

A construction worker wearing a yellow hard hat and a light-colored shirt is using a shovel to mix concrete in a large pile. The worker is standing on a pile of concrete blocks and is surrounded by a large pile of concrete. The background shows a corrugated metal roof and some trees.

Building forward better for businesses in *Guinea-Bissau*



Foreword: Unlocking the entrepreneurial potential of Guinea-Bissau

The COVID-19 pandemic and the measures taken to control its spread have created a painful socio-economic crisis with destructive social and economic impacts on Guinea-Bissau, especially on informal workers and micro, small and medium enterprises (MSMEs). The latter was particularly devastated as MSMEs constitute much of the backbone of the country's economy. The agriculture, transport and tourism sectors also suffered as supply chains were disrupted, the movement of people restricted, and maritime and air transport routes blocked. The adverse impact of the pandemic has - once again - highlighted the need for a structural transformation of Guinea-Bissau into a more diversified, interconnected and resilient economy.

The MSMEs in Guinea-Bissau play an essential role and have the potential to be a driving force behind the country's efforts to overcome the crisis, break out of its low and volatile socio-economic growth trajectory and build forward better, greener and more resilient than before. To do this, we must create an enabling environment for the private sector through developing adequate institutional and regulatory frameworks. The country needs proper mechanisms to unlock the private sector's full potential and attract investment from both domestic and foreign sources.

It does not help that we lack the data and evidence to better inform public policies and programming to support the private sector's strengthening and create a more conducive business environment. The findings in this study try to fill some of the identified gaps.

With this study, UNDP is leveraging its integrator role and long-established presence, partnerships, and expertise to support new developments driven by informed research and analysis. It provides a comprehensive and detailed overview of the state of formal enterprises in Guinea-Bissau, before and during the crisis. It also identifies long-standing or structural impediments faced by the country's registered firms. The report assesses and provides recommendations on reframing some of the key aspects of ongoing interventions while confirming the need for deepening other areas of engagement.

The study seeks to provide insight into the root causes of the obstacles faced by the MSMEs by tapping into the experiences from more than 400 entrepreneurs. Our primary motivation is to understand better how to build a conducive environment for private sector development that is genuinely sustainable and leads the way towards transformative changes that support the achievement of the Sustainable Development Goals, leaving no one behind.

UNDP already has used some of the findings in this report to inform our interventions and to provide immediate recovery and relief from the pandemic. We are harnessing longer-term opportunities to 'build forward better' through, for example, establishing a private sector platform to identify bottlenecks and opportunities for strengthening MSMEs expansion into existing and emerging sectors, with an emphasis on the inclusion of women and youth in economic empowerment.

I am delighted to invite you — the reader — to use the data and findings presented here and join us in building a partner platform for private sector development. The COVID-19 recovery presents a chance to build a more resilient and enabling environment that unlocks the potential of the innovative and productive capacities of MSMEs in Guinea-Bissau.

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Executive Summary

This report provides an overview of the state of formal enterprises in Guinea-Bissau before and during the COVID-19 crisis. The analysis is based on firms' data for 2019 and September 2020, collected through surveys. The report describes and addresses two fundamental phenomena: on the one hand, it describes the long-standing or structural bottlenecks faced by the country's registered firms; on the other hand, it provides detailed evidence of the impact of the crisis itself. The main objective is to use high-quality empirical evidence to identify weaknesses and strengths in the national private sector and propose targeted policies and interventions that can ensure the country builds forward better.

The evidence and recommendations in this study may be helpful to a wide variety of stakeholders working to steer the Bissau-Guinean economy towards a more sustainable and stable growth path. In this sense, short-term policy applications may be developed to promote firms' recovery from the current crisis and increase their resilience to future adverse shocks.

The survey at the core of the report fits the specificities of the national economic context while being comparable with some of the best-known enterprise surveys implemented in low-income countries. Managers of 401 formal companies of every size operating across the entire country were randomly sampled from a newly created database of registered national firms and interviewed between October and December 2020.

The firms sampled are mostly MSMEs operating in the tertiary sector¹, and concentrated in the capital city, where 86.2 percent of those registered in the national database operate. However, the study also provides interesting insights on large firms, primary and secondary sector enterprises and businesses operating in the regions. This report proposes a classification of Bissau-Guinean enterprises by their size by combining the revenue and the number of employees. The resulting classification is both simple and well adapted to the highly labour-intensive nature of production in the country. This classification results in 27.2 percent of micro, 49.9 percent of small, 18.9 percent of medium and four percent of large enter-

prises. Turning to the sector of activity, 70 percent of the firms operate in the tertiary, 21 percent in the secondary and only nine percent in the primary sector.

Large firms and those operating in the tertiary sector occupy the largest market share. Large firms in the sample, representing only four percent of the total, account for 56 percent of total market revenue but only 25 percent of total employment. MSMEs, primary and secondary firms are substantially more labour intensive, accounting for a significant proportion of the total workforce. The ratio of the contribution to total employment over that to total revenue decreases sharply with firm size, indicating higher per-worker productivity in larger enterprises. While less extreme, the pattern is similar across sectors, with tertiary firms accounting for 83 percent of total revenue but only 67 percent of employment.

The analysis of long-standing obstacles to developing the national private sector is divided into public-based and market-based bottlenecks. Each category was then structured in accordance with the priority each interviewed manager gave to each blockage. The ordered list of public-based bottlenecks includes, in order of importance: 1) political instability; 2) the low quality of roads; 3) electricity supply; 4) high taxes; 5) land property rights; 6) water supply; 7) commercial licenses; and 8) rigid labour regulation. The market-based bottlenecks assessed are, by order of declared concern: 1) access to finance; 2) the competition of informal firms; 3) access to machines and technology; 4) internet access; 5) national supply chains; 6) distribution channels; and 7) the lack of skills in the workforce.

Public-based bottlenecks

Political instability and governance problems are seen as critical obstacles for business operations by 92 percent of managers interviewed. Close to 60 percent agree that political connections matter for business success. Fifty percent said that corruption and long waiting lines impede their abilities to do business. Half of both exporting and importing firms were asked for a bribe the last time they traded internationally. These informal payments are combined with complex and expensive customs procedures, with high taxes perceived as the main obstacle

¹ This study classifies economic activity according to the standard three-sector model: extraction of raw materials (primary), manufacturing (secondary), and service industries (tertiary).



by a majority of managers of import/export firms.

On a positive note, the implementation of regulation approved in 2017 and the planned computerization of customs clearance in accordance with WAEMU standards could contribute to simpler and more transparent customs procedures. Bribes are relatively common when meeting fiscal officials (38.8 percent of the time), applying for a construction license (28.6 percent), an electric connection (25.4 percent) or a commercial license (20.2 percent). Only 14.5 percent of firms that underwent a dispute in recent years turned to a formal court of justice to try to resolve it. When asked about the judicial system, 79.1 percent of managers disagree with the statement that the justice system is fair.

Two infrastructure-related issues are the second and third most common concern for managers within the category of public-based bottlenecks: the state of roads and electricity cost and supply. The low quality of roads appears as a cross-cutting concern for firms of different sizes and regardless of whether located inside and outside of the capital. Electricity supply is very expensive everywhere, with over half of the managers in the sample considering its cost high or very high. Costs are a principal concern for large firms (given the progressive pricing of electricity in the country) and the lack of supply for firms outside the capital, where this is very scarce. The average time reported for obtaining an electricity connection is 18 days, much less than the 257 days reported in the 2020 Doing Business report.

Improving efficiency and transparency in tax collection should be one of the main policy priorities in the short term. The main finding regarding taxation is a clear dichotomy between very low tax compliance and 79.1 percent of those firms paying taxes considering this a severe (50.6 percent) or moderate (29.1 percent) obstacle. The proportion of micro-enterprises paying taxes does not reach 46 percent of the total, and there are even some large firms that do not pay taxes. However, those micro-enterprises that do pay taxes declare the highest share of taxes over revenue, total costs and pre-tax profits, even when compared with medium and large firms. With a tax-to-GDP ratio below 50 percent of the WAEMU objective (10 percent vs. 20 percent), increasing firm and employee formalization and the proportion of formal firms paying taxes seem the only way forward towards establishing a fair and transparent

tax system. Interestingly, large firms contribute 80 percent of total taxes across the firms in the sample. This is a much higher proportion than their contribution towards aggregate revenue or profits, but their managers are the least concerned about taxes.

As for the other public-based bottlenecks, large firms are concerned about land property rights. Commercial licenses and unclear or rigid labour regulations are the two factors less likely to be considered obstacles for businesses in this study. Still, they remain obstacles (either severe or moderate) for almost 50 percent of the sample.

Market bottlenecks

Formal firms suffer from lack of access to credit. Even with an increase in total loans to business and loans to business over GDP in the last 20 years, a majority of firms operate in a state of absolute credit constraint: only around 25 percent of the firms in our sample have ever received a loan of any kind. Up to 64.8 percent of all loans are granted by banks, while other financial institutions are virtually non-existent, granting only 2.3 percent of all loans. Family and friends account for 20.4 percent of total loans, and it is relatively rare for firms to obtain loans from other informal lenders (5.7 percent). Firm size is a strong predictor of access to credit, together with using the internet as the main channel to contact customers, the number of bank accounts, the number of female managers and keeping some kind of organized data registry.

Widespread lack of credit for firms is at the base of low levels of investment and technology adoption. Investment in 2019 is strongly correlated with having obtained a loan in the last three years. Interestingly, while the average investment increases enormously with firm size, the average investment over monthly revenue is much higher for smaller enterprises. Most equipment investments are small and frequently involve the purchase of vehicles rather than machines with a higher added value.

The microfinance sector has failed to take off in Guinea-Bissau: less than 4.5 percent of the firms in our sample have ever borrowed from a microfinance institution (MFI), and 61.1 percent of the managers of those firms said they were not satisfied with the service. This finding aligns with the many difficulties faced by MFIs in the late 2000s (World Bank CEM 2020). Most of those who have never got a loan from MFIs say the main reason is that they do not know



enough about them (41 percent). Attempts to revive microfinance in the country will face major challenges but will have the advantage of learning from the mistakes of the recent past. While the reputation of traditional MFIs seems low, on a positive note, 69.8 percent of managers from firms that have ever requested a loan would like to have access to loans through mobile money.

Only 39.2 percent of sampled firms have ever used mobile money, but the general attitude of most managers towards the spread of mobile money is very positive. The most common reason for motivating this lack of use is a lack of demand, both by consumers (67.8 percent) and by suppliers (16.5 percent). Smaller (42.5 percent) and medium (46.2 percent) enterprises have ever used mobile money than micro (30 percent) and large (31.2 percent) ones, with the main uses being receiving payments from customers (58 percent), paying for supplies (55.4 percent), and paying for utilities (56.4 percent). The primary reason for the low rate of adoption of digital payments is the lack of adequate digital infrastructure. However, there is great opportunity for growth in this sector and widespread adoption by formal business, as a vast majority of all managers (74.1 percent) reported wanting their firms to use mobile money more frequently in the future.

Guinea-Bissau has the highest relative internet cost in the WAEMU region, with the cost of one gigabyte of internet equating to 20 percent of per capita monthly gross national income. Access to the internet is identified as a strong obstacle for firms' operations by 53.3 percent of interviewed managers and is currently the least used communication channel with customers: only 9.7 percent reported being online. While a high proportion of managers not using it in their firms find it excessively expensive (24.4 percent), the most frequent reason is that the firm does not need it (32.7 percent). Internet usage increases in importance with firm size.

The Bissau-Guinean economy is relatively closed. The high proportion of firms importing directly into the country (about 45 percent of the sample) and the fact that imports represent around 35 percent of GDP mostly reflect the country's high dependence on imported essential consumer goods. With complex and expensive customs procedures hindering export competitiveness, raw cashew nuts, mostly sold to India and Vietnam, typically represent more than 90

percent of national exports. With less than 10 percent of the firms in our sample exporting, the market reach of most Bissau-Guinean firms is limited. On a positive note, having Asia and Europe (for the slowly increasing exports of processed cashew) as important export destinations means that some export firms are relatively well integrated into global markets and not limited to their regional context. Policies targeting the improvement of export-driven economic competitiveness should be a central part of the national economic development strategy, leveraging the positive effect of integration in global distribution on business sales and profit accumulation.

In terms of productive diversification, the firms in our sample depend heavily on their main activity as their unique source of revenue. In 2019 this represented the totality of sales for 52.1 percent of sampled firms and more than half for 89 percent. Regarding the concentration of demand, the proportion of businesses that sell mostly to their main customer is larger than the proportion selling to a variety of customers only for medium firms. Overall, 45.4 percent of firms do not even have a main customer. A high proportion of registered firms (75.4 percent) operate mostly a business-to-business model, perhaps because they have stronger incentives to register formally.

The economic activity of the public sector is a tiny percentage of overall GDP. Thus, it is not a primary factor explaining sales for most of the firms in our sample. Only 0.5 percent of the firms in the sample make all their sales to the government; 3.8 percent most of the sales, and 2.5 percent about half of all sales. Another 15.8 percent sell to the government, but this amount represents less than half of their total sales. Just over 76 percent do not sell to the government at all. An increase in public spending would lead to greater public sector capacity and improved governance. It also would stimulate the economy by boosting demand, leading to more jobs and higher economic indicators.

The competition of informal firms is one of the main concerns for the managers in this study. As is the case in Guinea-Bissau, weak institutions undermine the differentiation between formal and informal companies, increasing the costs and decreasing the benefits obtained through formalization. Hence, this study focuses on exploring the main advantages and disadvantages associated with firm formalization. The most cited advantages are increased visibility



and the possibility of signing contracts, followed by increased access to finance. Among the main disadvantages, tax payments and the cost of licenses occupy the first and second place. Overall, most managers interviewed (94.9 percent) consider it is worth it to register a firm.

Employment and diversity

There is a high proportion of casual employees (69.9 percent) in formal firms as well as a high number of unpaid trainees and apprentices, prevalent informality (including low rates of social security registration) and a low proportion of female employees. When asked why some employees do not have a contract, most managers answered that workers do not ask for one. The high costs of taxes and social security contributions were the next two reasons, indicated by a much lower proportion of them (about 15 percent). On a positive note, the returns to education are relatively high and robust, with an extra year of education being associated with a wage increase between 3,300 to 4,700 CFA franc (XOF)². Interviewed managers indicated IT skills (44.3 percent), the knowledge of languages (38.6 percent), quantitative and financial skills (37.2 percent) and technical skills (36.2 percent) as the abilities most lacking by essential workers.

An analysis of gender diversity within the firms reveals a contradiction: most managers consider that women are on average better managers. However, 91.8 percent of the managers interviewed are men, and 75.8 percent of the firms in the sample have only male managers. This report argues that this contradiction is likely a signal of the existence of cultural and social barriers preventing women with managerial abilities over the average from progressing in their career. The direct implication of this argument is that effective policies aimed at easing entrepreneurship for women should significantly increase average managerial ability in Guinea-Bissau, a crucial factor to improve firm performance. When looking at diversity in employment, women are considered to be as good as men, but again, their proportion is much lower (24 percent), and it decreases with firm size: women employees are relatively less abundant in larger, more productive and better-paying firms.

Regarding age, the dominant view among interviewed managers is that older people make better managers. The average age of the interviewed managers is 45 years, substantially higher than the

median age among the population (18.8). The promotion of entrepreneurship among the youth should be a promising path for providing professional opportunities for this large - and growing - population group. For foreign managers, the main concern is their low level of integration with national managers in the co-management of national firms. This might prevent some of the advantages that come from diversity from being realized. These advantages include increased productivity, or the transmission of innovations and technical knowledge.

The impact of COVID-19 on MSMEs

The COVID-19 crisis brought reoccurring closures of indeterminately long durations for most formal firms in Guinea-Bissau. While all firms in the sample were considered operational by their managers at the time they were questioned, only 70.1 percent of them were opened for business in September 2020. These closures affected many more micro-enterprises (36 percent) than larger firms (31 percent for small, 22 percent for medium and 19 percent for large). 70.5 percent of the firms in the sample had closed completely for at least one day during the crisis, with the average duration of this closure being 143 days (nearly five months). Using mobile money and the internet for daily operations, being located in the regions and being larger are significantly correlated with fewer and shorter closures. Interestingly, having a more educated manager is associated with a higher probability of the firm still being closed in September. The number of female managers correlates with a longer closure during the COVID-19 crisis.

The pandemic crisis greatly impacted the revenue, costs, and profits of formal firms. With a note of caution given the difficulty to compare monthly revenue across years in a context in which most firms do not keep a record of past operations, firm revenue in September 2020 is estimated to be around 40 percent of its sales in a typical 2019 month. This ratio is 61 percent for costs, implying a large drop in the ratio of monthly profits, to 25 percent. Medium and large firms, and those operating in the secondary sector were hit the hardest, as measured by the drop in profits.

The large drop in profits pushed a high proportion of firms into liquidity challenges. Given an almost generalized lack of credit, firms dealt with liquidity shortages primarily using savings and delaying payments. More than 80 percent of firms that delayed payments delayed these to employees, followed

² In this report, the CFA franc (Franc of the Financial Community of Africa) is referred to by the ISO term XFO to distinguish it as the West African CFA franc and to differentiate it from the Central African CFA franc, or the XAF.

by fiscal authorities (61.4 percent) - which declared a fiscal moratorium, landlords (56.3 percent) and suppliers (46.9 percent). Only 4.9 percent of firms that delayed payments delayed repaying lenders.

The impact of these closures on employment has been extreme, but somehow lower than the impact on profits. Again, a note of caution is made about what managers might understand by “paid employment” during the crisis. With the high share of casual employment and the many payments delayed to workers observed, many of those considered as employees by the interviewed manager might never work for the firm again. Indeed, the percentage of layoffs is 31.7 percent for firms still closed in September, most of which declared 0 expenses for this month. At the time of the interviews, firms that were still open had laid-off 11 percent of their 2019 workforce during the COVID-19 crisis. Across the whole sample this number increases to 16.8 percent. MSMEs seem to have resorted more to retrenchment as a strategy to cope with the crisis than large firms. Interestingly, women and foreigners’ jobs seem to have been more resilient than men.

Recommendations

Considering the long-standing bottlenecks that MSMEs face in Guinea-Bissau, there is an urgent and immediate need to support the private sector and enable a more conducive business environment. The private sector in Guinea-Bissau must break out of its low and volatile growth trap, especially post-COVID-19, and start playing a more significant role in the country’s economy. The role of the government in unblocking existing bottlenecks is of the utmost relevance.

This study identifies three measures that the public sector could consider in these regards: 1) increase investments to improve governance and create a conducive business environment; 2) establish a better regulatory framework for business operations; and 3) concentrate scarce financial resources to fund essential public infrastructure that could leverage private investments.

Working to improve the political and market-driven constraints identified in this study is an essential step towards unlocking Guinea-Bissau’s private sector potential and entering a path of sustainable economic growth. A better business climate would improve conditions so that firms and national investors can expand their activities. Doing so is also likely to attract foreign investors, accelerate the adoption of new technologies and bring new expertise.

Other recommendations guided by the findings are organized around the following key suggestions:

- a. Improve predictability and accountability by creating an enabling environment for MSME growth and improving legal and institutional frameworks.
- b. Create a level playing field through formalizing businesses of all sizes and shapes and ensuring fair taxation.
- c. Strengthen gender and youth equality and increase participation of women and youth in business activities.
- d. Promote active labour market policies.
- e. Enhance value chains through a cluster development approach and improve public infrastructure for national and regional integration.
- f. Broaden access to inclusive finance by providing affordable loans and establishing / strengthening microfinance institutions.
- g. Upscale ICT technology in a way that strengthens resilience and promotes innovation.
- h. Establish a start-up incubator.
- i. Provide opportunities to scale up businesses, providing business advisory services and improving productive capacities through management capacity.
- j. Increase public expenditures to expand demand for private sector outputs while strengthening Public-Private Partnerships (PPP).

1. Context and introduction





1. Context and introduction

Long-standing political uncertainty since independence has cast a shadow on the business environment of Guinea-Bissau. The private sector is primarily engaged in producing and exporting raw cashew nuts and importing consumer goods. Consequently, the services sector presents the most substantial development, but many bottlenecks tie the country to remain at a low *status quo*. A somewhat stable but expensive energy supply is limited mainly to the capital region, the Autonomous Sector of Bissau (hereinafter Bissau). The financial sector consists of only five commercial banks serving the entire country. The World Bank's Doing Business Index ranks Guinea-Bissau 174 out of 190 countries³. The industry sector in Guinea-Bissau is nearly non-existent, and unemployment is high.

The COVID-19 pandemic exposed Guinea-Bissau's vulnerability to external shocks. The economy is highly dependent on the production and commercialization of cashew nuts, on which over 90 percent of the exports and more than 70 percent of the population depends. The pandemic struck right at the onset of the annual marketing campaign

in March 2020. High uncertainty and international trade disruptions caused low external demand for Bissau-Guinean cashew nuts. Furthermore, the national preventive confinement measures delayed the cashew campaign's official start. The consequent poor turnout of the most important economic event of the year adversely affected overall demand as incomes dropped. Curfews, mobility restrictions, and shops' temporary closure caused additional supply shocks, exacerbating challenges for many individual owners, especially those of micro, small and medium enterprises (MSMEs). In aggregate terms, annual economic growth for 2020 was revised from pre-COVID-19 forecasts of 4.5 percent to -2.4 percent. During the crisis, the government could provide very little social and financial support.

Guinea-Bissau has practically no social safety net. Introducing and implementing policies and programmes that can support the development of an inclusive private sector and thus create more and better jobs is needed. Creating such opportunities for decent work will help safeguard 'the social contract' between the government and the population.

3 World Bank. 2020. Doing Business 2020. Washington, DC: World Bank.

2. Object and Methodology





2. Objective and Methodology

This study presents a detailed and comprehensive analysis of the long-standing bottlenecks MSMEs face, the impact of the COVID-19 pandemic on the private sector, and the consequent public measures being adopted by Government. The pandemic may represent an opportunity for the private sector to enter a more resilient and inclusive path. This study aims to reveal structural issues and inform policies that could improve the private sector's resilience against future shocks. Hence, it introduces bold recommendations that could bring sustainable improvements to the private sector based on the collected evidence.

Managers of 401 operating firms were randomly sampled from a newly created national database of registered firms⁴, and interviewed between October

26th and December 3rd, 2020. The questionnaire was inspired by the World Bank Enterprise surveys, whose last implementation in Guinea-Bissau only occurred in 2006. The authors amended and added questions to adapt the questionnaire to the current local economic context. Enumerators conducted a total of 363 face-to-face interviews. Of these, 145 took place on the firm's premises, while 218 at a specific location previously agreed with the manager. The remaining 38 interviews were conducted over the phone.

It is hoped the results of this report can contribute to the development of a comprehensive recovery plan that would then help the Government and its partners to *build forward better* for business in Guinea-Bissau.

⁴ This database was created by merging data on formal firms from over 10 different sources, including a variety of government agencies and NGOs.

3. Firms demographics



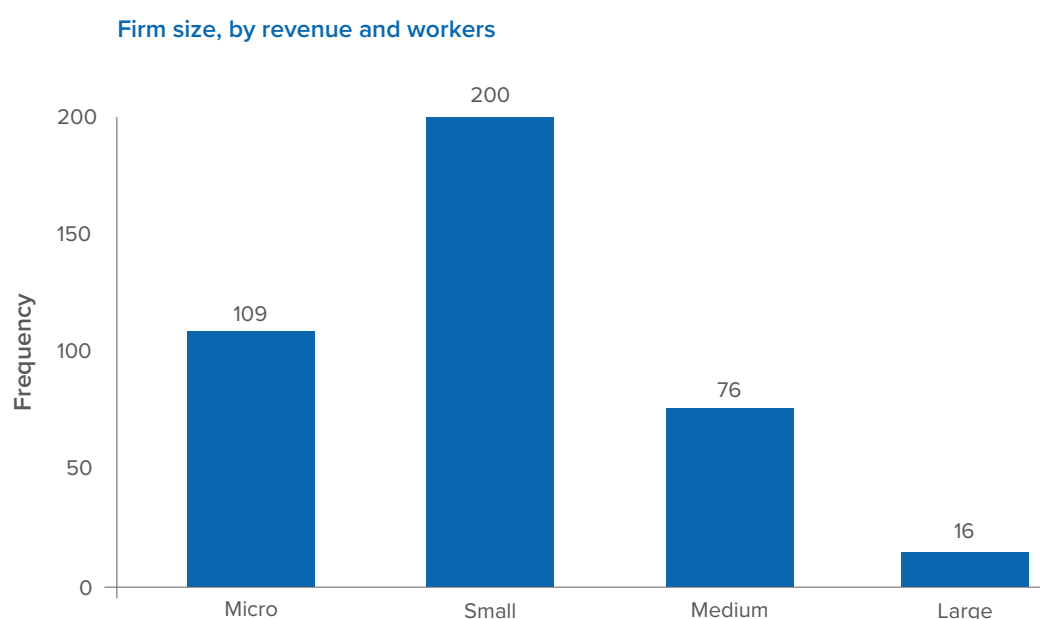
3. Firm demographics

There is no official classification of firms by size in Guinea-Bissau. The classifications existing in other Sub-Saharan African countries are diverse, based either on the firms' revenue, its asset base, or the number of employees. This study introduces a novel classification for Bissau-Guinean firms, considering both the firm's monthly revenue and the number of paid workers. The firms' revenue serves as a primary classification criterion. The consideration of the number of workers as a secondary criterion aims to compensate for some of the weaknesses of applying the original classification for the national context, mainly

classifying as too small some labour-intensive firms with many workers but relatively low revenue.

Firms with a monthly revenue of up to one million XOF are classified as micro-enterprises, between one and 10 million XOF as small enterprises and between 10 and 100 million XOF to medium enterprises. However, if the number of workers exceeds 10, 50 or 100 employees, respectively, the firm's classification is increased one notch (see Appendix A.1. for more details).⁵ This classification results in 109 micro, 200 small, 76 medium and 16 large enterprises (see Figure 1).

Figure 1: Classification of firms by size



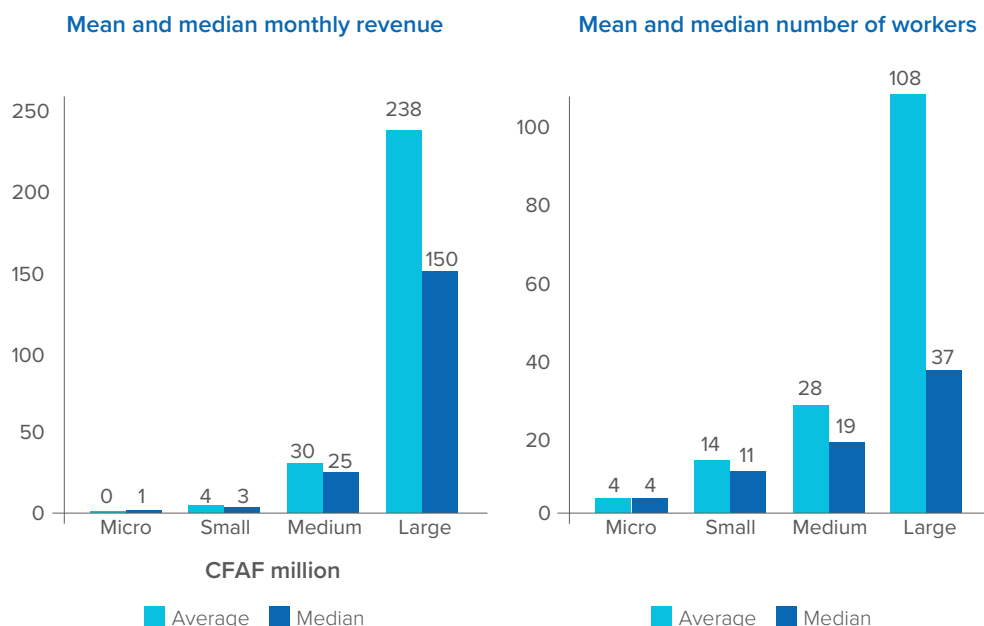
There exist substantial differences between medium and large enterprises. While the medium enterprises have a median monthly revenue of 25 million XOF and 19 workers, the large enterprises generate a median monthly revenue of 150 million XOF and employ 37 workers (see Figure 2). These

differences are even more extreme if we consider the average values for these two variables. Due to this wide gap, the study sometimes splits the sample into micro, small and medium enterprises (MSMEs) on the one hand and large firms on the other.

⁵ Example: a firm with monthly revenue of less than 1 million XOF but with more than 10 workers is considered a small rather than a micro enterprise. However, it is never classified as a medium or large firm, even if its number of workers exceeds 50 or 100.

FIRM DEMOGRAPHICS

Figure 2: Average 2019 monthly revenue in million XOF (LHS) and average number of workers (RHS) by firms' category as classified by size



In terms of the sector of activity, 70 percent operate in the tertiary sector, 21 percent in the secondary, and nine percent in the primary (see Table 1). Overall, 15 percent develop their main activity in the cashew sector.⁶

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Table 1: Sector of activity

Sector of activity	Number of firms	Percentage of total firms
Primary	36	9 percent
Secondary	84	21 percent
Tertiary	281	70 percent
Total	401	100 percent

As we move from the primary to the secondary and then to the tertiary sector, we find an increase in the proportion of larger-sized firms. Table 2 shows that the proportion of medium and large firms is more significant in the secondary and tertiary sectors. At

the same time, smaller enterprises are more abundant in the primary one. The secondary sector shows fewer micro-enterprises and more small enterprises than expected, given the general trend.

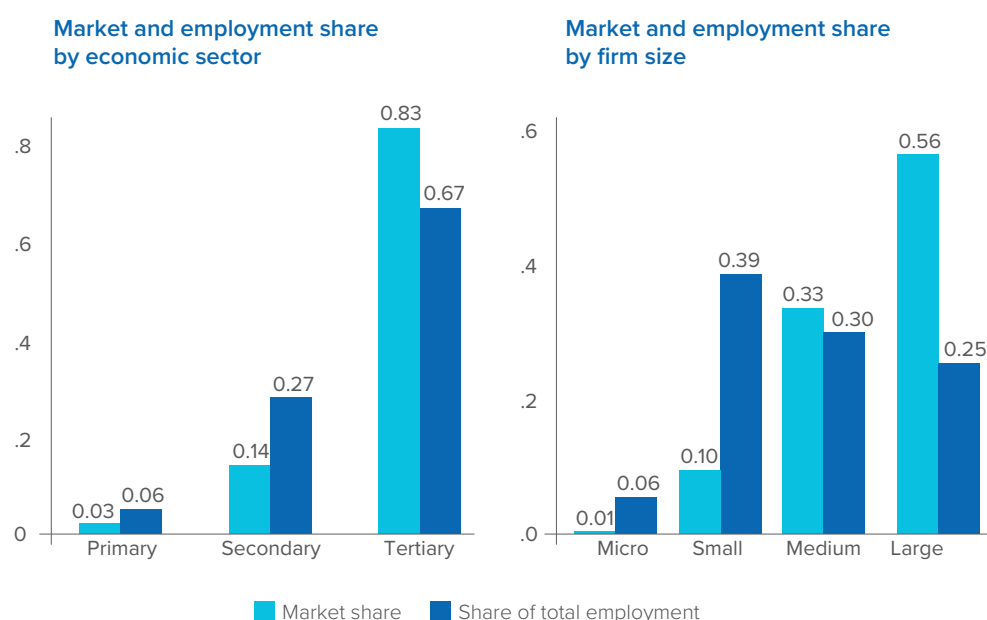
⁶ Cashew firms represent 11.1 percent of the total of primary sector firms, 8.3 percent of secondary sector firms and 17.4 percent of firms in the tertiary sector.

Table 2: Distribution of firms by firm size and economic sector

Sector of activity	Firm Size				Total
	Micro	Small	Medium	Large	
Primary	12	19	5	0	36
Share over all primary	33.3 %	52.8 %	13.9 %	0 %	100 %
Secondary	17	49	15	3	84
Share over all secondary	20.2 %	58.3 %	17.9 %	3.6 %	100 %
Tertiary	80	132	56	13	281
Share over all tertiary	28.5 %	47.0 %	19.9 %	4.6 %	100 %
Number of firms	109	200	76	16	401

The market (measured by revenue) and employment⁷ share of the firms in each economic sector are to a certain extent proportional to their number, with firms in the tertiary sector accounting for the highest proportion of total revenue (83 percent) and paid jobs (67 percent) in our sample. Note that the primary and secondary sector firms are substantially more

labour intensive than tertiary ones. In this sense, the left-hand side (LHS) of Figure 3 shows how their total employment share is almost double their total revenue share. On the right-hand side (RHS) of Figure 3, smaller enterprises appear to be more labour intensive. MSMEs account for 75 percent of total employment while only 44 percent of total revenues.

Figure 3: Distribution of the share of total revenue and paid employment for the firms in our sample, by sector of activity (LHS) and firm size (RHS)

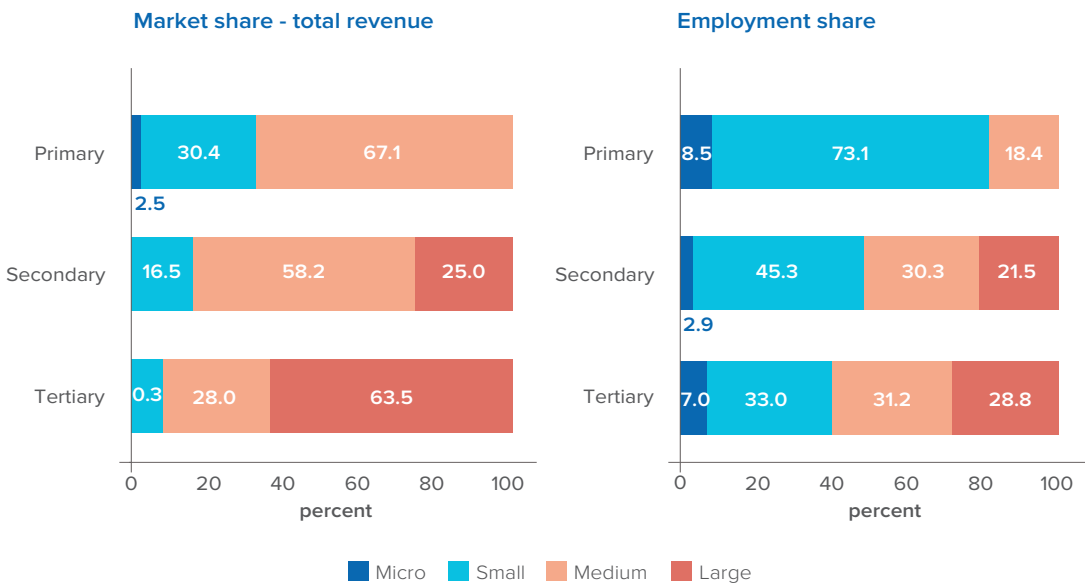
7 This measure of employment includes only paid employees, excluding managers and unpaid workers, such as interns or apprentices.

FIRM DEMOGRAPHICS

The evidence about how firms of different sizes contribute to total revenue and total employment by economic sector offers compelling insights. As we can see on the LHS of Figure 4, the market share of smaller firms decreases as we go from the primary to the secondary sector. This reduction is even more substantial for the tertiary sector. Without any large firm in the primary sector, MSMEs represent 100 percent of total revenue. This share decreases to 75 percent in the secondary sector and 36.5 percent

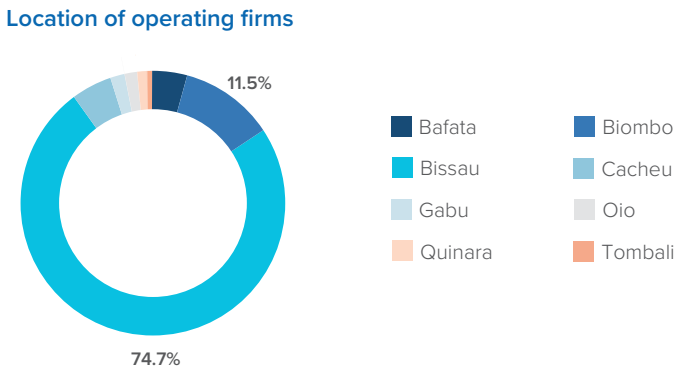
in the tertiary one. On the RHS of this same figure, we can see how the share of employment for firms of different size follows a similar pattern across sectors. MSMEs account for 100 percent of jobs in the primary sector, 78.5 percent in industry and 71.2 percent in services. The smaller firms’ labour intensity becomes evident again: the smaller the firm size, the larger its share of total employment relative to the percentage of total revenue for each category.

Figure 4: Distribution of the share of total revenue (LHS) and paid employment (RHS) for the firms in our sample, by sector of activity and firm size



As seen in Figure 5, about three-fourths of interviewed firms are based in the capital Bissau. The second most-represented region is Biombo, which borders Bissau, containing part of the capital’s metropolitan area.

Figure 5: Location of operating firms, by region



4. Manager demographics



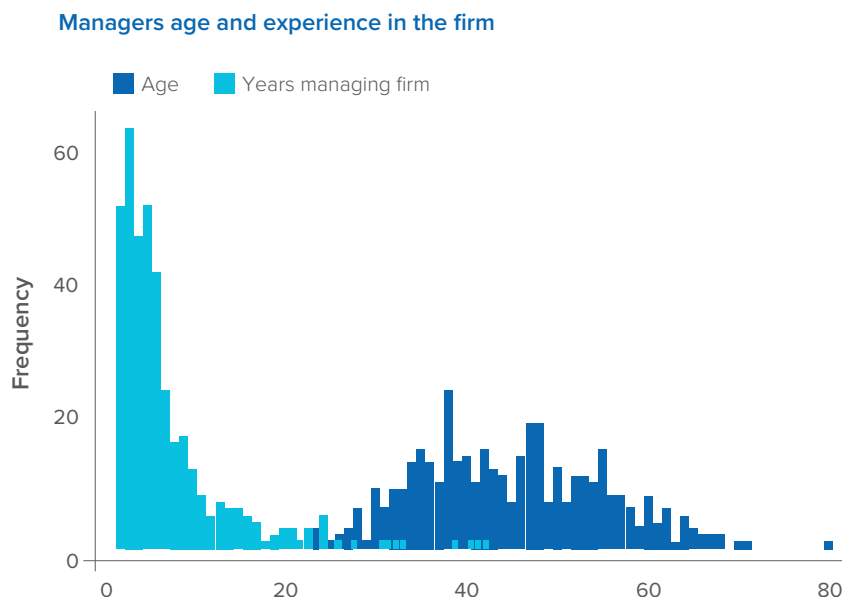


4. Manager demographics

More than half of all surveyed firms have only one manager. Some have two, and less than 10 percent have three managers or more.

On average, interviewed managers were 45 years⁸ old and worked at their current firm for six years, as seen in Figure 6.

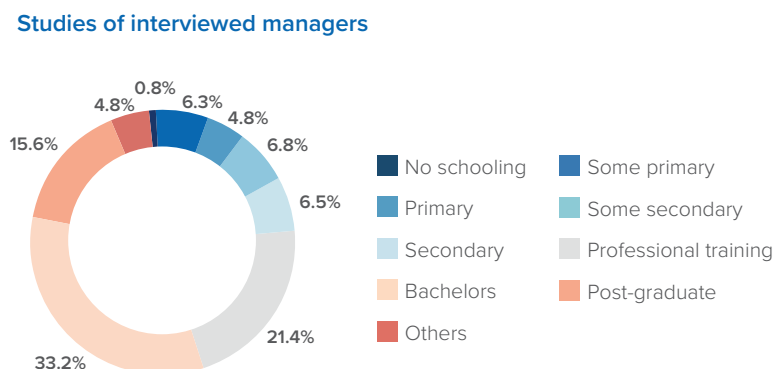
Figure 6: Managers age and number of years managing the firm



Almost half of the interviewed managers have at least a bachelor's degree. A third have a post-graduate education (see Figure 7). Another 21 percent completed a professional training specialization. This shows that education attainment across the

managers of formal firms is substantially higher than the national average, which stagnates at around five years of schooling completed for 24–29-year-olds (HHS 2019 data, WB Country Economic Memorandum (CEM), 2020).

Figure 7: Distribution of the highest level of education completed for the interviewed managers



⁸ This measure of employment includes only paid employees, excluding managers and unpaid workers, such as interns or apprentices.

5. Bottlenecks and obstacles





5. Bottlenecks and obstacles

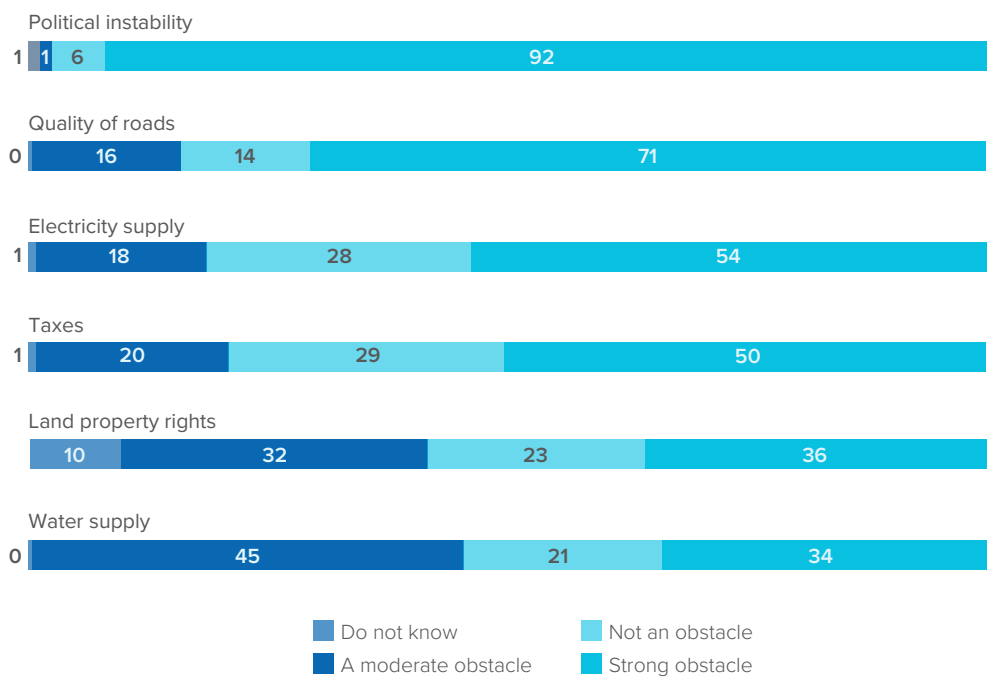
A favourable business environment is required to enable firms to innovate and increase their productivity and efficiency. The right public policies and a supportive ecosystem between market players can help achieve this environment. This section analyses the constraining obstacles that hinder business development in Guinea-Bissau.

We classify bottlenecks in two different categories: public and market. The first contains those that directly relate to public goods or regulation, depending entirely on government intervention. The second category includes those the solution for which relies on a relevant space for private sector action. In this section, we order the different bottlenecks within

each category by order of perceived relevance, as self-reported by managers themselves.

Figure 8 shows the different public bottlenecks included in this study. Most managers consider political instability as the main public bottleneck,⁹ with over 92 percent considering it a significant obstacle to their business development. The quality of roads and electricity supply are the next two barriers by order of relevance, followed by too high taxes. Problems associated with land property rights, the state of water supply, commercial licenses and rigid labour regulation are slightly lower concerns but still perceived as critical obstacles by a large proportion of the managers in our sample.

Figure 8: Public bottlenecks to business development¹⁰



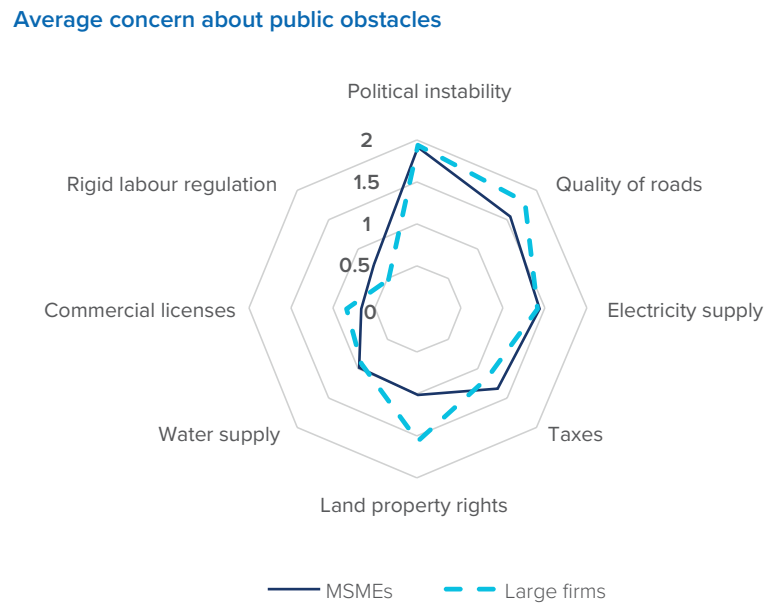
The degree of concern about most obstacles, such as political instability, electricity and water supply, and rigid labour regulation, is comparable across MSMEs and large firms. However, the managers of

large firms care significantly more about land property rights, slightly more about the quality of roads and the functioning of commercial licenses, but less about taxes (see Figure 9).

9 Political instability is ranked at the top also if we consider both public and market bottlenecks together.

10 For the sake of clarity, percentages have been rounded up in this figure. Also, the two public bottlenecks considered less of an obstacle by managers have been excluded. Commercial licenses were considered a strong obstacle by 18.2 percent of managers, a moderate one by 26.3 percent and not an obstacle by 55.1 percent, with 0.4 percent unsure. Rigid labour regulation was considered a strong obstacle by 15.1 percent, a moderate one by 34.9 percent and not an obstacle by 43.1 percent, with 6.9 percent unsure.

Figure 9: Average concern about public bottlenecks for MSMEs and large firms



Note: Concerns were measured using a scale taking the following values: 0 "Not an obstacle," 1 "Moderate obstacle," 2 "Serious obstacle."

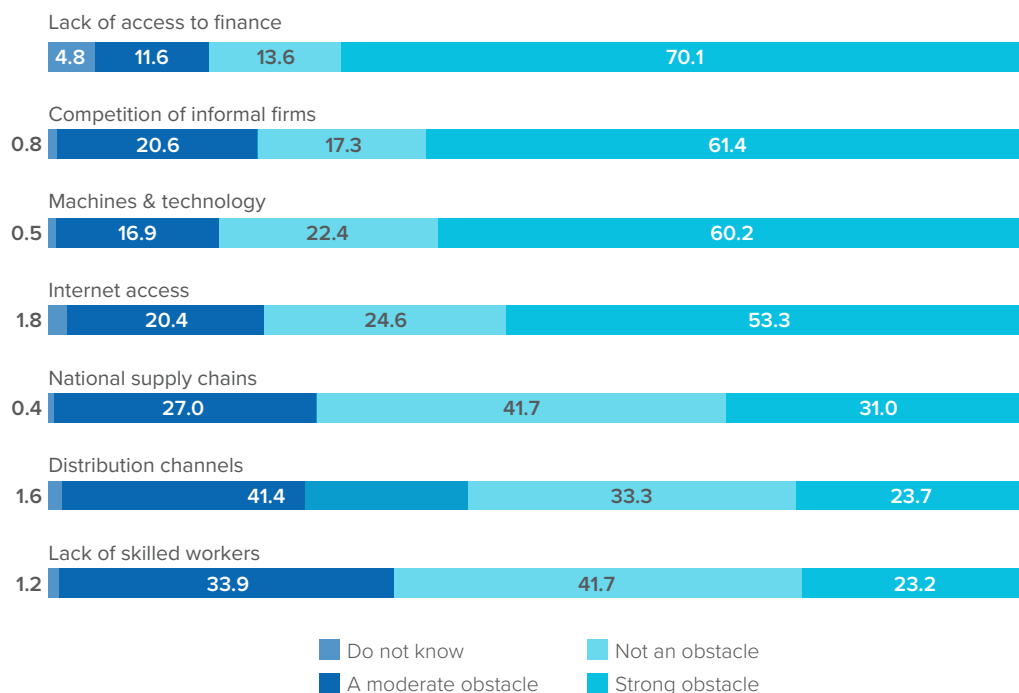
Figure 10 presents equivalent results for market bottlenecks. Lack of access to finance is considered the most significant obstacle to formal enterprises' operations, with more than 70 percent of managers considering it critical. Additionally, over 50 percent of managers recognize as strong obstacles the competition of informal firms, the inability to acquire

modern machinery and technology, and lack of access to the internet. Less than a quarter of interviewed managers consider the inefficiency of national supply chains, poor distribution channels, and the relatively low level of skills in the workforce as serious obstacles. Somehow surprisingly, the need for skilled workers is considered the least pressing one.



BOTTLENECKS AND OBSTACLES

Figure 10: Self-reported relevance of market-dependent bottlenecks, in percentage of respondents

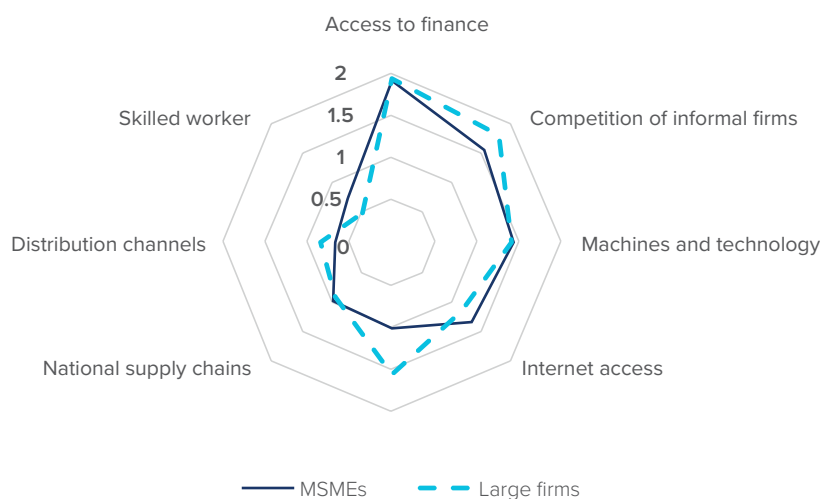


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Managers of MSMEs and large firms present similar degrees of concern about the issues seen as the main obstacles to business development (i.e., access to finance, competition of informal firms, machines and technology, internet access and national supply chains). Distribution channels are substantially more of a concern for large firms. At the same time, MSMEs feel more limited by their labour force's human capital, see Figure 11.

Figure 11: Average concern about market bottlenecks for MSMEs and large firms

Average concern about market obstacles



Note: Concerns were measured using a scale taking the following values: 0 "Not an obstacle," 1 "Moderate obstacle," 2 "Serious obstacle."



Asking managers directly about the main obstacles for their firms' functioning is enormously informative. However, there might be an important level of diversity in the type of barriers that matter most across different types of firms. This implies that careful heterogeneity analyses are a requirement for a high-quality diagnosis of the main obstacles for private sector development in Guinea-Bissau.

In the next two sections, the managers' assessment of the main problems faced by their firms is used to structure the analysis. The main bottlenecks are then explored in more detail along with consideration of relevant heterogeneous effects. While digging into the different obstacles, other related problems that might not have captured in the interviews are explored.

6. Public bottlenecks



6. Public bottlenecks

6.1 Politics and governance

Guinea-Bissau ranks in the bottom 10 percentile in most world governance indicators. Elite capture has caused continuous political upheaval in the country, including attempted and successful coups and frequent government changes, which have strongly limited the country's economic development (World Bank, 2020). The perceptions about the critical negative impact of this pervasive political instability on firms' operations show little heterogeneity across firms' size or activity.

Successive government programmes have prioritized the justice sector, intending to improve its independence, efficacy, and integrity. Nonetheless, little progress has been made as the ongoing political crisis has engulfed the judicial institutions.

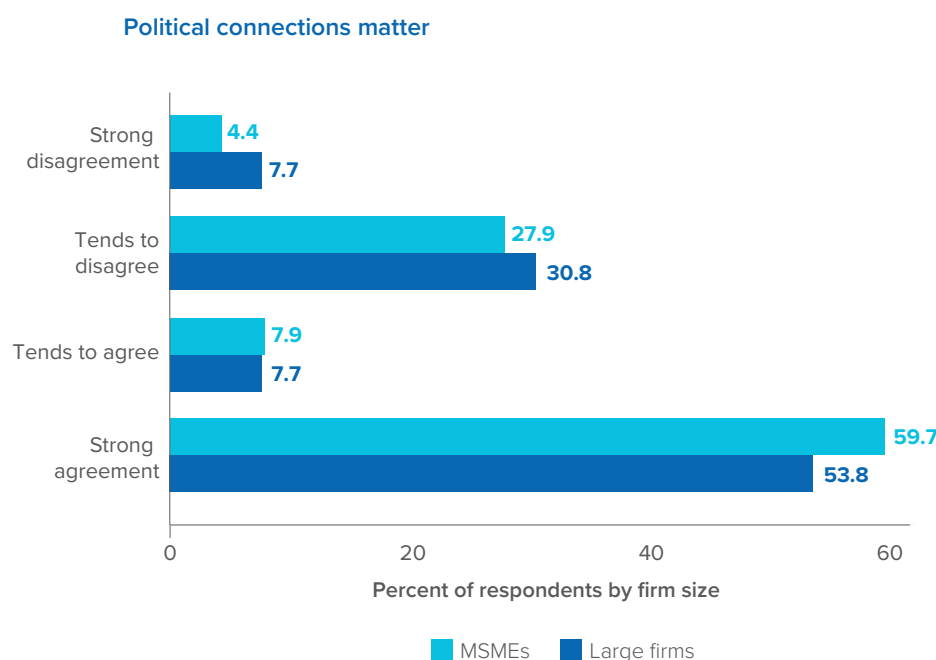
This subsection explores in detail those aspects of the institutional environment that most affect private sector development. These include the relevance of political connections, corruption, the time taken by different administrative procedures, import and export procedures, and judiciary services to private enterprises.

6.1.1 Political connections and business success

In most countries characterized by massive economic informality and weak governance, political connections can play a relevant role in facilitating business logistics. They can simplify access to commercial licenses, shorten import/export procedures, offer priority access to public services (e.g., water and electricity supply), and provide preferential fiscal or judicial treatment.

The situation is no different in Guinea-Bissau, where over two-thirds of managers interviewed believe that the success of a business depends on political connections. As shown in Figure 12, the opinion differs somewhat between MSMEs and large firms, which tend to disagree more with this statement. This difference could be explained by better political connections available to larger firms, which might, consequently, perceive politics as less of an obstacle for their business. Still, most of the business managers, independently of the firm's size, acknowledge the positive impact of having political connections for the conduction of their operations.

Figure 12: Distribution of managers' answers to the question *"How much do you agree or disagree with the statement: the success of an establishment in Guinea-Bissau depends on its political links"* for MSMEs and large firms





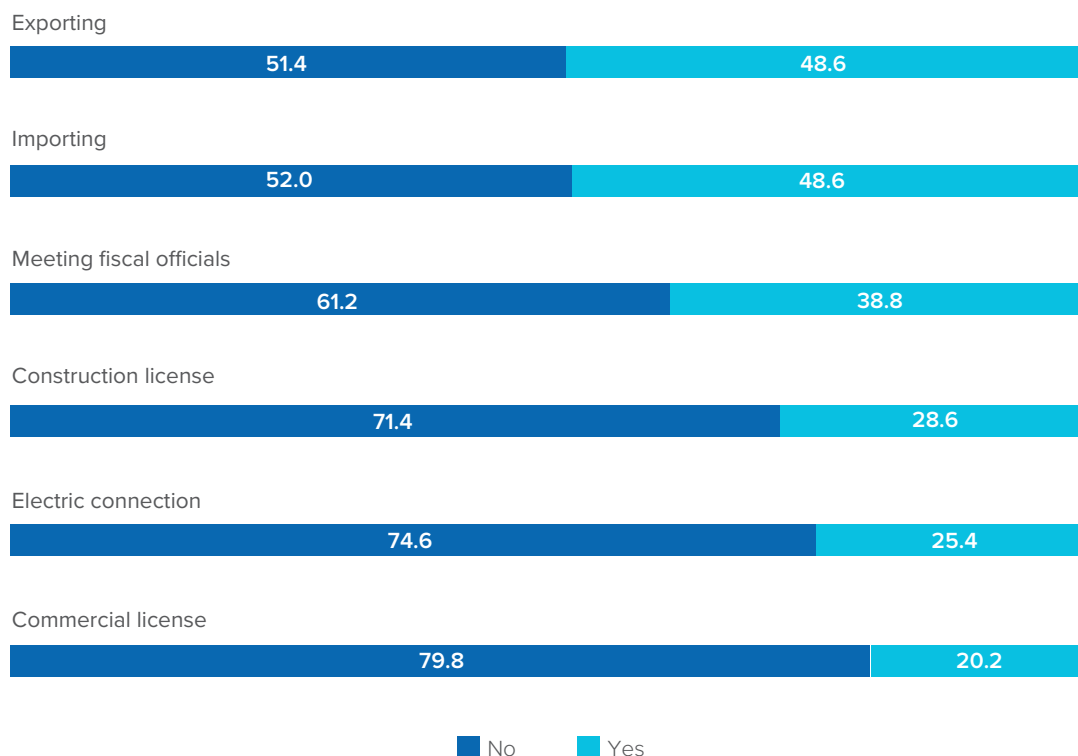
These responses suggest that it is relatively important to know the right person when dealing with its administration. The evidence gathered in the survey provides further insight to evaluate the quality of some of the most relevant interactions between the private and the public sector.

6.1.2 Corruption

Guinea-Bissau ranked 165 out of 179 countries in the 2020 Transparency International Corruption Index, one of the lowest rankings in the world Bribes

represent a financial burden to the private sector and indicate inefficient environments likely to inhibit productive investments. Interviewed managers report that bribes are expected in various interactions with public officials, although with varying degrees of prevalence. While procedures related to importing or exporting require bribes in nearly half of cases, electricity connections and commercial licences require them in a quarter and a fifth of the cases, respectively (see Figure 13).¹¹

Figure 13: Percentage of managers responding “No” and “Yes” to the question “*Was a present or an informal payment expected the last time that you were (applying for)...*”



¹¹ The coincidence in the prevalence of bribes when exporting and importing is not due to the same firms answering the same in both cases, as and importing exporting firms are not the same ones in general, with the number of importing firms being much larger.

A simple Ordinary Least Squares (OLS)¹² regression analysis¹³ shows that large firms are substantially more likely to be asked for bribes when importing, exporting - close to statistical significance - or applying for an electric connection, as per Table 3. Firm size does not seem to make a significant difference

in this regard when meeting fiscal officials and applying for construction or commercial licenses. Indeed, firm size is only consistently significant as a predictor of the probability of being asked for a bribe in the case of importing licenses.

Table 3: OLS regression for the probability of being asked for a bribe depending on firm size

	(1) Importing	(2) Exporting	(3) Meeting fiscal officials	(4) Construction license	(5) Electric connection	(6) Commercial license
Small firm	0.273**** (0.006)	-3.32e-16 (1.000)	0.0238 (0.780)	-0.0278 (0.885)	0.170 (0.136)	-0.0191 (0.865)
Medium firm	0.189** (0.091)	0.167 (0.622)	-0.0330 (0.732)	0.0833 (0.720)	0.136 (0.327)	-0.0684 (0.580)
Large firm	0.429*** (0.025)	0.524 (0.113)	0.0889 (0.551)	0.179 (0.487)	0.536* (0.068)	0.111 (0.614)
Constant	0.286*** (0.000)	0.333 (0.258)	0.378**** (0.000)	0.250 (0.129)	0.130* (0.076)	0.222** (0.028)
Observ.	150	35	245	42	71	114
R2	0.0569	0.158	0.0392	0.0287	0.0691	0.00933

p-values in parentheses

p* < 0.10, *p* < 0.05, ****p* < 0.01

Note: dependent variables per regression, indicate the bribe was asked respectively when (1) Importing, (2) Exporting, (3) Meeting fiscal officials, (4) Applying for construction licences, (5) Applying for an electric connection or (6) Applying for a commercial license. The reference category is micro enterprise. No controls are included in these regressions.

* The large variability in the sample size for each regression is due to the fact that only the managers of firms that have followed that procedure relatively recently (typically in the last two years) are asked the corresponding question.

¹² OLS analyses have been chosen for the regressions in this report given their intuitively meaningful interpretation, which arguably makes this methodology more suitable for a policy report than the alternatives. For this reason, we choose to use OLS instead of logistic, probit or tobit regressions also when the dependent variable is dichotomous. For relevant arguments in favour of this approach in the social sciences see for example Hellevik (2009). Importantly, these arguments include that OLS results generally turn out to be nearly identical as those from a logistic regression

¹³ Results of the OLS multivariate analysis are fully descriptive and do not intend to signal any mechanism behind the findings, nor indicate that firm size itself causes the observed coefficients. The only significant coefficients when we include a variety of controls (see appendix A.2) in these regressions indicate that large firms are more likely to be asked for a bribe when asking for an electric connection or a construction license.

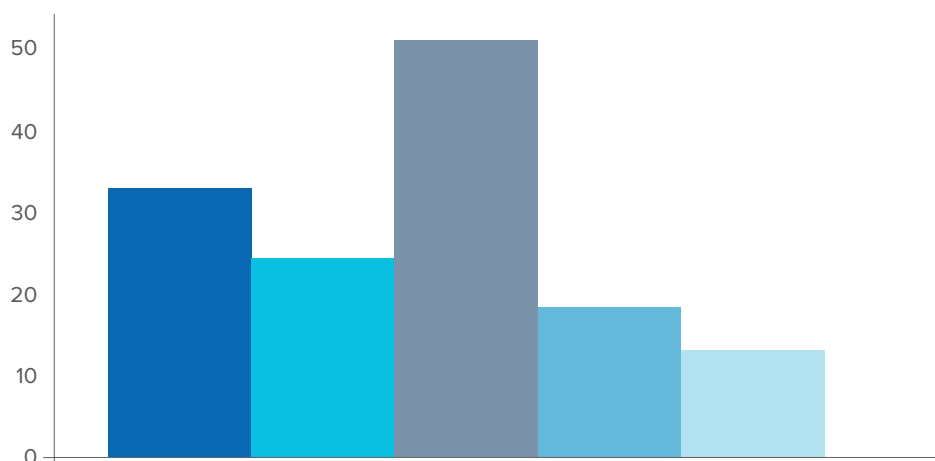
Many bottlenecks to private sector development are associated with the time needed to perform relevant business operations, particularly those that require the action or approval of the public administration. Whenever relevant, we asked managers about the time necessary to complete the relevant bureaucratic processes to export, import, apply for elec-

tricity connection, obtain a construction license, or receive a decision from a court of justice.

As shown in Figure 14, exporting takes on average over a month (33 days), and the average for importing is 25 days. Obtaining a construction license takes on average 52 days, while an electricity connection is typically faster, taking on average 18. A commercial license takes, on average, 14 days.

Figure 14: Average number of days it takes to export, import, get a construction license and get an electricity connection for those dossiers that have been resolved

- Export
- Import
- Get a Construction license
- Get a electric connection
- Get a Commercial license



Only seven managers responded that their firm had been involved in a judicial procedure. The court took, on average, more than a year (380 days) to reach and communicate a decision.¹⁴

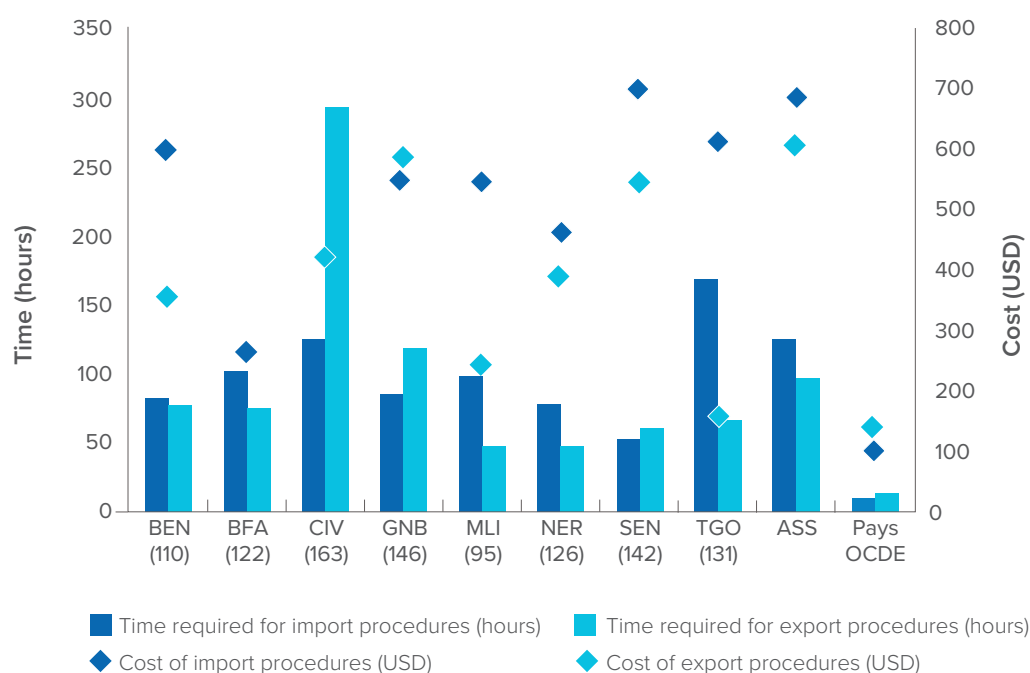
Political instability, lack of maintenance, and weak capacity at customs have hampered any benefits envisioned by reforms. The 2020 Doing Business¹⁵

report ranks Guinea-Bissau 146 out of 190 countries in “Trading across borders,” below all its regional peers in the West African Economic and Monetary Union (WAEMU), with the sole exception of Ivory Coast. Among the top reasons for this bad performance are high monetary costs and the long time required to complete bureaucratic procedures, especially for exporting (see Figure 15).

14 This variable was not included in Figure 14, as its inclusion prevented differentiating between the dimensions of the other bars.

15 World Bank. 2020. Doing Business 2020. Washington, DC: World Bank.

Figure 15: Doing Business rankings for cross-border trade within the WAEMU region, 2019



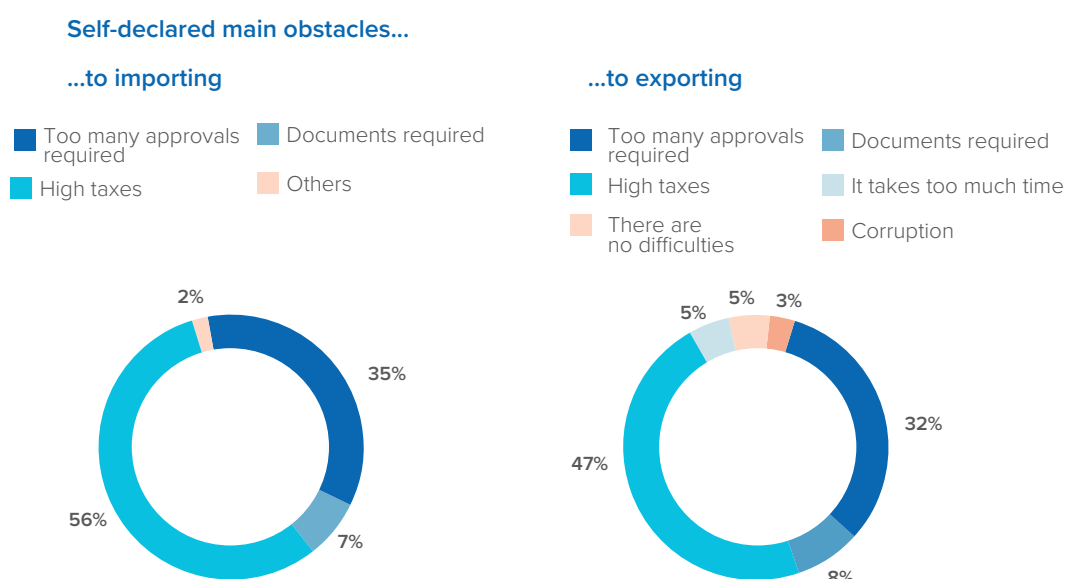
Note: Each country's ranking on the global index is shown in brackets (World Bank, 2020).

As authorities' capacity to collect taxes at the source is low, the government relies heavily on indirect taxation, which makes up around two-thirds of the tax receipts and primarily originates at customs

(World Bank, 2021). Around 50 percent of interviewed managers considered high tax rates the main obstacle to trade participation, as per Figure 16.

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Figure 16: Main obstacles as reported by the managers of importing¹⁶ and exporting¹⁷ firms



Note: The percentages in this figure have been rounded up to the next integer, for the sake of clarity.

¹⁶ Within the other main difficulties for importing, one manager answered corruption, another one the high costs of equipment, and a third one "theft".

¹⁷ The categories "It takes too much time," "There are no difficulties" and "Corruption" were created from managers' answer to "others, specify".



Those costs are often related to complex and occasionally arbitrary import and export procedures. More than 30 percent of exporters and importers consider the number of approvals and documentary requirements and their corresponding fees the major obstacle. All the WAEMU countries have begun to computerize their systems and make customs clearance procedures paperless, intending to reduce the administrative burden about which firm managers complain. Benin, Burkina Faso, Côte d'Ivoire, Mali, Niger, and Togo have already set up the ASYCUDA World computerized customs management system. Nevertheless, Guinea-Bissau still uses ASYCUDA++, a less advanced version of the system (UNCTAD, 2020). Officials from different government agencies, including customs, tax police or border guards, sometimes intervene in clearance without a clear legal basis.¹⁸ This phenomenon contributes to raising confusion about which agencies have the competent jurisdiction. The revised customs regulation decree for clearing imported goods approved in 2017 aims to simplify the process by reducing the number of necessary procedures from 26 to 9. However, it still needs to be fully implemented. In this sense, the improvement of import and export procedures still requires building the technical capacity of customs and other agencies, strengthening their coordination, and enhancing collaboration with the private sector (World Bank, 2020).¹⁹

Previous studies nuance the evidence presented, such as a study by the Ministry of Commerce and Industry (2020). According to the study, the main obstacle to expanding exports is custom bureaucracy, followed by the loss in efficiency due to high port costs and the overall taxation system (both because of its structure and taxation levels). Furthermore, the accumulation of different tax rates on merchandise reduces Guinea-Bissau competitiveness.

6.1.5 Rule of law

An independent and efficient justice system is crucial to resolving disputes fairly and timely. When legal institutions are weak, commercial disputes may be time-consuming and expensive and divert scarce resources from productive uses. According to the World Governance Indicators 2019, Guinea-Bissau ranks among the world's bottom 10 percent in "Rule of Law" and "Regulatory Quality." The justice system "has *limited capacity to perform the most basic functions of a responsible and accountable justice system*" (World Bank, 2020) and is only "*partly independent*" as judges are often financially or politically influenced (Bertelsmann Stiftung, 2020). Insufficient human and material resources hindered the success of the establishment of a Commercial Court in 2009.

The survey data show that trust in the judiciary is relatively low. A clear majority of the managers interviewed do not perceive the justice system as fair (see Figure 17). Access to the judiciary also seems very limited. Only seven out of the 48 companies that underwent a dispute which required intervention from a third party turned to the judicial system. We can infer that most of the managers interviewed may have relied on customary justice and alternative mediation forums, such as the police or traditional practices. While lack of trust is certainly a reason for not handling disputes over to the judiciary, the system's sluggishness is another factor. The survey data revealed that the average legal proceeding takes 380 days, which still appears low compared to the over 1000 days reported in the 2020 Doing Business report.²⁰ On the positive side, the court's decision was executed in six out of the seven cases. Nonetheless, the justice's inefficiency to resolve commercial and insolvency disputes is a significant constraint for the development of the private sector.

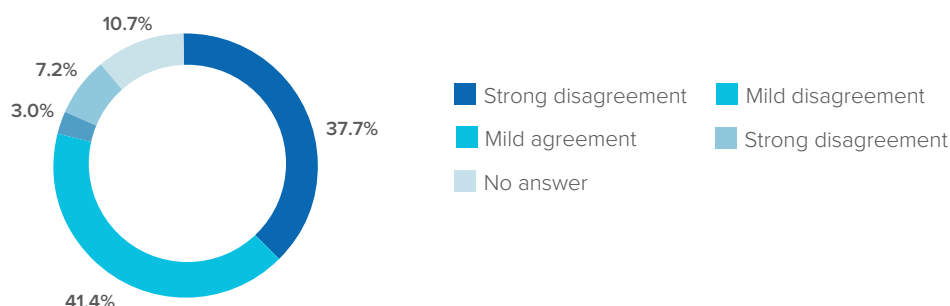
18 World Bank. (July 2020). Guinea-Bissau Country Economic Memorandum

19 More information on imports can be found in the section "Supply chains and distribution channels".

20 World Bank. (July 2020). Guinea-Bissau Country Economic Memorandum

Figure 17: Distribution of the level of agreement with the statement “The justice system is fair,” among the interviewed managers

The justice system is fair



6.2 Inadequate transportation infrastructure

High quality and widespread transport infrastructure decreases the costs of doing business, connects firms efficiently, and promotes competition. At the same time, the contrary creates substantial barriers to productive opportunities.

We have seen that the quality of roads, the only channel for terrestrial transport in the country, is the second most critical obstacle that must be solved directly by the state. It is also the second most pressing obstacle for managers globally: more consider it a strong or mild obstacle than finance access. A regression analysis shows that firms in the secondary sector are substantially more likely to consider the quality of roads a -serious- obstacle for firm performance. Other potentially relevant variables, such as

being located outside Bissau or the firm’s size, do not significantly change this question’s outcome, highlighting the cross-cutting nature of the problem.

6.3 Electricity supply and costs

The state-owned utility company Electricity and Water of Guinea-Bissau (EAGB) aims to produce, transport and distribute electricity and water within the national territory. However, only around 25 percent of the population have access to electricity, as its provision is primarily limited to the capital region. In some rural areas outside the capital, sparse public generators provide limited and unstable electricity. These figures are below the average for the WAEMU region, where 43.5 percent of the population has access to electricity (see Figure 18).

Figure 18: Access to electricity in urban and rural areas of the WAEMU region in 2018



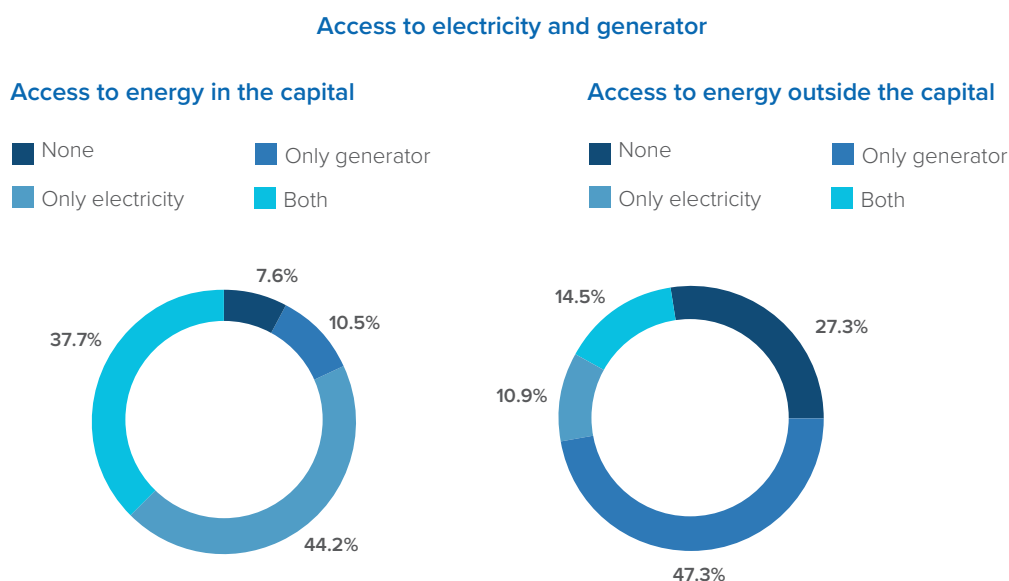
Source: World Bank Sustainable Energy for All (SE4ALL) database, 2020.

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Electricity supply and reliability have improved in Bissau thanks to the acquisition of a floating power plant, which provides public electricity to the city, although power cuts remain a reality. In other regions of the country, the situation is worse, with 75 percent of the firms receiving electricity exclusively from generators or with no access to electricity at all (see Figure 19).

All over the country, firms with access to public electricity also tend to own or share a generator to ensure a continuous power supply (see Figure 19). This is an expected finding, given the score of 0 given to Guinea-Bissau by the 2020 Doing Business report on “Reliability of supply and transparency of tariff index.”

Figure 19: Access to the public electric network and to a generator, in Bissau (LHS) and outside Bissau (RHS)



For firms with access to public electricity, 71 percent of the managers consider the losses resulting from public energy cuts highly significant (37.5 percent) or quite significant (33.5 percent). In comparison, only 5.8 percent say that cuts did not bring losses to their firms.

In firms with access to both energy sources, 81 percent of managers reported the losses derived from electricity cuts were highly or quite significant. The gaps between the regions and the capital (incl. Bissau) are again remarkable. With an average generator use of seven days per month across the whole sub-sample, businesses operating in the regions must resort to generators an average of 18 days per month, while the average for firms in Bissau is 6.5. Managers with access to a generator for backup consider the losses from power cuts significantly higher. In comparison, only 65 percent of those without access to generators said so. While this appears counterintuitive at first, these differences might be explained due to tangible cost of using the generator itself, i.e., its costly fuel consumption. This assumption is supported by the fact that managers in firms that share a common generator perceive losses to be less significant than those who own their private generator.

Shared generators are the less common backup solution compared to private generators. Looking at the firms connected to the public electricity grid, those owning a shared generator are 4.3 percent in Bissau and 2.7 percent outside Bissau. In contrast, those owning a private one are 41.5 percent in Bissau and 48.6 percent outside Bissau. There are more companies using shared generators among those without access to the electricity grid: 11.3 percent in Bissau and 5.9 outside Bissau. Interestingly, the distribution of access to electricity or a generator is not systematically different by firm size.

Electricity is often criticized for being expensive. A particular characteristic of electricity pricing in the country is that the price of kWh increases with the electricity usage. The rationale behind this progressive paying scheme is to benefit households with low income and energy consumption. However, this is a substantial burden for companies with high energy demand, especially the industrial sector. Over half of the interviewed managers consider their overall energy costs high (28.5 percent) or very high (25

percent), with only 10.9 percent considering them low. The average electricity cost equals 66,000 XOF, representing 6.3 percent of the firms' average monthly costs in our sample and 2.2 percent of the median costs. Although there is no significant heterogeneity in electricity expenditure across economic sectors, the standard deviation across firms is large and equal to 91,850 XOF. This heterogeneity at the firm level is related to both the firm's idiosyncratic energy consumption level, and the energy intensity of the firm's economic activity, since those having a generator spend more on electricity than those without a generator.

In the last two years, 18.5 percent of firms in our sample applied for an electric connection. On average, it took 18 days (see Figure 14) to obtain the connection, which appears to be much lower than the Figure of 257 days reported by the 2020 Doing Business report. Additionally, in 25 percent of cases, requesting access to the electricity grid implies some informal payment or bribe (see Figure 13). However, there is no evidence supporting the request's approval was faster in those cases in which a bribe was expected.²¹

6.4 Taxes

The tax-to-GDP ratio has been systematically below 10 percent for Guinea-Bissau, despite the WAEMU objective of 20 percent (Ministry of Finance, 2020). This gap can be explained by the small tax base and overall poor tax administration. To reach the 20 percent target indicated by the WAEMU convergence criteria it will be critical to enforce tax compliance.

According to recent studies (see, for example, the World Bank CEM 2020), the lack of revenue collection capacity has placed an oversized burden on indirect taxes, mostly collected at customs. This results in large levels of non-compliance by firms, with 80 to 90 percent of corporate income taxes typically coming from large enterprises. Our findings are fully consistent with these data and complement our knowledge on tax compliance and tax burdens across firms of different sizes.

21 Managers were asked only if some kind of present was expected, not whether they did pay the bribe.



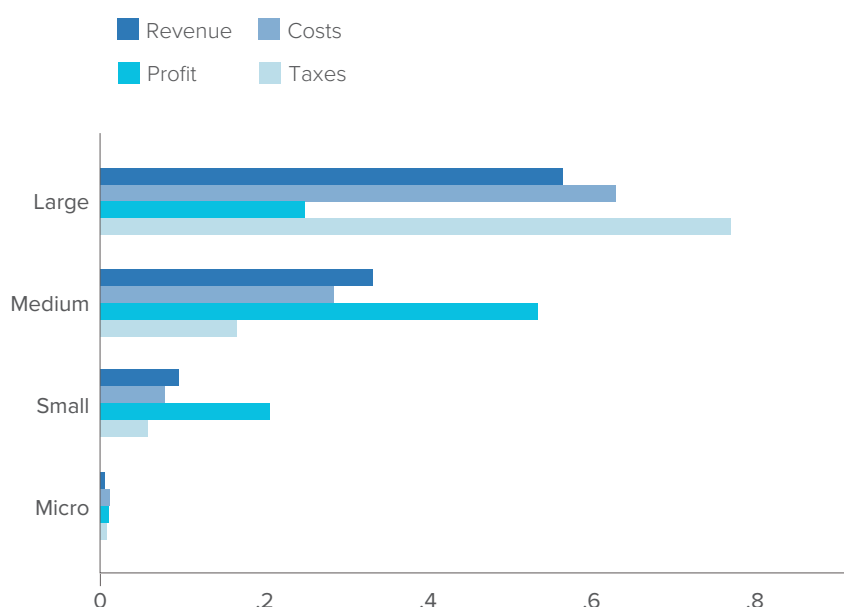
PUBLIC BOTTLENECKS

As shown in Figure 20, the few (four percent) of large firms in our sample account for almost 60 percent of total revenue, over 60 percent of total costs and close to 80 percent of total taxes. These figures are in line with data from the tax department (World Bank, 2021). Large firms contribute to aggregate costs (and taxes) more than to aggregate revenues, implying that their contribution to aggregate profits is lower than that of smaller firms. Indeed, medium firms

contribute more to aggregate profits than large firms. This fact can have relevant implications for the overall economic system if large firms are more productive and generate more employment. Thus, the tax structure could affect firms' capacity and/or incentives to grow. This section explores to which degree the observed distribution - both on the extensive and the intensive margins - of taxes across firms of different sizes can explain this aggregate outcome.

Figure 20: Contribution of firms by size to total revenue, costs, profits and taxes

Market and taxes share in 2019 - firm size



Tax compliance is low in Guinea-Bissau. Even among our sample of (almost entirely) formal firms, 31.8 percent of interviewed managers declared that their operating firm did not pay taxes at all in 2019. Firm size appears as a strong predictor of the

likelihood of a firm to pay taxes. As shown in Table 4, the proportion of firms paying taxes increases monotonically and substantially with firm size. Less than half (45.5 percent) of micro firms pay any form of taxes, while most large firms (93.8 percent) pay them.

Table 4: Paying and not paying taxes, by firm size

Paid taxes in 2019	Firm Size				Total
	Micro	Small	Medium	Large	
Yes	46	130	62	15	253
No	55	51	11	1	118
Not answering	6	19	3	0	28
Total	107	200	76	16	399
percent paying*	45.5 %	71.8 %	84.9 %	93.8 %	68.2 %

* Computed by dividing the number of "Yes" answers over the sum of "Yes" and "No" answers.

Among tax-paying managers, many consider taxes one of the main obstacles for their operations, with 79.1 percent of them considering these as a severe (50.6 percent) or moderate (29.1 percent) obstacle. Interestingly, while we have seen that taxes fall disproportionately on the large firms in our sample, their managers are not substantially more likely to consider taxes an obstacle than those of smaller firms. Indeed, 26.7 percent of them (the highest percentage for firms of any size) do not consider taxes an obstacle at all (see Table 5). Instead, micro-enterprise managers consider taxes a relevant obstacle, giving the lowest share of answers identifying them not as an obstacle (13.3 percent) and the highest identifying them as a considerable one (64.4 percent).

Among those tax-paying firms, microenterprises pay a much higher share of taxes over revenue,

total costs, and pre-tax profits than other firms - both when considering the mean²² and the median. This relatively larger fiscal burden might be one of the factors explaining the fact that microenterprises are much more likely not to pay taxes at all (Table 4).

In general, the incidence of taxes over revenue, costs and (pre-tax) profits decreases with firm size for MSMEs - both when considering the mean and the median. For large firms, the incidence of taxes over revenue is more prominent than for medium firms - when considering the mean but not the median - while it is not the case for taxes over total costs. Both the mean and the median for taxes over pre-tax profits are higher for large firms than for medium ones, a finding that is consistent with a high proportion of taxes falling on them.

Table 5: Share of managers identifying taxes as an obstacle, and average taxes over revenue paid, by firm size

		Firm Size				
Taxes as obstacle		Micro	Small	Medium	Large	Total
	Not an obstacle	13.3 %	24.0 %	16.1 %	26.7 %	20.3 %
	A moderate one	22.2 %	30.2 %	33.9 %	20.0 %	29.1 %
	A large one	64.4 %	45.7 %	50.0 %	53.3 %	50.6 %
Mean taxes relative to pre-tax profits*		18.36 %	7.85 %	6.46 %	20.58 %	9.93 %
Median taxes relative to pre-tax profits*		11.11 %	3.76 %	3.03 %	3.53 %	4.03 %
Mean taxes relative to revenue		7.59 %	3.68 %	1.80 %	2.22 %	3.78 %
Median taxes relative to revenue		5.00 %	1.55 %	0.83 %	0.18 %	1.60 %
Mean taxes relative to total costs		12.80 %	7.02 %	3.13 %	2.65 %	6.85 %
Median taxes relative to total costs		6.90 %	3.04 %	1.55 %	0.56 %	3.07 %
Number of firms**		45	129	62	15	251

* This is calculated only for firms with non-negative pre-tax profits, 3.2 percent of the firms with information on profits declared negative monthly pre-tax profits in 2019.

** Only firms that paid taxes in 2019 are included.

22 Except for large firms, which show very high mean taxes over pre-tax profits because of one firm with very low pre-tax profits.



Two main findings shed light on whether too-high taxes might be a core factor explaining the relatively high costs and lower profits observed for large firms. First, the clear difference between mean and median values observed for large firms in Table 5 points towards an important level of heterogeneity in the fiscal load supported by different large firms. Second, high taxes appear not to be a relevant factor in explaining large firms' high relative costs. Taxes represent on average 2.65 percent of large firms' total costs - with a corresponding median value of 0.56 percent - clearly below the full sample's corresponding values.

The tax system's perceived lack of transparency is a significant problem, with 68.6 percent of the managers interviewed not considering the country's tax system transparent. In contrast, 23.9 percent do, and 7.5 percent do not understand the question or do not know what to answer. A simple regression analysis shows no clear association between the answer to this question and firm size, the level of education of the manager, being based out of Bissau, paying taxes, or the amount of taxes paid. Similarly, regression analysis shows that none of these variables is strongly associated with the probability of being asked for a bribe when paying taxes, an eventuality expected in 38.8 percent of cases (Figure 13).

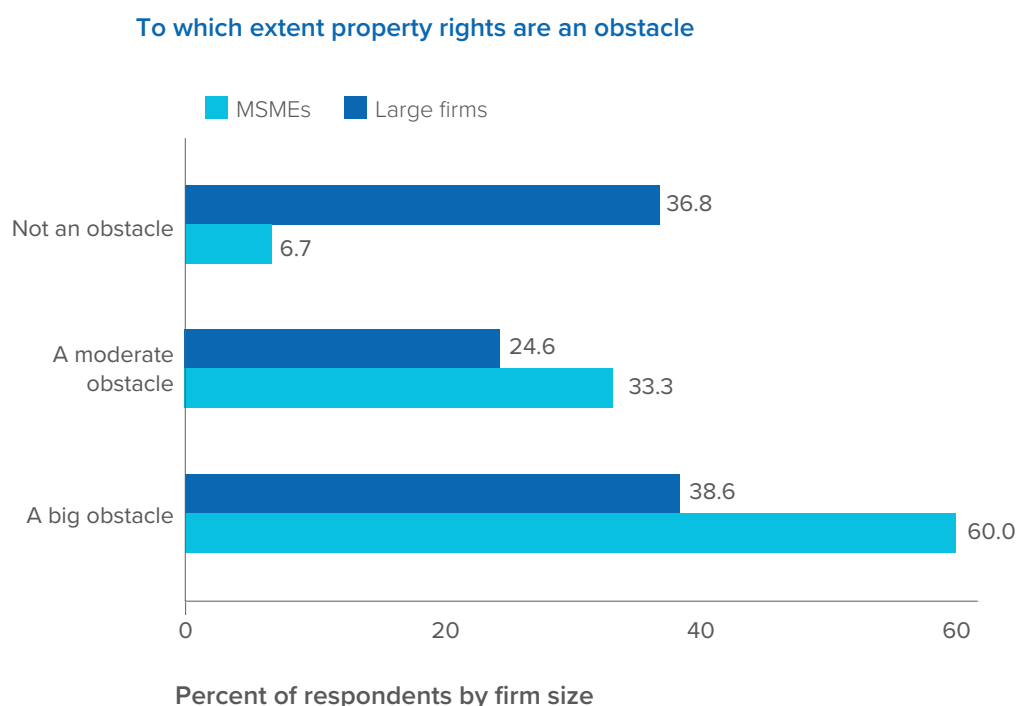
6.5 Other political obstacles: land property rights, commercial licenses and labour regulation

When asked about property rights, 35.7 percent of managers surveyed consider the issue a strong obstacle, while 22.6 percent said the problem is moderate. While these percentages are rather low, they still indi-

cate a rather serious barrier for an important proportion of firms. The Doing Business 2020 Report (World Bank, 2020) assesses the legal configuration of land transactions as costly in Guinea-Bissau. Purchasing a property takes 48 days, and land registration costs 5.4 percent of the property's value. The 1998 Land Law marked a regulatory step forward in providing stronger tenure security to attract private investment and boost the land market while maintaining the constitutional principle of land as state property. However, successive governments have failed at implementing the law since it was approved more than 20 years ago.

Figure 21 shows that the extent to which land property rights are an obstacle to business operations depends on firm size. Managers in large firms are much more likely to consider them an obstacle than managers of smaller firms. As we can see in Figure 21, while around one-third of MSMEs managers consider land property rights not to be an obstacle, only 6.7 percent of large firms' managers share this opinion. The proportion of managers in large firms considering the current land situation as a moderate to severe obstacle is substantially higher than that of MSMEs' managers. Within MSMEs, we see a monotonic increase in the proportion of managers concerned with land property rights in the country as the size of the firm increases. The share of managers considering the current situation with land ownership as an obstacle to business is more prominent in medium firms than in small ones, and this share is larger in small firms than in micro-ones. Still, the most significant difference in this regard takes place between MSMEs and large firms.

Figure 21: Distribution of managers (of MSMEs and large firms) answers to the question “To which extent do you consider the situation of land property rights an obstacle for your firm’s operations?”



Note: For the Figure, we exclude those observations for which managers do not know what to answer or refuse to do so.

Commercial licenses and labour regulation are the two factors less likely to be considered an obstacle for firm operation in our study. However, these two factors are still an obstacle for almost 50 percent of the sample. Commercial licenses are officially required for the activities of 71 percent of firms in our sample, and 97.5 percent of managers declare

their businesses have the licenses legally required for them to operate. 42 percent of the firms with a commercial license have applied for one in the last two years. The average waiting period is 14 days, as reported in Figure 14, and 20 percent of firms are asked for a bribe in the process. The probability of being asked for a bribe is not correlated with firm size.

7. Market dependant obstacles



7. Market dependent obstacles

In this subsection, we analyse the managers' responses in those topics that, while significantly affected by the government's policies, are determined considerably by market dynamics and other socio-economic factors depending on the private sector. We analyse the market-dependent ones following the order of relevance derived from managers responses, as reported in Figure 10.

7.1 Access to finance and investment

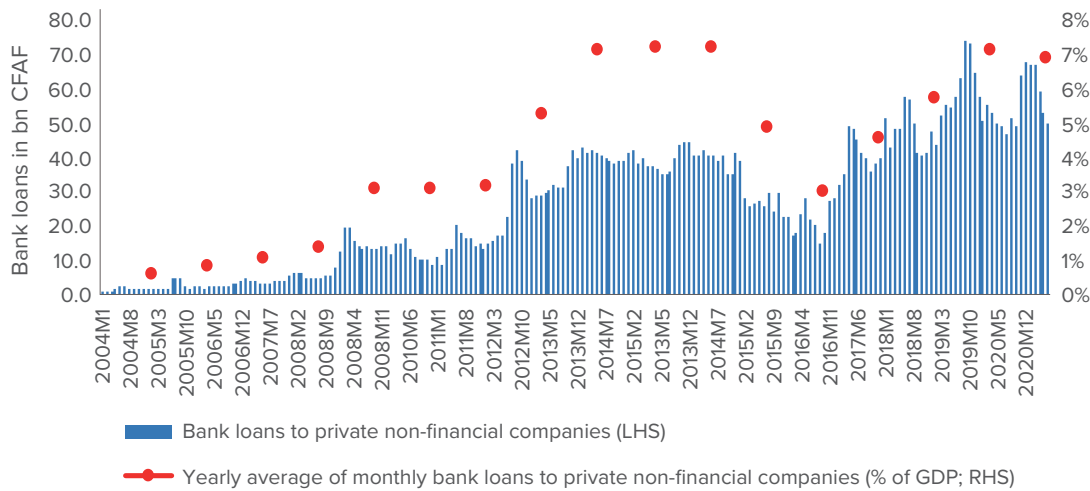
Financial markets enable payment services and provide financing for investment. Their adequate functioning is essential to reduce the reliance on internal funds and informal sources, increasing resilience against adverse shocks. Easier access to finance allows catalysing innovation and employment.

As summarized in the World Bank CEM 2020, Guinea-Bissau's financial sector is small and underdeveloped, making access to finance a key obstacle for entrepreneurs. The banking sector is limited and lacks competition and penetration. While bank loans to private companies have enormously increased in recent years (Figure 22), most bank loans to the private sector go to households (Figure 61). Micro-finance has failed to take off, and the promising development of digital financial instruments, including mobile money, lacks behind neighbouring countries. Still, formal loans are much more common among formal enterprises than informal credit. The results from this study portray access to finance constraints on every front for Bissau-Guinean businesses, especially for smaller firms with less developed accountancy and management practices. The trend in increased banking credit to businesses, growing financial inclusion rates (through mobile money) and managers' willingness to embrace digital alternatives open a window of optimism.

The banking sector in Guinea-Bissau is limited to only one local and four regional banks, accounting for a total of 21 branches, thus tiny and highly underdeveloped. It is well-known that the levels of non-performing loans in the country are high and volatile, with a strong association with the performance of the cashew market (see for example Santi 2014 or IMF, Selected Issues 2015). This arguably limits access to credit for businesses in the country. Accordingly, access to finance, such as start-up capital or investment financing, has been mentioned as a significant obstacle by 70 percent of managers interviewed and a considerable obstacle by another 10 percent. A Ministry of Trade and Industry study in 2020 also identified access to finance as an obstacle for 80 percent of firms interviewed. Figure 22 shows that bank loans to private businesses have strongly grown in the last decade. However, they are still at seven percent relative to GDP, the same level as 2012 and the second lowest in the WAEMU - only Niger fares slightly worse.

Moreover, it is striking to note that on average, in the WAEMU, two-thirds of private sector loans from banks go to businesses. In Guinea-Bissau, similarly to Niger, more than half of loans to the private sector go to households, again underlining poor credit access for businesses. This fact becomes more striking considering that the bank penetration rate among inhabitants is only around 10 percent. Additionally, around 95 percent of all loans to businesses go to the service sector, mostly resale and wholesale trade (BCEAO, 2020). Hence the loans are mainly used to fund imports or exports than for activities with a higher added value. The banks' weak governance and their high risk-aversion are factors that undermine their functioning (World Bank, 2020).

Figure 22: Bank loans to private companies between 2004 and 2020



Source: BCEAO, 2021

7.1.1 Financial access

Half (50.4 percent) of the interviewed firms in the sample have previously requested a loan (from any source, either formal or informal).²³ Firm size appears to play a central role as loan requesters' share is monotonically increasing with firm size: 43.1 percent for micro, 48.5 percent for small, 59.2 percent for medium, and finally 81.3 percent for large firms. See the dark-blue column in Figure 23.

Receiving a loan, which depends on the bank's approval and/or the acceptance of lending conditions by the borrower, is again correlated with firm size. Only about a quarter of all interviewed firms have ever received at least one loan. Only 22 percent of microenterprises ever got a loan. This share increases to 28 percent for small, 34.2 percent for medium, and 68.8 percent for large enterprises, as in the far-right column in Figure 23. Neverthe-

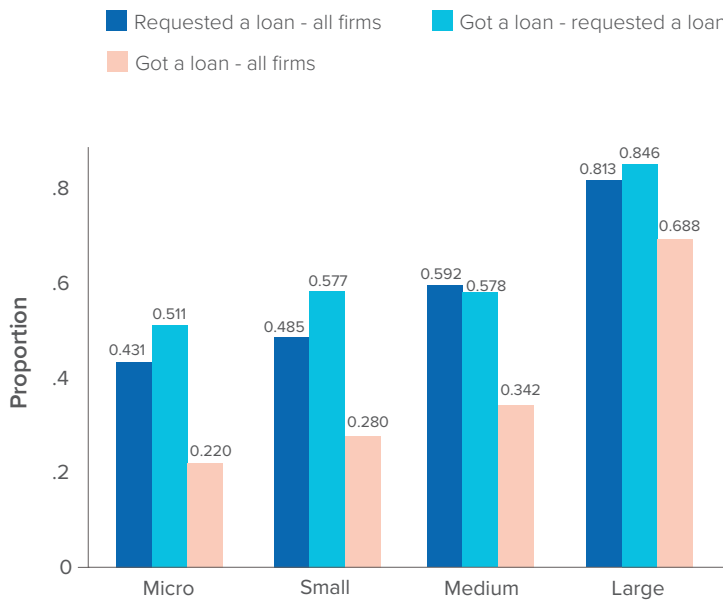
less, we must bear in mind that smaller firms are not only less likely to receive a loan, but they are also less likely to request one, mostly because they are discouraged by a variety of reasons (see Figure 25). That is why the middle column shows the percentage of firms by size that received a loan among those which have ever requested one. As we have seen, smaller firms are less likely to request a loan. Thus, only 51.1 percent of microenterprises requesting a loan manage to get one.

Moreover, the situation is not much better for the small and medium firms, which only get a loan around 57.7 percent of the times they apply for one. The approval/acceptance ratio for large firms is much higher, 84.6 percent. Overall, only about half (57.9 percent) of those firms that have requested a loan have received it.

²³ This was carefully explained to the interviewed managers.

²⁴ As shown in Figure 25, only 4.5 percent of managers in firms that never requested a loan declare the firm never needed one.

Figure 23: Proportion of firms that requested and got a loan over the total, by firm size



Note: The second bar shows the proportion of firms getting a loan among those that requested one, by size. The third column shows the proportion of firms by size that got a loan among the total in that category, independently of whether they ask for one or not.

All formal firms in the country must have a bank account to register. For those firms that received loans in the past, 28.2 percent of managers interviewed indicated they mostly or always received informal loans (compared to 69.2 percent that mostly or always received formal ones). The dependency on informal loans decreases with firm size. While 36 percent of micro firms indicated their prevalence of borrowing informally, no large firm manager indicated this.

7.1.2 Loan characteristics

Three quarters (75.2 percent) of firms that have previously received a loan received it in the last three years. This section will present the specific characteristics of the firm's highest loan during the period 2017-2020.

The highest loans average value was 46.3 million XOF, with a standard deviation of 100.7 million and a much lower median of 10 million XOF.²⁵ The high average value is driven by a few medium and large firms receiving large loans (10 firms have received loans over 100 million XOF). The size of loans typically stays at reasonable values relative to each firms' revenue. The highest recent loans' mean value corresponds to 4.9 months of revenue in 2019 (standard deviation of 5.9). The median is 2.9 months. The gap between

the median and the mean is explained by a few micro and small firms, which received small loans in absolute terms but large relative to the firm's revenue.²⁶

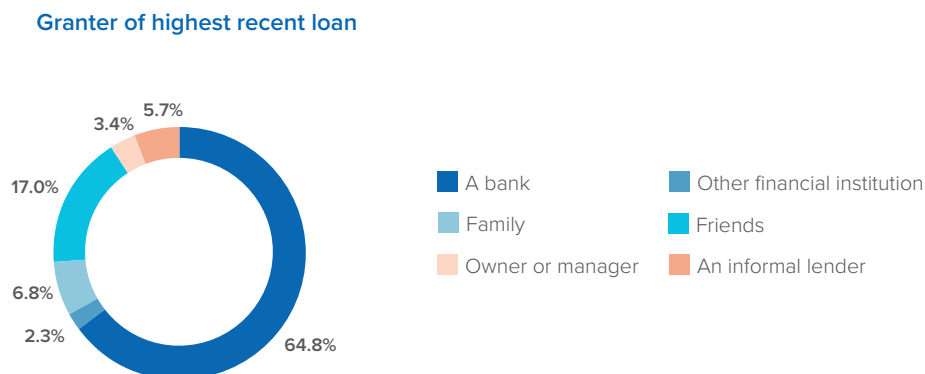
Looking at the timing of the loans, February (15.5 percent) and April (17.2 percent) concentrate a significantly higher percentage of loans, with November and December (3.45 percent in both) the lowest. The rest of the months account for between 5.2 percent and 8.6 percent of total loans. The higher proportion of loans in February and April is probably associated with the start of the cashew season, which typically lasts from the end of March until August.

The finding that most formal firms get their loans from established lenders also applies to the highest loan received. Around two thirds (64.8 percent) of firms indicated they got their highest loan from a commercial bank. One-third of firms received their highest loan from informal sources, with friends representing the most relevant source providing 17 percent of all loans (see Figure 24).

²⁵ Out of the 88 firms that got at least a loan in the last three years, the managers did not remember the value of the loan in three cases. Hence, we know the value of the highest loan for 85 firms: 96.6 percent of firms that at least a loan in the last three years and 21.2 percent of the total sample.

²⁶ For example, a firm with 65,000 XOF of monthly revenue in 2019 got a loan for 1.6 million XOF to buy a small machine, resulting in a ratio of 24.6.

Figure 24: Granter of the highest recent loan



Managers were asked if they remembered the interest rate of the loan, or the total amount repaid. A majority of formal borrowers (61 percent) could state the interest rate on their loan, while informal ones mainly indicated the reimbursed amount (83 percent). The annual average interest rate was 10.7 percent for formal loans (standard deviation of 3.4 percent). However, an annual interest rate of 12 percent was the median and mode, as it was attributed to two thirds (62.2 percent) of all loans.²⁷ The average annual interest rate for informal loans, mainly calculated from the indicated amounts received and repaid, yields a somewhat lower 7.9 percent. However, the variability is much higher, with the standard deviation being 13.8 percent, which can be explained by a considerable proportion of zero-interest loans, typically provided by family and friends. However, when excluding zero-interest loans, the average interest rate increases to 25.3 percent. Almost two-thirds of loans (64.8 percent) required collateral: 20.7 percent of informal loans and 86.4 percent of formal ones.

Around half (45.6 percent) of all firms that received a loan are currently without any debt to anyone. The

other half (54.4 percent) of firms have, on average, a debt level that represents 3.6 months of revenue during 2019 (standard deviation of 8.1). The World Bank Enterprise Survey (World Bank, 2020a) indicated a likelihood of 53 percent for African firms to fall into debt due to COVID-19. However, the concluding fact that only 13.2 percent of the firms in our sample have currently standing debts illustrates the many barriers that constrain access to credit in Guinea-Bissau.

A considerable proportion of firms in the sample (49.6 percent) have never requested a loan. The main reason appears to be the non-favourable conditions, with interest rates being too high (21.1 percent) or collateral requirements being too demanding (16 percent). It must be noticed that a considerable share of firms never requested a loan because they never needed one (23.1 percent) or were not eligible (7.5 percent). An additional 15.6 percent thought that the application procedure was too complex or did not know enough about it. Others were unsure of their future capacity to repay the loan (8 percent) or found that the amount approved was low or the time for reimbursement was short (4 percent). See Figure 25.

²⁷ Average for those 42 percent of managers that knew or remembered the annual interest rate paid on the loan. Most of those loans were offered by banks (34 out of 37), with the other 2 getting the loan from "another financial institution" and 1 from a close family member.

Figure 25: Proportion of firms that requested and got a loan over the total, by firm size



Around half of the firms that requested but did not get a loan indicated that the borrowing conditions were not acceptable. Nearly 33 percent indicated that collateral requirements were too high, and 17.7 percent mentioned excessively high interest rates as the primary reason for not accepting the loan. Roughly a quarter (23.5 percent) of managers do not know or cannot explain why they did not get the requested loan(s).

The underlying issues related to credit lending are multifaceted on its supply and demand side. The CEM (World Bank, 2020) pointed out that “on the supply side, credit provision is hampered by the absence of credit information on applicants.” Even though the WAEMU initiated and established a regional credit bureau, its coverage only includes 1.2 percent of adults - the SSA average is 11 percent. Additionally, the weak judicial system for debt collection presents another obstacle to granting credits. On the demand side, financial institutions often mention the “lack of eligible collateral and inadequate credit applications” (CEM, 2020). Inadequate business plans, low financial literacy, and poor accounting practices in many firms were identified as reasons to deny credit.

7.1.3 Business plan, financial records, and access to credit

A large number of studies relate MSMEs’ access to credit with the development of business plans and keeping clear and organized financial records (see for example Ricupero et al (2001) or Nkundabanyanga (2014)). The argument is that keeping organized financial records and developing sensible business plans,

frequently associated with higher levels of managers’ financial literacy, facilitates enterprises to defend their capacity to repay loans, increasing their credit-worthiness. Good accounting practices are scarce in the case of Bissau-Guinean formal firms, with recent estimates noting that less than five percent of businesses registered with the tax administration maintain financial statements (World Bank, 2020).

In our data, 51.5 percent of managers say their firm has a business plan with production or sales targets. However, only 38.4 percent of these firms were monitoring any indicator. For those who did, the average number of indicators was 1.8, with a standard deviation of 1.5 (the median is 1). These questions referred to having a business plan and indicators in 2019. When asked about mid-term plans, 37.4 percent of managers in firms with a business plan say they do not have plans for the mid-term. Among those that do, only 24.8 percent have business plans which are longer than three years. To get evidence that goes further than self-declared views, we instructed enumerators to get the information from the firm’s records whenever possible. 12.2 percent of managers gave their information mainly from the firms’ records. Considering only the interviews which took place at the firm’s locale, these percentages increase to 20.7 percent.

Whether the manager declared the firm has a business plan does not seem to play a relevant role in explaining access to credit in the past. On the other hand, the source of the firm’s information obtained to answer the survey is correlated with access to credit. Those firms that got their information for the interview



MARKET DEPENDENT OBSTACLES

directly from records, or a mix of records and manager's knowledge, are much more likely to have ever received a loan than those that got information only from the manager's knowledge. The survey revealed that 67.4 percent of firms that got the information from some firm records ever got a loan, while only 49 percent of the rest did. The regressions in Table 6 show the significant and relatively robust coefficient

associated with the variable "some data registry," indicating that firms that provided a considerable amount of information from their own records are about 10 percent more likely to have accessed credit in the past than the rest. Controlling for many other factors, large firms, firms with more bank accounts, those with some female managers and firms that contact their customers mainly through the internet are significantly more likely to have gotten a loan in the past.

Table 6: OLS regression explaining whether the firm received a loan, among the firms in the sample

	(1)	(2)	(3)	(4)
Some data registry	0.112** (0.016)	0.0938** (0.036)	0.0812** (0.094)	0.0633 (0.219)
Indicators monitored	0.00756 (0.750)	-0.00268 (0.890)	0.0249 (0.146)	-0.0170 (0.359)
Bank accounts		0.0979*** (0.000)	0.107*** (0.000)	0.0929*** (0.001)
Small firm		0.0411 (0.416)	0.00798 (0.877)	0.00360 (0.949)
Medium firm		0.0517 (0.464)	-0.0174 (0.801)	-0.00101 (0.989)
Large firm		0.301*** (0.006)	0.164 (0.177)	0.275* (0.078)
Number of managers		-0.0221 (0.411)	-0.0225 (0.370)	-0.0266 (0.346)
Female managers		0.111** (0.023)	0.110* (0.055)	0.115* (0.064)
Customers by phone		0.0448 (0.377)	0.0556 (0.345)	0.0359 (0.586)
Customers by internet		0.217** (0.014)	0.222** (0.011)	0.206** (0.041)
Constant	0.240*** (0.000)	0.0196 (0.772)		
Controls 1	N	N	Y	Y
Controls 2	N	N	N	Y
Observations.	399	398	398	371
R2	0.0157	0.116	0.263	0.269

p-values in parentheses

*p < 0.10, **p < 0.05, ***p < 0.01

Note: See appendix 1 for a description of the two groups of control variables. The constant is omitted for regressions (3) and (4) because of the inclusion of controls. These cause the drop in observations in column (4).

7.1.4 Investment

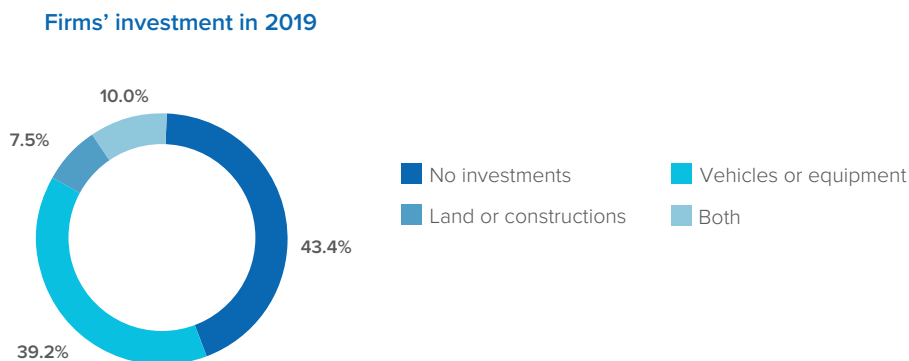
In our survey, 43.4 percent of the interviewed firms indicated that they made no investments during 2019. While 43.9 percent of MSMEs did not make any investment, 69 percent of large firms did invest.

As we would expect, access to credit is associated with increased investment. The increase in loans to companies in the last two decades, which we saw in Figure 22, is reflected in a strengthened relation between credit and investment access. In the 2006 Enterprise Survey for Guinea-Bissau (World Bank, 2006), less than one percent of investments were financed by bank loans, while 85 percent came from internal funds. Considering the extensive margin, 74.3 percent of firms that got a loan in 2019 made some investment, while this percentage is 54.9 percent for those that did not get a loan. On the other hand, considering the intensive margin, having obtained a loan in 2019 is associ-

ated with an increase of 18.2 million XOF in investment. This Figure is slightly larger than the average investment for firms that invest at all in our sample and one-third of this variable's standard deviation.

A lack of machines and technology was indicated as one of the main obstacles for firm operations. Most investments have been directed at improving equipment, with 49.2 percent of firms in the survey sample investing in this category of assets (see Figure 26). However, the value of these investments has been relatively small, with an average value of 11.9 million XOF or 2.3 months of revenue, and very different across firms (standard deviation of 36.5 million XOF). A median of 3.7 million XOF or 0.77 months of revenue further identifies that most equipment investments are relatively small, explaining the expressed lack of machines and general technology.

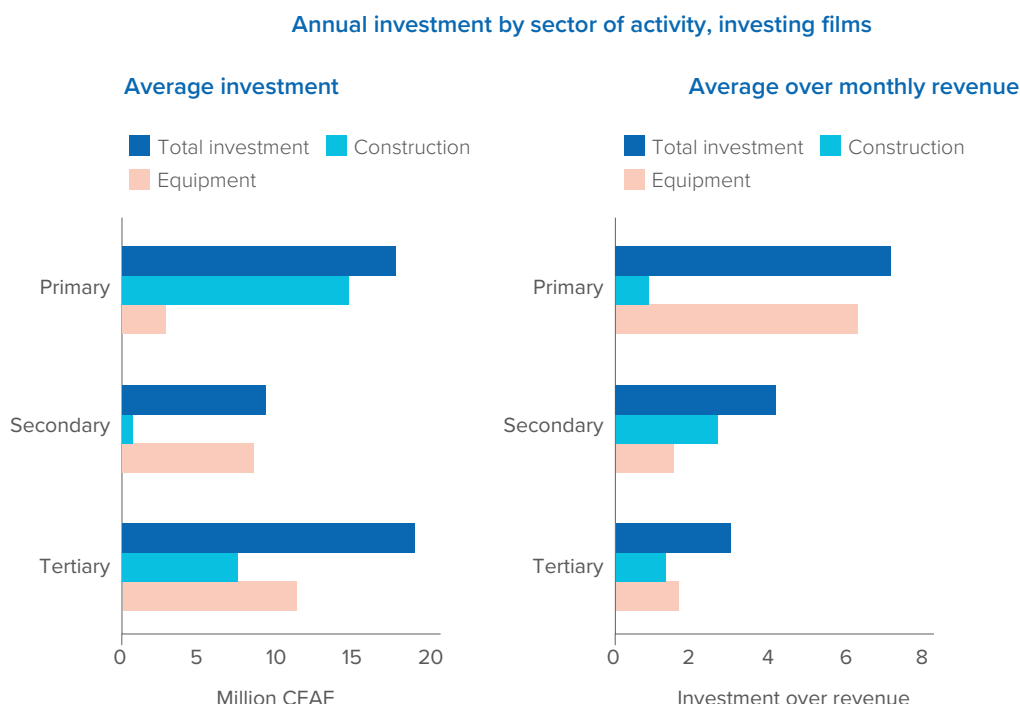
Figure 26: Firms investment categories in 2019



A slightly smaller fraction of firms invested in construction, renovations, or land purchases. While the average of this type of investment is 21.8 million XOF (standard deviation of 62.5 million XOF) or 5.2 months of revenue, the median is only 3 million XOF or 0.75 months. Again, this indicates that a small number of firms conduct substantial investments. In contrast, most firms that invest in construction did so in small amounts. Overall, the average total investment for the firms in 2019 was 17 million XOF (standard deviation 54.5) or 3.6 months of revenue. Thus, the median is lower and equal to 4.43 million XOF or 0.9 times the firm's monthly revenue.

When we look at investment by sector of activity, the most striking discovery is that firms in the secondary sector invest very little. As we can see on the LHS of Figure 27, the average investment for firms in the secondary sector is about half of that for primary and tertiary sector firms. On the RHS we can see that, for those firms that invest, investment over revenue is substantially higher for primary sector firms, at about seven months of revenue. Investment represents over four months of revenue for secondary sector firms and about three for firms in the tertiary sector.

Figure 27: Investment in construction and equipment and total investment for firms that invested at all in 2019, by economic sector

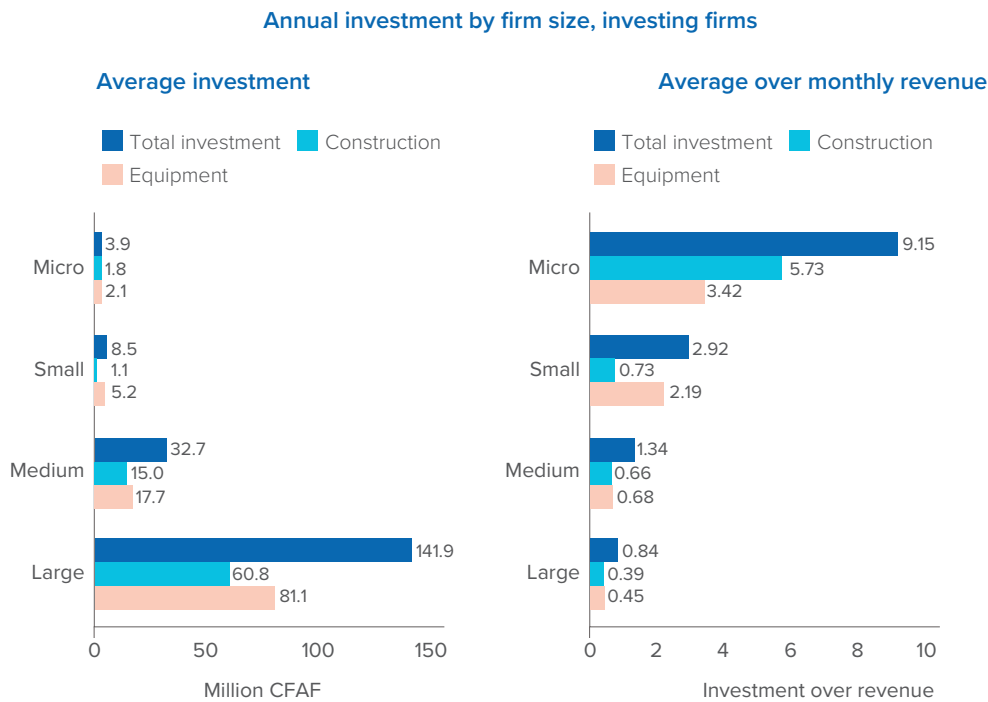


Note: LHS: average annual investment in 2019. RHS: average annual investment over monthly revenue in 2019.

When we consider the level of investment by firm size, we find a curious pattern. Average investment is substantially higher for larger firms, going from 3.9 million XOF for microenterprises to 141.9 for large firms (see the LHS of Figure 28), as one would expect. However, when considering the ratio of annual investment to monthly revenue, we note that in 2019 large firms' investments represented a much lower proportion of their monthly revenue when compared to smaller enterprises. While the average annual investment for microenterprises that invest represents 9.15

times their monthly revenue (with a median of 2.65), the corresponding Figure for large firms is just 0.84 (with a median of 0.4). For small and medium enterprises, these figures are 2.92 and 1.34, respectively (with a median of 0.9 and 0.33). In summary, large firms with better access to credit are more likely to invest and invest in much larger quantities. However, these investments are small relative to their revenue. An in-depth study could explore the causes behind these relatively low levels of investment among large firms in more detail.

Figure 28: Investment in construction and equipment and total investment for firms that invest at all, by firm size



Note: LHS: average annual investment in 2019. RHS: average annual investment over monthly revenue in 2019.

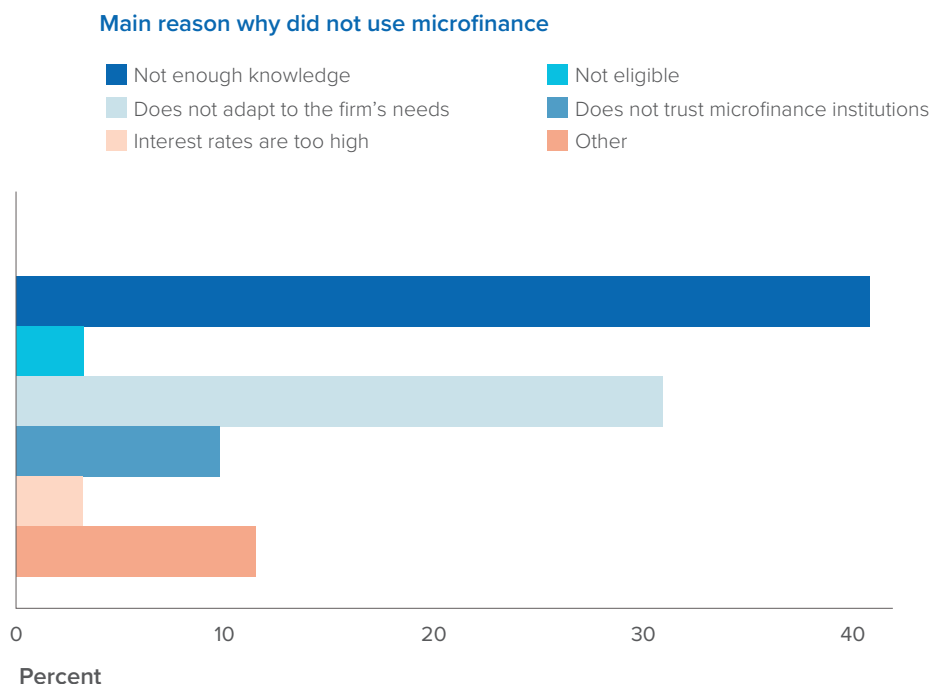
7.1.5 Microfinance

According to the World Bank Country Economic Memorandum (World Bank, 2020), “the microfinance sector has failed to take off” despite some development in the late 2000s. In 2012, assets in microfinance institutions (MFIs) only amounted to 0.1 percent of GDP. The survey results also reflect this lack of development of microfinance in the country. Only five percent of all interviewed firms (8.9 percent of the 202 firms that have requested a loan) stated that they had borrowed at least once with an MFI. Their majority (61.1 percent) said that they were not satisfied with the service, which led to about half (45 percent) to reduce or shut down their interactions with MFIs. Some (28 percent) that were satisfied also stopped borrowing from MFIs. 42.9 percent of firms’ managers that have reduced or stopped working

with MFIs explain it was because they find MFIs unreliable. According to the CEM, the closure of many MFIs is due to firms’ low repayment rates, MFIs’ high administrative costs and depleted cash balances, and lack of contract enforcement mechanisms.

Among those firms that never borrowed with an MFI, most (41 percent) indicated one of the main reasons to be that they do not have enough knowledge about them. Of all managers, 31.2 percent mentioned that MFIs are not well adapted to the firm’s needs. As one might expect, this response is widespread among medium (38.1 percent) and large firms (61.5 percent). In 9.8 percent of cases, a lack of trust in MFI was the primary reason managers do not use their services (see Figure 29).

Figure 29: Main reason why firms did not use microfinance when they needed a loan



Despite the poor experiences of those who borrowed from MFIs previously, most firms that wanted a loan do not know enough about MFIs. The microfinance sector in Guinea-Bissau remains in a developing state mainly because of the mentioned operating difficulties by MFIs, which did not allow them to be an alternative source of capital for entrepreneurs. It will be important that MFIs adapt well to firms' needs and the country's circumstances. Thus, they might rebuild trust among entrepreneurs so that they may play a role in expanding access to finance.

Digital financial services are just taking off in Guinea-Bissau. However, 69.8 percent of the firms that have ever requested a loan would like to have access

to loans through mobile money, with this proportion being even higher for micro and small firms. Hence, increasing access to loans through mobile money is likely to be a largely trusted and accepted alternative among the country's entrepreneurs.

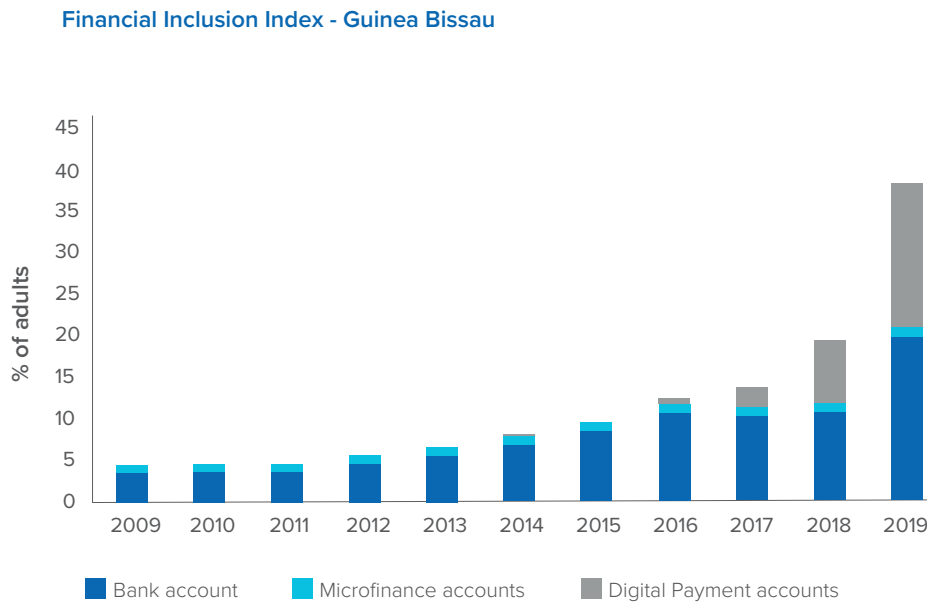
7.2 The digital economy and financial inclusion

There is a good prospect for faster financial integration through the adoption of digital services, especially mobile payment/electronic money systems²⁸. The advances in their adoption have increasingly contributed to financial inclusion in Guinea-Bissau (see Figure 30), especially in 2019. However, the country still scores the lowest among WAEMU members regarding the overall financial inclusion index (BCEAO, 2020²⁹).

28 So far there are only 2 providers of digital financial services. These are the digital money offers of the 2 telecommunication operators (MTN Mobile Money and Orange Money). (BCEAO, 2020a)

29 On the broadest indicator for financial inclusion, Guinea-Bissau scored 38.7 percent in 2019, while the WAEMU average was 60.1 percent. On the financial inclusion index (IFI), measured between 0 and 1, Guinea-Bissau scores 0.225, while the WAEMU average is 0.499. (BCEAO, 2020)

Figure 30: Financial Inclusion Index - Guinea Bissau



Source: BCEAO, 2020

The adoption and sophistication of digital payments are still much less advanced in Guinea-Bissau than in other countries in West-Africa. Only nine percent of the population in Guinea-Bissau actively uses a mobile money account. Simultaneously, the electronic transaction volume is only 1.8 percent of GDP³⁰ (UNCTAD, 2020). Two-thirds of transactions are replenishments and withdrawals of the electronic wallet. One-third corresponds to actual transactions, the majority of which are transfers to individuals. Only a tiny share are payments for goods or services, the transactions are largely phone credit top-ups. Digitalization penetration is generally low in Guinea-Bissau, which ranks 173 out of 176 in the ITU ICT Development Index. Nevertheless, there are around 80 mobile telephone subscriptions per 100 persons which, despite likely including multiple subscriptions per person, is above the average for Africa and Least Developed Countries (ITU, 2019)

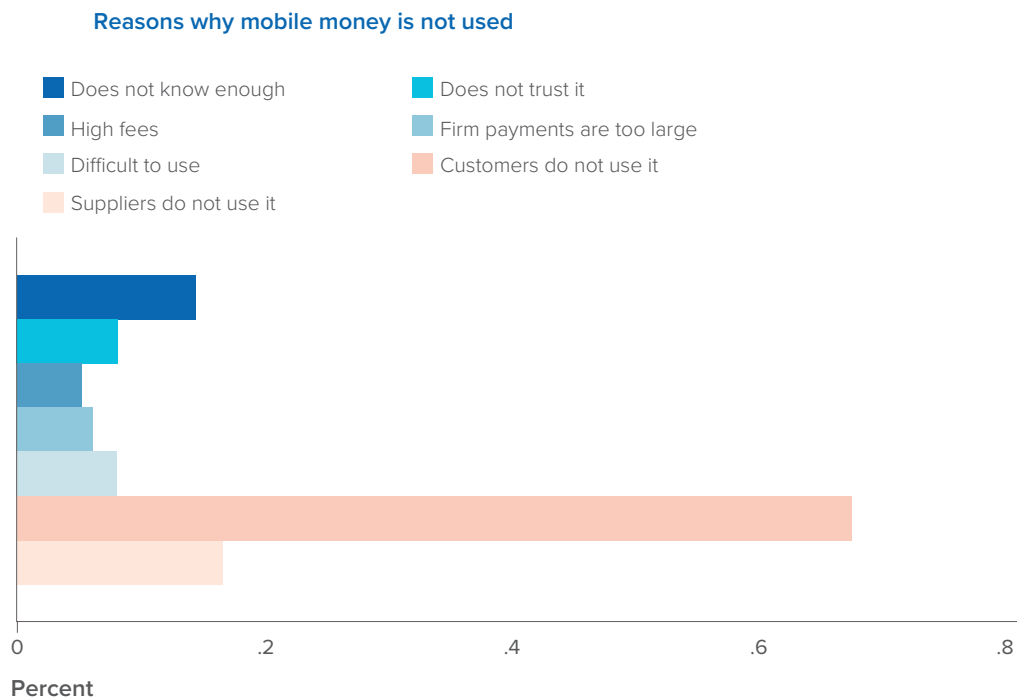
7.2.1 Mobile Money

Over one-third of sampled firms (39.2 percent) indicated they have used mobile money in their business. The proportion of firms that have never used mobile money is significantly larger among micro (70.1 percent) and large firms (68.8 percent) and lower for small (57.5 percent) and medium (53.9 percent) enterprises. Two-thirds (67.8 percent) of the managers who do not use mobile money argue that customers' lack of demand/use is the main reason for not offering the service. This is followed by the lack of demand/use by suppliers (16.5 percent). Only 14.4 percent mention that they lack enough knowledge about it (see Figure 31).

30 The WAEMU average is 19.3 percent for the percentage of the population actively using mobile money accounts and 40 percent of GDP for electronic transactions volume.



Figure 31: Main reasons firms do not use mobile money

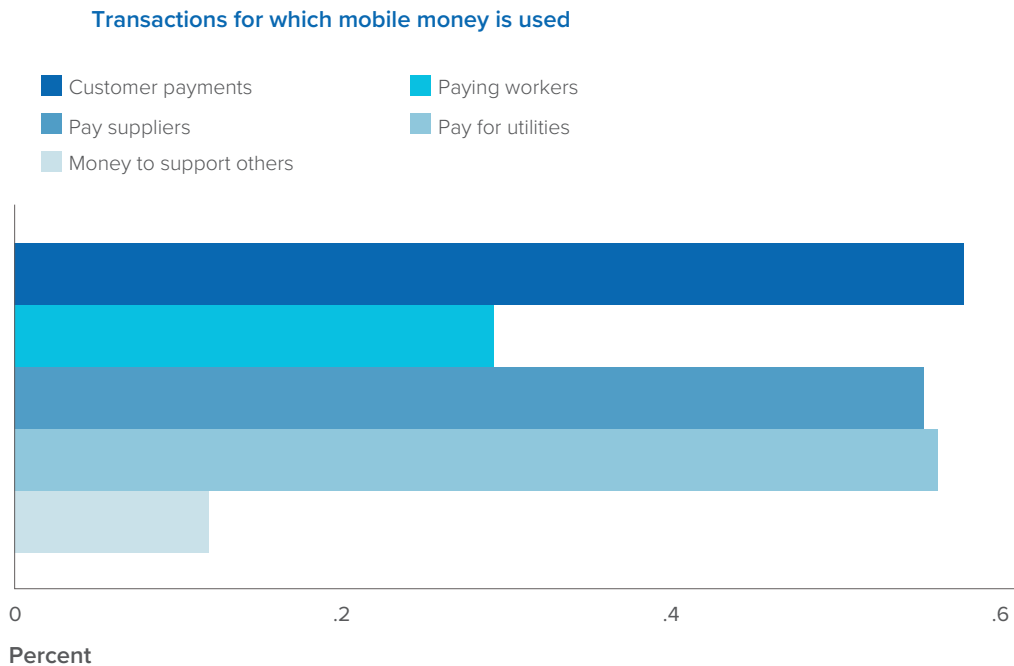


56 Managers of MSMEs who are not using mobile money are substantially more likely than large firms to indicate among the main reasons for not doing so is: 1) the lack of sufficient knowledge; 2) the fees are too high; 3) the difficulty of using it; and 4) that suppliers do not use it. Managers of large firms are more likely to answer that the firm payments are too large (18 percent), which is also a relatively common answer for managers of medium firms (12 percent), and that customers do not use it. Among MSMEs the percentage of managers pointing to the lack of demand by

customers as one of the main reasons is 74.7 percent for micro enterprises, 67 percent for small firms and 56 percent for medium ones.

More than half of the managers of firms that have made use of digital payments used it to receive payments from customers (58 percent) or make payments for supplies (55.4 percent) and utilities (56.4 percent). 29.2 percent of these firms use mobile money to pay workers, and 12.1 percent to support other firms or people in need (see Figure 32).

Figure 32: Main uses of mobile money, in percentage



About half of the firms using mobile money (50.3 percent) started using it to reduce the time taken by financial transactions. Reduction in costs was the main reason for adoption for 19.8 percent. Reducing the risks associated with financial transactions (10.8 percent), satisfying customers' requirements (10.2 percent), and satisfying suppliers requirements (4.5 percent) were less important motivators for its adoption.

These results show that digital financial services are not yet considered necessary for doing business in Guinea-Bissau. While some firms already appreciate the reduction in time and costs provided by mobile money services, the development of a good ecosystem for digital payments is lacking and hindering its mass adoption. Indeed, a vast majority of all firms (74.1 percent) would like to use mobile money more frequently in the future. Only 16.2 percent of managers responded that this is not their intention.

7.2.3 Internet access and digital inclusion

ICT infrastructure and especially access to the internet can foster e-commerce by enhancing communication between seller and customer. Via the internet, businesses can access a broader range of services and suppliers, getting more value for their resources. At the same time, they can benefit from more visibility among potential customers and access to new national and/or international markets.

Most WAEMU countries are connected to the internet via intercontinental submarine fibre-optic cables. However, Guinea-Bissau does not have access to any of those cables, making it dependent on a land-based connection through Senegal. This makes the access more costly and the physical infrastructure more subject to damage, originating service interruptions. Furthermore, frequent electricity cuts adversely affect the reliability of internet service providers.

Additionally, internet access in Guinea-Bissau is expensive. Based on data from 2019, the Alliance for Affordable Internet (2020) calculated that one gigabyte of internet costs 20 percent of per capita monthly gross national income (GNI), the highest relative costs in WAEMU. The limited affordability and the large coverage gap in the national territory have caused Guinea-Bissau to have the lowest internet adoption rate among all WAEMU members. In 2018, only 10 percent of Bissau-Guineans had an internet subscription. Another 27 percent of the population was covered by a broadband network but did not subscribe to mobile internet services (GSMA, 2020).

In our survey, 53.3 percent of managers identified the lack of quality access to the Internet as a strong obstacle to their firm operations, making it rank the fourth most important "market bottleneck" (see Figure 10). The Internet is currently the least

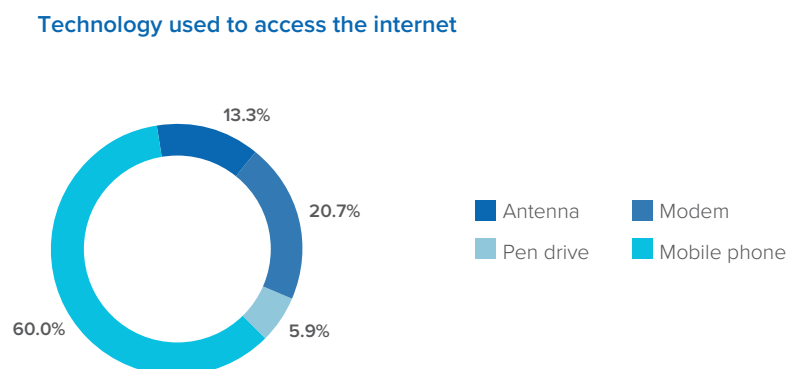


MARKET DEPENDENT OBSTACLES

used communication channel with customers. Of those firms interviewed, 67.3 percent reported they mainly communicate by phone. Another 22.9 percent usually interact with their customers in person. In 2006, 35 percent of firms in Guinea-Bissau reported using email to interact with buyers, suppliers or customers³¹ (World Bank, 2006). In our survey, 67.3 percent of respondents reported using the Internet for their daily operations. However, the Internet is the main communication channel with customers for only 9.7 percent of the firms in our sample.

In 2006, less than 10 percent of firms had a website. In 2020, 39.4 percent of the firms in our sample maintain a web page or similar, including a profile on some social media platform. Despite the positive trend, a connection to the Internet still appears to be more ad hoc than integrated into the firm's structure. In this sense, the absolute majority uses mobile phones (directly or via shared hotspot) to access the Internet (60 percent). Modems or pen drives account for 26.6 percent of the technologies used to access the Internet and fixed installed internet antennas are used by only 13.3 percent of firms (see Figure 33).

Figure 33: Main technology used to access the internet



The geographical and digital divide is considerable. 70.1 percent of firms in Bissau and Biombo use the Internet for daily operations. However, only 43.1 percent of firms in other regions do so. There is also an interesting divide between micro and small firms on the one hand and medium and large firms on the other hand. Around 63 percent of the former group uses the Internet for their daily operations, while up to 83 percent of the latter does so.

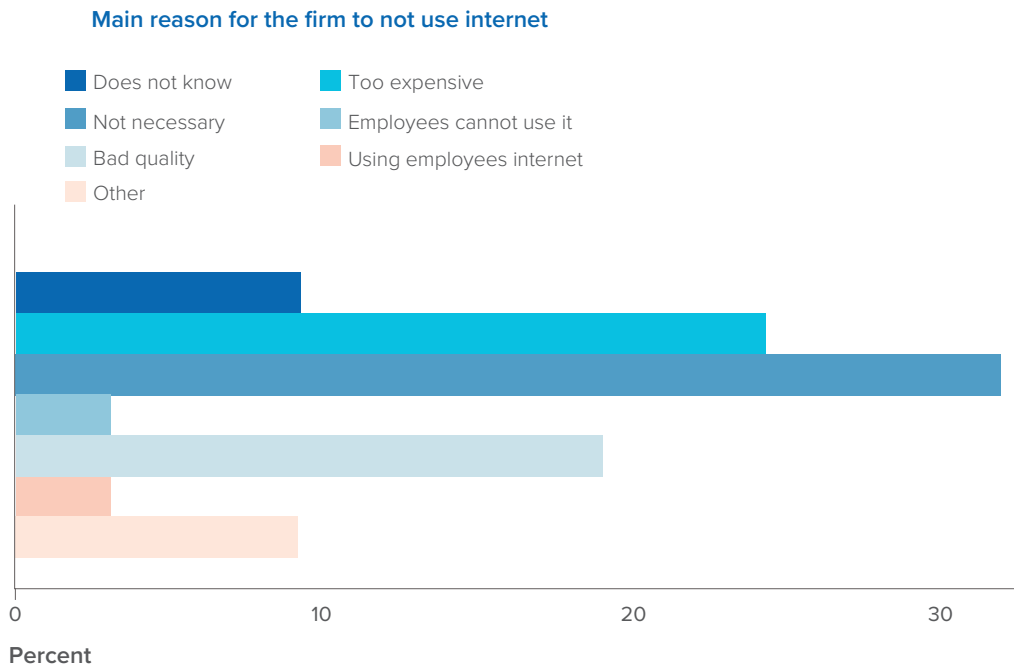
Among the 32.7 percent of firms that do not use the Internet, the main reason reported is the lack of need (32.1 percent), followed by the excessively high cost to access it (24.4 percent), and the bad network quality (19.1 percent), (see Figure 34). Surprisingly,

there is no significant difference by size in the share of firms not using the Internet because they do not find it useful for their business model. The firms' location seems to be a more effective predictor of this reason for not using the Internet. However, it is not clear which geographical attribute explains why the internet is not needed in some regions and in others, it is. There are regions with high economic dynamism levels – for Guinea-Bissau standards – where firms do not find it helpful to use the Internet for their business model, like Biombo (40 percent) or Bafata (50 percent). The percentage of firms not using the Internet because they do not need it range between 6.7 percent in Cacheu and 100 percent in Tombali.³²

31 The percentage of 35 percent of E-mail adoption is roughly in line with the average of all African countries (37 percent) and low-income countries in 2006 (34 percent).

32 The low number of firms in the regions outside of Bissau and Biombo call for a note of caution when generalizing these findings.

Figure 34: Managers' response when asked why the firm does not use the internet, in percentage



7.3 Supply chains and distribution channels

For a small open economy like Guinea-Bissau, trade across borders can be an essential factor pushing productivity, employment, and economic growth. The country is part of the ECOWAS area of economic integration and the WAEMU monetary union. In theory, this should ease the access of Guinea-Bissau firms to a broader market. With a Trade Openness Index of 57.8, Guinea-Bissau ranks statistically in the bottom quarter of a list of 177 countries. Additionally, exports are primarily raw cashew nuts. The fact that imports represent 35 percent of GDP mainly reflects the country's high dependence on imported essential consumer goods.³³ This section explores the supply chains and distribution channels of the firms in Guinea-Bissau. Hopefully, a better understanding of their bottlenecks might help in catalysing the opportunities that regional and international economic integration offers for export-oriented companies and efficient internal market consumption.

Firms' responses regarding importing and exporting have shown that it takes considerable time and involves the request for a bribe in half of the cases. Given the relevance of participation in international trade for a small open economy such as Guinea-Bissau, understanding the main barriers and bottlenecks preventing firms from efficiently engaging in international trade seems key to promoting the development of the country's private sector.

7.3.1 Exporting firms

Less than 10 percent of the firms in our sample export. The propensity to export increases with firm size, as can be seen in Table 7. Thus, while only 3.8 percent of the microenterprises in the sample exports, this percentage rises to 43.8 percent for large firms.

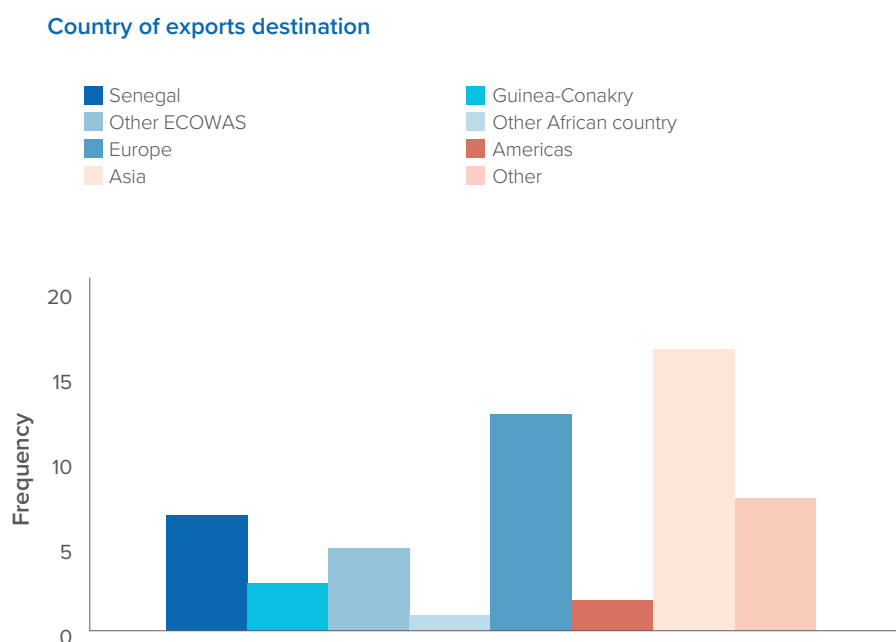
33 The sum of exports and imports account for 57.8 percent of GDP in the World Bank Trade Openness Index with the country ranking 132 of 170 countries (from more opened to more closed economies).

Table 7: Firms that exported in 2019 by size and among those developing their main activity in the cashew sector

Exported in 2019	Firm size					Operating in the cashew sector
	Micro	Small	Medium	Large	Total	
No	102	181	63	9	353	43
Yes	4	16	11	7	38	16
Total	106	197	74	16	391	59
Percent exporting	3.8 %	8.1 %	14.9 %	43.8 %	9.7 %	27.1 %

By sector, a vast majority of exporting firms focus on services, 21 percent identify mostly with the secondary sector and just 2.6 percent operate in the primary one. Of the exporting firms surveyed, 42.1 percent have their main activity in the cashew sector. Asia is the destination of the raw cashew nuts, while Europe is the primary market for processed cashew nuts (see Figure 35). Among firms dedicated to other activities, those in the secondary sector operate in

construction and rehabilitation (25 percent), and processing other agricultural products (25 percent), such as palm oil.³⁴ Tertiary-sector firms that export and are not classified within the cashew sector are generally import-export firms that declare trading a variety of products, including rice, cars, other agricultural products, and construction materials. Others are specialized in services such as dealing with import-export administrative requirements and tourism.³⁵

Figure 35: Country of destination for exports


34 With only seven exporting firms operating in the secondary sector in our sample, the representativity of these findings should be taken with caution.

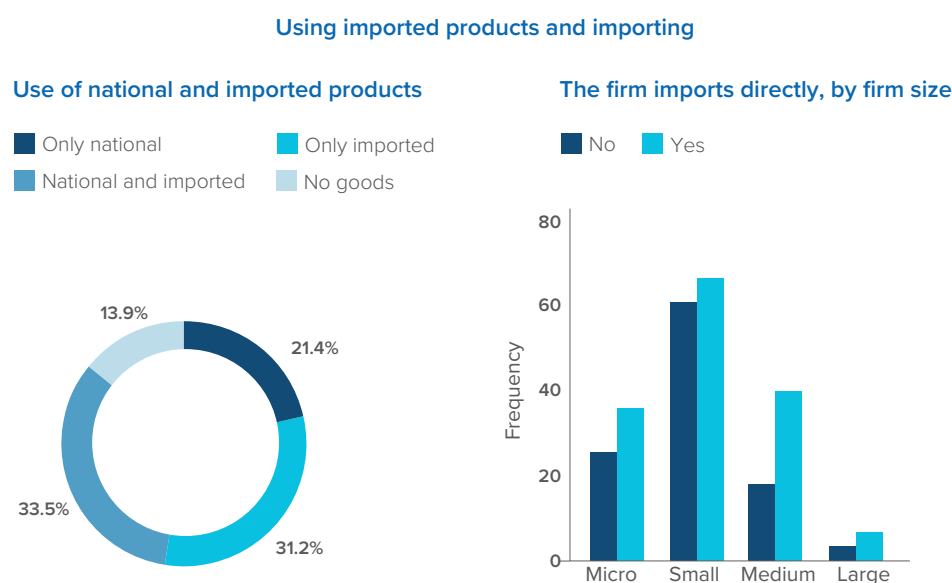
35 With 29 exporting firms in the tertiary sector and many possible categories, a statistical classification would not prove too useful.

7.3.2 Imported products and importing firms

Among the 257 firms in our sample that use imported products (see the LHS in Figure 36), 150 import goods directly (58 percent). Among those firms using imported products most of them import directly. The propensity to import directly increases with firm size

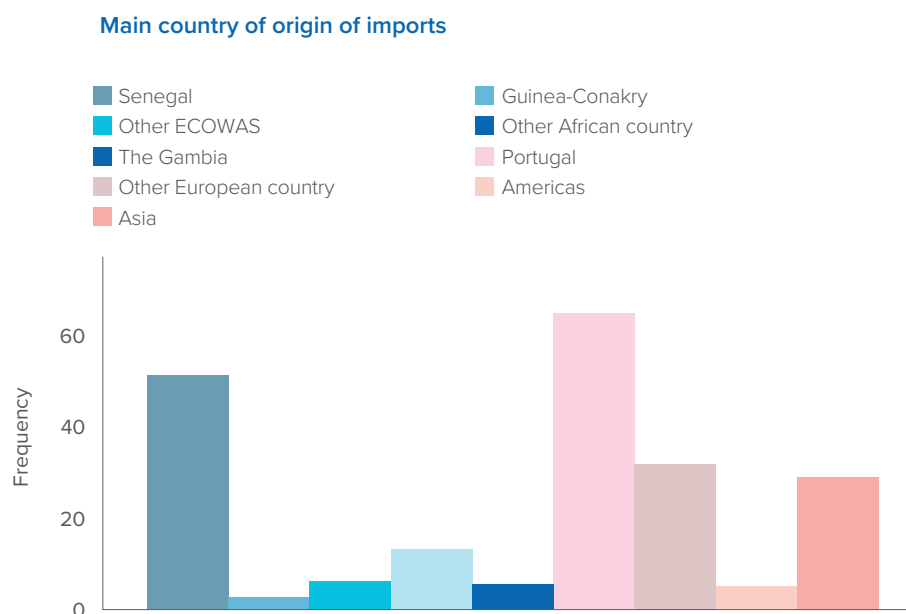
(see Figure 36, RHS). The percentage of firms importing directly among those importing increases from 57.4 percent for microenterprises and 52.7 percent for small firms to 70.2 percent for small /medium and 70 percent for large firms.

Figure 36: Firms using imported products



Note: Percentage of firms using national, imported or national and imported products (LHS) and number of micro, small, medium and large enterprises that import or not directly (RHS).

Figure 37: Countries of origin for direct imports





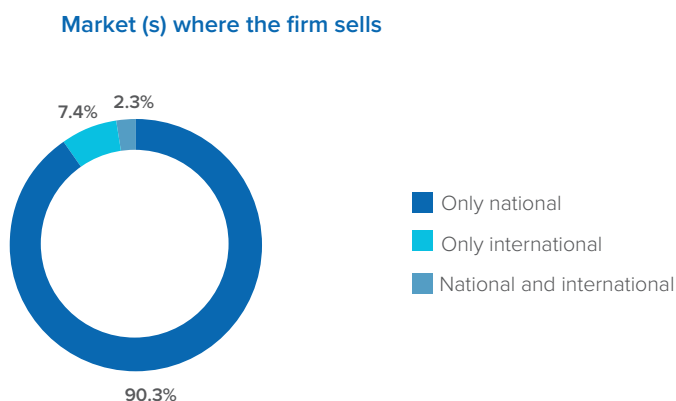
Portugal and Senegal are the main countries of origin of the products imported by the firms in our sample, followed by other countries in Europe and Asia (see Figure 37).

Overall, as presented previously, the substantial barriers and bottlenecks, such as complex, slow, and frequently corrupt import procedures, the bad quality of roads and difficulties with electricity and internet provision, decrease the efficiency of the country's supply chains.

7.3.3 Distribution channels

While exporting firms represent a large share of the market, the number of firms exporting goods and services is limited in Guinea-Bissau. As Figure 38 shows, over 90 percent of the firms in our sample only reach the national market. Only 9.7 percent of them reach the broader international market, with 2.3 percent selling exclusively outside the national borders.

Figure 38: Distribution of firms according to their market reach

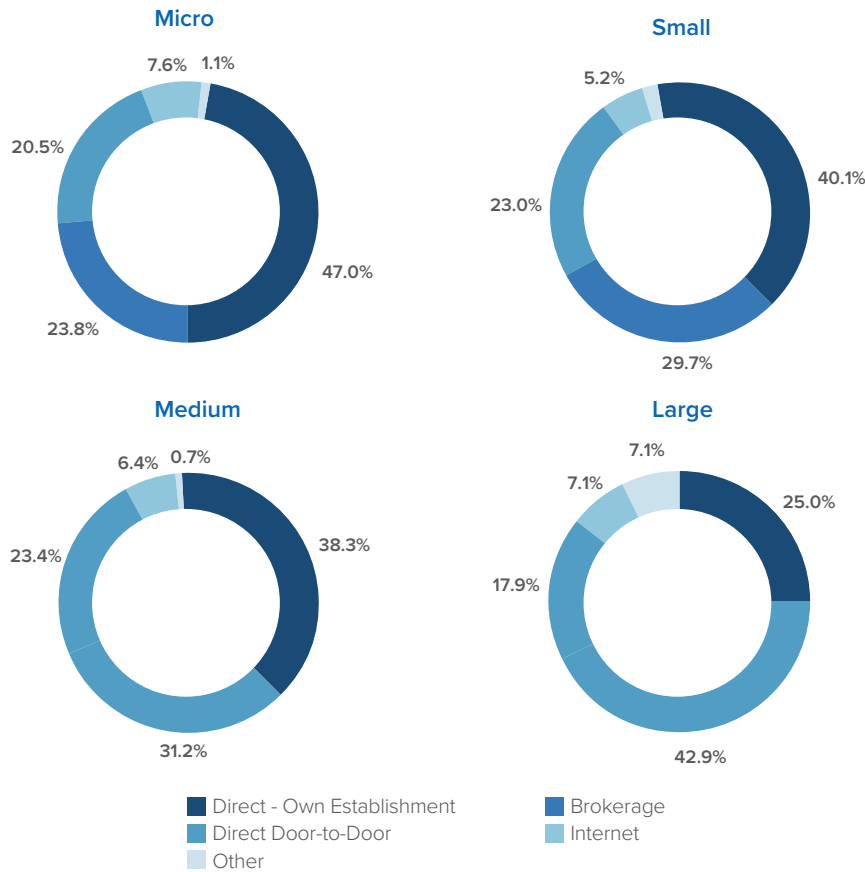


In summary, Guinea-Bissau enterprises' market reach is very limited, with a high percentage of them only operating at the local level and very few reaching out beyond national borders. Exporting firms are relatively well integrated into global markets and not limited to the African regional market, with Asia and Europe as important export destinations, as shown in Figure 35. Levering the positive effect of integration in global distribution on business sales and profit accumulation, policies targeting the improvement of export-driven economic competitiveness should be part of the national economic development strategy.

Figure 39 provides additional information to characterise the distribution channels employed by firms in Guinea-Bissau. Brokerage tends to increase at the expense of direct sales in the firm's establishments as size increases, with a clear divide between MSMEs and large enterprises. The former relies more on the usage of their physical establishments as the leading distribution channel – micro (47 percent), small (40.1 percent) and medium (38.1 percent), while large firms relying mainly on brokerage (42.9 percent). On the other hand, there is no substantial difference in the use of door-to-door and Internet distribution channels for firms of different sizes.

Figure 39: Main distribution channel, by firm size

National distribution channels, by firm size



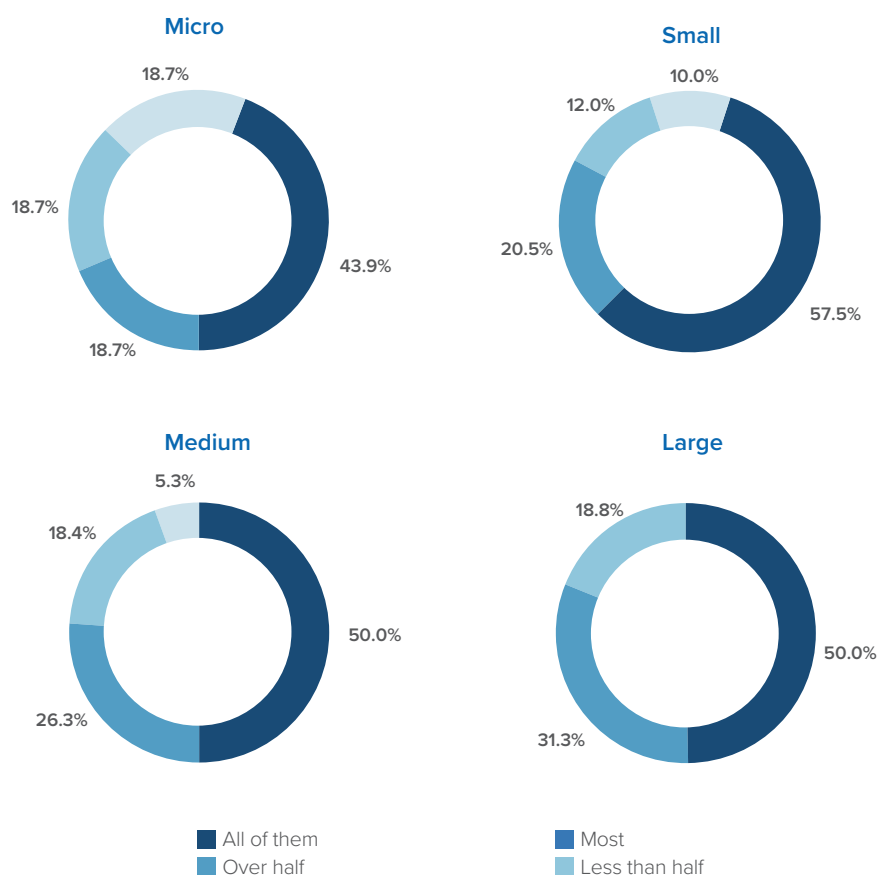
7.3.4 Productive diversification

Guinea-Bissau's economy is highly dependent on the production of raw cashew nuts and their export to primarily two countries, Vietnam and India. The country's lack of diversification has repeatedly exacerbated its fragility to adverse shocks, related to climatic and international market conditions.

The firms in our sample depend heavily on their primary activity as their unique source of revenue. Their primary activity generated the totality of their 2019 revenue for 52.1 percent, most of it for 21.6 percent, and more than half of it for 15.3 percent.

Only 11 percent of these firms got less than half of their total 2019 revenue from their primary activity. Disaggregation of these results by firm size shows that the income source is more diversified for smaller firms. The proportion of firms getting the totality of their revenue from their primary activity is comparable across MSMEs (52.2 percent) and large firms (50 percent). The proportion of firms for which the primary activity generates less than half of their revenue is inversely proportional to firm size: 18.7 percent for micro, 10 percent for small and 5.3 percent for medium firms. No large enterprise in our sample falls in this category (see Figure 40).

Figure 40: Proportion of sales corresponding to main activity, by firm size

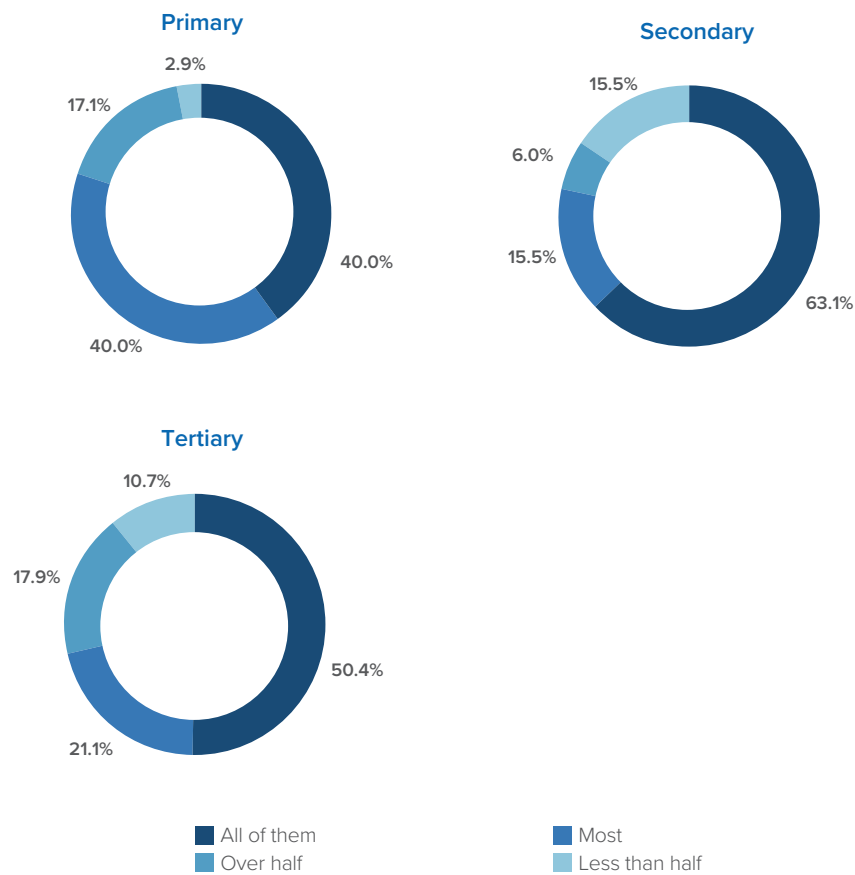


Note: “Most” is substantially closer to all sales than “over half.” This was clear to enumerators and managers in the creole version of the questionnaire.

Comparing the level of diversification in revenue generation by sector of economic activity appears to be more challenging. The primary sector shows both the lowest proportion of diversified firms (i.e., less than half of the total revenue from the primary activity, 2.9 percent) and fully non-diversified firms

(i.e., the totality of revenues from the primary activity, 40 percent). The proportions for these two extreme categories are the largest for the secondary sector, respectively 15.5 percent and 63.1 percent. Finally, the tertiary sector shows intermediate values for firms’ percentage in these two categories (see Figure 41).

Figure 41: Distribution of the proportion of total sales represented by the main activity, by firm size



Note: “Most” is substantially closer to all sales than “over half.” This was clear to enumerators and managers in the creole version of the questionnaire.

Promoting both product and customer diversification at the firm level should boost the resilience of both firms and the national economy.

7.3.5 Characteristics of the demand

A high proportion of the firms in the sample sell primarily to other businesses (45.2 percent) or both to other businesses and end consumers (30.2 percent), while just 24.6 percent sell only to end consumers. There are some differences in the characteristics of the demand depending on the size of

the firm. Over half of large and medium firms have other firms as main customers, which is the case for 62.5 percent and 55.3 percent, respectively. Many small and micro-enterprises also have businesses as their primary customers (respectively 43.4 percent and 40.9 percent). However, the proportion of these smaller firms selling mostly to final customers (28.8 percent and 25.3 percent) or a mix of both businesses and final customers (27.9 percent and 33.8 percent) is more prominent (see Table 8).

Table 8: Main customers in 2019 by firm size

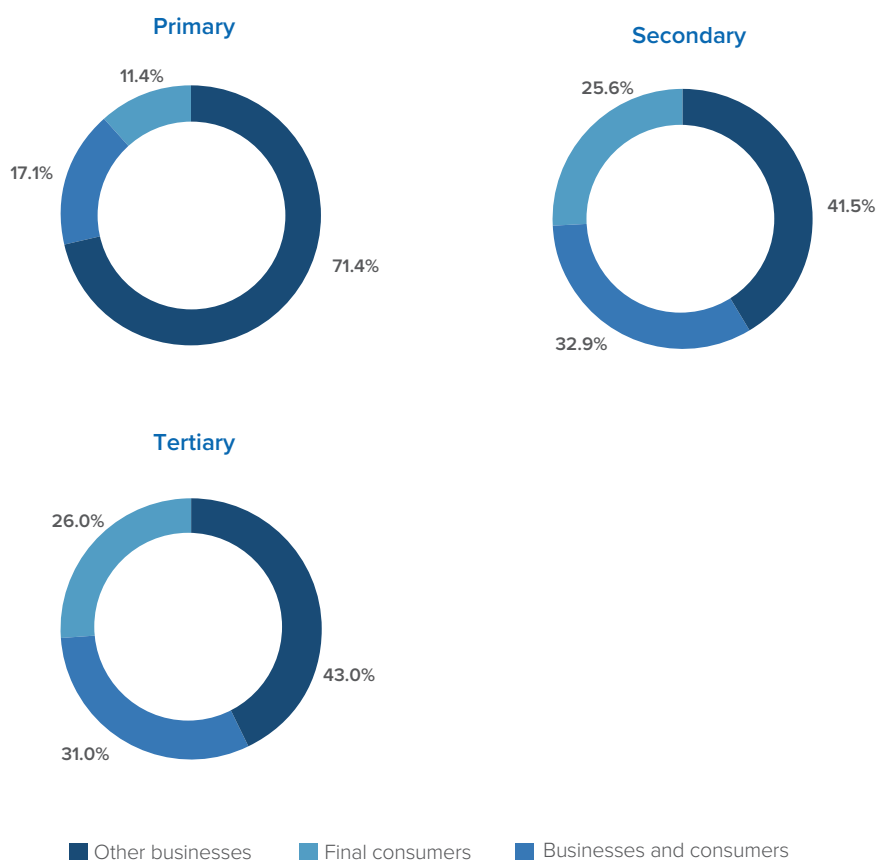
Main type of customers in 2019, (percent in each firm category, by firm size)	Firm Size				Total
	Micro	Small	Medium	Large	
Businesses	43.3	40.9	55.3	62.5	45.2
Final customers	28.8	25.3	17.1	25.0	24.6
Both	27.9	33.8	27.6	12.5	30.2

The variability of firms by type of main customer is larger across economic sectors than by firm size. The vast majority (71.4 percent) of firms in the primary sector operate a business-to-business model, while firms in the secondary and tertiary sector

have a more balanced distribution of customer types, with about one-fourth of them mainly selling to final consumers and over 40 percent selling mostly to other businesses, see Figure 42.

Figure 42: Percentage of firms by type of main customer, by economic sector

Proportion of sales corresponding to main activity, by economic sector



Similarly, to the distribution across types of main customer by sector, a larger proportion (61.1 percent) of firms operating in the regions sell mostly to other businesses, while this percentage drops to 42.6 percent for firms located in the capital. Table 9 below analyses average sales and profits according to the

primary type of customer by firm size. For MSMEs, average sales and profits across the three categories of main customers are relatively similar. On the other hand, there are large differences among large firms, which may be due to their relatively low number in the sample (16).

Table 9: Average monthly sales and profits according to the firm main customer, by firm size

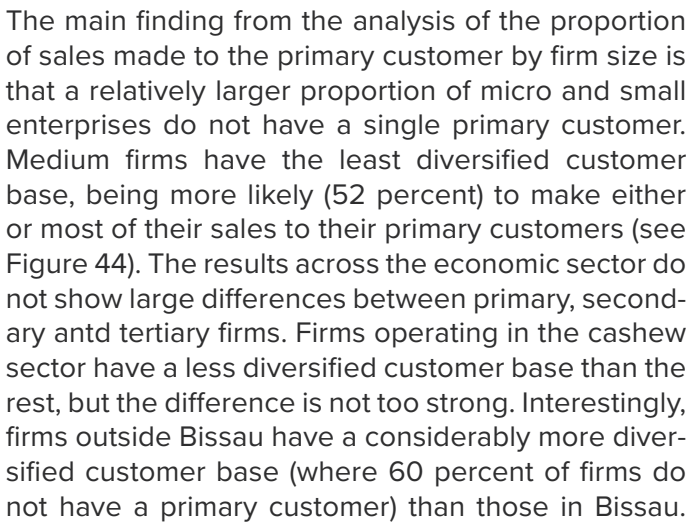
Main type of customers in 2019		Firm Size				Total
		Micro	Small	Medium	Large	
Businesses	Average Sales	0.42 (0.30)	3.7 (2.6)	30.6 (22.7)	215.5 (198.8)	24.6 (72.8)
	Average Profits	0.20 (0.14)	1.7 (1.7)	9.9 (10.9)	24 (18.9)	5 (9.4)
Final customers	Average Sales	0.53 (0.32)	3.5 (2.6)	32.5 (24.1)	330.1 (429.2)	22.2 (106.7)
	Average Profits	0.17 (0.28)	1.2 (1.2)	8.1 (6.5)	30.6 (38.4)	3.3 (10.2)
Both	Average Sales	0.57 (0.29)	3.8 (2.3)	28.6 (19.6)	165 (14.1)	10.8 (25.3)
	Average Profits	0.18 (0.28)	1.5 (1.7)	12.2 (9.5)	11.5 (9.2)	3.4 (6.2)
Total	Average Sales	0.50 (0.30)	3.7 (2.5)	30.4 (21.9)	237.8 (252.8)	19.6 (73.2)
	Average Profits	0.19 (0.24)	1.5 (1.6)	10.2 (9.9)	24.1 (24)	4.1 (8.7)

Note: Values in million XOF, standard deviation in parenthesis.

These findings do not establish systematic differences between the revenue and profits of those firms selling primarily to businesses, those mainly selling to final consumers, or those selling to both. The fact that the virtual totality of the firms in our sample is formal could explain the high proportion of firms operating a business-to-business model. Business-to-business firms are likely to get more advantages from formalization than firms mainly selling to final consumers, such as the ability to sign legal contracts.

The degree of demand concentration is an essential factor to consider demand-driven growth since monopsonies squeeze companies' profits margins. In general, companies with a diversified customer base have more bargaining power than those depending on a single client. Generally, the firms in the sample show a relatively good level of customer diversification, with (45.4 percent) not having a primary identified customer in a typical month in 2019 (see the LHS in Figure 43). Still, there is a significant dependency on a primary customer for a considerable proportion of the firms in the sample: 11.3 percent make all sales to a single customer, 31.3 percent most sales, and 5.8 percent about half of the sales.

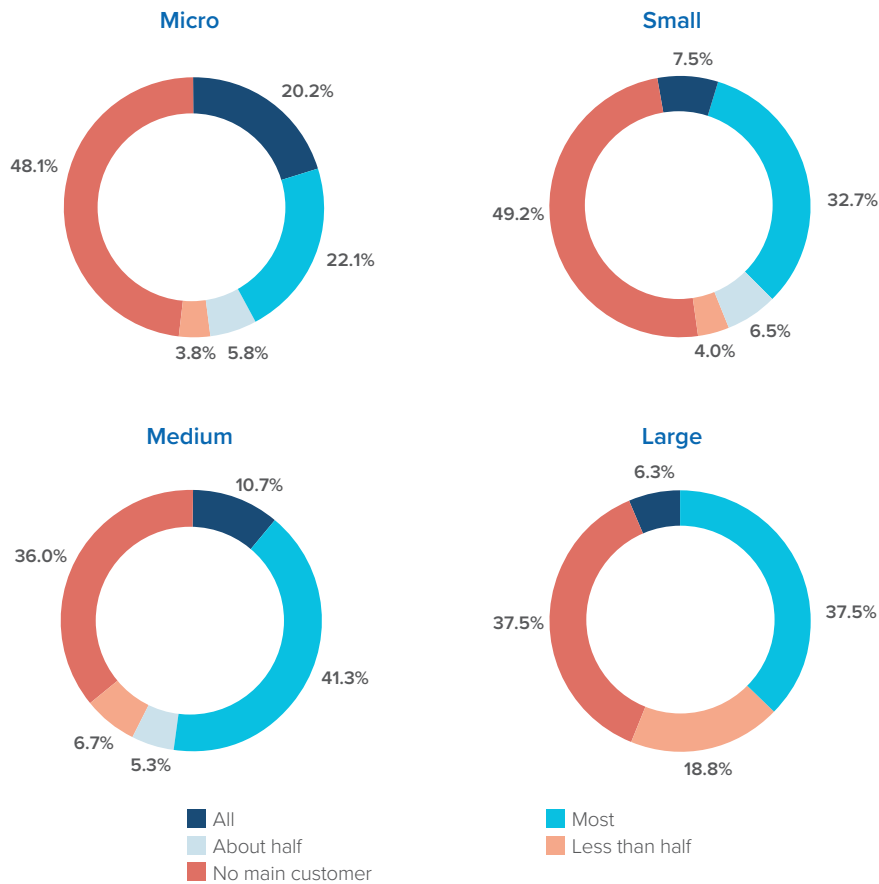
Sales to main customer and to the public sector



There is a large room for national firms to engage more with the public sector. In this sense, policies aiming to increase public sector capacity, improve governance, and make public spending more efficient would boost firms' demand.

Figure 44: Proportion of sales to main customer, by firm size

Proportion of sales corresponding to main customer, by firm size



In summary, a high proportion of formal firms in Guinea-Bissau operate a business-to-business model. They generally have a broadly diversified customer base, except for medium firms, and this is particularly diversified for firms operating outside Bissau. The small size of the public sector appears as a main limitation for public driven demand.

7.4 Informality and competition

Evidence-based research shows that competitors from the informal sector affect the operations of registered SMEs, as informal firms can compete against registered SMEs under favourable but unfair conditions, hurting the latter's profits. This can be due to higher annual sales, employment, and productivity growth rates (Williams and Kedir, 2017), invest-

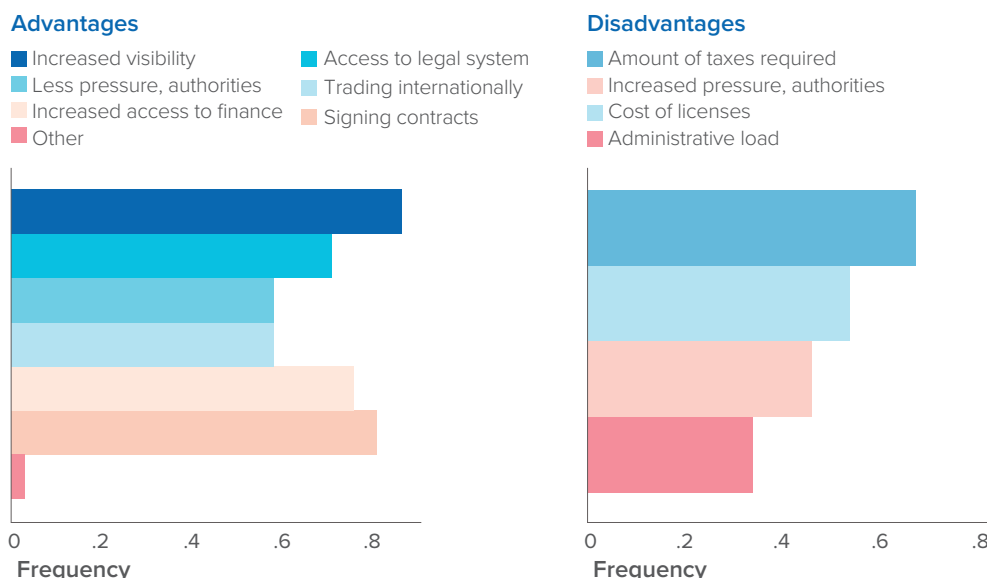
ment spending (Perez et al, 2018) or access to credit (Distinguin et al, 2016). The later study also shows that weak institutions, as is the case in Guinea-Bissau, undermine the differentiation between formal and informal companies, increase costs, decrease the benefits obtained through formalization, and reduce the overall costs attributed to informality. The launch of the Center for Enterprise formalization (CFE) provided momentum to business registration as regulation grew increasingly in line with OHADA legislation. Additionally, the introduction of the entrepreneur regime³⁶ in 2018-2019 facilitated business registration for small-scale entrepreneurs.

36 The recently introduced legal status of interpretants is a simplified regulatory regime offered to small businesses, see for example IFC and OHADA (2018).

Figure 45 below shows that “increased visibility” and the “possibility of signing contracts” are the two most cited advantages derived from formalization,

followed by “increased access to finance” and “gaining access to the legal system.” Over 50 percent of respondents also consider facing “less pressure by the authorities” and the “facilitations to trade internationally” as advantages derived from formalization. On the size of the associated disadvantages, “tax payment” and “cost of licenses” occupy the first and second place, followed by the “increased pressure by the authorities” and “administrative burden” in the last position.³⁸ Although many managers see relevant disadvantages associated with registering their firms, most still think it is worth doing so. Among the managers of formal firms in our sample, 94.9 percent (372 out of 394) answered yes to the question “is it worth registering a firm?”

Figure 45: Advantages and disadvantages of formally registering a firm



Most managers indicated that informal firms are rarely prosecuted, which is a disincentive for registering their own firms. Other commonly cited factors to explain such behaviour are the lack of knowledge about the process and the lack of interest (see Figure 46). Around half of the managers mentioned the cost of the formalization process as a reason to explain why firms do not register, while less than 25 percent think that the difficulty of the process itself is an obstacle to do so. Therefore, it seems that foster-

ing formalization requires improving the government communication strategy and the incentives provided for this purpose, while changing the process itself might not be of much help.

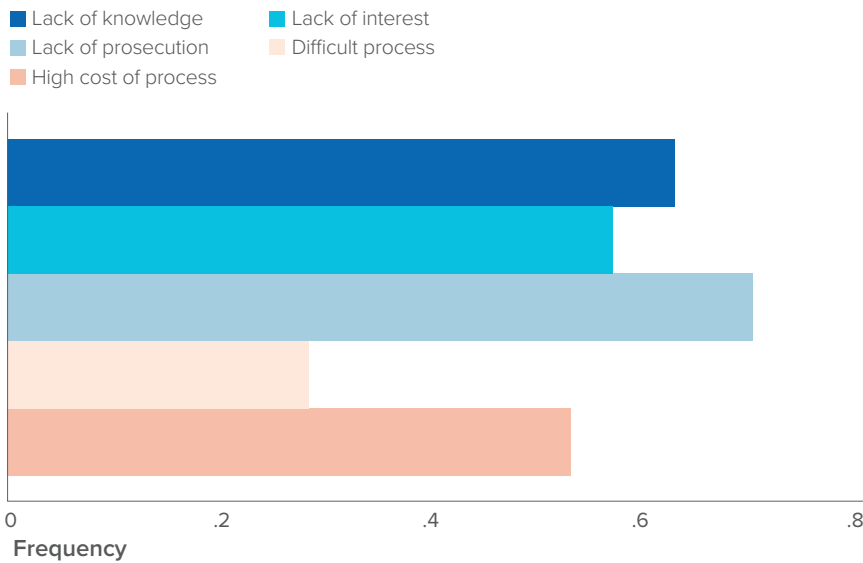
These arguments are in line with the opinion of the seven managers in our sample whose businesses were still unregistered. They all considered registering their firms but decided against doing so right away because of the lack of perceived advan-

37 These questions are only asked to formal firms, the vast majority of our sample.

38 The fact that 28 percent of respondents to these questions answered that having less pressure by the authorities was an advantage from formalizing and increased pressure by the authorities a disadvantage points towards the existence of different kinds of pressure from. We would assume that the pressure on informal firms goes in the direction of pushing them to become formal, while for already registered firms this pressure would go in the direction of fulfilling fiscal or regulatory obligations, such as paying taxes or formally registering employees.

Figure 46: Why firm are not registered

Why many firms are not registered



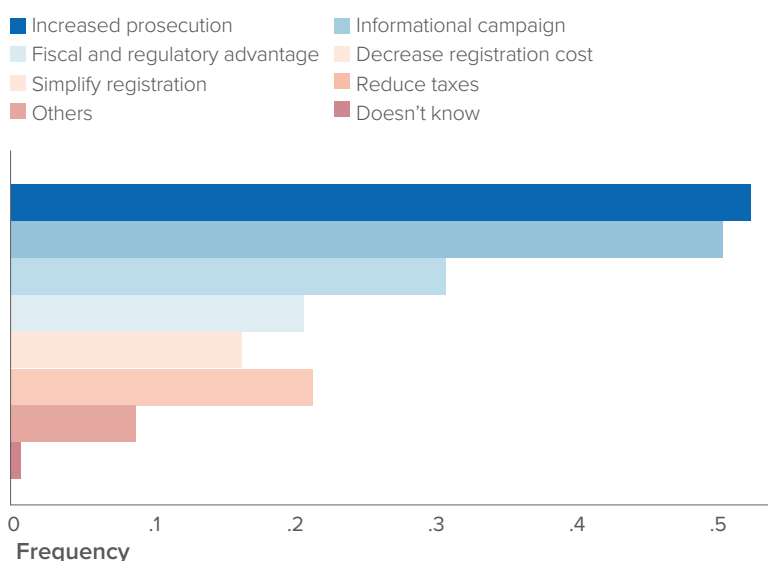
tages from doing so, and the absence of any clear disadvantages of not. These results are similar to those of a recent informal sector survey carried out by the WAEMU (AFRISTAT, 2019). According to their report, the main reasons for not registering was not knowing about the need to do so (44.5 percent), while few people argued that they do not register their firms because of the complexity of the procedure (14.1 percent) or its cost (14.0 percent).

Indeed, when asking business managers directly about policy options that they think would be effective in increasing formalization rates, more than half suggested increasing penalties for noncompliance

and promoting the benefits of registration through informational campaigns. In other words, the carrot and the stick. Offering fiscal and regulatory advantages would work according to one-third of the interviewees. Even fewer respondents supported the simplification of the procedure (16.5 percent), the reduction of its cost (21 percent) or the provision of tax incentives (21.5 percent) as effective policy options to increase formalization, see Figure 47.

Figure 47: Most likely successful policies for firm formalization

Most likely successful policies for firm formalization



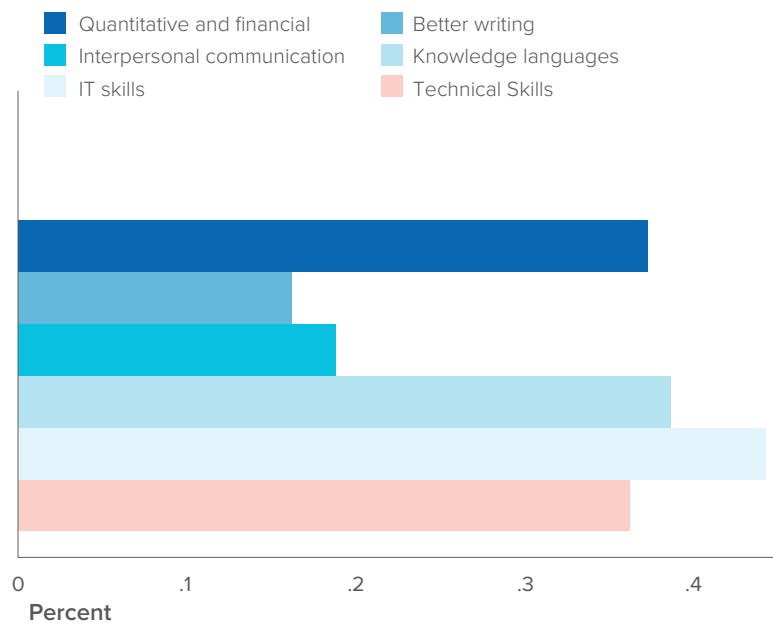
The impression that the registration procedure is not a substantial obstacle to formalization is likely related to the establishment of the CFE (Centro de Formalização de Empresas) in 2011, which substantially reduced the time for business registration. According to Doing Business reports, the time involved was progressively reduced from 213 days in 2010 to eight or nine days in 2020. At the same time the costs have fallen from 323 percent to 88.8 percent of income per capita. The CFE has maintained reliable service during political instability periods, such as the presidential coup in 2012. Additionally, the introduction of the entrepreneur regime during 2018 and 2019 is intended to facilitate business registration for small-scale firms, in accordance with OHADA legislation.

7.5 Workforce skills and human capital

The lack of skills among the labour force is ranked as the market bottleneck that concerns managers the least. Still, it is a moderate obstacle for 41.7 percent of firms and a strong one for 23.2 percent.

When asked which necessary skills workers lack, IT skills are indicated by 44.3 percent of managers. These are followed by knowledge of languages (38.6 percent), quantitative and financial skills (37.2 percent) and technical skills (36.3 percent). Interpersonal communication (18.8 percent) and better writing capacity (16.2 percent) are seen as relevant missing skills by a significantly lower proportion of managers (see Figure 48).

Figure 48: Relevant skills lacking in the workforce



8. Employment



8. Employment

The COVID-19 pandemic has caused the worst global economic recession since the Great Depression and massive damage to working time and income. Creating jobs and putting people to work is paramount to a full recovery and building forward better. But these jobs must be decent, meaning they must respect the worker's fundamental rights and provide for optimal work safety and remuneration.

The conditions and characteristics of workers are essential for the efficient functioning of private companies, but fundamental factors define the health of a society and its economy. This section displays the analysis of employment in the enterprise survey.

8.1 Labour Force Composition

The average number of workers per firm in 2019 was 17.8 (standard deviation of 36.8) and a median of 8. By definition, the distribution of workers largely

varies across firms of different sizes. As can be seen in Table 10, the average number of workers is four for micro-enterprises, 14 for small businesses, 28 for medium firms and 108 for large ones. The standard deviation increases faster than the average as firm size increases, implying that the median number of workers is much closer to the average for the categories of smaller firms than for large ones.

As shown in Figure 3 and the last row in Table 10, the distribution of workers (excluding managers) across firms of different sizes results in the employees hired by micro-enterprises representing just 6.4 percent of the total labour force in the sample. Small firms comprise the largest share of the total labour force (39.1 percent), followed by medium firms (30.2 percent) and large ones (24.4 percent).

Table 10: Mean and standard deviation, median number of workers, and share of total employment for micro, small, medium and large firms

Variable	Firm Size				Total
	Micro	Small	Medium	Large	
Mean	4	14	28	108	18
Standard deviation	3	12	30	134	36
Median	4	11	19	37	8
Share total employment	6.4 percent	39.1 percent	30.2 percent	24.4 percent	100 percent

Since labour and working conditions are highly diverse and complex in Guinea-Bissau, with formal and informal, full and part-time, temporary and indefinite workers, it was challenging to ensure that all the interviewees had the same understanding for each one of these categories. Therefore, we decided to reduce workers attributes to a more primary differentiation between paid and unpaid workers, where the latter refers to unpaid interns and apprentices. Paid workers can be either permanent or temporary, while unpaid workers are typically interns or apprentices. The vast majority of workers are paid, with the average per firm being 16.5 (standard deviation of 34) and a median of 7. 92.1 percent of firms in our sample had at least one paid employee in 2019. Most paid workers are considered casual or temporary by the corresponding firm manager. The average number of casual workers per firm is 11.6 (standard deviation of 26.8) with the median being five. The average number of permanent workers per firm is just 4.9 (standard deviation of 11.5) and the median two. On the other hand, the mean number of unpaid workers is 1.4 per firm (standard deviation 6.6) and the median is 0: over half of the firms in the sample do not have any unpaid workers.

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EMPLOYMENT

Temporary and unpaid employment positions typically reflect more precarious, fragile, and vulnerable working conditions. The share of unpaid workers over paid ones is lower for large firms (1.6 percent). This is on average 7.3 percent for medium firms, 14.6 percent for small ones and 8.5 percent for micro enterprises. However, there is not a strong relationship between the proportion of temporary paid workers and firm size, with values ranging between 60.4 percent and 68.9 percent.

By economic sector, the proportion of unpaid workers is lowest in the primary sector, with 4.7 percent compared to 14.8 percent in the secondary sector and 10.9 percent in the tertiary one. As for firm size, there is not a substantial variation in the share of temporary workers by sector of economic activity, with values ranging between 62 percent and 67.7 percent.

Finally, contrary to what one might expect, the situation of the workforce for the firms in our sample seems more stable in the regions than in the capital. The share of unpaid workers over paid workers

is 11.9 percent in the capital, on average, and 6.7 percent in the regions, while the share of temporary workers is 64.5 percent and 58 percent, respectively.

8.2 Earnings

Wages paid by the surveyed firm⁴⁰ are significantly higher than the typical wage in Guinea-Bissau if we include the informal sector. This is not a surprise since we studied formal firms, mostly located in the capital and typically larger and more productive than the average firm in Guinea-Bissau. The average monthly wage across the whole sample is 85,468 XOF,⁴¹ with standard deviation 62,165.6. The median wage is 66,000. As for the number of workers, there is a clear difference in wages across firms of different size: as one would expect, wages are generally larger for larger firms. As shown in Table 11, both the mean and median wage increase monotonically with firm size, respectively going from 69,405.5 and 50,000 for micro-enterprises to 113,437.5 and 100,000 for large firms.

76 **Table 11: Mean, standard deviation and median of the average wage, by firm size**

Monthly wage	Firm Size				Total
	Micro	Small	Medium	Large	
Mean	69,405.4	81,165.8	106,587.8	113,437.5	85,468.0
Standard deviation	65,476.2	53,267.6	68,320.6	84,493.0	62,165.6
Median	50,000	65,000	80,000	100,000	66,000

We explore returns to education using the average level of education of employees in the firm, as indicated by the corresponding manager. There is a general and important gain in the average and median wage as the education level increases.⁴² As we can see in Table 12, these go respectively from

66,428.6 XOF and 45,000 XOF for firms where employees' average education level is primary to 105,255.9 XOF and 85,000 XOF when the average education level is university level. These changes represent an increase of 58 percent for the average wage and 88.8 percent for the median one.

40 Firm wages were obtained asking the corresponding manager for the average wage in the firm across all paid employees.

41 This is equivalent to 130.21 euros.

42 There are no observations for firms with the average level of education being "no schooling". Notice the low number of observations for firms with employees' average education being primary.

Table 12: Mean wage and standard deviation and median wage according to the average education level of employees

Variable	Education level				
	Primary (1-4 years)	Basic (5-9)	Secondary (10-12)	Professional	University
Mean wage	66,428.6	61,704.6	83,119.4	98,715.4	105,255.9
Standard deviation	83,252.3	32,225.8	65,383.5	72,225.0	60,297.3
Median wage	45,000	56,250	63,333	75,000	85,000
Observations	7	44	141	65	56

Converting education levels to years of schooling⁴³ (a simple regression analysis of average wage within the firm on its employee's average education level)

shows that on average each extra year of education is associated with a monthly wage increase somewhere between 3,378.4 and 4,381.6 XOF (see Table 13).⁴⁴

Table 13: OLS regression explaining average salary, among the firms in the sample

	(1)	(2)	(3)	(4)
Years of schooling	4640.1*** (0.000)	4064.3*** (0.001)	3481.1** (0.015)	3378.4** (0.017)
Female employees		-382.9 (0.118)	-733.5** (0.013)	-453.5 (0.149)
Foreign workers		3562.6* (0.059)	1626.0 (0.364)	4041.9 (0.042)
Workers with SS		175.0 (0.471)	186.8 (0.491)	173.9 (0.537)
Small firm			13883.7 (0.160)	15432.3 (0.120)
Medium firm			28663.7** (0.036)	30319.8** (0.041)
Large firm			58157.9** (0.021)	83618.8*** (0.006)
Constant	26998.9* (0.085)	31428.3** (0.048)		
Controls 1	N	N	Y	Y
Controls 2	N	N	N	Y
Observ.	313	306	306	300
R2	0.0432	0.0602	0.288	0.322

p-values in parentheses

*p < 0.10, **p < 0.05, ***p < 0.01

Note: See appendix A.2 for a description of the two groups of control variables. The constant is omitted for regressions (3) and (4) because of the inclusion of controls. These cause the drop in the number of observations in column (4).

43 Primary = 4, Basic = 9, Secondary = 12, Professional = 15, University = 17.

44 The coefficient on this regression is highly significant and robust to a variety of specifications.



Interestingly, and possibly against common expectations, the average level of employees' education decreases monotonically with firm size, being 13.25 for micro enterprises, 13.02 for small firms, 12.68 for medium ones and 12 for large firms. This implies that the mechanism through which years of education are associated with higher wages is not explained by a correlation between firm size and higher wages.

8.3 Capacity utilization and absenteeism

When asked how busy workers were during working hours, an important factor contributing to productivity, 20.7 percent of managers say they were always busy, 42.7 percent that they were mostly busy, 29.3 percent that they were somehow busy and 7.3 percent that they were mostly not busy. There is a clear tendency for workers to be busier in larger firms. Nevertheless, there is not a clear relationship between firm size or average wages and the level of absenteeism. When asking how many times per month has each worker missed work without notice in 2019, the average is 1.42, with standard deviation 2, and the median is 0.

8.4 Registration with social security and written contracts

A social security system's objective is to ensure citizens against the risks of losing their employment or labour income. For more than three decades, the "National Institute of Social Security" (INSS) has covered its members' retirement pensions, medical bills and sick or maternity/paternity leave. The INSS should be compulsory, but our samples indicate low levels of registration. Managers' report INSS registration for only one in six paid workers. Furthermore, more than half of the firms in our sample do not have a single worker who is registered on the INSS. The average share of paid workers registered with the INSS averages 14 percent for MSMEs and 23 percent for large firms.

The existing Labour Code is among the most rigid in Sub-Saharan Africa, according to the 2019 Doing Business report. Employers face significant restrictions on the number of working hours per week and workers' hiring and dismissal. Fixed-

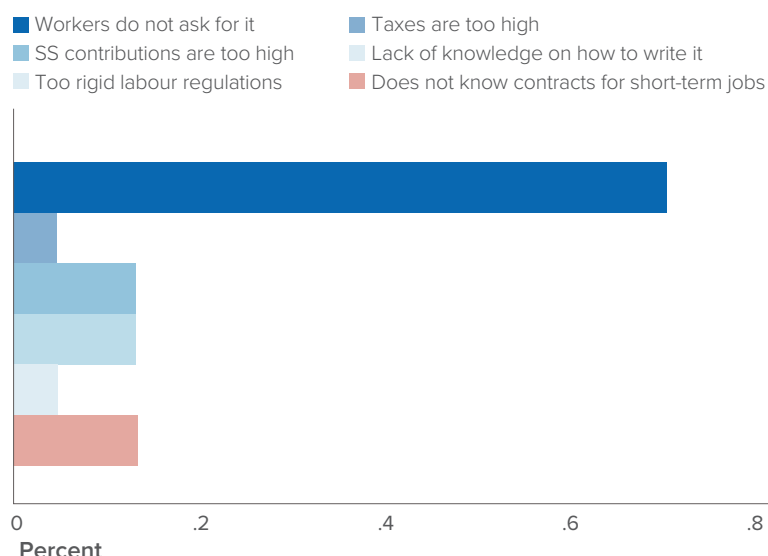
term contracts are only limited (including renewals) to a maximum period of 12 months to prevent their employment for permanent tasks, for which permanent contracts are mandatory. The probation period is limited to one month. Redundancy dismissal is allowed by law without any notice period. However, it requires third party approval and severance pay of 13 to 43.3 weeks of the worker's salary, depending on the worker's tenure. Officially, all workers need to be registered in the labour inspectorate and their contracts reviewed by the government. A revision of the Labour Code, which aimed at being more flexible while keeping a decent level of workers' protection, was discussed in the parliament in 2015, but the political crisis unfortunately impeded its approval.

The findings revealed the formalization of workers' contracts, their registration to social security, and the enforcement of contracts through legal means are unusual. There might arguably exist a correlation between the observed high levels of casual employment and the current labour regulation. Nevertheless, we do not find convincing support to the hypothesis that the existing rigid regulation might discourage firms from offering formal contracts to their workers.

Approximately half of the firms in our sample do not have any form of formal contract for their employees. Among those firms that do make contracts for some of their employees, a high percentage of their employees are on contracts (76.6 percent). When asked about the reasons why they do not produce contracts for some (or all) of their workers, managers primarily reported that workers do not request one (71.2 percent). One in five managers said that the levies (taxes and social security contributions) would be too high for them. Only 13.6 percent of managers gave lack the knowledge to write a proper contract as an excuse for not having one. Only five percent said that they do not give contracts because labour regulations are too rigid (see Figure 49). Hence, while a revision of labour regulation might be relevant, a generalized lack of legal knowledge across both workers and managers, together with the monetary costs of regulation, seems to constitute higher barriers for employment formalization than regulatory rigidity.

Figure 49: Why some employees do not have a written contract

Why the firm does not make a contract to some workers



Only 30.5 percent of the 89 percent of the firms in our sample with paid employees⁴⁵ have at least one employee registered in the INSS. Interestingly, the proportion of firms that do not register any worker in the INSS is the same when comparing Bissau and Biombo with the rest of the country.

We do observe a considerable difference across firms of different sizes. Among those firms with any paid employee, those with no worker registered with the INSS are eight percent among micro-enterprises, 70 percent among small, 58 percent among medium, and 26 percent among large firms.

⁴⁵ This is excluding a few managers who answered that they did not know (3) or did not want to answer (6).

9. Gender and diversity



9. Gender and diversity

Women in Guinea-Bissau are less privileged than men. The inequality starts with less educational attainment by girls (WIDE, 2019), covers cultural beliefs and remains legally repressed by Article 1686 of Guinea-Bissau's Civil Code, which requires married women to obtain the husband's permission to start a business (World Bank, 2020b). These circumstances provide women with less economic opportunities, causing women in Guinea-Bissau to be mostly employed in less productive jobs, including agriculture and non-agricultural self-employment (World Bank, 2020). Women's participation in the labour market is dominated by informality, causing the share of wage labour to be substantially lower (15 percent) than for men (30 percent) and exposing women more to vulnerable employment (84 percent) than men (68 percent) (World Bank, 2020). Women's disadvantaged position and general lack of decision-making power in the social, economic and political situations hinders their economic

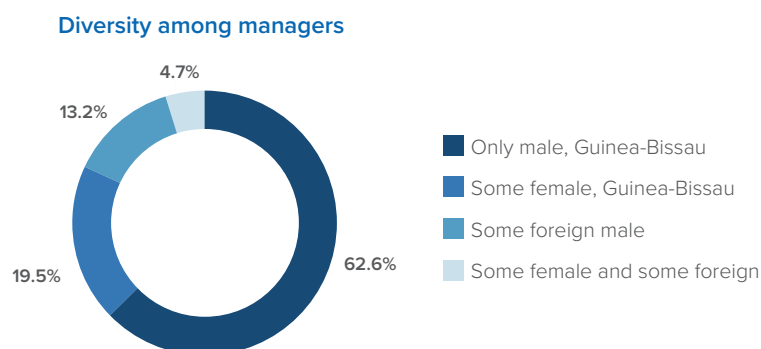
potential and their ability to contribute to and help shape the country's socio-economic development.

9.1 Diversity in management

A large majority (62.6 percent) of sampled firms are managed only by Bissau-Guinean men, e.g., without any woman or foreigner among the managers (see Figure 50). About a quarter (24.2 percent) of firms have some female managers, and only 7.2 percent of all sampled firms are managed only by women: a majority of firms with women as managers are co-managed with men.

In terms of national composition, 17.9 percent of firms have a foreign manager, with the majority of these (13.5 percent of the total sample) being fully managed by foreigners. Therefore, it is more common to observe co-management between male and females than between foreigners and nationals.

Figure 50: Distribution of firms according to the gender and national composition of their management



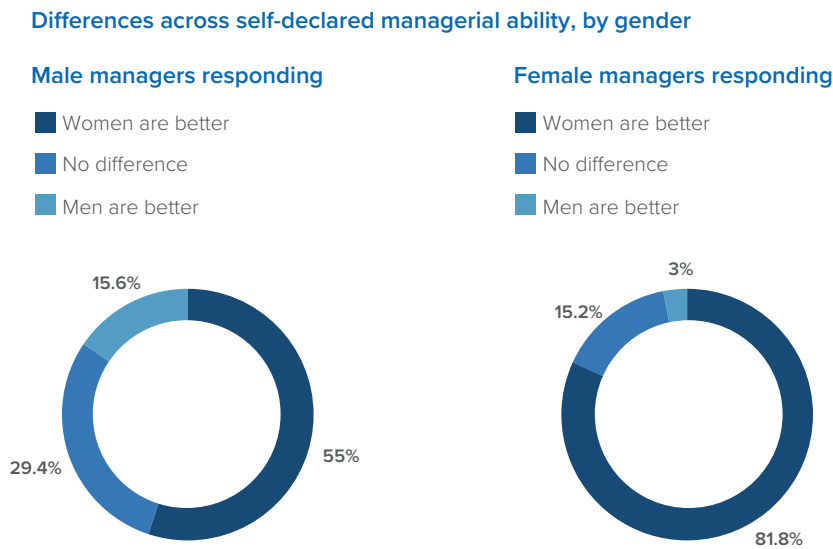
9.1.1 Gender diversity in management

The vast majority of the managers interviewed for this survey were male: 91.8 percent of the total. An average of 1.6 managers per firm implies that for most firms (75.8 percent) all managers are male.

In striking opposition to these findings, managers of both sexes share an extended common opinion: women are better managers than men. Figure

51 shows that this is the view of 55 percent male managers and 81.8 percent of female ones. The second most common answer is that there are no differences in ability across gender. This results in a minority of 15.6 percent of male managers and three percent of female ones who believe that men tend to be better managers.

Figure 51: Differences across self-declared managerial ability, by gender



The scarcity of women in managerial positions might seem contradictory with the generalized opinion that women do a better job at this role. However, the likely unfair competition in this “market for managers” might make it seem a logical outcome: if access to become a manager were to be exactly equal for both sexes, we would expect the proportion of male and female managers to be a perfect reflection of each sex average ability (or perceived ability) in this position. Instead, if women face gender-based discrimination that prevents them from becoming managers, this will imply that men are more likely to become managers than women of comparable ability. If this holds, this lower threshold for men would imply that on average only women of “exceptional managerial ability” would make it as managers. If these barriers were very strong, these would result in:

- a. A much larger proportion of male managers than female managers.
- b. A much higher average ability of female managers.

We do observe larger proportion of male managers than female managers in our data. As for a higher average ability of female managers, while our measure of managerial quality is self-reported, some findings in this report are consistent with these assumptions.

For example, in the regression explaining access to credit, in Table 6, we saw that controlling for many factors, having an extra female manager was associated with over a 10 percent increase in the likelihood of the firm having ever obtained a loan.⁴⁶

The direct implication of these findings, which would deserve further analysis, is clear: effective policies at lifting, or at least, easing entrepreneurship for women in Guinea-Bissau should significantly increase average managerial ability, a crucial factor to improve firm performance. This is particularly true in terms of crisis, see for example Andreou et al (2013). This argument is strengthened by recent studies showing that gender-diverse managerial teams perform better than gender-homogeneous ones of equivalent ability. This is especially true in economic crisis times (Fernando et al. 2020).⁴⁷

The low proportion of firms with female managers results in the average number of female managers per firm being just 15 percent. The ratio of female managers decreases monotonically with firm size, going from 20.5 percent for microenterprises to 8.3 percent for large firms. If we consider only firms with some female managers, the average share of women over the total number of managers is 62.5 percent. We also observe a monotonic decrease for the proportion of female managers with firm size in this

46 At the same time, Table 15 shows evidence of firms with more female managers having longer closing periods during the COVID-19 crisis. It is not straightforward to interpret if this is a signal or better or worse management.

47 This is explained by the addition of unique female perspectives and leadership styles.

case, going from 74.4 percent in microenterprises to 44.4 percent in large firms. Hence, the proportion of female managers is scarcer in larger firms, which are generally more productive, pay higher salaries and offer better job security.

As we have seen, less than a third of firms with some female managers are managed only by women, showing that women are more likely to be part of mixed-gender management teams than of women-alone ones. On the contrary, foreign managers are more likely to work on homogeneous management teams, without national colleagues.

9.1.2 Management: diversity in nationality, age and ethnicity

When looking at the share of all firms with a foreign manager, the figure is 17.9 percent. When taking all managers across the country into consideration, however, the figure is 13.3 percent. This rises to 73.8 percent when considering only those firms with at least one foreign manager, as foreign managers are more likely to work homogeneous managerial teams, without any national managers. Overall, 75.3 percent of these firms are managed only by foreigners. This lack of diversity in nationality might prevent some of the advantages of diversity from being realized, such as increased productivity (see Stahl et al 2010) or the transmission of innovations, technical knowledge, and know-how (Bouncken et al 2016). The most common countries of origin among foreign managers are Guinea-Conakry, Portugal (each accounting for 21.3 percent of foreign managers) and Senegal (accounting for 14.9 percent). Other nationalities among the managers in the sample include (among a few others): Mauritania, China, Togo, Cameroon, and Spain.

Regarding the relationship between age and managerial ability, the dominant view among managers interviewed is that older people make better managers. The distribution of the answers to this question are more balanced than for gender, with 48.2 percent of the sample answering that older people are better managers, versus 25.8 percent that think younger managers are better (the remaining 26 percent do not see any differences). As one might expect, younger managers are relatively more likely

to consider young managers better: the average age of the respondents who believe so is 41.4, while the average age saying older managers are better is 48.1. While there is not a clear relation between firm size and manager's age, the managers of large firms show a stronger preference for older managers than those of MSMEs. This generalized preference for older managers is aligned with the average age of 44.8 years observed among the interviewed managers, which can be considered relatively high in a country with an average age of 18.8 years (Woldometer 2021). The promotion of entrepreneurship among the youth could be a promising path for providing professional opportunities for this large - and growing- population group.

Most common ethnicities in the capital coincide with those more frequent among the interviewed managers. There seem not to be any clear patterns associating ethnicity and other relevant socioeconomic factors, such as firm size, revenue or the share of female managers.

9.2 Workforce diversity

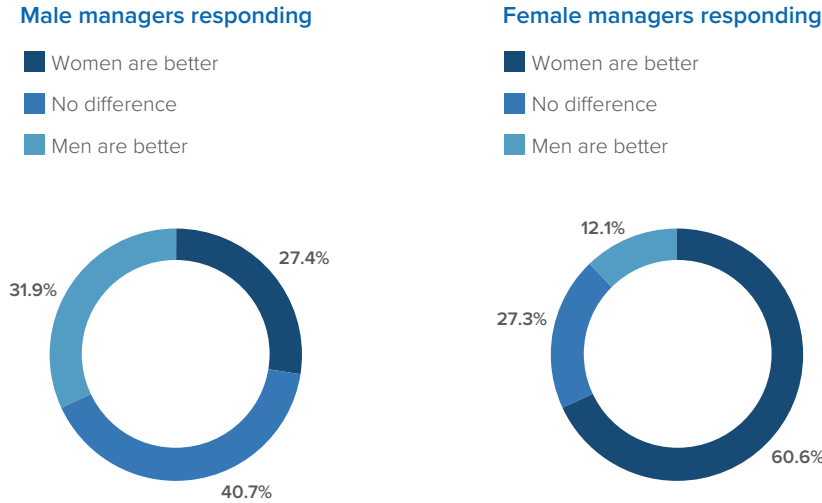
The clear majority (91.7 percent) of firm owners hired workers. Their workforce in 2019 was more diverse than management, as 73.2 percent of these firms employed women and 28 percent hired foreigners.

9.2.1 Gender diversity in the workforce

Nevertheless, gender inequalities also exist in the workforce, evidenced by the fact that 26.8 percent of all firms hire only men, while only 1.9 percent hire only women.

Importantly, when we consider the subjective valuation that managers make of workers of different sex we find again (as for managers) that there is an imbalance between the positive subjective valuation of female workers and their lower proportion of the workforce. The proportion of managers considering women better than men and those who believe the reverse is true is identical, at 30.2 percent, with the remaining 39.6 percent answering they do not see any differences. As we can see on the LHS in Figure 52, male managers are close to balance in their response, with just a few more considering male employees better, while most female managers consider female employees better (RHS).

Differences across self-declared workers ability, by gender



While managers consider women as good employees as men, the share of female paid employees across the workforce is only 0.24. Importantly, when we analyse the distribution of paid workers across firms

of different sizes by gender, we see that the proportion of female paid workers is substantially higher in microenterprises, which typically pay lower wages, than in larger firms (see the last row in Table 14).

Table 14: Average number of total paid workers, male and female per workers and female share, across firms of different sizes

Wage	Firm Size				Total
	Micro	Small	Medium	Large	
Mean number of paid workers	3.6	12.7	26.1	103.3	16.4
Mean number of male p.w.	2.3	10.1	19.3	82.6	12.5
Mean number of female p.w.	1.3	2.6	6.8	20.7	4.0
Share female / total	0.37	0.20	0.26	0.20	0.24

* This Table includes all firms in the sample, also those without any paid workers.

As for management, the mismatch between the positive subjective valuation of women and their lower presence in the workforce, and particularly among

the most-productive, higher paying firms, is likely to be indicative of the existence of substantial barriers preventing women from being hired by formal firms.

9.2.2 Diversity in employment of foreign workers and family members

The share of firms with some foreign workers (28 percent), is substantially larger than the share of firms with some foreign managers (17.9 percent). The share of foreign workers across the whole sub-sample of firms with at least one paid employee is 5.8 percent. As one would expect, foreign workers are relatively underrepresented in firms in which all managers are from Guinea-Bissau with a share of only 3.5 percent, while their share reaches 15.6 percent in firms with at least one foreign manager.

Interestingly, the share of foreign workers is not substantially different across firms of different sizes.

The average number of family members of the interviewed manager among the firm employees is 1.2 (sd. 2.1), and relatively stable across firm size in absolute terms, being one for microenterprises, 1.2 for small firms, 1.7 for medium ones and 1.4 for large ones. This implies that the share of family members over the total workforce decreases substantially with firm size.

10. Impact on COVID-19 on MSMEs



10. Impact of COVID-19 on MSMEs

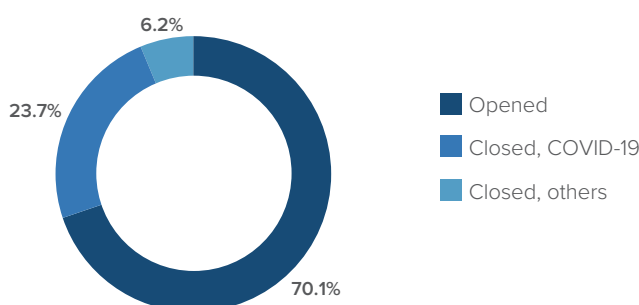
With preventive measures taken after 18 March 2020 to restrict the spread of COVID-19, the national authorities closed borders and non-essential services, including shops, restaurants, and bars and set strict curfews throughout the entire country, initially for 20 hours between 11 am and 7 am. The starting time of the curfews was gradually relaxed but lasted until early September. Additionally, essential shops had to impose a cap on the number of simultaneous customers. Public transport, completely forbidden for some time, was later allowed at limited capacity but further affected the supply of goods, services and workers' movements. Additionally, job losses and meagre cashew income affected the aggregate demand. Many firms closed or reduced working hours.

10.1 Closures and reduced working hours.

In September 2020, 70.1 percent of the active firms in 2019 were (again) open for business. As the sample only includes firms that were considered still operational by their manager, these closures should be seen as temporary according to the respective interviewed manager at the time of the survey. As shown in Figure 53, the impacts of COVID-19 still caused 23.7 percent of the firms in the sample to be closed in September 2020, while 6.2 percent were closed (in principle) by other reasons. Potentially, an indirect linkage to COVID-19 might have influenced some of those firms to remain closed.⁴⁸

Figure 53: Percentage of firms active in 2019 that were opened for business, closed because of the COVID-19 crisis or closed because of other reasons in September 2020

Opened and closed firms in September 2020



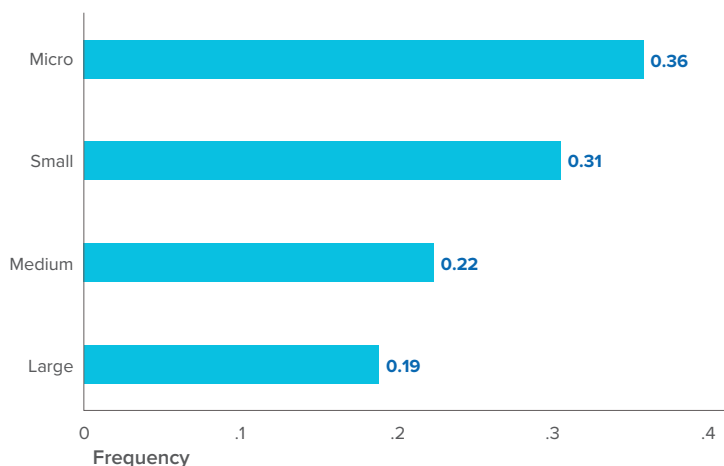
Among the 29.9 percent of firms that remained closed through September 2020, the smaller firms were impacted the most. The proportion of closure

decreases monotonically with firm size, going from 36 percent for microenterprises to 19 percent for large firms, see Figure 54.

⁴⁸ We consider a firm was closed because of COVID-19 in September 2020 if the manager said so and there were no sales for this month, and if the number of months the firm closed because of COVID-19 was longer than five and costs were nil in September. We consider the firm closed for other reasons if the manager said the firm had not been active in 2020 and that it had closed because of COVID-19 for less than five months, or not closed by COVID-19 at all.

Figure 54: Proportion of firms still closed in September 2020, by firm size

Proportion of firms closed in Sept. 2020, by firm size

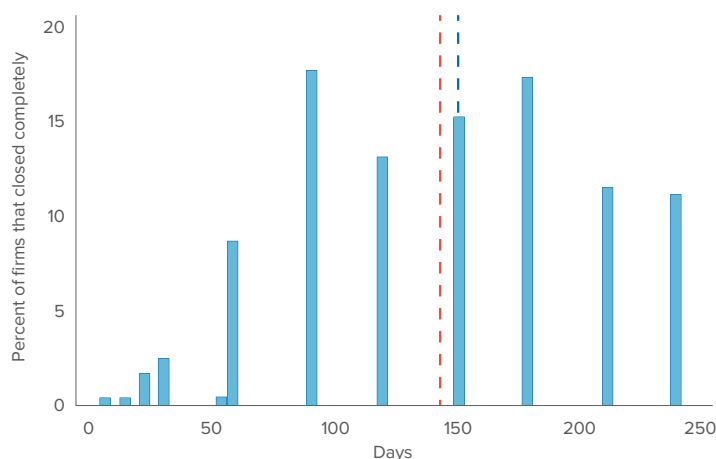


More than two-thirds (70.5 percent) of managers in our sample stated their firm had closed completely for at least one day. Among those firms that have restarted operations until September 2020, the aver-

age duration of the COVID-19 induced closure was 143 days (standard deviation: 61 days), which adds up to an average closure of almost five months. Figure 55 shows the distribution of days closed for these firms.

Figure 55: Closure during the COVID-19 Pandemic

Closure during the COVID-19 crisis



Note: The red line indicates the mean, the blue one the median. The concentration of the bars in a few numbers of days is due to the answer in months for long closures.

Table 15 displays a regression analysis of the factors associated with firms being closed by September 2020 (columns 1 and 2), the length of the closure for all firms in the sample (3 and 4) and the length of the closure for those firms that closed fully for at least one day. There are several interesting results:

- a. Firms using mobile money are much less likely to be still closed by September 2020. The length of closure is also much shorter (over a month) for them, both in the regressions with the full sample and the sub-sample of firms that closed for some time.⁴⁹ Using the internet in the firm's daily operations is associated with closures in a parallel way, but the associated coefficients are less significant and less robust to different specifications.
- b. Being in the capital is associated with a much longer closing period, for those firms that closed fully for at least one day due to the COVID-19 crisis.
- c. Large firms are less likely to be still closed by September 2020. The time they stayed closed during the crisis⁵⁰ is also significantly lower than for micro enterprises. This is only true when we consider all firms, as the significance disappears when we consider only firms that closed completely for some time.
- d. The number of female managers is associated with longer closing periods, but not with a higher probability of the firm being still closed in September 2020.
- e. Each extra year of education of the firm's (interviewed) manager is associated with a higher probability of the firm being closed in September 2020, and (somehow contradictorily) with a shorter period closed because of the crisis.

49 The corresponding coefficients are all significant at the 1 percent and robust to inclusion of controls in every specification.

50 Different factors might contribute to this outcome, such as market reasons, different levels of concern about the possible spread of COVID-19, or different levels of enforcement of government restrictions associated with the pandemic.

Table 15: Regression analysis of the factors associated with firms being closed

	(1)	(2)	(3)	(4)	(5)	(6)
Female managers	0.0382 (0.0309)	0.0435 (0.426)	11.86 (0.172)	31.23*** (0.009)	10.39 (0.102)	23.43** (0.047)
Uses mobile money	-0.224*** (0.000)	-0.187*** (0.000)	-34.01*** (0.000)	-31.16*** (0.001)	-33.83*** (0.000)	-30.97*** (0.001)
Internet daily	-0.170*** (0.002)	-0.108* (0.074)	-7.658 (0.492)	-8.125 (0.526)	-16.28* (0.086)	-25.06** (0.019)
Manager schooling	0.0176*** (0.006)	0.0157** (0.011)	-1.658 (0.190)	-2.649** (0.045)	-0.290 (0.776)	-1.331 (0.208)
In the capital	0.0773 (0.284)	0.114 (0.132)	10.73 (0.444)	21.68 (0.186)	36.24*** (0.005)	45.25*** (0.002)
Small firm	-0.0423 (0.445)	-0.0364 (0.517)	11.63 (0.286)	11.69 (0.322)	11.04 (0.234)	7.311 (0.491)
Medium firm	-0.0795 (0.226)	-0.0784 (0.238)	11.96 (0.364)	20.12 (0.139)	10.44 (0.315)	10.80 (0.327)
Large firm	-0.159* (0.092)	-0.175* (0.089)	-44.36** (0.020)	-28.89 (0.259)	4.868 (0.821)	-0.522 (0.983)
Secondary	0.0269 (0.773)	0.0292 (0.743)	18.61 (0.327)	15.94 (0.386)	11.90 (0.486)	9.505 (0.609)
Tertiary	-0.0945 (0.250)	-0.0693 (0.364)	4.737 (0.778)	4.535 (0.773)	-7.345 (0.646)	-6.990 (0.686)
Constant	0.257** (0.034)		113.4*** (0.000)		130.7*** (0.000)	
Controls 1	N	Y	N	Y	N	Y
Observ.	379	379	340	340	230	230
R2	0.149	0.337	0.0772	0.184	0.146	0.283

p-values in parentheses

*p < 0.10, **p < 0.05, ***p < 0.01

Note: OLS regression explaining being closed in September 2020 (dummy) - columns (1) and (2) -, the closing time for all firms - columns (3) and (4) -, and the closing time for those firms that closed completely for at least one day - days is the unit for columns (2) to (4). See appendix A.2 for a description of the control variables. The constant is omitted for regressions (2), (4) and (6) because of the inclusion of controls.⁵¹

Among the almost one-third (29.5 percent) of firms that did not fully stop operations at any moment, the majority (71.3 percent) reduced working hours. Only a small percentage (8.3 percent) of all interviewed firms did not see their working hours affected by the COVID-19 crisis.

The ban on inter-regional circulation, the closure of national borders, and the disruption of international supply chains significantly affected businesses

in Guinea-Bissau. More than half (57.8 percent) of all firms stated that they had difficulties getting supplies due to these limitations, which led to 25 percent of them to change some of their suppliers. Nevertheless, only 16 percent of the exporting firms saw the proportion of exports among their overall sales reduced, despite 79 percent reporting problems to export, associated with the impact of the COVID-19 crisis and restrictions.

⁵¹ The variables measuring the firm's profits in 2019 and the average level of education of the employees in the firm were interesting, they have been dropped from these regressions as they had a large number of missing observations. They were not significant in any of the regressions in Table 15.

10.2 Economic and financial implications of the crisis

The enormous reduction in firm sales associated with the crisis was generally followed by a smaller reduction in costs, resulting in a large drop in firm profits and a large number of enterprises facing liquidity problems.

A methodological note of caution for 2019 and 2020 comparisons

Considering the exceptionality of the year of 2020, with many firms closed for a considerable period of time, managers were asked to state their firm's sales and costs for September 2020, the month in which the major restrictions associated with the pandemic were lifted, and the most recent before the survey was implemented. While this seemed the safest way to ask managers about these core measures of firm activity and performance in 2020, it implies a clear limitation that we must make explicit: one should be cautious when comparing sales and costs for 2019, reported for "a typical month," and the value of these two variables in September 2020. This comparison is particularly tricky given Guinea-Bissau's seasonal economy, importantly relying on the cashew marketing season. To control for this to a certain extent, the statistics for the sample excluding cashew firms, which are arguably the most seasonal, will also be excluded as a robustness check. Additionally, to make a clean comparison between pre-COVID-19 and September 2020, only firms that provided monthly sales and costs for both time periods are included in the analysis. These correspond to 55.4 percent of our sample. The remaining 44.6 percent corresponds to firms closed in September 2020 (29.9 percent) or for which the manager did not know or wanted to reveal sales and/or months in this month or 2019 (14.7 percent).

To approximate the impact of the COVID-19 crisis, we start by describing the ratio that firms' monthly revenue, costs and profits in September 2020 represent over the value declared by their managers for a typical month in 2019. To focus on the firm-level outcomes, we compute these ratios firm by firm. The resulting average ratios across the sample of firms, in which each firm gets the same weight, are strongly influenced by extreme values, particularly likely in smaller firms that get sales and costs closer to 0 with more frequency.⁵² Table 16 shows the median of these variables, a much more useful indicator to understand the general evolution of sales, costs and profits across the firms in the sample. This Table offers several important findings:

- a. The drop in revenue and costs are considerable. The median ratio of each firm's monthly revenue in -September- 2020 over its monthly revenue in 2019 is 40 percent. The median for the ratio of firms' monthly costs in these same periods is 61 percent.
- b. The decrease in revenue is typically substantially larger than the decrease in costs, implying a large drop in the median ratio of monthly profits, to 25 percent.
- c. The impact is heterogeneous across firms of different sizes. Microenterprises seem to have a lower capacity to adapt, with a higher ratio of costs, but also keep the highest ratio for revenue. Small firms are in-between this situation and that of medium firms, which see their revenue drop the most but can substantially cut their costs, respectively to 18 percent and 25 percent. Still, their median profits ratio is much lower than that of micro and small enterprises, at 10 percent. The median for large firms has the ratio of monthly sales at 39 percent and that of costs at 41 percent, with a huge drop in the median ratio of profits to six percent.
- d. The value of these variables for non-cashew firms are not too different from the values for the whole sub-sample, which serves as a robustness check of the values.

⁵² For example, if a microenterprise says that its revenue was 2 million in September 2020 and 10,000 XOF in a typical 2019 month, the resulting 2020/2019 share (200) would have an enormous weight on the general average.

Table 16: Median ratio of monthly sales, costs and profits in September 2020

Variable	Firm Size				Total	Total non-cashew
	Micro	Small	Medium	Large		
Monthly sales 2020 / monthly sales 2019 - median	0.60	0.43	0.18	0.39	0.40	0.43
Monthly costs 2020 / monthly costs 2019 - median	0.80	0.64	0.25	0.41	0.61	0.62
Monthly profits 2020 / monthly profits 2019 - median	0.41	0.30	0.10	0.06	0.25	0.26

Note: Median ratio of monthly sales, costs and profits in September 2020 over their values for a typical 2019 month, for firms of different size, the whole sub-sample and the whole sub-sample excluding cashew firms.

An equivalent analysis of the economic sector shows that the impact was much more balanced across this dimension. Firms in the secondary sector experienced a larger drop in the ratio of sales, seeing a substantially larger drop in the ratio of monthly profits (see Table 17). This can be explained by the fact that many construction companies suffered from lower willing-

ness for investments and many cashew companies, a source of employment for many workers, could not operate as usual due to physical distancing measures and difficulties in finding financial resources (World Bank, 2021). Out of 10 national processing units, only three were operating in 2020 due to a higher intensity in machinery equipment (N'kalo, 2020).

Table 17: Median ratio of monthly sales, costs and profits in September 2020

Variable	Economic sector		
	Primary	Secondary	Tertiary
Monthly sales 2020 / monthly sales 2019 - median	0.40	0.34	0.42
Monthly costs 2020 / monthly costs 2019 - median	0.60	0.58	0.62
Monthly profits 2020 / monthly profits 2019 - median	0.18	0.09	0.28

Note: Median ratio of monthly sales, costs and profits in September 2020 over their values for a typical 2019 month, for firms of different size, the whole sub-sample and the whole sub-sample excluding cashew firms.

A regression analysis of the share represented by 2020 sales, costs, and profits regarding the firm's 2019 values showed results consistent with the evidence in this section. Medium firms see their sales and costs much more reduced than firms in other size categories, but the difference in the share of profits is not significant. There is not any statistically significant difference across firms in different economic sectors. The rest of explored coefficients are either not significant or not robust across different specifications.

We now compare the distribution of monthly revenue, costs and profits in a typical 2019 month with that of September 2020, across the sample of firms. Contrary to the firm-by-firm ratio presented above, averages in this case will be influenced by the values of the few large firms in the sub-sample.

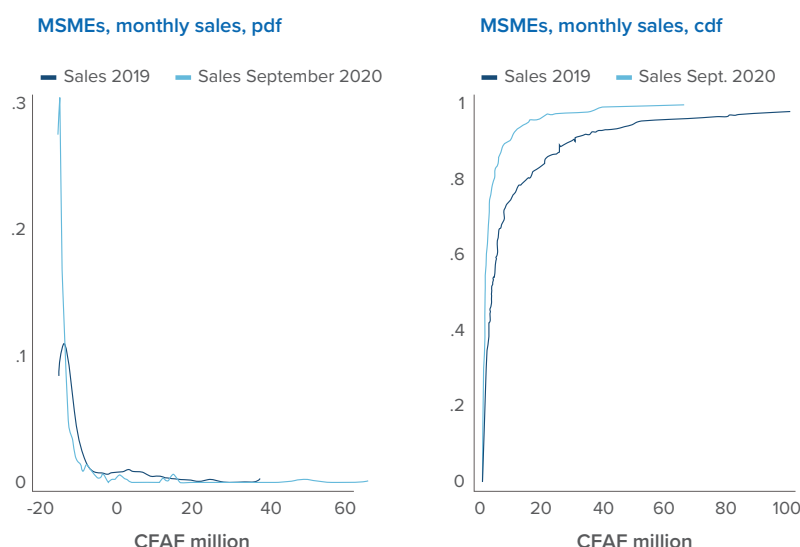
10.2.1 Revenue

The average monthly sales for the firms in this sub-sample accounted for 20.6 million XOF (sd 78.6 million) in a typical month in 2019, with a median of 3.3 million XOF. In September 2020, the average revenue of those firms dropped to 6.9 million XOF (sd. 29.1 million), with a median of only 0.8 million XOF.⁵³

Figure 56 compares the distribution of monthly sales in 2019 and in September 2020, consider-

ing only MSMEs.⁵⁴ As we can see on the LHS, sales in September 2020 are much more concentrated around 0. On the RHS we can also appreciate the much larger proportion of firms with sales close to 0. This Figure also allows us to better appreciate the changes at the right tail of the distribution: while about 95 percent of MSMEs have sales below 20 million XOF in September 2020, in a typical 2019 month only around 80 percent of firms had sales below this same value (20 million).

Figure 56: Distribution of monthly sales in 2019 and September 2020 for those MSMEs that report information on sales (including no sales) for both periods



Note: LHS: probability density function. RHS: cumulative density function.

This huge reduction in average sales implies a big hit to the revenue of most of those firms opened for business in 2020. This might threaten their survival if they are unable to adapt their costs accordingly.

10.2.2 Costs

Average monthly costs for those firms still operating in September 2020 (and with information on costs and sales for both years) decreased from 16.5 million

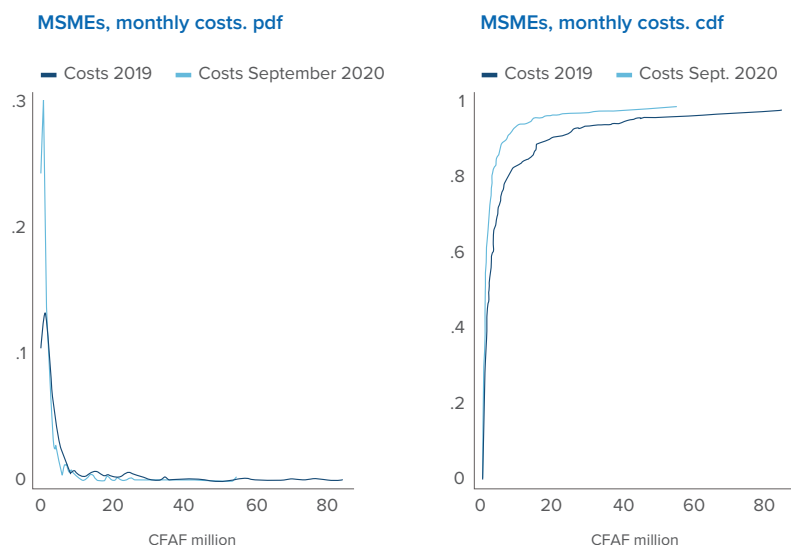
XOF (sd. 75.7 million, median 1.975 million) in 2019 to 6.2 million XOF (sd. 26.9 million, median 0.78 million) for September 2020. This large drop in costs is still substantially lower than the observed for sales, as we would expect given the existence of fixed costs, which are often non-adjustable in the short term.⁵⁵

53 If we exclude cashew firms (14.8 percent of the previous sample), the monthly revenue in 2019 averaged 18.6 million XOF, and dropped to 5.7 million XOF in September 2020. The fact that these values are not substantially different after excluding cashew firms points towards the possibility of having a not-too-strong effect of seasonal factors.

54 We show only the distribution for MSMEs because otherwise the relatively high values of large firms do not allow us to appreciate the shape of the distribution.

55 Excluding cashew firms, 2019 monthly average costs decreased from 14.4 million XOF to 5.33 million in September 2020. Again, if we accept the assumption of cashew firms being particularly cyclical, there are not clear indications of strong seasonal effects diverging September from a typical month.

Figure 57: Distribution of monthly costs in 2019 and September 2020 for those MSMEs that report information on costs for both periods



Note: LHS: probability density function. RHS: cumulative density function.

In Figure 57 we can see how monthly costs (again shown only for MSMEs) decrease significantly in relationship to 2019, but the difference or distance between the two curves is not as large as for sales.

10.2.3 Profits

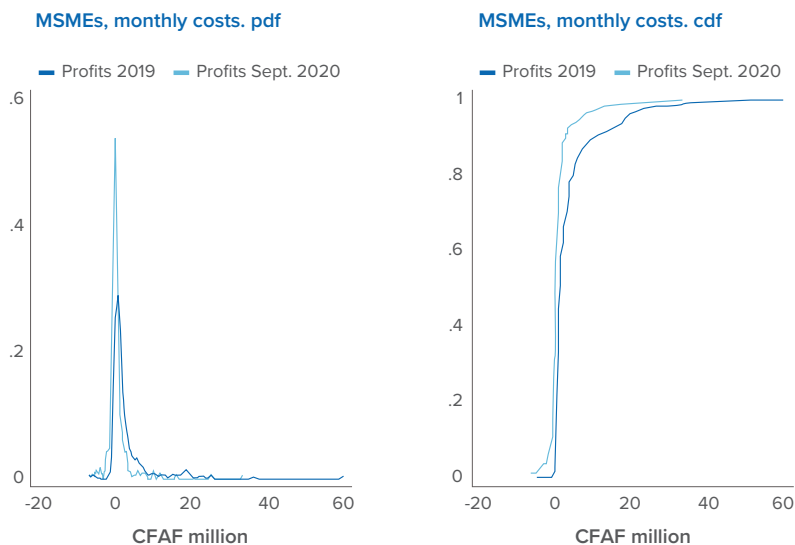
The drop in revenue relative to costs has important effects on the distribution of monthly profits. In this sub-sample, the average monthly profit for the

firms decreased from 4.1 million XOF (sd. 8.9 million, median 1.1 million) in 2019 to 0.76 million XOF in September 2020 (sd. 7.8 million, median 0.2 million).⁵⁶

The increased proportion of firms with monthly profits close to zero, the increase in the proportion of firms with losses and the much lower proportion of firms with substantial gains (again only for MSMEs), can be seen in Figure 58.

⁵⁶ When we exclude cashew firms from the sample, the 2019 monthly average increases just to 4.17 million XOF (sd. 9.4 million, median 1 million) and the average for September 2020 drops to 0.34 million (sd. 6.91 million, median 0.18 million), again, not a large difference.

Figure 58: Distribution of monthly profits in 2019 and September 2020



Note: distribution of monthly profits in 2019 and September 2020 for those MSMEs that report information on sales and costs for both periods. LHS: probability density function. RHS: cumulative density function.

As a result of the drop in revenue being so much larger than the drop in costs, the percentage of firms with monthly losses in this sub-sample went from 3.64 percent in a typical month of 2019 to 34.25 percent in September 2020.

10.2.4 Financial difficulties - lack of liquidity

Shop closures or reduced working hours during the months of confinement, along with the general reduction in revenue without a fully proportional decrease in costs, have put the liquidity of a clear majority of firms under stress. Of those manag-

ers interviewed, 81.6 percent were short of liquidity at some point since the start of the pandemic.

Two primary ways to alleviate the cash crunch stood out among managers: using savings and delaying payments (see Figure 59. 59.6 percent of managers stated that they had to tap savings made prior to COVID-19 to cover the liquidity shortages during the crisis. 43.7 percent of all managers indicated that they delayed payments.⁵⁷

⁵⁷ 17.4 percent of firms with liquidity problems resorted to both delaying payments and using the firm savings, 42.2 percent used savings without delaying payments, 26.3 percent did the opposite and 14 percent resorted to none of both. 17.4 percent of firms with liquidity problems resorted to both delaying payments and using the firm savings, 42.2 percent used savings without delaying payments, 26.3 percent did the opposite and 14 percent resorted to none of both.

Method	Frequency
Delayed payments	0.45
Savings	0.60
Bank loan	0.05
Loan from other financial inst.	0.00
Informal loans	0.05
Other	0.15

lords (56.3 percent), and suppliers (46.9 percent) were also frequently delayed, while debt service obligations to formal or informal lenders (4.9 percent) were only rarely delayed, see Figure 60.

To whom payments were delayed

A horizontal bar chart titled 'To whom payments were delayed'. The x-axis is labeled 'Frequency' and ranges from 0 to 0.8 with major ticks at 0, .2, .4, .6, and .8. The y-axis lists five categories: Suppliers, Landlords, Fiscal authorities, Employees, and Lenders. The bars are colored as follows: Suppliers (blue), Landlords (teal), Fiscal authorities (light blue), Employees (orange), and Lenders (red). The approximate frequencies are: Suppliers (0.48), Landlords (0.58), Fiscal authorities (0.62), Employees (0.80), and Lenders (0.05).

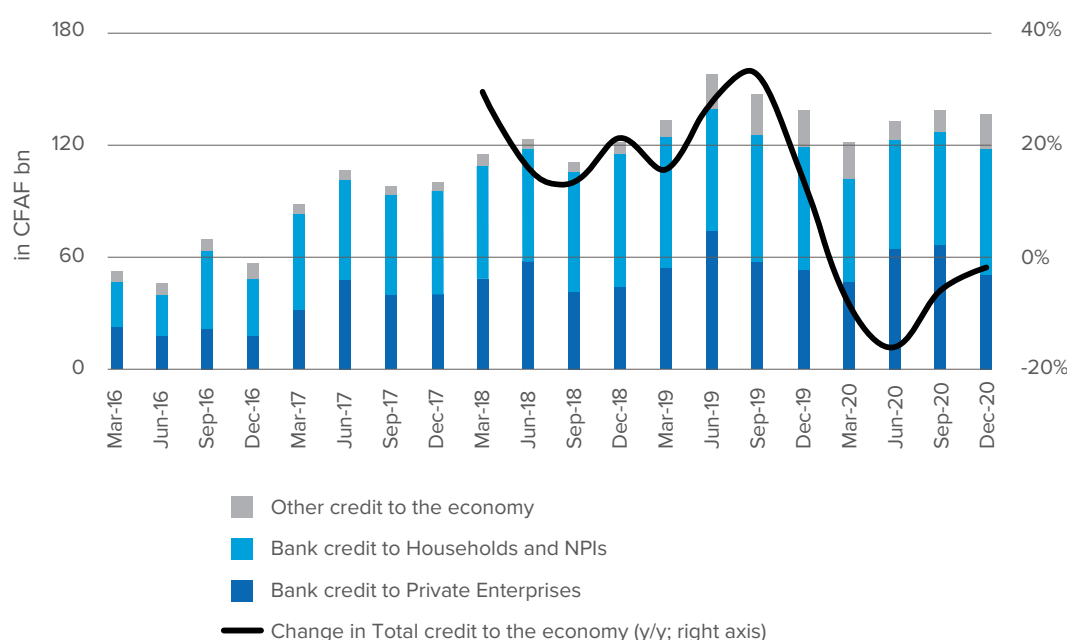
To whom payments were delayed	Frequency
Suppliers	0.48
Landlords	0.58
Fiscal authorities	0.62
Employees	0.80
Lenders	0.05

Importantly, the data shows that constrained firms were much more likely to fire workers during the crisis: these laid off 18.7 percent of their workforce between 2019 and September 2020, compared to an eight percent drop in the number of paid employees for firms without liquidity problems.

This reliance on savings, the delay of payments and the retrenchment of workers as a response to the liquidity problems derived from the crisis relates strongly to the fact that not many firms have access to loans. This again becomes obvious as only a small fraction (9.8 percent) of managers could revert to loans, either of formal or informal nature to cover liquidity shortages associated with the crisis. Among firms that had liquidity problems and have ever requested a loan at least once (44.9 percent of the sample), 77.2 percent had difficulties accessing credit during the crisis, 8.3 percent had no difficulties, and

14.4 percent did not try to obtain it. There was an important difference in access to credit between MSMEs and large firms: while 91.8 percent of managers of MSMEs that tried to obtain credit during the crisis found it difficult, this is true for 57 percent of managers in large firms.⁵⁸ Most (39.8 percent) firms also indicated that they got their highest loan over the last three years in 2019, while only 26.1 percent stated that it was in 2020.⁵⁹ This indicates that firms likely requested or received less loans during COVID-19 than in 2019.⁶⁰ This assumption is supported by data of BCEAO (2021), see Figure 61. Increasing debt to cover for liquidity shortages during the crisis does not seem an option for a large proportion of Bissau-Guinean firms. One would expect these limitations in access to credit to seriously harm those firms under liquidity stress, potentially reaching the point of threatening the survival of a relevant proportion of them.

Figure 61: Bank credit in Guinea-Bissau, BCEAO 2021



58 Note that in our sample there were only seven large firms trying to access credit during the crisis, so this finding should be taken with caution.

59 The year 2019 concentrates 39.8 percent of these highest recent loans, followed by 2020 (until the date of the survey) with 26.14 percent, 2018 with 21.6 percent and lastly 2017 with 12.5 percent of the total.

60 26.1 percent represents about two thirds (2/3) of 39.8 percent. If the largest loans were as many in 2020 as in 2019 by the time of the survey (October-November 2020) we would expect at least 29.85 percent of the highest loans in this year.

10.2.5 Impact on employment

Given the informality of most of the workforce in Guinea-Bissau - even in formal firms, as we have seen -, and the relatively frequent delay of workers' payments and salaries,⁶¹ analysing the impact of the COVID-19 crisis on firm's employment and workers layoffs is not straightforward. Administrative data is inexistent and in surveys one should be careful in the interpretation of a manager's response about its firm having a given number of workers, as these might not be receiving their salary or have any guarantee of continuing in the same job in the short term. Naturally, this is even more of a concern in terms of crisis.

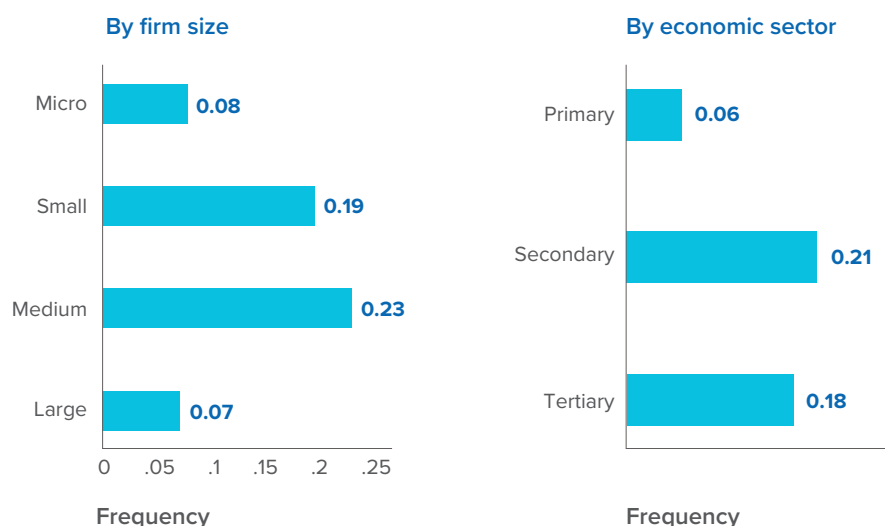
Comparing paid employment⁶² to that in a typical 2019 month, managers in firms not opened to business in 2020 declared to have reduced their workforce by 31.7 percent of their paid employees, on average, which amounts to 3.83 workers per firm. Managers in firms that were opened to business this month declared to have reduced their workforce by 10.8 percent on average, which amounts to five workers per firm.⁶³ Overall, firms in the sample had reduced their number of paid employees by 16.8 percent on average in September 2020, or 4.7 workers per firm.

The LHS of Figure 62 shows that the impact of the crisis on employment for firms of different sizes follows the same pattern as the impact on median profits for MSMEs (see Table 16): the workforce in microenterprises seems the least affected (-8 percent), and that in medium firms the most (-23 percent), closely followed by small enterprises (-19 percent). Instead, while we saw that median profits dropped the most for large firms, their employment seems to have been substantially more robust than for small and medium ones, dropping by seven percent. On the RHS of this same figure, when we analyse the evolution of the paid workforce by the economic sector, we find that the number of employees in primary sector firms has increased by six percent. With only 36 MSMEs operating in this sector, this result is mostly driven by two small enterprises that more than doubled their number of paid employees over this period. Consistent with their larger drop in median profits, the workforce of those firms in the secondary sector was the most affected by layoffs, being reduced by 21 percent. Employment in tertiary sector firms over this period dropped by 18 percent.

Keeping our caution about the interpretation of self-declared paid employment in mind, these find-

Figure 62: Proportion of employees laid-off between 2019 and September 2020, by firm size

Proportion of paid employees laid off, 2019 to Sept. 2020



61 In Figure 60 we can see that about 80 percent of firms delaying payments during the crisis delayed payments to their employees.

62 As explained in the Employment section, paid employees include both temporary and permanent workers.

63 The larger number of layoffs in opened firms must be due to their larger average size, as we have seen in Figure 54.

ings show that the impact of the COVID-19 crises on employment was huge, but that it might have been of a lower scale than the impact of firms' profits. MSMEs seem to have resorted to layoffs as an adjustment strategy much more than large firms, which saw their profits decrease the most but decreased their workforce the least.

In terms of the distribution of layoffs by gender and nationality,⁶⁴ out of the average 4.7 people that lost their job per firm, 0.64 were women. This represents 13 percent of total layoffs. With women accounting for 24 percent of the labour force in pre-COVID-19 times, this indicates that women's jobs were on average more resilient than men. Those women seem less likely to have lost their jobs during the crisis is particularly remarkable given that they tend to be hired by smaller firms, which as we have seen have laid-off a larger proportion of their workforce in this period.

Somehow surprisingly, the average number of paid foreign workers per firm increased from 0.85

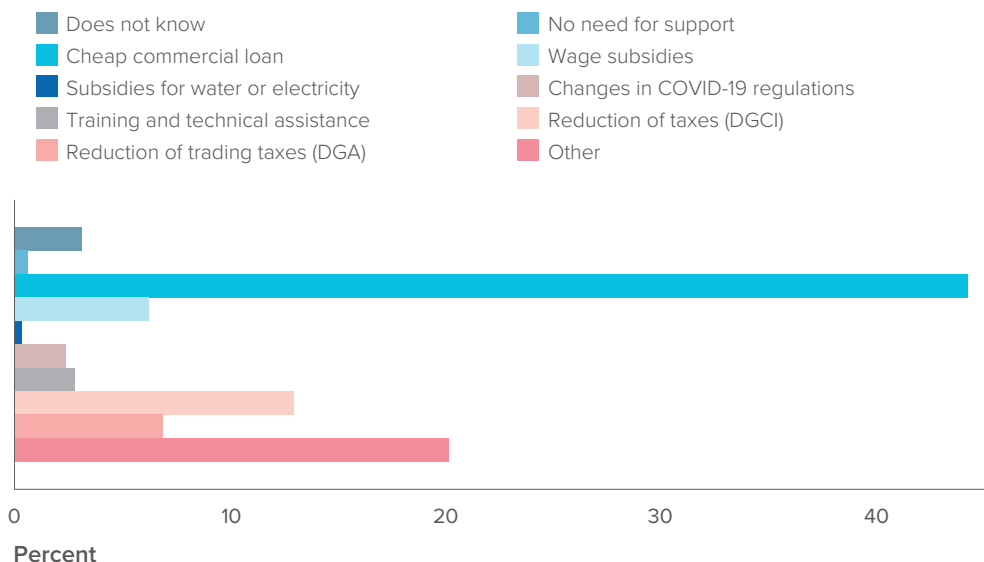
to 1.85 between 2019 and September 2020, with the median number of foreign workers by firm going from 0 to 1. The average number of family members per firm dropped slightly, from 1.17 to 1.05.

10.2.6 Requested support by managers

By October 2020, only 17.25 percent of firms had received support by the government, an NGO or an international organization during the crisis. When asked about the most important policy that would help them to better confront the current crisis, 44.3 percent of firms indicated a cheap commercial loan as the optimal solution. Reduction of taxes, by the General Direction for Taxes (DGCI)⁶⁵ first and then by the General Direction for Customs (DGA)⁶⁶ were the second and third most suggested policies, supported by 12.9 percent and 6.9 percent, while subsidies to wages was the most needed policy for 6.3 percent of firms. The remaining 29.6 percent or did not know (3.1 percent) or proposed a variety of other policies, see Figure 63.

Figure 63: Main support policy needed during the crisis, according to the interviewed managers

Main support policy needed during the crisis



⁶⁴ Here we are comparing overall averages, for the subset of firms that have information for the corresponding category of workers both in 2019 and 2020.

⁶⁵ Direção Geral de Contribuições e Impostos, in Portuguese.

⁶⁶ Direção Geral da Alfândega, in Portuguese.

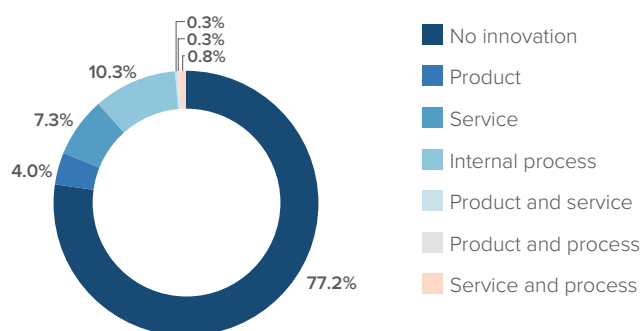
10.3 Innovation during COVID-19 and confidence in the future - adapting to a “new normal”?

Innovation is another potential source of business diversification and an important strategy to build up resilience. It is largely agreed that crises represent a unique opportunity to innovate, being this crucial in the way out from them indeed. On an international level, COVID-19 has been a time of innovations and diversification for many firms (see for example Paunov and Planes-Satorra 2021). Nevertheless, few enterprises have engaged in substantial innovations since the beginning of the COVID-19 pandemic in Guinea-Bissau, with 77.2 percent of the managers in our sample declaring that their firm has not intro-

duced any since then. Moreover, not every type of innovation is likely to increase a firm’s resilience through diversification. While product or service innovation might lead to creating new sources of revenue and to attract new clients, internal process innovations are less likely to do so. This is another flaw of the nature of firms’ innovation in Guinea-Bissau. The evidence reveals that only 12.7 percent of the firms have produced any of the former since the beginning of the COVID-19 crisis, almost the same percentage that has produced process innovations (11.4 percent), see Figure 64. Very few firms have introduced two different types of innovations.

Figure 64: Firms’ innovations since the start of the COVID-19 crisis

Innovations since the start of COVID-19



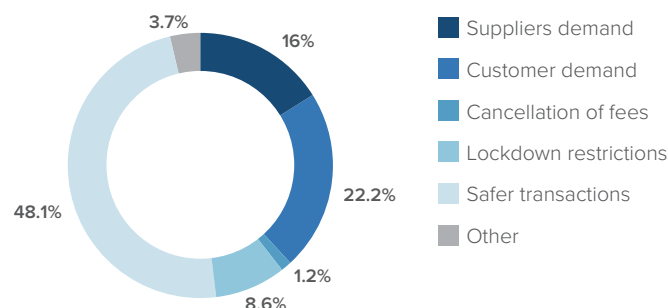
Not necessarily considered as an innovation by the managers, 51.6 percent of those in firms that used mobile money mentioned that these increased the use of mobile money since the start of the COVID-19 crisis. Most (41.8 percent) stated that the safer transactions health wise were the main reason for the increased use. Other stated demand by customers (22.2 percent) or suppliers (16 percent) as well as

adapting to lockdown restrictions (8.6 percent) as the main reason for the adoption. The temporary reduction or cancellation of fees by the Central Bank⁶⁷ were indicated as the main reason only by a small minority (1.2 percent) of firms, see Figure 65, but this policy might have facilitated the increased use of mobile money justified by other factors in the survey.

⁶⁷ In April 2020, the BCEAO issued Notice No. 004-03-2020 on the promotion of electronic payments as part of the effort to combat the spread of COVID-19, see: [https://www.bceao.int/sites/default/files/2020-04/BCEAO-Covid19 percent20- percent20Avis percent20Promotion percent20des percent20paiements percent20digitaux.pdf](https://www.bceao.int/sites/default/files/2020-04/BCEAO-Covid19%20-%20Avis%20Promotion%20des%20paiements%20digitaux.pdf)

Figure 65: Main reason why some firms increased their use of mobile money during COVID-19

Main reason to increased mobile money use during COVID-19



As we have seen, while expanding, internet adoption is low, and its use relatively reduced. Due to the nature of many types of work, even large firms are ill-equipped for alternative arrangements in a lockdown situation, such as remote work. Still, over a third (34.4 percent) of managers stated that their firms increased the use of the internet since the start of the COVID-19 crisis: 45.5 of those firms using the internet in their daily operations increased its use, but this was only true for 5.3 percent of firms that do not use internet daily. By firm size, larger firms were slightly more likely to increase their internet usage with the crisis, 37.5 percent of them did, compared to 32.1 percent of micro enterprises. By sector, more primary and tertiary firms increased their internet usage (36.1 percent and 37 percent) than secondary sector firms (25 percent). With the recent expansion of smartphones in the capital of the country, there is a clear mid-term potential for innovation and diversification using online platforms and services.

The COVID-19 crisis has brought huge levels of uncertainty for Bissau-Guinean firms. This is probably best illustrated by the fact that only 44.6 percent of managers interviewed estimated the number of months they expect to pass before sales would get back to normal and the amount of time their firm would survive in the current circumstances.

When asked when they expect sales to get back to normal, 43.1 percent of managers answered that they did not know. Among those that had a concrete expectation, the average was 4.1 months (sd 3.7) and the median 3. When asked how long they thought the firm could continue to operate under the current circumstances, 54.6 percent of managers answered, “more than a year.” For the rest, the average expected survival time was 3.86 months (sd 2.56) and the median 3. As a positive note, over two thirds (69.3 percent) of those managers who gave an estimated length for both periods consider their firm can survive long enough, indicating a prevailing confidence in the economic future of their business.

11. Building forward better for SMEs - main recommendations



11. Building forward better for SMEs - main recommendations

The survey offers a clear picture of the challenges the private sector faces in Guinea-Bissau, focusing on MSMEs. The crisis associated with the COVID-19 pandemic has further exacerbated this situation, reducing income and employment and even causing a considerable number of companies to shut down. Limited fiscal space and failure to meet key policy priorities left the private sector with close to no government support.

Considering the long-standing bottlenecks that MSMEs in Guinea-Bissau face, the fundamental needs to support the private sector and enable a more conducive business environment are overdue. The private sector in Guinea-Bissau must break out of its low and volatile growth trap, especially post-COVID-19, and start playing a more significant role in the country's economy. The role of the government in unblocking existing bottlenecks is of the utmost relevance. Large public investments do not appear like a feasible strategy in the short term. Henceforth, we identify three measures that the public sector may consider. First, increase investments to improve governance to achieve the creation of a conducive business environment. Second, establish a better regulatory framework for business operations. Third, concentrate its scarce financial resources to fund essential public infrastructure that can leverage further private investments.

Working to improve the political and market-driven constraints identified in this study is an essential step towards unlocking Guinea-Bissau's private sector potential and entering a path of sustainable economic growth. A better business climate would improve conditions so that firms and national investors are able to expand their activities. Doing so is also likely to attract foreign investors, accelerate the adoption of new technologies and bring new expertise.

We identify recommendations to overcome current impediments to private sector development. Ideally, these should be led by a dedicated steering committee. One possibility could be the Business Environment Reform Commission (Comissão de Melhoria do Ambiente de Negócios, CIMAN⁶⁸), which was once created in April 2015 under the Ministry of Economy and Finance with private sector participation but is

now dormant. The committee, ideally anchored at the top level of government, should coordinate, and oversee reform implementation related to the following topics:

11.1 Improve predictability and accountability: create a legal and institutional enabling environment for MSME growth

The research results laid out in this report reveal the business environment is riddled with corruption and highly influenced by politics. There is much room for improvement with the legal and institutional frameworks to provide needed support to MSMEs. In this sense, the government should prioritize specific issues and focus on clear objectives. The public-private dialogue should be strengthened to address the main existing obstacles. Based on this dialogue, the government could consider launching a regulatory framework reform and design policies and laws that align with the real needs of private sector stakeholders. The reform should focus on creating an enabling environment for private sector growth while also attracting domestic and foreign investments.

Simultaneously, the judicial system should be strengthened to deal with a larger share of existing commercial litigations. As the survey shows, only a few disputes were taken to court due to managers' weak confidence in the judicial system. Those few disputes taken to court took a long time to be resolved. The establishment of a commercial court in 2009 was a positive step, although hindered by the lack of resources. Advances in producing new regulations might lose a great part of their potential if the capacity of the judiciary to enforce them is not improved.

Currently, Guinea Bissau ranks 174 out of 190 countries in the World Bank's 2020 Doing Business index and Ease of doing business score of 43 (0 = lowest performance to 100 = best performance). In 2019, there were nine distinct procedures to start a business in Guinea-Bissau, compared to an average of 7.5, 7.1 and 6.3 in Sub-Saharan Africa, South Asia and Middle East and North Africa regions, respectively. The time needed to enforce a contract is 1785 days, compared to 654.9 days in sub-Saharan Africa and 589.6 days in OECD countries (WB Doing Business Survey 2020). The reforms will reflect positively on the indicators and will contribute to stimulating

68 The committee was introduced in three bodies: a high-level decision body (e.g., Council of Ministers); technical groups; a reform coordination unit.



private sector growth. UNDP (in collaboration with UN agencies, IFIs and other developing partners), can play an essential role in supporting the development of a wider business and investment regulatory framework, in line with international standards. This UNDP support could include the following:

- i. In-depth study identifying financial, investment and business related regulatory and procedural bottlenecks and recommending appropriate reforms, including reducing transactions time and costs.
- ii. Devise a plan for digitalizing licensing, taxation, and other business-related procedures.
- iii. Institutionalize regular surveys and private-public dialogue.
- iv. Capacity development of public and judicial institutions.

11.2 Level playing field: promoting firm formalization and fair taxation

The government should enhance their role in providing incentives for informal firms to be integrated into the formal economy. Competition by informal firms has been named one of the primary obstacles by firms. While increased prosecution was the main policy suggestion by survey participants, pushing registration per se is not sustainable. Informational campaigns along with fiscal and regulatory incentives are key. Recent pilot programmes in other WAEMU countries to enact OHADA's 2011 streamlined business registration regulations for entrepreneurs could provide valuable guidance to further scale-up interventions for MSME registrations. Business plan competitions among incubation centres can equally contribute to formal entrepreneurship.

The official fiscal burden seems especially heavy for smaller firms as they are less likely to pay taxes. A smaller tax base means a higher burden for the other tax-paying enterprises. The amount of taxes to pay was also mentioned as the most considerable disadvantage regarding registration among respondents of formal enterprises. Far-reaching tax reforms may propose a privileged treatment to small firms to incentivise formalization and broaden the tax base. The rollout of IT-driven reforms is likely to improve administration capacities as the current manual and the paper-based system allows little

oversight. Policy measures can include the streamlining of taxes to pay and apply digital methods. Further digitalization to reduce the cumbersome tax procedures for follow up and organization would be ideal. Training taxpayers has also proved effective.

11.3 Strengthen gender and youth equality

Due to generally less access to education, women typically present limited literacy levels. However, both male and female respondents identified that women are the better managers. Transferring knowledge and building entrepreneurship can strengthen women's rights and economic choices, an essential driver for economic development. An important first step will be to introduce reforms eliminating discrimination to women's participation in the economy: women should have the same opportunities as men to register a business, open a bank account and access credit. In this sense, more supportive measures to parenthood would be welcome, such as legislation providing for paid leave and prohibiting the dismissal of pregnant workers. As argued in the section on diversity in management, there is a generalized belief that women make better managers. Still, they represent a small proportion of the total: more equality in women access to decision-making positions will enable the country's socio-economic development.

About 64.9 percent of the working-age population (15-64 years of age; 55.5 percent of the total population) is comprised of young people between 15 and 34 years of age. Without better employment and income opportunities, they might choose to migrate. Especially for youth, financial services are often limited. Latest data show that in 2020 female labour participation rate stood at 66 percent of female working-age population, yet only 15 percent of employed females are wages and/or salaried workers and around 85 percent are self-employed, compared to 69 percent of employed males being self-employed and an average of 77 percent for the population (both males and females combined). Yet only 1.4 percent of the employed population and only 0.8 percent of employed females are employers. This means that most people, particularly women, are engaged in MSMEs and other forms of micro-entrepreneurial activities, with a large proportion in the informal sector, as the main form of livelihoods. Hence, supporting such entrepreneurial activities will have a significantly positive impact on livelihoods, particularly for women. Hence, it is crucial to emphasize supporting women and youth's economic empowerment through inclusive participation in the labour

market and business activities. Giving special attention to youth and women, specifically to the promotion of their human capital, business initiatives and access to credit, can strengthen productivity and local entrepreneurship. Ramped up support from the UN Country Team, International Financial Institutions and bilateral development partners could focus on building capacity and providing access to grants and microfinance for women and youth entrepreneurs.

The fact that most of the employment is provided by the agriculture forestry and fishery and services sectors makes them the appropriate sectors to be targeted. Nonetheless, and despite the low contribution of the industry and manufacturing sectors to total employment, moving up the value-added chain within the agriculture, forestry, and fishery sector, through agroprocessing, makes perfect sense for more sustainable livelihoods.

11.4 Active labour market policies: a tool for sustainable and inclusive growth

Although skill shortages are one of the least pressing concerns of business managers, there are clear benefits of increasing national human capital in the medium and longer term. Human capital is a crucial disruptive factor in a world transitioning to a knowledge-based economy, and not investing in it is likely to limit future economic development. A labour force equipped with the skills required by the private sector can unleash economic growth and contribute to making it more inclusive and sustainable. This process favours faster job creation, reduces job destruction, boosts wage growth in line with higher productivity and leads to a better distribution of the benefits associated with growth between workers and investors. Moreover, a better-educated labour force also creates positive political spillovers, being less likely to tolerate harmful governance dynamics, such as corruption or nepotism, and therefore acting as a counterbalance for the political instability and institutional weakness. A productive, educated, and skilled workforce can more easily organise itself to demand more productive public investment and better policies taking the population's needs at its core.

In purely economic terms, we recognize a strong correlation between workers' educational attainment and wage. In this sense, several interventions in active labour market policies could boost a firm's productivity and wage rise. First, it is paramount to improve access and to increase education quality, especially higher education. Access to educa-

tion is often based on the household capacity to pay because of the scarcity and low quality of free public education. Secondly, partially subsidizing workers' wages engaged in formal education and vocational training would increase their capacity to continue their education. These subsidies would indeed reduce the trade-off between keeping a full-time wage and investing in human capital. We believe that such a measure would positively affect economic growth: firms would profit from more skilled workers, higher productivity, and workers would learn how to apply their new competencies to an actual work situation. This combined effect is likely to compensate for the net cost of the subsidy. Moreover, grants might be conditional on a good performance in the course or training attended by workers.

It is also essential to target the field of study and professional skills demanded by the private sector, even more if they will be subsidized. The study identifies ICT, technical, quantitative, and financial skills, and foreign language fluency as the most demanded skills. Leveraging especially these skills for employees through the development of tailor-made training programmes for professionals can positively contribute to the success of individual firms and more dynamism in the business environment. Nevertheless, further analysis of the skills demanded by different economic sectors is needed before implementing an intervention of this type, focusing on equipping workers with the skills that firms are most likely to demand in the future.

Finally, the study reveals that employment precariousness and lack of good quality jobs are a reality for a large share of the population in Guinea-Bissau. Skilled, educated workers are less likely to suffer from these situations since they receive higher wages and enjoy more stable working relationships, basically because firms want to keep them. This difference is also related to higher levels of formalization of contracts and INSS register rates, which can improve the State's fiscal position by lowering expenditure in social protection and increasing the collection of levies. Thus, such a wage subsidization programme would pay back in the medium and even short term, primarily if it targets the most dynamic economic sectors and their related skills shortages.

11.5 Better value chains: improving public infrastructure for national and regional integration

Productive and value-adding capacity is low in Guinea-Bissau. Two-thirds of firms depend on imported

Communication among private sector actors must be improved by developing (digital) platforms to exchange information, knowledge and experience, and link firms to potential markets and resources. In this sense, fairs may be organized to allow national and international firms to present their products and services and find potential investors or new business partners to drive value chains and identify new opportunities. The development of accredited laboratories can especially be supportive for primary sector exports (agribusiness and fisheries). The capacity to improve certification and accreditation in line with ISO standards can support exports. Custom administration must improve through streamlining processes and reducing non-tariff barriers. Strengthening of value chains and diversification is significant in the context of COVID-19 as supply chains have been disrupted in an unprecedented manner.

MSMEs, despite their potential, often suffer from a lack of appropriate funding. Their limited internal financial resources and no credit history make entrepreneurs high-risk borrowers. Consequently, demand for high guarantees, collaterals or high-interest rates inhibit access to financing and investment resources. Thus, difficulties when seeking financing has been mentioned as the primary market bottleneck for enterprises. Access to credit must be improved for MSMEs to develop their productive capacity. Banks argue that start-up managers generally lack credible and extensive business plans that could be used to demonstrate their projects' viability to lending institutions. The consequent low control of managers on their business and the poor financial literacy constitutes high-risk factors for financial institutions considering whether to grant the loan. These

According to the World Bank (2020), merging household and business finances is a common practice in the private sector⁶⁹. As a result, financial institutions often mention that the lack of proper financial and accounting records and business plans are major constraints to granting credit. Therefore, awareness-raising and capacity building to address sound business and financial practices are highly needed. The same report highlights that, Guinea-Bissau's regulatory framework is holding back women's labour market participation and access to economic opportunities. The report identifies the following key challenges: political instability and institutional fragility, poor and inadequate infrastructure, an outdated regulatory environment and a judiciary in need of reform, and limited access to finance.

Additional reforms to unlock access to credit include strengthening the credit information apparatus through the WAEMU's Regional Credit Bureau initiative. The general low banking penetration in Guinea-Bissau also reveals the need to enhance the financial infrastructure. Levering digital and innovative means of financing can achieve more available access to capital to accelerate their investments for MSMEs. The re-establishment of microfinance institutions shows potential in this direction, provided the causes of their past failures are remedied. Their capacities could be increased with effective management of information systems and other digital solutions. The implementation via mobile-money segments is a realistic option for the financial inclusion of MSMEs, with over 70 percent of respondents stating they can imagine receiving loans through this means.

11.7 ICT technology: driving resilience and innovation

Immediate steps should be taken to better explore the use of innovative digital tools, especially the internet and mobile payments. The study has shown that “more digital” businesses (i.e., those that connect to their customers primarily via the internet and use mobile payments) were more resilient during the crisis. The existing policy framework in Guinea-Bissau inhibits innovation and discourages the use of digital tools. Overcoming this obstacle will be critical for the country’s development, and the adoption of ICTs will be crucial for building forward better, linking different regions, countries, and firms to make them more resilient. However, challenges such as high cost, limited coverage, and low reliability of internet services will need to be addressed. Currently, internet access in Guinea-Bissau is quite expensive, unreliable and has limited coverage. Based on data from 2019, the Alliance for Affordable Internet (2020) calculated that one gigabyte of internet costs 20 percent of per capita monthly gross national income (GNI), the highest relative costs in WAEMU. The limited affordability and the large coverage gap in the national territory justify that Guinea-Bissau has the lowest internet take-up rate among all WAEMU members. In 2018, only 10 percent of Bissau-Guineans had an internet subscription. Another 27 percent of the population was covered by a broadband network but did not subscribe to mobile internet services (GSMA, 2020).

An active mentoring of start-up incubators may foster the emergence of e-commerce and digital economy actors. Technology serves as an enabler for sustainability and strengthens the value chain, which makes MSMEs more resilient. The creation of B2B e-platforms may allow the sector to share information, knowledge, and experience, particularly on market information, and foster value chains in more rural areas. The exchange between different and diverse management teams can provide potential benefits and incentivize further collaboration between foreign and national managers to reap the full benefits of diversification.

11.8 Start-up incubator: creating grounds for new businesses

Young people in Guinea-Bissau often face challenges in gaining a foothold and entering the private sector. Providing them with a space for exchange, peer learning, and business networking can allow them to feed and grow creative ideas to develop

constructive solutions for the existing problems. The critical infrastructure for these occasions should be created. Ideally, ideas should be supported by integrated services, including mentoring and coaching, to promote innovative entrepreneurship and facilitate new businesses for existing market opportunities.

Incubators could provide guidance. MSMEs contribute to an inclusive economy and social development by supporting innovative Sustainable Development Goals (SDG) acceleration initiatives and facilitating seed money access and technical assistance to local entrepreneurs and relevant project promoters, emphasizing women and youth.

These facilitating mechanisms have the goal to enhance positive competition among start-ups and MSME innovators. The goal is to prompt new and innovative concept proposals to access catalytic funding, grants and business advisory services. A priority should be given to those that fit within the UN overall strategy to partner with the private sector to “build forward better” in critical areas such as the green and blue economy, circular economy, and digital transformation. Investments and developments in these areas will also contribute to increased economic resilience in the long-term. The start-ups will be selected and clustered in value chains. Solutions should be developed to help cooperatives operate (tech-enabled solutions for basic training on management and trade) on good agricultural practices or adopt new technologies to optimize productivity in some contexts.

11.9 Scale up businesses: providing business advisory and improving productive capacities through management capacity

The survey has demonstrated that better business planning could support market diversification and promote new business activities that could contribute to longer-term economic stability. However, innovative entrepreneurs face significant roadblocks when trying to start new businesses. Therefore, identifying existing firms with the potential to scale up operations may be highly beneficial.

A lack of proper business planning and accounting methodologies is evident among existing firms despite relatively high managers’ formal education. Workshops on financial literacy and easy-to-adopt accounting practices, potentially through digital solu-



tions, could be valuable and allow for easier granting of loans at banks. The promotion of supportive and advisory practices on designing business plans is advisable to strengthen management skills, foster better operational and productive capacities and help to demonstrate their projects' viability to lending institutions.

An assessment of the current market structure reveals great potential for diversification. In this sense, a market demand study should be conducted to help firms better diversify, innovate, and identify their customer base. Moreover, helping firms to scale up their businesses could lead to increased job creation. Additional recommendations in this area include revising the 1986 Labour Code to allow for greater flexibility in both types and duration of contracts and removing ex-ante approvals on contracts.

11.10 Enhancing public expenditure contribution to aggregate demand for private-sector output and strengthening Public-Private Partnerships (PPP)

Currently, the government does not purchase much in local markets. Hence, there is enormous potential of public expenditures to stimulating aggregate demand and consequently, private sector growth in the country. Additionally, Public-Private Partnerships are virtually non-existent. There is a need to review and reform government procurement policies and procedures to grant preferential access to local private firms. This will increase the share of public procurement in firms' sales and unlock the potential for public expenditure to play significant role in stimulating economic growth. There is also a need to explore PPP opportunities, particularly in infrastructure, renewable energy, provision of public services, transportation, and communication.

Appendix I



A.1. Classification of firm size

First, we use an adaptation of the formula proposed by the authors to classify firms by their 2019 revenue: firms with an annual revenue lower than 10 times the per capita Gross National Income in Purchasing Power Parity (GNIpc PPP) are classified as microenterprises, those having between 10 and 100 times this revenue are classified as small, from 100 to 1,000 as medium, and we consider large firms those with an annual revenue larger than 1,000 times the GNIpc PPP of the country.⁷⁰ As shown in Table 18, after a small rounding these thresholds are respectively set at 1, 10 and 100 million XOF of monthly revenue.

While the simplicity of this approach has the advantage of facilitating both a good match to the reality of the country and comparability across different contexts, a clear drawback is that it does not say anything about the number of workers in each category of firms, a measure arguably relevant as a measure of organizational complexity and with respect to labour issues, and frequently used by international organizations and government agencies. To compensate for this limitation, we classify firms with more workers than typically assigned to the category they obtain according to their revenue - see last column in Table 18 - to the immediately upper one.

Table 18: Threshold for the classification of micro, small, medium and large enterprises

Thresholds	Factor x GNIpc	Annual revenue (XOF)	Monthly revenue (XOF)	Rounded Revenue Threshold	Worker's threshold
Medium firms	1,000	1,212,071,314	101,005,943	100,000,000	<100
Small firms	100 ⁷¹	121,207,131	10,100,594	10,000,000	<50
Micro firms	10	12,120,713	1,010,059	1,000,000	<10

Note: the samples use the World Bank data for Guinea-Bissau PPP GNIpc in 2019,⁷² at 2,069USD, and the average exchange rate between the two currencies in this same year, at 585.83 XOF per USD.

This classification gives priority to revenue over the number of workers in the sense that a firm with less than 1 million XOF of monthly revenue but with more than 10 workers is considered a small firm instead of a micro one. Still, it is never classified as medium or large, even if its number of workers is well above 50 or 100.

The combination of revenue and number of workers as primary and secondary factors obtains an effective inclusion of these two relevant variables while respecting firm efficiency and financial weight concerns. An added advantage is that, given insufficient data, it allows classifying those firms lacking information on either the number of workers or monthly revenue using the other category.⁷³

A.2. Variables used in the regressions

This section describes only and all the variables that appear in regression tables included in the report.

Dependent variables

Some of these variables appear as controls in other regressions.

- Table 3, bribes: these six dependent variables only take value 0 or 1 when the firm has recently done or attempted to do the corresponding action, they are not defined otherwise. This explains the large variability in the number of observations in each regression.
- Importing: a dummy variable that takes value 1 if the manager answered that a present

⁷⁰ For the sake of simplicity, the actual thresholds are slightly rounded from those resulting from the actual calculation, as it can be seen in Table 1.

⁷¹ Defined by the authors, as Gibson and Van der Vaart (2008) do not provide a threshold to separate small and medium firms.

⁷² We convert the amount from 2017 International USD to 2019 values, multiplying the value by 1.04, using a standard inflation calculator.

⁷³ In our sample only 2 firms do not have information on both monthly revenue and the number of workers.

was expected the last time that he tried to import with the corresponding firm.

- Exporting: a dummy variable that takes value 1 if the manager answered that a present was expected the last time that he tried to export with the corresponding firm.
- Meeting fiscal officials: a dummy variable that takes value 1 if the manager answered that a present was expected the last time that he met with fiscal officials regarding the payment of taxes for the corresponding firm.
- Construction license: a dummy variable that takes value 1 if the manager answered that a present was expected the last time that he tried to obtain a construction license for the corresponding firm.
- Electric connection: a dummy variable that takes value 1 if the manager answered that a present was expected the last time that he tried to obtain an electric license for the corresponding firm.
- Commercial license: a dummy variable that takes value 1 if the manager answered that a present was expected the last time that he tried to obtain a commercial license for the corresponding firm.

Table 6, access to credit:

Have ever gotten a loan: a dummy variable that takes value 1 if the firm ever got a loan and 0 otherwise. This is the dependent variable in the six columns of the table.

Table 13, workers' salary:

- Average employees' salary: the manager's answer to the question "how much did an employee in your firm earn on average in a typical month of 2019?," in XOF.

Table 15, COVID-19 closure:

- Being closed in September 2020 (columns 1 and 2): a dummy variable that takes value 0 if the firm was operational in September 2020 and 1 if it was closed then.
- Length of the closure: the number of days

that the firm stayed fully closed because of the crisis, it includes those firms that did not close due to the crisis, with value 0.

- Length of the closure for firms that closed: as the previous variable, but it is not defined for firms that did not close at least for a full working day during the crisis.

Explanatory variables

Self-explained variables: small firm, medium firm, large firm, micro firm, number of managers,

- Some data registry: the manager provided a substantial part of the data about the firm from some data registry, during the interview.
- Indicators monitored: the number of financial indicators monitored at the firm.
- Bank accounts: the number of bank accounts dedicated to the firm.
- Female managers: the number of female managers.
- Customers by phone: a categorical variable that takes the value 1 if the main channel for contacting customers is by phone, and 0 otherwise.
- Customers by the internet: a categorical variable that takes the value 1 if the main channel for contacting customers is through the internet, and 0 otherwise.
- Years of schooling: the average years of schooling of the employees in the firm, as indicated by the manager. Primary = 4, Basic = 9, Secondary = 12, Professional = 15, University = 17.
- Female employees and foreign workers: their number.
- Workers with SS: the number of workers in the firm that are affiliated with the Social Security.
- Uses mobile money: a dummy variable that takes value 1 if the manager says the firm uses mobile money for some of its operations, and 0 otherwise.
- Internet daily: a dummy variable that takes



value 1 if the manager indicated that the firm uses the internet for its daily operations.

- Manager schooling: years of studies of the interviewed manager, equivalent to “years of schooling.”
- In the capital: the firm is located in the regions of Biombo or the Autonomous Sector of Bissau.

Controls 1 - all observations

The variables in this list share the characteristic that they have all the observations. They are classified in five categories:

a. Introduction and demographics:

- The manager is the owner, dummy.
- The enumerator who conducted the survey, categorical.
- Whether the interviewed manager spoke creole, dummy.
- The sex of the manager, dummy.
- Whether the interview was made in person, face to face.
- Whether the interview took place at the firm’s locale.

b. General information:

- Whether the firm is formal, dummy.
- Whether the firm is in the capital, see explanatory variables.
- Economic sector, categorical.
- Cashew: the firm operates in the cashew sector.
- Has some innovation: the firm made some innovation during the COVID-19 crisis, dummy.

c. Finances and investment:

- The number of bank accounts.
- Whether the firm ever requested a loan, dummy.
- Whether the firm ever got a loan.

d. Infrastructure:

- The main communication channels with customers: on the phone, in person, through the internet, categorical.
- Whether the firm has a webpage or social media profile.
- Uses the internet daily and uses mobile money, see explanatory variables.

- e. Various: the number of managers, whether the firm keeps records (see explanatory variables), the number of unpaid workers and whether the firm ever had a -legal- dispute.

Controls 2 - missing some observations

The variables in this list share the characteristic that they all miss some observations, but these are few. Other controls missing a large number of observations have not been used in the final statistical models included or described in the report.

- The number of paid workers.
- The year the firm started its operations.
- The number of female managers, foreign managers, female employees, foreign employees and employees registered with Social Security.
- Whether licenses are required for the firm’s operations, dummy.
- The year in which the interviewed manager joined the firm.
- Whether the manager is from Guinea-Bissau, dummy.
- Electricity costs paid by the firm.

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