PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE

Report No.: PIDA15167

Project Name	Public Sector Strengthening Project (P150827)
Region	AFRICA
Country	Guinea-Bissau
Sector(s)	Central government administration (60%), General public administration sector (40%)
Theme(s)	Public expenditure, financial management and procurement (60%), Other accountability/anti-corruption (40%)
Lending Instrument	Investment Project Financing
Project ID	P150827
Borrower(s)	Government of Guinea Bissau
Implementing Agency	MINISTRY OF FINANCE
Environmental Category	C-Not Required
Date PID Prepared/Updated	23-Jan-2015
Date PID Approved/Disclosed	09-Feb-2015
Estimated Date of Appraisal Completion	26-Jan-2015
Estimated Date of Board Approval	19-Mar-2015
Decision	

I. Project Context

Country Context

Guinea-Bissau is a poor, small country of 1.6 million people with significant but largely unfulfilled development potential. In 2013, the Gross National Income per capita was US$520. Poverty at purchasing power parity (PPP) US$2 per day is above 70 percent and extreme poverty is about 33 percent. The economy is undiversified and dominated by the production of unprocessed cashew nuts. Annual average growth has barely kept pace with population growth, which is partly due to a difficult governance environment, frequently interrupted by political turmoil, including military coups. The latest coup occurred in 2012. Political fragility in Guinea-Bissau has hampered private sector-led growth and poverty reduction. However the country has strong unfulfilled development potential in cashew transformation, rice exports, fishing, and mining.

With stability and good leadership, Guinea-Bissau has demonstrated that it can reduce poverty and grow, even in a difficult external environment. Between 2009 and 2012, Guinea-Bissau enjoyed an unprecedented period of relative peace and stability with an average annual growth rate of 3.8 percent despite the global financial and food crises. It then took the first steps to reform the security sector. Progress was also made in the areas of public administration, public expenditure management, and improving the overall business environment. As a result, Guinea-Bissau reached the Heavily Indebted Poor Countries (HIPC) Completion Point in December, 2010.

The latest manifestation of fragility, the military coup in 2012, has been very costly for Guinea-Bissau and its population. The Gross Domestic Product (GDP) contracted by an estimated 1.5 percent in 2012 and growth remained low at around 0.2 percent in 2013. The fall in international cashew nut prices and mismanagement of the cashew campaign in 2012 led to a 60 percent drop in farm-gate prices, worsening poverty and triggering a food security crisis. Basic service delivery was interrupted—the lack of electricity, water and sanitation has led to a cholera outbreak. The poor and most vulnerable, including women and children, were disproportionately affected.
The coup opened a period of two years with deteriorating governance, poor public sector performance and weak public financial management. All ongoing public financial management (PFM) and procurement reforms were halted and exceptional procedures that by-passed the nascent control system became standard. The results of the civil service audit were not used and recruitments were made by patronage whereas salary arrears accumulated. Financial reporting became inexistent and no external control of budget execution was performed. This came with poor service delivery in all public sector areas: health, education, water and electricity supply, security, etc.

The newly elected President and his Government seem to be in a solid position to provide the kind of leadership that could bring about continued stability. The recent appointment of a new Army Chief by the President to replace Antonio Indjai, the former Army Chief who led the 2012 coup and who was indicted in the United States for drug trafficking, shows political courage and leadership. In addition to the President, key members of the Government, including Prime Minister Pereira, a former Executive Secretary of the Community of Portuguese Language Countries (CPLP), and Finance Minister Geraldo Martins, a former Senior Economist from the World Bank, are playing important roles in shaping government policies. The new Government has already started working on sustaining macro-fiscal stability, rebuilding public institutions and re-engineering economic growth, while preparing its medium term strategy for development. A new budget is being prepared to support Government priorities.

One key to moving to a more dynamic development lies with the public sector. The Government is both the policy-maker and the victim of military coups. Strengthening governance in a fragile country is vital, both for implementing the changes that are required to boost shared growth and for isolating it from outside interference. It is also important to have a capable public administration to ensure macro-fiscal stability as a key condition for growth. The ongoing Country Economic Memorandum (CEM) argues that the public sector agenda should focus on improving PFM in order to: allow the Government to prepare a budget that truly reflects key policy choices; increase revenue flows to finance service delivery in key sectors; strengthen the Government’s fiduciary practices in the execution of the budget, in order to ensure that public resources are spent on their intended purposes : and further align incentives of public services with the common good. . Strengthening human resources and statistics will allow the government to identify and monitor key policies and carry them out effectively.

The public sector agenda is ambitious, but the Government can leverage several partnerships for support. Among them is the donor community which can support the Government both financially and with advisory services. To ensure that aid is effective, it is indispensable to improve donor coordination and in particular the Government’s leadership in this regard. Other partners include regional organizations like the West African Economic and Monetary Union (WAEMU) and the Economic Community of West African States (ECOWAS) which provides political and military assistance, specifically in the very sensitive area of the Security Sector Reform (SSR).

Sectoral and institutional Context

Before the April 2012 coup, Guinea-Bissau had made some progress in the areas of public administration and public expenditure management. In 2009, the Government completed its first comprehensive human resources audit of the public sector, which resulted in significant savings by eliminating 3,378 ghost workers and double dippers, or 15.2 percent of the total employment for the government of Guinea-Bissau. In PFM, since 2009 the Government had adopted new legislation related to budget management, including a new budgetary classification, and launched the Integrated System for Public Financial Management (SIGFIP) which was operational before the coup. In public procurement, in June 2010, the Government adopted a new public procurement law, consistent with WAEMU rules and procedures. However, in the disorganization of public administration that has followed, the absence of financial support has delayed the implementation of the Action Plan derived from the 2009 Public Expenditure Management and Financial Accountability Review (PEMFAR). Thus, the PFM weaknesses detailed in the PEMFAR are still valid. The legal and regulatory framework has to be adapted to the new WAEMU directives and actually enforced. Medium term expenditure frameworks (MTEFs) are still very weak and there are no sector strategies in line ministries. These line ministries are still insufficiently associated to budget preparation. Domestic revenues represented 13.7 percent of GDP in 2012, but total public expenditures, including budget support and other resources, totaled 21 percent of GDP. The budget remains largely indicative and much expenditure is still executed outside of the standard procedures. Internal controls, external and internal audit functions are weak. Poor revenue forecasts and weak commitment controls lead to the accumulation of payment arrears, specifically for payroll expenditures. Accounting and financial reporting remain ineffective.

In view of this situation, under the transition Government, a joint European Union – World Bank (EU-WB) Public Expenditure and Financial Accountability (PEFA) assessment has been performed in September-October 2013. Its results are used, together with those of the last procurement Technical Assistance (TA) mission, to pave the way for a PFM-Procurement reforms action plan to be finalized by the future reforms coordination unit (RCU).

In addition, a regional study on PFM and procurement reforms in WAEMU countries (2013) has shed light on key bottlenecks to the smooth implementation of the capital budget and identified weaknesses that are specific to Guinea-Bissau. More than 95 percent of national investment is externally financed. The execution rate of this investment plan remains very low , partly because of lack of skills in the procurement function and loopholes in the implementation of the WAEMU procurement directives.

The overall idea supported by these diagnostic studies is that although the post-coup period has halted the modernization and has been characterized by weak internal controls, some of the elements of the reforms are still in place and could be made functional again. This restoration requires three conditions: political stability, long term technical assistance and appropriate incentives for a change in the behaviors of public officials.

The Customs and Taxes Administrations are currently not generating sufficient revenues for the state to be fully functional. This is due to persistent weaknesses in both institutions. The customs administration is overstaffed and not effective. Its Automated System for Customs Data (ASYCUDA ++) has been installed in the three main customs offices only and the licenses are outdated. There are severe governance issues in the day-to-day administration of customs revenue collection, including evidence of diversion of funds. Tax administration is even in poorer condition: its information system is totally obsolete, computers are extremely rare and even the premises need to be renovated completely. There are also deep-rooted governance issues in the incentives and operation of tax administration. For both institutions, connection to Central Treasury and to the FMIS SIGFIP is yet to be achieved. This hampers revenue forecasts and proper functioning of the Treasury Single Account (TSA) – but this is clearly not only a technical issue.

On the expenditure side, the whole chain has been repeatedly bypassed and needs a full restoration of internal controls. The legal and regulatory environment is governed by the WAEMU PFM directives, but these still need to be incorporated into the national legal system and then enforced. Although a yearly budget has been adopted for 2014 and for 2015, it is not supported by a functional statistical and macroeconomic forecast system. For more than two years, budget execution has been assured on the basis of exceptional procedures, which means that obligations were not raised before expenditures were incurred. The confidence of citizens vis-à-vis the Government was so undermined that suppliers now insist on payment of goods or services before delivery. This explains that the production of yearly accounts for central government was almost impossible and consequently, no external audit of the annual statements could be performed by the Court of Accounts.

To help address these deep-seated governance challenges, a strong reform coordination unit is indispensable. The head of the previous PFM Reform Unit had drafted a now outdated PFM reform action plan. However, the reform coordination unit is no longer operating. This explains the absence of follow-up and contributed to the lack of ownership for this action plan that needs to be revised. Since many other donors are likely to provide assistance in the same area, a reform coordination unit will help to ensure a smooth flow of information and clear division of labor. . One of its first tasks will be to use the various donors' diagnostic missions to help key stakeholders in the Government draft a prioritized PFM reform action plan.

II. Proposed Development Objectives

The Project Development Objective (PDO) is "to assist the Government to re-establish basic systems for public financial management."

III. Project Description

Component Name

Component 1: Performance, Control and Transparency of the Public Revenues

Comments (optional)

Component Name

Component 2: Expenditure Control, Procurement, Accounting and Reporting

Comments (optional)

Component Name

Component 3: Public Financial Management Reform Coordination and Project Management
Comments (optional)

IV. Financing *(in USD Million)*

Total Project Cost:	5.00	Total Bank Financing:	5.00
Financing Gap:	0.00		
For Loans/Credits/Others			**Amount**
BORROWER/RECIPIENT			0.00
International Development Association (IDA)			2.75
IDA Grant			2.25
Total			5.00

V. Implementation

Overall implementation arrangements will follow the structure that will be established by the Government to monitor and manage PFM reforms, complying with acceptable implementation arrangements to the Bank. By building on existing structures in the MoF and arrangements for other successful projects, PSS will leverage well-designed institutional arrangements and competent specialists that will be hired for the RCU in order to boost technical and fiduciary capacity of the MoF and speed up implementation. Implementation will include the following structures: (i) Joint Government/Development Partners committee on PFM Reforms - Steering Committee; (ii) Reforms Coordination Unit - RCU; and (iii) Beneficiaries of the reforms (Key PFM and Procurement departments, Supreme Audit Institution - SAI, Parliamentary Accounts Committees, and civil society organizations - CSOs).

VI. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	**Yes**	**No**
Environmental Assessment OP/BP 4.01		✗
Natural Habitats OP/BP 4.04		✗
Forests OP/BP 4.36		✗
Pest Management OP 4.09		✗
Physical Cultural Resources OP/BP 4.11		✗
Indigenous Peoples OP/BP 4.10		✗
Involuntary Resettlement OP/BP 4.12		✗
Safety of Dams OP/BP 4.37		✗
Projects on International Waterways OP/BP 7.50		✗
Projects in Disputed Areas OP/BP 7.60		✗

Comments (optional)

VII. Contact point

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