Report No. 6361-GUB

Guinea-Bissau: A Prescription for Comprehensive Adjustment

March 26, 1987

Western Africa Region

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CURRENCY EQUIVALENTS

Currency Units = Guinea Bissau Peso (PG)

1980	US$	=	PG	57.27
1981	US$	=	PG	51.88
1982	US$	=	PG	48.58
1983	US$	=	PG	47.04
1984	US$	=	PG	100.00
1985	US$	=	PG	160.00
1986	US$	=	PG	205.00

FISCAL YEAR

January 1 - December 31

This report is based on the findings of a World Bank mission that visited Guinea-Bissau in February 1986. The data and projections reflect the information available when the report was prepared in Summer 1986. Developments between the preparation of this report and its publication (March 1987) include the implementation of significant liberalization of trade and the securing of debt relief on terms highly favorable to Guinea-Bissau from the USSR, Portugal, and Portuguese banks.

The findings of the Bank mission were discussed with the Government in September 1986, and broad agreement was reached between the authorities and the Bank staff on a development strategy for Guinea-Bissau. Following these discussions, the Government elaborated a comprehensive program for structural adjustment, which is being progressively implemented.

The mission was composed of the following IBRD staff members:

Firouz Vakil (Chief of Mission)
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DESCRIPTIVE GLOSSARY OF ACRONYMS

DPP	Directorate of Programming and Projects
EAGB	Energy and Water Enterprise of Guinea-Bissau
FNI	National Investment Fund
GDP	Gross Domestic Product
IDA	International Development Association
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
LDC	Less-developed country
MDRP	Ministry of Rural Development and Fisheries
MECPIC	Ministry of Economic Coordination, Planning, and International Cooperation (dissolved July 11, 1986)
NGO	Non-governmental organization
RIC	Reconstruction Import Credit
RMSM	Revised Minimum Standard Model
SAL	Structural Adjustment Lending
SEAIC	State Secretariat for Economic Affairs and International Cooperation
SIDA	Swedish International Development Authority
SOCOMIN	Sociedade Comercial e Industrial (Industrial and Commercial Company)
UGAB	Management Unit for Balance of Payments Support
UNDP	United Nations Development Program
USAID	United States Agency for International Development

COUNTRY DATA

Population: 861.7 (mid-1985,thousand)
GNP per Capita: 195.1 (US$, 1984)

TABLE 3a: GUINEA-BISSAU - ECONOMIC INDICATORS

Indicator	Amount (million GBP at current prices) 1984	Annual growth rate (%) at constant prices 1984										
		Actual			Estimated	Projected						
		1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
NATIONAL ACCOUNTS												
Gross Domestic Product	15200.0	4.2	-4.4	1.2	3.3	2.4	4.3	2.5	3.1	4.9	4.9	4.9
Agriculture	8813.0	4.2	-5.0	2.4	3.0	6.0	8.0	5.0	5.0	5.5	5.5	5.5
Industry	1153.0	3.0	-1.4	-12.0	-0.4	-3.0	1.0	1.0	1.0	3.1	3.0	3.0
Services	5251.0	4.3	-4.2	3.0	4.4	-2.4	-1.8	-2.0	-0.5	4.0	4.0	4.0
Consumption	16650.0	10.8	-5.7	6.8	5.4	1.2	2.0	0.8	0.6	2.5	1.5	2.0
Gross Investment	5000.0	14.3	-19.1	39.2	21.5	-9.2	-13.4	-13.0	-8.1	-3.1	1.5	3.6
Exports of GNFS	2250.0	-27.1	-22.7	136.3	-1.2	7.9	11.6	10.2	9.6	9.6	9.7	9.7
Imports of GNFS	8700.0	20.1	-21.2	70.2	16.6	-6.5	-10.3	-8.9	-7.7	-4.7	-5.1	-1.1
PRICES												
GDP Deflator (1984=100)		51.3	60.6	100.0	135.0	182.3	227.8	273.4	314.4	345.8	380.4	418.4
Exchange rate (US$1=100 GBP)		39.9	42.9	100.0	160.0	245.6	518.2	821.1	886.6	912.4	966.9	1025.0

	Share of GDP at Market Prices(%) (at current prices)					Average Annual Increase (%) (at constant 1984 prices)		
	1981	1985	1986	1989	1992	1981/1985	1986/1989	1989/1992
Gross Domestic Product	100.0	100.0	100.0	100.0	100.0	1.0	3.3	4.9
Agriculture	57.6	57.8	59.8	64.6	65.7	1.1	6.0	5.5
Industry	8.6	7.3	6.9	6.5	6.1	-2.9	1.0	3.0
Services	33.8	34.9	33.3	28.9	28.2	1.8	-1.4	4.0
Consumption	98.8	111.8	102.1	95.8	88.3	4.2	1.1	2.1
Gross Investment	25.7	38.7	32.7	20.5	18.1	11.8	-11.5	0.6
Exports of GNFS	11.2	14.2	13.9	17.0	19.4	7.1	10.4	9.6
Imports of GNFS	35.8	64.6	48.6	33.3	25.8	17.1	-9.0	-3.6

PUBLIC FINANCE	As a % of GDP Current				
	1981	1985	1986	1989	1992
Current Revenues	14.0	13.9	14.4	15.2	22.1
Current Expenditures	26.9	26.7	24.8	33.5	28.[illegible]
Public Savings	-12.9	-12.8	-10.4	-18.3	-6.2
Capital Expenditures	27.7	48.4	38.9	29.3	27.0
Foreign Financing	10.0	25.4	27.3	25.7	11.0

COUNTRY DATA

Population:	861.7	(mid-1985,thousand)
GNP per Capita:	195.1	(US$, 1984)

TABLE 3b: GUINEA BISSAU - ECONOMIC INDICATORS

Indicators	Amount (million US$ at current prices) 1984	Annual growth rate (%) at constant prices						
		Actual				Estimated	Projected	
		1981	1982	1983	1984	1985	1986-89	1989-92
EXTERNAL TRADE								
Merchandise Exports	17.4	44.2	-2.3	-39.5	103.9	-29.2	10.4	9.7
Groundnuts	4.0	-17.9	66.5	-3.6	44.1	-37.9	9.6	6.0
Palm kernels	2.8	37.5	-20.3	-41.0	48.8	-42.1	11.0	8.0
Cashew Nuts	4.8	170.9	-39.3	33.2	280.8	-14.2	11.3	12.0
Fish	3.2	68.8	28.2	-64.9	69.3	2.7	10.0	10.0
Other	2.6	52.4	-41.8	-57.7	257.5	-68.8	8.6	8.0
Merchandise Imports	60.1	-19.1	45.8	-14.2	5.7	12.4	-9.0	-3.6
Food	14.0	17.9	14.1	36.0	-15.2	19.3	-23.6	...
Petroleum	7.6	-28.5	35.7	-24.3	3.5	44.6	0.5	0.7
Manufactured Goods	38.5	-25.6	60.6	-25.7	16.6	3.6	-2.9	0.3

PRICES	1980	1981	1982	1983	1984	1985	1986-89	1990-92
Export Index (1984=100)	105.7	101.5	94.0	100.2	100.0	89.3	98.6	130.4
Import Index (1984=100)	110.0	114.0	104.2	102.5	100.0	94.3	108.3	132.1
Term of Trade Index	96.1	89.0	90.2	97.7	100.0	94.7	90.9	98.7

	Composition of Merchandise Trade(%) (at current prices)					Average Annual Increase (%) (at constant 1984 prices)		
	1980	1985	1986	1989	1992	1980/1985	1986/89	1989/92
Exports	100.0	100.0	100.0	100.0	100.0	4.2	10.4	9.7
Groundnuts	23.9	16.4	16.9	17.6	16.2	3.4	9.6	6.0
Palm Kernels	14.8	8.6	5.3	7.5	7.7	-11.0	11.0	8.0
Cashew Nuts	3.5	41.4	42.2	42.8	44.0	48.2	11.3	12.0
Fish	34.5	27.6	28.9	26.2	26.4	5.7	10.0	10.0
Other	21.2	6.0	6.7	5.9	5.6	-16.0	8.6	8.0
Imports	100.0	100.0	100.0	100.0	100.0	3.8	-9.0	-3.6
Food	18.3	23.3	19.7	11.2	0.0	13.1	-23.6	...
Petroleum	17.5	12.5	12.2	15.8	19.2	1.9	0.5	0.7
Manufactured Goods	64.2	64.1	68.1	73.0	80.8	1.4	-2.9	0.3

Table 3C : GUINEA BISSAU - BALANCE OF PAYMENTS, EXTERNAL CAPITAL AND DEBT
(million US$ at current prices)

Population 861.7 (mid-1985, thousand)
GNP per Capita 195.1 (US$, 1984)

Indicators	Actual					Estimated	Projected						
	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
BALANCE OF PAYMENTS													
Trade Balance(FOB/FOB)	-49.8	-38.1	-57.6	-49.8	-42.7	-51.4	-50.1	-45.0	-39.5	-34.3	-30.5	-26.6	-24.6
Exports of Goods	11.3	13.9	11.8	8.6	17.4	11.6	13.2	14.3	17.8	21.8	26.5	30.3	34.7
Imports of Goods	61.1	52.0	69.4	58.4	60.1	63.0	63.3	59.3	57.3	56.1	57.0	56.9	59.3
Non-Factor Services	-14.7	-2.6	-9.2	-9.2	-14.3	-13.6	-10.7	-8.0	-5.3	-2.7	-0.3	2.5	5.1
Exports	8.9	8.3	5.6	6.9	8.2	8.5	9.8	11.7	13.8	16.2	19.0	21.6	24.7
Imports	23.6	10.9	14.8	16.1	22.5	22.1	20.5	19.7	19.1	18.9	19.3	19.1	19.6
Balance of G+NFS	-64.5	-40.7	-66.8	-59.0	-57.0	-65.0	-60.8	-53.0	-44.8	-37.0	-30.8	-24.1	-19.5
Factor Service Payments	38.1	17.6	31.6	30.0	20.8	15.3	14.7	8.7	8.9	8.0	7.1	6.3	5.7
Interest Payments	-1.4	-1.9	-2.4	-2.1	-3.6	-5.3	-5.9	-11.9	-11.7	-12.6	-13.5	-14.3	-14.9
Other Invest. Income	0.3												
Transfers (net)	39.2	19.5	34	32.1	24.4	20.6	20.6	20.6	20.6	20.6	20.6	20.6	20.6
Current Account Balance	-26.4	-23.1	-35.2	-29.0	-36.2	-49.7	-46.1	-44.3	-35.9	-29.0	-23.7	-17.8	-13.8
Capital Account Balance	17.6	16.7	15.2	11.7	21.7	38.8	40.6	32.9	19.7	12.4	7.0	1.0	-2.1
Private Capital	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public Capital	20.1	24.2	24.3	17.1	28.4	38.4	40.6	32.9	19.7	12.4	7.0	1.0	-2.1
Other Adjustments	-2.5	-7.5	-9.1	-5.4	-6.7	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance	-8.8	-6.4	-20.0	-17.3	-14.5	-10.9	-5.5	-11.4	-16.2	-16.6	-16.7	-16.8	-15.9
Foreign Arrears	6.7	4.2	4.2	4.2	8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net IMF	-0.7	2.8	-0.3	-0.4	1.6	-1.0	-1.0	0.0	0.0	0.0	0.0	0.0	0.0
Rescheduling							6.5	11.3	16.7	16.7	16.7	16.7	15.9
EXTERNAL CAPITAL AND DEBT													
Gross Disbursements	22.8	28.5	29.1	22.6	34.5	43.3	49.7	47.5	40.3	34.2	29.6	24.5	22.4
External Debt Outstanding (End-of-Period) Total Disbursed	62.9	104.1	136.1	172.7	225.2	280.5	322.1	355.0	374.7	387.1	394.1	395.1	393.0
Total Debt Service	-4.1	-6.2	-7.2	-7.6	-9.7	-10.2	-15.0	-26.5	-32.3	-34.4	-36.1	-37.8	-39.4
Principal	-2.7	-4.3	-4.8	-5.5	-6.1	-4.9	-9.1	-14.6	-20.6	-21.8	-22.6	-23.5	-24.5
Interest Payments	-1.4	-1.9	-2.4	-2.1	-3.6	-5.3	-5.9	-11.9	-11.7	-12.6	-13.5	-14.3	-14.9
Debt Serv. Ratio (excl.IMF repurchases)	-20.3	-27.9	-41.4	-49.0	-37.9	-50.6	-65.2	-101.9	-102.2	-90.5	-79.3	-72.8	-66.3

Sources: National Bank of Guinea-Bissau, IMF and IBRD estimates, IBRD projections.

GUINEA-BISSAU:
A PRESCRIPTION FOR COMPREHENSIVE ADJUSTMENT

Executive Summary

1. The economic recovery program initiated by Guinea-Bissau's Government in 1983-84, which had some positive impact on agricultural production, lost its momentum in 1985 and 1986. The Government therefore faced the choice of either continuing with incremental changes, in which case economic deterioration would reach a point from which recovery would be extremely difficult, or moving forward with a policy breakthrough, by implementing far-reaching corrective measures in the context of a comprehensive program to stabilize the economy in the medium-term while creating conditions for self-sustained growth in the longer term.

2. Guinea-Bissau's natural resource base and historical record suggests that, given the proper policy environment, the country could easily increase agricultural output, both of food stuffs (mainly rice) and export crops (notably groundnuts and cashew nuts). Production increases could be fed by such factors as: potential rapid increase in rice yields from low cost restoration of war-damaged mangrove areas, higher groundnut output resulting from the application of currently unavailable fertilizer and the greater incentive to produce for sale, and the entering into production of extensive acreage of cashew trees planted in response to producer price increases since 1983.

3. With the Bank's assistance, the Government has designed a comprehensive medium-term adjustment strategy and begun its implementation through a series of immediate and substantial actions. The key components include: (i) correcting the severe overvaluation of the exchange rate in order to shift income towards tradeables producers, restore competitiveness, redirect exports through official channels, and reduce demand for imports; (ii) increasing agricultural producer prices so as to improve incentives for farmers, as part of a growth strategy led by strong expansion of agricultural output; and (iii) retrenching the public sector in order to restore balance to the Government budget and to concentrate on supporting production by providing infrastructure. The principal means to achieve this retrenchment would be to cut the public investment program, which is larger than can be efficiently managed, by 10 percent in real terms in 1986 and by 15 percent each in 1987 and 1988. To achieve this goal, investment projects are to be classified by priority, based on cost/benefit analysis. The project evaluation and macroeconomic coordination process are also to be strengthened.

4. If the Government takes the actions needed on a broad front to halt the economic deterioration, the Bank could respond with a sharp increase in its lending over the next few years in support of the prescribed adjustment program. Since the problems confronting Guinea-Bissau are deep-rooted and widespread, the most appropriate instrument for providing IDA financial assistance would initially be through structural adjustment lending, followed by appropriate sectoral and project loans. The Bank and the Government, along with the IMF, will also need to reach a consensus on a financial restructuring strategy, which should include approaching bilateral and private creditors for a rescheduling of debt and a ban on non-concessional loans.

GUINEA-BISSAU: A PRESCRIPTION FOR COMPREHENSIVE ADJUSTMENT

Introduction

1.1 In the Report No. 3259-GUB, "Guinea-Bissau: An Introductory Basic Economic Report", distributed in May 1982, the Bank presented an analysis of the country's economic performance and discussed key elements of the medium- and long-term development strategy, including a full commitment to agricultural development, increasing the role of the private sector, careful selection of investment projects, and a coordinated effort to raise foreign exchange earnings. Subsequent Bank economic work on Guinea-Bissau included a 1984 joint Bank/UNDP Energy Assessment that emphasized the need to consider capacity expansion only after adjusting sector policies, rehabilitating existing facilities and strengthening sector institutions. In addition, the Bank has conducted an on-going dialogue with the Government on structural adjustment, in the context of the reform program supported by the Bank's 1984 Reconstruction Import Credit (RIC) and its 1986 supplement as well as the non-project aid coordination session chaired by the Bank in Paris in 1985.

1.2 The purpose of this Report is to contribute to: (a) the development of a comprehensive structural adjustment strategy for Guinea-Bissau, including a medium term framework with annual targets for key macroeconomic indicators; (b) the strengthening of the public investment planning process and the improvement of the public investment portfolio with respect to size, sectoral allocation and project composition; and (c) the deepening of the ongoing dialogue between the Bank and Government in order to achieve stabilization within a three to five-year horizon while creating the conditions for self-sustained growth over the longer term.

PART I. The Economic Crisis and the Launching of the Structural Adjustment Process: 1975-85

A. An Overview

1.3 After independence in 1974, Guinea-Bissau faced the task of rebuilding from the devastation of the liberation war which dislocated one-fifth of the population, destroyed an important part of the economic infrastructure, and severely reduced agricultural production. The Government and single political party supported an ambitious public investment program that focussed on the manufacturing sector, neglected agriculture, and resulted in a large external debt without a commensurate increase in the country's ability to service that debt. An overvalued exchange rate and inappropriate pricing policies, coupled with an inefficient marketing system, deterred agricultural production, depressed exports, stimulated growing parallel markets, and led to an increased dependence on foreign aid for financing a large share of the imports of basic necessities. Severe imbalances in the fiscal area, resulting from a rapid rise in public expenditures, continuous losses by state enterprises, and limited growth in revenues, were increasingly financed by Central Bank credit, thereby fueling rapid inflation. At the same time, the external payments situation remained tenuous, with mounting arrears. As a result, imports had to be rationed and farmers were unable to find the desired consumer goods. The economic situation was aggravated by unfavorable circumstances outside the control of the authorities, especially droughts and depressed world market prices for the country's main exports in 1980, 1982-83, and 1985.

1.4 Following a change in Government, the new authorities in early 1981 recognized that past economic policies had failed, but were hampered in the development of a new strategy by the lack of administrative capacity, by concern about the consequences that adjustment would have for urban incomes, and by the need to achieve a new consensus concerning the future development strategy for the country.

1.5 In 1983, the Government defined for itself a market-oriented and agriculture-based medium-term development strategy in three stages: financial stabilization, economic recovery, and self-sustained growth. The stabilization program was designed to correct internal and external price distortions, shift the urban-rural terms of trade in favor of the rural sector, and improve efficiency in the management of public sector finances. In December 1983, the Government implemented the initial measures of the reform program, which was supported by an IMF first credit-tranche program starting in July 1984. These measures included: (a) an immediate devaluation of the peso from PG44 to PG88 per SDR and introduction of weekly devaluations, (b) increases in producer and consumer prices generally in line with the devaluation, (c) higher taxes, and (d) payment for the first time of interest on savings deposits.

1.6 The structural adjustment process was generally maintained in 1984 but lost momentum in 1985. Part of the difficulty lay in unexpected adverse exogenous factors. However, the primary factors were implementation delays and inadequate measures on the part of the Government. While weekly devaluations continued at an annual rate of 52 percent, domestic inflation kept the differential between parallel market and official exchange rates unchanged at about 3-to-1. Prices of consumer goods and agricultural producer prices were increased generally in line with inflation, but little progress was made in correcting initial distortions. 1/ Parallel markets for key goods continued to thrive. Farmers' incentives to produce were reduced by continuing shortages of inputs and consumer goods. Necessary institutional reforms proceeded slowly, particularly the privatization of state stores, the reorganization of state enterprises, and the liberalization of transport and wholesale trade. Public investment remained inappropriately high. The Government deficit exceeded the target in the indicative program worked out in conjunction with the IMF; the resulting excessive Government borrowing from the National Bank contributed to the inflationary pressures. By late 1985, with the Government deficit

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1/ Even at the official exchange rate, the producer price for cashews and palm kernels was only half the export parity price, while the producer price for rice was three-fourths the import parity price. Electricity tariffs were insufficient to cover operating costs, excluding any return on investment.

amounting to 36 percent of GDP and the current account deficit to 30 percent of GDP, it became clear that the structural adjustment process had stalled and that a fundamental reorientation of macroeconomic and sectoral policies was required to restore internal and external equilibria as a pre-condition for self-sustained growth.

B. Recent Economic Performance, 1981-85

1.7 Measurements of economic activity in Guinea-Bissau are subject to an unusual degree of uncertainty due to three factors: the economy is characterized by a large traditional sector producing primarily for self-consumption, extensive parallel markets impede accurate recording of transactions, and technically-trained personnel are scarce. As a consequence, interpretations of recent economic performance remain tentative and certain developments cannot be fully explained on the basis of existing information.

1.8 National Income. Available data (Table 1.1) show that GDP growth in the 1980's has been weak and erratic, ranging from a 4.2 percent growth in 1982 to a 4.4 percent decline in 1983 with an average growth rate of 1.0 percent over the 1982-85 period. Agriculture, which represented over half of GDP in 1981, grew at an average rate of 1.1 percent per annum between 1981 and 1985. Industrial output, which represented less than 10 percent of GDP in 1981, declined at an annual average of 6.5 percent per annum during 1981-85.

1.9 The primary factor explaining the poor growth performance during the first half of the 1980s was the inadequacy of production incentives in agriculture. From 1980 through 1983, producer prices were increased only once at rates ranging from 13 to 38 percent, while the general price level rose by at least 50 percent over the period. In addition, the availability of goods in rural stores was severely reduced, due to restricted imports and the inefficiencies of the state marketing corporations. Reduced incentives, combined with droughts in 1980-81 and 1983, caused output of the main food crop, rice, to drop from 110,000 tons in 1978 to 95,000 tons in 1982 and to 85,000 tons in 1983. With the launching of the adjustment program in December 1983, agricultural incentives improved. Producer prices were raised by 53 to 92 percent in 1984 and again by 63 to 66 percent in 1985, while consumer goods availability in rural areas increased due to changes in the composition of imports and improvements in marketing. Combined with the recovery from the 1983 drought, these improvements resulted in renewed agricultural growth. In particular, rice output recovered from 85,000 tons in 1983 to 105,000 tons in 1984 and to 112,000 tons in 1985.

1.10 On the demand side, the adjustment program initiated in 1983 made little if any progress towards correcting the excessive level of consumption and public investment in relation to GDP. Consumption represented 98.8 percent of GDP in 1981, and it grew more rapidly than GDP during the 1982-85 period. While in real terms private consumption grew at an average rate of 4.8 percent per annum, public consumption grew at an average rate of 3.9 percent per year over the period. At the same time, investment grew at a rate of 11.8 percent per year between 1981 and 1985, while savings declined from 1.2 percent of GDP in 1981 to a negative 7.1 percent of GDP in 1985. The major element in the expansion of investment was the 14.3 percent average annual increase in public investment, increasing its share in total investment from 86 to 93 percent between 1981 and 1985. The combination of rapidly growing investment and declining savings led to increasing recourse to foreign financing.

Table 1.1: National Accounts, 1981-85

	1981 level		1982	1983	1984	1985	Average
	At 1984 Prices (PG billions)	In Percent of GDP	Real Change from Previous Year (in percent)				Annual Real Change 1982-85 (in percent)
Consumption	14911	98.8	10.8	-5.7	6.8	5.4	4.2
Public	4230	28.0	9.4	-12.8	15.3	9.9	3.9
Private	10682	70.8	11.4	-2.9	3.9	3.7	4.8
Investment	3884	25.7	14.3	-19.1	39.2	21.5	11.8
Public	3339	22.1	15.8	-21.7	55.3	21.4	14.3
Private	545	3.6	5.1	-1.5	-46.8	23.5	-9.2
Total Domestic Demand	18795	124.6	11.6	-8.5	12.9	9.1	5.9
Goods and Services Balance	-3709	-24.6	41.7	-20.9	55.1	22.9	20.9
Exports of G&NFS	1691	11.2	-27.1	-22.7	136.3	-1.2	7.1
Imports of G&NFS	-5400	-35.8	20.1	-21.2	70.2	16.6	17.1
GDP at Market Prices	15086	100.0	4.2	-4.4	1.2	3.3	1.0
Memorandum Items:							
Agriculture	8693	57.6	4.2	-5.0	2.4	3.0	1.1
Industry	1291	8.6	2.9	-1.4	-12.0	-0.4	-2.9
Services	5102	33.8	4.4	-4.3	3.0	4.4	1.8

Sources: National Bank of Guinea-Bissau and IBRD estimates.

1.11 Government Finance. Following the tax increases and the limitations on growth in the wage bill adopted in late 1983, current non-interest expenditures shrank relative to GDP from 25 percent in 1983 to 23 percent in 1984-85, while revenues increased their share in GDP from 11 percent in 1983 to 14 percent in 1984-85 despite the low elasticity of Guinea-Bissau's tax system (Table 1.2). The combined effect of these measures was a steady if slow increase in savings, or rather, a decline in the Government savings deficit relative to GDP, from 16 percent in 1983 to 14 percent in 1985, despite the increasing burden of interest on external debt. The overall government deficit, on the other hand, rose from 27 percent of GDP in 1981 to 36 percent in 1985. The increase in the overall deficit was due essentially to the growth in the capital budget, whose share in GDP increased from 27.7 percent in 1981 to an unsustainable 48.4 percent of GDP in 1985. Much of the capital budget went to public investment, but between one-fourth and one-third of capital expenditures corresponded to technical assistance, agricultural extension services, and other non-investment expenditures financed by foreign assistance.

Table 1.2: Financial Operations of Government, 1981-85
(in PG Billions at current prices)

	1981	1982	1983	1984	1985
Government Revenue	928	928	1023	2100	2953
Current Expenditures	1785	2146	2311	3666	5656
Interest on External Debt	44	38	52	207	702
Other	1741	2108	2259	3459	4954
Government Savings	-857	-1218	-1288	-1566	-2703
Grants	878	1621	1500	3158	5250
Capital Expenditure	1836	2480	2440	6291	10269
Government Surplus/Deficit	-1815	-2077	-2228	-4699	-7722
Financing	1815	2077	2228	4699	7722
Domestic Borrowing	1152	1035	1260	1253	1671
Foreign Borrowing	663	956	676	2946	5393
Arrears and Adjustment	0	86	292	500	658
Memorandum Items:		(In percent of GDP)			
Government Revenue	14.0	11.5	11.2	13.8	13.9
Current non-interest expen.	26.2	26.2	24.8	22.8	23.4
Government Savings	-15.4	-16.4	-15.7	-14.7	-14.0
Capital Expenditure	27.7	30.8	26.8	41.4	48.4
Government Surplus/Deficit	-27.3	-25.8	-24.5	-30.9	-36.4
Domestic Borrowing	17.4	12.8	13.8	8.2	7.9
Foreign Borrowing	10.0	11.9	7.4	19.4	25.4

Sources: Ministry of Finance and IBRD estimates.

1.12 Money and Credit. Money supply grew by 34 percent in 1984 and by 27 percent in 1985. This double-digit monetary expansion fueled inflation and the GDP deflator rose 65 percent in 1984 and, according to preliminary estimates, 35 percent in 1985. Government borrowing to cover the fiscal deficit was the main element in the growth of domestic liquidity, amounting to 43 percent of initial money supply in both 1984 and 1985 (Statistical Annex Table 4). Credit to the private sector grew at a rate of less than 5 percent of initial money supply each year from 1980 through 1984. In 1985, this tendency was reversed, and credit to the private sector grew at a rate of 22 percent of the initial money supply, primarily to finance stocks of imported goods and agricultural machinery inputs. However, this expansion of credit to the private sector was not matched by a further restraint in the growth of credit to the Government, with the result that excess credit creation added to inflationary pressures in the economy.

1.13 Foreign Trade. Continued devaluations at the rate of 50 percent per annum in 1983-85 did not contribute much to improving export incentives and import pricing, because domestic inflation eroded the improvement in competitiveness at which the devaluations aimed. As a result, the deficit of the goods and services balance increased from 31.9 percent of GDP in 1981 to 39.2 percent in 1985 (Table 1.3).

1.14 On the export side, dollar earnings fell in 1982-83 before rising sharply in 1984 and subsiding again in 1985 (Statistical Annex Table 5). The value of exports fell in 1982-83 for four main export products (palm kernels, cashew nuts, fish, and forestry products); the exception was

Table 1.3: Balance of Payments, 1981-85
(in US$ Millions)

	1981	1982	1983	1984	1985
Exports of Goods and Services	22.2	17.4	15.5	25.6	20.1
Imports of Goods and Services	-62.9	-84.2	-74.5	-82.6	-85.1
Goods and Services Balance	-40.7	-66.8	-59.0	-57.0	-65.0
Factor Service Balance	-1.9	-2.4	-2.1	-3.6	-5.3
Transfers (net)	19.5	34.0	32.1	24.4	20.6
Current Account Balance	-23.1	-35.2	-29.0	-36.2	-49.7
Capital Account Balance	16.7	15.2	11.7	21.7	38.8
Overall Balance	-6.4	-20.0	-17.3	-14.5	-10.9
Financing	6.4	20.0	17.3	14.5	10.9
Net IMF	2.8	-0.3	-0.4	1.6	-1.0
Foreign Arrears	4.2	4.2	4.2	8.0	7.0
Other	-0.6	16.1	13.5	4.9	4.9
Memorandum Items:			(In percent of GDP)		
Goods and Services Balance	-31.9	-45.6	-38.9	-37.5	-39.2
Current Account Balance	-18.1	-24.0	-19.1	-23.8	-30.0
Overall Balance	-5.0	-13.6	-11.4	-9.5	-6.6

Sources: National Bank of Guinea-Bissau and IBRD estimates.

groundnuts which experienced steady growth in 1982-83. The recovery of export earnings in 1984 was particularly strong for cashews and cotton. In 1985, exports fell for each major product except cashews.

1.15 Imports fluctuated widely over the 1980-1985 period, with sharp declines observed in 1981 and 1983. Weaknesses in customs data do not permit much confidence in the data on the composition of imports (Statistical Annex Table 7). It would seem that a major element explaining changes in imports has been the size of the public investment program, which has a high import content. By contrast, import demand for consumer goods was restrained by quantitative restrictions and to some extent by the on-going weekly devaluations after 1983.

1.16 External Debt and Aid Flows. Total aid (public transfers and drawings of medium- and long-term capital) was between US$65 and US$70 million each year from 1982 to 1985 (Statistical Annex Table 9). External assistance was therefore equivalent to roughly one-half of GDP. The composition of this assistance fluctuated substantially from year to year between grants and loans. The decline in net transfers from US$34 million in 1982 to US$21 million in 1985 was to a large extent offset by higher net loans (the net capital account), which rose from US$15 million in 1982 to US$39 million in 1985.

Table 1.4: External Debt, 1980-85 1/
(in US$ Millions)

	1980	1981	1982	1983	1984	1985
Disbursed Outstanding Debt, end of period	62.9	104.1	136.1	172.7	225.2	280.5
Medium- and Long-Term	62.2	101.4	123.8	138.8	178.8	247.6
Short-Term	0.0	1.6	10.2	30.0	40.8	24.1
Arrears on interest	0.7	1.1	2.1	3.9	5.6	8.8
Principal Payments Due	2.7	4.3	4.8	5.5	6.1	4.9
Interest Payments Due	1.3	1.8	2.2	1.9	3.4	5.1
Debt Service Due	4.0	6.1	7.0	7.4	9.5	10.0
Debt Service Due (including IMF)	4.8	6.2	7.5	8.0	10.1	11.2
Memorandum Items:						
IMF Debt	1.4	3.4	3.0	2.4	3.7	2.9
Debt/GDP Ratio (in percent)	...	81.5	92.9	113.9	148.2	169.4
Debt Service Ratio (including IMF)	23.8	27.9	43.1	51.6	39.5	55.6
Total arrears	2.0	6.2	10.3	14.6	18.2	25.0

Sources: Ministry of Finance, National Bank of Guinea-Bissau, and IBRD estimates.

1/ Excluding IMF, except as noted.

1.17 The external debt grew rapidly during the first half of the 1980's from US$62.9 million at the end of 1980 to US$280.5 million at the end of 1985 (Table 1.4). However, the ability to service that debt did not increase at the same pace, because of the inappropriateness of some investments and the lack of adequate incentives for producers of export crops. This resulted in a rapid increase in the debt service ratio from 28 percent in 1981 to 56 percent in 1985. As a result, the Government accumulated arrears on its external debt payments starting in 1984. Only US$2.4 million out of debt service obligations of US$10.1 million were paid in 1984, and preliminary data suggest a similar pattern in 1985.

1.18 The problem posed by external debt service obligations is likely to worsen over the medium-term. In the absence of new borrowing, principal and interest payments due would double from US$11.0 million in 1986 to US$22.9 million in 1987, with the expiration of grace periods on several major loans, including the rescheduling of debt to Portuguese commercial banks (Table 1.5). Debt service would remain above US$22 million through 1989 before declining thereafter. The Government therefore faces an urgent need to define a debt restructuring strategy to permit orderly servicing of its external obligations over the coming years.

Table 1.5: External Debt Service Obligations, 1986-92, on Loans as of September 1985 a/
(in US$ Millions)

	1986	1987	1988	1989	1990	1991	1992
Interest	4.4	8.3	6.4	5.6	4.9	4.0	3.4
Multilateral	1.6	1.6	1.5	1.4	1.4	1.3	1.2
Bilateral	1.3	2.9	1.3	1.1	.8	.5	.4
Paris Club	.2	.2	.2	.2	.2	.1	.1
Non-Paris Club	1.1	2.7	1.1	.9	.6	.4	.3
Commercial Bank Rescheduling	--	2.4	2.2	1.8	1.4	1.0	.6
Other Private	1.5	1.4	1.4	1.3	1.3	1.2	1.2
Amortization	6.7	14.6	17.6	16.6	15.0	13.3	12.4
Multilateral	1.9	2.1	2.6	2.7	2.6	2.6	2.7
Bilateral	3.8	8.6	8.1	7.0	5.8	4.1	3.1
Paris Club	--	--	--	--	--	--	--
Non-Paris Club	3.8	8.6	8.1	7.0	5.8	4.1	3.1
Commercial Bank Rescheduling	--	1.8	3.6	3.6	3.6	3.6	3.6
Other Private	1.0	2.1	3.3	3.3	3.0	3.0	3.0
Total	11.0	22.9	24.0	22.2	19.9	17.3	15.8
Multilateral	3.5	3.7	4.1	4.1	4.0	3.9	3.9
Bilateral	3.1	11.5	9.4	8.1	6.6	4.6	3.5
Paris Club	.2	.2	.2	.2	.2	.1	.1
Non-Paris Club	4.9	11.3	9.2	7.9	6.4	4.5	3.4
Commercial Bank Rescheduling	--	4.2	5.8	5.4	5.0	4.6	4.2
Other Private	2.5	3.5	4.7	4.6	4.3	4.2	4.2

Sources: Ministry of Finance, National Bank of Guinea-Bissau, IMF, and IBRD staff estimates.
a/ Excluding IMF.

C. The Current Situation: An Evaluation

1.19 Although the measures adopted since the launching of the structural adjustment process in December 1983 have had some positive impact on the level of production, Guinea-Bissau remains confronted by serious economic imbalances, in particular:

(i) poor performance of agricultural output due to inadequate incentives to increase production;

(ii) excessive consumption, both public and private, in relation to GDP, leading to a growing import bill that is not matched by an increase in exports;

(iii) an unwieldly and large public investment program that contributes little to increasing output;

(iv) a budget deficit that needs to be financed by unsustainable levels of domestic and foreign borrowing;

(v) rapid money supply growth, engendered by the budget deficit, feeding inflation and offsetting the effects of the weekly devaluations;

(vi) large foreign trade deficits that reflect inadequate export incentives and underpriced imports;

(vii) heavy reliance on external assistance without adequate consideration of the best uses for the aid resources available; and

(viii) a rapidly growing external debt, with debt service payments exceeding the country's capacity to pay, leading to a rapid increase in external arrears.

1.20 Guinea-Bissau stands at the crossroads of basic policy choices. Far-reaching corrective measures must be taken soon, as incremental policy changes would now be insufficient to deal with the accumulated imbalances. If the Government does not move forward with a major policy breakthrough on a variety of fronts, economic prospects for Guinea-Bissau would deteriorate sharply. Preliminary evidence suggests that the economic situation has already taken a marked turn for the worse in 1986, with further deterioration in external payments and more profound shortages of vital imports. Using the Bank's model for Guinea-Bissau, an illustrative Reference Scenario has been prepared (Table 1.6) to show the impact of the present trends on the medium- and long-term macro-balances. This scenario assumes in particular that the following policy stance is maintained in 1986-1987:

(i) the public investment program continues to grow at 5 percent per annum in real terms in 1986-87 and is insufficiently focussed on projects with a high economic rate of return;

Table 1.6: Reference Case

	Units	1984 Actual	1986 Proj.	1989 Proj.	1992 Proj.	Real Growth Rate 1985	Real Growth Rate 1986	Average Annual Real Growth Rate 1987-1989	Average Annual Real Growth Rate 1990-1992
GDP (at MP)	1984 FG	15986	16809	16022	13220	3.1	1.9	-1.6	-6.2
Agriculture (at FC)	mil.	8812	9437	9060	8016	3.0	4.0	-1.4	-4.0
Industry (at FC)	"	1153	1091	935	652	-0.4	-5.0	-5.0	-11.3
Services (at FC)	"	5251	5481	5263	3922	-4.4	—	-1.3	-9.3
Consumption (at MP)	"	17186	16074	13895	13359	-0.9	-5.7	-4.7	-1.3
Private	"	12536	10946	8320	8060	-5.0	-8.1	-8.7	-1.0
Public	"	4650	5101	5575	5299	9.9	-0.2	3.0	-1.7
Investment (at MP)	"	5010	6375	6061	3626	21.2	4.9	-1.7	-15.7
Private	"	292	385	400	366	26.7	4.1	1.3	-3.0
Public	"	4718	5990	5661	3260	20.9	5.0	-1.9	-16.8
Trade Balance	"	-6210	-5613	-3934	-3766	16.0	-15.1	-11.2	-1.4
Ratios									
Investment/GDP	%	31.3	38.2	38.1	27.5				
Gross National Savings/GDP	%	-7.5	3.9	12.7	-1.5				
Public Investment/Total Investment	%	94.2	94.0	93.4	89.9				
Surplus/Deficit of Government/GDP	%	-29.4	-43.3	-53.5	-44.2				
B. External									
Exports of Goods and Services	US$	25.6	22.9	31.0	35.4				
Imports of Goods and Services	cur.	82.6	81.0	80.4	90.0				
External Resource Balance	mil.	-57.0	-58.1	-49.4	-54.6				
Current Account Balance	"	-36.2	-43.4	-41.3	-50.7				
Debt Service 1/	"	-9.7	-14.8	-34.7	-43.2				
Ratios									
Exports of Goods and Services/GDP	%	16.0	13.8	16.1	18.7				
Imports of Goods and Services/GDP	%	51.7	47.2	40.6	47.2				
Resource Balance/GDP	%	-35.7	-33.9	-25.0	-28.7				
Current Balance/GDP	%	-22.6	-25.3	-20.9	-26.6				
Overall Balance/GDP	%	-9.1	-1.5	-6.6	-13.1				
Debt Service Ratio 1/	%	37.9	65.2	110.2	116.9				
MLT Debt Outstanding/GDP 2/	%	140.9	177.0	216.0	298.4				

Source: IBRD estimates and projections.

1/ excludes IMF repurchases
2/ excludes IMF

(ii) government current expenditures continue to grow in real terms at 3 percent per annum in 1986-1987;

(iii) the official exchange rate remains at one-third the parallel market rate, increasing the already heavy pressures on foreign-exchange resources.

1.21 These policies would exacerbate the existing macroeconomic disequilibria and lead to a deepening crisis in external payments, thereby worsening the import supply situation. Farmers would have less incentive to produce as imported consumer goods become scarce, and industry would lack vital inputs. Moreover, in the short run, the maintenance of existing policies would entail higher Government spending than under an adjustment scenario. But the current policy stance would not be sustainable in the medium-term in the face of a decline in economic activity. In the Reference Case Scenario, the high levels of Government expenditure in 1986-1987 would provoke by 1988 an external payments crisis that would be considerably more acute than the current shortage of foreign exchange. As the foreign exchange shortage deepened, the Government would have to curtail its expenditures, particularly on public investment. This means that Guinea-Bissau must inevitably reduce public investment in the medium-term, unless the country can secure unprecedented and implausible levels of concessional foreign financing.

1.22 If the Government wishes to avoid economic deterioration, it must opt for a policy breakthrough and implement substantial economic reforms. The worsening economic situation in 1986 suggests the need for quick and bold actions to implement a package of reform measures, so that the economy can begin to stabilize and then move forward. The reform program should include: (a) design of a coherent medium-term adjustment strategy; (b) reduction in the size and reformulation of the composition of the public investment program; (c) reduction of the government current budget deficit; (d) encouraging private production and exports by increasing producer prices and by redefining the role of the public sector in the economy; (e) decisive action to increase the price of tradeable goods relative to non-tradeables; and (f) design of a medium-term financial restructuring strategy in consultation with external creditors and donors. In Part II which follows these elements are analyzed in some detail.

PART II. Elements of a Comprehensive Adjustment Strategy

A. Overall Development Strategy for the Next Ten Years

2.1 In order to resolve the present economic and financial crisis and to avoid a further deterioration of the situation, the Government of Guinea-Bissau will need to formulate and systematically pursue an outward oriented development strategy in order to generate the foreign exchange so vitally needed by the economy. The development strategy should take advantage of Guinea-Bissau's relatively extensive natural resource base for the expansion of agriculture at low cost, including through reconstruction from damage during the independence war. The Government's strategy should also take into account the socio-economic structure of the countryside, which rests on small farmers who would be hard to aid with large-scale Government projects and whose contact with the modern sector is primarily through small traders. A further consideration for the development strategy is that Guinea-Bissau does not at this time have a large enough market or sufficient skilled personnel to sustain much modern industry. In light of these natural, social and economic conditions, Guinea-Bissau's development strategy should be based on three essential components:

(i) a strong expansion of agricultural output and exports along the lines of the country's comparative advantage and based on an opening of the economy to the pressures of market forces;

(ii) a retrenchment of the public sector towards the provision of basic infrastructure in support of production and exports and in line with the possibilities of public resource mobilization; and

(iii) a concerted financial strategy to mobilize the concessional external resources needed to achieve stabilization over the medium term and balanced growth over the longer term.

2.2 Three successive phases may be distinguished in the development strategy of Guinea-Bissau over the next ten years, as indicated in the Government's 1983 Economic Stabilization Program. In the stabilization phase (1986-1989), the Government would need to pursue policies designed to achieve overall macroeconomic equilibrium, especially through imposing incentives, devaluing the currency, and reducing the Government deficit. The achievement of these objectives would then allow for a growth phase (1990-1992), during which Government policies would need to aim at fostering economic growth based on comparative advantage while consolidating the gains made during the stabilization phase. A progressive relaxation of domestic and external resource constraints would then set the stage for a period of self-sustained growth. Government policies in this phase would consist of: (i) active maintenance of the production incentives and of the macroeconomic equilibria achieved through the implementation of the structural adjustment process, and (ii) actions to promote the longer-term development of the economy through deepening and broadening of the physical and social infrastructure, including education, health, energy, and transport.

B. The Required Adjustment Policy Mix

2.3 To achieve these objectives the Government will need to define and immediately implement a comprehensive structural adjustment program extending over a period of at least 7 years. This program will need to be based on a coherent medium-term framework that ensures the consistency between monetary, exchange rate, fiscal, incentives and external financing policies in support of the objectives of the macroeconomic adjustment strategy.

2.4 Monetary Policy. In the framework of this structural adjustment program, the Government will need to pursue a restrictive monetary policy compatible with the objective of reducing inflation. Because of the overhang of the existing excess liquidity, the effects of the tight monetary policy on inflation may not be felt fully in the short term. In the medium-term, however, it should be possible to reduce the differential between domestic and international inflation from 65 percent in 1984 to 35 percent in 1986, 10 percent in 1989 and 5 percent in 1992. Given the essential role of private sector investment in fueling the expansion of agricultural output and exports, the bulk of the adjustment will have to be borne by the public sector. More specifically, credit to the public sector will need to be reduced in order to release the domestic resources required to support the expansion of private investment, while containing the money supply in order to absorb the considerable excess liquidity in the economy and to achieve the targeted reduction in inflation.

2.5 To a considerable extent, the reduction in domestic credit to the public sector reflects the relatively large amounts of foreign financing that will need to be made available to the Government in order to fill the external resource gap. Until export earnings can cover a greater proportion of import costs, the Government will need to secure foreign grants and loans to finance part of the private sector's import bill. Sale of these imports will generate domestic currency which will be available to the Government budget. In effect, since institutional constraints prevent most external donors and creditors from providing resources to the private sector directly, the Government will serve as intermediary by making use of foreign resources while reducing use of domestic credit in order to release the corresponding resources for the expansion of the private sector.

2.6 Exchange Rate Policy. Over the stabilization phase of the structural adjustment program, the Government will need to adjust the exchange rate with the objective of achieving the real devaluation that is necessary to close quickly the gap between the official and the parallel market rates, now three to one. A minimum immediate goal should be to reduce the gap by a substantial amount before the end of 1986. The process of adjustment could be achieved through a variety of policy instruments, such as a once-and-for-all sharp devaluation, introduction of a temporary second exchange rate (perhaps with an auction for foreign exchange), or more rapid weekly devaluations. The choice of an adjustment mechanism would need to be carefully considered, in light of Guinea-Bissau's economic situation and the institutional capacities of the National Bank, and in consultation with the IMF. For the purpose of constructing a forecast, the assumption has been made that the gap between the official and parallel markets will be completed by the end of 1987. This assumption should not, however, be seen as a policy recommendation. Over the growth phase, the Government would need to proceed with exchange rate adjustments at frequent intervals with the objective of compensating for the differential between domestic and international inflation.

2.7 Public Finance Policy. In order to achieve the reduction in the public sector deficit targeted under the structural adjustment program, the Government will need to increase revenues and reduce the distortions caused by the present taxation system. To this end, the Government should phase out tax exemptions and increase tariff rates on luxury imports, in order to reduce allocative distortions induced by tariffs and in order to increase the share of taxation borne by consumption rather than production. The Government should also seek to implement full cost recovery pricing for all services provided by public enterprises so that these entities can expand without depending on the state's resources. In addition to these revenue-generating measures, the Government will need to reduce expenditures in real terms. Some of this reduction can come from increasing the efficiency with which government services are provided, through, for instance, reducing staffing levels. Public consumption will need to be reduced in real terms by 2.5 percent in 1986 followed by 5.0 percent per annum in 1987-89, in particular through a freeze on wages and a reduction in the number of government employees, and then maintained in constant terms through 1992.

2.8 The major reduction in the Government deficit, however, will have to come from reducing the public investment program. As described in detail in Part III below, the public investment program has in the past required heavy foreign borrowing on commercial terms, the debt service on which has placed an unsustainable burden on the balance of payments. Investments financed by concessional borrowing and by grants, while not placing a similar burden on the balance of payments, have been too large to be managed effectively and have at times entailed large recurrent costs after completion of the project and cessation of foreign financing. Furthermore, foreign assistance is limited in quantity, and use of such financing for low-priority investments has reduced the availability of funding for vital imports for farmers, which could stimulate agricultural exports and improve incomes of the rural poor. In order to achieve economic stability and to improve the efficiency with which public investment is managed, the overall size of the investment program should be cut about in half in real terms by 1990, with an initial cut of 10 percent in real terms in 1986. In line with the proposed development strategy, the reduction in expenditure should come through concentration of public investment on infrastructure projects in direct support of production and exports, with the role of the Government in productive activities being phased out.

2.9 Incentives Policy. The Government will need to broaden and to intensify the incentives reforms initiated since 1983. In this perspective, the Government will need to concentrate on the following measures:

(i) to achieve for all agricultural goods export parity pricing at the equilibrium exchange rate, with intermediate targets based on a pricing formula recommended by the Bank's agricultural sector credit mission in December 1985 1/, while simultaneously allowing free scope for private traders to export any agricultural goods;

(ii) to eliminate price controls on all but the three or four most basic consumer goods (such as rice, sugar, and vegetable oil) so as to facilitate improved availability of those goods in rural areas and to reduce administrative resources directed to enforcing price controls;

(iii) to eliminate the existing subsidies on fertilizer and insecticides (which are in any case rarely available now) and prevent emergence of any subsidies on other agricultural inputs; 2/ and

(iv) to encourage the mobilization of domestic resources for investment through the adoption of positive real interest rates.

2.10 External Finance Policy. While the Government's adjustment program can be estimated to lead to equilibrium in the external accounts in the medium term, the heavy burden of past debt service obligations will require the formulation of a conservative external financial policy. The Government will have to ensure that its future foreign borrowings do not place an unsustainable burden on the economy. To this end, only borrowings at concessional rates should be entered into. Furthermore, the Government should approach all bilateral creditors (those traditionally attending the Paris Club as well as others) and private creditors to explore the

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1/ The pricing formula is designed to ensure that, in the interim until an equilibrium exchange rate is reached, farmers earn for their labor an incentive income, defined as income at least equal to an urban unskilled worker's wage adjusted for cost-of-living differences. The formula includes target prices in real terms for each major crop and a method to adjust for inflation and devaluation. The 1986 prices entail an export subsidy at the existing official exchange rate; however, the negative fiscal impact of the export subsidy will be largely offset by greater income from the sale of food aid at the new higher prices.

2/ At present, the most significant subsidy on agricultural inputs is the indirect subsidy on capital goods provided by the overvalued currency and negative real interest rates.

possibility of debt restructuring. 3/ In any case, agreement by the international community to extensive debt rescheduling, as well as continuing provision of the relatively high levels of assistance Guinea-Bissau has enjoyed in the past, is likely to require adoption by the Government of a concerted strategy to restore macroeconomic equilibria, along the lines suggested here.

2.11 Careful consideration will need to be given to the profound social implications in the medium term of the development strategy outlined above, i.e., the major shifts in relative prices as well as the implementation of strong stabilization measures. On the one hand, the realignment of the exchange rate and the phasing-out of price controls implied by the strategy of liberalization is likely to result in a further erosion of disposable per capita income for urban households, particularly for public servants who currently benefit from access to rice at official prices. On the other hand, the expansion of employment in agriculture and related activities is likely to be accompanied by a reduction in employment opportunities in the urban sector, following the reduction in public current and capital expenditures.

C. Medium-Term Economic Prospects: 1986-1992

2.12 The Bank's view of Guinea-Bissau's medium-term economic prospects is based on the results of a Base Case scenario carried out under the assumption that the Government will implement in a rigorous and timely fashion the structural adjustment strategy outlined above. 4/ In light of the unusual limitations on data about economic activity noted above, the projections must remain quite tentative, not least because the pattern of interrelationships among the various sectors of the economy is not entirely clear.

(1) The Stabilization Phase: 1986-1989

2.13 The stabilization phase of the adjustment program would be marked by major progress towards overall macroeconomic equilibrium. Realization of the ambitious targets set for this period will, however, require quick,

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3/ The Base Case scenario assumes for presentational purposes that these creditors agree to reschedule 90 percent of principal payments falling due each year from 1986 through 1992. The debt rescheduling is shown as an item financing the overall deficit in the balance of payments. As explained in the Appendix, the Base Case scenario assumes that there are no foreign exchange reserves available to finance a deficit, so the deficit shown is identically equal to the amount of the debt rescheduling.

4/ See Annex I for a detailed presentation of the RMSM model for Guinea-Bissau and a discussion of Base Case hypotheses and results.

bold, and continuous implementation of the adjustment policies outlined above. On the supply side, the stimulus to private sector output could lead to increases in agricultural production of 6 percent per annum (Table 2.1). This forecast is based on the potential for production rebounding from the historically low levels of recent years, as the economic environment improves. The concentration of investment on quick-yielding projects and the rehabilitation of existing facilities will permit a substantial improvement in the output generated by each peso of investment, such that the projected growth is compatible with the recommended investment program. More specifically, production increases will be fed by such factors as: (a) the entering into production of extensive acreage of cashew trees planted in response to producer price increases since 1983; (b) the potentially rapid increases in rice yields from low-cost restoration of mangrove fields; (c) the higher groundnut output from the application of currently unavailable fertilizer; and (d) the potential for substantial increases in the local value added in fishing. At the same time, the reduced demand for industry and services implicit in the stabilization measures would translate into a lower rate of growth for these sectors. Overall, real GDP is projected to grow by 3.3 percent per year between 1986 and 1989, resulting in an increase of 1 percent per year in real GDP per capita (Figure 2.1).

2.14 On the demand side, private consumption is projected to grow by an average 3.3 percent per year between 1986 and 1989, translating into a 1 percent annual increase in private consumption per capita over the period as the burden of adjustment felt by particular social groups (especially in the cities) is counterbalanced by the rapid improvement in rural incomes and consumption. Overall, following the contraction of public consumption assumed under the stabilization program, consumption is expected to grow at an average annual rate of 1.1 percent between 1987 and 1989, one-third the rate of GDP growth over the period. As a result, the share of consumption in GDP is projected to decline to 95.8 percent by 1989, compared to 103.5 percent in 1985. This would lead to a positive domestic savings ratio which, combined with the contraction in the public investment program, would allow for a moderate expansion of private investment, projected at 8.0 percent per year between 1986 and 1989. 5/

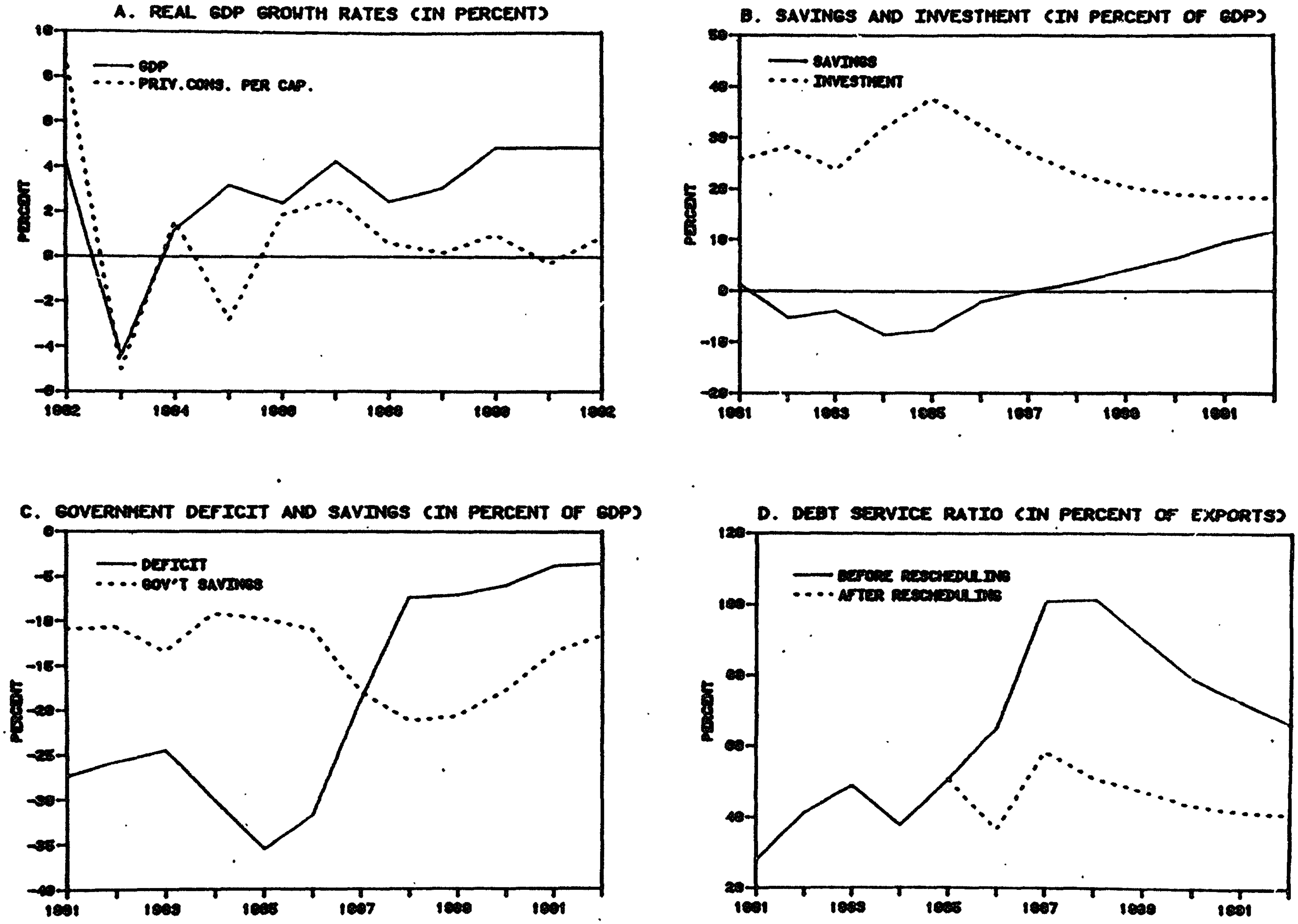
5/ The opportunities for private investment would be greatest in agriculture, trade, transport, and finance, as a result of increasing rural incomes and greater availabity of imported goods (including simple capital goods), as well as the withdrawal of public enterprises from retail trade and other liberalization measures the Government is assumed to adopt - permission for commercial banks, authorization to expand private trucking, etc. At the same time as investment opportunities expand, financial resources for private investment should become available from the banking system following the contraction in credit to the Government and from private savings because of the gradual increase in incomes.

Table 2.1: Base Case Selected Economic Indicators, 1984-1992

	Units	1984 Actual	1986 Proj.	1989 Proj.	1992 Proj.	Real Growth Rate 1985	Real Growth Rate 1986	Average Annual Real Growth Rate 1987-1989	Average Annual Real Growth Rate 1990-1992
GDP (at MP)	1984	15986	16886	18608	21487	3.1	2.4	3.3	4.9
	FG								
Agriculture	mil.	8812	9618	11453	13448	3.0	6.0	6.0	5.5
Industry (at FC)	"	1153	1114	1147	1254	-0.4	-3.0	1.0	3.0
Services (at FC)	"	5251	5350	5122	5762	-4.4	-2.4	-1.4	4.0
Consumption (at MP)	"	17186	17236	17827	18975	-1.0	1.2	1.1	2.1
Private	"	12536	12407	13686	14835	-4.9	4.1	3.3	2.7
Public	"	4650	4829	4140	4140	9.9	-5.5	-5.0	—
Investment (at MP)	"	5010	5519	3323	3896	21.3	-9.0	-11.5	0.6
Private	"	292	385	485	645	26.7	4.0	8.0	10.0
Public	"	4718	5134	3338	3251	20.9	-10.0	-13.4	-0.9
Trade and Services Balance	"	-5700	-5870	-3042	1385	16.0	-11.1	-19.7	-23.1
Ratios									
Investment/GDP	%	31.3	32.7	20.5	18.1				
Gross National Savings/GDP	%	-7.5	-2.1	4.2	11.7				
Public Investment/Total Investment	%	94.2	93.0	87.3	83.4				
Surplus/Deficit of Government/GDP	%	-29.4	-33.9	-7.0	-3.5				
B. External									
Exports of Goods and Services	US$	25.6	23.0	38.0	59.4				
Imports of Goods and Services	cur.	82.6	83.8	75.0	78.9				
External Resource Balance	mil.	-57.0	-60.8	-37.1	-19.5				
Current Account Balance	"	-36.2	-46.1	-29.1	-13.7				
Debt Service a/	"	-9.7	-14.8	-34.9	-40.8				
Debt Rescheduling c/	"	...	-6.5	-16.7	-15.9				
Ratios									
Exports of Goods and Services/GDP	%	16.0	12.6	15.7	18.7				
Imports of Goods and Services/GDP	%	51.7	45.8	31.0	24.8				
Resource Balance/GDP	%	-35.7	-33.3	-15.3	-6.1				
Current Balance/GDP	%	-22.6	-25.2	-12.0	-4.3				
Overall Balance/GDP	%	-9.1	-3.8	-7.4	-5.2				
Debt Service Ratio a/	%	37.9	65.1	90.8	67.0				
Debt Service Ratio after rescheduling a/	%	...	36.6	47.3	40.9				
MLT Debt Outstanding/GDP b/	%	140.9	167.6	171.8	147.9				

Source: IBRD estimates and projections.
a/ excludes IMF repurchases
b/ excludes IMF
c/ overall deficit in balance of payments is constrained to equal the debt rescheduling.

Figure 2.1: Base Case Scenario, 1981-1982



2.15 The stabilization phase of the structural adjustment program would be marked by a substantial amelioration of the public finance situation. Between 1986 and 1989, the share of the government deficit in GDP is projected to decline from 34.5 percent to 7 percent. This achievement would result from a combination of several factors. On the revenue side, the reduction of the deficit would result from the positive impact of the devaluation on the domestic currency equivalent of external grants (which are assumed to remain constant in nominal dollar terms until 1989), and on the domestic currency equivalent of tariff revenue. On the expenditure side, the reduction of the deficit results directly from the contraction of public consumption and public investment assumed under the stabilization program of the Government. These positive tendencies, however, are partly offset by the negative impact of the devaluation on interest payments on medium- and long-term debt expressed in domestic currency terms, which will cause Government savings to decline during the period 1986-1989.

2.16 The real devaluation of the exchange rate, combined with the progressive liberalization of domestic prices and the adjustment of controlled prices in line with world prices would lead to a sharp contraction of real imports of goods and services, averaging 9 percent per year between 1986 and 1989. This contraction would result essentially from the reduction in food imports made possible by the expansion of domestic food crop output, by the reduced import requirements of the sharply lower public investment program, and by a reduction in imports of consumer goods in response to the relative price effect of the devaluation. Real exports, on the other hand, are projected to grow at an average 10.4 percent per year over the period. This export performance would result directly from the structural adjustment policies pursued by the Government over the stabilization phase. In addition, the accelerated devaluation of the exchange rate combined with adjustments in domestic producer prices would succeed in restoring agricultural exports to their 1984 level by 1988.

2.17 The rapid expansion of exports of goods and services and the contraction of imports resulting from the implementation of the structural adjustment program would lead to a progressive reduction in the resource balance deficit from 38.7 percent of GDP in 1985 to 15 percent in 1989. As a consequence, the deficit of the current balance is expected to decline by two-fifths, from US$49.7 million in 1985 to US$29 million in 1989, despite the progressive increase in interest payments on the external debt over the period, from US$5.3 million in 1985 to US$12.8 million in 1989. This decline in the current balance deficit and the concurrent reduction in the net foreign borrowing requirements of the public sector are seen to be compatible with an equilibrium of the overall balance over the 1986-89 period. The deficit in the overall balance of payments, as shown in Statistical Appendix Table 12, is exactly equal to the amount of debt rescheduling.

2.18 The improved current account balance would be sufficient to induce a decline in the net foreign borrowing requirements before rescheduling from 25.8 percent of GDP in 1985 to 5 percent in 1989, translating into a sharp reduction in dollar terms, from US$43.3 million in 1985 to US$12 million in 1989. However, after rescheduling, the net foreign borrowing would be US$29 million in 1989, equivalent to 12 percent of GDP. Given the progressive increase in amortization payments projected over the period, the Base Case would lead to a relative stabilization of the level of gross foreign borrowing requirements at an average US$43 million per year over the 1986-89 period.

2.19 The burden of debt service before rescheduling is bound to increase very rapidly over the stabilization phase of the structural adjustment program because of the profile of payments on existing (pre-1986) debt. At the same time, due to the decline in new borrowings, the pre-rescheduling debt service ratio is projected to peak at 101 percent in 1987, compared to 50.7 percent in 1985, before declining gradually to 91 percent in 1989. However, with the rescheduling scenario assumed in the Base Case, the debt service ratio could be contained below 60 percent in 1987 and could decline to 47 percent in 1989. At the same time, the ratio of medium- and long-term debt outstanding to GDP is projected to increase slightly from 167.1 percent in 1985 to 172 percent in 1989, highlighting the absolute necessity of a concerted strategy for the restructuring of the external debt over the medium term.

2.20 Assessment. By the end of the stabilization phase of the structural adjustment process, Guinea-Bissau's economy should have essentially restored macroeconomic equilibria at the assumed level of foreign resource inflow. The key disequilibria at the present time - the exchange rate and the fiscal deficit - would have given way to viable positions on both fronts, and the foundation would have been laid for a transition towards self-sustained growth. This assessment is conditional on the rigorous implementation of stabilization and structural adjustment policies assumed throughout the analysis. It is meant as a prescription of possibilities for Guinea-Bissau under conditions of a major policy breakthrough and highlights the difficulties as well as the extent of the required adjustment.

(2) The Growth Phase: 1990-1992

2.21 Assuming the achievement of the objectives of the stabilization phase, the Government would then be in a position by the late 1980s to implement monetary and fiscal policies to accommodate more rapid GDP growth, bearing in mind the need to achieve a further reduction in domestic and external imbalances. The major policy objective of the growth phase would be to create the conditions for accelerated growth by progressively reducing reliance on external resources and by raising the contribution of the country's domestic production effort towards meeting the bill for import requirements.

2.22 In this policy environment, GDP growth is projected to accelerate to 4.9 percent per year between 1989 and 1992, translating into an average annual rate of growth of 2.7 percent in GDP per capita. This growth performance would be led by the expansion of exports, growing in real terms at 9.6 percent per year over the period, on the basis of the expansion in agricultural output made possible by the increased real investment in 1986-89. The GDP growth would support an expansion of real consumption estimated at 2.1 percent per year over the interval. Following the stabilization of public consumption in real terms, real private consumption is projected to grow by 2.7 percent per year over the period, or 0.5 percent per capita per annum. As a result, the savings ratio would increase further to 11.7 percent of GDP by 1992, compared to 4.2 percent in 1989. The resulting increase in savings, combined with the moderate expansion of the public investment program, would allow for an acceleration of private investment growth to 10.0 percent per year between 1989 and 1992. Despite this acceleration, private investment would still remain a modest 20 percent of total investment at the end of the period. 6/

2.23 The intensification of structural adjustment policies over the second phase of the program is projected to lead to a further reduction in the deficit of the external resource balance to 6 percent of GDP by 1992, compared to 15 percent in 1989. This result would be compatible with a moderation of the rate of reduction in real imports of goods and services, with the rate of decline projected at 3.9 percent per year over the period. The decline would be concentrated entirely in food imports as domestic food production increases; other import categories would increase 0.5 percent per year.

2.24 The growth phase of the structural adjustment program would lead to a further strengthening of the public finance situation. Between 1989 and 1992, the share of the government deficit in GDP is projected to decline from 7 percent of GDP in 1989 to 3 percent in 1992. This evolution would lead to a contraction in the gross foreign borrowing requirements of the public sector from US$34 million to US$22 million, while the net foreign borrowing requirement would change from a positive US$12 million in 1989 to a negative US$2 million in 1992 before rescheduling or from US$29 million to US$14 million after rescheduling. Foreign assistance (grants and loans) is expected to decline from US$59 million in 1989 to US$47 million in 1992.

2.25 The amelioration of the resource balance resulting from the intensification of the structural adjustment policies pursued by the Government would lead to a further reduction in the deficit of the current balance from US$29 million in 1989 to US$14 million in 1992, despite a continued increase in interest payments on the external debt.

2.26 The debt service ratio before rescheduling would decline progressively to 68 percent by 1992, compared to 91 percent in 1989, while reschedulings of the sort assumed here (90 percent of bilateral and private amortization due each year) would permit reducing the debt service ratio from 47 percent in 1989 to 41 percent in 1992. While a [illegible] percent debt service ratio is high, nevertheless it would represent considerable progress. Furthermore, Guinea-Bissau is able to sustain a relatively high debt service ratio, because a large proportion of imports, including nearly all imports of capital goods and inputs, are financed by external assistance. While the medium-term development strategy calls for reducing the

6/ The principal sectors for private investment will remain agriculture, trade, transport, and finance, especially by small- and medium-sized entrepreneurs in the first three areas. At the same time, investment opportunities will open in other service areas (e.g., hotel and restaurant) and in simple small-scale industry making use of local materials (e.g., construction materials).

relative importance of external assistance, such aid is projected to be equal to 60 percent of imports of goods and services in 1992, compared to 81 percent in 1985. With such a large proportion of the country's import needs met by external assistance, more of the export earnings can be devoted to debt service.

2.27 The successful completion of the second phase of the structural adjustment process could place Guinea-Bissau in a position to achieve self-sustained growth over the longer term. Increases in GDP would derive primarily from domestically-financed investment. The economy would be open then to the pressures of market forces which would rapidly signal opportunities for profitable output expansion while facilitating the flow of resources from less productive to more advantageous sectors. Guinea-Bissau's relatively generous natural resource endowment, particularly in arable land, provides a basis for optimism about the country's long-term prospects once distortions in the system of economic incentives have been eliminated and the macroeconomic balances restored.

D. Assessment

2.28 If the Government implements rapidly and rigorously a comprehensive structural adjustment program then the possibility exists of restoring macroeconomic equilibria and creating conditions for self-sustained growth. The key macroeconomic targets of this program must be:

(i) to liberalize economic incentives through appropriate pricing policies, especially export parity at an equilibrium exchange rate for agricultural output, and encouragement of private investment to take the place of the public sector in providing services;

(ii) to reduce inflation to no more than five percent per annum above that in partner countries, thanks to restrictions on growth in credit, especially to the Government;

(iii) to reduce fiscal deficits to less than 5 percent of GDP, with public investment at 15 percent of GDP;

(iv) to reduce the external resource deficits to about 5 percent of GDP, through the implementation of a flexible and realistic exchange rate policy that would eliminate the parallel market; and

(v) to contain debt service to about 40 percent of exports, in particular through a ban on new non-concessional borrowing.

2.29 The policy package needed to accomplish the transition to self-sustained growth relies on sharp changes from existing practices. Achievement of self-sustained growth will require simultaneous and forceful movement on all fronts. Furthermore, rapid adoption of the necessary policy measures would be most desirable, since any delay would retard the achievement of stabilization and structural adjustment objectives.

PART III. The Role of Public Investment in Structural Adjustment

3.1 The comprehensive structural adjustment strategy proposed for Guinea-Bissau implies, on the one hand, that the size of the public investment program be reduced in line with the target reduction for the public sector deficit and external debt service, and, on the other hand, that the composition of the investment program be reoriented towards the provision of basic infrastructure in support of production and exports. This public investment strategy will need to be supported by a major reinforcement of the planning and programming process, including macroeconomic coordination and project selection and implementation. An important complement to the refocusing of public investment will be to provide increased stimulus to private investment, through the adoption of appropriate government policies.

A. The Planning Process 1/

3.2 The design of a coherent public sector strategy in Guinea-Bissau requires a major reinforcement of the planning process currently suffering from lack of coordination and insufficient capacity for appraising investment projects. This section discusses the legal framework of the planning process, describes the operation of the planning process in practice, and makes a series of policy recommendations for the improvement of the planning process in Guinea-Bissau.

(1) The Legal Framework

3.3 The overall coordination of economic policy in Guinea-Bissau is under the responsibility of the National Commission for Economic Control, headed by the President of the Republic and including the ministers of Finance; Commerce; Planning; and the Minister-Governor of the National Bank. Under guidance of the National Commission, the principal responsibility for preparation of both the multi-year and annual plans rests with the Ministry of Planning. In consultation with the technical ministries, the Directorate of Programming and Projects (DPP) of the Ministry of Planning, under the guidance of the Ministry of Finance, prepares the annual investment budget which is presented to the National Assembly, together with the current expenditure budget. 2/ The DPP also

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1/ The analysis was largely completed before the July 11, 1986, decision to divide the Ministry of Economic Coordination, Planning and International Cooperation (MECPIC) into a Ministry of Planning and a State Secretariat for Economic Affairs and International Cooperation.

2/ Until 1983, the Central Government's budget included current revenue and expenditure and only a minor part of capital expenditures. Most of the investment outlays were under the supervision of the Ministry of Planning and were not included in the recurrent budget. Since 1984, the investment budget integrates investment by the Central Government and by public entities. Financing for the budget is (Footnote Continued) prepares the Annual Plan, incorporating the analysis of the previous year's achievements along with the current year's investment budget.

3.4 Coordination with foreign donors and creditors for project financing is the responsibility of the State Secretariat for Economic Affairs and International Cooperation (SEAIC) which reports directly to the President. No foreign financing agreement for a project can be signed without SEAIC's approval. Responsibility for follow-up on disbursements rests with SEAIC for projects financed by grants and with the Ministry of Finance for projects financed by loans. In addition, the Ministry of Finance has overall responsibility for executing the Government budget through treasury accounts with the National Bank. The negotiations and control over external loans not linked to specific projects are coordinated by the Management Unit for Balance of Payments Support (UGAB), an independent body including representatives of the Ministries of Finance, the Ministry of Planning, Commerce and the National Bank.

(2) The Planning Process in Practice

3.5 Since 1980, the planning process has improved steadily as part of the Government's commitment to formulating and implementing a structural adjustment strategy. Significant improvements were made in the framework of the preparation of the First Four-Year Plan covering 1983-86, the Economic Stabilization Program introduced in late 1983, and the Annual Plans for 1985 and 1986.

3.6 The First Four-Year Plan (1983-86) represented an important attempt at establishing priorities in the investment program which was divided in four blocks reflecting the main axes of Government's development strategy (see Statistical Annex Table 18). The priority block included agriculture, forestry, fisheries, and mining. The support block included hydroelectricity, transportation, commerce, telecommunications, and administration. The social block comprised housing, education, health and sports, while the final block included the remaining sectors (such as industry, regional works, and tourism). The sectoral programs were in turn broken down into specific projects. For each project, the Plan presented total cost in local currency, the implementation schedule, the status and source of financing and the agency within the Government responsible for its follow-up.

3.7 A basic shortcoming of the Four-Year Plan was the lack of integration of the investment program within a coherent macroeconomic framework. Accordingly the investments proposed did not adequately reflect the economic priorities or the absorptive capacity of the country, particularly

(Footnote Continued)
provided by external loans and grants, counterpart funds of grants and food aid channeled through the National Investment Fund (FNI), and other directly allocated domestic funds.

with regard to its capacity to utilize complementary capital and current financing. The Economic Stabilization Program, prepared in late 1983, addressed this issue by presenting for the first time projections for the national income accounts, the balance of payments, and the connection between projects and the expected flow of external assistance. As a result of the forecast of the overall economic situation, including the Government budget, balance of payments and external debt, and of a more realistic evaluation of the country's absorptive capacity, the investment program in the original Plan was seen to be inappropriately large. The Four-Year Plan proved, in the event, to be an insufficiently flexible instrument for a country like Guinea-Bissau whose economic circumstances are subject to considerable uncertainty and in which the Government has little reserve margin for absorbing unfavorable economic shocks.

3.8 The 1985 Annual Plan recognized that a number of significant projects not included in the Four-Year Plan were implemented because foreign financing was available, despite the dubious economic rationale for some of these projects. Meanwhile, some projects considered of highest priority could not be carried out, resulting in an inversion of the priorities of the Plan. The 1985 document also noted that the recurrent implications of investment projects were systematically underestimated and not always included in the budget. These problems highlighted in the 1985 Annual Plan are reflections of the serious shortages of trained personnel which limit the Government's ability to engage in comprehensive long-term planning and which prevent the Government from being able to manage effectively more than a limited quantity of investment resources.

3.9 The public investment program was reduced during the course of preparation of the 1986 Annual Plan in recognition of the country's difficult economic circumstances. The Plan presented both the original US$88 million investment program and the US$71 million program as revised in the line with a decision of the Council of Ministers on April 2, 1986. The reduction from US$88 million to US$71 million was achieved primarily by reducing expenditure on projects that the Bank had classified as being of lower priority in its aide-mémoire to the Government after the February Public Investment Review Mission. The Plan also highlighted the importance of the Government's program for liberalization of trade and transport.

3.10 Since the First Four-Year Plan ends with 1986, the Second National Development Plan was originally scheduled to cover the years 1987-1990. In light of the recent evolution of Guinea-Bissau's economic situation and recognizing the need for adopting far-reaching policy measures, the Government decided quite rightly to postpone the implementation of the Second National Development Plan by one year. The Second Plan would now cover the years 1988-1991. The Government intends to take advantage of the interim period to formulate a comprehensive medium-term adjustment strategy.

3.11 Despite the efforts undertaken by the Government since 1980 to improve the planning process, severe shortcomings in the overall macroeconomic management continued to contribute to the degradation of the country's macroeconomic situation in 1985:

(i) Project preparation, evaluation and control. The capacity of the technical ministries is low, mainly because of a lack of trained staff. As a result, most projects are prepared by outside consultants or by international donors interested in financing the projects in question. The follow-up of projects is generally carried out by the implementing agency with little involvement from either the technical ministries or the Ministry of Planning. Progress on major projects is not systematically monitored. Problems which emerge in the process of implementation are sometimes not dealt with on a timely basis. As projects near completion, the technical ministries are often ill-prepared to take over.

(ii) Control over capital expenditures and external assistance. Actual disbursements have averaged about 75 percent of budget with significant shortfalls in certain projects, as discussed below. Information on disbursements is prepared by the Ministry of Planning only annually and with considerable lag. Correspondingly, little information is available during the course of the year about aid disbursements for projects and for programs. The allocation process through UGAB for foreign exchange resources available from non-project aid has not always been well understood by local businessmen and officials in technical ministries. Auditing and control of resources generated by food aid has been spotty at best.

(iii) Budgeting of current expenditures. No formal mechanism exists to estimate the recurrent costs arising from the completion of projects. In some cases, the international implementing agency postpones the project's completion date and finances recurrent expenditures in order to avoid paralyzing project activities. In other cases, the totality of the local staff involved in the project during implementation is transferred to the technical ministry payroll, accounting in part for the large increase in Government employee numbers observed since 1980. However, the Council of Ministers decreed on April 2, 1986 that personnel from an investment project can no longer be automatically transferred to the regular payroll.

(iv) Coordination among economic ministries. The involvement of the Ministry of Finance in the preparation of the investment budget, and therefore the integration of the investment program into an overall fiscal framework, remains extremely weak. Furthermore, the National Commission for Economic Control lacks any technical staff and so is not able to play a substantive role in the preparation of a guiding macroeconomic framework. The diffusion of responsibilities for foreign loans and grants has impaired systematic monitoring and control. Finally, an existing interministerial coordination mechanism, UGAB, has encountered serious difficulties, in part due to inadequate trained personnel.

(3) Recommendations about the Investment and Planning Process

3.12 The role of the various documents which guide the economic coordination process should be redefined as follows:

(i) A three-year rolling plan should be introduced as the principal medium-term document. It would set forth the overall and sectoral development strategies. On this basis, the plan would determine the size of the public investment program and provide an indicative envelope for its financing, broken down into foreign grants, foreign loans, and domestic financing. This three-year rolling plan would be based on a coherent medium term macroeconomic framework integrating national accounts, public finance, balance of payments, external debt, and money and credit. The plan would in effect constitute the investment component of a structural adjustment program;

(ii) The annual investment budget would then set forth the specific projects to fit within the envelope established for the first year of the three-year rolling plan.

(iii) If the authorities felt it was necessary, a summary four- or five-year plan could be prepared. Since economic circumstances may change sharply during the course of a plan period, preparation of a detailed document which could become outdated would be an inadvisable use of scare technical resources. The Plan should be only a flexible summary statement of medium-term goals and policies.

3.13 The division of responsibilities among the ministries involved should be redefined as follows:

(i) The National Commission for Economic Control should be reinforced by the creation of a Permanent Secretariat, responsible for facilitating coordination among ministries in the preparation of all plan and budget documents;

(ii) The Ministry of Planning would be responsible for: (a) preparation of the three-year rolling plan and the accompanying medium-term development strategy macroeconomic framework; (b) evaluation of projects proposed for inclusion in the annual investment budget within the framework established by the three-year rolling plan; (c) supervision of identification, appraisal and follow-up of projects by the technical ministries; and (d) preparation of the summary multi-year plan if any;

(iii) The Ministry of Finance would be responsible for preparation of the annual recurrent budget and its integration with the investment budget prepared by the Ministry of Planning, on the basis of guidelines from the National Commission for Economic Control. It would also have sole authority to approve any foreign loans and the acceptance of any foreign grants, in conjunction with the SEAIC. 3/ It would prepare all data on on-going expenditures and their financing, including aid flows;

(iv) The National Bank would be responsible for ensuring that domestic financing requirements of the Government stays within the limits prescribed by the budget. It would also record all external flows and prepare balance of payments data for the National Commission. It should play a key role in ensuring proper auditing and control of resources from non-project aid, including food assistance; and

(v) SEAIC would be responsible for coordination with foreign donors and creditors, as discussed in Part V below.

3.14 The Government should improve project evaluation and control by taking the following steps:

(i) to ensure that the technical ministries designate one member of their higher-level local technical staff to be responsible for monitoring each project, and

(ii) to prepare forecasts of the recurrent cost implications of each project before work begins on the project.

3.15 Information on disbursements and aid flows is a prerequisite to controlling expenditures and external debt, which in turn is vital to the successful undertaking of any structural adjustment strategy. Implementation of a quarterly system to report project expenditures and to indicate physical progress would be a major aid to monitoring macroeconomic developments. The quarterly reports would of necessity be approximate, but the timeliness of the information would undoubtedly outweigh the disadvantages of imprecision.

3/ In this context, the Ministry of Finance should assume responsibility for all medium- and long-term Government external borrowing, specifically, the National Bank's long-term debt. The National Bank's external borrowing authority should be limited to short-term trade credits.

B. The Public Investment Program

3.16 A strategy of public sector retrenchment not only must focus on the efficiency of the public investment process but also on the size, sectoral allocation and project composition of the investment portfolio.

(1) Size of Public Investment

3.17 From 1981 to 1985, the Government's capital budget grew from 27 to 48 percent of GDP (Table 1.2). This proportion was inappropriately high from the viewpoint of internal and external equilibria, as it exacerbated the imbalance in external demand and in the external debt burden. In addition to its undesirable impact from a macroeconomic point of view, the public investment program was too large to be managed effectively. The country did not have the trained staff to analyze or implement projects at the pace envisioned in the First Four-Year Plan. The available staff have been able to substantially improve the data on projects under way or planned. These data demonstrate that the rate of financial realization of each year's investment budget was only about seventy-five percent. While complete data on physical progress of projects are not available, it would appear that the rate of physical completion was even lower than the rate of financial realization. Indeed, it is clear from the historical record (Statistical Annex Table 18) that che Government would have difficulties at this time in implementing an annual investment budget of the size proposed for 1986.

3.18 The public investment budget originally proposed for 1986 amounted to US$88 million. In light of the difficult economic circumstances and in reflection of a tightening of procedures and controls, the Council of Ministers decided on April 2, 1986, to cut the investment budget to US$71 million. In at least some cases, it seems unlikely that the planned expenditure level could be reached due to the implementation constraints mentioned above. On the other hand, the budget does not list any expenditures on several projects which, as the Government has indicated to the Bank, are of highest priority, such as the rehabilitation of the Bissau electrical system. Actual investment will also be influenced by the impact of the economic crisis, which has led to shortages of spare parts and petrol that have affected many projects. The African Development Bank group and Arab funds suspended disbursements due to arrears. All in all, 1986 investment may turn out to have been about US$55 million or less, a drop in US dollar terms of about 10 percent from the 1985 level.

3.19 No comprehensive and verified data exist on the future investment cost anticipated for each project and, as a result, no data are available on the total cost of each project. Information on projected future expenditures is provided by the technical ministries to the Ministry of Plan, but such data are highly preliminary and are at times subject to considerable revisions. As a result, it cannot be accurately determined what amount of resources in 1987-92 have been effectively mortgaged. Some relatively large projects of dubious economic merit are now close to completion, however, and this could free the slate for a relatively fresh start. Furthermore, nearly all the remaining major projects could, if necessary, be slowed down or redesigned to cut costs. More precise analysis of the future expenditure pattern implied by the current budget is unfortunately not possible in light of the data limitations.

(2) Composition of Public Investment

3.20 During the initial three years (1983-85) of the First Plan, the sectoral composition of public investment spending changed noticeably from that of the 1979-82 period (Table 3.1). Over the interval, the share of investment directed towards industry fell from 21 to 5 percent. Within industry, investments were shifted towards rehabilitation of existing facilities designed to improve capacity utilization and away from construction of new plants. The largest increase in spending was in transport, which went from 5 to 18 percent of investment, reflecting the increased emphasis on improving the physical infrastructure in direct support

Table 3.1: Composition of Public Investment Expenditures, 1978-85 a/

	Actual Annual Average 1979-82		Actual Annual Average 1983-85	
	US$ millions	percent	US$ millions	percent
Priority bloc	13.1	22.6	15.5	27.4
Rural development	10.9	18.9	13.0	23.1
Fishing	2.1	3.7	2.4	4.3
Support bloc	6.3	10.9	12.0	21.3
Transport	2.9	5.0	10.2	18.1
Telecommunications	1.8	3.1	1.8	3.1
Social bloc	14.7	25.5	16.9	29.9
Education	3.9	6.7	3.0	5.3
Health	3.4	5.9	4.6	8.2
Housing, sanitation	7.4	12.8	9.3	16.4
Other	23.7	41.0	12.0	21.4
Industry	12.0	20.8	2.6	4.7
Energy	8.1	14.1	1.9	3.4
Other	3.5	6.1	7.5	13.3
Total	57.8	100.0	56.3	100.0

Sources: The Ministry of Planning, IMF, and IBRD staff estimates.

a/ Definition of blocs differs some from that in the First Development Plan Document.

of production. At the same time, however, investment in energy fell from 14 to 3 percent, partly in response to the action strategy proposed in the 1984 UNDP/World Bank energy assessment.

3.21 Despite the designation of rural development, fisheries, forestry and mining as the "priority bloc", investment in this area increased only from 23 percent to 27 percent between 1979-82 and 1983-85. The authorities recognized that the most important sectors from the perspective of the national development strategy were not necessarily the areas to receive the largest public investment allocations for two reasons. First, the most important policy tool designated by the authorities to stimulate output in agriculture was not public investment in agricultural activities but policies to improve incentives by raising producer prices and by improving the availability of goods in rural areas. Second, appropriate support to the priority bloc from the public investment budget should come from improved infrastructure, particularly transport.

3.22 Technical assistance is a large component in the investment budget. Foreign salary costs, which are the largest element in technical assistance, were US$10.5 million in 1985, or one-sixth of the total budget. In some cases, the available assistance may exceed Guinea-Bissau's absorptive capacity, which is limited by the deficiencies in the education system in the past; in these circumstances, technical experts are being used primarily to provide policy advice and to collect data, rather than training local counterparts. 4/ Lack of training for local counterparts implies that the services of the foreign advisors will be needed for an indefinite period, whereas the funding may be temporary.

3.23 The public investment program does not provide differentiation between investment by the Government and by public enterprises. Public enterprises generally plan their investments on the basis of resources available from the Government, rather than commercial considerations. The most serious cases of the inappropriate allocation of resources to public enterprises have been the construction of a complex agro-industrial plant in place of renovation of existing groundnut decorticators and the construction of a new luxury hotel (financed by suppliers' credits) from prefabricated sections rather than rehabilitation of the existing hotel.

3.24 Data are not available on the rate of return actually earned from major past investment projects nor on the expected rate of return from

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4/ Because the technical advisors are partly providing consumption services rather than investment in human capital, public investment as shown in the national income accounts is about 25 percent below the capital expenditure budget.

projects currently underway or proposed. Given the limited technical resources available in Guinea-Bissau, such data are unlikely to be available in the near future.

(3) Prescription for the Public Investment Program

3.25 The overly large public investment program in Guinea-Bissau has contributed to macroeconomic disequilibria. Furthermore, the investment program has not been clearly guided by a medium- and long-term development strategy.

(i) Size

3.26 In order to restore macroeconomic equilibria and create the conditions for self-sustained growth, the share of public investment in GDP will have to be reduced. The more rapidly the public expenditure budget can be reduced to the level sustainable in the medium-term, the more quickly Guinea-Bissau can achieve macroeconomic equilibrium. The existing pipeline of ongoing projects will present a barrier to an immediate rapid reduction 5/; furthermore, the pace of adjustment may need to be tempered in light of the need to sustain a political consensus. Therefore, the proposed time profile for the public investment is a real reduction of 10 percent in 1986, 15 percent per year in 1987-1988, 10 percent in 1989 and 5 percent in 1990. This schedule would bring public investment in 1990 to 55 percent of the 1985 level in real terms. On this schedule, public investment should be about US$55 million in 1986 and about US$48 million in 1987. In view of the implementation constraints noted above, the US$71 million 1986 investment budget was roughly compatible with this target.

(ii) Composition

3.27 The sectoral allocation of the investment budget should reflect the essential priorities of the medium-term development strategy, based on expanding agricultural output through reliance on market forces. The allocation of funds among physical infrastructure, the directly productive sectors, and social infrastructure should be based on guidelines, which should be seen as broad bands, not as specific targets. Since the most important role for public investment in support of production, especially in agriculture, lies in physical infrastructure, the share of new commitments in this area should be about 50 percent of the total. Roughly 25 percent would go to the directly productive sectors, primarily agriculture, while the final 25 percent or so would be directed towards social infrastructure. In line with the refocussing of the public sector's activities, no public investment funds should go for productive services,

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5/ As described in Part IV, over one-third of budgeted expenditure in 1986 is for projects that have been largely completed, especially a hotel, a sports stadium, and improvements to the port.

such as commerce and tourism, that can be better provided for by the private sector.

3.28 In order to meet the proposed targets, projects will need to be classified by priority. The most appropriate procedure would be to distinguish between projects which are essentially completed (Category A) and other projects (Category B). While analysis of projects which are nearly completed may be interesting in other contexts for the historical lessons that could be gathered, such projects will be finished, and therefore are of less concern. For projects on which substantial work remains to be done (Category B), further analysis is worthwhile. These projects are divided into three sub-categories: priority projects (Category I), projects on which expenditure can be phased (Category II), and lower priority projects (Category III). Projects on which expenditure can be phased are projects which are generally worthwhile economically, but which should be stretched out or postponed given the country's difficult financial situation. The lower priority projects are those which need to be reevaluated and, in most cases, redesigned to accord more closely with the proposed development strategy. A preliminary classification of projects appraised by 1986 has been done and is shown in Statistical Annex Table 22. The proposed expenditure level should be achieved by reducing allocations for the lower-priority projects by a sustantial amount, while also cutting back on the projects which could be phased and trimming where possible the higher priority and essentially completed projects.

C. Financing Public Investment

3.29 Domestic Financing. Insofar as the Government current budget has been in deficit since independence, there have been no Government savings available to finance public investment. Local currency for public capital expenditures has come from the FNI, which receives much of the local currency counterpart generated by the sale of goods provided by foreign non-project assistance. The public investment program has not, therefore, relied directly on borrowing from the domestic banking system.

3.30 The public enterprises also did not fund their investments from their own savings. There is some evidence that a few public enterprises have had considerable profits which have not gone for investment within the framework of the public investment program, but no comprehensive data exist. In particular, the two large public trading firms, Armazens do Povo and SOCOMIN, paid PG 438 million to the Government in 1985 as the 80 percent share of their presumed profit from the export of commodities in which the public sector has a monopoly. The 20 percent share remaining with the companies would therefore have been PG 109 million. However, it is not known whether these funds were used to finance investment outside the public investment program or for other purposes.

3.31 External Financing. Since public investment has been less than total external aid each year since 1980, it could be said that public investment has been fully funded by external financing. The external aid came in the form of project and non-project aid. Project assistance for

1984 (the year for which the best data are available) was US$39.5 million (Statistical Statistical Annex Table 20), equivalent to 75 percent of the public investment that year. While non-project aid did not go directly to fund public investment, it has permitted high levels of Government expenditure, including public investment.

3.32 The full economic cost of foreign borrowing has been borne by local borrowers (including the Government), thanks to the Government policy of requiring that local borrowers make full debt service payments at the prevailing exchange rate. In other words, local borrowers must bear the full cost of any devaluation and do not benefit from any accumulation of external arrears or debt rescheduling. 6/ As a result of this policy, the government budget reflects the full economic burden created by the heavy external public borrowing of the past.

3.33 Assessment. While the Government should aim to generate positive savings in the long run, this goal does not seem to be realizable by 1992, as it would require tax increases and/or expenditure reductions at such a pace that economic activity could be impaired 7/. A realistic interim target would be to pay for all current expenditures other than interest payments with local revenues by 1990, such that any external funds or domestic borrowing would in effect go for either debt service or capital expenditure.

3.34 Each parapublic enterprise should be required to prepare an investment plan which would then be integrated into the three-year rolling plan. Each enterprise's investment program should indicate the financing sources for each major project; a growing portion of the investment funds should be generated internally. For those resources borrowed from banks or invested by the Government, a positive rate of interest will need to be charged. With regard to the internal generation of investment funds, two sorts of public enterprises can be distinguished:

6/ Debt rescheduling and arrears accumulation are treated as balance of payments issues quite separate from the obligation of the local borrower to repay in domestic currency. To the extent that the local currency payments cannot be translated into foreign exchange payments, then balances accumulate in special accounts in the National Bank, which can be used to repay the debt once the external payments situation improves. The National Bank has generally implemented this policy by debiting the accounts of public entities for the debt service falling due.

7/ The proposed adjustment strategy rests on rapid devaluation, which will sharply increase costs of imports in 1986-1988. In this context, the proposed increased in the tax burden (from 13.3 percent of GDP in 1985 to 16.7 in 1988) will be particularly difficult to achieve.

(i) regulated monopolies, for which the regulated prices and tariffs should be set to cover long-run marginal costs, including the costs of capital. Where necessary, prices and tariffs should be raised, and stricter collection of existing rates should be enforced, particularly by the electricity corporation; and

(ii) public enterprises that compete with private firms and which should receive no subsidy. If the public enterprise can not cover its costs while simultaneously generating internally most of its investment financing needs, it should be progressively phased out.

3.35 The Government will need to develop an external financial strategy that reduces its excessive dependence on foreign aid. Assuming the adoption of the adjustment policies assumed in the Base Case Scenario, reliance on external grants could remain constant in current U.S. dollars at about US$25 million between 1986 and 1992. On the other hand, loan drawings could decline rapidly after 1986, from US$50 million that year to US$22 million in 1992. These levels of external assistance are still relatively large for a country of Guinea-Bissau's size. External donors will be more likely to provide such levels of assistance if the Government implements far-reaching policy action, especially the adoption of a clear and consistent medium-term framework accompanied by annual targets through which the progress of the adjustment effort can be monitored.

3.36 In light of the external debt constraint, Guinea-Bissau will need to seek debt rescheduling over the coming years. As noted earlier, the Base Case Scenario assumes that 90 percent of principal due to bilateral and private creditors will be rescheduled each year through 1992. Despite this large-scale debt rescheduling, the debt service burden will remain heavy at 40 percent of exports in 1992. Guinea-Bissau should not, therefore, accept non-concessional loans. This ban on non-concessional loans should apply irrespective of the source of credit: a multilateral agency, a bilateral creditor, a commercial bank, or a foreign supplier. The ban on loans at commercial rates should apply even to projects which appear highly attractive, both because concessional financing can probably be secured for such projects and because the country's difficult external payments situation allows little margin for error in case of unforeseen problems with a specific project. 8/

3.37 To summarize, the recommendations for the financing of the public investment program are:

8/ Were the petroleum exploration currently underway to lead to commercial development, this policy might be reconsidered. However, the most appropriate vehicle for petroleum development would be private investment.

(i) To generate sufficient domestic revenue by 1990 to cover all current expenditures other than interest payments;

(ii) to require each public enterprises to prepare an investment plan and to pay a full economic rate of return on any funds invested in the enterprise by the Government;

(iii) to prepare an estimate of external financing needs over the medium term and a strategy to mobilize the needed funds, and

(iv) to ban all non-concessional loans and to approach bilateral and commercial creditors for rescheduling existing loans.

D. Private Investment

(1) Background and Prospects

3.38 There are no data on private investment in Guinea-Bissau other than the estimates provided by the national income accounts. According to those estimates, private investment in 1985 was equivalent to 2.4 percent of GDP, and it comprised 6.1 percent of total investment (Statistical Annex Table 2). While the estimates imply that private investment declined in real terms by an average 9.2 percent between 1981 and 1985 (Table 1.1), the decline is entirely due to a change in estimation procedures for 1984 which resulted in a sharp downward revision in investment (Statistical Annex Table 1).

3.39 Private investment clearly picked up in 1983-85, particularly in agriculture and commerce. In agriculture, large farmers (planteiros) have increased the area under cultivation, especially for cashews, in response to the limited improvements in production incentives. In commerce, the transfer of state retail stores to the private sector and the increased opportunity for private import-export trade have led to greater private investment.

3.40 The Government has adopted a number of policies to encourage private investment. The most important of these policies has been the improvement in agricultural incentives through higher producer prices and trade liberalization to allow improved import availabilities. The end of the state monopoly on exports of palm kernels and non-traditional exports as well as the withdrawal of the state enterprises from retail trade, 9/

9/ The two state trading firms, Armazens do Povo and SOCOMIN, except to have completed soon the transfer of over 200 of their 270 retail outlets to the private sector. They will maintain a skeleton network of stores, primarily in provincial capitals. By December 1985, they had laid off 630 out of 3,320 workers and were planning to reduce their staff by a further 1,480 workers.

provided an important opportunity for private traders. With regard to the import trade, the Government is committed to ensuring that public and private traders compete on a fully equal footing. Finally, the Government has adopted a law to encourage foreign investment, which provides for exemption from income tax for 3 to 8 years and permits repatriation of profits to the extent of the foreign exchange surplus generated by the foreign investment.

3.41 The potential for expanding private investment will improve, if the adjustment program accelerates. The restoration of macroeconomic equilibria will stabilize domestic prices and the exchange rate, permitting more rational business planning. Tax policies that discourage consumption, particularly of luxuries and imported goods, will encourage savings. Most importantly, the refocussing of the public sector on infrastructure will leave room for expansion of the private sector.

3.42 The main opportunities for private investment will be in agriculture and in services:

(i) In agriculture, the improvement of production incentives should increase both the motivation for investment and the availability of resources with which to invest. Investment by the large farmers is the most observable form of agricultural investment. However, as important for the economy is investment by small farmers, e.g., in levelling rice fields, in carts, and in improved storage facilities. These investments will be vital to sustaining agricultural growth after the initial period of rapid recovery from the depressed output levels of recent years.

(ii) In the services sector, opportunities for investment will arise from both the expansion of national income and the increasing liberalization. In trade, the radical reduction in the number of commodities subject to price control will allow merchants the flexibility to adjust prices as market forces dictate. In foreign trade, increased reliance on the market rather than on administrative allocation (i.e., on the exchange rate rather than on quantitative restrictions) will increase the opportunities for efficient private traders. In transport, the greater incentive to export will increase the volume of traffic, as will the increased availability of imports in rural areas.

(2) Recommendations to Encourage Private Investment

3.43 The Government should implement the policies needed to restore macroeconomic equilibrium and therefore create a better business climate. In particular, the fiscal deficit needs to be contained and the exchange rate devalued to an equilibrium level.

3.44 Since private savings are the foundation for financing private investment, the Government should encourage private savings by taking the actions proposed earlier within the context of the adjustment program:

(i) to provide incentive prices to farmers, so that rural producers can have income sufficient to set aside savings;

(ii) to shift the tax burden to consumption, especially of luxuries and imported goods;

(iii) to raise interest rates to levels in excess of inflation, to encourage the direction of savings into financial institutions.

3.45 The Government should increase the credit available to the private sector, because the historically small private sector in Guinea-Bissau cannot be expected to expand at the pace needed for national recovery without increased access to credit. The key steps to improve credit allocation would be:

(i) to increase the credit available for the private sector by reducing the level of Government borrowing from the banking system. The Government will have to mobilize substantial sums in foreign aid in order to resolve the country's balance of payments difficulties. The Government will therefore be in a position to act as an intermediary to mobilize external resources from aid while releasing domestic resources to the private sector via bank credit.

(ii) to increase interest rates to a level that brings demand and supply for credit into balance, so that administrative allocation of credit is no longer necessary and private businessmen and public enterprises can compete for credit on a fully equal basis.

3.46 The Government should reduce barriers to the expansion of private enterprise by:

(i) completing the withdrawal of the public sector from retail trade, including transfer to the private sector of the remaining SOCOMIN and Armazens do Povo stores;

(ii) transfer to the private sector over the medium term of state-owned service enterprises that could be more effectively privately managed, such as hotels; and

(iii) simpler and more accelerated licensing procedures for private enterprises, particularly the granting of a sizeable number of permits to provide inter-city transport of goods and people.

3.47 The Government should reorganize the financial sector to permit greater competition and to encourage private investment in this sector. The National Bank's role should be redefined to allow it to concentrate on its role as a monetary authority. Its commercial banking operations would be reorganized into another institution. The Government should then permit the establishment of private commercial banks, which would contribute to increasing the mobilization of domestic resources.

3.48 The mobilization of external private resources for trade and industry should be actively pursued. The Government should evaluate its experiences with the new foreign investment law and make changes as needed.

PART IV. A Sectoral Analysis of Major Investment Projects

4.1 This section examines the impact of the proposed reductions in the envelope of the public investment program on the project portfolio. From the 171 projects in the 1986 public investment budget, the 43 largest were selected for analysis by the February 1986 Bank mission. Using the project selection criteria proposed below, these projects were distributed among categories in line with the proposal in Part III. Among the 43 projects under analysis, 12 projects were essentially completed in 1986, 5 projects were of high priority, on 13 projects expenditure can be phased, and 13 projects were of lower priority. 1/

Table 4.1: Projects by Priority Category

	Projects under Analysis		All Projects a/
	Number	Percent of Expenditure in 1985	Percent of Expenditure in 1985
A. Projects largely completed by 1986	12	50.1	37.4
B. Projects continuing after 1986			
I. Priority projects	5	4.9	3.7
II. Projects on which expenditures can be phased	13	30.1	45.9
III. Projects of lesser priority	13	14.9	12.8
Total	43	100.0	100.0

Sources: MECPIC and IBRD estimates.

a/ Including 128 smaller projects.

4.2 Project evaluation should in general be based on the principles of cost/benefit analysis, using criteria derived from the prescribed adjustment strategy for Guinea-Bissau. Unfortunately, data on the expected rate of return are not available for any major project in Guinea-Bissau, and, given the scarcity of technically trained personnel in the country, it is not realistic to expect that rate of return data can be produced on a regular basis in the near future. The criteria used to evaluate projects should include:

1/ Data on the total cost of each project are not available to date.

(i) ensuring consistency with the country's overall development strategy, including refocussing of the public sector on basic infrastructure in support of production;

(ii) advancing the development strategy for the sector concerned by contributing quickly to sectoral value added;

(iii) realizing quick yields such as can be achieved from more effective utilization of existing facilities, including rehabilitation rather than new investment wherever possible;

(iv) placing no inappropriate burden on the recurrent budget when completed;

(v) increasing human capital resources and not straining administrative absorptive capacity; and

(vi) contributing a net inflow to the balance of payments within as short a period as possible.

A. Agriculture, Fisheries, and Forestry

(1) Background

4.3 Structure of the Sector. The primary sector--agriculture, fisheries, and forestry--is the most important sector in Guinea-Bissau. Agriculture accounts for about half of GDP and of foreign exchange earnings and employs most of the labor force. Production is largely organized on a family basis in self-contained villages, with a few large farms (*planteiros*) which produce, among other things, most of the cashew nuts. The major food crops are rice (the main component of the national diet), sorghum, manioc, and sugarcane (used primarily to make rum), supplemented by livestock. Rice is grown principally by irrigation in the flat coastal banks, usually below sea level. The main export crops are groundnuts, cashew nuts, palm kernels, and cotton. It is believed that, at least until recently, a sizeable portion of cash crop output has been diverted illegally to Senegal. Farming techniques remain simple. With regard to animal production, Guinea-Bissau has a relatively large herd, but productivity is low. Fisheries account for about 5 percent of GDP but represent approximately 25 percent of foreign exchange earnings. The present total catch of 150,000 tons per year is about half the potential that could be achieved on a sustained basis. About 90 percent of the catch comes from foreign ships, mostly from the USSR, China, the EEC operating under licenses. This part of the catch is not landed in the country, and the monitoring of the catch is extremely weak. Despite Guinea-Bissau's forestry potential, production is less than one percent of GDP.

4.4 Institutional Framework. Government support to the primary sector was reorganized in 1984 through the incorporation into the Ministry of Rural Development and Fisheries ("Ministério de Desenvolvimento Rural e Pescas" - MDRP) of the Directorate of Forestry and the Secretariat of

Fisheries, and the preparation and approval of a law delineating the MDRP's responsibilities and an organization chart. However, this reorganization is not yet fully operational. The position of Secretary General has recently been filled, but the Planning Bureau (Gabinete) created in 1980 is still without an official director and is too weak to establish sector policies. The layer of local staff sufficiently trained and experienced is very thin. Although many staff are being trained abroad, the environment is often quite different from the country's, and training is seldom correlated with the overall program based on predetermined national needs.

(2) Public Investment in the Agricultural Sector

4.5 Public investment in agriculture, fisheries, and forestry has suffered from poor coordination and lack of focus. Numerous projects have been launched without adequate analysis of their compatibility with the country's development strategy. Some operations are redundant (mangrove rice development), others need to be strengthened (data collection), and in some critical areas, they barely exist (forestry, animal production, fisheries). Several services within MDRP work on the same problem, but with different funding and in isolation. Finally, projects seldom reach their production targets because of the technical inappropriateness of the actions implemented and the insufficient knowledge of the specific environment (e.g., mangrove rice production).

4.6 Investment in agriculture and fisheries accounted for 27 percent of all public investment during 1983-85, reaching US$12.0 million in 1985. The principal projects were of two types: integrated rural development projects and mangrove rice rehabilitation. The integrated rural development projects, of which the largest is funded by SIDA, provide extension services and such social services as health and education. Indeed, these projects provide the only funding in Guinea-Bissau for agricultural extension services. The SIDA project has been underway since 1982. No fixed termination date has been established in part because of the inability of the Government to finance any of the recurrent expenditures now being paid out of project funds. The mangrove (bolanha) rice rehabilitation projects entail the construction or reconstruction of small dams and agro-hydraulic works. The Government is making a major effort to increase production and productivity of mangrove rice and expects to exploit a relatively large potential for fresh water rice cultivation in inland-valley swamps. The overall goal would be to develop as large an area as possible to accommodate those farmers who are abandoning mangrove rice cultivation in the northwestern part of the country due to reduced rainfall and a shorter rainy season. The major mangrove rice rehabilitation projects are all in the south of the country: the Kuwait Government Quinara/Tombali project, the USAID South Coast project, and the IFAD project.

4.7 The 1986 budget included US$3.4 million for the SIDA integrated rural development project, US$5.2 million for the three major mangrove rice rehabilitation projects, and US$8.6 million for all other agriculture projects. For the three mangrove projects, the 1986 budget was 6 times the 1985 expenditure of US$0.8 million. In 1985, however, these three projects were able to spend only 15 percent of their budgets due to serious implementation difficulties, including technical problems, which do not appear to have been resolved.

(3) Recommendations for Agricultural Investments

4.8 The April 1986 review of agricultural investments prepared by consultants for the Bank supports the following conclusions: (i) public investment in the sector should be geared toward providing basic, low-cost support to private farmers and (ii) public investment should strengthen national capabilities such that the country can sustain services initiated with foreign funds. Capital-intensive projects and projects which entail higher recurrent costs that cannot eventually be absorbed by the recurrent budget should be systematically avoided.

4.9 Institutional development. The highest priority for investment in the agriculture sector is strengthening the capacity of the MDRP to support private agriculture by carrying out necessary studies and providing extension services. Priority (Category I) should be given to arranging a program to strengthen the MDRP:

(i) the MDRP Planning Cabinet should be brought into full operation by engaging sufficient technical staff, and it should be given the capacity to carry out data collection and analysis; and

(ii) the Ministry's administrative and personnel procedures and management information system need to be strengthened.

4.10 Mangrove rice rehabilitation projects. The three major projects in the south (A11, A14, and A47) are not appropriate as currently designed. They are too capital-intensive, the cost per recipient is too high and the prospects for the recipients being able to maintain the projects after the end of foreign assistance are not good in many cases. Furthermore, the projects are budgeted to expand at too rapid a pace, given the limited availability of skilled local personnel, and the projects do not adequately reinforce the existing capacities of the MDRP. The projects should therefore be classified as lower priority (Category III). Specific recommendations for the projects currently in progress are:

(i) investment in physical facilities in the immediate future should be limited to executing pilot operations, with total cost of less than US$1.0 million;

(ii) the projects should be redesigned to make use of more appropriate technology that would hold to a minimum the cost of dams and agro-hydraulic works and would require smaller maintenance and upkeep costs; and

(iii) priority for mangrove development should go to strengthening existing institutions, specifically the Irrigation Department.

4.11 Integrated rural development projects. While these projects have undoubtedly made major contributions to living standards and crop outputs in the regions affected, nevertheless the cost per recipient has been high and the prospects are poor for the Government to be able to continue with its own resources all the services initiated with foreign financing. These problems have been clearly present in the Zone I project and have affected the other projects to a varying degree. Nevertheless, pending a review of the strategy for integrated rural development projects, all four projects (A25, A27, A28, and A58) should be classified as non-priority (Category III). Recommendations for 1986 actions are:

(i) the Government should evaluate which recurrent expenditures funded by the integrated rural development projects are of highest priority and formulate a schedule for transferring these expenditures to the recurrent budget;

(ii) the Government should approach the external financiers for the integrated development projects to propose shifting resources gradually from these projects to other investments, as expenditures are transferred to the recurrent Government budget.

4.12 Other investments.

(i) the projects to encourage fertilizer use (No. A56) and to support seed experimentation and multiplication (No. A17) should receive high priority (Category I) as they correspond closely to the proposed development strategy by providing low-cost services which can eventually be supported by the national economy;

(ii) the production of small-scale fishing boats (Nos. G4 and G6b) and the livestock development project (No. A56) are also generally in line with the sectoral and overall strategies, but expenditures on these projects could be stretched out in light of the tight financial constraints (Category II). The same would apply to the rice rehabilitation project in Rio Geba in the east (No. A18), which has lower costs per recipient and makes use of less capital-intensive technology in the Zone III projects;

(iii) the industrial poultry project (No. A21) is too capital-intensive and should be classified as of lower priority (Category III); and

(iv) in the medium term, priority should be given to establishing a control and surveillance unit in the State Secretariat for

Fisheries to improve management of resources in the 200 mile Economic Zone, because revenues from license fees could be increased sharply at low cost by monitoring the levels of exploitation.

B. Energy

(1) Background

4.13 Guinea-Bissau's energy sector is described in the 1984 UNDP/Bank Energy Sector Assessment Program report, "Guinea-Bissau: Issues and Options in the Energy Sector" (Report No. 5083-GUB). The needs of transport and industry are satisfied entirely by imported petroleum fuels. Electricity output in Bissau comes from antiquated petroleum-fired facilities which are in poor repair and frequently unable to meet demand; "brownouts" are common. Meanwhile, substantial unused capacity exists in cogenerating facilities in some factories. The distribution network functions poorly, losing at least 30 percent of the electricity generated. In the interior, new generating facilities have been built in recent years and are generally under-utilized.

4.14 With respect to the institutions in the sector, little progress has been seen in the effective establishment and operations of the power and water utility, EAGB, created in 1984. Formerly linked to the National Energy Institute under the Ministry of Industry, EAGB was created at the time that the Ministry of Natural Resources and the Ministry of Energy and Industry were merged. However, EAGB's autonomous functions have not been defined, and it still acts by mandate from the Energy Directorate of the Ministry. Electricity tariff collection receives low priority; at least a quarter of electricity delivered is not paid for. The revenue shortfall affects in turn the payments by EAGB to the petroleum distribution company.

(2) Public Investment in the Energy Sector

4.15 At the request of the Government, a Bank mission visited Bissau and prepared an emergency rehabilitation program for the power plant in Bissau. It includes repair of two 2.3 MW units and the purchase of a new 3 MW unit. Also included is the interconnection of the non-operational 1.9 MW unit at the Cumere industrial complex to the main system in Bissau. These investments total close to US$2.5 million and will be financed from IDA's Reconstruction Import Credits and also with a US$500,000 emergency fund contribution from UNDP. In addition, the German Government is financing a 1.0 MW unit for Bissau. This program should help alleviate the critical situation in Bissau which over the past 4 years has meant constant two to three-week periods of interrupted service.

4.16 The investment budget for 1986 included US$3.3 million for energy projects, or 4.6 percent of the total US$72 million investment budget. However, the rehabilitation of the central power plant in Bissau (No. N10), budgeted at US$0.25 million, will cost at least US$2.5 million. The largest project, at about US$2.0 million, is the electrification of 7 rural centers, financed by the African Development Bank. There has been some concern over the economic soundness of this project because it is creating a capacity which may be well in excess of demand for the medium-term.

4.17 Guinea-Bissau's vast long-term hydroelectric potential, particularly from the Corubal river which flows from Guinea, is estimated at close to 240 MW (641 GWh). The Government has assigned a high priority to the Saltinho hydroelectric project which would have an installed capacity of 19 MW. The energy potential would be 90 GWh (during a dry year), and with possibility for future expansion to 26 MW and 120 GWh, compared to 1983 electricity sales of 15.6 GWh.

(3) Recommendations for Energy Investments

4.18 Investment in the energy sector should make more use of existing facilities and should strengthen sector institutions, in order to resolve the outstanding technical difficulties and to increase the capacity for project evaluation and economic analysis. After the addition of new generators in Bissau in winter 1986/87, the installation of new units should be undertaken only after price distortions are reduced 2/ and after existing facilities are fully utilized. Furthermore, any major projects should be postponed until the country's financial situation improves. On the basis of these criteria, the following recommendations are made:

(i) Although the project for electrification of seven cities (No. N2) is of dubious economic rationale, it should proceed since it is nearly finished (Category A);

(ii) Highest priority (Category I) should go to rehabilitating the existing units in Bissau (No. N10) and to supplementary projects to establish a stock of spare parts for the sector, to interconnect the power station in Bissau with the principal independent generators and to limit generation and distribution losses; and

(iii) the Saltinho project (No. N20) should be delayed (Category III) until economic growth increases electricity demand and until the Government's financial and external positions allow absorption of a project of this size.

4.19 In parallel, high priority (Category I) should be given to designing programs to strengthen institutional capacities so that resources are optimally deployed. This would involve:

2/ A major step in this direction would be prompt implementation of the UNDP-financed electricity tariff study and the IDA-financed petroleum pricing study.

(i) completion of the separation of EAGB from the Energy Directorate, transfer of the staff of the Studies Bureau of the Energy Directorate to EAGB, and provision of technical assistance to strengthen EAGB;

(ii) strengthening of the Forestry Directorate in order to manage the exploration of the country's forests and help charcoal producers to adopt improved methods of production; and

(iii) implementation of the program of training and technical assistance suggested by the 1984 Bank/UNDP Energy Assessment, complemented with a full-scale program of longer duration. This could be financed under the ongoing IDA Technical Assistance project, as well as from grant sources, including Portugal.

4.20 Guinea-Bissau has some geologic characteristics to suggest the presence of offshore oil deposits. The Government has followed a pragmatic and cautious policy with regard to the prospects for petroleum production. Two IDA credits financed in part the definition of offshore blocks, two of which were then awarded to a consortium led by ELF/Aquitaine. The Government has not counted on revenues or export earnings from petroleum production in any of its economic forecasts or policy decisions. The data presented in the First Plan and in this report are, unless otherwise noted, net of investment in the petroleum sector.

C. Transport

4.21 Structure of the sector. Transport is particularly important to Guinea-Bissau because the economy depends heavily on imports and on international food aid which must be routed to local consumption centers. Furthermore, rice and vegetables are grown in the south and groundnuts in the north, with significant movement required from region to region. Transportation is also unusually difficult due to the large number of rivers and estuaries. River transport accounts for about 52 percent of tonnage, mainly in the south, while road transport accounts for the remaining 48 percent predominantly in the north and east. Both networks center on Bissau, the capital.

4.22 In the north and east of the country, the road network is primarily trunk roads with feeder roads used for local utilization. In the south and west the roads serve mainly as feeders to river ports, and bear little traffic. Under IDA's two highway maintenance projects, the rehabilitation of the road sector is being addressed. Ramps for the main ferries are being rebuilt under IDA's Bissau Port project.

4.23 Coastal shipping and river navigation have traditionally played an important role in Guinea-Bissau, since 85 percent of the population lives near a navigable waterway and distances on the major domestic trade routes are frequently shorter by river than by road. There are some 17 coastal or river ports regularly served by barges. Bissau Port and most of the interior ports are in poor shape and are being rehabilitated under IDA's Bissau Port project. River transport is also the only reliable means of passenger transport in the southern part of the country during the rainy season when most roads are impassable.

4.24 Institutional Framework. The Ministry of Social Equipment, created in 1984 by fusion of the Ministry of Transport and the Ministry of Public Works, is responsible for planning and coordinating transport. This latter role will soon be diminished with the creation of RODOFLUVIAL, an autonomous river transport company which will eventually be privately managed, and the formation of a trade association to promote private road transport. The transportation activities of the two state trading companies will be eliminated. These reforms are being supported under IDA's Bissau Port project.

4.25 The Ministry exercises little control over the sector, largely due to the absence of qualified staff. There is more capability on the transport side than on the public works side, and IDA is attempting to strengthen the institutions through its road and port projects. Nevertheless, strengthening of the institutions in the sector will take some time, since qualified staff, both technical and managerial, is in short supply, and while, on the other hand, the Ministry has excess staff.

4.26 Public Investment in Transport. The 1986 Investment Budget called for US$15.2 million for the transport sector, equivalent to about 21.3 percent of the total investment budget. US$11.4 million consisted of disbursements programmed under IDA's Port project (US$8.4 million) and Second Roads Project (US$3.0 million). Construction on the port project is progressing satisfactorily, although delays often occur due to fuel shortages and suspension of disbursements by donors to whom the country is in arrears; furthermore, the institution-building component has not proceeded fully satisfactorily. The Second Roads Project encountered some administrative shortcomings on the public works side of the Ministry, but the situation improved in 1986.

4.27 Recommendations for Transport Investments. The current investment portfolio should be classified by priority:

(a) the Port project (T5, T8, T9, T10, T14 and T28) is essentially completed as is the M'Pack-Sao Vicente Road, and should be in Category A;

(b) expenditures on the IDA Second Roads Project (P25) could be phased over a longer period (Category II), in light of the country's difficult economic circumstances;

(c) the airport rehabilitation project (T17) is not advisable for the immediate future (Category III), given the country's resource constraints, and should proceed only when it can be financed by revenues generated by airline and air freight operations.

D. Industry

4.28 Background. The manufacturing sector is very small, representing some 6 percent of GDP and employing less than 1 percent of the total active population. Its output consists mostly of consumption goods for the domestic markets. Only groundnut shelling and wood processing are export-oriented. Most of the enterprises in this sector are facing non-competitive costs, lack of trained labor, irregularities of supplies, electric power shortages, and a need for imports of intermediate goods and spare parts difficult to satisfy under the present balance of payments conditions. These problems have resulted in an overall capacity utilization of less than 30 percent in recent years. The role played by state and mixed enterprises is of considerable importance, representing over 60 percent of the total industrial production and over 50 percent of the total employment in the sector. Construction activity in Guinea-Bissau is basically related to government investment programs. Its value-added accounts for about 3 percent of GDP. The sector also comprises three plants that produce construction materials.

4.29 Public Investment in Industry. Industry was a major element in the public investment program in the 1970s, accounting for 20.8 percent of total investment and averaging US$12.0 million per year in 1979-82. Many of the industrial investment projects were not appropriate to the country's needs. The largest and most inappropriate was the US$28 million Cumere agro-industrial complex. It was designed to decorticate groundnuts, extract oil for domestic consumption and export, produce soap and animal feed, as well as having some capacity for rice milling. Unfortunately, the design was of a scale and complexity altogether unsound for Guinea-Bissau. The country, which already possessed substantial unused groundnut decortication capacity in older small-scale facilities, had not produced in the last decade the minimum amount of groundnuts for operation of the plant as originally designed. Furthermore, the technology was highly automated and relied on a relatively new production technique utilizing chemicals that would have had to be imported. In light of the above difficulties, and faced with mounting financial complications, construction on the plant stopped at an advanced stage in 1981; no production has ever taken place.

4.30 Following the adoption of an agriculture-based medium-term development strategy in 1983, few major initiatives have been undertaken in industry. Public investment in the sector fell to US$3.2 million in 1985. The 1986 budget of US$2.6 million was supported primarily by SIDA and was destined for restructuring of existing firms to improve the efficiency of capacity utilization.

4.31 Recommendations for Industial Investments. For the immediate term, the Government should more clearly articulate the strategy which appears to underlie the investment program, namely, a focus on increasing the utilization of existing equipment. Furthermore, the Government should announce clearly that in deciding where to make supplemental investments, its aim is to maximize value added (at international costs). Expenditure on the restructuring of existing firms (Project Nos. I3, I5, and I7) should be stretched out (Category II), because, while these projects are worthwhile, the country's difficult financial situation may not allow them to proceed as quickly as had beeu hoped.

4.32 In the medium term, the Government should aim to create the conditions which would enable private investors to take over many of the industrial facilities. Unfortunately, such private investment would now be impractical, given the lack of national investors with sufficient resources and the lack of interest by foreign investors.

4.33 The most important issue in the industrial sector is the future of the Cumere agro-industrial complex. The complex as it now stands is a valuable resource, though certainly worth much less than the cost of construction. Guinea-Bissau can not afford to allow such a potential to go to waste. A sober evaluation of the prospects for Cumere needs to be made, based on conservative estimates of the availability of raw materials and of the likely operating efficiency. While there may be a natural desire to see the facility put into operation, the country cannot afford running the plant at a loss or investing large additional sums into the facility. An alternative that must be kept in mind is to sell the equipment, which could potentially earn Guinea-Bissau a substantial sum of badly needed foreign exchange.

E. Public Investment in Other Sectors

(1) Communications

4.34 The major investment proposed for this sector is the construction of a satellite earth station (No. L10b), on which work would begin in the late 1980s at unknown cost. Construction should proceed only if further studies demonstrate that revenue from the project would cover the full cost of construction and operation, including a return to the Government for the funds it would provide. Until such a financial analysis has been completed, the project should be of low priority (Category III).

(2) Housing and Urban Development

4.35 The Government does not have the resources to meet out of the budget the pressing housing needs of the population. The most effective policy for the Government is to support popular construction with education programs and with whatever aid is needed to remove administrative barriers, such as unclear land titles. With regard to foreign technicians who may need housing, the most appropriate policy would be to facilitate those in the private sector who may be prepared to renovate existing facilities or construct new homes for these technicians. In those areas, such as more isolated regions, where government or donor assistance may be needed in providing housing for foreign advisors, every effort should be made to upgrade local facilities or to make use of local materials. The Government should therefore cancel the project (No. PU48) proposed for the late 1980s of building 642 housing units suitable for foreign consultants.

(3) Tourism and Sports

4.36 These sectors have seen large-scale investment projects that are nearing completion: a luxury hotel (No. U8) and a stadium (No. J1), respectively. These projects are not economically justifiable. In particular, the US$22 million four-star hotel is of a scale and design inappropriate for the existing and projected demand for hotel rooms in the country. The hotel building is pre-fabricated; neither the construction nor the assembly are using much local labor. The financing of the hotel has been on commercial terms and will add a significant sum to the country's already heavy debt service burden.

4.37 Since the hotel and stadium are both near completion, final expenditures should be undertaken (Category A). Thereafter, no major projects are proposed for the sport and tourism sectors. Any investment in these fields should be confined to rehabilitation of existing facilities. Furthermore, projects should be financed by resources generated within the sector, such as stadium fees and hotel profits. 3/ The management of existing facilities, especially the new hotel, should be turned over to the private sector, in line with the suggestion of a Bank-financed study. Furthermore, the Government should seek to sell the hotel as quickly as possible to private investors.

(4) Health and population

4.38 In 1983-85, the health sector absorbed 8.2 percent of total public investment primarily for the construction of a regional hospital. The major project in the 1986 investment budget was the construction of a nursing school (No. S31), which is not of high priority because of the burden its operation would place upon the recurrent budget. Emphasis should be given to improving the planning and management capacity of the Ministry of Public Health; rehabilitation of existing facilities, especially local clinics; and strengthening cost recovery procedures so as to be able to finance operating expenditures at an adequate level. Discussions on a Bank population, health, and nutrition credit to accomplish these aims are at an advanced state.

(5) Education

4.39 The low levels of access to, and quality of, educational services poses severe constraints on the country's development of a viable human resource base. With an illiteracy rate of about 90 percent, the general

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3/ If Government agencies wish to make use of sports or hotel facilities, they should be charged the full cost for the services used. In particular, the Government should enforce a rigid policy that every hotel room occupied is paid for, by direct deduction from a ministerial budget if necessary.

population is unable to implement appropriate technologies in agriculture, health services, and infrastructure maintenance, nor carry out productive activities in the non-formal sector of the economy. Lack of properly trained personnel is also a barrier to improving public sector management. While the Government recognizes these constraints, they are not addressing the problems of the sector in an organized and properly planned approach. In particular, analysis of the recurrent cost implications of investments needs to be strengthened, as education is an important element in the recurrent budget, with 33 percent of civil servants working for the Education Ministry.

4.40 In 1986, as in 1983-85, education was budgeted to absorb about 5 percent of total public investment with extensive assistance from foreign donors. The effectiveness of these investments is often limited due to lack of aid coordination, and in some cases, relevancy to the country's needs and environment. The major project is an education training center (No. E34) which has been essentially completed (Category A). Little is known about the pipeline of proposed projects. However, the primary medium-term objectives of the investment program should be to focus available resources more carefully on (i) improving and expanding basic education using increased rates of literacy as a measurement standard; (ii) strengthening administrative and planning capabilities with emphasis on aid coordination; and (iii) developing a strategy and improving implementation of middle level agricultural training.

PART V. Aid Coordination

5.1 Formulation of a comprehensive adjustment strategy for Guinea-Bissau should lead to a tripartite consensus among the Government, the IMF and the Bank, in consultation with key donors, on the external resource requirements of the country over the medium-term. This tripartite consensus would provide the Government with the most effective basis for mobilizing support for the structural adjustment program with the aid of the UNDP Round Table process.

A. The Role of the World Bank in Guinea-Bissau

5.2 The Bank has played a key role in supporting Guinea-Bissau's economic recovery program since 1983, including an active dialogue with the Government on the necessary policy reforms. The Bank is the largest lender and its support to the economic reform program at a donor meeting held in Lisbon in November 1983 served to marshall support from other donors and to improve aid coordination. The Bank chaired a February 1985 meeting within the UNDP Round Table framework to coordinate non-project assistance.

5.3 IDA's nine credits to Guinea-Bissau amounted to US$73.9 million (including Special African Facility Financing). Four credits have been in the transport sector including the 1984 Second Road Project for US$8 million and the 1983 Bissau Port Project for US$16 million. Two credits in the petroleum sector, totalling US$20 million, are helping Government to carry out offshore oil exploration. In 1984, IDA approved the US$6 million Technical Assistance Credit to assist Government in strengthening the macro-economic management capability of key economic institutions and in developing a stronger institutional framework in newly created ministries and agencies. In 1984, IDA approved a US$10 million Reconstruction Import Credit to assist in providing urgently needed agricultural, transport, energy and other essential imports to support the economic recovery program and ensure economic activity during the design and implementation of reform measures. This credit was supplemented by an additional US$5 million from the Special African Facility to ensure needed imports for 1986 and the continuation of the policy reform program.

5.4 IDA operations in Guinea-Bissau continue to respond to the Government's economic policy reforms as well as to its requests for assistance in developing its human capital, strengthening its implementation capacity, and rehabilitating its physical infrastructure. The Technical Assistance Project is supporting studies about structural reforms, including an in-depth study of the state enterprises. An operation is under consideration in the agriculture sector to strengthen the MRDP. If the Government takes the actions needed on a broad variety of fronts in order to halt the economic deterioration, the World Bank could respond with a sharp increase in its lending over the next few years, as compared to the relatively low level that would be appropriate if current policies continue. Since the problems confronting Guinea-Bissau are deep-rooted and widespread, the most appropriate instrument for providing IDA financial assistance would be through structural adjustment lending (SAL) followed, if appropriate, by sectoral loans.

B. The UNDP Round Table

5.5 Guinea-Bissau held a first Round Table in the framework of the UNDP Round Table mechanism in Lisbon in July 1984. With UNDP assistance, the Government prepared the basic documents which set forth its intended development strategy for the period 1983-1986. The preliminary version of these documents was reviewed in July 1983 in Geneva, at a meeting attended by the UNDP, the World Bank and the European Community.

5.6 As called for in the Round Table mechanism, Government convened a first follow-up meeting in Bissau in July 1985 to review progress achieved in the recovery program and in the implementation of project aid pledged previously. Despite the disappointing economic performance and the slow pace of reform, donors reiterated their support to the country, but stressed that concrete results were needed, particularly in the realm of liberalization of the commercial and distribution system, and reform of the state enterprises.

5.7 Another positive aspect of the follow-up meeting was the decision to hold sectoral consultations on agriculture, fisheries, health, technical assistance and human resources. These sectoral meetings are a sequential and logical next step in the Round Table process, in that they will seek to consolidate the overall gains of the full Round Table, by defining sectoral strategies and investment programs in a coordinated fashion. The first of these follow-up meetings, for the health sector, took place in Bissau in early February 1986, and has resulted in agreement between Government and donors that all future activities in the health, nutrition and population areas will be closely coordinated through UNDP and the principal donors. In the preparation of its Health/Population project, the World Bank has adhered strictly to the principles of coordination established at the sector conference. The Bank has also agreed to participate actively in the Agriculture/Fisheries consultation currently scheduled for May 1987. In this respect, it has prepared an agriculture sector investment review. UNDP has also begun preparations for the technical assistance/human resources meeting. The Bank could also play an important role in this conference, drawing on its experiences with the 1984 Technical Assistance Project; in this connection, early collaboration has begun with UNDP headquarters in New York.

C. Other Coordination

5.8 Once the Guinea-Bissau authorities began to formulate a structural adjustment program in 1983, the donor community responded to the need to finance imports of essential inputs and necessary consumer goods during the interval before the positive effects of the reform measures were felt. Therefore, prior to the Round Table meeting of July 1984, a meeting of donors most directly involved in Guinea-Bissau's development efforts took place in Lisbon in November 1983. The principal objectives of the meeting were to obtain emergency assistance to finance the country's minimum import requirements for 1984. Some US$15 million in aid was pledged from various countries, especially Sweden, the Netherlands and Portugal. Subsequently, in 1984, once the IMF first tranche credit was negotiated, Switzerland agreed to provide emergency aid, and several donors that had pledged assistance released their funds.

5.9 A second non-project aid meeting was sponsored by the Bank within the framework of the UNDP Round Table process in Paris in February 1985. The meeting did not seek pledges from donors, but rather was an examination and review of progress made by the Government's reform program during 1984. On the basis of the review, the major donors agreed to proceed with their aid programs for 1985 and subsequent years. Another meeting to discuss non-project assistance was proposed for November 1985, but this has been postponed with the agreement that until the Government makes greater strides in its recovery program it would be inappropriate to approach donors to discuss external assistance strategy.

5.10 Also in line with the Round-Table follow-up process, meetings are held semi-annually with those donors represented in Bissau, to discuss project implementation and review future aid allocations. The results of these meetings are not generally circulated, which presents a serious difficulty for the donors not present in Bissau. Communication is often difficult, and information reaches donors too late in many instances.

D. The Government's Institutional Arrangements for Aid Coordination

5.11 During the August 1984 Government reorganization, the newly-created Ministry of Economic Coordination, Planning and International Corporation, was formally entrusted with aid coordination, specifically through the Secretariat for International Economic Cooperation. Over the past two years, the Secretariat has attempted to play a larger role in aid coordination. It has been involved in the organization and execution of the Round-Table meetings and also successfully organized a meeting of NGOs in early 1986. During the July 1986 government reorganization, the Secretariat was removed from the MECPIC, placed directly under the President, and named the State Secretariat for Economic Affairs and International Cooperation (SEAIC). In this context, it is to be hoped that the mandate of SEAIC will be extended so that it can effectively centralize all foreign aid that enters Guinea-Bissau, and coordinate all requests for external assistance from various ministries. This must be done within the planning process, particularly taking into account the preparation of the annual investment budgets.

5.12 Too often the technical ministries embark upon searches for technical and investment assistance without consulting the SEAIC. This results in duplication of efforts, as many donors are faced with consideration of project financing only to find subsequently that the project is already being earmarked for funding by another or other donors. Furthermore, the channel of discussion and/or implementation varies from donor to donor. The SIDA operates through the Ministry of Planning, while the Portuguese deal primarily with the Ministry of Finance. The Dutch, because their aid is managed by the Ministry of Foreign Affairs, deal with the Ministry of External Affairs in Guinea-Bissau. The World Bank's interlocutor is the National Bank of Guinea-Bissau. Until the recent reorganization, SEAIC was more concerned with carrying out a reporting function rather than assuming an active role in coordination of foreign aid.

E. Recommendations for Aid Coordination

5.13 The planning of external aid should be done on the basis of the country's economic development strategy and the sectoral and project priorities that flow from it, and not on the basis of expected assistance from various donors. Too often investment is planned for activities for which known financing exists, or for which donors have expressed interest in providing financing assistance. The investment budget must respond to defined needs, based on the strategies set forth in the development plan. The Government should enter into an active dialogue with donors and creditors in order to direct assistance to the highest priority activities. Particular attention should be paid to the balance of program and project aid, in order to ensure adequate support for the structural reforms the Government will need to undertake in 1986-89.

5.14 A central agency within the Government should be responsible for aid coordination. It should also be able to rescind certain commitments subscribed by individual ministries, when these are determined to be detrimental to the Government's overall development strategy and represent an unnecessary use of available funds. In the immediate term, the one agency within the Government which should be designated to monitor and coordinate all aid requests as well as to supervise the implementation of ongoing projects should be the SEAIC. It should also play an important role in the planning process and in the preparation of the investment budget.

5.15 One of the donors present in Bissau, perhaps the UNDP, might initiate a program of providing information to all donors concerning requests from Government authorities for financing of all types, so that early evaluation of possible activities could take place. This is all the more important in light of the meager project evaluation capability that exists in the country. The UNDP could also undertake to circulate the minutes of the semi-annual meeting of donors represented in Bissau.

5.16 The Round Table mechanism has been useful in discussing Government strategy and establishing donor priorities. The follow-up meetings for sectoral discussions serve the objective of fine-tuning activities in the various areas of priority. In addition, a meeting to discuss coordination of aid in Guinea-Bissau is needed in late 1987, given the changes in the three years since the Round Table in the country's situation and in the international environment. Among other things, the mix of assistance among project aid, food aid, and other non-project aid would need to be considered. A second Round Table would seem to be the most appropriate format for such aid coordination, but, if thought desirable by donors and the Government, consideration could be given to a non-project aid coordination meeting chaired by the World Bank.

PART VI. Summary and Conclusions

6.1 As it enters the second half of the eighties, Guinea-Bissau is facing a deep economic and financial crisis. Although the measures implemented by the Government in 1983 and 1984 in the framework of the economic recovery program had some positive impact on agricultural production, the program subsequently lost its momentum and, by the end of 1985, the country was confronted with large economic imbalances as well as significant arrears on external debt payments.

6.2 At present, Guinea-Bissau stands at a crossroads of basic policy choices. If far-reaching corrective measures are not taken soon, economic deterioration may reach a point from which recovery would be extremely difficult. The Government therefore needs to urgently implement a far-reaching program of structural adjustment with the objective of stabilizing the economy over the medium term while creating the conditions for self-sustained growth over the longer term. This program should be based on a broad liberalization of economic incentives and on the retrenchment of the public sector toward the provision of basic infrastructure in support of production and exports. In this context, the Government will need to design a coherent public investment strategy compatible with the overall objectives of the structural adjustment program, as well as a concerted financial restructuring strategy.

Medium-Term Structural Adjustment Program

6.3 The envisaged medium-term structural adjustment program will consist of two successive phases:

(i) Stabilization Phase (1986-1989)

6.4 The key macroeconomic objectives of the stabilization phase should be:

- to achieve a target rate of growth of GDP of about 3 percent per year, led by an expansion of export volume at the rate of around 10 percent per year over the period;
- to reduce the share of the Government deficit in GDP from 36 percent in 1985 to around 7 percent in 1989;
- to reduce the share of the current account deficit in GDP from 30 percent in 1985 to around 12 percent in 1989;
- to maintain overall balance of payments equilibrium; and
- to achieve a positive savings ratio of around 4 percent of GDP by 1989.

6.5 The key policy measures needed to achieve the objectives of the stabilization phase are the following:

- to proceed quickly with a series of exchange rate adjustments sufficient to close the gap between official and parallel market rates, implying a devaluation of about 200 percent in excess of the rate of inflation, in order to shift incomes to producers of tradeable goods;

- to implement a restrictive monetary policy to reduce the rate of domestic inflation from 35 percent in 1985 to about 15 percent in 1989;

- to implement a restrictive fiscal policy, based on a reduction of public consumption by 5 percent per year in real terms in 1987-1989 and on a reduction in public investment by 10 percent in real terms in 1986, 15 percent per year in 1987-1988 and 10 percent in 1989;

- to liberalize economic incentives, including full liberalization of trade, export parity pricing for agricultural output (implemented on the schedule recommended by the Bank in December 1985), full cost recovery pricing for all services provided by public enterprises, and positive real interest rates.

(ii) Growth Phase (1990-1992)

6.6 Successful implementation of stabilization would then allow for stronger growth. Thus the key macroeconomic objective of the growth phase would be to permit real per capita growth at nearly 3 percent yearly while maintaining and consolidating the earlier progress. On the basis of this growth, by 1992 the Government deficit would be reduced to 3 percent of GDP, and the external debt service ratio would decline to about 40 percent after rescheduling (a level which can be sustained in light of the relatively large importance of external aid in financing import needs). The key policies that need to be followed to achieve these objectives would be flexible exchange rates, restrictive monetary policy, liberalization of economic incentives and prudent fiscal policy.

Public Investment Strategy

6.7 In the context of the structural adjustment program, the Government will need to implement a new public investment strategy compatible with the objectives and the requirements of the adjustment strategy. This public investment strategy will need to be based on two essential components:

(i) Restructuring macroeconomic coordination processes and institutions

6.8 The Government will need to concentrate on two essential priorities:

- to redefine the role of the various instruments which guide the economic coordination process. The principal medium-term instrument would be a three-year rolling plan which would provide an indicative envelope for the size and the financing the public investment program, based on a coherent medium-term macroeconomic framework. The annual investment budget would then set forth the specific projects to fit within the envelopes established for the first year of the three-year rolling plan;

- to reinforce macroeconomic management coordination processes through the following actions:

  - creation of a Permanent Secretariat to the National Commission for Economic Control;

  - reinforcement of the capacity of the Ministry of Planning to prepare the three-year rolling plan, evaluate projects proposed for inclusion in the investment budget, supervise the identification, appraisal and follow-up of projects by the technical Ministries, and ensure coordination with foreign donors and creditors;

  - reinforcement of the capacity of the Ministry of Finance for the preparation of the annual investment and recurrent budgets, for ensuing consistency of the budgets with the plan, and for the monitoring of all foreign loans and grants; and

  - reinforcement of the capacity of the National Bank for implementation of monetary policy, in particular monitoring of credit to Government, and the preparation of balance of payments data.

(ii) <u>Restructuring the Public Investment Program</u>

6.9 The restructuring of the public investment program in Guinea-Bissau will require:

- classification of investment projects into two categories:

  - <u>Category A</u>: projects essentially completed and which will not be affected by the restructuring;

  - <u>Category B</u>: all other projects categorized by priority on the basis of cost/benefit analysis, using criteria derived from the prescribed development strategy for Guinea-Bissau:

    I. highest priority;
    II. capable of having expenditures phased;
    III. lower priority;

- reduction of the investment program in real terms by 10 percent in 1986 and 15 percent per annum in 1987-88, in line with the targeted reductions in the public sector and current account deficits and taking into consideration the difficulties in effecting immediate reductions in projects already underway;

- elimination of public investment in new projects in productive services, such as tourism and commerce, that can better be provided for by the private sector;

- adoption of guidelines for sectoral allocations, with roughly one-half of funds for physical infrastructure and one-quarter each for social infrastructure and directly productive sectors, in line with the strategy of refocussing the public sector infrastructure in support of production; and

- banning of all non-concessional finance.

Financial Restructuring Strategy

6.10 The Government will need to concentrate on the following tasks:

- to arrive at a tripartite Government-Bank-IMF consensus on the external financial strategy required to support the structural adjustment program over the 1986-1992 period;

- to design, in collaboration with external donors and creditors, a medium-term financial strategy, including debt rescheduling;

- to ensure close coordination between external donors and creditors through, among other steps, an aid coordination meeting.

Annex I: The Medium-Term Framework

A. The RMSM Model of Guinea-Bissau

I.1 This annex presents the Revised Minimum Standard Model (RMSM) adapted to Guinea-Bissau. The Bank's standard RMSM presents essentially a comprehensive accounting framework of the national accounts and the balance of payments with special attention given to foreign borrowing. For use in Guinea-Bissau, the model has been somewhat modified and a public finance sector has been added in order to give a more complete view of the country's economy. The model enforces consistency between four main blocs: national income accounts, public finance, external debt, and balance of payments. The model is composed of three types of input: (i) data on the situation of the economy in a base year, (ii) a series of equations which establish relationships within and between the blocs and (iii) exogenous variables that reflect the model-makers' assumptions about the external environment in which the economy must operate and about policies the Government will adopt.

I.2 This section will briefly comment on the base data and then present the main equations of the model in each of the four blocs listed above. Section B describes the Base Case and Section C describes the Reference Case.

(1) Base Data

I.3 The base data is from 1984, that is, the exogenously set rates of change use 1984 as the base. Projections are made for the 1986-1992 period, while 1985 is estimated from available data.

I.4 The units used in the calculations are as follows: the national accounts are in constant pesos, the trade sector in constant US dollars, public finances in current pesos, the debt and capital account in current US dollars. Population is determined by an exogenous growth rate, and permits the calculation of GNP per capita.

(2) National Income Accounts

I.5 GDP (Y) is determined by the growth rates of the three sectors -- agriculture, industry and other -- which are exogenous.

I.6 Investment (I) is determined by its two components: private and public investment. In the model, public investment is derived from the level of capital expenditure in the Government budget; reflecting the historical trend, public investment is 75 percent of the Government's capital expenditure. The growth of private investment is assumed to be exogenous.

I.7 Domestic savings (S) is determined by the equation which states that savings is equal to investment minus the foreign borrowing to fill the resources gap:

$$S = I - (M - E)$$
(M = imports, E = exports)

I.8 Consumption (C) is determined by the equation that consumption equals income less savings:

$$C = Y - S$$

I.9 Private consumption (PC) is determined by subtracting from total consumption the amount of government consumption (GC), which is determined by current government expenditure and 25 percent of the government capital budget.

$$PC = C - GC$$

(3) Public Finance

I.10 The public finance sector consists of three main components:

(i) Revenue is determined by the sum of non-tariff revenue, tariff revenues and grants. Non-tariff revenue is determined as an exogenously set proportion of national income. Tariff revenue is calculated from the exogenously assumed average tariff rate applied to the level of imports shown in the balance of payments. Grants are derived from the level of transfers in the balance of payments at the official exchange rate. The official exchange rate is an exogenously set proportion of the parallel market rate, which changes in proportion to the difference between domestic and international inflation.

(ii) Expenditures are determined by the sum of current expenditures and capital expenditures. Current expenditure is the sum of external interest payments from the balance of payments, and other current expenditures. The latter and capital expenditures are calculated by applying an exogenously given rate of real change to the base year level.

(iii) The deficit is determined by the revenue and expenditure calculations. Financing for the deficit comes from domestic and foreign borrowing. Foreign borrowing comes from the balance of payments figure for net capital inflows, converted at the official exchange rate. Domestic financing is then the residual between the deficit and foreign borrowing.

(4) External debt

I.11 The two components of projected debt, existing and new, are dealt with in a different way in the model. For the debt as of September 1985, amortization and interest are given by the base data. Concerning the new debt flows, disbursements in the Base Case are decided by the level of foreign financing needed to finance the current account deficit as shown in the balance of payments. 1/ In the Reference Case, disbursements are assumed to be constant. Amortization and interest are calculated by the computer program following loan terms which are set exogenously. Disbursements are assumed to be 55 percent from multilateral sources and 45 percent from bilateral sources; no private credit is assumed. Within the multilateral disbursements are IDA disbursements which are estimated separately. The terms assumed for non-IDA multilateral loans are 3 percent interest, 4 year grace and 24 years maturity. For bilateral loans, the terms are 3 percent interest, 3 years grace and 10 years maturity. The effects of a possible debt rescheduling are presented for purely presentational purposes in the Base Case. It must be emphasized that this calculation is not meant as a recommendation about a debt rescheduling, but only as an illustration of the effect of one sort of rescheduling. In the event, in 1986, more favorable terms than those assumed here were obtained for 1986-1990 from the major creditors, i.e., the USSR, Portugal, and Portuguese commercial banks.

(5) Balance of Payments

I.12 Exports (E) are disaggregated into six categories: groundnuts, palm kernels, cashew nuts, fish, other products and non-factor services. For each category, the growth in volume terms and the change in international prices are set exogenously.

I.13 Imports (M) are divided in six categories in the model: food, other consumer goods, petroleum and petroleum products, intermediate goods, capital goods and non-factor services. The volume of imports in each category is determined as follows: 2/

1/ The RMSM model usually operates on the basis of external funds committed with disbursements calculated from the data on the historical pattern of disbursements. Since this data are lacking in Guinea-Bissau, such a procedure was not used. Instead, disbursements were set so that change in foreign exchange reserves was identically equal to debt rescheduling.

2/ Inadequacies in the data on the composition of imports prevent the calculation of historical comparisons for the relationships assumed here.

(i) Food imports are determined as the difference between food consumption and food production. Food consumption grows with population. Food production grows at 90 percent the rate of overall agricultural growth.

(ii) Consumer goods imports change at a rate equal to the rate of change in consumption.

(iii) Petroleum imports change at a rate equal to 70 percent of the rate of change in GDP.

(iv) Intermediate imports change at a rate determined by the rate of change in industrial output multiplied by an exogenously set factor.

(v) Capital goods imports change at a rate determined by the rate of change in investment.

(vi) Non-factor service imports are set exogenously to grow at the same rate as goods imports.

I.14 The export and import price indices used are the Bank's projections. 3/ For the various breakdowns, the following indices were used: the price index used for intermediate goods, capital goods, and cashew nuts was the MUV (unit value index of manufacturing exports). The weighted index of total food was used to calculate the price indices for food imports and exports of fish and of other goods. The petroleum, palm kernel and groundnut indices were used for their respective import and export categories.

I.15 Transfers are assumed to remain unchanged at current prices. Capital account data come from the debt bloc.

B. The Base Case Scenario

I.16 The Base Case scenario incorporates the measures needed in order to achieve macroeconomic equilibria, restoring both domestic and foreign balances, and to permit a sustained growth of per capita income.

I.17 National Income. The growth rates of the three basic sectors of GDP are set to follow the policy goal of expanded agricultural output. The growth of the agricultural sector will permit exports to increase while also reducing food imports. The agricultural sector is assumed to grow by 6 percent in 1986 and 8 percent in 1987, compared to 4 percent in 1985, then slowing down to 5.0 to 5.5 percent in 1988-1992 (see Table 1). Taking

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3/ Macro and Financial Assumptions and Half-Yearly Revisions of Commodity Price Forecasts, EPDCS, January 1986.

into consideration the shrinking role of the Government, negative growth rates, ranging from 0.5 to 2.4 percent, are set for the service sector during the stabilization phase (1986-89) before growing at 4.0 percent in 1990-1992. The industrial sector is assumed to shrink 3.0 percent in 1986, then grow at 1.0 percent per annum from 1986 to 1989, before reaching a more satisfactory annual growth rate of 3.0 percent in 1990-1992. Private investment is set to grow by 4 percent per year in 1986, increasing to 8 percent during 1987-1989 and then 10 percent in 1990-1992. Annual domestic inflation is expected to decline from 35 percent in 1985-1986 by 5 percentage points per year in 1987-1990, until it stabilizes at 10 percent in 1990-1992.

I.18 Public Finance. On the revenue side, non-tariff revenues are assumed to remain at the 1984 rate of 10 percent of GDP during the stabilization phase (1986-1989) before rising to 15.0 percent in 1992. Because the Government may be reluctant to maintain tariff rates during a period of rapid real devaluation, the average tariff rate is assumed to fall to 5.0 percent of imports of goods and non-factor services in 1988 from a 7.3 percent level in 1986, before rising back to 7.0 percent in 1992. On the expenditure side, current government expenditure is assumed to decrease in real terms by 2.5 percent in 1986 and then 5.0 percent per annum in 1987-89 before stabilizing in 1990-1992. Capital expenditures are scheduled to be cut in real terms by 10 percent in 1986, 15 percent each in 1987 and 1988, 10 percent in 1989, 5.0 percent in 1990, before stabilizing in 1991 and rising 2.5 percent in 1992. The deficit will require no domestic financing in 1987-1989. The rapid rate of reduction in Government borrowing from the banking system will permit the soaking up of excess liquidity, as well as the extension of substantial credit to the private sector. In 1990-1992, Government borrowing resumes, reaching 6 percent of GDP by the end of the period.

I.19 External Debt. For heuristic purposes, a debt rescheduling scenario is assumed in which 90 percent of principal payments due to bilateral and private creditors is assumed to be rescheduled each year. The terms of the rescheduling are assumed to be 8.5 percent interest, 6 years grace, and 12 years maturity.

I.20 Balance of Payments. In 1985 the unofficial exchange rate vis-à-vis the U.S. dollar was estimated to be three times weaker than the official rate. The scenario assumes the difference is eliminated by 1988. Thereafter, the official exchange rate changes in line with the difference between international and domestic prices. Exports are assumed to grow rapidly, which reduces the resource balance deficit. Exports volumes of groundnuts and palm kernels are assumed to increase 10 percent during 1986 and 15 percent in 1987, before levelling off in 1989-1992 at 6 and 8 percent per annum respectively. Cashew nuts, in which Guinea Bissau enjoys a strong comparative advantage, are assumed to grow at the more rapid rate of 12 percent per annum after a lag reflecting the time needed to bring trees into production. Fish exports are assumed to grow at 10 percent per annum.

Table A1:1
Base Case Scenario: Key Assumptions

	1986	1987	1988	1989	1990	1991	1992
I. National Income			(real growth rate)				
Agriculture	6.0	8.0	5.0	5.0	5.5	5.5	5.5
Industry	-3.0	1.0	1.0	1.0	3.0	3.0	3.0
Services	-2.4	-1.8	-2.0	-0.5	4.0	4.0	4.0
Private Investment	4.0	8.0	8.0	8.0	10.0	10.0	10.0
II. Public Finance			(real growth rate)				
Capital Expenditure	-10.0	-15.0	-15.0	-10.0	-5.0	-	2.5
Current Non-Interest Expenditure	-2.5	-5.0	-5.0	-5.0	-	-	-
			(percent of imports)				
Tariff Revenue	7.3	6.5	5.0	5.0	5.0	6.0	7.0
			(percent of GDP)				
Non-tariff Revenue	10.0	10.0	10.0	10.0	12.0	15.0	15.0
III. Balance of Payments							
Exports			(real growth rate)				
Groundnuts	10.0	15.0	8.0	6.0	6.0	6.0	6.0
Palm Kernels	10.0	15.0	10.0	8.0	8.0	8.0	8.0
Cashew nuts	8.0	10.0	12.0	12.0	12.0	12.0	12.0
Fish	5.0	10.0	10.0	10.0	10.0	10.0	10.0
Other goods	10.0	10.0	8.0	8.0	8.0	8.0	8.0
Services	10.0	10.0	8.0	8.0	8.0	8.0	8.0
			(parallel rate/official rate)				
Exchange Rate	2.5	1.4	1.0	1.0	1.0	1.0	1.0

C. The Reference Case Scenario

I.21 The reference case scenario presented here simulates the evolution of the economy in the absence of structural adjustments. It describes the impact on the economy of the pursuit of the present government policies. Unlike the Base Case scenario, the agricultural sector production would not be enhanced, public spending would not be checked, imports would be permitted to grow, and exports would not perform as well as a result of a lack of incentives and the non-adjusted exchange rate.

I.22 National Income. Without improved incentives to producers, the agricultural sector is assumed to grow at a rate of 4 percent in 1986 and 1 percent in 1987 before declining at rates of 2 percent in 1988, 3 percent in 1989, and 4 percent per year in 1990-1992. Industry is assumed to decline at 5 percent per year in 1986-1989, with the rate of decline accelerating to 10 percent in 1990 and 12 percent yearly in 1991-1992. Following agriculture and industry, but influenced as well by government current expenditure, services are assumed to remain constant in 1986-1987 before declining at a rate that reaches 10 percent per annum in 1991-1992. Private investment is expected to decline in real terms after 1989 at an accelerating rate. Domestic inflation is assumed to continue at its present rate of around 35 percent per annum for the whole period.

I.23 Public Finance. Capital expenditure is assumed to grow in real terms at a 5 percent rate per annum in 1987 and 1988, before financing constraints compel a severe reduction in the early 1990s at a 20 percent annual rate in 1991-1992. Current expenditures are also projected to grow in real terms, at a 3 percent per annum rate in 1986-1989, until financial pressures force reductions in 1991 and 1992 at a 2.5 percent yearly rate. As a result of the assumptions about expenditures and revenue, the domestic financing needed to cover the budget deficit grows at an steady pace, sustaining the inflationary pressures.

I.24 External Debt. Because Guinea Bissau is unlikely to be able to mobilize additional assistance if it maintains its current policy stance, loan disbursements are assumed to be fixed at US$50 million yearly. For similar reasons, no debt rescheduling is shown. A financing gap appears in the model, which would most likely be covered at least in part by arrears. The model includes interest at 8.5 percent per annum on the financing gap.

I.25 Balance of Payments. The scenario assumes that no adjustment between the official and the parallel exchange rate is made. Consistent with the lack of an incentive exchange rate, export volumes grow slowly in the period 1986-1989 and then decline in 1990-1992. Because it has the shortest growing cycle of the major export crops, groundnuts respond most quickly, with growth falling from the assumed 8 percent in 1986 to zero in 1989; decline sets in, at a 3 percent rate in 1992. Cashew nuts, on the other hand, change mostly slowly, with output growth declining gently to zero in 1991.

Table A1:2
Reference Case Scenario Key Assumptions

	1986	1987	1988	1989	1990	1991	1992
I. National Income			(real growth rate)				
Agriculture	4.0	1.0	-2.0	-3.0	-4.0	-4.0	-4.0
Industry	-5.0	-5.0	-5.0	-5.0	-10.0	-12.0	-12.0
Services	-	-	-1.0	-3.0	-8.0	-10.0	-10.0
Private Investment	4.0	4.0	1.0	-1.0	-2.0	-3.0	-4.0
II. Public Finance			(real growth rate)				
Capital Expenditure	5.0	5.0	-	-1.0	-10.0	-20.0	-20.0
Current Non-Interest Expenditure	3.0	3.0	3.0	3.0	-	-2.5	-2.5
			(percent of imports)				
Tariff Revenue	7.3	6.5	5.0	5.0	5.0	6.0	7.0
			(percent of GDP)				
Non-tariff Revenue	10.0	10.0	10.0	10.0	10.0	10.0	10.0
III. Balance of Payments							
Exports			(real growth rate)				
Groundnuts	8.0	5.0	3.0	-	1.0	-3.0	-3.0
Palm kernels	8.0	5.0	4.0	1.0	-	-2.0	-2.0
Cashew nuts	8.0	7.0	5.0	3.0	2.0	-	-
Fish	5.0	5.0	2.0	-1.0	-2.0	-4.0	-4.0
Other goods	7.0	5.0	3.0	-	-	-1.0	-1.0
		(parallel rate/official rate)					
Exchange Rate	3.0	3.0	3.0	3.0	3.0	3.0	3.0

Annex II: Statistical Tables

Table 1: GDP at Factor Cost

(in GBP Millions current)

	1981	1982	1983	1984	1985
Consumption	6561	8479	9445	16650	23700
Private	4700	6106	7001	12000	16800
Public	1861	2373	2444	4650	6900
Investment	1709	2278	2176	5000	8200
Private	240	294	342	300	500
Public	1469	1984	1834	4700	7700
Total Domestic Demand	8270	10757	11621	21650	31900
Goods & Services Balance	-1632	-2696	-2520	-6450	-10700
Exports of G&NFS	744	632	577	2250	3000
Imports of G&NFS	-2376	-3328	-3097	-8700	-13700
GDP at Factor Cost	6638	8061	9101	15200	21200
Memorandum Items:					
Agriculture	3825	4647	5217	8813	12250
Plants and Animals	3417	4210	4801	8115	11300
Fisheries	408	437	416	698	950
Industry	568	682	794	1153	1550
Manufacturing	384	442	524	696	900
Construction	184	240	270	457	650
Services	2245	2731	3089	5251	7400
Transportation and Commerce	1004	1199	1274	2196	3000
Public Administration	1060	1320	1601	2725	3950
Other Services	181	212	214	330	450

Sources: National Bank of Guinea-Bissau, IMF and IBRD estimates.

Table 2: GDP at Factor Cost 1/

(in GBP Millions at constant 1984 prices)

	1981	1982	1983	1984	1985
Consumption	14911	16528	15586	16650	17556
Private	10682	11903	11553	12000	12444
Public	4230	4626	4033	4650	5111
Investment	3884	4441	3591	5000	6074
Private	545	573	564	300	370
Public	3339	3867	3026	4700	5704
Total Domestic demand	18795	20969	19177	21650	23630
Goods and Services Balance	-3709	-5255	-4158	-6450	-7926
Exports of G&NFS	1691	1232	952	2250	2222
Imports of G&NFS	-5400	-6487	-5111	-8700	-10148
Constant GDP at Factor Cost	15086	15713	15018	15200	15704
Memorandum Items:					
Agriculture	8693	9058	8609	8813	9074
Plants and Animals	7766	8207	7922	8115	8370
Fisheries	927	852	686	698	704
Industry	1291	1329	1310	1153	1148
Manufacturing	873	862	865	696	667
Construction	418	468	446	457	481
Services	5102	5324	5097	5251	5481
Transportation and Commerce	2282	2337	2102	2196	2222
Public Administration	411	413	353	330	333
Other Services	2409	2573	2642	2725	2926

Sources: National Bank of Guinea-Bissau, IMF and IBRD estimates

1/ The expenditure items are at factor cost, and therefore differ from the data at market price in the projections.

Table 3: Consolidated Financial Operations of the Central Government

(in GBP Millions current)

	1980	1981	1982	1983	1984	1985
Revenue	811	928	928	1023	2100	2953
Tax Revenues	575	714	788	829	1235	1990
Income Taxes	117	137	124	137	270	425
Consumption Taxes	81	97	84	105	134	123
Import Duties	272	341	440	400	576	1159
Export Duties	17	28	37	59	87	43
Other Taxes	88	111	103	128	168	240
Non-Tax Revenues	236	214	140	194	865	963
Profits and Interest	63	38	2	2	197	438
Fishing Licenses and Other Fees	173	176	138	192	668	525
Current expenditures	1532	1785	2146	2311	3666	5656
Wages and Salaries	904	1059	1188	1268	2053	2985
Goods and Services	408	439	652	670	1019	1440
Transfers	190	243	268	321	387	529
Interest on Public Debt	30	44	38	52	207	702
Government savings/deficit	-721	-857	-1218	-1288	-1566	-2703
Grants	1830	878	1621	1500	3158	5250
Capital expenditure	2295	1836	2480	2440	6291	10269
Government surplus/deficit	-1186	-1815	-2077	-2228	-4699	-7722
Government financing	1186	1815	2077	2122	4698	7722
Domestic Borrowing	689	1152	1035	1260	1253	1671
Net Foreign Borrowing	497	663	956	676	2946	5393
Drawings	581	691	1027	944	3379	5626
Amortization	-84	-28	-71	-162	-433	-233
Arrears and Adjustments	0	0	86	186	499	658

Sources: National Bank of Guinea-Bissau, IMF and IBRD estimate

Table 4: Monetary Survey

(in GBP Millions current)

	1980	1981	1982	1983	1984	1985
Net Foreign Assets	-366	-479	-1158	-3201	-56[illegible]	-5977
Assets	417	569		343	519	582
Liabilities	-783	-1048		-3544	-6128	-6559
Domestic Credit	ERR	3352	4845	6304	7500	9302
Claims on Central Government (net)	2696	3848	4883	6142	7395	9065
Credit to Private Sector	138	130	149	171	314	1158
State Enterprises (net)	280	-146	126	107	-143	-419
Rest of General Government (net)	--	-480	-313	-116	-66	-502
Assets = Liabilities	ERR	2873	3687	3103	1891	3325
Money & Quasi-Money	1411	1843	2303	2887	3858	4[illegible]89
Currency Outside Banks	1017	1283	1557	1978	2731	4889
Deposits	394	560	746	909	1127	
Long-Term Foreign Liabilities	77	570	685	1299	2212	7185
Other Items (net)	ERR	ERR	ERR	-1083	-4180	ERR
Revaluation Accounts	--	--	--	-2357	-5083	-8749
Other 1/	1266	460	699	1274	903	-- 1/

Memorandum Items

Factors affecting changes in domestic liquidity			(as a percent of initial money supply)			
Change in Net Foreign Assets	-25.72	-8.01	-36.84	-88.71	-83.41	-9.54
Change in Credit to Central Gov't	58.29	81.64	56.16	54.67	43.40	43.29
Change in Credit to private Sector	3.98	-0.57	1.03	0.96	4.95	21.88
Other	-17.17	-42.45	4.61	58.45	68.69	-28.90
Total = Monetary Growth rate	19.37	30.62	24.96	25.36	33.63	26.72

Sources: National Bank of Guinea Bissau, IMF and IBRD estimates.

1/ Calculated as a residual

Table 5: Merchandise Trade

(in US$ Millions)

	1980	1981	1982	1983	1984	1985
Exports (f.o.b.)						
Groundnuts	2.7	2.2	3.2	3.4	4.0	1.9
Palm Kernels	1.9	2.4	1.6	1.3	2.8	1.0
Cashew Nuts	0.4	1.5	1.1	1.2	4.8	4.8
Fish	3.9	4.6	4.3	2.0	3.2	3.2
Forestry Products	0.9	1.0	0.6	0.4	0.4	0.4
Other	1.5	2.2	1.0	0.3	2.2	0.3
Total	11.3	13.9	11.8	8.6	17.4	11.6
Imports (f.o.b.)						
Food, Beverages, Tobacco	11.2	14.1	11.7	17.3	14.0	14.7
Oil & Petroleum Products	10.7	8.6	11.3	7.5	7.6	7.9
Other	39.2	29.3	46.4	33.6	38.5	40.4
Total	61.1	52.0	69.4	58.4	60.1	63.0
Trade balance (f.o.b./f.o.b.)	-49.8	-38.1	-57.6	-49.8	-42.7	-51.4

Sources: National Bank of Guinea-Bissau

Table 6: Merchandise Trade

(in GBP Millions current)

	1980	1981	1982	1983	1984	1985
Exports (f.o.b.)						
Groundnuts	91.3	83.2	127.5	146.0	400.0	304.0
Palm Kernels	64.2	90.7	63.8	55.8	280.0	160.0
Cashew Nuts	13.5	56.7	43.8	51.5	480.0	768.0
Fish	131.9	173.9	171.4	85.9	320.0	512.0
Forestry Products	30.4	37.8	23.9	17.2	40.0	64.0
Other	50.7	83.2	39.9	12.9	220.0	48.0
Total	382.1	525.6	470.2	369.2	1740.0	1856.0
Imports (f.o.b.)						
Food, Beverages, Tobacco	378.7	533.1	466.2	742.7	1400.0	2352.0
Oil & Petroleum Products	361.8	325.2	450.3	322.0	760.0	1264.0
Other	1325.4	1107.8	1849.0	1442.4	3850.0	6464.0
Total	2065.8	1966.1	2765.6	2507.1	6010.0	10080.0
Trade balance (f.o.b./f.o.b.)	-1683.7	-1440.6	-2295.4	-2137.9	-4270.0	-8224.0

Sources: National Bank of Guinea-Bissau IMF and IBRD estimates.

Table 7: Merchandise Trade

(in US$ Millions at constant 1984 prices)

	1980	1981	1982	1983	1984	1985
Exports (f.o.b.)						
Groundnuts	2.1	1.7	2.9	2.8	4.0	2.5
Palm Kernels	2.9	4.0	3.2	1.9	2.8	1.6
Cashew Nuts	0.6	1.6	0.9	1.3	4.8	4.1
Fish	2.5	4.2	5.4	1.9	3.2	3.3
Forestry Products	0.6	0.8	0.6	0.4	0.4	0.4
Other	1.3	2.1	1.1	0.3	2.2	0.4
Total	10.0	14.4	14.1	8.5	17.4	12.3
Imports (f.o.b.)						
Food, Beverages, Tobacco	9.0	10.6	12.1	16.5	14.0	16.7
Oil & Petroleum Products	10.0	7.1	9.7	7.3	7.6	11.0
Other	37.2	27.6	44.4	33.0	38.5	39.9
Total	56.2	45.4	66.2	56.9	60.1	67.6
Trade balance (f.o.b./f.o.b.)	-46.2	-31.0	-52.1	-48.3	-42.7	-55.3

Sources: National Bank of Guinea-Bissau,

Table 8: External Trade Deflators, in U.S. Dollar Terms

(1984=100)

	1984 weights	1980	1981	1982	1983	1984	1985
Exports							
Groundnuts	0.231	128.3	127.3	111.2	122.5	100.0	76.5
Palm Kernels	0.161	65.3	60.0	50.2	69.1	100.0	61.7
Cashew Nuts 1/	0.278	69.5	96.2	116.2	95.2	100.0	116.6
Fish 1/	0.186	156.6	109.4	79.8	105.8	100.0	97.4
Forestry Products	0.023	143.2	121.0	100.0	91.5	100.0	98.9
Other 2/	0.121	114.5	103.4	89.4	103.4	100.0	73.7
Total	1.000	105.7	101.5	94.0	100.2	100.0	89.3
Imports							
Food, Beverages, Tobacco 3/	0.232	124.1	132.5	96.4	104.8	100.0	88.0
Oil & Petroleum Products	0.132	107.0	120.3	116.5	102.1	100.0	71.9
Other 4/	0.636	105.5	106.0	104.5	101.8	100.0	101.3
Total	1.000	110.0	114.0	104.2	102.5	100.0	94.3
Memorandum item:							
Terms of trade	...	96.1	89.0	90.2	97.7	100.0	94.7

Sources: National Bank of Guinea-Bissau,

1/ Current price deflated by manufactured unit value index of industrial countries.
2/ Cotton.
3/ Cereal.
4/ Manufactured unit value index of industrial countries.

Table 9: Balance of Payments

(in US$ Millions)

	1980	1981	1982	1983	1984	1985
Goods and Services Balance	-64.5	-40.7	-66.8	-59.0	-57.0	-65.0
Exports	20.2	22.2	17.4	15.5	25.6	20.1
Goods (FOB)	11.3	13.9	11.8	8.6	17.4	11.6
Services	8.9	8.3	5.6	6.9	8.2	8.5
Imports	-84.7	-62.9	-84.2	-74.5	-82.6	-85.1
Goods (FOB)	-61.1	-52.0	-69.4	-58.4	-60.1	-63.0
Services	-23.6	-10.9	-14.8	-16.1	-22.5	-22.1
Factor Service Income	-1.1	-1.9	-2.4	-2.1	-3.6	-5.3
Interest Payments	-1.4	-1.9	-2.4	-2.1	-3.6	-5.3
Other Investment Income	0.3					
Transfers (net)	39.2	19.5	34.0	32.1	24.4	20.6
Private	-12.8	-3.6	-10.7	-10.9	-4.9	-5.0
Public	52.0	23.1	44.7	43.0	29.3	25.6
Current Account Balance	-26.4	-23.1	-35.2	-29.0	-36.2	-49.7
Capital Account Balance	17.6	16.7	15.2	11.7	21.7	38.8
Medium- and Long-Term	20.1	24.2	24.3	17.1	28.4	38.4
Drawings	22.8	28.5	29.1	22.6	34.5	43.3
Amortization	-2.7	-4.3	-4.8	-5.5	-6.1	-4.9
Other and Adjustments	-2.5	-7.5	-9.1	-5.4	-6.7	0.4
Overall Balance	-8.8	-6.4	-20.0	-17.3	-14.5	-10.9
Financing	8.8	6.4	20.0	17.3	14.5	10.9
Net IMF	-0.7	2.8	-0.3	-0.4	1.6	-1.0
Foreign Arrears	0.7	4.2	4.2	4.2	8.0	7.0
Other	8.8	-0.6	16.1	13.5	4.9	4.9
Memorandum Items						
Exchange Rate (GBP/US$)	33.81	37.81	39.85	42.93	100.00	160.00
Govt. Foreign Resource Inflow 1/	74.80	51.60	73.80	65.60	63.80	68.90

Sources: National Bank of Guinea-Bissau, IMF and IBRD estimates.

1/ Public transfers and medium- and long-term loan drawings.

Table 10: Balance of Payments

(in GBP Millions current)

	1980	1981	1982	1983	1984	1985
Goods and Services Balance	-2180.7	-1538.9	-2662.0	-2532.9	-5700.0	-10395.7
Exports	683.0	839.4	693.4	665.4	2560.0	3222.4
Goods (FOB)	382.1	525.6	470.2	369.2	1740.0	1862.4
Services	300.9	313.8	223.2	296.2	820.0	1360.0
Imports	-2863.7	-2378.2	-3355.4	-3198.3	-8260.0	-13618.1
Goods (FOB)	-2065.8	-1966.1	-2765.6	-2507.1	-6010.0	-10082.1
Services	-797.9	-412.1	-589.8	-691.2	-2250.0	-3536.0
Factor Service Income	-37.2	-71.8	-95.6	-90.2	-360.0	-848.0
Interest Payments	-47.3	-71.8	-95.6	-90.2	-360.0	-848.0
Other Investment Income	10.1	0.0	0.0	0.0	0.0	0.0
Transfers (net)	1325.4	737.3	1354.9	1378.1	2440.0	3296.0
Private	-432.8	-136.1	-426.4	-467.9	-490.0	...
Public	1758.1	873.4	1781.3	1846.0	2930.0	...
Current Account Balance	-892.6	-873.4	-1402.7	-1245.0	-3620.0	-7947.7
Capital Account Balance	595.1	631.4	605.7	502.3	2170.0	6208.0
Medium- and Long-Term	679.6	915.0	968.4	734.1	2840.0	6144.0
Drawings	770.9	1077.6	1159.6	970.2	3450.0	6928.0
Amortization	-91.3	-162.6	-191.3	-236.1	-610.0	-784.0
Other and Adjustments	-84.5	-283.6	-362.6	-231.8	-670.0	64.0
Overall Balance	-297.5	-242.0	-797.0	-742.7	-1450.0	-1739.7
Financing	297.5	242.0	797.0	742.7	1450.0	1744.0
Net IMF	-23.7	105.9	-12.0	-17.2	160.0	-160.0
Foreign Arrears	23.7	158.8	167.4	180.3	800.0	...
Other	297.5	-22.7	641.6	579.6	490.0	784.0
Memorandum Items						
Exchange Rate (GBP/US$)	33.81	37.81	39.85	42.93	100.00	160.00

Sources: National Bank of Guinea-Bissau, IMF and IBRD estimates.

Statistical Annex

Table 11: Base Case National Income Accounts, 1984-1992

(in GBP Millions at constant 1984 prices)

	Actual 1984	Est. 1985	1986	1987	Projections 1988	1989	1990	1991	1992
Consumption	17186	17028	17236	17580	17725	17827	18264	18533	18975
Private	12536	11917	12407	12992	13367	13686	14124	14392	14835
Public	4650	5111	4829	4588	4358	4140	4140	4140	4140
Investment	5010	6075	5519	4780	4159	3823	3705	3758	3896
Private	292	370	385	416	449	485	533	587	645
Public	4718	5705	5134	4364	3710	3338	3172	3172	3251
Total Domestic Demand	22196	23103	22755	22330	21884	21650	21969	22291	22871
Goods & Services Balance	-5700	-6613	-5870	-4756	-3833	-3042	-2448	-1811	-1395
Exports of G&NFS	2560	2171	2343	2614	2880	3156	3459	3793	4160
Imports of G&NFS	8260	8784	8213	7370	6713	6198	5907	5604	5545
GDP at Market Prices	15986	16488	16886	17604	18051	18608	19521	20480	21487
Memorandum Item:									
Agriculture	8812	9074	9618	10388	10907	11453	12083	12747	13448
Industry	1153	1148	1114	1125	1136	1147	1182	1217	1254
Services	5251	5481	5350	5253	5148	5122	5327	5540	5762
Indirect Taxes Less Subsidies	770	785	804	838	860	886	930	975	1023
GDP at Factor Cost	15216	15703	16081	16766	17191	17722	18592	19505	20464

Source: IBRD projections.

Statistical Annex

Table 12: Base Case Balance of Payments, 1984-1992

(in US$ Millions)

	Actual 1984	Est. 1985	1986	1987	Projections 1988	1989	1990	1991	1992
Goods and Services Balance	-57.0	-65.0	-60.8	-52.9	-44.8	-37.1	-30.9	-24.0	-19.5
Exports	25.6	20.1	23.0	26.0	31.6	38.0	45.5	51.9	59.4
Goods (FOB)	17.4	11.6	13.2	14.3	17.8	21.8	26.5	30.3	34.7
Services	8.2	8.5	9.8	11.7	13.8	16.2	19.0	21.6	24.7
Imports	82.6	85.1	83.8	79.0	76.4	75.0	76.3	76.0	78.9
Goods (FOB)	60.1	63.0	63.3	59.3	57.3	56.1	57.0	56.9	59.3
Services	22.5	22.1	20.5	19.7	19.1	18.9	19.3	19.1	19.6
Factor Service Income	-3.6	-5.3	-5.9	-11.9	-11.7	-12.6	-13.5	-14.3	-14.9
Transfers (net)	24.4	20.6	20.6	20.6	20.6	20.6	20.6	20.6	20.6
Private	-4.9	-5.0	-4.2	-4.2	-4.2	-4.2	-4.2	-4.2	-4.2
Public	29.3	25.6	24.8	24.8	24.8	24.8	24.8	24.8	24.8
Current Account Balance	-36.2	-49.7	-46.1	-44.2	-35.9	-29.1	-23.7	-17.7	-13.7
Capital Account Balance	21.7	38.8	40.6	32.9	19.7	12.4	7.0	1.0	-2.1
Medium- and Long-Term	28.4	38.4	40.6	32.9	19.7	12.4	7.0	1.0	-2.1
Drawings	34.5	43.3	49.7	47.5	40.3	34.2	29.6	24.5	22.4
Amortization	-6.1	-4.9	-9.1	-14.6	-20.6	-21.8	-22.6	-23.5	-24.5
Other and Adjustments	-6.7	0.4							
Overall Balance	-14.5	-10.9	-5.5	-11.3	-16.2	-16.7	-16.7	-16.7	-15.9
Financing	14.5	10.9	5.5	11.3	16.2	16.7	16.7	16.7	15.9
Net IMF	1.6	-1.0	-1.0						
Foreign Arrears	8.0	7.0							
Rescheduling	0.0	0.0	6.5	11.3	16.2	16.7	16.7	16.7	15.9
Other	4.9	4.9							
Memorandum Item:									
Exchange Rate (GBP/US$)	100.0	160.0	245.6	381.8	586.5	886.6	912.4	967.0	1025.0

Source: IBRD projections.

Statistical Annex

Table 13: Base Case Government Finances, 1984-1992

(in GBP Millions at constant 1984 prices)

	Actual 1984	Est. 1985	1986	1987	Projections 1988	1989	1990	1991	1992
Revenues	2100	2187	2513	2928	2953	2919	3350	4231	4576
Non-Tariff Revenues	1608	1453	1689	1760	1805	1861	2342	3072	3223
Tariff Revenues	492	734	824	1167	1148	1058	1007	1159	1353
Current.Expenditures	3666	4190	4346	6071	6762	6746	6814	6982	7053
Govt. Current Expend.	3459	3669	3577	3398	3228	3067	3067	3067	3067
Interest on Public Debt	207	521	769	2672	3533	3679	3747	3915	3986
Govt. Savings/Deficit	-1566	-2002	-1833	-3143	-3809	-3827	-3464	-2751	-2477
Grants	3158	3889	3331	5623	7425	6971	6522	6284	6055
Capital Expenditure and Net Lending	6291	7607	6846	5819	4946	4452	4229	4229	4335
Govt. Surplus/Deficit	-4699	-5720	-5349	-3339	-1330	-1306	-1172	-696	-757
Government Financing	4699	5720	5349	3339	1330	1306	1172	696	757
Domestic Financing	1253	1238	-121	-4145	-4587	-2191	-675	442	1271
Foreign Financing	3446	4482	5470	7484	5917	3497	1847	254	-514

Source: IBRD projections.

Table 14: Price Indices, 1984-1992

(in US$ Millions)

	Actual			Projections					
	1984	1985	1986	1987	1988	1989	1990	1991	1992
Exports									
Groundnuts	100.0	76.5	80.2	69.5	87.4	105.3	119.2	124.3	129.5
Palmkernel	100.0	61.7	39.1	37.9	52.4	66.9	81.4	84.4	87.4
Cashewnuts	100.0	101.3	108.5	115.9	123.8	132.5	141.9	148.1	154.2
Fish	100.0	88.2	100.0	92.5	102.2	112.9	125.0	130.2	136.0
Other	100.0	88.2	100.0	92.5	102.2	112.9	125.0	130.2	136.0
Imports									
Food	100.0	88.2	100.0	92.5	102.2	112.9	125.0	130.2	136.0
Other Consumer Goods	100.0	101.3	108.5	115.9	123.8	132.5	141.9	148.1	154.2
Petroleum & Petr. Products	100.0	97.1	69.9	76.7	78.0	79.3	80.6	89.5	99.3
Intermediate Goods	100.0	101.3	108.5	115.9	123.8	132.5	141.9	148.1	154.2
Capital Goods	100.0	101.3	108.5	115.9	123.8	132.5	141.9	148.1	154.2
Average Export Index	100.0	87.4	91.1	87.9	99.6	111.9	124.0	129.5	135.2
Average Import Index	100.0	97.4	101.0	105.1	112.1	119.5	127.6	133.9	140.7
Terms of Trade	100.0	89.8	90.2	83.6	88.9	93.6	97.2	96.7	96.1

Source: IBRD projections.

Statistical Annex

Table 15: Reference Case National Income Accounts, 1984-1992

(in GBP Millions at constant 1984 prices)

	Actual 1984	Est. 1985	1986	1987	Projections 1988	1989	1990	1991	1992
Consumption	17186	17028	16047	14810	13847	13895	13476	13480	13359
Private	12536	11917	10946	9555	8435	8320	7901	8045	8060
Public	4650	5111	5102	5255	5412	5575	5575	5435	5299
Investment	5010	6075	6375	6690	6694	6061	5487	4456	3626
Private	292	370	385	400	404	400	392	380	365
Public	4718	5705	5990	6290	6290	5661	5095	4076	3261
Total Domestic Demand	22196	23103	22422	21500	20541	19956	18963	17936	16985
Goods & Services Balance	-5700	-6613	-5614	-4649	-4003	-3934	-3862	-3816	-3766
Exports of G&NFS	2560	2171	2326	2459	2547	2572	2573	2525	2479
Imports of G&NFS	8260	8784	7940	7108	6550	6506	6435	6341	6245
GDP at Market Prices	15986	16488	16809	16851	16539	16022	15101	14121	13220
Memorandum Item:									
Agriculture	8812	9074	9437	9531	9341	9060	8698	8350	8016
Industry	1153	1148	1091	1036	984	935	842	741	652
Services	5251	5481	5481	5481	5426	5263	4842	4358	3922
Indirect Taxes Less Subsidies	770	785	800	802	788	763	719	672	630
GDP at Factor Cost	15216	15703	16009	16048	15751	15259	14382	13449	12590

Source: IBRD projections.

Statistical Annex

Table 16: Reference Case Balance of Payments, 1984-1992

(in US$ Millions)

	Actual 1984	Est. 1985	1986	1987	Projections 1988	1989	1990	1991	1992
Goods and Services Balance	-57.0	-65.0	-58.2	-52.5	-48.0	-49.3	-50.8	-52.7	-54.7
Exports	25.6	20.1	22.9	24.6	28.0	31.1	33.8	34.6	35.4
Goods (FOB)	17.4	11.6	13.1	13.6	15.8	17.9	19.7	20.2	20.7
Services	8.2	8.5	9.8	11.0	12.2	13.2	14.1	14.4	14.7
Imports	82.6	85.1	81.0	77.0	76.1	80.4	84.6	87.4	90.1
Goods (FOB)	60.1	63.0	61.2	58.1	57.4	60.5	63.6	65.8	68.0
Services	22.5	22.1	19.8	18.9	18.7	19.9	21.0	21.6	22.1
Factor Service Income	-3.6	-5.3	-5.9	-11.7	-11.3	-12.5	-13.7	-15.2	-16.6
Transfers (net)	24.4	20.6	20.6	20.6	20.6	20.6	20.6	20.6	20.6
Private	-4.9	-5.0	-4.1	-4.1	-4.1	-4.1	-4.1	-4.1	-4.1
Public	29.3	25.6	24.7	24.7	24.7	24.7	24.7	24.7	24.7
Current Account Balance	-36.2	-49.7	-43.4	-43.6	-38.9	-41.3	-43.9	-47.3	-50.7
Capital Account Balance	21.7	38.8	40.9	35.4	29.4	28.3	27.6	26.6	24.9
Medium- and Long-Term	28.4	38.4	40.9	35.4	29.4	28.3	27.6	26.6	24.9
Drawings	34.5	43.3	50.0	50.0	50.0	50.0	50.0	50.0	50.0
Amortization	-6.1	-4.9	-9.1	-14.6	-20.6	-21.7	-22.4	-23.4	-25.1
Other and Adjustments	-6.7	-0.4							
Overall Balance	-14.5	10.9	-2.5	-8.2	-9.5	-13.0	-16.3	-20.7	-25.8
Financing	14.5	10.9	2.5	8.2	9.5	13.0	16.3	20.7	25.8
Net IMF	1.6	-1.0	-1.0						
Foreign Arrears	8.0								
Other	4.9		3.5	8.2	9.5	13.0	16.3	20.7	25.8
Memorandum Item:									
Exchange Rate (GBP/US$)	100.0	160.0	204.6	262.3	336.2	430.3	550.3	720.8	944.3

Source: IBRD projections.

Statistical Annex

Table 17: Reference Case Government Finances, 1984-1992

(in GBP Millions at constant 1984 prices)

	Actual 1984	Est. 1985	1986	1987	Projections 1988	1989	1990	1991	1992
Revenues	2100	2187	2345	2219	2039	1987	1985	1874	1862
Non-Tariff Revenues	1608	1453	1681	1685	1654	1602	1510	1412	1322
Tariff Revenues	492	734	664	534	385	385	385	462	540
Current Expenditures	3666	4190	4420	5136	5189	5380	5452	5468	5475
Govt. Current Expend.	3459	3669	3779	3892	4009	4129	4129	4026	3925
Interest on Public Debt	207	521	641	1244	1181	1251	1323	1442	1550
Govt. Savings/Deficit	-1566	-2002	-2075	-2917	-3090	-3393	-3557	-3594	-3613
Grants	3158	3889	2775	2635	2502	2372	2247	2180	2116
Capital Expenditure and Net Lending	6291	7607	7987	8386	8386	7548	6793	5434	4347
Govt. Surplus/Deficit	-4699	-5720	-7286	-8668	-9035	-8568	-8103	-6848	-5845
Government Financing	4699	5720	7286	8668	9035	8568	8103	6848	5845
Domestic Financing	1253	1238	2694	4894	6059	5852	5594	4502	3714
Foreign Financing	3446	4482	4592	3774	2976	2716	2509	2346	2131

Source: IBRD Projections.

Annex Table 18. First Development Plan, 1983-86
(in US$ Millions)

	1983	1984	1985	1986	Total	Total (in per-cent)
Priority Bloc	8.7	29.8	28.0	28.1	94.7	25.8
Rural Development	1.0	22.4	18.9	16.2	58.7	16.0
Fisheries	3.5	2.9	3.3	7.4	17.1	4.7
Forestry	3.2	2.9	3.7	3.2	12.9	3.5
Mining	1.1	1.6	2.1	1.2	6.0	1.6
Support Bloc	13.6	15.9	26.7	18.7	74.9	20.4
Transport	10.4	9.6	19.1	13.9	53.0	14.5
Water Supply	3.1	4.6	4.2	2.0	13.9	3.8
Communications	--	1.0	2.7	2.3	6.1	1.6
Commerce	--	.7	.7	.5	1.8	.5
Social Bloc	6.9	11.1	18.2	16.9	53.0	14.5
Education	2.2	3.9	5.2	5.0	16.3	4.4
Health	4.3	5.9	7.0	5.9	23.1	6.3
Sports	--	.2	4.9	4.9	10.1	2.7
Veterans	.3	.5	.3	.2	1.3	.4
Information & Culture	--	.6	.8	.9	2.3	.6
Other	9.9	32.2	51.6	50.2	143.8	39.3
Industry	1.6	6.4	8.2	7.5	23.6	6.5
Energy	.9	3.1	7.0	.8	11.8	3.2
Public Works	5.1	17.8	24.9	32.9	80.7	22.0
Regional	.2	1.4	6.8	4.4	12.9	3.5
Tourism	.5	.7	1.2	1.2	3.5	1.0
Administration	1.8	2.8	3.4	3.3	11.3	3.1
Total	39.1	89.0	124.4	113.9	366.5	100.0

Source: MECPIC.

Table 19: Composition of Public Investment, 1979-85

	1979	1980	1981	1982	1983	1984	1985
			(in US$ Millions)				
Priority bloc	5.8	12.8	16.5	17.2	22.1	11.2	13.1
Rural Development	4.9	10.0	12.7	16.2	17.9	10.1	11.1
Fishing	0.9	2.8	3.8	1.0	4.2	1.1	2.0
Support bloc	6.5	8.5	4.0	6.2	10.2	10.5	15.2
Transport	6.5	5.3	1.6	4.6	9.9	8.6	12.1
Telecommunications	...	3.2	2.4	1.7	0.4	1.8	3.1
Social bloc	8.6	15.0	14.9	20.5	15.2	22.9	12.5
Education	1.5	4.0	4.6	5.5	3.5	3.0	2.4
Health	2.0	3.5	3.3	4.8	5.2	6.0	2.7
Housing, sanitation	5.1	7.5	7.0	10.2	6.5	13.9	7.4
Other	32.7	31.6	13.2	17.2	8.4	8.5	19.2
Industry	19.8	16.0	6.2	6.1	2.3	2.4	3.2
Energy	9.0	11.2	4.4	8.0	1.1	2.0	2.6
Other	3.9	4.4	2.6	3.1	5.0	4.1	13.4
Total	53.6	67.9	48.6	61.2	55.9	53.0	60.0
		-------		(in percent)		-------	
Priority bloc	10.8%	18.9%	34.0%	28.1%	39.5%	21.0%	21.8%
Rural development	9.1%	14.7%	26.1%	26.5%	32.1%	19.0%	18.5%
Fishing	1.7%	4.1%	7.8%	1.6%	7.5%	2.0%	3.3%
Support bloc	12.1%	12.5%	8.2%	10.2%	18.3%	19.8%	25.3%
Transport	12.1%	7.8%	3.3%	7.5%	17.7%	16.3%	20.2%
Telecommunications	...	4.7%	4.9%	2.7%	0.6%	3.5%	5.2%
Social bloc	16.0%	22.1%	30.7%	33.6%	27.2%	43.2%	20.8%
Education	2.8%	5.9%	9.5%	9.0%	6.2%	5.7%	4.0%
Health	3.7%	5.2%	6.8%	7.9%	9.3%	11.3%	4.5%
Housing sanitation	9.5%	11.0%	14.4%	16.7%	11.6%	26.2%	12.3%
Other	61.0%	46.5%	27.2%	28.1%	15.0%	16.1%	32.0%
Industry	36.9%	23.6%	12.8%	10.0%	4.0%	4.6%	5.3%
Energy	16.8%	16.5%	9.1%	13.0%	2.0%	3.8%	4.3%
Other	7.3%	6.5%	5.3%	5.1%	8.9%	7.7%	22.3%

Sources: MECPIC and IBRD staff estimates.

Statistical Annex

Table 20 : External Financing Sources for Public Investment, 1984 1/

(in US$ Millions)

	Total	Project	Food	Other Non-Project
Multilateral	26.2	20.8	3.3	2.1
EEC	7.0	4.5	1.3	1.1
ADF/ADB	5.5	5.5	--	--
IDA	5.2	5.2	--	--
UNDP	2.2	2.2	--	--
UNICEF	2.0	1.0	--	1.0
WFP	2.0	--	2.0	--
BADEA	1.0	1.0	--	--
FAO	0.6	0.6	--	--
WHO	0.5	0.5	--	--
Opec Fund	0.2	0.2	--	--
UNPF	0.0	0.0	--	--
Bilateral	27.4	17.6	5.3	4.5
Sweden	6.8	6.0	--	0.8
Netherlands	5.3	2.5	--	2.9
China	4.8	4.8	--	--
USA	2.8	1.4	1.4	--
USSR	2.1	0.8	0.4	0.8
France	1.8	1.5	0.3	--
Saudi Arabia	1.7	0.0	1.6	--
Japan	1.3	--	1.3	--
Kuwait	0.2	0.2	--	--
UAE	0.2	0.2	--	--
Switzerland	0.1	0.1	--	--
Algeria	0.1	--	0.1	--
Other	0.2	--	0.2	--
Non-governmental organizations	1.1	1.1	--	--
Total	54.8	39.5	8.7	6.6

Source : MECPIC

1/ Based primarily on data from donors and credtitors, and so differs some from data derived from project-by-project information.

Table 21: Major Public Investment Projects, 1983-85 1/

(in US$ Millions)

	1983	1984	1985	Main Financing Sources	
Priority bloc	16.8	13.0	13.2		
Agriculture	12.7	10.4	10.1		
Integrated rural developemnt in zone 2	2.1	2.1	1.1	FED	France
Rice production in Rio Geba area	1.5	0.5	1.0	USAID	
SUINAVE (industrial-style chickens)	2.0	0.5	0.9	FAD	
Rehab. rice fields Quinara/Tombali	0.0	0.0	0.1	Kuwait Govt	
Agr. development in the South Coast area	0.0	0.0	0.2	USAID	
Rehab. Bolanhas (rice fields) Como Caiar	0.0	0.0	0.5	IFAD	BAD
Integrated rural dvlpmnt of Caboxanque	0.4	0.4	0.4	COE	
Integrated rural development in Zone I	2.8	3.3	2.9	SIDA	
Fertilizer use encouragement	0.0	0.0	0.4	FAO	Danish
Seed exper. & multiplication	0.4	0.3	0.6	UNDP	FAO
Other agricultural projects	3.5	3.4	2.1	Various	
Fisheries	3.1	1.3	2.0		
Artisanal fisheries.Bijagos.	0.8	0.6	0.8	SIDA	
Rehabilitation of SEMAPESCA	0.6	0.4	0.2	France	
Artisanal fisheries:Const. of 6 boats.	0.0	0.0	0.3	China	
Other fisheries projects	1.7	0.3	0.7	Various	
Forestry	0.9	1.3	1.0		
SOCOTRAM (wood processing) Rehab.	0.2	0.7	1.0	SIDA	
Other forestry	0.7	0.6	0.1	Various	
Support bloc	12.6	13.6	21.6		
Transport	10.1	7.8	12.1		
Second IDA Road Project	0.0	0.4	1.3	IDA	
Road M'Pack-Sao Vincente	0.0	1.2	1.5	FED	
Airport rehabilitation	0.0	0.0	0.4	Various	
Tech. Assist. to Bissau Port	0.0	0.0	0.2	IDA	
Bissau port project	0.0	0.7	3.6	Kuwait Fund	Opec Fu
Port building	0.0	0.1	0.5	Various	
Navigation aids	0.0	0.0	1.5	IDA	
Rehab of 4 interior ports	0.0	0.0	0.3	IDA	
Rehab of 4 boat ramps	0.0	0.0	0.3	IDA	
Other Transport Projects	7.8	2.4	1.8	Various	
Other Public Works Projects	2.3	3.0	0.7	Various	
Water supply	2.2	5.0	6.4		
Water supply and drilling at Bafata	0.0	1.9	3.9	Saudi Fund	
Hydraulic program	0.5	0.5	0.9	Various	
Other water projects	1.7	2.6	1.6	Various	
Communication	0.3	0.8	3.1	Various	

Table 21:(Concl.) Major Public Investment Projects, 1983-85

(in US$ Millions)

	1983	1984	1985	Main Financing Sources
Social bloc	5.4	10.0	7.4	
Education	1.9	5.2	2.4	
Other Education Projects	1.7	1.7	1.3	Various
IFAPE Education training center	0.2	3.4	1.1	ADF
Health	3.6	4.1	2.6	
Two hospital & 4 health centers	0.0	0.0	0.1	FED
Hospital in Canchungo	0.5	1.3	1.1	China
Nursing school	0.0	0.2	0.1	ADF
Other Health Projects	3.0	2.6	1.4	Various
Sports (stadium)	0.0	0.8	2.4	China
Other	5.5	8.8	17.8	
Industry	1.4	1.6	3.2	
Restructuring ENGB industrial firm	0.0	0.3	1.8	SIDA
Mechanic workshop of Bra-GUIMETAL	0.2	0.5	0.4	SIDA
Assistance to vehicles/CMV	0.4	0.4	0.5	SIDA
Other industrial projects	0.8	0.5	0.5	Various
Energy	0.8	2.1	2.6	
Saltinho dam	0.5	0.0	0.2	Various
New Dicol quay	0.0	0.5	0.0	Various
Other energy projects	0.3	1.2	0.1	Various
Rehabilitation Bissau electr. generation	0.0	0.1	0.5	Various
Electrification of 7 urb.centers	0.0	0.4	1.8	ADF
Urban Projects	1.8	1.7	1.0	Various
Tourism (hotel)	0.0	1.1	8.5	Commrcl bnk
Administration	1.2	1.6	2.0	
Other Administrative Projects	1.2	0.8	0.7	FED
Tech. Assistance Project of IDA	0.0	0.7	1.3	IDA
Projects not listed elsewhere	0.3	0.7	0.6	Various
Total	40.3	45.4	60.0	
Memorandum Items:				
Petroleum exploration	5.9	16.5	0.5	IDA

Sources: MECPIC and IBRD staff estimates.
1/ Some projects may not be included in these data.

Table 22: Public Investment Budget, 1986

(in US$ Millions)

	Total	Local	-- Foreign -- Loan	Grant	Financing Sources
Priority bloc	20.4	1.8	1.9	16.7	
Agriculture	17.2	1.6	1.2	14.4	
Other agricultural projects	3.5	0.2	0.0	3.3	Various
Integrated rural development in Zone I	3.4	0.8	0.0	2.6	SIDA
Rehab. Bolanhas (rice fields) Como Caiar	1.9	0.0	1.0	1.0	IFAD
Rehab. rice fields Quinara/Tombali	1.8	0.1	0.0	1.7	Kuwait Govt
Agr. development in the South Coast area	1.5	0.0	0.0	1.5	USAID
Rice production in Rio Geba area	1.3	0.0	0.0	1.3	USAID
Seed exper. & multiplication	1.0	0.0	0.0	1.0	UNDP
Integrated rural developemnt in zone 2	0.9	0.2	0.0	0.7	FED
Integrated rural dvlpmnt of Quinara	0.6	0.1	0.0	0.6	Germany
Integrated rural dvlpmnt of Caboxanque	0.6	0.2	0.0	0.4	COE
Fertilizer use encouragement	0.5	0.0	0.0	0.5	FAO
SUINAVE (industrial-style chickens)	0.3	0.0	0.3	0.0	FAD
Livestock	0.0	0.0	0.0	0.0	Various
Fisheries	2.6	0.2	0.7	1.7	
Artisanal fisheries.Bijagos.	0.9	0.0	0.0	0.9	SIDA
Other fisheries projects	0.6	0.1	0.0	0.5	Various
Rehabilitation of SEMAPESCA	0.5	0.0	0.2	0.3	France
Study of industrial fisheries	0.3	0.0	0.3	0.0	Kuwait Fund
Artisanal fisheries:Const. of 6 boats.	0.3	0.1	0.2	0.0	China
Forestry	0.7	0.0	0.0	0.7	
SOCOTRAM (wood processing) Rehab.	0.6	0.0	0.0	0.6	SIDA
Other forestry	0.1	0.0	0.0	0.1	Various
Support bloc	19.1	1.4	13.5	4.3	
Transport	15.2	1.1	13.1	1.0	
Bissau port project	4.9	0.3	4.6	0.0	Kuwait Fund
Second IDA Road Project	3.0	0.4	2.3	0.3	IDA
Other Transport Projects	2.3	0.2	1.6	0.5	Various
Rehab of 4 interior ports	1.3	0.0	1.3	0.0	IDA
Rehab of 4 boat ramps	0.9	0.2	0.7	0.0	IDA
Airport rehabilitation	0.8	0.0	0.8	0.0	Various

Table 22 : (Continued) Public Investment Budget, 1986

(in US$ Millions)

	Total	Local	-- Foreign -- Loan	Grant	Financing Sources
Navigation aids	0.6	0.0	0.6	0.0	IDA
Equipment for the Bissau Port	0.4	0.0	0.4	0.0	IDA
Tech. Assist. to Bissau Port	0.3	0.0	0.3	0.0	IDA
Port building	0.2	0.0	0.2	0.0	Various
Road Bambadinca-Xitole-Bissau	0.2	0.0	0.2	0.0	FAD
Road M'Pack-Sao Vincente	0.2	0.0	0.0	0.2	FED
Other Public Works Projects	0.1	0.0	0.1	0.0	Various
Corubal bridge + 9 secondary bridges	0.0	0.0	0.0	0.0	Various
Water supply	3.1	0.3	0.1	2.7	
Other water projects	1.3	0.1	0.1	1.1	Various
Hydraulic program	1.2	0.2	0.0	1.0	Various
Water supply and drilling at Bafata	0.6	0.0	0.0	0.6	Saudi Fund
Communication	0.8	0.0	0.3	0.6	Various
Social bloc	7.7	0.6	3.5	3.6	
Education	2.6	0.2	1.5	0.9	
IFAPE Education training center	1.6	0.1	1.5	0.0	ADF
Other Education Projects	1.0	0.1	0.0	0.9	Various
Health	2.9	0.2	0.0	2.7	
Other Health Projects	1.7	0.1	0.0	1.6	Various
Nursing school	0.6	0.0	0.0	0.6	ADF
Two hospital & 4 health centers	0.5	0.0	0.0	0.5	FED
Sports (stadium)	2.2	0.2	2.0	0.0	China
Other	23.6	2.8	12.0	8.8	
Industry	2.6	0.3	0.6	1.7	
Restructuring ENGB industrial firm	1.1	0.2	0.6	0.3	SIDA
Other industrial projects	0.8	0.1	0.0	0.7	Various
Assistance to vehicles/CMV	0.4	0.0	0.0	0.4	SIDA
Mechanic workshop of Bra-GUIMETAL	0.3	0.0	0.0	0.3	SIDA

Table 22:(Concluded) Public Investment Budget, 1986

(in US$ Millions)

	Total	Local	-- Foreign -- Loan	Grant	Financing Sources
Energy	3.3	0.3	2.6	0.3	
Electrification of 7 urb.centers	2.8	0.2	2.6	0.0	ADF
Rehabilitation Bissau electr. generation	0.3	0.1	0.0	0.1	Various
Other energy projects	0.1	0.0	0.0	0.1	Various
Saltinho dam	0.1	0.0	0.0	0.1	UNDP
Urban Projects	0.9	0.5	0.0	0.4	
Tourism	9.4	0.3	8.8	0.3	
New Hotel	8.5	0.0	8.5	0.0	Commrcl bnk
Other tourism projects	0.8	0.3	0.3	0.3	
Administration	7.4	1.4	0.0	6.0	
Other Administrative Projects	2.2	0.6	0.0	1.6	FED
Tech. Assistance Project of IDA	2.2	0.2	0.0	2.0	IDA
Projects not listed elsewhere	1.6	0.5	0.0	1.1	
Transport of rice	1.4	0.1	0.0	1.3	Netherlands
Total	70.8	6.6	30.9	33.4	
Memorandum item:					
Petroleum exploration	0.6	0.3	0.0	0.3	Various

Sources: MECFIC and IBRD estimates.

Table 23: Major Public Investment Projects by Class of Priority, 1986 1/

(in US$ Millions)

Code	Project Name & Description	1985	1986 Total	1986 Local	1986 Loans	1986 Grants	Main Financing Sources	
	A. Projects Essentially Completed by 1986							
U8	New Hotel	8.5	8.5	0.0	8.5	0.0	Comercl bnk	
T5	Bissau port	3.6	4.9	0.3	4.6	0.0	Kuwait Fund	Saudi Fund
N2	Electrification of 7 urb.centers	1.8	2.8	0.2	2.6	0.0	ADF	
J1	New Bissau Stadium & other sport proj.	2.4	2.2	0.2	2.0	0.0	China	
E34	IFAPE Education training center	1.1	1.6	0.1	1.5	0.0	ADF	
T8	Rehab of 4 interior ports	0.3	1.3	.0	1.2	0.0	IDA	
T9	Rehab of 4 boat ramps	0.3	0.8	0.2	0.7	0.0	IDA	
T10	Navigation aids	1.5	0.6	.0	0.6	0.0	IDA	
S20	Two hospital & 4 health centers	0.1	0.5	0.0	0.0	0.5	FED	
T28	Equipment for the Bissau Port	0.0	0.4	0.0	0.4	0.0	IDA	
T11	Port installations	0.5	0.2	.0	0.2	0.0	IDA	
P22	N'Pack-Sao Vincente Road	1.5	0.2	0.0	0.0	0.2	FED	
S22	Hospital in Canchungo	1.1	0.0	0.0	0.0	0.0	China	
	Subtotal	22.5	24.1	1.0	22.3	0.7		
	B. Other projects							
	I. Projects with High Priority							
A17	Seed exper. & multiplication	0.6	1.0	.0	0.0	1.0	UNDP	FAO
N1000	Petroleum exploration promotion	0.5	0.6	0.3	.0	0.3	Various	
A5b	Fertilizer use encouragement	0.4	0.5	.0	0.0	0.5	FAO	Denmark
T14	Tech. Assist. to Bissau Port	0.2	0.3	.0	0.3	0.0	IDA	
N10	Rehabilitation Bissau electr. generation	0.5	0.2	0.1	0.0	0.1	Various	
	Subtotal	2.2	2.7	0.5	0.3	1.9		
	II. Projects on Which Expenditure Can be Phased							
A1000	Other agricultural projects	2.1	3.5	0.2	0.0	3.3	Various	
P25	Second IDA Road Project	1.3	3.0	0.4	2.3	0.3	IDA	
T1000	Other Transport Projects	1.8	2.3	0.2	1.6	0.5	Various	
B1000	Other Administrative Projects	0.7	2.2	0.6	0.0	2.6	Various	
B14	Tech. Assistance Project of IDA	1.3	2.2	0.2	0.0	2.0	IDA	
S1000	Other Health Projects	1.4	1.7	0.1	0.0	1.6	Various	
O1000	Projects not listed elsewhere	0.6	1.6	0.5	0.0	1.1	Various	
T21	Transport of rice	0.0	1.4	0.1	0.0	1.3	Netherlands	
H1000	Other Water projects	1.6	1.3	0.1	0.1	1.1	Various	
A18	Rice production in Rio Geba area	1.0	1.2	0.0	0.0	1.2	USAID	
H5b	Hydraulic program	0.9	1.2	0.2	0.0	1.0	FENU	UNDP
I3	Restrctrng of ENGB industrial firm	1.8	1.1	0.2	0.6	0.3	SIDA	
E1000	Other Education Projects	1.3	1.0	0.1	0.0	0.9	Various	
G6b	Artisanal fisheries.Bijagos.	0.8	0.9	.0	0.0	0.9	SIDA	
L1000	Other Communication Projects	2.5	0.8	0.0	0.3	0.6	Various	
U1000	Other tourism projects	.0	0.8	0.3	0.3	0.2	Various	

Table 23:(Concl.) Major Public Investment Projects by Class of Priority

(in US$ Millions)

Code	Project Name & Description	1985	1986 Total	1986 Local	1986 Loans	1986 Grants	Main Financing Sources	
I1000	Other industrial projects	0.5	0.8	0.1	0.0	0.7	Various	
H7	Water supply and drilling at Bafata	3.9	0.6	.0	0.0	0.6	Saudi Fund	
F10	SOCOTRAM (wood processing) Rehab	1.0	0.6	0.0	0.0	0.6	SIDA	
G1000	Other fisheries projects	0.7	0.6	0.1	0.0	0.5	Various	
G17	Rehabilitation of SEMAPESCA	0.2	0.5	0.0	0.2	0.3	France	
I5	Mecanic workshop of Bra-GUINETAL	0.4	0.4	.0	0.0	0.3	SIDA	
I7	Assistance to vehicles/CMV	0.5	0.4	0.0	0.0	0.4	SIDA	
G4	Artisanal fisheries.Const. of 6 boats.	0.3	0.3	0.1	0.2	0.0	China	
N1000	Other energy projects	0.1	0.1	.0	0.0	0.1	Various	
P1000	Other Public Works Projects	0.7	0.1	0.0	0.1	0.0	Various	
F1000	Forestry sector	0.1	0.1	.0	0.0	0.1	Various	
P26b	Corubal bridge + 9 secondary bridges	.0	0.0	0.0	0.0	0.0		
N19	New Dicol quay	0.0	0.0	0.0	0.0	0.0		
A56	Livestock	0.0	0.0	0.0	0.0	0.0		
A12	Training center for rural health	0.0	0.0	0.0	0.0	0.0	Italy	France
	Subtotal	27.6	30.8	3.5	5.7	21.6		
	IV. Projects of Lesser Priority							
A27	Integrated rural development in Zone I	2.9	3.4	0.8	0.0	2.6	SIDA	
A14	Rehab. Bolanhas (rice fields) Como Caiar	0.5	2.0	.0	0.9	1.0	IFAD	WFP
A11	Rehab. Bolanhas Quinara/Tombali	0.1	1.8	0.1	0.0	1.6	Kuwait Govt	
A47	Agr. development in the South Coast area	0.2	1.5	0.0	0.0	1.5	USAID	
PU100	Other urban projects	1.0	0.9	0.5	0.0	0.4		
A25	Integrated rural development in zone 2	1.1	0.8	0.2	0.0	0.7	FED	France
T17	Airport rehabilitation	0.4	0.8	0.0	0.8	0.0		
S31	Nursing school	0.1	0.6	.0	0.0	0.6	ADF	
A38	Integrated rural dvlpmnt of Quinara	0.0	0.6	0.1	0.0	0.6	Germany	
A28	Integrated rural dvlpmnt of Caboxanque	0.4	0.6	0.2	0.0	0.4	COE (an NGO)	
G13	Study of industrial fisheries	0.0	0.3	0.0	0.3	0.0	Kuwait Fund	
A21	Industrial style poultry (SUINAVE)	0.9	0.2	0.0	0.2	0.0	ADF	
P20b	Bambadinca-Xitole-Bissau Road	0.0	0.2	0.0	0.2	0.0	ADF	
N20	Saltinho dam	0.2	0.1	.0	0.0	0.1	UNDP	
I6	Cashew processing industry	.0	.0	0.0	0.0	.0		
PU8	Housing credit institution	0.0	0.0	0.0	0.0	0.0		
PU48	642 houses suitable for consultants	0.0	0.0	0.0	0.0	0.0		
PU43	Aid to local construction firms	0.0	0.0	0.0	0.0	0.0		
P26c	Additional secondary bridges	0.0	0.0	0.0	0.0	0.0		
P22b	Continuation of N'Pack-Sao Vincente road	0.0	0.0	0.0	0.0	0.0		
L8	Telex system improvement	0.0	0.0	0.0	0.0	0.0	BEI	CEDEAO
L10b	Satellite earth station	0.0	0.0	0.0	0.0	0.0		
	Subtotal	7.7	14.0	2.0	2.6	9.5		
Total		60.1	71.5	6.9	30.9	33.6		

1/ Projects in each category listed by size of budgeted expenditure in 1986.

Sources: MECPIC and IBRD staff estimates.