

**Diagnostic Facility for Shared Growth (DFSG)  
Fifth Call for Proposals  
Application Form**

<b>Title of the Proposed Study:</b>	<b>A “big push” to get fragile states out of a poverty trap in Africa, the case of Guinea Bissau</b>
<b>Country:</b>	<b>Guinea-Bissau</b>
<b>Proposed Start Date:</b>	March 2011
<b>Proposed End Date:</b>	August 2011
<b>Total Amount Requested:</b>	70,000US\$
<b>Request for Cross Support:</b>	
<b>Task Team Leader Name:</b>	Noro Aina Andriamihaja
<b>Managing Unit (OUI):</b>	07729
<b>Telephone:</b>	202-458-2702
<b>Trust Fund Certified (Yes/No):</b>	Yes

**1. Consistency with DFSG objectives:** *What are the objectives of the proposed work and how do they link to the objectives of the DFSG call for proposals, more specifically to country-level analysis of the constraints to inclusive growth?*

The Africa Region accounts for 22 fragile states (based on the result of the CPIA 2009 and as per the OPCS definition, which is countries whose CPIA score is below 3.2). Compared to non-fragile states, fragile states in Africa are poorer on average, they grow more slowly, they have worse governance indicators and higher frequency of conflict, and they are more resource-dependent. Furthermore, fragility tends to be persistent in Africa: if a country were a fragile state in 2000, the probability that it was a fragile state in 2008 was 0.95. It is possible that fragile states are caught in a poverty trap, that they are “too poor to grow” as described by Lopez and Serven [2009].

The objective of this activity is to examine the hypothesis that Africa’s fragile states are caught in a low-level equilibrium trap, by building an analytical framework which encompasses several possible types of traps, and then evaluating which of these apply to particular fragile states. If a country is “stuck” in such a trap, it is very difficult to emerge without extraordinary actions by domestic and international actors. The performance-based allocation mechanism, which provides countries with incrementally higher aid if their performance improves incrementally, will not guarantee that they will grow out of the trap. A “big push” may be needed (Sachs and al, 2004, Aart Kray and al, 2005) to help fragile states to get out of the poverty trap. We will explore how the incremental approach can be replaced with something more akin to venture capital, where we invest a large amount of resources in the country, say, with the possibility that (as with venture capital) the “failure rate” is high, but there is a significant upside to success, namely that the country will escape from being a fragile state and embark on a long-economic growth path.

Guinea Bissau is one of those small and fragile countries in Africa, with an area of 36,125 km<sup>2</sup> and a population of 1.6 million. The country’s Gross National Income was \$250 in 2008; it ranks 176<sup>th</sup> out of 180 countries in the United Nations Human Development Index and about 70 percent of the population lives on less than \$2 a day. The country has experienced deep political

instability since independence, which seems to keep it in this self-reinforcing mechanism. But a democratic movement and some hope of institutional stability seems to have emerged during the last six years as witnessed by the four democratic elections including the last presidential election. The country has just reached its HIPC completion point, a transformative change is foreseeable and the country has the natural resources and the location to grow. But the challenges are multiple (risk of political instability, weak fiscal space for growth, poor business environment to attract investors, little scope for entrepreneurial activity, weak financial system, weak incentive for strengthening institutions and development skills...).

The country starts from a very low level of income, low saving, low investment and poverty and seems to present all the reinforcing mechanisms to be “stuck” in a poverty trap. A big push from the international community (including support on institutional reforms and financial assistance), and an active involvement of external and domestic private sector (including the diaspora) will help to boost the economy. If there is an increase in aid in the coming years, what will be the returns in terms of growth and poverty reduction?

**2. Technical soundness and originality:** *How does the work build on existing methods? Is new ground covered within the particular country context on inclusive growth? Have you obtained the necessary data to conduct the analysis? Specify to what extent you intend to use micro data on firm and household sides and the analyze links between aggregate and micro information.*

Lopez and Serven (2009) describe a cycle whereby poverty deters investment which deters growth, generating self-perpetuating poverty; and they also state that the policies to promote growth could have bigger payoffs if they exerted an independent and direct impact on poverty.

Our analysis will combine country macro and micro data aiming at evaluating the parameters that explain why the country is stuck in low-growth pattern and how they can break through it, and what strategies will help it to emerge from the low level of equilibrium trap. Particularly we will look at the aggregate information, drawn from the (i) the World Bank data sources (World Development Indicators and the African Development Indicators), (ii) and the aggregate data from national accounts; and (iii) household data from the Light Poverty Assessment Survey.

Secondly, we will focus the assessment on the possibility of an increase in aid to get the country out of the cycle of fragility. We will attempt to answer the question how could aid be allocated, in light of Guinea Bissau’s economic structure? We will assess the probable impact on growth in Guinea Bissau if the donor community, instead of rationing aid, would drastically increase it for a predetermined period. We will also ask: how could aid leverage more investment funding either through the domestic or external private sector? Accordingly, the second part will focus on (i) assessing the macroeconomic impacts on increasing aid, and the impact that scaling up will have on investment and growth, (ii) the risk of Dutch disease effects and the absorptive capacity constraints, and finally on (iii) the distributional impact.

**3. Relevance to country priorities:** *How does your proposal fit in with ongoing country work and dialogue on development priorities? Is this linked to specific AAA work, CAS or PRSP preparations? How does the analysis contribute to the analytical basis for policy priorities in the country context?*

Guinea-Bissau is in the midst of preparation of its Country Assistance Strategy (CAS, 2012-2015) and the second National Poverty Reduction Strategy Paper is under preparation. The ongoing Country Economic Memorandum (CEM) is aiming at identifying the binding constraints to sustainable and inclusive economic growth. The current analysis will contribute to nourish the dialogue around the country financing strategy, and the debate around potential institutional and infrastructural reforms and key growth sectors.

The current study will also help the Africa region's dialogue and analytical framework on fragile states, in line with the current WDR 2011 and the new regional strategy.

**4. Knowledge sharing, dissemination and capacity building plan:** *How do you plan to involve local partners in the process of preparing the report? How do you plan to disseminate your country study?*

Consultation with local partners is key to the preparation of the report, namely with the national statistics bureau (household survey). Moreover, with the new tools provided within the Africa knowledge lab, the report will be discussed with the local partners, during its different stages. From the concept stage to the final document, different parts of the report will be put on the web and can be viewed and commented upon by different stakeholders. Interested academicians and development practitioners will have the possibility to comment on the document during its preparation phase and final stage.

The dissemination will be through a workshop that will be organized in the country.

**5. Client and donor engagement, and any participation of external agencies:** *Comment on collaboration with clients and donors on this work, as well as foreseen participation of other external agencies.*

Since the underlying hypothesis is that aid allocations to fragile states may have to change, the participation of donor agencies and academics and NGOs in donor countries is critical. We will engage, through the Africa Knowledge Lab mentioned above, the main stakeholders including clients and development partners at the various stages of the analysis. Through this new tool of communication, the dialogue will be brought at the level outside the government where academicians and key NGOs are invited to take part of the process of the report.

**Three Pages Maximum, not including budget**

**6. Budget** – Total Amount to be Requested: US\$ 70,000 (Note, the limit is \$75,000)

*Please present a detailed budget with unit costs broken down by category (e.g. consultant fees, travel costs, etc.), fiscal year, and source of funding (DFSG and other sources including BB, other trust funds, donors).*

	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY10&amp;11</b>	<b>FY10&amp;11</b>
<b>Activity / Category</b>	<b>DFSG</b>	<b>DFSG</b>	<b>DFSG Sub-Totals</b>	<b>Other (BB, TF, donors)</b>
<b>Activity</b>				
- Consultants	10,000	10,000	20,000	
- Travel	20,000	10,000	30,000	
- Media & Workshops		17,000	17,000	
- Other		3,000	3,000	
<b>Sub-Totals</b>			70,000	

*Note: DFSG awards can only be used for consultants, travel, and media and workshops. DFSG awards cannot be used for Bank staff costs. If other sources of funding have not yet been secured, please provide reasonable estimates of BB funds and other sources of funding that you intend to seek.*

#### **Expected Output and Quality Review**

TTLs benefiting from funding under this Call are expected to submit their study within **six months of receipt of the DFSG grant**. A quality review process led by PRMED will follow, prior to dissemination of the studies.

---

#### **Deadline: January 31, 2011**

**Please submit (1) this application form, and (2) a letter/e-mail from the relevant Country Director indicating support of the proposed work to Ms. Cornelia Mirela Catuneanu [ccatuneanu@worldbank.org](mailto:ccatuneanu@worldbank.org) and include “DFSG – Fifth Call for Proposals” in the subject line of your emails.**