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Report No: PAD1197

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

ON A PROPOSED CREDIT
IN THE AMOUNT OF SDR 1.90 MILLION
(US$2.75 MILLION EQUIVALENT)

AND A PROPOSED GRANT
IN THE AMOUNT OF SDR 1.60 MILLION
(US$2.25 MILLION EQUIVALENT)

TO THE

REPUBLIC OF GUINEA-BISSAU

FOR A

PUBLIC SECTOR STRENGTHENING PROJECT

February 25, 2015

Governance Global Practice
Africa Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective – December 31, 2014)

Currency Unit = US$
US$1 = SDR 0.69

FISCAL YEAR
January 1 – December 31

ABBREVIATIONS AND ACRONYMS

AfDB	African Development Bank
BCEAO	*Banque Centrale des Etats de l'Afrique de l'Ouest*
CAS	Country Assistance Strategy
CFAF	*Communauté Financière Africaine*
CEM	Country Economic Memorandum
CPLC	Community of Portuguese Language Countries
CSO	Civil Society Organization
DAs	Designated Accounts
ECOWAS	Economic Community of West African States
EU	European Union
FAD	Fiscal Affairs Department
FM	Financial Management
FMIS	Financial Management Information System
GDP	Gross Domestic Product
GGODR	Governance Global Practice
HR	Human Resources
HIPC	Heavily Indebted Poor Countries (Initiative)
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFR	Interim Financial Report
IGF	*Inspection Générale des Finances* (General Inspectorate of Finance)
IMF	International Monetary Fund
M&E	Monitoring and Evaluation
IPF	Investment Project Financing
ISR	Implementation Review and Support
IT	Information Technology
MDTF	Multi-Donor Trust Fund
MTEF	Medium-Term Expenditures Framework
MoEF	Ministry of Economy and Finance
NGO	Non-Governmental Organization
ODI	Overseas Development Institute
PDO	Project Development Objective
PEMFAR	Public Expenditure Management and Financial Accountability Review
PFM	Public Financial Management
PPA	Project Preparation Advance
PPP	Purchasing Power Parity
PSSP	Public Sector Strengthening Project

RCU	Reform Coordination Unit
SAI	Supreme Audit Institution
SIGFIP	Government’s Financial Management Information System
SOE	Statement of Expenditures
SSR	Security Sector Reform
TA	Technical Assistance
TC	Treasury Committee
TSA	Treasury Single Account
TSC	Technical Steering Committee
UNDP	United Nations Development Program
VAT	Value Added Tax
WAEMU	West African Economic and Monetary Union
WBG	World Bank Group

Regional Vice President:	Makhtar Diop
Country Director:	Vera Songwe
Senior Global Practice Director:	Mario Marcel Cullell
Practice Manager:	Renaud Seligmann
Task Team Leader:	Eric Brintet

PAD DATA SHEET

Guinea-Bissau

Public Sector Strengthening Project (P150827)

PROJECT APPRAISAL DOCUMENT

AFRICA

GGODR

Report No.: PAD1197

Basic Information			
Project ID P150827	EA Category C - Not Required	Team Leader(s) Eric Brintet	
Lending Instrument Investment Project Financing	Fragile and/or Capacity Constraints [X] - Fragile States	 - Small States	
	Financial Intermediaries [ ]		
	Series of Projects [ ]		
Project Implementation Start Date 19-Mar-2015	Project Implementation End Date 31-Dec-2018		
Expected Effectiveness Date 17-Jul-2015	Expected Closing Date 31-Dec-2018		
Joint IFC No			
Practice Manager/Manager	Senior Global Practice Director	Country Director	Regional Vice President
Renaud Seligmann	Mario Marcel Cullell	Vera Songwe	Makhtar Diop

Borrower: Government of Guinea Bissau			
Responsible Agency: Ministry of Finance			
Contact:	M. Carlos Pinto	Title:	Reform Coordinator
Telephone No.:	2456673366	Email:	cavapinto@yahoo.com

Safeguards Deferral (from Decision Review Decision Note)
Will the review of Safeguards be deferred? [ ] Yes [X] No

Project Financing Data(in USD Million)					
[ ]	Loan	[X]	IDA Grant	[ ]	Guarantee
[X]	Credit	[ ]	Grant	[ ]	Other

Total Project Cost:	5.00	Total Bank Financing:	5.00
Financing Gap:	0.00		

Financing Source	**Amount**
BORROWER/RECIPIENT	0.00
International Development Association (IDA)	2.75
IDA Grant	2.25
Total	5.00

Expected Disbursements (in USD Million)

Fiscal Year	2015	2016	2017	2018	2019					
Annual	0.70	1.00	1.30	1.30	0.70					
Cumulative	0.70	1.70	3.00	4.30	5.00					

Institutional Data

Practice Area (Lead)

Governance

Contributing Practice Areas

Cross Cutting Areas

[ ] Climate Change
[X] Fragile, Conflict & Violence
[ ] Gender
[ ] Jobs
[ ] Public Private Partnership

Sectors / Climate Change

Sector (Maximum 5 and total % must equal 100)

Major Sector	Sector	%	Adaptation Co-benefits %	Mitigation Co-benefits %
Public Administration, Law, and Justice	Central government administration	60		
Public Administration, Law, and Justice	General public administration sector	40		
Total		100		

☑ I certify that there is no Adaptation and Mitigation Climate Change Co-benefits information applicable to this project.

Themes

Theme (Maximum 5 and total % must equal 100)

Major theme	Theme	%
Public sector governance	Public expenditure, financial management and procurement	60

Public sector governance	Other accountability/anti-corruption	40
Total		100

Proposed Development Objective(s)

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

Components

Component Name	Cost (USD Millions)
Performance, Control and Transparency of the Public Revenues	2.40
Expenditure Control, Procurement, Accounting and Reporting	1.10
Public Financial Management Reform Coordination and Project Management	1.50

Systematic Operations Risk- Rating Tool (SORT)

Risk Category	Rating
1. Political and Governance	Substantial
2. Macroeconomic	Moderate
3. Sector Strategies and Policies	Moderate
4. Technical Design of Project or Program	Moderate
5. Institutional Capacity for Implementation and Sustainability	High
6. Fiduciary	Substantial
7. Environment and Social	Low
8. Stakeholders	Low
9. Other	
OVERALL	Substantial

Compliance

Policy

Does the project depart from the CAS in content or in other significant respects?	Yes [ ]	No [X]
Does the project require any waivers of Bank policies?	Yes [ ]	No [X]
Have these been approved by Bank management?	Yes [ ]	No [ ]
Is approval for any policy waiver sought from the Board?	Yes [ ]	No [ ]
Does the project meet the Regional criteria for readiness for implementation?	Yes [X]	No [ ]

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01		X
Natural Habitats OP/BP 4.04		X
Forests OP/BP 4.36		X

Pest Management OP 4.09		**X**
Physical Cultural Resources OP/BP 4.11		**X**
Indigenous Peoples OP/BP 4.10		**X**
Involuntary Resettlement OP/BP 4.12		**X**
Safety of Dams OP/BP 4.37		**X**
Projects on International Waterways OP/BP 7.50		**X**
Projects in Disputed Areas OP/BP 7.60		**X**

Legal Covenants

Name	Recurrent	Due Date	Frequency
Creation and Maintenance of Steering Committee and Reform Coordination Unit (RCU)	**X**		CONTINUOUS

Description of Covenant

Create not later than one month after effectiveness and thereafter maintain the Project Steering Committee and the RCU during the duration of the Project

Name	Recurrent	Due Date	Frequency
Adoption of Project Operations Manual and thereafter implementation of the Project in accordance with said Project Operations Manual	**X**		CONTINUOUS

Description of Covenant

Carry out the Project or cause the Project to be carried out in accordance with the Project Operations Manual and refrain from amending the Project Operations Manual or any of its provisions without the prior written approval of the Association.

Name	Recurrent	Due Date	Frequency
Preparation, adoption and implementation of an Annual Work Program	**X**		Yearly

Description of Covenant

Not later than November 30 in each calendar year during Project implementation, prepare and furnish to the Association, a program of activities proposed for inclusion in the Project during the following calendar year, including: (a) a detailed timetable for the sequencing and implementation of said activities, (b) the types of expenditures required for such activities; and (c) the planned procurement methods for the expenditures.

Conditions

Source Of Fund	Name	Type

Description of Condition

Team Composition

Bank Staff			
Name	**Role**	**Title**	**Unit**
Eric Brintet	Team Leader (ADM Responsible)	Lead Financial Management Specialist	GGODR
Cheick Traore	Procurement Specialist	Senior Procurement Specialist	GGODR
Fatou Fall Samba	Financial Management Specialist	Financial Management Specialist	GGODR
Aleksandar Kocevski	Team Member	Operations Consultant	GGODR
Alexandra C. Bezeredi	Safeguards Advisor	Regional Environmental and Safeguards Advisor	OPSOR
Isabella Micali Drossos	Team Member	Senior Counsel	LEGAM
Jose C. Janeiro	Team Member	Senior Finance Officer	WFALA
Kjetil Hansen	Team Member	Senior Public Sector Specialist	GGODR
Marek Hanusch	Team Member	Economist	GMFDR
Ndeye Absa Cisse	Team Member	Team Assistant	AFCF1
Nicolas Drossos	Team Member	Consultant	GSPDR

Extended Team			
Name	**Title**	**Office Phone**	**Location**

Locations					
Country	**First Administrative Division**	**Location**	**Planned**	**Actual**	**Comments**
Guinea-Bissau	Bissau	Bissau	X		

Consultants (Will be disclosed in the Monthly Operational Summary)

Consultants Required?	Consulting services to be determined

Republic of Guinea-Bissau

Public Sector Strengthening Project (PSSP) – P150827

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I. STRATEGIC CONTEXT

A. Economic and Governance Context

1. **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.

2. **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.

3. **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.

4. **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.

5. **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 the former Army Chief who led the 2012 coup and was indicted in the United States for drug trafficking, shows political courage and leadership. In addition to the President, key members of the Government 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.

6. **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.

7. **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).

B. Sectoral and Institutional Context

8. **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.

9. **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 Reform Coordination Unit (RCU), before the end of 2015. The summary of the conclusions of the PEFA assessment are given in the box below.

Box 1: <u>Summary of the Conclusions of the 2013 PEFA Assessment</u>

- **Credibility of the Budget** remains low, particularly with regard to budget implementation, despite a slight improvement in budget credibility mainly due to a better internal revenue forecast.

- **Comprehensiveness and Transparency** are undermined by undetermined but substantial number of extra-budgetary operations, collection of revenues outside Central Treasury and absence of financial reporting from SOEs.

- **Policy-Based Budgeting** is not based on multiannual budget and sectorial strategies concern less than 25 percent of primary expenditures. Capital and operational budgets remain separate.

- **Budget Execution**
  - ***Revenue***
    Tax and customs obligations are clear but outdated. Taxpayer registration is not subject to effective control. The rate of recovery of tax credits for 2012 was under 60 percent. Transfers of tax revenues to the BCEAO Treasury account are not completely reconciled. Tax arrears are hardly monitored.
  - ***Expenditures***
    The public procurement system and internal control systems of non-wage costs are generally ineffective. The biometric census of civil service employees failed to reduce payroll costs. On the contrary, spending on teachers and health workers increased as part of a recruitment drive.

- **Accounting, Recording and Reporting:** Bank reconciliations are not carried out regularly. Some budget execution reports during the year exist but financial statements are incomplete and are not audited by the Court of Auditors.

- **External Scrutiny and Audit:** External control by the Court of Auditors or the National Assembly is generally very weak. The legislature's oversight is extremely limited.

Source: Joint WB-EU PEFA report – 2013

10. **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[1], partly because of lack of skills in the procurement function and loopholes in the implementation of the WAEMU procurement directives.

[1] The execution rates are: 17.5 percent for grants, 39.9 percent for external loans and 22.4percent for nationally financed projects in 2012.

11. **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.

12. **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.

13. **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 citizen 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.

14. **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.

C. Higher Level Objectives to which the Project Contributes

15. **The proposed project is consistent with the Government's *Programa de Estabilização e Desenvolvimento* (PED) and is an integral part of the new Interim Strategy Note (ISN) FY15-FY17**.[2] As such, it will lay the foundation for enhanced transparency and accountability in the management and use of public resources.

[2]To be adopted by the Board.

II. PROJECT DEVELOPMENT OBJECTIVES

A. Proposed Project Development Objective

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

B. Project Beneficiaries

17. **The first beneficiaries will be the central government administration, citizens using public services, public servants and government suppliers.** When public financial management performance is strengthened, the citizens should benefit from greater value for money and more transparency in the management of public funds. They will also be more associated to budget preparation and financial reporting on the use of public funds. *In fine*, improved public resources management will result in better service delivery, especially for the poor and more vulnerable who rely the most on public support and basic services.

C. Project Context

18. **The Republic of Guinea-Bissau joint PEFA revealed a generally weak PFM system.** Some of the outputs of pre-coup PFM technical assistance are still in place, in particular the Government's financial management information system (SIGFIP), but they are not fully functional. Although a scarcity of skilled human resource (HR) exists, there are administrative structures in place. However, since the coup, the existing system has been systematically bypassed.

19. **This project will assist the authorities in improving the comprehensiveness and realism of the PFM and procurement reform action plan with the objective of laying the foundation for longer-term reforms.** Strengthening controls around basic Ministry of Economy and Finance (MoEF) functions could enable the Government to sign and implement recipient-executed activities under Bank and trust fund-financed projects in the future.

20. **Other donors are currently working on the same areas and the project has been designed to leverage these partnerships.** The European Union (EU) has already assigned a technical assistant to the MoEF and started disbursing budget support in 2014. It is developing a US$3 million TA program in coordination with the present Bank project. The International Monetary Fund (IMF) is also willing to provide short term PFM technical assistance, in particular for taxes and customs. The African Development Bank (AfDB) is working on its new country strategy and is likely to re-engage in 2015. It will, in partnership with the United Nations Development Program (UNDP), provide support to the Government in the field of macroeconomic framework, MTEF and future program budgeting. The WAEMU Commission supported the procurement reform before the coup and is likely to carry-on given the improved political situation.

III. PROJECT DESCRIPTION

A. Project Components

21. **The project components below have been extensively discussed both with the Government and with the main donors**. The project is designed to respond to a few quick-wins. The Bank has, therefore, taken a strategic decision to be selective and focus on areas that can demonstrate quick impact and establish the basic PFM foundations.

22. **Component 1: Performance, Control and Transparency of the Public Revenues (US$2.40 million)**. This component will support the Recipient is to progressively improve its technical capacity to handle revenue processes through adequate procedural and control systems to increase tax and customs revenue collection, as well as the efficiency, effectiveness and transparency of revenue administration.

23. *Sub-component 1.1: Technical Assistance to Tax Collection (US$0.81 million).* This sub-component will support the Recipient to strengthen tax laws and administration to widen the tax base, increase revenue by collecting actual tax payables more efficiently, improve organization and simplify business taxation through the establishment of a simple and transparent system, an improved information system more compatible and interfaced with the Recipient's Treasury. It will include:

- A long-term international technical assistant for a planned duration of 2.5 years;
- Purchase of office equipment and renovation of tax offices;
- Purchase of one service vehicle for tax inspection purposes.

24. *Sub-component 1.2: Technical Assistance to Customs Administration (US$0.81 million).* This sub-component will support the Recipient to strengthen customs laws and administration for a more predictable taxation and increased revenue, a better organization and simplification of custom duties, the establishment of a simple and transparent system and a streamlined information system more compatible and interfaced with the Recipient's Treasury. Priority will be given to establish a simple and transparent system that could fit the needs of such a small country and encourage foreign private investment. Streamlining of the current information system SYDONIA++ and interface with Treasury will also be considered. It will include:

- A long-term international technical assistant for a planned duration of 2.5 years;
- Purchase of office equipment and renovation of Customs offices;
- Purchase of one service vehicle for inspection and liaison purposes.

25. In both the customs and tax administration, the key role of the Technical assistant will be to help the authorities identify critical changes in incentives that could result in changed behaviors on the part of tax and customs officials. It is understood that without these behavioral changes, the hardware and software investments made will not yield their intended benefits.

26. *Sub-component 1.3: Treasury Single Account (TSA), Debt and Statistics (US$0.78 million).* This sub-component will support the Recipient to strengthen its Treasury Directorate, ensure that all collected revenues are immediately transferred to the Treasury Single Account, strengthen its Treasury Committee to facilitate cash forecasts and cash management, avoid additional borrowing costs for the Recipient, rebuild statistics systems of its General

Directorate for Forecast and Economic Studies, use Treasury statistics to improve *tableau des opérations financières de l'Etat* (TOFE), and publish economic and public financial data for civil society. It will include:

- A long-term international technical assistant for a planned duration of 2.5 years;
- Purchase of office equipment and renovation of Treasury and Prevision offices;
- Purchase of printing and publishing equipment.

27. Like in the area of revenues, the Technical Assistant's key role will be to advise the authorities on critical behavioral changes needed for these reforms to succeed.

28. **Component 2: Expenditure Control, Procurement, Accounting and Reporting (US$1.1 million)**. This component will support the Recipient to strengthen controls needed for fiscal discipline and promote transparency and accountability in public expenditures.

29. *Sub-component 2.1: Budget and Internal Control TA through Operationalization of the Integrated FMIS (US$0.42 million).* This sub-component will support the Recipient to restore the use of the financial management integrated system (SIGFIP) for all budgetary expenditures, design procedures for the interfacing of SIGFIP with other systems in the Recipient's ministry in charge of finance, in the Recipient's Central Bank and in the Recipient's line ministries and agencies (through an assessment of the quality of internal controls within each line ministry and agency). Once the central level is back online, the roll-out of SIGFIP to line ministries will be implemented, in order to facilitate the progressive and measured devolution of budget authority to line ministries. This will be based on an assessment of the quality of internal controls within each line ministry and agency.

30. **Specific assistance to the human resources and payroll system will be assured by the EU within their TA program**. Both institutions will capitalize on the achievements of the Bank's Community Driven Development Project, which succeeded in paying salaries for the first six months of 2014 to 7,200 teachers and 1,920 health workers. It will be extended progressively to the defense and security forces that are currently not covered within the scope of the payroll application[3]. In the area of expenditure, the technical approach will be complemented by an improved understanding of the changes in incentives and approaches needed to bring changes in behaviors. A series of workshops will be held with key stakeholders in budget execution reforms in order to bring underlying issues to light.

31. *Sub-component 2.2: Procurement and Public Investment Management (US$0.36 million).* This sub-component will support the Recipient to strengthen its Public Procurement Regulatory Agency, the Procurement Directorate and the Central Purchasing Unit and develop a national capacity building strategy through the preparation of new procedures manuals and national standard bidding documents, the creation of electronic tools to monitor procurement transactions and statistics, and the design of a procurement performance review mechanism. It will also pave the way for the future design of a consistent public investment management system. The procurement system in Guinea-Bissau had benefitted from effective TA in the pre-coup period. The institutions created at this time (Public Procurement Regulatory Agency, Procurement Directorate and Central Purchasing Unit) are still officially in place, but understaffed, with very

[3] A first important step has recently been taken by the Government in this direction: the salaries of the high ranking officers of the armed forces are now paid through bank accounts instead of in cash.

weak capacity and a limited equipment (e.g. without access to Internet). Hence, to date, they are not functioning effectively. This sub-component will be based on the outcomes of existing PFM and Procurement ESWs, in particular on the recommendations of the "Boosting Budget Execution and Procurement for Development Impact in WAEMU member Countries[4]".

32. *Sub-component 2.3: Power generation and IT hardware (US$0.32 million).* This sub-component will support the Recipient to purchase and install hardware and equipment necessary to restore public financial management basic functions and carry out the necessary building renovation to accommodate this hardware and equipment. Beyond technical assistance, the purchase and installation of hardware and equipment is necessary to restore PFM basic functions. All institutions are dramatically lacking computers and other information technology (IT) equipment. Connections between services are inexistent or very poor. Although a World Bank Water and Electricity project (P148797) is ongoing, it will not generate reliable energy until several months. This is the reason why generators are necessary to avoid disruption in the services of the MoEF. It will include:

- Three generators and accessories;
- IT hardware and remote connections;
- IT-related building renovations.

33. **Component 3: Public Financial Management Reform Coordination and Project Management (US$1.50 million).** This component will support the Recipient to implement a mechanism for a structured approach to public financial management reform and institutional capacity strengthening.

34. *Sub-component 3.1: PFM Reform Oversight and Implementation Structure (US$0.87 million).* This sub-component will support the Recipient to hire and maintain the Reform Coordination Unit (RCU) personnel to ensure capacity building and national ownership of the reforms. This balanced team will assure capacity building and national ownership of the reforms.

35. *Sub-component 3.2: Project Management (US$0.57 million).* This sub-component will support the Recipient to hire and maintain the RCU personnel to carry out the daily implementation of the project. The RCU, financed by the project, will include:

- One Admin and Financial Officer
- One Accountant
- One Procurement Assistant who will be supported by a Short Term Procurement consultant
- Four Support staff.
- This sub-component will also finance operating costs covering including:
- Travel

[4] P144348 – Country report Guinea-Bissau – September 2013

- Office equipment (provisional)
- Operating expenditures
- Service vehicle
- External audit of the whole project

36. *Sub-component 3.3: PFM and Procurement Education and Training Program (US$0.06 million).* This sub-component will support the Recipient to strengthen the capacity of public financial management and procurement practitioners through training programs. Beyond the availability of good laws, systems and institutional structures, PFM improvement requires capability at the level of individual PFM and procurement practitioners. The PFM and Procurement Education and Training Program will be designed with the assistance of a TA mission and will be implemented later, if additional resources are available.

B. Project Financing

37. **Lending Instrument.** The total estimated amount of the Investment Project Financing (IPF), to be implemented by the Government, is US$5 million. The World Bank and the Government have agreed to adopt the IPF instrument for this project based on clear evidence that it serves as the appropriate instrument mechanism that responds to the specific PFM needs of the Government.

C. Lessons Learned

38. **The Overseas Development Institute (ODI)/ WB study of PFM reforms in fragile states[5] (2012) describes a certain number of lessons that were taken into account in designing this project**. In summary, the key lessons learned are: (i) take political economy into account and the underlying reasons for the resistance so that interventions can be aligned with the context; (ii) use the sequential approach, ensuring the simplicity of action taken with regard to weak capacities; (iii) commit to a flexible long-term perspective; and (iv) invest in donor coordination.

39. **Other recommendations can be found in the World Bank synthesis report "PFM reforms in post-conflict countries" (2011)**. The following extracts inspired the design of the present project:

"*Consider country context (and existing incentives for local stakeholders) systematically in deciding if and how to intervene on strengthening PFM systems. (…) Where incentives and commitment for reform are substantial, stakeholders can **seek the fastest gains**. Locking in gains in budget execution systems (e.g., establishing a treasury single account, putting a comprehensive and compatible budget classification and chart of accounts in place, starting to build a FMIS) are options combined with steps on budget planning."*

*"Developing **clear reform plans** based on emerging analysis and the periodic updating of such plans will help ensure that approaches to PFM reforms and the provision of support are strategic and focused."*

[5] http://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/7840.pdf

40. **The report also emphasizes the need to look for wider reforms including sectorial ministries once the basics of PFM systems have been restored**. This would allow the reforms to focus more on improving service delivery than on the machinery of the MoEF. In view of the very limited amount of the International Development Association (IDA) funding available, the approach taken by this project is to leverage the political window of opportunity given by the arrival of a new team to focus on restoring core PFM systems. At a later stage, once progress has been made on core systems, including revenue collection, treasury single account and controls over expenditures, should additional resources be available, the project could be adjusted to focus more on PFM and procurement bottlenecks to service delivery.

IV. INSTITUTIONAL AND IMPLEMENTING ARRANGEMENTS

A. Implementing Arrangements

41. ***Financing arrangements*.** The World Bank will finance the project through an International Development Association (IDA) Credit and an IDA Grant, and the Government of Guinea-Bissau will execute it. Development partner coordination in PFM has been recently revived, with all key partners involved in PFM reform, including the IMF, EU, UNDP and AfDB. The project will not use co-financing modalities, instead parallel financing arrangements of coordinated activities will be put in place. During project preparation, and after identification of the activities to be undertaken, each donor will finance specific complementary tasks. The IDA allocation in the public sector strengthening (PSS) will be of US$5 million. World Bank financing will have a multiplier effect, since the other donors will contribute to the country's PFM reforms.

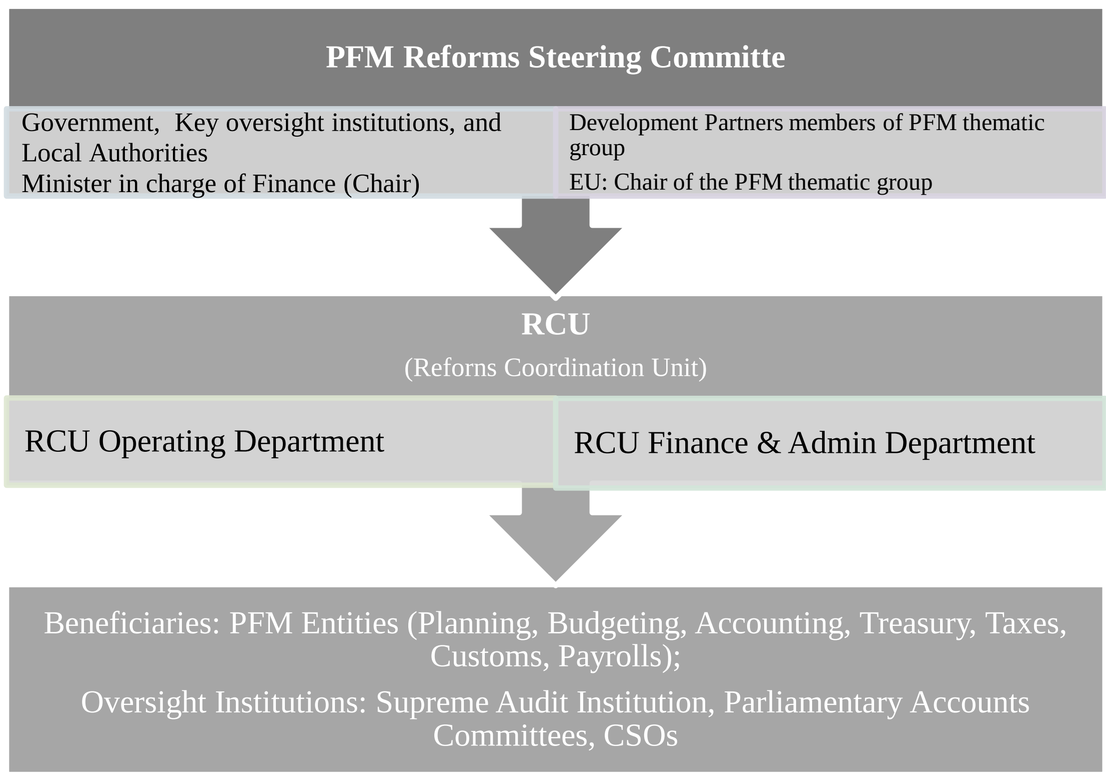
42. **The Public Sector Strengthening Project (PSSP) will take into account the fluctuating context of political economy in Guinea-Bissau, and to ensure flexibility in the support of donors for the PFM reform**. Some activities could be timely opportunities in terms of political commitment. They may include diagnostic work, technical assistance, goods, rehabilitation works according to ad-hoc requests from the Government, the PFM donor group, non-governmental organizations (NGOs), and civil society. Funding opportunities will be selected according to their complementarity and coherence with the components of the program and their contribution to building a solid evidence base on PFM reform. The PSSP is designed to be flexible enough, in order to allow the redeployment of some of the activities depending on the political economy context.

43. ***Implementation arrangements.*** 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 MoEF 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 MoEF 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).

44. ***Joint Government/Development Partners committee on PFM Reforms – Steering Committee.*** After the findings of the PEFA 2013, the Government and development partners decided to revive the Budget Support Coordination Committee that used to function before the coup. This should be done during 2015 with the organizational support from the EU.

45. ***Public Financial Management Reforms Coordination Unit – RCU***. RCU will be in charge of the fiduciary and technical coordination of the activities. Its core staffing would include (i) a Reform Coordination Unit (RCU) coordinator, (ii) a deputy coordinator, (iii) a financial management specialist, (iii) a procurement specialist, and (iv) and an assistant/archivist. In addition, RCU would be recruiting thematic focal points, in charge of monitoring the implementation of the activities, along with the focal points of the departments and institutions. The RCU will be established within the MoEF and reporting directly to the Minister of Finance and the Steering Committee. Further RCU's functions are developed in Annex 3. The following diagram shows an overview of the project's implementation and institutional arrangements.

Figure 1: <u>Overview of the Project Implementation and Institutional Arrangements</u>



**Project Steering Committee* in the Financing Agreement

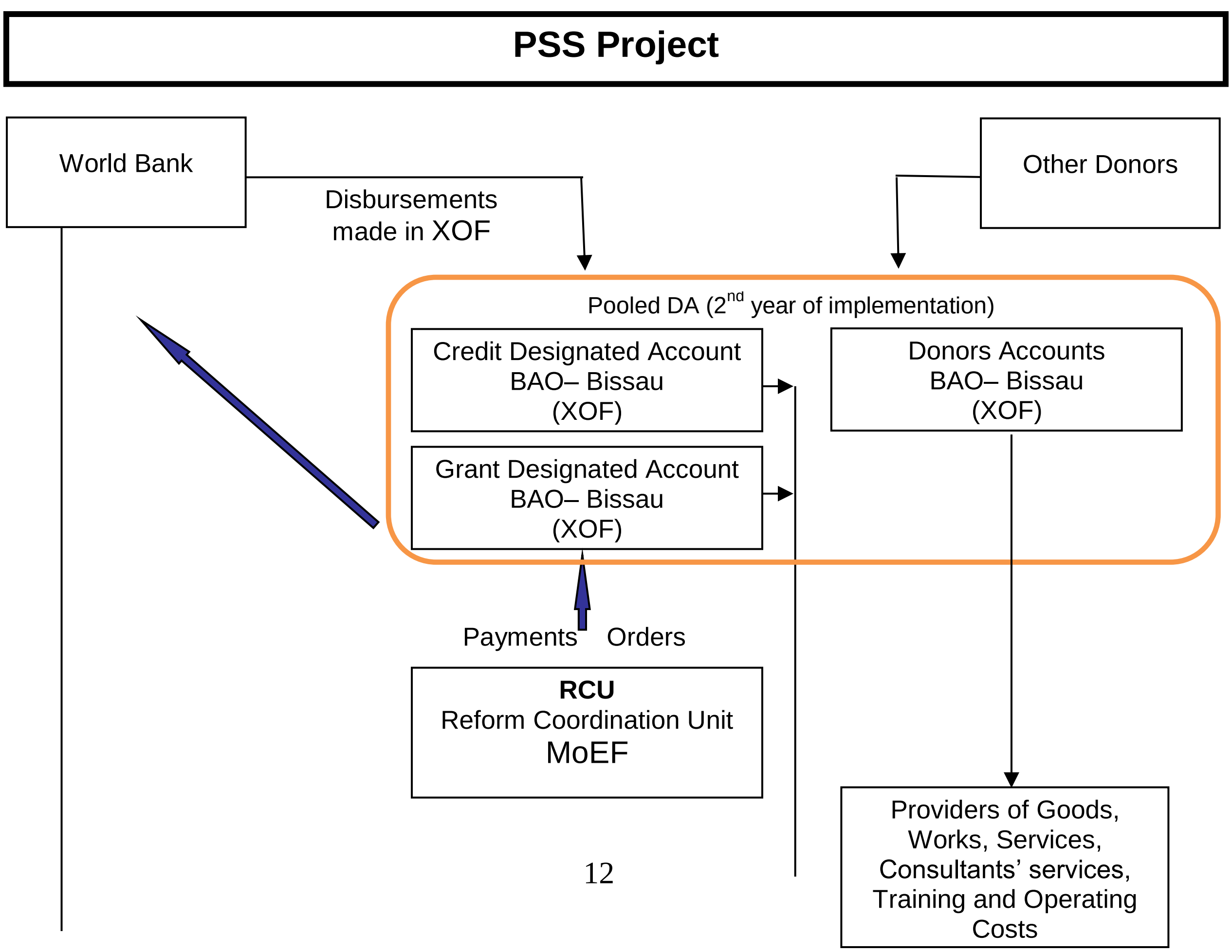
46. ***Financial Management and Disbursement Arrangements.*** Financial management and disbursement will be handled by RCU. This unit will be created well before effectiveness, as a mix of MoEF staff and external consultants, with experience in WB or other donors financed projects. The external consultants will provide technical assistance for operational support and capacity building in project financial management. Thus, RCU is expected to meet the Bank's minimum requirements stipulated in OP/BP 10.00 before effectiveness. RCU will produce a

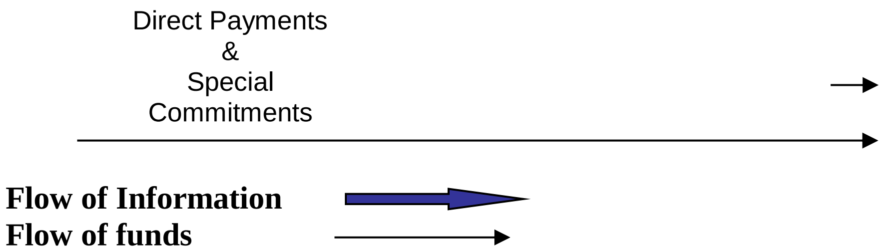
quarterly consolidated interim financial report (IFR). In addition, a single annual audit covering all activities managed by RCU will be required.

47. **Disbursements under this financing would be based on Statements of Expenditures (SOEs)**. Advances to and replenishment of the IDA Credit and the IDA Grant's Designated Accounts (DAs) will be made against withdrawal applications supported by SOEs and other documents, as specified in the Disbursement Letter. In addition to advances to the DAs, other disbursement methods will be available for use under the project, such as direct payment, reimbursement, and special commitment methods. Replenishment of the DAs will be requested at least once a month by the RCU. All supporting documentation should be retained at RCU working space and readily accessible for review by periodic IDA implementation support missions, other donors and external auditors.

48. **During the first year of implementation two segregated Designated Accounts (DAs), one for the IDA Credit and another one for the IDA Grant, will be opened for the payments of project's expenses**. During the first supervision mission of the second year of implementation, the Steering Committee may decide and submit to IDA a request to pool all donor funds received under the same account and get additional contributions from other donors willing to finance PFM reforms in the country. This decision will be based on the capacity of the RCU team to handle satisfactorily all the functions of the project. Key advantages of this approach will be a single reporting and auditing requirement, mitigation of risks of double dipping in the financing of the activities, and a more harmonized and coherent response to PFM issues. An overview of the funds flow arrangement from the WB and other donors is presented below.

Figure 2: <u>Overview of the Program Targeted Funds Flow Arrangements</u>





B. Monitoring and Evaluation

49. **Progress in achieving the Project Development Objectives will be measured and monitored through the PDO outcome indicators described in Annex 1 under the leadership of the RCU with support from technical assistants**. Annex 1 provides details of the reference data, targets, and frequency of data collection, source, and methodology. It is based primarily on the PEFA framework for which regular self-assessments by independent experts are scheduled.

50. **The annual joint reviews of program implementation will complement the monitoring and evaluation system in order to identify the stumbling blocks that could interfere with achieving the development objectives**. Finally, the joint Government/partners steering committee should meet on a quarterly basis to review progress.

C. Sustainability

51. **PFM reform will contribute to** (i) achieve better Governance, transparency, accountability and overall strong PFM systems for effective service delivery; (ii) use of external and internal funds, ensuring achievement of the PDO; (iii) commit development partners to increase the amount of external assistance flowing through the country's PFM systems, in order to ensure the country's sustainable development.

52. **The willingness to identify complementary actions with other partners to provide assistance in areas that have yet to be supported will help bolster the project's achievements and results over time**. However, since the project will rely on external technical assistants and a separate PIU, particular attention should be placed during the implementation of the project on the appropriate involvement of MoEF and other key officials. All technical assistants will be associated with at least one local civil servant, who will be trained by the technical assistant during the life of the project. A more comprehensive training plan will complement sustainability if additional funding is granted to the project.

V. KEY RISKS

Table 1. Risks Ratings Summary

Risk Categories	**Rating (H, S, M or L)**
1. Political and governance	Substantial
2. Macroeconomic	Moderate

3. Sector strategies and policies	Moderate
4. Technical design of project or program	Moderate
5. Institutional capacity for implementation and sustainability	High
6. Fiduciary	Substantial
7. Environment and social	Low
8. Stakeholders	Low
9. Other	
Overall	Substantial

53. **Political and governance**: There is a moderate likelihood that political and governance factors could impact the PDO but, should this occur, the impact could be substantial. Guinea-Bissau has a history of endemic coups and a new coup would certainly put an end to the good governance efforts initiated by the current Government. Even if such a coup seems unlikely today, political tensions between the President, the Prime Minister and the National Assembly could lead to ministerial instability, which could again limit the current political will for PFM reforms. The recent attempt of the National Assembly to double the wages of Members of Parliament and demand the dismissal of the Minister of Finance, who opposed this move, is a good example of these risks. The Government has taken initial steps to improve transparency, accountability and participation, but they are still very fragile. Some policy decisions (transposition of the WAEMU PFM directives, new organization law for the MoEF, etc.) that underpin the project have not yet been taken. The combination of this moderate likelihood and high impact make the political and governance risk substantial.

54. **Mitigation measures**: Bank re-engagement should be fast and focus on quick-wins in order for the new Government to reach immediate results in good governance and gain legitimacy and more support from citizens. The project should favor the adoption of non-political management institutions in order to survive political change. For example, the new RCU will be included in the upcoming organic law for MoEF's reorganization.

55. **Macroeconomic**: The macroeconomic risk was assessed as moderate. The weaknesses of the Guinea-Bissau economy make the risk of external and domestic accounts' imbalances substantial. Institutions' technical capacity is weak, while macroeconomic policies are irrelevant without donors' support and substantially vulnerable to external shocks, like the price of rice or cashew. However, this should not have any direct negative impact on the achievement of the PDO. Macroeconomic shocks due, for example, to a bad cashew crop or to a crash in world prices could generate political instability, which in turn could negatively impact the PDO. But this would be translated to political or/and governance risks.

56. **Sector strategies and policies**: There is a moderate risk of adverse impact on the PDO stemming from sector strategies and policies. The MoEF now regroups under the same head the former departments of Economy (including planning) and Finance. Thus, it is most likely that the

policies and strategies will be aligned and consistent, while weaknesses in Governance will specifically be addressed by the present project.

57. **Technical design of project**: There is a moderate likelihood that factors related to the technical design of the program or project may adversely impact the achievement of the PDO. The project is technically simple and consists of a small number of contracts, mainly recruitment of consultants for technical assistance and procurement of equipment. During preparation, the whole project took benefit and was informed by adequate analytical work: EU-WB joint PEFA in 2013, four IMF Fiscal Affairs Department (FAD) missions between 2013 and 2014. Project's activities are structured around two components, with a third component for project coordination and audits. The client has limited technical capacity, which would be mitigated by the Bank's experience in similar projects designed and successfully implemented in other countries. However, it may be difficult to hire at the same time a large number of skilled, Portuguese-speaking, available PFM consultants willing to live in Bissau, by various donors. This has been adequately addressed by donors' coordination, during project preparation, which will continue during project implementation.

58. **Institutional capacity for implementation and sustainability**: There is a high likelihood that weak institutional capacity for implementing and sustaining the project may adversely impact the PDO. The RCU in charge of the execution of the project will be created during project preparation and, therefore, will not have any experience in implementing projects with external or internal funds, neither technical, fiduciary and disbursements arrangements acceptable to the World Bank at this point. There is also a risk that the technical assistants do not succeed in transferring their knowledge to the national civil servants. If this risk is materialized, the PDO may be reached, but the results would not be sustainable. This will be mitigated by tying the assessment of technical assistants to evidence of their success in building sustainable capacity in Government, in particular through their local counterparts.

59. **Mitigation measures**: During project preparation and the first months of implementation, the Bank team will make sure that (i) all institutional arrangements are in place; (ii) a Project Operations Manual has been drafted; (iii) the RCU team is hired and adequately trained before effectiveness; and (iv) the TORs for the consultants are adequately drafted to include capacity building and not substitution, and their performance will be assessed accordingly. Their confirmation, extension and salary increases will be dependent upon their performance in this regard.

60. **Fiduciary**: Fiduciary risks have a substantial probability of impacting the PDO in an adverse way. The 2013 EU-WB PEFA showed that financial systems and financial controls have been systematically by-passed in the expenditure chain since the coup of April 2012, creating bad habits and ill practices, like payments before service delivery and direct cash payments outside the budget, as well as unacceptable procurement. In parallel, accounting and financial reporting were almost inexistent and hardly controlled. Despite this, the country track record in the execution of Bank projects did not disclose any major fiduciary issues, during the last few years – in large part because projects have been executed by PIUs using parallel systems and very closely monitored by Bank teams.

61. **Mitigation measures**: During project preparation and the first months of implementation, the Bank team will make sure that (i) the RCU will not use the public administration's weak procedures; (ii) the Project Operations Manual will include specific

fiduciary arrangements for project's implementation; (iii) the RCU team will include at least one procurement and one financial management specialist, with experience in WB projects, adequately trained, before effectiveness; (iv) a satisfactory financial IT system and the project chart of accounts will be in place to complement or upgrade the country financial IT System, before effectiveness.

62. **Environment and social**: There is a low likelihood that the achievement of the project/CPF objective could be affected by exogenous environmental and social risk factors (including those related to climate change and natural disasters) because they are not present or are not relevant to the project. In addition the project is not expected to have any impact on the environment and the society, other than the benefit of good governance, transparency and accountability.

63. **Stakeholders**: Opposition from stakeholders could have a negative impact on the achievement of the PDO, but the likelihood and/or impact of this opposition is moderate. The project and objectives have already been widely discussed and well understood by all project's stakeholders and the general public. Most key stakeholders indicated active support the project, while donor interventions are well coordinated and complementary. Of course, there will be resistance to many of the behavioral changes required by reforms of revenue and expenditure management.

64. **The overall risk is rated as substantial** because of the substantial residual risk in three of the risk categories above (1, 5 and 6). The likelihood of these risks to be realized is relatively low, but if they occur their impact would substantially affect the PDO.

VI. APPRAISAL SUMMARY

A. Economic and Financial Analysis

65. **Identifying and quantifying the direct and indirect economic and financial benefits of capacity building interventions in PFM reforms are not straightforward**. It is difficult to carry out credible and rigorous cost-benefit and financial analyses. On the other hand, the benefits of such reforms are widely agreed to be large.

66. **While the costs are quantifiable (as depicted in the project financing table), the benefits are largely indirect, ultimately seen in improved public financial governance, service delivery and better performance of the public financial management institutions**. The economic justification of the proposed project is its contribution to a better functioning government through improved PFM and capacity to implement the national development strategy.

67. **The benefits of the project will flow from improved budget credibility, strengthened budget execution, better internal controls, enhanced oversight and increased transparency in the management of public resources**. Experience suggests that the proposed intervention could lead to: (i) efficient, transparent, and accountable fiscal and budget management contribute to economic growth and reducing poverty; (ii) better program implementation and service delivery as a result of improved credibility and predictability of budget; (iii) improved budget credibility will also improve resource allocation and budget execution in line with Guinea-Bissau's Poverty Reduction Strategy priorities; and (iv) improved revenue mobilization and administration capacity will provide more resources for implementation of growth and poverty

reduction activities. The project will also support the development of sustainable human resource capacity especially in the area of PFM. All of these benefits will be monitored in a consistent manner in the matrix of results, including indicators defined for the project.

68. **Some of the benefits of the project would be quantifiable, within the parameters of a series of assumptions**. For instance, should the tax rate increase from 7 to 18 percent of GDP, as anticipated under the project, this would result in additional revenues to be determined with the strengthened statistics directorate. Even assuming that only 50 percent of the increase could be directly attributed to the impact of the project, this would represent a significant rate of return. A similar analysis will be applied to tax and customs arrear. In addition, a reduction in leakages in spending from the current conservative estimate of 20 percent to 15 percent would represent a gain of more than 200 percent of the project cost.

69. **Thus, through the achievable benefits of this project that were identified, all the benefits in terms of annual savings for the Government are likely to more than offset the costs of implementing the project**. The economic and financial benefits that the program will generate should exceed the costs of the program in terms of current value.

B. Technical Evaluation

70. **The project will help rebuild the PFM systems within the overall framework of the WAEMU PFM directives approved in 2009 and which implementation has been halted by the coup**. The adaptation of these general and specific guidelines to the case of Guinea-Bissau will be informed by the 2013 PEFA and by the recent IMF FAD PFM studies about tax and customs administration and public expenditures management.

71. **In addition, cooperation with the development partners for mapping their interventions, combined with the support of several donors for the activities that are not financed in the reform strategy, means that there will be no overlapping or duplication of donor support**. Moreover, the project intervention areas are well delineated and sequenced, and the fact that the RCU will be coordinating public financial management, will ensure a more efficient coordination system to support the reform and implementation of the reform program.

C. Financial Management

72. **In accordance with the WB Financial Management (FM) Manual, issued on March 1, 2010, the financial management arrangements of the PSS Project have been reviewed to determine whether they are acceptable to the Bank, considering the country's post military coup situation**. The proposed project will use hybrid financial management arrangements, using the existing Country Systems that will be strengthened by the additional mitigations measures described below. The overall FM risk at preparation is considered to be High. The proposed financial management arrangements after implementation of the mitigation measures for this project are considered adequate to meet the Bank's minimum fiduciary requirements under OP/BP10.0).

73. **The review indicated that the following actions will need to be completed**: (i) setting up a project coordination team with public servants and consultants, including a Project Coordinator, a Financial Management Expert and a Procurement Expert; (ii) drafting a Project

Operations Manual to capture the specificities of the new project and ensure adequate ownership by all project's stakeholders; (iii) opening a Segregated DAs; (iv) installing a financial reporting module, using financial data extracted from the national financial IT system; and (iv) the recruitment of an acceptable audit firm, with satisfactory terms of reference, for the purpose of the project's annual audit requirement. The FM arrangements are developed in Annex 3.

D. Procurement

74. **Procurement of the activities to be financed under this project will be the full responsibility of the RCU, set up in the MoEF and reporting to Minister of Finance**. Procurement will be carried out by one short term procurement consultant to be selected. Procurement under the project will consist in renovation/restoration works for the RCU, staffing of the PIU with additional experts, office equipment, specific software and related equipment, consulting services for technical assistance and procurement training in diverse PFM and Procurement departments.

75. **Procurement for the proposed project will be carried out in accordance with the World Bank's "Guidelines**: Procurement of Goods, Works, and Non-Consulting Services under IBRD Loans and IDA Credits & Grants by World Bank Borrowers", dated January 2014; and "Guidelines: Selection and Employment of Consultants by World Bank Borrowers", dated January 2014, and the provisions stipulated in the Financing Agreement. The Procurement Plan agreed between the Recipient and the Association's project team to reflect the project implementation, will be published, closely monitored and updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

76. **The procurement assessment was undertaken in the context where no implementing entity currently exists for the project implementation, the capacity in procurement is in general low in the country**. In this context and even if there is currently a low volume of procurement transactions, the procurement risk is high. In order to mitigate such risk, it is recommended to hire a procurement consultant who will have a tailored work program in order to assist the RCU in procurement implementation and to contribute in capacity building. With such a measure, the risk would be substantial and, after a medium period and a close supervision, it may easily improve to moderate. More details arrangements are described in Annex 3 to this document.

E. Social and Environmental Impact

77. **The project is intended to have a positive social impact by improving the people's confidence in PFM through projects in the area of transparency that the Government will undertake**. Moreover, as a technical assistance project (Category C), it does not incorporate any issues related to environmental management. Consequently, the Bank's policies in this area are not in play.

ANNEX 1: RESULTS FRAMEWORK AND MONITORING

Country: Guinea-Bissau

Project Name: Public Sector Strengthening Project (P150827)

Results Framework

Project Development Objectives

PDO Statement

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

These results are at	Project Level

Project Development Objective Indicators

Indicator Name	Baseline	Cumulative Target Values			
		YR1	YR2	YR3	End Target
Proportion of extra budgetary expenditures (DNT) in relation to total budgetary operating expenditures (Percentage)	25.00	22.00	20.00	18.00	15.00
Increase in level of consolidation of cash balances as measured by the proportion of total revenues managed through the Treasury Single Account (TSA) (Percentage)	50.00	55.00	60.00	65.00	70.00

Timely reporting of budget execution (Months)	48	12	6	6	6

Intermediate Results Indicators

		Cumulative Target Values			
Indicator Name	Baseline	YR1	YR2	YR3	End Target
The tax and customs revenues increase by 30% (baseline in XOF billion nominal) (Text)	38.16	40.00	43.00	46.00	49.66
Tax arrears collection improvement (Percentage of recuperated arrears over total arrears) (Percentage)	16.00	20.00	35.00	40.00	50.00
Customs arrears collection improvement (Percentage of recuperated arrears over total arrears) (Percentage)	30.00	35.00	45.00	55.00	60.00
Number of bank accounts in commercial banks reduced (Percentage)	100.00	95.00	75.00	66.00	60.00
Bank reconciliations are performed on a regular basis (Text)	Irregularly	Quarterly	Monthly	Bi-monthly	Weekly

The budget is executed with less than 20% deviations (Percentage)	25.00	24.00	23.00	22.00	20.00
Reduction of payment arrears as % of GPD (Percentage)	0.70	0.60	0.50	0.40	0.30
Quarterly then monthly budget execution statements are published out of SIGFIP (Text)	Irregular	Quarterly	Quarterly	Monthly	Monthly
Reform focal points in place in the Tax, Customs, Budget and Treasury Directorates (Number)	0	3	4	4	4

Indicator Description

Project Development Objective Indicators

Indicator Name	Description (indicator definition etc.)	Frequency	Data Source / Methodology	Responsibility for Data Collection
Proportion of extra budgetary expenditures (DNT) in relation to total budgetary expenditures	The DNT became the standard way of executing expenditures. DNT should be reduced to less than 15% at the end of the project.	Annual	Extra budgetary expenditures (DNT) are measured in relation to the total budgetary expenditures.	RCU
Increase in level of consolidation of cash balances as measured by the proportion of total revenues managed through the Treasury Single Account (TSA)	This indicator will measure the increase in the level of cash balances as compared to the proportion of revenues managed through the TSA.	Annual	Proportional increase in level of cash balances to proportion of revenues managed through the TSA	RCU
Timely reporting of budget execution	The yearly financial reporting of the Government was delayed by more than 48 months. Government is willing to progressively reduce this delay to six months in compliance with the WAEMU Directives.	Annual	Government financial reports	RCU

Intermediate Results Indicators

Indicator Name	Description (indicator definition etc.)	Frequency	Data Source / Methodology	Responsibility for Data Collection
The tax and customs revenue increase by 30% (baseline in XOF billion nominal)	This indicator will be measured in percentage of tax and customs revenue increase. It should be published every year by the Prevision Directorate.	Annual	% of increase in tax and customs revenues as compared to the baseline expressed in XOF billion.	Prevision Directorate
Tax arrears collection	The PEFA concluded that no reliable data	Annual	Tax arrears recovery	RCU

improvement (Percentage of recuperated arrears over total arrears)	existed on payment arrears.			
Customs arrears collection improvement (Percentage of recuperated arrears over total arrears)	The PEFA concluded that no reliable data existed on payment arrears.	Annual	Customs arrears recovery	RCU
Number of bank accounts in commercial banks reduced	Achievement measured as a percentage of accounts closed.	Annual	% of accounts closed as compared to the baseline target.	RCU
Bank reconciliations are performed on a regular basis	The PEFA showed that bank reconciliations are not performed. Together with the reduction of the number of accounts, they should be performed on a regular basis and documented. The indicator will be measured by the frequency.	Weekly	Bank reconciliations.	RCU
The budget is executed with less than 20% deviations	Comparison between the approved budget and the executed budget.	Annual	% of deviation between the approved budget and the executed budget	RCU
Reduction of payment arrears as % of GPD	The PEFA concluded that no reliable data existed on payment arrears.	Annual	Reduction of the payment arrears measured as % of the GDP.	RCU
Quarterly then monthly budget execution statements are published out of SIGFIP	This indicator will be measured by the publication of the statements on a regular basis and their comprehensiveness.	Monthly	Published budget execution statements.	RCU
Reform focal points in place in the Tax, Customs, Budget and Treasury Directorates	Reform focal points are appointed in each general directorate and participate in the design, implementation and monitoring of the reform action plan.	Annual	Appointment of reform focal points.	Tax, Customs, Budget and Treasury Directorates

ANNEX 2: DETAILED PROJECT DESCRIPTION

Project Components

1. **The project components below have been extensively discussed both with the Government and with the main development partners**. The project is designed to help the authorities achieve a few quick-wins. The Bank has, therefore, taken a strategic decision to be selective and focus on areas that can demonstrate quick impact and establish basic PFM foundations.

2. **Component 1: Performance, Control and Transparency of the Public Revenues (US$2.4 million).** Guinea-Bissau's tax revenue to GDP ratio is one of the lowest in Africa. In 2013, Guinea-Bissau's tax revenue amounted to 7.4 percent of GDP down from the (very low) record high of 8.0 percent in 2010. Poor revenue mobilization is at the core of the chronic fiscal imbalances in Guinea-Bissau. The non-diversified economy, a poorly structured tax system, institutional weaknesses, chronic economic and political instability and capacity constraints make tax collection a challenge. The objective of this component is to progressively improve the technical capacity of the authorities to handle revenue processes in an effective, efficient and transparent manner. Key to realizing Guinea-Bissau's development objectives is the establishment of adequate procedural and control systems that will contribute to increasing tax and customs revenue collection, as well as the efficiency, effectiveness and transparency of revenue administration.

3. *Sub-component 1.1: Technical Assistance to Tax Collection (US$0.81 million).* Between 2009 and 2012, fiscal and external deficits had been declining as the Government was able to accelerate tax collection efforts. Since the coup, and in spite of the persistence of a formally acceptable system, tax administration has been very poor with constant intervention of the military. The effective tax rate of Guinea-Bissau is the lowest of WAEMU countries and it a key Government priority to raise it with the Bank's assistance.

4. **This sub-component will help the Government strengthen tax laws and administration to widen the tax base and increase revenue**. Improved business processes could, for example, increase total tax revenue without increasing the tax rate by collecting actual tax payables more efficiently. It will provide technical assistance for a better organization and simplification of business taxation by reducing the cost of compliance and improving tax administration for micro and small businesses. Priority will be given to establish a simple and transparent system that could fit the needs of such a small country where private sector is still in its infancy. Technical assistance will include improving the information system and making it more compatible and interfaced with Treasury. It will include:

- A long-term international technical assistant for a planned duration of 2.5 years;
- Purchase of office equipment and renovation of tax offices;
- Purchase of one service vehicle for tax inspection purposes.

5. *Sub-component 1.2: Technical Assistance to Customs Administration (US$0.81 million).* Guinea-Bissau is highly dependent on imports and the cashew sector's exports are the main official source of foreign currencies for the country. Therefore, streamlining of import/export procedures will be accompanied by a renovated Customs Administration framework.

6. **This sub-component will help the Government strengthen Customs laws and**

administration for more predictable taxation and increased revenue. It will provide technical assistance for a better organization and simplification of custom duties. Priority will be given to establish a simple and transparent system that could fit the needs of such a small country and encourage foreign private investment. Streamlining of the current information system SYDONIA++ and interface with Treasury will also be considered. It will include:

- A long-term international technical assistant for a planned duration of 2.5 years;
- Purchase of office equipment and renovation of Customs offices;
- Purchase of one service vehicle for inspection and liaison purposes.

7. In both the customs and tax administration, the key role of the Technical assistant will be to help the authorities identify critical changes in incentives that could result in changed behaviors on the part of tax and customs officials. It is understood that without these behavioral changes, the hardware and software investments made will not yield their intended benefits.

8. *Sub-component 1.3: Treasury Single Account (TSA), Debt and Statistics (US$0.78 million).* This sub-component will assist the reform of the Treasury Directorate and help the Government enforce the TSA in order to make sure that all receipts (including small internally generated revenues from Education, Health and other sector institutions) are collected by Treasury officials and transferred without delay to the TSA. Support will also be provided to the new Treasury Committee to facilitate cash forecasts and cash management and avoid additional borrowing costs for the Government. Taking into account all Treasury missions, including payment of expenditures, it will also help rebuild statistics systems of the Economics Studies and Forecast Directorate and use Treasury statistics to improve the central government's table of financial operations *tableau des opérations financières de l'Etat* (TOFE) and publish economic and public financial data for civil society. It will include:

- A long-term international technical assistant for a planned duration of 2.5 years;
- Purchase of office equipment and renovation of Treasury and Prevision offices;
- Purchase of printing and publishing equipment.

9. Like in the area of revenues, the Technical Assistant's key role will be to advise the authorities on critical behavioral changes needed for these reforms to succeed.

10. **Component 2: Expenditure Control, Procurement, Accounting and Reporting (US$1.1 million)**. The annual budget is approved late and is executed along lengthy and complex budget execution procedures. The public procurement system and internal control systems of non-wage costs are not functional. Ineffective and redundant controls lead to an abusive use of exceptional procedures (DNT) often bypassing the budget information system (SIGFIP) and contributing to the accumulation of domestic arrears. The objective of this component is to strengthen controls needed for fiscal discipline and promote transparency and accountability in public expenditures.

11. *Sub-component 2.1: Budget and Internal Control TA through Operationalization of the Integrated FMIS (US$0.42 million).* The WAEMU PFM directives[6] will provide the overall framework for PFM reforms and specifically renovation of the expenditure chain from budget

[6] In 2009, the West African Economic and Monetary Union (WAEMU) adopted six new public financial management (PFM) regulations (Directives) covering transparency in public finances, budget preparation and execution laws, government accounting, budget classifications, central government chart of accounts, and central government operations *tableau des opérations financières de l'Etat* (TOFE).

preparation to financial reporting of budget execution. However, the more advanced provisions in the WAEMU directives (program budgeting, accrual accounting) will be implemented only when a sufficiently functional PFM system is in place.

12. **This sub-component will provide, in close coordination with the long-term technical assistant paid by the EU, short-term technical assistance to restore the use of SIGFIP for all budgetary expenditures**. It will also help the Government design procedures for the interfacing of SIGFIP with all other systems in the MoEF (Accounting, Payroll, Debt Management, Taxes and Customs) and with the Central Bank. Once the central level is back online, the roll-out of SIGFIP to line ministries will be implemented, in order to facilitate the progressive and measured devolution of budget authority to line ministries. This will be based on an assessment of the quality of internal controls within each line ministry and agency.

13. **Specific assistance to the human resources and payroll system will be assured by the EU within their TA program**. Both institutions will capitalize on the achievements of the Bank's Community Driven Development Project, which succeeded in paying salaries for the first six months of 2014 to 7,200 teachers and 1,920 health workers. It will be extended progressively to defense and security forces that are currently not covered within the scope of the payroll application[7].

14. *Sub-component 2.2: Procurement and Public Investment Management (US$0.36 million).* The procurement system in Guinea-Bissau had benefitted from effective TA in the pre-coup period. The institutions created at this time (Public Procurement Regulatory Agency, Procurement Directorate and Central Purchasing Unit) are still officially in place, but understaffed, with very weak capacity and a limited equipment without access to Internet. Hence, to date, they are not functioning effectively. This sub-component will base on the outcomes of existing PFM and Procurement Economic and Sector Work (ESWs), in particular on the recommendations of the "Boosting Budget Execution and Procurement for Development Impact in WAEMU member Countries". This sub-component will include re-equipment of procurement institutions, development and deployment of a National Capacity Building strategy, design of new procedures manuals and national standard bidding documents for the procuring organizations, creation of electronic tools to monitor procurement transactions and statistics, and design procurement performance review mechanism. It will also assist the country in the design and management of a consistent public investment management system.

15. *Sub-component 2.3: Power generation and IT hardware (US$0.32 million).* Beyond technical assistance, the purchase and installation of hardware and equipment is necessary to restore PFM basic functions. All institutions are dramatically lacking computers and other IT equipment. Connections between services are inexistent or very poor. Although a World Bank Water and Electricity project (P148797) is ongoing, it will not generate reliable energy until several months. This is the reason why generators are necessary to avoid disruption in the services of the MoEF. This sub component will also provide the necessary building renovation to accommodate this hardware and equipment. It will include:

- Three generators and accessories;
- IT hardware and remote connections;
- IT-related building renovations.

[7] A first important step has recently been taken by the Government in this direction: the salaries of the high ranking officers of the armed forces are now paid through bank accounts.

16. **Component 3: Public Financial Management Reform Coordination and Project Management (US$1.50 million).** The absence of a PFM reform strategy and action plan formally adopted by authorities as well as the lack of an institutional framework to pilot and coordinate needed reforms on a full time basis together with capacity constraints did not allow for significant progress in implementing recommendations of past technical assistance (TA) missions. The objective of this component is to provide a mechanism for a structured approach to PFM reform and institutional capacity strengthening.

17. *Sub-component 3.1: PFM Reform Oversight and Implementation Structure (US$0.87 million).*Together with the reform action plan, a Reform Oversight and Implementation Structure will be set up to anchor the reform and capacity building efforts. This structure will coordinate the use of external technical assistance, ensuring that they report through the relevant national authorities.

18. **The PFM Reform Oversight Committee will meet every quarter at ministerial level and politically endorse the main decisions of the reforms.** It will be responsible for government coordination, and the commitment of human and financial resources needed to implement the strategy successfully. Depending on the political situation, it should report either to the Prime Minister or to the Minister of Finance.

19. **The Technical Steering Committee (TSC) will meet every month and gather the General Managers responsible for the actual implementation of the reform.**

20. **The RCU will be responsible for the day to day management of the reforms**. It will report to the TSC and coordinate the actions of the General Directorates. In each of these directorates a focal point will be designated to follow the reform and report to the General Director. These structures will be staffed with civil servants designated by the national administration.

21. **This sub-component will pay for the salary of the reform coordinator, head of the RCU and recruit and pay an international consultant as deputy coordinator**. This balanced team will assure capacity building and national ownership of the reforms.

22. *Sub-component 3.2: Project Management (US$0.57 million).* The RCU, financed by the project, will include:

- One Admin and Financial Officer
- One Accountant
- One Procurement Assistant who will be supported by a Short Term Procurement consultant
- Four Support staff.
- This sub-component will also finance operating costs covering including:
- Travel
- Office equipment (provisional)
- Operating expenditures
- Service vehicle
- External audit of the whole project

23. *Sub-component 3.3: PFM and Procurement Education and Training Program*

(US$0.06 million). Beyond the availability of good laws, systems and institutional structures, PFM improvement requires capability at the level of individual PFM and Procurement practitioners. The PFM and Procurement Education and Training Program will be designed with the assistance of a TA mission and will be implemented later if additional resources are available.

Table 2: Summary of Activities

<table>
<tr><th colspan="2">Component 1 Performance, Control and Transparency of the Public Revenues</th></tr>
<tr><td colspan="2">Sub-component 1.1 Technical Assistance to Tax Collection</td></tr>
<tr><td>Activities</td><td>Sub-activities</td></tr>
<tr><td>Assignment of a long-term TA</td><td>Review of the tax legal and regulatory environment in line with the WAEMU directives, best practices and guidance from the IMF.
Assistance to the organization of the Tax Directorate in line with the Organic Law of the MoEF.
Staffing review and staffing plan.
Revision of the operating procedures and design of an operating manual.
Review of the training needs, design and implementation of a training plan.
Study on existing Tax IT systems, software updates, interfaces with Treasury, etc.
Any other relevant task approved by the TTL upon request from the Minister or Tax Director.</td></tr>
<tr><td>Office equipment and renovation</td><td>Achievement of the ongoing renovation of offices in the Tax Directorate.
Renovation of decentralized offices in the regions.
Purchase of computers and office equipment.</td></tr>
<tr><td>Service vehicle</td><td>Purchase of one 4x4 service vehicle.</td></tr>
<tr><td colspan="2">Sub-component 1.2 Technical Assistance to Customs Administration</td></tr>
<tr><td>Activities</td><td>Sub-activities</td></tr>
<tr><td>Assignment of a long-term TA</td><td>Review of the Customs legal and regulatory environment in line with the WAEMU directives, best practices and guidance from the IMF
Assistance to the organization of the Customs Directorate in line with the Organic Law of the MoEF.
Staffing review and staffing plan.
Revision of the operating procedures and design of an operating manual.
Review of the training needs, design and implementation of a training plan.
Study on ASYCUDA++ Customs IT system, payment of Oracle licenses, interfaces with Treasury, etc.
Any other relevant task approved by the TTL upon request from the Minister or Customs Director.</td></tr>
<tr><td>Office equipment and renovation</td><td>Renovation of offices in the Customs Directorate.
Renovation of decentralized offices in the regions.
Purchase of computers and office equipment.</td></tr>
<tr><td>Service vehicle</td><td>Purchase of one 4x4 service vehicle.</td></tr>
</table>

Sub-component 1.3 Treasury Single Account (TSA), Debt and Statistics	
Activities	**Sub-activities**
Assignment of a long-term TA in close collaboration with the EU experts assigned to Treasury	Review of the Treasury organization, staffing review and staffing plan in line with the Organic Law of the MoEF. Assistance to the organization of the Debt Directorate. Assistance to the TSA: review of the existing accounts, closure plan, repatriation to the Central Bank, etc. Review of the operating procedures and design of an operating manual. Review of the internal payment arrears. Any other relevant task approved by the TTL upon request from the Minister or Treasury Director.
Office equipment and renovation	Renovation of offices in the Treasury (security, video monitoring, etc.). Renovation of decentralized offices in the regions if necessary. Purchase of computers and office equipment.
Publishing & printing equipment	Purchase of Publishing and printing equipment for the MoEF for publication of economic analysis and budget reports from the Prevision Directorate.
Component 2 Expenditure Control, Procurement, Accounting and Reporting	
Sub-component 2.1. Budget and Internal Control TA Through Operationalization of the SIGFIP	
Activities	**Sub-activities**
Budget and SIGFIP TA missions	Review of the Budget legal and regulatory environment in line with the WAEMU directives and international best practices. Assistance to the organization of the Budget Directorate in line with the Organic Law of the MoEF. Staffing review and staffing plan. Revision of the operating procedures and design of an operating manual. Review of the training needs, design and implementation of a training plan, specifically on the use of the SIGFIP accounting module. Studies and TA on SIGFIP, software updates, liaisons with Treasury and line ministries, etc. Any other relevant task approved by the TTL upon request from the Minister or Budget Director.
Sub-component 2.2 Procurement and Public Investment management	
Activities	**Sub-activities**
TA missions	Review of the Procurement legal and regulatory environment in line with the WAEMU directives and international best practices. Assistance to the organization of the Public Procurement Directorate and Public Procurement Regulatory Authority. Revision of the operating procedures and design of an operating manual.
Sub-component 2.3 Power generation and IT hardware	
Activities	**Sub-activities**
3 generators 200kva &	Purchase and installation of 3 generators 200kva & accessories.

accessories	
IT hardware and remote connections	Purchase and installation of IT hardware and remote connections (detailed requirements TBD by a preliminary study).
IT-related building renovations	Renovation works to host servers with secured access, air conditioned, cables, etc.
Component 3: Public Financial Management Reform Coordination and Project Management	
Sub-component 3.1 PFM Reform Oversight and Implementation Structure	
Activities	**Sub-activities**
Reform coordinator (National)	The Reform Coordinator will be a senior official from the MoEF, seconded to the project. He will report to the steering committees and to the Minister for his daily work. He will coordinate the reforms and manage the Project.
Deputy coordinator (International)	The Deputy Coordinator will be an international consultant. He will assist the Reform Coordinator and provide guidance to the team about international best practices. He will co-manage the project.
Sub-component 3.2 Project Management	
Activities	**Sub-activities**
Recruitment and installation of the Reforms Coordination Unit (RCU) in charge of project management	Recruitment of : One Admin and Financial Officer One Accountant One Procurement specialist Four Support staff Travel Office equipment (provisional) Operating expenditures Service vehicle External audit of the whole project
Sub-component 3.3 PFM and Procurement Education and Training Program	
Activities	**Sub-activities**
Evaluation of PFM & Procurement training needs	TA mission to carry-out training review and draft training plan.

ANNEX 3: IMPLEMENTATION ARRANGEMENTS

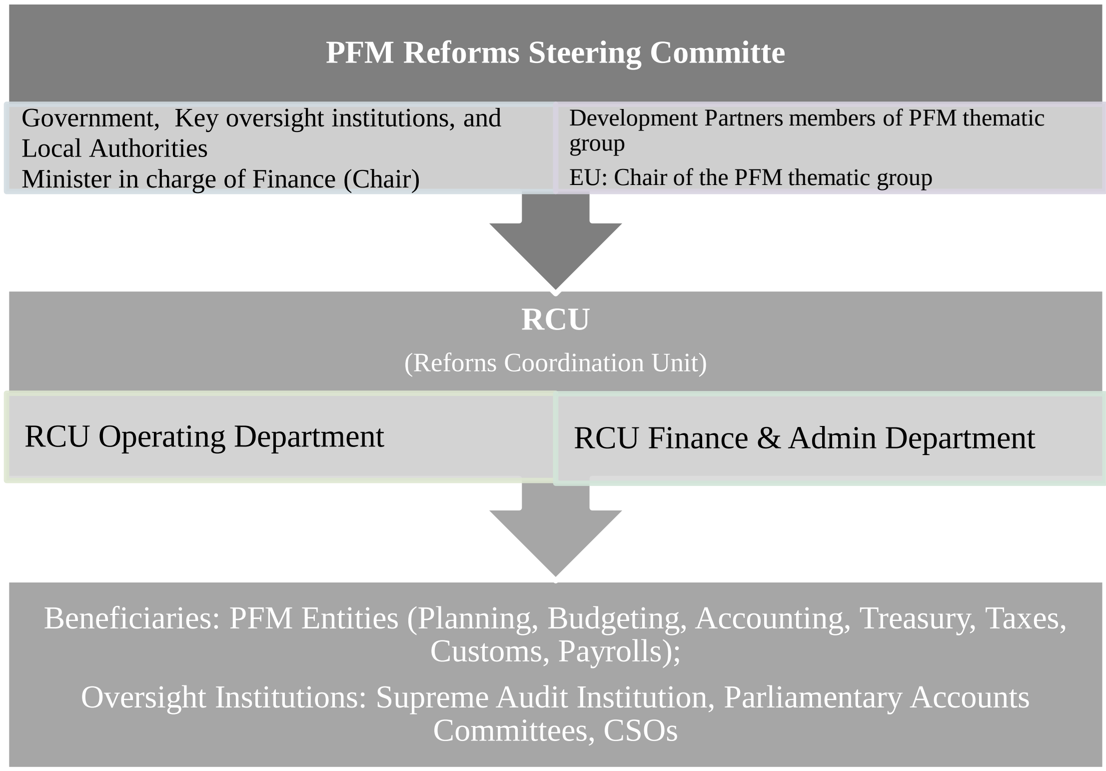
Project Implementation Arrangements

1. **Project implementation arrangements will follow at the maximum Country Systems, using the current structure of the MoEF and a new National PFM RCU that will be established within the MoEF to monitor and manage PFM reforms**. A Project Preparation Advance (PPA) that has been requested by the Government will assure project readiness, before effectiveness. The Project Preparation Advance (PPA) will be used for the creation of the RCU and IT systems' improvements. It will also take into account the existing implementation arrangements of Bank funded active projects, including Rural Community-driven Development Project (used for Health and Education sectors salaries' payments). By building on existing structures and arrangements, as well as on the newly created National RCU that will be in operational before effectiveness, the project will leverage on strong technical and fiduciary capacity to speed up implementation. Implementation will include the following structures: (i) Joint Government/Development Partners committee on PFM Reforms; (ii) RCU; and (iii) Direct and indirect beneficiaries of the reforms (Key PFM departments at MoEF, Ministry of Public Administration, SAI, Parliamentary Accounts Committees, and CSOs).

2. *Steering Committee on PFM Reforms.* This national committee will be established after the findings of the PEFA 2013, not later than one month after effectiveness. It would include key stakeholders involved in PFM reforms. On the country side, it could include the Minister in charge of Finance (Chair), Minister of Public Administration, RCU Coordinator, Director General of Budget, DG of Treasury, BCEAO (*Banque Centrale des Etats de l'Afrique de l'Ouest*), President of the SAI, Heads of the Parliamentary Accounts Committee, heads of the key administrations in charge of the reforms (Revenue Authorities, Budget, Procurement, Accounting, etc.). On the Donors' side, Development Partners involved in PFM reforms would be invited, including the World Bank, IMF, EU, AfDB, and UNDP. This committee will function as the Steering Committee of the project and will meet every quarter to (i) discuss the strategic direction and orientation of PFM reforms; (ii) review the implementation progress of the PSS; and (iii) discuss any coordination issues in the funding of the reform program. It should be noted that the quarterly meetings of the Steering Committee will be held on the occasion of the quarterly meetings of the joint committee. Joint meetings will be open to all Development Partners involved in PFM reforms, but they will not replace the quarterly meetings of the joint committee itself.

3. *Public Financial Management Reforms Coordination Unit – RCU.* RCU will be in charge of the fiduciary and technical coordination of the activities. Its core staffing includes (i) a RCU coordinator, (ii) a deputy coordinator, (iii) a financial management specialist, (iii) a procurement specialist, and (iv) an assistant. In addition, RCU would be recruiting thematic focal points in charge of monitoring the implementation of the activities with the focal points of the departments and institutions. The appointment of these thematic focal points is expected to be completed after effectiveness. The RCU will hold monthly meetings with the focal points to discuss the implementation progress of the PSS, including project activities. Each focal point will be in charge of reporting to RCU the implementation progress of the activities of his/her department/institution. The following diagram shows an overview of the project's implementation and institutional arrangements.

Figure 3: <u>Overview of the Project's Implementation and Institutional Arrangements</u>



**Project Steering Committee* in the Financing Agreement

4. **The MoEF will take the lead in the oversight of the project and be responsible for ensuring appropriate project's implementation, through a competitively established PFM RCU within the Ministry, and reporting directly to the Minister of Finance and the Steering Committee**. The implementation of this project will require the coordination with other ministries and notably the Ministry of Public Administration. Implementation management arrangements aimed to ensure coherent approach between programs during project implementation.

Financial Management and Disbursement Arrangements

5. **In accordance with the FM Manual for World Bank-financed investment projects, effective on March 1, 2010 and the Governance Global Practice's (GGODR) Financial Management Assessment and Risk Rating Principles, FM assessment of the RCU, was not conducted, because the RCU will be established in early 2015 within the MoEF**. The objective of the assessment is to determine whether the RCU and MoEF have adequate FM arrangements in place to ensure that project funds would be used for the intended purposes, in an efficient and economical manner. Such arrangements comprise budgeting, accounting, internal controls, disbursements, financial reporting, and auditing arrangements. Since the RCU is not in place yet, the FM arrangements needed for an optimum project implementation were discussed with MoEF during project preparation. It has been agreed that the PPA requested by the Government will help with the RCU establishment by effectiveness, in order to meet the minimum WB FM requirements. Thus, the RCU will be able to: (i) prepare and execute project's annual budgets; (ii) correctly and completely record all transactions and balances related to the project; (ii) facilitate the preparation of regular, timely, and reliable financial statements; (iii)

safeguard the project's assets; and (iv) timely submit the project's audited financial statements acceptable to the World Bank.

Risk Assessment and Mitigation Measures

6. **Fiduciary risks** have a substantial probability of impacting the PDO in an adverse way. The 2013 EU-WB PEFA showed that financial systems and financial controls have been systematically by-passed in the expenditure chain since the coup of April 2012, creating bad habits, like payments before service delivery and direct cash payments outside the budget, as well as non-competitive procurement. In parallel, accounting and financial reporting were almost inexistent and hardly controlled. Despite this, the country track record in the execution of Bank projects did not disclose any major fiduciary issues, during the last few years.

7. **Mitigation measures**: During project preparation and the first months of implementation, the Bank team will make sure that (i) the RCU will not use the public administration's weak procedures; (ii) the Project Operations Manual will include specific fiduciary arrangements for project's implementation; (iii) the RCU team will include at least one procurement and one financial management specialist, with experience in WB projects, adequately trained, before effectiveness; (iv) a satisfactory financial IT system and the project chart of accounts will be in place to complement or upgrade the country financial IT System, before effectiveness.

8. **Governance and anticorruption considerations**. The country political situation has weakened governance practices and worsened the corruption environment. In the context of the project, the effective implementation of the fiduciary mitigation measures will contribute to strengthen the control environment. Also, the appropriate representation and oversight of the Steering Committee involving key ministers of Finance and budget actors and Donors, as well as the transparency in both project implementation and dissemination to stakeholders and the public should constitute a strong starting point to tackle governance and corruption issues during project implementation.

9. **Staffing and Training**: The RCU staffing should be adequate and commensurate with the extent of the operations project and activities under the project; should be sufficient to maintain accounting records relating to project financed transactions; and should be able to prepare the project's financial reports. The team will have the overall FM responsibility over, budgeting, accounting, reporting, disbursement, internal control and auditing. If necessary, the staff will have its capacity reinforced over the project implementation.

10. **Budgeting**: The new manual of procedures for PSSP project's implementation will include detailed budgeting procedures, the preparation of annual work plan, and the adoption by the Steering Committee.

11. **Accounting Policies and Procedures**: will also be included in the new manual of procedures for PSSP project's implementation, in line with the Guinea-Bissau accounting principles. New multi-projects, multi-sites and multi-donors accounting software will be installed and used.

12. **Internal Control and Internal Auditing**: Subject to revision of the manual of procedures, the existing internal control arrangements will be applied. Internal audit functions will be assumed by the Government's internal audit institutions (IGF) whose professional capacity will be strengthened. In this context, the assignment of an Inspector of Finance is required for the project's internal audit function. The internal auditor will report directly to the Coordinator and Steering Committee. S/he will undertake periodic assessments on the strengths

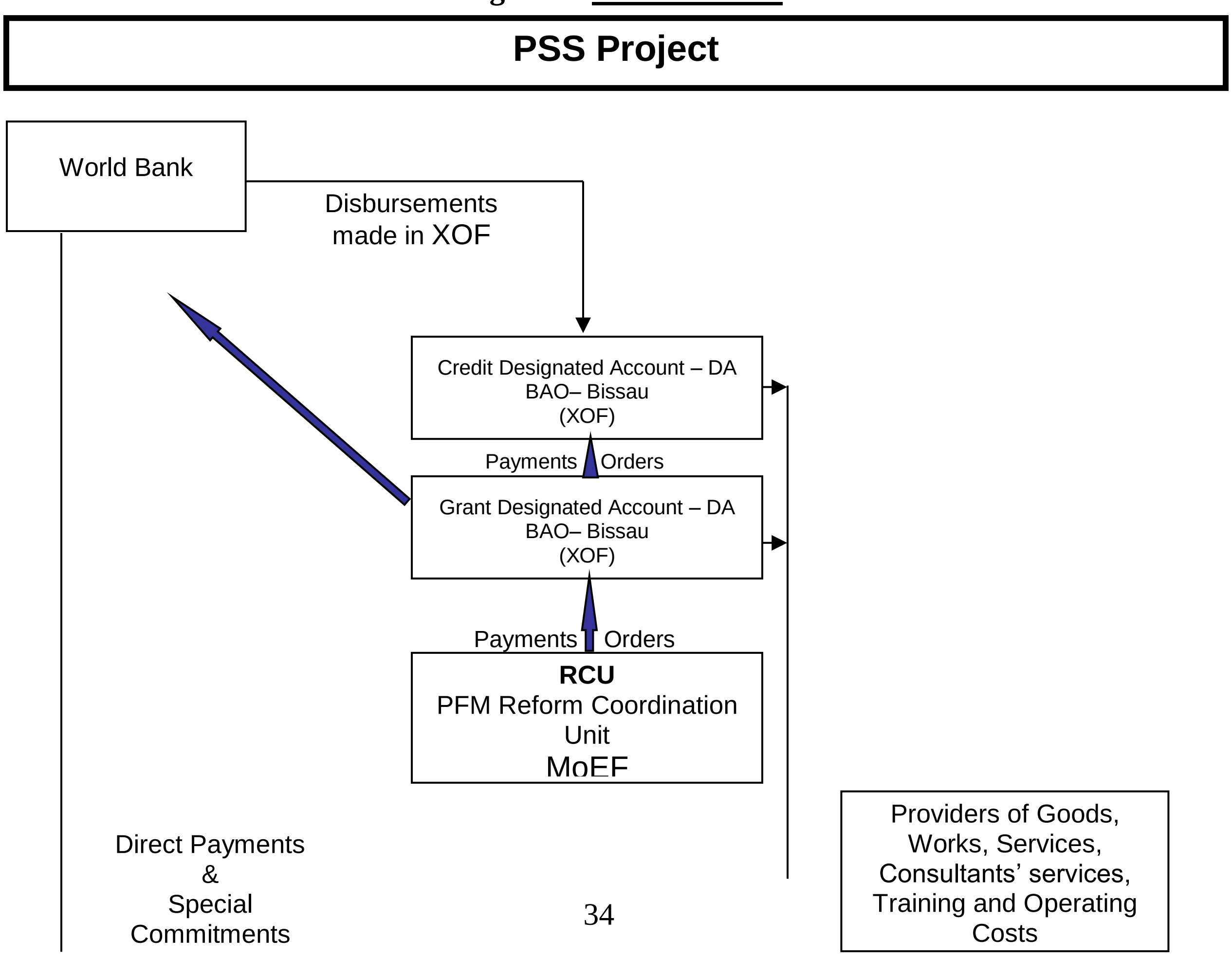
and weaknesses of the internal control system at all levels. All control deficiencies or circumvented practices identified will be communicated in a timely manner to the overall senior management of the project for immediate corrective action as appropriate. One of each such report will also be communicated to the Bank. He or she will prepare relevant manuals and guidelines.

13. **Funds Flow and Disbursement Arrangements**: The PFM Reforms Coordination Unit (RCU) will use the following funds flow and disbursements arrangements for ESSP implementation.

14. **IDA Credit and Grant proceeds would flow from the Credit and Grant accounts (at the World Bank) into two Segregated DAs**, denominated in *Communauté Financière Africaine* (CFAF) at the *Banco de Africa Occidental* (BAO) bank, in Bissau, under terms and conditions acceptable to IDA and the fiduciary responsibility of RCU. The DAs will be opened in the name of the RCU/MoEF, specifying the PSS Project and the Credit and Grant numbers mentioned in the Financing Agreement. RCU will make payments from the DAs for eligible expenditures, exclusively for the purposes of the Project.

15. **The DAs will receive two initial advances of CFAF 150,000,000 for the IDA Credit and CFAF 140,000,000 for the IDA Grant (DA ceilings) upon project effectiveness**. These ceilings could be increased, after the second year of implementation, after RCU's request and TTL's approval. The DAs will be used to finance all eligible project expenditures, following acceptable Bank procurement procedures. Payments from the DAs will be made in accordance to the provisions of the Project Operations Manual (i.e. joint signatures by the Coordinator and the FM Manager will be required for any payment).

Figure 4: Flow of Funds



Flow of Information
Flow of funds

16. **Disbursement arrangements**: Disbursements under this financing would be transaction-based. Advances to and replenishment of the DAs will be made against withdrawal applications supported by Statements of Expenditures (SOE) and other documents as specified in the Disbursement Letter. In addition to advances to the DAs, other disbursement methods will be available for use under the project, such as the direct payment, reimbursement, and special commitment methods. Replenishment of the DAs will be requested at least once a month by the RCU. All supporting documentation should be retained at the project and readily accessible for review by periodic IDA implementation support missions and external auditors.

17. **Disbursements by category:** One single category will be applied for the program. All expenditures will be financed inclusive of taxes by the program.

Category	Amount of the Credit Allocated (Expressed in SDR)	Percentage of Expenditures to be Financed by the Credit (Inclusive of Taxes)	Amount of the Grant Allocated (Expressed in SDR)]	Percentage of Expenditures to be Financed by the Grant (Inclusive of Taxes)
(1) Goods, Works, Non-Consulting Services, Consultants' Services, Operating Costs, Workshops and Training for the Project	1,350,000	100%	1,600,000	100%
(2) Refund of Preparation Advance	550,000	Amount payable pursuant to Section 2.07 of the General Conditions		
TOTAL AMOUNT	1,900,000		1,600,000	

18. **Financial Reporting and Monitoring**: Financial reports will be designed to provide quality and timely information on project performance to project management, and relevant stakeholders. The RCU will produce annual and quarterly unaudited Interim Financial Reports (IFRs) for the Project, automatically generated from the accounting software. The format of the IFRs will be agreed during project preparation and attached to the Minutes of Negotiations and the POM. The IFRs will be submitted to the Bank within 45 days after the end of each calendar quarter. These Financial Statements would comprise:

- IFR 1: Sources and Uses of Funds, by category, cumulative (Project-to-date; year-to-date) and for the last calendar quarter;
- IFR 2: Uses of Funds by project components, cumulative (Project-to-date; year-to-date) and for the period, showing budgeted amounts versus actual expenditures (i.e., documented expenditures) and for the last calendar quarter, including a variance analysis;
- IFR 3: Statement of commitments.

19. **The fourth quarter IFRs will be used as PSSP's Annual Financial Statements**. It will

comply with international reporting standards and will also include the following:

- Balance Sheet that shows Assets and Liabilities;
- Designated Accounts Activity Statement;
- Accounting Policies Adopted and Explanatory Notes to the financial statements;
- A Management Assertion that Project funds have been spent for the intended purposes, as specified in the relevant financing agreements.

20. **External Audit:** The financial statements for the project will be audited annually by an external auditor with the qualifications and experience satisfactory to the Bank and according to the audit terms of reference, to be approved by the Bank. These audited statements will be submitted to the Bank within six months after closure of each fiscal year. A single opinion on the Audited Project Financial Statements in compliance with International Federation of Accountants (IFAC) would be required. The external auditors will prepare a Management Letter giving observations and comments, and providing recommendations for improvements in accounting records, systems, controls and compliance with financial covenants in the Financial Agreement.

21. **Implementation support plan**: A first risk-based implementation support mission will be performed six months after project's effectiveness. Afterwards, missions will be scheduled according to a risk-based approach and will include the following diligences: (i) monitoring of the financial management arrangements during the supervision process at intervals determined by the risk rating assigned to the overall FM assessment at entry and subsequently during implementation (ISR); (ii) integrated fiduciary review of key contracts, (iii) review of the IFRs; (iv) review of the audit reports and management letters from the external auditors and follow-up on material accountability issues, engaging with the task team leader, client, and/or auditors. The quality of the audits (internals and externals) will also be monitored closely to ensure that it covers all relevant aspects and provides enough confidence on the appropriate use of funds by the recipient; (v) physical supervision on the ground; and (vi) assistance to build and/or maintain acceptable to the Bank financial management capacity.

Procurement arrangements

General: Procurement Rules to be Applied

22. **Procurement for this project will be carried out in accordance with the World Bank's "Guidelines**: Procurement of Goods, Works, and Non-Consulting Services under the International Bank for Reconstruction and Development (IBRD) Loans and IDA Credits & Grants by World Bank Borrowers" dated January 2014 (Procurement Guidelines); and "Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits & Grants by World Ban Borrowers" dated January 2014 (Consultant Guidelines) and the provision stipulated in the Financing Agreement. The various procurement actions under different expenditure categories are described in general below. For each contract to be financed under the Financing Agreement, the various procurement or consultant selection method, the need for pre-qualification, estimated costs, prior review requirements, and time frame have been agreed between the borrower and the Bank in the Procurement Plan. The Procurement Plan will be updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity. "Guidelines on Preventing and Combating Fraud and

Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants" dated October 15, 2006 and updated January 2011, shall apply to the project.

Requirements for National Competitive Bidding

23. **National Competitive Bidding may be used subject to using the open procedure** ("*appel d'offres ouvert*") set forth in the Recipient's Public Procurement Decree-Law No 2/2012 dated August, 20, 2012 (the "PPL"); provided however that such procedure shall be subject to the provisions of Section I and Paragraphs 3.3 and 3.4 of Section III of the Procurement Guidelines and the additional following modifications:

(a) **Standard Bidding Documents**: All standard bidding documents to be used for the Project under NCB shall be found acceptable to the World Bank before their use during the implementation of Project; in the absence of adequate standard bidding documents, the Borrower may use and update standard bidding documents published by the World Bank;

(b) **Eligibility**: Eligibility of bidders and acceptability of their goods and services shall not be based on their nationality and/or their origin; and association with a national firm shall not be a condition for participation in a bidding process;

(c) **Advertising and Bid Preparation Time**: Bidding opportunities shall be advertised at least in a national newspaper of wide circulation and on the website of the Recipient's Procurement Regulator (*Autorité de Régulation des Marchés Publics*) and bidders should be given at least four (d) weeks from the date of invitation to bid or the date of availability of the bidding documents, whichever is later;

(e) **Criteria for Qualification of Bidders**: Qualification criteria shall only concern the bidder's capability and resources to perform the contract taking into account objective and measurable factors. Such criteria for qualification of bidders shall be clearly specified in the bidding documents;

(f) **Bid Evaluation and Contract Award**: A contract shall be awarded to the substantially responsive and lowest evaluated bidder provided that such bidder meets the qualification criteria specified in the bidding documents. No scoring system shall be allowed for the evaluation of bids, and no "blanket" limitation to the number of lots which can be awarded to a bidder shall apply. The criteria for bid evaluation and the contract award conditions shall be clearly specified in the bidding documents;

(g) **Preferences**: No preference shall be given to domestic/regional bidders; to domestically/regionally manufactured goods; and to bidders forming a joint venture with a national firm or proposing national sub-contractors or carrying out economic activities in the territory of the Recipient;

(h) **Publication of Contract Award**: Information on all contract awards shall be published in at least a national newspaper of wide circulation or in the Recipient's Procurement Regulator (*Autorité de Régulation des Marchés Publics*) web-site;

(i) **Unsuccessful open bidding process**: In case of an unsuccessful open bidding process ("Concurso infrutifero"), a new open tender ("Concurso aberto") will be launched;

(j) **Fraud and Corruption**: In accordance with the Procurement Guidelines, each bidding document and contract shall include provisions stating the World Bank's policy to sanction firms or individuals found to have engaged in fraud and corruption as set forth in the Procurement Guidelines;

(k) **Inspection and Audit Rights**: In accordance with the Procurement Guidelines, each bidding document and contract shall include provisions stating the World Bank's policy with respect to inspection and audit of accounts, records and other documents relating to the bid submission and contract performance;

(l) **Requirement for administrative documents and/or tax clearance certificate**. The bidding documents shall not require foreign bidders to produce any administrative or tax related certificates prior to confirmation of awarding a contract;

(m) **Modifications of a Signed Contract:** Any change in the contract amount which, singly or combined with all previous changes, increases the original contract amount by 15 percent or more must be done through an amendment to the signed contract instead of signing a new contract.

Items to be procured and the methods to be used

24. **Advertisement**: General Procurement Notice (GPN), Specific Procurement Notices (SPN), Requests for Expression of Interest, and results of the evaluation and contracts award should be published in accordance with advertising provisions in the following guidelines, as mentioned above: the Procurement Guidelines and the Consultant Guidelines. COREF will prepare and submit to the Bank a General Procurement Notice (GPN) which will be published in UN Development Business online (UNDB online) and on the Bank's external website. Specific Procurement Notice (SPN) for all goods, non-consulting services and works to be procured under International Competitive Bidding (ICB) and Requests for Expressions of Interests for all consulting services costing the equivalent of US$200,000 and above will be published in UNDB online, and in the national press, in addition to other media with wide circulation. All other specific procurement notices and other requests for expression of interest shall be published at a minimum in the national press with wide circulation.

25. **Procurement of works:** works procured under this project will be exclusively for minor improvements to accommodate working space and environment. Procurement will be done under shopping procedures. Therefore, no contract to be awarded using ICB or NCB is foreseen under this project. Direct contracting may be used where necessary if agreed in the procurement plan in accordance with the provisions of paragraph 3.7 to 3.8 of the Procurement Guidelines.

26. **Procurement of goods and non-consultancy services**: goods procured under this project will include mainly items that will contribute in bettering the works conditions of the newly created RCU and institutions to be supported by the project; they comprise computer equipment; office furniture; data collection tools; and software. Non-consultancy services procured under this project will include services for workshops, for maintenance of office equipment, and for training in the country and abroad. Depending on the size of the contracts, procurement will be done either under ICB using Bank procurement rules that include the related SBD or under NCB using National Standard Bidding Documents, if any, agreed with or satisfactory to the Bank. Small value goods may be procured under shopping procedures. Direct contracting may be used where necessary if agreed in the procurement plan in accordance with the provisions of paragraph 3.7 to 3.8 of the Procurement Guidelines.

27. **Selection and employment of Consultants:** consultancy services would include advisory services; training staff of the beneficiary entities in procurement; feasibility studies; technical studies; and audits. The selection method will be Quality and Cost Based Selection (QCBS) method in most cases. Contracts for specialized and standardized assignments estimated to cost less than US$200,000 equivalent may be awarded through the method of Selection based on the Consultants' Qualification (CQS). The following additional methods may be used where appropriate: Quality Based Selection (QBS); Selection Based on the Consultants' Qualifications (CQS); Selection under a Fixed Budget (FB); Least-Cost Selection (LCS); Single Source Selection (SSS); and Selection of Individual Consultants (IC).

28. **Short lists of consultants for services estimated to cost less than the equivalent of US$100,000 per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines**. However, if foreign firms express interest, they will not be excluded from consideration.

29. **Operating Costs:** Operating costs shall consist of operations and maintenance costs for vehicles, office supplies, communication charges, equipment, utility charges, travel expenses, per diem and travels costs, training costs, workshops and seminar and associated costs, among others. Operating costs will not include salaries of civil servants.

30. **Training and Workshops.** Training and workshops will be based on capacity needs assessment. Detailed training plans and workshops activities will be developed during project implementation, and included in the project annual plan and budget for Bank's review and approval.

Implementation arrangements for procurement and capacity assessment

31. **While procurement of activities** is the full responsibility of the RCU with a procurement assistant supported by a procurement consultant. The team in each PFM department beneficiary from the project will receive procurement training courses financed by the project during the first year of implementation so as to facilitate the partial transfer of responsibility during the second year and a complete transfer by project mid-term review (MTR).

Assessment of the risks and the related mitigation measures

32. **The procurement assessment was undertaken in the context where** (i) no implementing entity currently exists for the project implementation, (ii) the project beneficiary entities are not aware of procurement handling, and (iii) the capacity in procurement is in general low in the country. In this context and even if there is currently a low volume of procurement transactions, the procurement transaction may be delayed, not well coordinated and therefore impact negatively in the project performance.

33. **The overall unmitigated risk for procurement is high**. In order to mitigate such risk, it is recommended to hire a procurement consultant who will have a tailored work program in order to assist the RCU in procurement implementation and to contribute in capacity building for the beneficiary entities. With such a measure, the risk would be substantial and, after a medium period and a close supervision, it may easily improve to moderate. Proposed corrective measures which have been agreed to mitigate the risk are summarized in the following table.

Table 3: Action Plan for Strengthening Procurement Capacity

Ref.	Tasks	Responsibility	Due date	Effective-ness Conditions or dated covenant
1	Select and assign a Procurement consultant who will assist the RCU in procurement implementation	The Project Coordinator	Project appraisal	No
2	Recruit a Procurement assistant within the RCU to be the intendant for procurement transactions within the RCU and to ensure liaison with beneficiary entities	The Project Coordinator	After project approval	No
3	Train Staff from the PFM and Procurement beneficiary entities	The Project Coordinator and Consultants	After project effective ness	No

Frequency of Procurement Supervision

34. **Procurement supervision will be handle twice a year during the project supervision missions in order to assess procurement implementation and to recommend updates and corrective measures, if any**. Procurement post-reviews will be undertaken during one of those supervision missions.

Procurement planning

35. **The borrower has prepared a Procurement Plan for the first 18 months of the project implementation which provides the basis for the procurement methods**. This plan was agreed between the borrower and the Bank during negotiation. It will also be available in the project's database and in Bank's external website. The Procurement Plan will be updated in agreement with the Project Team annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

I. General

1. **Project information**: Borrower: Guinea-Bissau; Public Sector Strengthening Project; P150827, Project Implementing Agency: *Ministry of Economy and Finance.*

2. **Bank's approval Date of the procurement Plan** Original: December, 16th, 2014; Revision 1: Not yet

3. **Date of General Procurement Notice**: ………………..

4. **Period covered by this procurement plan**: 2015-2017

II. Goods, Works and Non-Consulting Services

1. Prior Review Threshold: Procurement Decisions subject to Prior Review by the Bank as stated in Appendix 1 to the Guidelines for Procurement

	Procurement Method	**Prior Review Threshold**	**Comments**
1.	ICB and LIB (Goods)	> or = US$300,000	
2.	NCB (Goods)	On a case by case basis	
3.	ICB (Works)	> or = US$300,000	
4.	NCB (Works)	On a case by case basis	
5.	ICB (Non-Consultant Services)	> or = US$300,000	
	NCB (Non-Consultant Services)	On a case by case basis	
	Direct Contracting (DC)	All contracts	

2. Prequalification. Not applicable: no prequalification process is foreseen under this project.

3. Proposed Procedures for CDD Components (as per paragraph. 3.18 of the Guidelines: Not applicable: no CDD contract is foreseen under this project.

4. Reference to (if any) Project Operational/Procurement Manual: Not applicable

5. Any Other Special Procurement Arrangements: None

6. Procurement Packages with Methods and Time Schedule

1	2	3	4	5	6	7	8	9
Ref. No.	Contract (Description)	Estimated Cost (US$)	Procurement Method	Prequali-fication (yes/no)	Domestic Preference (yes/no)	Review by Bank (Prior / Post)	Expected Bid-Opening Date	Comments
1	Electricity generators	90,000	Shopping	No	No	Yes	February 2015	Prior review of the 1st contract for goods under shopping
2	Office renovation	65,000	Shopping	No	No	Yes	March 2015	Prior review of the 1st contract for works under shopping
3	IT office/building renovation	50,000	Shopping	No	No	No	May 2015	
4	Office equipment	70,000	Shopping	No	No	No	April 2015	
5	Vehicles	221,000	NCB	No	No	Yes	April 2015	Prior review of the 1st contract for goods under NCB
6	IT hardware and remote connections	182,000	NCB	No	No	No	July 2015	
7	Printing and Publishing Equipment	45,000	Shopping	No	No	No	July 2015	

ICB : International Competitive Bidding
NCB : National Competitive Bidding

III. Selection of Consultants

1. **Prior Review Threshold**: Selection decisions subject to Prior Review by Bank as stated in Appendix 1 to the Guidelines Selection and Employment of Consultants:

	Selection Method	Prior Review Threshold	Comments
1.	Competitive Methods (Firms)	US$200,000	
2.	Single Source (Firms)	All contracts	
	Competitive Methods (Individuals)	US$100,000	
	Single Source (Individuals)	All contracts	
	Contracts for technical audits (eventually), financial audits, procurement, lawyers	All contracts	
	All selection methods	Regardless of the cost estimate	All ToRs regardless of the value of the contract are subject to prior review.

2. **Short list comprising entirely of national consultants**: Short list of consultants for services, estimated to cost less than US$200,000 equivalent per contract, may comprise entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

3. **Any Other Special Selection Arrangements:** Not applicable

4. Consultancy Assignments with Selection Methods and Time Schedule

1	2	3	4	5	6	7
Ref. No.	**Description of Assignment**	**Estimated** Cost	**Selection Method**	**Review by Bank (Prior / Post)**	**Expected Proposals Submission Date**	**Comments**
1	Coordinator of the Reform	180,000	CV	Yes	February 2015	
2	International Technical Assistant to the Coordinator (with role of deputy Coordinator)	690,000	CV	Yes	March 2015	
3	Administration and Finance Officer	90,000	CV	Yes	March 2015	
4	Accountant	48,000	CV	Yes	March 2015	
5	Procurement Assistant	30,000	CV	Yes	March 2015	
6	Procurement Consultant	150,000	CV	Yes	April 2015	
7	Support staff	108,000	CV	No	March 2015	
8	Taxes Technical Assistant (International)	690,000	CV	Yes	September 2015	
9	Customs Technical Assistant (International)	690,000	CV	Yes	September 2015	
10	Treasury, debt and statistics technical	690,000	QCBS	Yes	October 2015	

	assistant (International)					
11	SIGFIP Technical Assistance	240,000	QCBS	Yes	November 2015	
12	Budget Technical Assistance	180,000	QCBS	Yes	May 2015	
13	Procurement Technical Assistance	230,000		Yes	May 2015	
14	External audit	70,000	QCBS	Yes	October 2015	

Legend:
QCBS : Quality and Cost-Based Selection
CV: Selection of individual consultants by skills comparison
LCS : Least cost selection
CQS : Selection based on the Consultants' Qualifications

ANNEX 4: IMPLEMENTATION SUPPORT PLAN

Strategy and Approach for Supporting Implementation

1. **The strategy for supporting the implementation of the projects was tailored to PSSP's activities and implementation arrangements**. The risks and challenges mentioned in the SORT were taken into account, as well as the following aspects:

- Weak fiduciary and institutional capacity at MoEF for implementing the project may delay the implementation process.
- The involvement of several institutions and other donors may cause bottlenecks and interfere with proper implementation.

Implementation Support Plan

2. **The Bank team will support implementation through the following activities**, some of which are included in the Financial Management and Disbursement arrangements above:

- Create a Reforms Coordination Unit - RCU;
- Hire the core RCU team, including:

a. a project leader/reforms RCU coordinator;
b. a deputy coordinator (with experience in the area of World Bank operations and public finance reforms), to be based in the field;
c. a financial management specialist;
d. a procurement specialist;
e. an assistant/archivist; and
f. in addition, RCU will identify thematic focal points, in charge of monitoring the implementation of the activities with the focal points of the departments and institutions.

- Technical support. The WB team will provide regular support to RCU on technical matters and the review of the terms of reference;
- Support for procurement and financial management. There will be close supervision of procurement and financial management activities. Procurement supervision will consist of ex-ante reviews of procurement activities as well as ex-post reviews. Moreover, the progress of procurement based on the detailed procurement plan will be reviewed carefully. Regarding financial management, the project will be supervised according to a risk-based approach, ensuring that sound financial management systems are maintained throughout the duration of the project. The priority pillars to be reviewed will be the accuracy and reasonableness of the budgets, budget predictability and execution in accordance with the provisions on payments and budget execution in compliance with the payment and funds usage provisions, and the capacity of the systems to generate reliable financial reports. The Bank fiduciary team will provide regular fiduciary assistance and

will coordinate upcoming issues with the project Team Leader. There will be at least two formal reviews of financial management and procurement per year.

- There will be a mid-term review about 24 months after the project begins, to assess the progress of the project compared to the project objectives and redirect project activities.

3. **In addition, two evaluations will be performed by the WB project team**: (i) formative evaluation of donor support to PFM reform; (ii) evaluation of donor support to PFM reform and participatory budgeting in provinces.

ANNEX 5: KEY FINDINGS OF THE PEFA ASSESSMENT AND IMF REPORTS

OVERALL SUMMARY OF PFM PERFORMANCE SCORES IN 2013 AND 2009

A. PFM-OUT-TURNS: Credibility of the budget		**2013 scores**	**2009 scores**
PI-1	Aggregate expenditure out-turn compared to original approved budget	C	D
PI-2	Composition of expenditure out-turn compared to original approved budget	D+	D
PI-3	Aggregate revenue out-turn compared to original approved budget	A	D
PI-4	Stock and monitoring of expenditure payment arrears	NC	D+
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency			
PI-5	Classification of the budget	C	D
PI-6	Comprehensiveness of information included in budget documentation	C	B
PI-7	Extent of unreported government operations	NC	D
PI-8	Transparency of inter-governmental fiscal relations	NA	NA
PI-9	Oversight of aggregate fiscal risk from other public sector entities.	D	D
PI-10	Public access to key fiscal information	D	D
C. BUDGET CYCLE			
C(i) Policy-Based Budgeting			
PI-11	Orderliness and participation in the annual budget process	NC	D+
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	D+	D+
C(ii) Predictability and Control in Budget Execution			
PI-13	Transparency of taxpayer obligations and liabilities	C+	D+
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	D+	D+
PI-15	Effectiveness in collection of tax payments	D+	D+
PI-16	Predictability in the availability of funds for commitment of expenditures	D+	D+
PI-17	Recording and management of cash balances, debt and guarantees	C	D+
PI-18	Effectiveness of payroll controls	C+	D
PI-19	Competition, value for money and controls in procurement	D+	D
PI-20	Effectiveness of internal controls for non-salary expenditure	D+	D+
PI-21	Effectiveness of internal audit	D+	D+
C(iii) Accounting, Recording and Reporting			
PI-22	Timeliness and regularity of accounts reconciliation	D	NA

PI-23	Availability of information on resources received by service delivery units	D	D
PI-24	Quality and timeliness of in-year budget reports	D+	D
PI-25	Quality and timeliness of annual financial statements	NC	D+
C(iv) External Scrutiny and Audit			
PI-26	Scope, nature and follow-up of external audit	D	D
PI-27	Legislative scrutiny of the annual budget law	NC	D+
PI-28	Legislative scrutiny of external audit reports	D	D
D. DONOR PRACTICES			
D-1	Predictability of Direct Budget Support	D	D
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	D	D
D-3	Proportion of aid that is managed by use of national procedures	NC	NA

Box 2: Reforming Tax Administration in Guinea-Bissau

Guinea-Bissau's tax revenue to GDP ratio is one of the lowest in Africa. In 2013, Guinea-Bissau's tax revenue amounted to 7.4 percent of GDP down from the (very low) record high of 8.0 percent in 2010. Poor revenue mobilization is at the core of the chronic fiscal imbalances in Guinea-Bissau. The non-diversified economy, a poorly structured tax system, institutional weaknesses, chronic economic and political instability and capacity constraints make tax collection a challenge. Political instability and weak institutions have fostered rent seeking behavior, corruption, political pressures on tax administration, and lack of political resolve (or proper incentives) to implement tax and customs administration reform. A recent TA mission from the Fiscal Affairs Department identified measures to boost tax and customs collection.

Key recommendations to increase tax collection over the medium term include: (i) improving the tax department's (DGCI) basic infrastructure, including suitable furbished offices with computers; (ii) implementing a human resources policy, including a new professional audit career and with a trained core staff with clear-cut responsibilities; (iii) drafting of manuals and defining of work procedures for tax collection, auditing and enforcement of tax liabilities, which helps shielding tax officers from political interference; (iv) defining a work program that focuses initially on large contributors; and (v) implementing a new IT system for tax administration.

Key recommendations to boost customs collection include: (i) increasing the operational efficiency of Bissau's port and other customs posts. Key components to increase operation efficiency include the definition of work procedures and the rollout of the IT software SYDONIA++ to all main customs posts, including Safim, São Domingos, Bafatá and Gabú; (ii) installing scanners at Bissau's port and borders to increase control; (iii) reducing under-invoicing through improved valuation of goods through an improved exchange of information with customs administrations of the main exporting countries and setting up of a database with international prices of traded goods ; (iv) clear arrears with internet provider (Oracle) to ensure continued service of the custom's IT system; (v) preventing fraud by resuming the coloring of customs duty except fuel; and (vi) developing audits of post-clearance and of duty exemptions and enhancing intelligence to detect fraud.

Structural reforms need to be complemented with capacity building to ensure their effectiveness and sustainability. The Fund and development partners play a key role in providing training and technical assistance and have started to do so in the areas of public financial management and revenue administration.

Source: IMF Rapid Credit Facility Staff report October 2014

Box 3: Strengthening Public Financial Management (PFM) in Guinea-Bissau

PFM in GNB still suffers from severe weaknesses that hamper its efficiency and transparency. The absence of a PFM reform strategy and action plan formally adopted by authorities as well as the lack of an institutional framework to pilot and coordinate needed reforms on a full time basis together with capacity constraints did not allow for significant progress in implementing recommendations of past technical assistance (TA) missions. Overall, the performance of the system is hampered by institutional weaknesses in budget preparation and execution as well as deficient accounting and fiscal reporting.

Some progress has been made in the area of budget execution. The legal framework of budgeting and accounting slightly improved with the adoption, in 2010, of a decree transcribing the outdated 1998 WAEMU directive on accounting regulation; the directorate in charge of ex-ante control of budget execution (i.e. "Contrôle Financier") has been separated from the budget directorate and the institutional framework of the procurement directorate has been strengthened. However, the system is still characterized by late approval of the annual budget, lengthy and complex budget execution procedures, and in transparent and redundant controls, leading to an abusive use of exceptional procedures (DNT) often bypassing the budget information system (SIGFIP) and contributing to the accumulation of domestic arrears. Recent recommendations from technical assistance missions include:

The Budget should be executed in a predictable and orderly fashion in order to restore fiscal discipline and transparency. Priority measures include; (i) adopting 2015 budget before end of 2014; (ii) aligning budget allocations to commitment plans (forward looking) rather than as currently practiced to the previous year's budget execution (backward looking); (iii) adopting a decree restricting the use of DNT to pre-defined nature of expenditure through SIGFIP; and (iv) streamlining budget execution procedures while observing its mandatory steps.

The treasury committee should be reactivated to improve fiscal discipline and cash management. In the recent years, the lack of cash management plans regularly updated in treasury committee meetings led to high domestic arrears. To improve fiscal discipline: in the short term (i) the treasury committee should be reinstated and enhanced later on; and (ii) annual and monthly cash management plans should be prepared, implemented and updated regularly. In the medium term, a Treasury Single Account needs to be established in order to facilitate cash management and budgetary controls.

The financial statements from 2009 to 2013 should be issued by the Government and subsequently audited and approved by the Supreme audit institution (SAI, "Tribunal des comptes) as soon as possible. Organizational weaknesses at the General Treasurer's office have negative impacts on accounting and closure of the trial balance. Impairments in closing the financial statements together with deficiencies in the accounting processes hamper the production of annual accounts. To improve the production of accounts the Government should draft a manual detailing accounting procedures and prepare the terms of reference for employees within the General Treasurer's office. The trial balance should be produced, controlled and approved on a monthly basis.

The Government needs to better use the current PFM software (SIGFIP) which has all needed functionalities to support budget preparation and execution and accounting. For example, the accounting module is only partially used, the General Ledger is not complete and the trial balances are not produced. As a result, the quality of accounts is poor. For a better use of SIGFIP, all users should be trained properly and the SIGFIP accounting module should be fully implemented.

Source: IMF Rapid Credit Facility Staff report October 2014