is contemplating a strategy to develop alternative domestic energy sources, including hydropower from the water basin of the river Gambia. Without electricity, running water is scarce for most of the population, so MIRP also aims to improve the urban water system. It includes a plan to extend the water network, and build a reservoir, distribution system and public fountains in Bissau.

The telecoms sector has developed from about 12 000 fixed lines in 2004 to between 350 000 and 400 000 mobile phone subscribers and three mobile operators in 2010. The Chinese government will equip Guinetel, a government-owned mobile phone company that offers competitive prices but which is losing customers owing to poor service. In 2010, Portugal sold its shares in Guiné Telecom and Guinetel to the Guinean Government. The fixed network infrastructure, which now includes only 4 000 lines, needs to be rehabilitated and expanded to allow high-speed connectivity. The option of adding fibre-optic capacity between cities in Guinea-Bissau and the existing line in Dakar is being explored, while negotiations with the Chinese have been ongoing since 2006 to upgrade the connection infrastructure. In agreement with WAEMU guidelines, an autonomous regulatory agency was established in 2010.

The main risks to the environment are related to mining projects, which threaten rivers and the fishing industry in the south. Some bauxite deposits are in a national park, and both the new Buba port and the associated railway are planned in environmentally sensitive areas. In 2009, an environment law that covers issues ranging from the use of toxic substances to extraction in protected areas was put before Congress. Enforcement, however, will be a challenge given the country's weak institutions.

Emerging Economic Partnerships

Guinea-Bissau's main emerging partners are China, Brazil and India. China's involvement is mainly bilateral co-operation and investment in large public infrastructure works, while India has traditionally had strong trade ties in the cashew nut sector and only recently started to enhance its bilateral co-operation. Brazil is a significant trading partner and a major player in capacity-building projects in the education sector.

Chinese presence in Guinea-Bissau dates back to the country's struggle for independence but has intensified substantially in recent years. China has recently built two hospitals, a sports stadium, a new fishing port, a new national assembly and the new complex of government buildings, including its equipment. It is also expected to build a presidential palace in Bissau. China also supports rural development. Recently 2 000 rural houses, three schools and an agricultural research programme aimed at boosting the productivity of rice and tropical fruit crops were built.

China's main economic interests in the region are fishing and natural resources such as bauxite, phosphates and oil. Chinese companies have expressed interest in exploiting concessions. The difficult business environment and the lack of basic infrastructure and public services, however, are constraining potential Chinese investments. Yet Chinese immigrants have found business niches and created booming retail businesses that consist mainly of importing products from China. Most immigrants arrive in Guinea-Bissau after spending some time in Cape Verde, where the market for Chinese products has become saturated. Through the Chinese-PLP forum and Macau, China aims to develop the Portuguese-speaking market for its consumer products. Exports from Guinea-Bissau to China, which are tax exempt, remain very weak, on the other hand.

China's engagement is directly negotiated at the highest political level. The government provides a menu of infrastructure projects, and China then chooses which projects to develop. China commits to deliver turnkey projects and does so more quickly than traditional partners, but tends to import all construction materials and most of the labourers, who live on-site. Working conditions there are worse and wages are around 50% lower than local levels, offering few incentives to the local population to work with the Chinese. Local policy makers are generally satisfied with the Chinese projects executed so far and value the low administrative burden that they generate relative to other projects. The government has no plans to ensure that more benefits trickle down from Chinese projects to the local economy.

Brazil aligns its actions with DENARP II and is participating in its development. Brazil has built and manages a facility for technical and vocational training in Bissau. It has strong trade ties with the country and is the main exporter of chicken, sugar and meat. Together with India and South Africa, it has developed a research project to boost agricultural productivity through the use of modified Indian seeds. Brazil shares the same language and considers Guinea-Bissau as a potential gate to the broader sub-region.

To mark its increased presence in the country, India opened an honorary consulate in 2010. Relations between India and Guinea-Bissau are mainly commercial, with India purchasing almost the entire cashew nut production. India plans gradually to increase its co-operation, currently limited to a rural solar electrification project. India opened a USD 25 million credit line in 2004 that has not yet been used.

Other non-African emerging partners are gaining importance, but their involvement remains relatively modest. These include Turkey, which has offered electoral support; Venezuela, which provides scholarships; Cuba, which dispatches teams of doctors for training and medical assistance; and Russia, which maintains a permanent presence, waiting for the appropriate moment to pick up collaboration.

The main multinational firms operating in Guinea-Bissau are from South Africa and operate in the telecoms, natural resources and oil sectors. Angola has pledged USD 2 million to finance part of the pension programme for the military. The government also signed an agreement with the company Angola Bauxite for the construction of the deepwater seaport in Buba.

Guinea-Bissau's traditional donors are typically active in social sectors such as education, health and food security. The largest traditional donor remains Portugal which, given its common cultural heritage, favours educational projects. Western non-governmental organisations are very present in remote areas.

Dialogue with traditional donors as well as Brazil and India is active and constructive. China, however, tends to be absent from these multilateral discussions. Emerging partners do not favour the type of budget support granted by some traditional donors and multilaterals. The authorities consider bilateral co-operation with emerging partners to be less administratively burdensome than with the traditional partners, however.

The ongoing political gridlock reflects how power factions favour different partners. The prime minister maintains strong relations with traditional partners, essential for public administration and SSR, whereas the president is actively exploring other emerging or potential partners, including Iran, Libya and Senegal. The lack

of a coherent strategy has resulted in a patchwork of projects.

Guinea-Bissau lacks the necessary political stability, administrative capacity and long-term development vision to be able to engage strategically with any partner, including emerging ones. The government has highlighted rural electrification and agriculture as potential priority areas for emerging partners but Guinea-Bissau's pragmatic approach has been to accept anything that is offered. Examples are the scholarships offered by a series of donors, traditional and emerging alike, where the curricula in law and economics do not necessarily match current employment opportunities and skills needed in the country. Guinea-Bissau risks missing out on opportunities arising from emerging partners owing to a lack of awareness and administrative capacity. Conditions need to be created to engage on a level playing-field with all development actors. Peer learning and exchange of best practice at regional and international level also need to be promoted.

Political Context

The political landscape remains very fragmented, with 37 political parties officially registered and a very ambiguous relationship between key state institutions, particularly the executive, the prime minister's office and the army. The political alliance between the president and the prime minister, both from the ruling Partido Africano da Independência da Guiné e Cabo Verde (PAIGC), has become increasingly tense since the prime minister's refusal to support the president's candidacy in 2009. Tensions could be exploited by the army as well as opposition leaders such as the former president and current leader of the Partido da Renovação Social (PRS), Kumba Yala.

After almost a year of relative stability following President Malam Bacai Sanha's election in May 2009, a military mutiny broke out in April 2010. The mutineers opposed the security and defence sector reforms led by the head of the army, General Jose Zamora Induta. The deputy army chief of staff, General Antonio Indjai, led the mutiny that ousted the head of the army – who was eventually released from custody in January 2011 – and resulted in the prime minister being briefly detained. The real mastermind is believed to have been the former navy chief Admiral José Américo Bubo Na Tchuto, a fugitive accused of plotting a coup in 2008 and of being a drug lord. The mutiny lacked popular support and civilians expressed their discontent in the streets of the capital, an unusual event in Guinea-Bissau. Throughout the mutiny, businesses, ministries and parliament operated normally.

Following these events, President Sanha appointed General Indjai as the new head of the army and reinstated Admiral Na Tchuto, who had taken refuge inside the United Nations premises in Bissau on his return to the country in December 2009. These appointments and the mutiny in April have led the EU to suspend its mission to implement the SSR as well as budget support. This freeze of donor funds is destabilising the government's efforts to improve the fiscal situation and clear arrears. Teachers' salaries were no longer being paid by December 2010, which could lead to unrest.

The future stability of the country largely depends on the SSR, which involves modernising the army and reinserting around 1 500 ex-liberation movement combatants into society. The legal framework for a pension fund for the military and security forces was approved in June, but the suspension of financial assistance from the main donors halted its implementation.

Since 2006, the Bijagos islands have served as a transshipment point for Latin American drug cartels moving cocaine to Europe. President Sanha has declared the problem a top priority for his administration. However, cracking down on trafficking is almost impossible as the islands have no police and no communications or surveillance equipment. Furthermore, Guinea-Bissau has no prisons or forensics laboratory the detention centre in Bissau has no guards and no administrative staff, the few courts are overburdened, and laws too complex to apply consistently. Trafficking poses a serious challenge to stability and governance, as it has exacerbated corruption in the government and armed forces. Observers fear drug money could finance sleeping terrorist cells in the western part of Africa.

Social Context and Human Resource Development

Guinea-Bissau's second PRSP should be finalised in March 2011 and includes a more prominent role for social sectors. Funding remains a challenge that could delay its implementation. The first PRSP, published only in 2007, suffered from a lack of co-ordination of too many disparate objectives.

Guinea-Bissau ranked 164 out of 169 nations on the UNDP Human Development Index (HDI) in 2010. Economic growth was barely sufficient to keep pace with population growth, estimated at 2.4%, making it unlikely to meet the Millennium Development Goal (MDG) on poverty reduction. According to the World Bank, GDP per capita declined by an average 2.6% a year from 1990 to 2008. However, Guinea-Bissau is on track to achieve the goals of promoting gender equality and empowering women, and universal primary education.

In 2010, 20.7% of the budget was dedicated to health and education, compared with the 40% recommended for developing countries. Only 38% of the population had access to health services in 2009, and a National Health Development Plan drawn up in 2007 still awaits financing. More medical doctors from Guinea-Bissau are thought to practise in Lisbon than in their country. Health indicators, however, have gradually improved from being among the lowest in the region: in 2010, life expectancy at birth was 48.6 years, up from 48 in 2008, according to the HDI; infant mortality decreased from 142 per 1 000 live births in 1990 to 117 in 2008; the number of people suffering from hunger declined from 32.9% in 1990 to 17% in 2008. There have been improvements in medical training, and the hospitals at Mansôa and Canchungo have received x-ray, sonogram and reanimation machines. The motor rehabilitation centre has been renovated, and the Simão Mendes national hospital is being refurbished and enlarged. Little has been done to improve health management, however. Quality control is inadequate, and the last comprehensive review of the health system was in 2006.

Guinea-Bissau invests only 9% of its budget in education, and over 93% of allocated funds are spent on teacher salaries alone. More schools are needed, and existing ones need to be refurbished. Investment in teacher training, equipment and teaching manuals is sorely needed. Primary school enrolment improved from 46.3% in 1990 to 48% in 2006, still one of the lowest rates in Africa. Only 37% reach secondary school, and a mere 17% complete their studies there. During the cashew nut harvest season, school attendance in rural areas is sporadic. The government is developing an education sector plan to improve access to quality education and to overhaul the curriculum.

UNAIDS estimates that HIV/AIDS prevalence in Guinea-Bissau was 2.5% in 2009. The number of new infections has dropped in recent years and has stabilised at around 2 000 new cases per year, despite the lack of awareness about transmission, premature sexual activity (55% of the population is active at age 15), limited access to antiretroviral drugs, and the practice of male and female circumcision in precarious hygienic conditions. Through the training of 243 counsellors between 2006-09, youth awareness about reproduction, HIV/AIDS and personal health has improved substantially, however. The Global Fund to Fight AIDS, Tuberculosis and Malaria provided USD 44 million for the period 2009-13 and identified co-ordination, awareness-raising, patient care (about 3 000 people receive anti-retroviral drugs), and blood transfer security as priority areas.

Unemployment remains high, particularly for urban youth. The latest unemployment rate for young people aged between 15 and 24, for 2006, is 46.87% in Bissau and 19.34% in rural areas. The government will have to step up economic growth, targeting sectors that provide employment for the poor, in particular agriculture.