

Report 3529-GUB

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Guinea-Bissau

An Introductory Basic Economic Report (In Three Volumes)

Volume I

May 21, 1982

West Africa II

Division A

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CURRENCY EQUIVALENTS

1. Currency Unit: Guinea-Bissau Peso (GP)
2. The Guinea-Bissau Peso is pegged to the SDR.
3. Exchange Rates with respect to the U.S. dollar:

1974:	1 dollar = 25.4 Guinea-Bissau Pesos
1975:	1 dollar = 25.5 Guinea-Bissau Pesos
1976:	1 dollar = 30.2 Guinea-Bissau Pesos
1977:	1 dollar = 33.7 Guinea-Bissau Pesos
1978:	1 dollar = 35.0 Guinea-Bissau Pesos
1979:	1 dollar = 34.0 Guinea-Bissau Pesos
1980:	1 dollar = 33.8 Guinea-Bissau Pesos
1981:	1 dollar = 36.0 Guinea-Bissau Pesos

WEIGHTS AND MEASURES

1 meter (m)	= 3.28 feet
1 kilometer (km)	= 0.62 miles
1 hectare (ha)	= 2.47 acres
1 square kilometer (km ²)	= 0.386 square miles
1 kilogram (kg)	= 2.205 pounds
1 metric ton (t)	= 2205 pounds
1 liter (l)	= 0.26 gallons

FISCAL YEAR

January 1 - December 31

FOREWORD

This report is based on the findings of a mission that visited Guinea-Bissau in October 1980. A draft report was sent to the Government in August 1981 and discussed with the Government in February 1982. This version incorporates information and comments provided by the authorities at that time. The mission was composed of the following IBRD staff members:

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GUINEA-BISSAU: AN INTRODUCTORY ECONOMIC REPORT

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COUNTRY DATA - GUINEA-BISSAU

<u>AREA</u>	<u>POPULATION</u>	<u>DENSITY</u>
36,125 sq km	767,731 (1979) a/ Rate of Growth: 2.0% (1960-79)	21.3 per sq km (1979)

POPULATION CHARACTERISTICS (1979)

Crude Birth Rate (per 1,000):	41
Crude Death Rate (per 1,000):	29
Infant Mortality Rate (per 1,000):	250
Life Expectancy at Birth (years):	35

HEALTH (1979)

Population per Physician:	13,700
Population per Hospital Bed:	613

EDUCATION

Adult Literacy Rate:	9%
School Enrollment: (ages 6-12)	58%

ACCESS TO SAFE WATER

% of Population - Urban:	14
Rural:	2

GNP PER CAPITA IN 1979: US\$170 b/

GROSS DOMESTIC PRODUCT IN 1979 b/

	<u>US\$Mn.</u>	<u>% of total</u>
GDP at Market Prices	132.1	100.0
Gross Domestic Investment	43.3	32.8
Gross National Savings	-10.5	-7.9
Exports of Goods, NFS	17.6	13.3
Imports of Goods, NFS	68.9	52.2
Current Account Balance	-64.8	49.1

OUTPUT AND EMPLOYMENT IN 1979

	<u>Value Added b/</u>		<u>Employment b/</u>	
	<u>US\$Mn</u>	<u>%</u>	<u>'000</u>	<u>%</u>
Primary Production	69.7	52.8	157.3	79.6
Secondary Production	13.1	9.9	5.0	2.5
Services	49.3	37.3	35.6	17.9
Total	132.1	100.0	198.6	100.0

GOVERNMENT FINANCE, 1979

	<u>GP Mn</u>	<u>% of GDP</u>
Current Receipts	834.6	20.1
Current Expenditures	1,533.5	36.8
Current Deficit	-698.9	16.8
Extraordinary Expenditures	1,800.0	43.2
Overall Deficit	-2,498.9	60.0
External Assistance (grants)	991.7	23.8

a/ 1979 Census

b/ Bank mission estimates.

<u>MONEY, CREDIT and PRICES</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
	(Million GP outstanding end period)					
Money Supply	624.7	734.8	894.8	1,213.0	1,391.0	1,424.9 /a
Bank Credit to Public Sector	423.1	684.4	1,032.2	1,880.6	1,748.5	1,879.4 /a
Bank Credit to Private Sector	..	..	..	50.9	61.7	102.5 /a

(Percentage or Index Numbers)

Money as % of GDP	21.3	23.6	30.0	32.9	30.9	..
Consumer Price Index (1976=100)	98.0	100.0	109.5	116.0	140.6	221.0
Annual Percentage Index						
Consumer Price Index	..	1.0	9.5	13.6	21.2	57.2
Bank Credit to Public Sector	..	61.8	50.8	82.2	-7.0	7.5
Bank Credit to Private Sector	..	..	..	..	21.2	66.1

BALANCE OF PAYMENTS /b

	<u>1979</u>	<u>1980</u>
	(US\$ million)	
Exports of Goods, NFS	17.6	20.2
Imports of Goods, NFS	68.9	72.5
Resource Gap	-51.3	-52.3
Net Services and Private Transfers	-13.5	-17.3
Balance of Current Account	-64.8	-69.6
Official Grant Aid	29.1	28.6
Net MLT Borrowing	45.4	13.9
Disbursements	(46.7)	(16.8)
Repayments	(-1.3)	(-2.9)
Other Capital and n.e.1	-13.5	2.1
Increase in Net Reserves (+)	7.2	-7.6
Net Reserves (end-of-year)	-2.3	-9.9
Gross Reserves (end-of-year)	17.7	12.5
Equivalent months' imports	3.1	2.1

MERCHANDISE EXPORTS (AVERAGE 1978-80)

	<u>US\$Mn</u>	<u>% of total</u>
Groundnuts	4.77	38.3
Palm Kernels	2.86	22.9
Cashew Nuts	0.20	1.6
Fishing	3.53	28.3
Wood Products	0.65	5.2
All Other		
Commodities	0.49	3.7
Total	12.49	100.0

EXTERNAL DEBT, DECEMBER 1980

	<u>US\$Mn</u>
Total Outstanding	164.2
Total Outstanding & Disbursed	78.0

DEBT SERVICE RATIO FOR 1980 48%

IBRD/IDA LENDING (Dec. 31.80) (Million US\$):

RATE OF EXCHANGE , GP per:

<u>Year</u>	<u>US Dollar</u>	<u>SDR</u>
1975	25.553	31.021
1976	30.223	34.893
1977	33.670	39.320
1978	35.039	43.804
1979	34.057	44.000
1980	33.811	44.000
1981	38.440	44.000

	<u>IBRD</u>	<u>IDA</u>
Outstanding & Disbursed	-	4.7
Undisbursed	-	4.3
Outstanding including Undisbursed	-	9.0

/a First quarter.

/b Bank mission estimates.

ABBREVIATIONS AND ACRONYMS

ADF	African Development Fund
BAD	African Development Bank
BADEA	Arab Bank for Economic Development in Africa
BNG	Banco Nacional da Guine (National Bank of Guinea-Bissau)
CAIG	Complexo Agro-Industrial do Cumere (Cumere Agro-industrial complex)
CEPI	Centro de Educacao Popular Integrada (Center for Popular Integrated Education)
CICER	Companhia Industrial de Cervejas e Referigerigentes (Industrial Company of Beer and Soft Drinks)
EDF	European Development Fund
EEC	European Economic Community
EGA	Empresa Guineense de Automoveis (Guinean Automobile Enterprise)
FAC	Fonds d'aide et Cooperation
FAO	Food and Agriculture Organization
GDP	Gross Domestic Product
GUIALP	Guine-Argelia Pescas (Guinea-Bissau-Algeria Fisheries)
GWT	Gross Weight Ton
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
JAPG	Junta Autonoma dos Portos da Guine-Bissau (Guinea-Bissau Autonomous Port Authority)
LIA	Linhas Internacionais Aereas (Guinea-Bissau International Airlines)
MPW	Ministry of Public Works
MTC	Ministry of Transport and Communications
PAIC	African Party for Independence of Cape Verde
PAIGC	African Party for Independence of Guinea-Bissau and Cape Verde
SIDA	Swedish International Development Authority
SOCOMIN	Sociedade Comercial e Industrial (Industrial and Commercial Society)
SOCOTRAM	Sociedade para a Comercializacao e Tratamento de Madeiras (Society for the Commercialization and Treatment of Wood)
SUCO	Service Universitaire Canadien d'Outre-Mer (Canadian University Service Overseas)
TAP	Portuguese Airlines (Transportes Aereos Portugueses)
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
UNIDO	United Nations Industrial Development Organization
UNICEF	United Nations International Children Emergency Fund
USAID	United States Agency for International Development
WHO	World Health Organization

SUMMARY AND CONCLUSIONS

1. The Republic of Guinea-Bissau became a member of the International Monetary Fund and the World Bank in March 1977. Two months later, a Bank reconnaissance mission visited the country to obtain a general view of the economic situation and identify potential projects. An economic mission visited the country in October/November 1980. This report, based on the mission's findings, sets forth our assessment of the problems and prospects of the economy in the context of the country's historical background and its socio-political development.
2. The Republic of Guinea-Bissau is a young West African nation, independent since 1974. Together with the Archipelago of Bijagos, the country covers an area of 36,135 km² (13,938 square miles). The population of 767,700 (1979) comprises diverse ethnic groups, each preserving its own language, cultural values, and forms of social organization. Crioulo, the most common language, is spoken by about half the population; only one-tenth can speak Portuguese, the official language. Bissau, the capital, has population of 113,000 which is increasing rapidly on account of rural migration. The society is still segmented, with animistic groups inhabiting the coastal areas and Islamized peoples inhabiting the interior. Each social group tends to be self-contained, dependent on farming along the coast complemented by fishing, and on cattle in the interior.
3. Most of Guinea-Bissau's recorded history was characterized by the Portuguese presence along the coast, with continuing self-rule among most of the indigenous social groups, except for successive attempts by Portuguese, French, and British to settle in some parts of the country. In 1878 Guinea-Bissau became a Portuguese colony, but Portuguese control was not extended over the country until 1936, when the most resistant groups had been subdued. Independence was attained in 1974 after 11 years of guerrilla warfare. The African Party for the Independence of Guinea-Bissau and Cape Verde (PAIGC) was the decisive force in leading the armed struggle and in initiating political and economic unity in the country. At independence, the PAIGC retained its unifying role and held the reins of power both in Guinea-Bissau and the Cape Verde Islands. It assumed responsibility for organizing the two new states (whose eventual unification was a political objective), defining domestic and external policies, and enforcing the re-organization of the countries along somewhat socialist principles and central economic planning. Until the 1980 coup, the constitution provided that the Secretary-General of the PAIGC was the President of Cape Verde, and the Deputy Secretary-General was the President of Guinea-Bissau. The first President of Guinea-Bissau was Luis Cabral who, from 1974 to 1980, also headed the 15-member State Council with control over both the executive and legislative branches. In November 1980 a military coup led by the former Prime Minister, General Joao Bernardo Vieira, overthrew Luis Cabral and replaced the State Council with a Revolutionary Council. Behind the political coup were allegations of spreading corruption among public officers, economic problems that had led to shortages of foodstuffs in Bissau, and resentment at the intellectual dominance of many Cape Verdeans in the Public Administration. Early in 1981

Cape Verde officially withdrew from the PAIGC and constituted its own party: PAICV - African Party for the Independence of Cape Verde. The PAIGC has retained its status in Guinea-Bissau as the only political party. In November 1981, at the first PAIGC Congress held after the political change, General Vieira was elected Secretary-General. General elections for the National Assembly are expected for the end of 1982.

4. Guinea-Bissau is among the 20 poorest countries in the world. Its main resource base is agriculture; known mineral resources are some bauxite, phosphate, and off-shore oil, the potential of which is still under study. There are substantial resources in fisheries and forestry, but their exploitation is still quite limited. The country is essentially specialized in farming, supplemented by fishing, palm-growing, and cattle raising. The effects of the guerrilla war have not yet been entirely overcome, and a large part of the cultivated land which was abandoned during the struggle remains uncultivated. Recent droughts have increased the country's dependence on food imports and foreign assistance. Guinea-Bissau follows a non-aligned external policy intended to attract financial and technical assistance from a wide range of countries, in support of the Government's strategy to base economic development on the promotion of the rural population and agricultural growth. The incipient administration and the lack of trained people are the most important obstacles to the development efforts.

5. Population growth was 2% per annum between 1960 and 1979, with Bissau's population growing at 5% p.a. and reaching to 14% of the total population in 1979. According to the 1979 census, the rate of participation of the labor force is around 38%, although this value excludes the important part housewives take in farming activities. Unemployment--comprising, for the most part, people looking for their first job--represented 10% of the active labor force in 1979. In Bissau, because of the flood of rural migrants to the capital, unemployment reached 17% in that same year. Poverty in Guinea-Bissau is characterized by low money incomes, few assets, and lack of access to formal education, health services, and water supply. Most social indicators show a situation which is much worse than the average for 37 low-income countries; these indicators may, however, be inadequate to measure the quality of life among all social groups, some of which display a strong sense of cultural identity and a social security system based on bonds of family and kinship.

6. Based on mission estimates of national income, GDP was US\$132 million in 1979, which gives a per capita income of US\$170. About 53% of value added is attributed to the primary sector, 10% to the secondary sector, and a high 37% to services, reflecting the dominance of Bissau-based government services and commerce. About 80% of the total labor force is in the primary sector, 2% in the secondary, and 18% in services (9.5% in the Public Administration). Wage labor is estimated at 16% of the total labor force and is concentrated in services (86%). The structure of foreign trade is typical

of an agriculture-based economy, which is beginning to invest in infrastructures and industry. Groundnut and palm kernel exports account for more than 60% of exports, and fish for most of the rest. Capital and intermediate goods dominate imports, food imports representing about 20% of imports during 1975-80. Imports represented 52% of the 1979 GDP; exports only 13%.

7. Management of the Economy: Since independence, the Government has committed itself to centrally planned economic development and has tried to allocate priority to agriculture as the main force for subsequent industrial growth. The newness of the country's institutions and the limited administrative capacity have impaired preparation of a coherent and realistic plan that could have guided the use of the large foreign aid flows experienced since independence. Line ministries have until recently been quite unrestricted in handling their own funds (both domestic and foreign), making it difficult for the Planning Ministry to exercise a coordinating role. This Ministry has, however, been increasing its capacity to intervene in the formulation of economic policies, and the first quadrennial plan, 1983-86, is being prepared.

8. The State controls most of the non-agricultural sector and is at present the main channel for the financing of investment in Guinea-Bissau. The State controls banking, most new industries, transport, health, and education. Commerce (domestic and foreign) is highly concentrated in two state-owned enterprises. Prices and minimum wages are fixed by the Government. In agriculture, State ownership is limited to some state-farms, which have encountered organizational problems. The major economic institutions are hampered by the small number of qualified staff and the complex bureaucratic structures, which continue to reflect those inherited from the colonial administration. For example, the fiscal structure needs substantial rationalization and simplification. Notwithstanding a complex tax system, the overall tax effort was 13% of 1979 GNP. The budget has been treated more as a book-keeping exercise than as a policy instrument. Banking, monetary and foreign exchange operations are concentrated in the central bank, a ministry of the Government.

9. Economic Growth and Foreign Aid: It is difficult to evaluate recent growth in GDP, as official national accounts are still being prepared. Bank mission estimates are likely to underestimate GDP, owing both to the scanty information available and to the growing share of unrecorded output marketed through parallel markets. Preliminary estimates for 1975-79 indicate, however, that primary production has stagnated, the growth in fishing and forestry having offset the real decline in agricultural production. Services (in which the public sector has the largest share) grew, however, at around 9% a year. The magnitude of the governmental development effort was made possible by the large foreign aid flows, which by 1979 reached roughly \$90 per capita, or about 50% of GDP. One-fifth of foreign aid consisted of food aid (representing 70% of imported foodstuffs in 1979); the remainder was allocated to investment in infrastructure (primarily transport and energy), social sectors, and some industrial plants. The lack of manpower and general administrative incapacity delayed program implementation; the proportion of realized investment compared with the program was only about 30% in 1979.

10. While investment in social sectors and physical infrastructure provide a potential basis for future production development, there are some areas of concern. Support to the rural sector has lagged behind, and the goal of self-reliance in food production is still far away. An inadequate policy of farmer prices and an overvalued exchange rate have biased the incentives system against agriculture and aggravated the damage of recent droughts on output of principal crops. Moreover, because consumer goods have been increasingly scarce in some rural areas, farmers' incentive to respond to price increases with higher sales in domestic markets has been quite limited. Industrial policies have raised other problems, as rightly acknowledged by the current Government. Some export-oriented projects have been somewhat ill-conceived, and in the case of groundnut processing, national production is largely insufficient to supply the US\$25 million project under construction. The technology of import-substitution projects is more advanced than necessary for the poorly qualified labor of the country; their import requirements are greater than the country can afford and their markets relatively small (a prefabricated house plant, an automobile assembly factory, an oxygen-acetylene plant, a clay factory to produce artistic pieces, and so on). Food processing is rare; shoe and clothing factories do not exist, apart from a small unit for manufacturing shirts; and most consumer items, ranging from matches to kerosene lamps and pencils, have to be imported.

11. As a consequence of the development program, public expenditures have grown at 28% per annum. Budgetary revenues, heavily reliant on foreign trade (53%) and non-tax revenues (27%), have failed to cover the increase in expenditures. In 1978 a new tax on consumer goods was levied, but receipts were much lower than was the increase in expenditures. In 1979 current expenditures were twice the current revenues; total expenditures (including extra-budgetary development expenditures) were three times higher. Money supply has been expanding rapidly, reflecting the large budget deficits. Bank staff estimates of the balance of payments for 1975-80 indicate a chronic current account deficit, with merchandise exports covering only 23% of imports, or 35.2% of imports other than those provided under foreign aid. Capital flows and official transfers have made up most of the difference, although for most of the period they were insufficient to cover the current account deficit. Successive overall deficits in the balance of payments have caused net foreign assets to remain at negative levels since 1978. Gross reserves have been able to finance two to three months of imports. About 50% of capital flows have consisted of grants. Nevertheless, the debt service with respect to official and commercial loans has been growing, representing around half of 1980 export earnings.

12. The increase in purchasing power caused by the foreign aid flows and by the public development program did not call forth a corresponding increase in consumer goods supply. Domestic production of foodstuffs declined, because of adverse climatic conditions and inadequate price policies, and consumer goods imports (including food), limited by foreign exchange shortages, fell in 1979 to a level (in real terms) below that of 1975. To stimulate farm production and move away from subsidizing imported goods, the Government raised prices of most food products in 1979. The price of rice (paddy) went

up 50% between 1977 and 1979, the price of dairy products by 21%, meat and fish by more than 50%. Food crop supply did not respond. Recorded rice production continued to fall and by 1980 was at one-fifth of the 1976 level. Production of other subsistence crops (sorghum, manioc, maize) increased, but hardly provided a substitute for the rice and wheat to which Bissau's population had become accustomed. Wages remained frozen between 1975 and 1981, when a 16% increase took place. Their purchasing power was rapidly eroded by inflation, conservatively estimated at 14% in 1978, 21% in 1979, and more than 50% in 1980.

13. Agriculture accounts for 41% of GDP, most of the country's employment, and 70% of goods exports. It provides the main staple of the population--rice--which accounts for 40% of primary sector production, and the main exports--groundnuts and palm kernels. Recent droughts have hurt agricultural production, increasing the need for food imports and causing a decline in groundnut exports. Yields are low, averaging 0.8 tons/ha for irrigated rice (1.1 tons/ha for saltwater and 0.44 tons/ha for freshwater rice), 0.35 tons/ha for upland rice, and 0.6 tons/ha for rainfed crops and groundnuts. Several ongoing projects give evidence of a good potential to increase annual yields and to diversify into other crops. While only 30% of the country is cultivable--the rest being covered by forest or by seawater at high tide--the relatively low density of population (19 per km², excluding the city of Bissau and its region) and adequate soils make possible a substantial increase in the country's agricultural output. Ongoing projects include the introduction of irrigation and fertilizers, distribution of improved seeds, and the use of animal power in field cultivation. Integrated rural development programs are still incipient and are hampered by lack of inter-ministerial coordination. Agricultural development programs will require a strengthening of the Ministry of Rural Development, an effort to raise price incentives, and improved transport and marketing.

14. The fisheries sector has shown the most impressive growth since independence, although its contribution to GDP is only about 2%. From negligible levels at independence, fish product exports rose to 35% of total goods exports in 1980, 30% in shrimp alone. The development of the sector has been based on the establishment of mixed enterprises. Since independence, three firms have been organized (with participation of USSR, Algeria, Senegal, and France) to handle the storage and freezing of fish before internal marketing and export. Organizational problems have hindered the economic life of these enterprises, two of which have been paralyzed since 1980. The country's potential annual catch is estimated at 300,000 tons; current industrial production is around 3,700 tons, supplemented by about the same amount from artisanal fishing. Under bilateral agreements with several countries, the Government has been granting fishing permits, but its capacity to enforce them (as well as to supervise its territorial waters) has been weak. By 1979 fish caught by foreign boats in Guinean territorial waters may have amounted to 80,000 tons. Government receipts from fishing licenses were around US\$1.2 million in 1979. In spite of the rich catch potential, per capita fish consumption in Guinea-Bissau in only 7 kg a year, that is, one third that of Cape Verde and one sixth that of Senegal. The Government is planning to

implement programs to increase the productivity of artisanal fishermen. A recent project financed by SIDA in the Bijagos Archipelago provided 200 people with equipment and motorized canoes. The success of the project was far less than what had been expected, partly because of the lack of people's motivation to produce beyond their own nutritional needs. Demand by Bijagos people for tradable goods is limited, which explains the low interest in generating a tradable surplus.

15. The forestry sector appears to have a good potential for development. Roughly 65% of the country is covered by forest. Although there is no complete inventory of wood resources, it is estimated that 120,000 tons of timber could be produced without endangering the ecological balance. At present 8,500 tons of timber are produced, of which 2,500 tons are for export. A state-owned company is in charge of the sector and, assisted by SIDA, is planning to diversify its activities to produce plywood and parquet flooring. As in other economic sectors, the country's capacity to fully exploit its forestry resource is limited by the lack of skilled manpower and strict state control of the sector.

16. The industrial sector is quite small, comprising enterprises for hulling rice and groundnuts, a few bakeries, some icemaking units, a large modern brewery, an assembly plant for Citroen cars, and several repair shops for transportation equipment. An oxygen plant, a plastics factory, and a textile plant complete the industrial sector. At present, most of the industrial units work at 30% capacity, hampered by lack of raw material (which has to be imported for the most part), spare parts, adequate management, and trained workers. The country has potential for establishing on a modest scale a small industrial sector with backward and forward linkages to agriculture, fishing, cattle, and wood products, oriented to the domestic market and making use of traditional skills in ceramics, cloth, and metal-forging, which abound in the country.

17. Economic Infrastructure: Lack of an adequate transport system to take full advantage of the country's numerous rivers is among the major constraints to development. The north is served by roads in need of repair and rehabilitation, which may be remedied by an ongoing IDA-assisted project. The south, where most of the rice-growing regions are concentrated, is badly served, although several projects are being planned to address the problem. The inland ports and feeder roads are also poor. The port of Bissau, which handles most of the country's foreign trade, is constantly threatened by shoals and siltation. Improvement of the port is also the object of a program assisted by IDA. Other projects are under way to renew the existing passenger fleet. Energy is another bottleneck: only 4% of the population has access to electricity, and 60% of this is in Bissau.

15. Social Services: Formal education is provided only by the State. Portuguese is the official language, although some attempts are being made to use Crioulo for adult literacy campaigns. School enrollments are low (50% schooling rates in primary education), and the output of the system is inadequate compared to the needs. Primary schools are to be expanded to rural

areas, largely based on the cooperation of the local population; the curriculum of the second cycle of primary education (5th and 6th grades) has been revised towards training students as development agents in the local community. The experiment is still limited to four schools. Teacher training and curriculum development are of high priority. Limited budgets have affected the continuity and quality of educational services, which are often deprived of teaching materials. Teachers sent to rural areas are frequently unmotivated, because salaries are low and are paid with long delays.

19. Health conditions are poor, mainly on account of waterborne diseases stemming from inadequate water supply systems. Ongoing programs to improve health conditions have focused on setting up a structure of health services throughout the country and on improving water supply. However, serious gaps remain in the supply of maternity and child health care programs.

20. Establishing Development Priorities: The first four-year development plan currently being prepared by the Ministry of Planning is expected to start in 1983. At the time of the 1980 mission's visit, specific development objectives had not been articulated, but the general principles of an integrated rural development strategy had been established in 1977 by the IIIrd PAIGC Congress and formally accepted by the Government. The new Provisional Government supports the same principles, and both the Government Program of July 1981 and the Plan Law of January 1982 officially acknowledge the commitment to rural development. These official documents contain an accurate diagnosis of the economic situation of the country and indicate the Government's intentions to correct the current disequilibria and initiate a consistent development program. Thus, during the 1983-86 period, the official strategy would be guided by five principles: (a) motivating the country's economic agents to participate in the development process; the Government should progressively shift from the role of executing agency to a coordinating and supporting role of private and cooperative initiatives; (b) expanding rural production through adequate support to farmers with better prices, rural extension and credit services, increased availability of consumer goods, and improved marketing and storage networks; (c) rehabilitating the modern sector (for the most part deficient), consolidating the existing capacity, and assessing the economic feasibility of existing industrial units; (d) investing in infrastructures, notably some fundamental axis of telecommunications, energy, roads, and basic sanitation; (e) training of skilled manpower according to the needs assessed during the Plan's preparation. Sectoral and regional working groups are currently preparing detailed programs that would eventually lead to the above objectives. Such programs are to include investment projects to be financed by the Government; support actions to the private sector; and reorganization of the public administration, so as to provide the ministries with the infrastructure required. The overall plan, containing sectoral and macroeconomic projections, is expected to be presented to the Government and the National Assembly by the end of 1982.

21. Guinea-Bissau's resource endowment (average soil quality, numerous waterways, and a large area of arable land still to be cultivated) and its human skills (especially in traditional methods of rice cultivation) suggest that the country has the potential to substantially increase agricultural production. Thus it is a reasonable development objective for the Government to aim at providing for the country's domestic food needs and at exporting some cash crops (groundnut, cotton, and possibly rice). Moreover, the country's forestry and fishing potential indicates that these subsectors would generate substantial export earnings in the short run and, over the longer term, provide a basis for the growth of a manufacturing sector that could exploit the linkages between the three primary subsectors: agriculture, fisheries, and forestries. The realization of this potential is, however, dependent on the capacity of the Government to realize its current programs, which would require the channeling of productive investments to these sectors; the expansion of extension services to individual farmers; the improvement of the commercialization and storage network; and the provision of infrastructures (physical, financial, and administrative), which are essential to the growth of productive sectors.

22. These programs are costly in relation to domestically available resources, so that foreign aid is likely to continue to play an important role in the country's development. Several factors have, however, to be considered with respect to future availability of foreign aid at present levels. Guinea-Bissau is currently among the countries with the highest foreign aid per capita. Continuation of such an aid flow will depend mainly on two factors: (a) the present level of international concessional aid flows being maintained or increased; and (b) the standards of economic performance that donors will use to evaluate aid to countries like Guinea-Bissau. After five to six years of peace and foreign assistance, with the attendant growth of political and social cohesion and the development of human and institutional infrastructure, the international community will naturally tend to consider Guinea-Bissau's phase of war reconstruction as belonging to the past and to measure the country's performance by normal standards, that is, according to increases in production, exports, rural income, trained people, etc. All this calls for careful use of the currently available aid, so that future domestic output and income can gradually replace current food aid, preventing the disaster of a fall in aid combined with low domestic food production.

23. In this context, an appropriate strategy would include:

- (a) A full commitment to agricultural development (already considered as the official strategy) and to the requisite actions, such as: extension and demonstration services; improvement in farm implements and production methods (which because of their traditional character may raise productivity considerably through simple and inexpensive ways); availability of inputs; improvement of transportation and marketing channels (with possibly a role for small entrepreneurs, namely in farm inputs, marketing and distribution); and most of all, an adequate price, trade, and exchange rate policy to ensure better prices, greater availability of consumer goods, and a more open marketing system.

- (b) Increased emphasis on institution building, which in the short run means full utilization of the existing trained personnel and managerial staff in key ministries and priority sectors and continued improvement of education and training. The Government would benefit by carefully selecting priority areas in which to intervene and by allocating political attention, skilled people, and institutional capacity to those sectors, even at the expense of other less relevant areas. The Government's policy-making institutions and procedures need to be improved (namely in planning and budgeting, fiscal structure and taxation, project evaluation and implementation, accounting and bookkeeping), to orient the already overextended public sector more towards the needs of development. Attention should be given to the mobilization of resources and energies of the private sector by allowing increased participation of indigeneous small-scale entrepreneurs and by defining an appropriate role for larger-scale capital, both domestic and foreign.
- (c) Careful selection of ongoing and planned projects, according to their productive impact, requirements in organizational capacity and skilled manpower, and creation of foreign aid dependence. Projects aimed at increasing farmers' output by means of extension and demonstration actions would be more appropriate than those aimed at introducing mechanization or large irrigation projects. Rehabilitation of the existing road and river transport network is preferable to new road construction; provision of inexpensive transport carts to farms is better than increasing the number of trucks of state companies, whose fuel and spare parts requirements have to be filled by foreign aid to alleviate current balance of payment pressure. The identification of core projects and the evaluation of some ongoing ones could be an essential step towards more efficient public management in Guinea-Bissau.
- (d) A coordinated effort to raise foreign exchange earnings from the sectors with greater potential, namely fisheries and forestries, where a policy of joint ventures and concessions could be implemented, provided a legislative and administrative framework is created to ensure that earnings from their exploitation will not result in long-term resource depletion.

This package would enable Guinea-Bissau to promote its agricultural-based strategy, become gradually less dependent on foreign aid, and avoid the drastic consequences of a sudden fall in aid, should it occur, and increase the benefits of the amount of aid that is flowing into the country.

24. Mission estimates indicate that it would be difficult for Guinea-Bissau to sustain, past investment and public consumption growth rates throughout the current decade. Even with public consumption growing at half of the 1975-79 rate, the needs in foreign resources to finance domestic investment would add more than US\$100 per capita. With such high amounts, simple caution dictates that available resources for investment should be

allocated to productive projects in the rural sector and that growth in public expenses should be carefully monitored. With appropriate use of foreign resources, the country could achieve a growth rate of 3.5-4% a year during the current decade, provided that foreign aid be kept at a high level and foreign resources be adequately invested. Foreign aid should be in the form of grants and concessionary aid. The already high debt service will eventually require rescheduling of some obligations and will prevent the Government from being eligible for commercial loans. The mission's projections suggest that in 5-7 years the country may be able to begin a gradual substitution of foreign financial assistance with internal resources, assuming that present investment will provide a base on which to raise production and incomes, and that the patterns of rainfall will not be too adverse. It seems unrealistic to think that Guinea-Bissau can become economically independent in the interim period. Even if the exploration of oil, bauxite, and phosphates proves successful, it will take several years to earn foreign exchange, quite apart from the investment capital these activities will require.

25. While the problems of Guinea-Bissau's economy appear awesome, they are not insurmountable. The country has good development potential, and its small size permits many of its problems to be addressed relatively easily, given adequate resources. With the right policies and programs and sustained external assistance, the Government should be able to meet the growing aspirations of this young African nation. The commitment of the Government to improving the allocation and management of its resources and to ameliorating the degree of efficiency of its projects is, however, an essential condition in maintaining the needed confidence in the Government's economic management to ensure the continuation of foreign aid at recent levels.

PART A: ECONOMIC AND SOCIAL STRUCTURE

I. THE SETTING

1.01 Guinea-Bissau is a small nation of 767,700 inhabitants in West Africa. Its territory, roughly triangular in shape, lies between Senegal to the north, Guinea-Conakry to the south and east, and the Atlantic Ocean to the west. Together with the Bijagos Archipelago and other islands off the coast, the country covers a total area of 36,135 km² (13,938 square miles). Bissau is the national capital, the country's main port, and its largest city (with 113,000 people).

1.02 Having achieved full independence in 1974 after a ten-year war against Portuguese rule, Guinea-Bissau is one of the youngest nations of West Africa, as well as one of the poorest. Per capita GDP is estimated around US\$170 (1979); adult literacy is less than 10%; and life expectancy at birth about 35 years. The scarcity of resources during pre-independence times was severely aggravated by the devastation of the war, from which the country is still trying to recover.

1.03 Several factors make Guinea-Bissau a special case among the less developed African countries: its long colonial experience (five centuries of Portuguese rule), its limited resources, and its small size. Unlike in resource-rich Angola and Mozambique, the Portuguese regime did not establish a planter class in Guinea-Bissau, and the traditional pattern of subsistence agriculture was never supplanted.

The Landscape and Resources

1.04 Almost all of Guinea-Bissau's territory is flat, except in the northeast, where some of the outlying ridges of the Fouta-Djallon plateau rise to heights of 300 to 600 feet. Along the coast a dense network of rias (flooded valleys) deeply indent a partially flooded coastal plain, bordered by swamps as far as the sea. In the interior, the ground slowly rises to form a plain between the Geba River and the Senegal border to the northwest and low plateaux to the northeast and east. Crisscrossed by meandering rivers, these plains, which form part of the Senegal River Basin, are flatlands with some minor relief features and outcrops of laterite rock. Farther to the east, a transitional region between the plains and the Fouta-Djallon highlands of neighboring Guinea is formed by the plateaux of Bafata, in the middle of the country, and of Gabu in the northeast. Off the coast, a string of low islands takes on the appearance of the swampland at high tide. One of them, Bolama, harbored the capital of the country for half a century (1890-1941). Farther into the sea, the Bijagos Archipelago is quite forested and populated by fishermen and farmers.

1.05 As a result of Guinea-Bissau's geography, two types of tropical climate (both with marked dry and rainy seasons) exist: a sub-Guinean type along the coast (50 miles in depth) with abundant rainfall, ranging from 60 inches in the north to 120 inches in the south; and the Sudanese type in the

interior with rainfall of 50-80 inches. Rainfall occurs between May and October, with a maximum in August, after which the dry season lasts from November to April. The northeast part of the country (Gabu) is quite dry, of the Sahelian type. Everywhere the temperature is high: daily temperatures average 84°F (29°C) during the hottest months (April and May) and 73°F (23°C) during the coldest (January and December). This type of climate determines many aspects of Guinea-Bissau. It makes possible the existence of numerous animal species, with a wide variety of parasites creating adverse conditions for man and domestic animals. It also imposes definite limitations on the patterns of agriculture, for rainfall, while abundant, is concentrated in five months, preventing year-round farm activities.

1.06 Numerous waterways cover Guinea-Bissau's territory. On the coastal zone, owing to geological movements, the sea invaded the lower reaches of former rivers, transforming them into estuaries and creating a complicated system of channels. The rare freshwater streams are insignificant and are soon absorbed by the nearest estuary. The sea comes into the estuaries after passing over a long underwater bank, which rises to within 70 feet of the surface. The Bijagos Archipelago is an extension of this plateau. The obstacle so formed increases the height of the tides, which in Guinea-Bissau and Guinea-Conakry are higher than anywhere else in West Africa (in the Geba channel at Porto Gole, the tide rises up to 23 ft). The estuaries and their tides play an important part in the economic life of the country, providing a major channel of transport--in many places they can be used by large ships, and everywhere by rafts and canoes. These estuaries (rias) have a beneficial effect on the climate of the interior and stimulate vegetation (forests, palm groves, etc.). The tides (which enter inland up to 100 km in some cases) not only bring up fish but also deposit rich silt excellent for rice-growing. In the interior, the freshwater courses are swollen during the rainy season, diminishing considerably during the dry season. Owing to rapids, they are navigable only over small sections. The principal rivers are the Cacheu, the Geba, and the Corubal. The Geba and Corubal are those with greater potential for economic purposes; their basins, the greatest part of which lie in Guinea-Conakry, cover in Guinea-Bissau 7,800 and 4,600 km² respectively. Lake formations in Guinea-Bissau are limited to lagoons (lalas), which are shallow pools that fill with rainwater.

1.07 The characteristics of Guinea-Bissau's soil are typical of tropical regions: poor in general; its richer elements are quickly dissolved by the rain, and the superficial organic matter is rapidly decomposed by the action of termites and micro-organisms. The tropical climate favors the formation of a ferruginous crust (boval) and the hardening of the surface, and only where the soil is loose can some form of agriculture be practiced. In the southeast (at Boe), the ferruginous crust appears both on the plateau and at the foot of the hills. Along the coast, good maritime alluvial soil is held in place by the mangroves, and in spite of the tides, is used by the population for growing rice. There are also many grasslands and palm groves, as well as argillaceous sandy soils, usually extensively cultivated. Some farming also takes place on the edges of lalas.

1.08 The vegetation pattern follows the soil and climatic characteristics. The coastal alluvial zone, comprising the islands and the estuaries, is marked by an abundance of palm trees forming groves of considerable size, and by mangroves dotted with lalas or saltwater pools. The intermediate zone is heavily forested, the types of trees most often found being the bissilom--largely used for logs and sawn wood production--and cibe. The interior zone consists mostly of grassland with trees and bushes (savanna)--a continuation of the type of vegetation found in neighbouring Senegal and the Republic of Guinea.

The People

1.09 Guinea-Bissau's population, according to the 1979 census, is about 767,700, making it the smallest West African country after Cape Verde (300,000), the Gambia (600,000), and Sao Tome e Principe (80,000). The population is made up of more than 20 ethnic groups, each of them preserving their own language, cultural tradition, and separate identity. Traditionally, each group had its own territory (chao), but migration of inland people towards the coast and the effects of the war in disrupting traditional human settlements have tended to make the tribal pattern quite complex. Data on the size and distribution of the ethnic groups available in the 1979 census indicate five major groups: the Balante (30% of the population); Fula (21%); Mandjak (14%); Mandinga (14%); Pepel (7%); and several minor groups, among which are the Felupe, Brame, and the Bijagos. Of these, the Fula and Mandinga (together with some smaller groups, such as Beafada and Pajadinca) are Muslim, while the remaining 60% have their own African religions (mostly animistic). Christianity is represented by a tiny minority of urbanized and semiurbanized groups. As regards languages and dialects, Crioulo, a sort of Portuguese with an Africanized syntax and vocabulary, is spoken by about half of the population and constitutes the common language among groups. Portuguese is the official language taught in schools. According to the 1979 census, only 11% of the population can actually speak Portuguese. Some Arabic is known by Muslim scholars.

1.10 Average population density, with the exception of the Bissau sector, is estimated at 19 persons per km². Relatively higher density is found in the northwest of the country (Cacheu, Biombo, Safim, Nhacra, Bafata), where there are several important towns and an intensive form of agricultural exploitation. Lower population density is the characteristic of the eastern and southern parts of the country, namely Boe, Xitole, Bubaque, and Quebo. One out of seven Guineans inhabits Bissau, the capital, where the urban population of the country is concentrated. Other urban centers are Bafata, Canchungo, Mansoa, Farim, Gabu, Bolama, and Catio. Rural population is estimated at 80% of total population; the tabanca, small rural village, is the basic unit of rural life in Guinea-Bissau. In 1979 they totalled 3,628, that is, an average of 212 people per village, this number varying between 132 in Bolama and 425 in the Bissau region.

1.11 The human settlement pattern reflects the differences between the swampy coastal part of the country to the west and the drier hinterland to the east. While the islands and the coast are inhabited by palm oil and rice-growers, the interior is used by pastoralists for grazing and is cultivated by groundnut producers. Among the coastal people, the Balantes, who occupy the area between the Geba River and the Casemance River in Senegal, are renowned as rice-growers. Other coastal people are the Brames, known for their skills in rainfed farming, and the Bijagos, fishermen and palm-growers, who inhabit the archipelago of the same name. Inland are the cattle-raising Fulas and the agricultural Mandinkas. The war superimposed new forms of settlement upon these traditional ones. During the struggle, the strategic hamlets established by the Portuguese to regroup the population that had not been won over by the nationalists especially affected the coastal Mandjako and Balante people. In the nationalized territories, new regrouping took place, especially in the forests, to escape air attacks. Few sectors remained unaffected either by nationalist insurgency or by the countermeasures of the colonial power. Many population shifts took place, both inside the country and toward the bordering countries, especially Senegal (150,000, according to United Nations estimates).

1.12 With respect to political and economic structure, two main organizational types can be identified: the hierarchical society of the Fula and Mandinka, in which centralized authority is exercised by lineage chiefs; and the stateless-segmenary societies of the coastal peoples (with the exception of the Mandjak), whose principal form of social organization consists of age-grades and village lineage loyalties. ^{1/} Among these, the most important are the Balantes, which represent 26% of the country's population. Organized in a stateless, horizontal society centered around the family, the Balante is the typical rice-producer, having developed quite a unique and ingenious process of growing saltwater rice (described in the chapter on agriculture). Among the Balantes, land belongs to the village, but each family uses a plot sufficient for its subsistence; tools and other necessary equipment belong either to the family or to the individual. The Balante has little motivation to accumulate, good harvests being followed by social events where everyone has access to and shares the additional produce. The Balante makes up the majority of the population of the most important rice-producing regions: Tombali and Oio.

1.13 At the other extreme are the Fula people of the drier plateaux, pastoralists and growers of groundnut and cotton. Their society is highly hierarchical, with semi-feudal relations between chiefs and their vassals. First of all there are the chiefs, the nobles, and the religious lineages;

^{1/} In this respect, they govern themselves by methods which are much the same as those of other segmenary societies in Africa--the Ibo in Nigeria, the Tallensi in Ghana, the Kikuyu in Kenya, and many others--that is, by councils of family-heads of individual villages (tabancas) or of neighbouring groups of villages.

then the artisans and djilas or travelling traders; after that, the peasants themselves, who are obliged to work for their chiefs for part of every year. In spite of the strength of traditions bearing on the collective ownership of land, very large privileges in terms of land-ownership have been secured by the chiefs and their entourage. Accustomed to fighting against the animists they tried to convert, the Fulas were themselves always impervious to Portuguese culture. Their emigration from the Fouta-Djallon, where they settled around the tenth century, is relatively recent, dating back to the nineteenth century. Today the Fulas represent 21% of the country's population.

1.14 In spite of these ethnic differences, there are many characteristics that are common to the thousands of tabancas or villages dotting the countryside. Most of these people have always been farmers of one kind or another. Although they faced exactions during the Portuguese rule, they had no expropriate landlords, and problems of land expropriation or rural indebtedness were nonexistent even before independence. The village continues to be important in the country's social structure, and many people who live in towns have retained links with their villages and families.

1.15 Most of the village life revolves around the cultivation of the available fields. Cultivation is done by traditional methods, following clearance by slashing and burning (queimada), partial derooting, and tilling the soil by hoe. Land is normally subject to a rotational fallow (four to eight years), depending on fertility. Rainfed rice and cereals as subsistence crops and groundnuts as a cash crop are grown in proportions that vary according to the region. In the dry plateaux, maize replaces rice as the subsistence crop, and groundnut is grown and sold along with rice from the western part of the country. All people participate in the cultivation process, including women and children. During the dry season, the production of cloth (panos) and clay housewares and the growing of other crops requiring little water are the main activities undertaken; seasonal migration, especially to Senegal, occurs in some regions.

1.16 In terms of social life and aside from the 119,000 inhabitants of the capital city, Guinea-Bissau remains a conservative, traditional society. The political developments of the past 15 years (which include the active role of the PAIGC in mobilizing the population to support the struggle for independence) did not leave the villages untouched; however, in order to be accepted, they were made compatible with social traditions. For most of the villagers, change may seem far away, for change itself is not a concept easily assimilated into the traditional tabanca life. Notions of progress towards better living standards are shaped by the needs and values of the village. Since few villages are linked to roads that can carry motor traffic or have electricity, it is understandable that the horizon should be limited.

1.17 It is perhaps simplistic but nonetheless useful to think of Guinea-Bissau at present in terms of two societies: a traditional society consisting of 85% of the population forming part of the rural economy, and a modern one

comprising the 15% who live in towns. There are, however, increasing links between these two sectors, as the Government pursues its objective of expanding the modern economy. Plans have been made for the rapid spread of non-traditional education to the rural areas; for increased health facilities and disease eradication measures and cash crop production (stimulated by the efforts of government agencies in distributing improved seed and fertilizer); for improved communications through roads and waterways and the ubiquitous transistor radio. From the standpoint of the towns and the modern sector, these changes appear minimal, but from the standpoint of the village, they may sometimes appear rapid and unsettling.

Living Conditions

1.18 Poverty in Guinea-Bissau, for the most part, means a traditional rural society untouched by development and unchanged for centuries. It is a poverty characterized by people having, in general, low incomes, few assets, and scant access to formal education, health services, and safe water supply, rather than by displaced squatters and teeming urban slums. Guinea-Bissau is among the 20 poorest countries in the world in terms of per capita GDP, yet the visual impression is that of a nation relatively free of the grinding poverty found in some other underdeveloped areas. On the one hand, the subsistence character of most of the rural society prevents acute food shortages; on the other hand, the strong community ties within social groups provide a social security system which, based on family and kinship, prevents the very poor from falling too far below subsistence levels during times of hardship. This applies also to the urban centers. In Bissau, for example, employment is beginning to be a problem, but even here overt unemployment is somewhat hidden by the prevailing extended household system which absorbs the newcomers into the city, providing them with shelter and food.

1.19 Yet, in terms of social indicators, Guinea-Bissau is in the lowest bracket of a group of 38 low-income countries (Table 1), the rural areas being in general in a worse situation than the average.

1.20 There are no data available on income distribution or absolute income levels in Guinea-Bissau. All the evidence, however, points to considerable differences in income, especially between urban and rural areas. The services and industrial sectors are concentrated in Bissau, so half of the total GDP estimated by the mission (see para. 2.01) is likely to benefit only the 15% of the population which lives in the capital. This implies that average incomes in Bissau in 1979 were nearly five times the average per capita income in rural regions (around US\$100). The effects of land distribution on income distribution are difficult to assess and should vary among ethnic groups, depending on their social organization and system of allocating arable land. For the most part, access to land depends on the household labor available to work the fields, so that with the exception of the Cacheu region (primarily populated by Mandjaks), where a land tenure system is still practiced, land ownership is likely to play a minor role in explaining income differences.

Table 1: SELECTED SOCIAL INDICATORS, 1979

	<u>Guinea-Bissau</u>	<u>Average of Low-Income Developing Countries</u>
Per Capita Supply of Calories (% of requirements)	78.0 <u>1/</u>	91.0
Adult Literacy (%)	9.0	38.0
School Enrollment (% ages 6-14)	58.0	77.0
Life Expectancy at Birth (years)	35.0	50.0
Infant Mortality Rate (per '000)	250.0	-
Child Mortality Rate (per '000)	42.0	20.0
Death Rate (per '000)	29.0	15.0
Birth Rate (per '000)	40.6	39.0
Natural Population Increase (per '000)	11.6	24.0
Population per Physician	13,700.0	9,900.0
Population per Nurse	1,257.6	8,790.0
Access to Safe Water (% of Population)	3.6	28.0

Sources: Data provided by Guinea-Bissau Authorities; World Development Report, 1980.

1/ Average 1976-79.

1.21 Due to lack of information, it is difficult to assess the quality of nutrition in Guinea-Bissau. Aggregate data for 1975-79 suggest that while domestic food production has been insufficient to feed the population, imported foodstuffs have filled most of the gap. Total food supply estimated during this period (based on official estimates of cereals, fish, and meat production) yields an aggregate per capita intake of 1,942 calories per day, 1/ about 20% below the FAO estimated daily requirements (2,440 calories). In years of drought, however, average daily calorie intake has fallen below 25% of this minimum. Food imports are significant in providing for the population's nutritional needs: they represent on the average 27% of cereal consumption and 15% of total calorie intake. Per capita intakes may be somewhat underestimated, for even the poorest families consume some seasonal fruits and vegetables. On the whole, Guineans appear healthy, and one sees little obvious malnutrition and equally little obesity. Yet there is no doubt that poor nutritional practices are a major contributor to health problems and particularly to infant and child mortality.

1.22 Children are the most vulnerable to illness and disease. Their nutritional status is, therefore, of particular concern, especially in this country where infant and child mortality rates are among the highest in

1/ Statistical Appendix, Table 8.2.

the world (Table 1). Preliminary conclusions of an ongoing survey on children's nutritional status indicate that malnutrition among Guinean children appears as early in life as six months. A possible reason for this is the weaning practice, which tends to extend to 18 months in the urban areas and three years in rural areas, making children dependent on inadequate and unmodified portions of the family diet. Supplementary nutrition starts in most cases around the sixth or seventh month, but its contents are inadequate in terms of calorie-protein requirements. Diseases such as diarrhea and malaria also contribute to the malnutritional status, although the initially undernourished child is a priori a potential victim of the same diseases.

1.23 Food is by far the most important item in the family budget. Mission estimates indicate that urban families spend at least 74% of their income on food (Statistical Appendix, Table 8.3). Typically, the three daily meals in the household of a laborer or small farmer consist primarily of rice. Fish, chicken, and meat in some cases, as well as some local herbs, are added when available to give some flavor to the otherwise tasteless rice. Rainfed cereals (sorghum, millet) substitute for rice when this is not available. Groundnuts are used by some ethnic groups. Fresh milk and meat are seldom consumed in rural areas, with the exception of the Balantes, who consume large amounts of meat at the time of funeral ceremonies (the choro). The Government is undertaking a consumer survey in rural areas to increase the information available on this subject.

1.24 Polluted water has been identified as a major source of illness in Guinea-Bissau. Water for animal and human consumption and personal hygiene is mostly derived from wells dug by the population. Only 3.6% of the population has access to potable water and 2.1% to public piped water systems. Drinking water is contaminated, primarily because basic sanitation standards are very low. Few people in rural areas are aware of the links between improper sanitation and polluted water, and as a consequence, waterborne disease is rampant. A large investment program in drinking water delivery systems and sewage disposal is being launched by the Government. If this type of program is to succeed, there must be efforts to create an awareness of the importance of proper preventive health measures to induce the public to use and maintain the facilities, once they are made available. Health education would also help to persuade the rural population to tackle the problems from within the community, until such time as public services can be made available to all villages.

1.25 Shelter is rarely a problem in rural Guinea-Bissau. Rural house construction requires little cash; nonproductive land is not scarce, mud and straw are readily available, and much of the labor is provided by the household itself. The typical construction uses sun-dried clay mud combined with rice straw, except among the pastoralists, whose houses are in general lighter and made out of a weaving of straw and cane. Roofs are generally made of thatch and sometimes reinforced with a structure of palm and cane plastered with mud to prevent fire hazards. The typical house can vary between one to four rooms, with a small yard surrounding the main dwelling. In general, there is very little in the way of furniture. Sometimes a bed

platform is made out of clay. Most households have a few metal pots, clay containers for rice and grain, and cabacas (bottle-gourds), which serve multiple purposes around the house. Cooking is almost always done indoors, the fireplace being at the center of the dwelling.

1.26 Guinea-Bissau is on the average quite warm. Fuel and clothing do not have the same importance in this country as in other nations. Fuels with low technology extraction--wood, logs, and charcoal--are widely used for food preparation. Kerosene is used for lighting. Rural areas are almost totally deprived of any electricity supply. In larger cities, electricity supplies are provided in a discontinuous way, and foreigners and government agencies tend to operate with their own small generators for lighting, air-conditioning, and food storage.

1.27 Guinea-Bissau's health situation is quite serious. Disease and illness are rampant, and mortality rates are among the highest in the world. So common are some afflictions (such as malaria, tetanus, and diarrhea), that, like high infant mortality, they are simply accepted as part of life--neither unusual nor preventable. The disease pattern is largely the result of the ecological environment combined with failure to appreciate the importance of proper nutrition and personal hygiene. Data for 1978 indicate the following causes of death among children of 1-4 years of age: malaria (18%), tetanus (16.5%), infectious diseases (12%), respiratory diseases (11.5%), child diarrhea (10.2%). For the population as a whole, the most common diseases are: malaria, a major public health problem which, although rarely fatal, is nonetheless debilitating; digestive system illnesses (dysentery, typhoid, and paratyphoid infections), which are for the most part waterborne; respiratory illnesses, such as pneumonia; and anemia. The commitment of the Government to introducing preventive measures has been considerable. Financial problems, scarce and inadequate infrastructures, and lack of trained people have so far limited the number of actions still required.

1.28 Literacy is very low; less than 10% of people seven years of age and above can read and write. Given the recent expansion in education services, the number of literate people is likely to rise substantially in the medium run. School enrollment rates are still low: 58% of children aged 6-12 were enrolled in primary education in 1979; 8.4% of those aged 13-18 were in secondary school. The situation for females is worse: 42.6% and 3.1% in primary and secondary school respectively; for the male population, the proportions were 78% and 14%. Attitudes towards education vary among regions and ethnic groups. In general, the initial suspicion of villagers towards innovation and government services tends to fade away through sustained contact with services like health and education. Nevertheless, in some regions, the need for education is not clearly perceived; while desiring their sons to be able to read, there is a fear that once they can read, they will leave the family and village for better opportunities elsewhere, especially given the limited opportunities to use education in the villages at present. Many parents are also reluctant to send their children to school, as they contribute significantly to work around the house and in the fields. Sentiments are

particularly strong against the education of daughters--in all but the largest towns it is thought to be unnecessary. These attitudes are familiar in most developing countries and do not linger very long after the development process begins to make its impact felt. The importance of education in the spreading of necessary skills and in providing information on the importance of clean water, proper nutrition, and personal environmental hygiene has been clearly perceived by the Government, whose efforts in promoting a wide network of integrated education and health programs are now under way.

1.29 Population growth is not among the problems discerned by the Government of Guinea-Bissau, in part because of lack of information. The last census (1979) indicates an average annual growth rate of 1.4% during 1950-79. Using elements of the 1960 census, this value is substantially higher: 2.0% per annum. With the beginning of health services in the rural areas, the present high mortality rates should be reduced considerably. Therefore, population growth rates are likely to rise quite fast. If in the year 2000 life expectancy at birth reaches 45 years (the average for low-income countries in 1960), the resulting population will be around 1.5 million, representing an average growth rate of 3.3% per annum. Efforts at sustaining an adequate per capita GDP growth will have to be commensurately increased. The scanty information available for natality and fertility rates prevents further elaboration on this problem. The results of the population census, when fully analyzed, may help the Government realize the implications of this problem on Guinea-Bissau's future development and to consider provision of family planning services at the inception of an improved health system.

Political History

1.30 The early history of Guinea-Bissau is poorly documented and unclear. Its geographical situation and its extraordinary ethnic variety are factors indicating a possible historical connection between this territory and the political events in West Sudan, from the beginning of the Ghana empire in the fourth century to the Fula invasion in the eighteenth century. Traces of gold diggings in the Corubal and Geba valleys indicate that, if not part of the Ghana kingdom, the region had at least strong trade relations with the ancient empire, in which the gold trade had gained quite an important role. After Ghana fell under the Almoravides (eleventh century) until the settlement of the Mandingas of the Mali empire in a large part of what is now Guinea-Bissau (fifteenth century), this small territory was most probably reached by successive migrations caused by the wars and invasions that characterized West Sudan during this period. When in the fifteenth century the Mali kingdom reached its maximum expansion in the west (from the mouth of the Gambia River to the lower Geba), two important kingdoms had already been settled in Guinea-Bissau: Braco and Gabo (today the regions of Bafata and Gabu). Along the coast, former displaced peoples showed an ethnic distribution which was almost as it is today: Felupes, Mandjaks, Brames, Pepels, Balantes, Bijagos, and Nalus. The first and unsuccessful invasion of Fulas dates back to the last quarter of the fifteenth century (the pagan Fulacundas were led by Coli Tenguela). Defeated by the Mandingas and Beafades, these first Fulas settled

in the territory, continuing their pastoralist activities. By the eighteenth century, the Islamized Fulas were successful in the conquest of Fouta-Djallon and in defeating the Mandingas in Guinea-Bissau. In the nineteenth century, the two Mali kingdoms were destroyed, the Mandingas and Beafades were enslaved (Black Fulas), and only the white occupation halted the Fula raids against the pagan tribes of the coast.

1.31 During the Atlantic exploration sponsored by Henry the Navigator, Portuguese navigators reached the coast of Guinea-Bissau in 1446, one year after Cape Verde. The expansion along the African coast south of Cape Boujador aimed essentially at developing trade in inland products, mainly gold, malageta, ivory, and, later on, slaves. In order to secure the monopoly of the African trade, the Portuguese settled in Cape Verde and Sao Tome e Principe and built fortresses at various points on the mainland, namely in Cacheu and Sierra Leone. Excursions into the interior were limited and consisted mainly of exploratory navigation up the estuaries. By the early 1600s, the Spaniards arrived on the West Coast, and, later on, the Dutch, French, and English. The dispute between the French and English over occupation of Guinea-Bissau's territory would end only on the eve of the Berlin treaty (1878). Meanwhile, the French had already occupied Casamance, initially included in the territory controlled by the Portuguese (between Casamance and the Nuno River). In 1878, with British support against further French advances, the Berlin Treaty "allocated" to Portugal the present territory of Guinea-Bissau. Its frontiers--as they are today--were agreed upon in a Luso-French convention of 1886.

1.32 The Portuguese knew very little of this territory, and in order to secure effective occupation (as required by the Berlin treaty), they had to fight the people of the country, first the Felup and Mandjak (1878), afterwards the Fulas, Beafades, Balantes, and others. The fiercest opposition was from the Pepels, who continued to threaten Bissau as late as 1936. In 1915 the Portuguese were still living behind the town walls in Bissau, unable to travel safely into the interior. Total pacification was not achieved until 1936, after which Portuguese rule was extended to most of the territory.

1.33 Movements towards African self-rule were spreading among the educated elites of the neighboring countries when, in 1956, half a dozen Africans in Guinea-Bissau formed the African Party for the Independence of Guinea and the Cape Verde Islands (PAIGC). Amilcar Cabral was their guiding spirit. The party began with a peaceful appeal for political and social change. The dictatorship then installed in Portugal was not favorable to any democratic claim in the mainland, much less in its colonies, to say nothing of self-rule. When in 1959 Bissau dock workers at Pidgiguiti began a strike for higher wages, they were opposed by the police with the loss of some fifty lives. That same year the party went into armed revolt. In 1963 the guerilla war began.

1.34 It was to be warfare not simply to evict the Portuguese, but above all to reorganize the country along new lines. The mixture of races with their heterogeneous cultures and social organization was the first

problem. And the political struggle had to be quite intense to gain both international and popular support against the Portuguese rule. From military adherence to mere nonopposition, the forms of popular support varied considerably. Little by little, village committees were created, young fighters trained, and the Portuguese pushed to specific areas, where they formed hamlets comprised of the population under their rule. By 1967 half of the territory was under nationalist control. Bissau and a large part of Bafata and Gabu (on the east) would remain much longer under Portuguese rule. In 1972 the first national assembly was elected in the liberated zones: 273 representatives were elected to the regional councils, among which one-third would be deputies to the first national assembly; and 21 members of the PAIGC were chosen to represent the regions under Portuguese control. This first national assembly proclaimed independence from Portugal in September 1973. The following year, in September 1974, Portugal recognized Guinea-Bissau's political independence. Four months had passed since Portugal's own uprising against her former dictatorship.

Post-Independence Developments

1.35 Guineans had to rebuild a country devastated by war. Mines had to be cleared from hundreds of rural roads. A sixth of the population, the 150,000 refugees in Senegal, Guinea-Conakry, and Gambia, had to be settled. Agriculture, the mainstay of the economy, was in chaos. Wartime devastation and refugee movements had reduced the total land area under cultivation from one million acres in 1953 to only 309,000 acres in 1972, according to Portuguese statistics. Production of rice, the main food crop, had fallen 71%, from 100,297 tons in 1953 to 29,500 tons in 1972; output of groundnuts, the main export, had slumped 56%, from 63,975 tons to 28,000 tons. Once self-sufficient in rice, Guinea-Bissau had to import over 30,000 tons of it annually by 1974. That year, the trade deficit rose to a record US\$28 million, with exports at only US\$2.4 million, covering no more than 8% of the US\$31 million import bill.

1.36 The heritage was an awesome one. Besides the war, colonial neglect had left Guinea-Bissau one of the poorest, least-developed countries in the world. For the three Portuguese trading companies that were operating in Guinea-Bissau (CUF, Ultramarina, and Barbosa), the country was hardly more than a source of groundnuts and palm kernels, which were bought at artificially low fixed prices from the peasants through a network of village stores. The two crops accounted for 84.3% of exports in 1974 (and still accounted for 64% in 1979). There was--and still is--no mining industry and only a very small manufacturing sector, employing in 1977 a total of 1,800 people out of a total paid employment force of only 24,400, of whom over 15,000 were civil servants.

1.37 Besides tackling the disastrous economic legacy, the PAIGC's priority on taking power was to secure undisputed political control over the country. Here too it faced an array of problems. It had few skilled, qualified cadres with which to staff government ministries. It also had to set up a party apparatus from scratch in Bissau, a war-swollen city of 100,000 people, many

of whom had been dependent on the Portuguese administration and military for jobs and welfare. Moreover, some parts of the country were still unfriendly toward the party (mainly the Islamized Fula areas), and in a climate of acute economic crisis, there was always the risk that material hardship, especially the shortage of food, could create an audience for PAIGC opponents. In fact, however, the prestige the party had gained as the movement that led the country to independence had assured it overwhelming popular support, especially in the rural areas (which had suffered most from the Portuguese counter-insurgency campaigns). In the 1976 general elections for administrative councils (held under a one-party system with a straight yes-no vote on the party's local candidate), the PAIGC was given over 80% of yes votes. In Bissau this value reached 96%. From independence until a change in leadership in November 1980, Guinea-Bissau ranked as one of the most peaceful and politically stable countries in Africa. After the change in government in November, this reputation was reestablished.

Political and Administrative Framework

1.38 The political and administrative organization of Guinea-Bissau at the time the economic mission visited the country is depicted in Appendix A. According to the constitution, the Party has the power "to determine the political orientation of state policy and guarantee implementation thereof by appropriate means". The most important organ of the Party is the congress, whose delegates are indirectly elected from among the party members. The congress meets every four years to define broad policy lines and to elect a policy council and an executive council with direct responsibility in current affairs. Under an indirect election system, the national legislature, i.e. the 150-member national popular assembly, is elected. It meets once a year, and its powers are delegated to a 15-member state council, of which 11 belong to the Party's executive council. The president of this state council is the head of state. Until 1980 the presidency was held by Luis Cabral, the PAIGC's Deputy Secretary-General. The state council is responsible for choosing the state commissioners, who in turn form the cabinet, i.e. the state commissioners council. Administratively, the country is divided into regions, as shown in Appendix A.

1.39 Although the general political philosophy of the Government is more or less along socialist principles (primarily concerning the role of private enterprises), adherence to an orthodox or well-defined political doctrine has never been imposed on the country and seems to have been of little concern to most of its political leaders. Instead, a pragmatic policy of nonalignment has been followed rigorously, mainly to promote economic relations with and attract aid from the widest possible range of countries. Under the party's neutrality principles, help has been received from both East and West. In practice, relations are overwhelmingly with the West, even though it was the Soviet bloc and China that provided most of the help during the war. Since independence, most external trade has been with Portugal and EEC countries, and the main donors of food aid to Guinea-Bissau have been the United States, Sweden, Denmark, West Germany, and The Netherlands. Guinea-Bissau's relations with France developed in 1978, and since the end of the war, rapprochement with Portugal has been achieved. By mid-1978 Guinea-Bissau

was the first Lusophone African country to officially visit Portugal; it was also a key intermediary in restoring normal Portuguese-Angolan relations. Relations with Senegal were very cordial, and help from Brazil, Kuwait, and Saudi Arabia was welcome as well.

Unification with Cape Verde

1.40 Pragmatism was also the hallmark of the PAIGC's cautious approach to unifying Guinea-Bissau and the Cape Verde Islands--a policy which on paper had long been a party goal. The Cape Verde Islands, discovered in the 1440s by Diogo Gomes when they were uninhabited, were later populated largely with African slaves from what is now the Guinean-Senegalese coast. They became independent from Portugal in 1975. Their population speaks Crioulo (the most frequent language used in mainland Guinea-Bissau), and besides having many points of contact in ethnic origin, culture, and language, the two countries also had the common experience of rule by Portugal and, more recently, the leadership of several Cape Verdeans, among them a number of leaders of the PAIGC, who fought alongside the Guineans in the liberation war on the mainland. Unification was not, however, an easy task, and the goal has been abandoned. There was some resentment toward Cape Verdeans in Bissau, because many had emigrated to Guinea-Bissau and to Angola, to take jobs in the colonial administrations there--a reflection of the higher level of education in the archipelago. Moreover, economically the two countries had almost nothing to bring them together. Trade relations were practically nonexistent, and in 1979 only 2.4% of Guinea-Bissau's exports went to Cape Verde; the proportion of imports was even smaller. Before the coup of November 1980, the only steps towards unification were an Intergovernmental Commission, a unified judicial system, a free monetary zone, and a customs union; however, each country, when it abandoned the Portuguese escudo, set up a different currency.

Recent Political Evolution

1.41 In mid-November 1980 Luis Cabral was overthrown by a political coup headed by the former Prime Minister, General Bernardo Vieira, who heads the Provisional Revolutionary Council. The change in the power structure can be seen entirely in the light of a growing Guinean nationalism against the prominence of Cape Verdeans, both in the Party leadership and Bissau's administration. Corruption in some ministries (particularly the large trade and industry ministry), the lack of foodstuffs in Bissau (see para. 3.1), and the discontent of the work force with fixed wages in the face of the rising cost of living (25% in 1979) provided the direct reasons for the Government change. Many of the former ministers have retained their positions, and as witnessed by our recent mission, the Public Administration seems to have regained some of the lost morale. Early in 1981 Cape Verde withdrew from the PAIGC, forming its own party: the African Party for Independence of Cape Verde. The PAIGC continues to be the only political force in Guinea-Bissau. During the first congress to be held since the political change, General Vieira was elected its Secretary-General. Elections for a new national assembly are expected for late this year.

II. THE ECONOMY

The Sectoral Structure of the Economy

2.01 The quality and availability of Guinea-Bissau statistics are discussed in Annex B. Although the 1979 Census has greatly improved the data base, there are large gaps. Data on production and public finance are of poor quality and incomplete, and there are no official national accounts or balance of payments statistics. On the basis of statistical data supplied to the mission, an attempt has been made to prepare production and income estimates for the 1975-79 period. There are rough approximations, useful only as indicators of the overall size and structure of the economy and of recent growth trends. As such, they show a 1979 gross domestic product (GDP) at current market prices of 4,500 million Guinea-Bissau Pesos (GP) and per capita GDP of 5,860 GP, or about US\$170. The sketchy data available for 1979 show a sectoral breakdown of GDP and employment, as shown in Table 2 below:

Table 2: VALUE ADDED AND EMPLOYMENT BY SECTOR, 1979

	<u>Value Added</u>		<u>Employment</u>	
	<u>GP million</u>	<u>% of total</u>	<u>'000s</u>	<u>% of total</u>
Rural Production, of which	2,252.9	50.1	157.3	79.2
Agriculture and Livestock	1,852.1	(41.2)	(155.4)	(78.3)
Forestries	19.2	0.4	0.1	0.0
Fishing	100.9	2.2	0.5	0.3
Manufacturing	307.8	6.8	2.1	1.1
Construction <u>1/</u>	111.8	2.5	2.5	1.3
Transport and Communications	40.1	0.9	2.4	1.2
Commerce	568.5	12.6	5.2	2.6
Public Administration	1,068.6	23.8	19.3	9.7
Other	29.0	0.7	9.2	4.6
Total	4,498.6	2/ 100.0	198.6	100.0

1/ Does not include construction in subsistence sector. Includes manufacturing of construction materials.

2/ Gross domestic product at market prices.

Source: Bank mission estimates based on elements provided by the Guinea-Bissau authorities. See also Statistical Appendix, Table 2.1.

2.02 Agriculture and livestock constitute the major economic resources, providing a source of living for some 80% of the people and contributing 41% of GDP. Agriculture is partly for subsistence, partly for export, the latter consisting essentially of groundnuts. According to the first (and only) agricultural census of 1953, only 12% of the land was under cultivation;

it is estimated that by 1974, this value had dropped to 8.2% on account of the devastation caused by the war. Under optimal conditions of occupation and utilization of land, the percentage of land suitable for cultivation is estimated at 30%. Rice, the most important subsistence crop of the country, is grown on most of the irrigated land and represents 36% ^{1/} of total cultivated land. The average yields are about 0.8 tons/ha, but there has been almost complete failure of the crop in drought years. Rainfed rice, sorghum, millet, and maize account for 35% of the cultivated area. Other subsistence crops include root crops (manioc) and green beans. Average yields are low (0.5 tons/ha), as little improved seed is available and chemical fertilizer seldom applied. Tropical fruits are also grown, namely pineapple, banana, and mango, the latter providing a supplement to the usual diet of the population, especially in the dry season. As for cash crops, the most important is groundnut, which is grown on 20% of the cultivated land. Palm trees and sugarcane are grown mainly along the coast. Palm products are mainly exported; sugarcane is used to produce sugarcane rum (aguardente), widely consumed by the non-Islamized population. Animal draft power is not used at all; mechanization is almost nonexistent, and traditional tools are still the only ones used.

2.03 In Guinea-Bissau, livestock production is one of the average farmer's activities, with the exception of very few pure pastoralists. Livestock of some kind is to be found on practically all farms, large or small, and in total contributes about 15% of GDP (Statistical Appendix, Table 2.1). In general cattle is raised throughout the country, although 75% is concentrated in Bafata and Gabu. In some regions it is limited to household production, stables and pastures being confined to the immediate surroundings of the owner's house. Pigs, raised mainly among the non-Islamized ethnics of the coast, represent 44% of total meat production. Besides natural pastures, animals are fed with by-products of the local agricultural crops. The sanitary state of Guinean cattle is affected by tropical diseases, the eradication of which is impossible due to lack of veterinarians. In 1976 the country was served by a single veterinarian. The national livestock population is about 201,000 sheep and goats, 122,000 pigs, and 258,200 cattle (1980 livestock census). Donkeys, horses, and mules are rare.

2.04 With 65% of its territory covered by forests (i.e., 2.4 million ha), Guinea-Bissau is still far from taking full advantage of its forestry resources, whose contribution to GDP did not exceed 0.5 percent in 1979. Two main types of forest are to be found in the country: dense forest of the tropical humid type in the southwest (Tombali) and the semidry and dry tropical type in the remaining area, with the dry type mainly in the northeast. A complete inventory of national forestry resources is still lacking. Bissilom (Cailcedrat) seems to be the most abundant species, making up 95% of wood exports and 90% of wood sold on the domestic market. Wood of high quality, such as pau conta (Lingue) and pau bicho amarelo (Iroko), is often found

^{1/} 41% when rainfed rice is included.

along with the cut of bissilom, but its importance is still unknown. Total production of timber (excluding charcoal production) was in 1979 limited to 8,500 tons, of which 2,500 tons were exported. Estimates of SCET in 1976 indicate, however, that 120,000 tons of timber (of which 80,000 tons produce 15,000 tons of charcoal) could be produced without endangering the ecological balance or requiring a reforestation program. A state-owned company (SOCOTRAM) with 10 sawmills (10,000 tons capacity) is in charge of forest exploitation; it also manufactures furniture for domestic market, parquet flooring (mostly exported), and other wood products. Timber production is also undertaken by other private agents and is largely uncontrolled. There is no information on charcoal production, which takes place mainly in the rural-subsistence sector. A governmental strategy for the exploration of forestry resources is urgently required. The usual method of soil clearance by burning is estimated to destroy every year 30,000 ha of forest (e.g., 1.5% of the territory covered by forest); traditional exploitation of wood to produce charcoal is unrecorded as well. The reorganization of SOCOTRAM in 1978, following detection of mismanagement and corruption, has already shown beneficial results, and production of timber, manufactured products, and exports have since increased.

2.05 Guinea-Bissau has substantial fish resources both along the Atlantic coast and in inland waters. With a coastline of 220 km and a continental plateau extending some 100 miles, its fishing potential is estimated at between 250,000 and 350,000 tons of annual catch. At present, the sector contributes 3.4% of GDP, including industrial and subsistence production (around 3,700 and 3,800 tons respectively), and employs 0.5% of the active population. Although subsistence fishing has been practiced in the country for centuries and fish is a common complement in the diet of many ethnic groups, industrial exploitation started only in 1975. Lacking qualified labor, capital, and experience in industrial fishing, the country negotiated a set of bilateral agreements with other countries which provided for the granting of fishing permits, the setting up of mixed enterprises, and the provision of technical assistance and training to Guinean workers. So far, agreements have been reached with 15 countries, namely, USSR, France, Algeria, Portugal, Senegal, and recently with the EEC countries. In 1979, 54 foreign boats were authorized to fish in Guinean waters, representing roughly 80-90,000 tons of catch. However, the Guinean Administration has limited capacity to enforce the agreement terms with respect to total catch and limits imposed on specific species.

2.06 Three mixed fishing enterprises have been created since 1975. The first, Estrela do Mar, was formed with the participation of the USSR in 1975 and markets fish caught by eight rented boats (four Soviet and four Guinean). The second, Guialp, was established with Algeria to manage six small trawlers and a freezer shrimper but, because of problems of organization, has remained paralyzed almost since its creation; recently, a new agreement with Algeria provided for the investments needed to repair equipment and initiate activities in 1981-82. The third company, SEMAPESCA, was formed in 1978 with the participation of France and Senegal to provide for the storage, transformation, and marketing of its catch. The Senegalese withdrew from the venture soon thereafter. This company had a promising start. It operated in the Cacheu

estuary with a small number of boats, and there were plans to increase its fleet by 1985. Administrative and other problems led, however, to its paralyzation in 1981. Guinean participation in these ventures is provided directly by the Government in the form of 51% of equity. Fish processing is limited to freezing for commercialization purposes. Industrial fish production has been stagnating since 1976 at around 3,700 tons, although the shrimp catch has been increasing. The increase in international prices for fish products has, however, led to a substantial increase in fish production and export. In 1980 fish product exports accounted for 35% of total exports, and shrimp alone contributed 31% of total exports. The traditional sector is estimated to have around 800 canoes, which contribute some 66% of domestic consumption of fish. There are no exports from this sector. The methods are traditional, and less than 15% of the boats are motorized.

2.07 Mining in Guinea-Bissau is by law reserved to the public sector but is practically nonexistent at present. Partially identified mining resources include bauxite, phosphates, and petroleum. Bauxite is found in the Boe area, where deposits are estimated at 200-250 million tons, the area being the continuation of Guinea-Conakry's large deposits (36% of total bauxite identified in the world). The content of alumina is about 42-48%, although the iron content is high. Bauxite exploitation will depend on the economic feasibility of large-scale mining and transportation investments (including a new port, a railway, and roads). The port of Buba, 150 km from the Boe deposits, is deep enough to allow ocean transportation. The energy potential of the Corubal River hydroelectric project now under study may also favor bauxite exploration. There is also potential for a regional cooperation between Guinea-Bissau, Guinea-Conakry, and Mali to explore their common bauxite resources. Geologically, the rock structure of Guinea-Bissau consists almost entirely of sedimentary formations, which has raised the possibility that petroleum deposits may exist. In fact, in the late-1950s drilling by Exxon gave rise to speculation as to the possible existence of off-shore oil; however, world prices were too low at that time for development. An oil exploration promotion project, which includes a seismic survey, has been financed by IDA. There are also positive indications of phosphate deposits (according to the first surveys financed by FAC), namely in Farim, although at a depth of 30 m and with only 28% P₂O₂ content. The problems of exploration are related to depth and flooding from surface water. There are indications of other potentially interesting minerals, such as zirconium, ilmenite, clays, and limestone.

2.08 Although small and still undeveloped, the industrial sector in Guinea-Bissau has expanded considerably since 1975. There are (1979) about 70 medium-scale establishments employing 4,700 people (Statistical Appendix, Table 9.12). In addition, there are a large number of artisans all over the country carrying out activities of weaving, pottery, clothing manufacture, and metal-forging (fabrication of rudimentary farm implements used by the rural-subsistence sector). Private enterprises (small and medium units established in pre-independence times) and public and mixed enterprises (the result of the nationalization of former private enterprises) coexist in

the sectors of food processing, textiles, and construction. Production of light consumer goods for the domestic market is quite small, accounting for less than 8% of total non-food private consumption. Food production, including rice-processing and extraction of groundnut oil, amounts to less than 5% of total food consumption. Production of leather, footwear, pharmaceuticals, and food products other than bread, ice, and powdered milk (excluding rice-milling and extraction of palm and groundnut oils) are practically nonexistent. The role of new private investment in the industrial sector is quite limited. Credit available to the private sector represents less than 5% of total credit extended by the National Bank of Guinea-Bissau (BNG, which is the central bank, as well as the sole commercial bank in the country). The financial institutions that provided credit to industry and agriculture before 1975 (see para. 2.22) have been scaled down and are under reorganization. And the uncertainty about the post-1975 Government attitude toward private enterprise has also contributed to stagnation in new private investment. In 1981 an investment code was prepared to regulate direct foreign investment in the country. This may represent a change in official policies and an indication of increased support to private investment in the near future.

2.09 The constitution in force before the coup of November 1980 (and to date) has no specific rules for limiting sectors for private or public participation, although it stimulated the role of the state in owning both the land and its mineral resources. In fact, today's "modern" industry is controlled mostly by the public sector. A number of state and mixed enterprises have been established in the past five years. These include enterprises producing bricks and tiles, furniture and wood products, powdered milk, fruit juices, bread and ice, plus several shops to repair transportation equipment, a car assembly plant, and a large agro-industrial complex still being implemented. These state enterprises were set up at a time when the national managerial base was still extremely weak, and progress in strengthening it has been naturally slow. Thus, there is practically no state enterprise (with the exception of mixed enterprises receiving technical and managerial assistance) which keeps meaningful and up-to-date financial accounts, and as a result, assessment of their performance and delegation of control to their management has been difficult. The public sector industries account for most industrial investment but a disproportionately small share of industrial value added and employment.

2.10 The transport system consists mainly of coastal and river transport with many natural waterways and a road network dating from colonial times. The road network is relatively extensive, covering about 3,400 km, of which only 530 km are asphalted. Having been built mostly to serve military needs, it does not cover the southern part of the country, where the major rice-growing region is located. The north is better serviced, but most of its roads need rehabilitation. IDA's first project in Guinea-Bissau addresses these problems.

2.11 The geographic characteristics of the country make the river and coastal transportation quite important. The seven estuaries indent the country's territory far into the interior, totalling 1,000 km of navigable waterways. Population centers are usually located no more than 25 km from a waterway. The extensive coast (both continental and insular) is also important. All coast and river transportation structures are quite poor. The fleets owned by the two public commercial enterprises are poorly equipped, as are the ten vessels for coastal passenger transportation owned by the state company, Guinea-Mar. The inland ports are in very bad shape, and road links from these small ports to villages and farms are poor. The port of Bissau, situated on the Geba River (80 km inland) handles virtually all of the country's foreign trade and can be reached only by a channel constantly threatened by shoals and siltation. Domestic civil aviation is very limited but nonetheless provides rapid access to the main towns of the southwest. No railways exist, as the colonial activity was primarily centered on the exploitation of groundnut production, for which the inland waterways provided good transportation in low drafts.

2.12 Other forms of physical infrastructure are quite limited in Guinea-Bissau at present. Electricity consumption per capita is among the lowest in developing countries. About 4% of the population has electricity for domestic use, and even then in many cases supply is confined to certain hours of the day or subject to sudden outages. There is virtually no electrification in the rural areas. Total capacity is 12 MW, 87% in the Bissau area. The present system is based on about 200 small diesel generators, most of them very old. Hydroelectric power has not been explored so far, although there exist good opportunities for it, mainly in the region of the Corubal River (14 MW), its development being possibly connected with exploitation of the bauxite deposits in Boe. Major development projects financed by bilateral donors are being planned to double the present capacity, reenforcing the capacity of Bissau and six other cities. Piped water supply is also confined to the urban areas, and the proportion of the population served is similar to the 4% for electricity. Indeed, for the most part these groups are the same, and over 60% are in the capital city. With respect to communications, there are about 2,300 telephones in Guinea-Bissau (less than 3 for every 1,000 persons), of which 2,000 are in Bissau and 200 in Cacheu. A dozen interurban radio stations exist parallel to the urban network.

2.13 The availability of trained manpower has been and remains one of the major obstacles to Guinea-Bissau's economic development. There are shortages of trained manpower in many skill categories for most middle, as well as higher, technical positions. In some areas, such as accounting, there are virtually no trained local personnel available, and training has only just commenced. There is no university in Guinea-Bissau, but a number of Guineans have received (and continue in large numbers to receive) higher education abroad. It is still too early to know whether all of these will return to the country, given the lack of monetary compensation and underdevelopment of the country itself.

The Structure of National Expenditure

2.14 The estimates of GDP by categories of expenditures (Table 3) were based on available information for the external sector and part of the public sector; realized investment expenditures were estimated by the Ministry of Planning. Based on these elements, it appears that the levels of investment in Guinea-Bissau are quite high, which has been made possible through a resource gap on the order of 39% of GDP.

Table 3: EXPENDITURES ON AVAILABLE RESOURCES, 1979

	<u>% of GDP</u>
<u>Total expenditure on available resources</u>	<u>138.9</u>
of which:	
Consumption	106.1
- Private	56.2
- Public	49.9
Gross domestic investment	32.8
- Private	8.6
- Public	24.2
<u>Provided by:</u>	
GDP	100.0
Resource balance	38.9
Imports, NFS	52.2
Exports, NFS	13.3

Source: Statistical Appendix, Table 2.2.

2.15 Private consumption is determined as a residual in the above table, and its level is therefore of little interest. Something can, however, be said about its composition. About 75% of expenditure on private consumption is for food, of which approximately 80% is probably in the form of subsistence production. Of the remainder, clothing, drugs, pharmaceutical products (mainly imported), and other consumer goods absorb around 10% of total consumption, mainly available in the large cities. In the small towns and villages, the local state-owned retail stores generally carry a limited list of items: kerosene lanterns, cigarettes, matches, soap, some medicines, groundnut and palm oil, and, recently, canned food, for which there is little demand but which is imported under opened credit lines--mainly from Portugal--and is offered in local trade as a substitute for the usual goods against which local farmers trade their produce.

2.16 The level of investment in the private sector is certainly much below that of the public sector, both for net and gross investment. Most private investment is carried out in the subsistence sector for home construction and repairs; maintenance of irrigation dikes and small farm improvements; purchase of implements and heavy vehicles; and livestock - cows, sheep, and goats. Total net investment has probably changed little since 1975, for some of the former private investment in the modern private sector is now classified under the public or mixed sector. The low level of private investment (excluding that of the subsistence sector) may represent, firstly, a shortage of financial resources of the private industry affected by credit policies, low capacity, subutilization, and rising energy costs, and secondly, lack of opportunity for investment. It is difficult to appraise whether money income in the rural sector has increased, but it is plausible that the increase in farm-gate prices of some traded agricultural products, such as rice and groundnuts, tends to more than offset the decrease in marketed volume. A substantial (and parallel) commercial private sector has developed, benefiting from the almost chronic scarcity in the urban markets of goods of primary necessity (which range from soap and canned food to matches, butter, and eggs). The revenues of the viveiras (small entrepreneurs who buy large quantities of basic foodstuffs for resale purposes) and djilas (legalized tradesmen who carry out trade with neighboring countries) are largely unknown but estimated to be very high. Such funds are seldom spent for fixed investment purposes but are used instead to finance the commercial operations of this active group, which is always alert to the arrival of the next ship carrying new supplies of high-demand consumer goods. The remaining resources that may exist in the hands of some wealthy tribal rulers are rarely invested. First, there is lack of awareness of potential opportunities and the return from exploiting them; second, the average villager or townsman sees little tangible benefit from involvement with Government-related officials and agencies. Bank deposit rates of 6.5% are unrepresentative of financial opportunities. With mortgage loans being limited, private construction is also stagnant. The construction sector is mostly engaged in public investment projects, which are financed either by foreign aid or by credit from the central bank, for which the Government pays no interest. The role of financial intermediaries is therefore limited to commercial and foreign currency operations, for which a considerable parallel market is developing.

2.17 The distinction between government consumption and investment is somewhat arbitrary, since the classification of ordinary and extraordinary expenditures does not coincide with current and investment expenditures. Moreover, since there are no records on actual investment realized by sectors, and the only information refers to a global rate of realization, it is difficult to analyze the composition of total government expenditures. Many of the expenditures included under "extraordinary" are of a current nature. Our analysis of government consumption thus refers to the composition and financing of current expenditures. A salient feature of government consumption is the high proportion (approximately one-fifth) of the current budget spent on public safety and defense (including pensions for former combatants, as well

as special services for their families). Next in importance are the education and health sectors, representing together 24% of total current expenditures, or about 9% of GDP. The remaining 50% is rather evenly spread over the remaining sectors, although public works has the largest share.

2.18 Turning to the external sector, the share of foreign trade is quite considerable in the national economy. Exports and imports represent 13% and 52% of GDP respectively. The main agricultural exports have been groundnuts, palm kernels, and palm oil, followed irregularly by cashew nuts, which altogether represent 63% of total exports (1975-80). Fish and wood products (logs and sawn wood mainly) account for the remainder. Fish products have been the main source of export diversification during the last five years, rising from 10% of total exports in 1976 to 35% in 1980. Groundnuts, the main export until 1975, declined between 1977 and 1980 from 62% to 26% of total exports. With respect to imports, food and other consumption goods amounted to more than 40% during the 1975-80 period, intermediate goods and fuel 33%, and capital goods about 22%. The growth of capital imports was substantial in 1979, when capital goods related to projects accounted for 46% of total imports. Consumer goods, including food, declined to almost half of the normal share, 27%. All these figures, however, reflect only official trade data. The borders with Senegal (more than those with Guinea-Conakry) facilitate smuggling. Import controls of basic domestic food and consumption goods have encouraged the smuggling of groundnuts (and possibly rice as well) to obtain textiles, food, and shoes from abroad.

The Institutional Framework

2.19 Since independence, the Government has committed itself to centrally planned economic development. State intervention has been widespread in most economic initiatives in the country, even if administrative capacity has been poorly prepared to handle such a burden. Still, Guinea-Bissau can be characterized as a mixed economy. The traditional economy is, of course, virtually all private, but as noted above, most modern industry is publicly owned and managed. Imports are regulated by the State (through the BNG), as are wages, prices of most basic products, exports, and credits. Most domestic and external trade is dominated by two large state-controlled enterprises: Armazens do Povo (People's Stores) and SOCOMIN. The same companies also control the processing of groundnuts for export and rice-milling, as well as the transportation network serving the rural areas. People's Stores was created during the war to supply the areas controlled by the PAIGC, and at independence its director was made Minister of Trade. He kept this position until the 1980 change of government. SOCOMIN was a former Portuguese company (Ultramarina) that was reconstituted as a mixed enterprise with Government majority at independence.

2.20 Serious problems are posed by the Government administration having to run the economy without skilled personnel. To cite a striking example, the largest public enterprise, the Armazens do Povo, had no financial statements until 1980 on a number of operations equivalent to some 10% of nonsubsistence

GDP. The number of well trained and able governmental officials is minimal; they must cope with the daily routine, plus the need to train the remaining civil servants, the large majority of whom are underqualified. There is little capacity to prepare and implement projects, and heavy reliance is still placed on the hundreds of foreign assistance personnel in the country. Because of the centralized development strategy being pursued, the weakness of the public administration is the major determinant of the pace at which development can take place in Guinea-Bissau.

The Budget

2.21 The Ministry of Finance has formal responsibility for budgetary policy; however, the budget has been treated more as an accounting exercise than as a policy instrument. Every year individual ministries present their current expenditure estimates for the coming year, based on the current year's outcome and plans for the next year. Public expenditures are classified as ordinary and extraordinary (development) expenditures, the latter being mostly financed by external aid. The distinction is somewhat artificial, and it is not easy to differentiate recurrent from capital outlays, for all the "ordinary" expenditures and most of the "extraordinary" ones are really current expenditures.

2.22 The budget and fiscal system is that inherited from the Portuguese administration. Revenues are forecast every year on the basis of the previous year's realization. A salient feature of the fiscal system is the small size of the revenue base, compared with the extent of public sector intervention in the country's economy. The tax-to-GDP ratio is only 13%, while total public expenditure is around 52%. Although the share of government revenues is not much out-of-line with that of countries at a similar level of development, domestic receipts are grossly inadequate to finance even current budget expenditures, part of which have been funded through bank credit and foreign aid. Nontaxation revenue is quite important (20%-25% total revenues). As expected, indirect taxation is the most important source of public revenue (50%). Taxes on foreign trade and excise taxes on luxury consumption goods (whiskey, tobacco, and other imports) are the major sources of indirect taxation (Statistical Appendix, Table 5.2). Notwithstanding the pervasive role of public enterprises in the modern sector, they contribute little to public revenues. At the end of 1981, only one public enterprise presented positive net income: the mixed fishing company, Estrela do Mar. All others were running deficits. Unfortunately, no detailed information on their economic performance is available.

Money and Banking

2.23 There are only three financial institutions in Guinea-Bissau: the central bank (National Bank of Guinea-Bissau or BNG), which also operates as the only commercial bank in the country; the Caixa de Credito da Guine

(CCG), a government savings and loan institution; and the Caixa Economica Postal (CEP), a postal savings institution. ^{1/} The BNG was created in 1975 a few months after the establishment of the new Government. It assumed all the functions of the Bissau branch of the Banco Nacional Ultramarino (BNU), a Portuguese commercial bank which, prior to independence, had acted in Guinea-Bissau as the sole commercial bank and the official bank of issue and government depository. The BNG manages all foreign exchange reserves of the country and regulates foreign exchange availability through the fixing of quotas for imports and the implementation of foreign exchange controls. As the Government's bank, the BNG provides the Government with short-term advances and acts as depository for the Treasury and other commissariats. To date, no legal limit has been applied to government borrowing, although provision for such limit has been included in the proposed new law. All credit to the Government is provided free of interest. The structure of interest rates in Guinea-Bissau has remained unchanged since independence. The BNG does not pay interest on demand deposits and charges 6.5% on commercial loans.

2.24 At present, most of the BNG activity is concentrated in the control of foreign exchange and in acting as the Government's bank. About 90% of total bank lending goes to financing government operations. Credit to the private sector has been stagnant and represented less than 5% of advances outstanding at the end of 1979 (Table 6). The other two financial institutions which played a significant role before independence are presently curtailed in their operations. The Caixa de Credito da Guine (CCG) was a small government savings and loan institution catering to medium- and long-run requirements of industry, agriculture, and livestock. Since independence, the CCG has been managed by the BNG, pending its reorganization as a development bank. As a postal savings institution, the Caixa Economica Postal used to receive small savings through its postal offices throughout the country and grant medium-term and mortgage loans to individuals, in particular to government employees. Its operations have been scaled down since independence. Small commerce has been largely financed by the two big commercial state enterprises, People's Stores and SOCOMIN. Given the small role of the formal banking system, other informal channels have developed especially to finance commercial activities, as well as some short-run personal loans (para. 2.16). There is no information on the volume of these operations.

Trade and Exchange Rate System

2.25 Foreign trade is mostly carried out through Bissau, the only international port in the country. Authorized traders undertake some foreign trade

^{1/} A new institution, Instituto Nacional de Seguros e Previdencia Social, is being planned, which would merge the activities of three small financial institutions of the pre-independence times: Montepio Geral das Alfandegas, Caixa de Auxilio aos CTT (post office), and Caixa Sindical do Comercio e Industria.

through the northern border with Senegal, but there are no data on these operations. Foreign traders have traditionally played an important part in Guinean commerce. Besides the Portuguese (who handled most of the groundnut and palm kernel trade for export, as well as imported foodstuffs), Lebanese, Cape Verdeans, and Mauritians have played an important role in domestic retail trade. In 1976, out of 516 small traders, 71% were Guineans (of Guinea-Bissau), 11% were Portuguese, 7% Lebanese, 4% Cape Verdeans, and 4% from Mauritania. Most of these establishments are small and of a family type. Trade carried out by the state-owned commercial enterprises (SOCOMIN and People's Stores) accounted in 1976 for less than 30% of the establishments but more than 50% of total sales (excluding the parallel market). In 1979 these enterprises estimated their share in total sales at 75%. In 1976, 70% of total imports was carried out by state enterprises. Besides SOCOMIN and People's Stores, there are two other state-owned commercial enterprises: FARMEDI, which has the monopoly on importing drugs and pharmaceutical products, and GUINE-GAZ, which imports fuel and oil products. Their weight in total sales of the public trade sector is small: 4.0% and 0.9% respectively.

2.26 Trade and exchange rate policies consist of a number of regulations that are administered by the Trade Ministry and the BNG. With the exception of capital goods (for which complete exemption is granted), all imported and exported commodities are subject to customs duties. Taxes on foreign trade transactions are, in fact, the most important revenue source of the Government budget, accounting for around 40% of total revenues. Almost one-half of the import tax base is made up of four items--gasoline, textiles, cigarettes, and alcoholic spirits--and there is a predominance of consumer items. The tariff structure inherited at independence was unnecessarily complex, with 48 differential rate categories and preferential treatment of imports from Portugal. The import tariff was the subject of an in-depth study under UNCTAD/UNDP assistance in 1978. This was coupled with IMF technical assistance in drawing up a revised tariff nomenclature in line with the Customs Cooperation Council Nomenclature, appropriately modified to suit Guinea-Bissau. A new tariff came into effect in June 1979 with six basic categories. An additional 5% customs surtax (emolumentos gerais) remains intact. As regards export duties, the rate structure is characterized by about 76 ad valorem rates (in spite of the fact that four or five products account for 90% of total exports).

2.27 Foreign exchange is controlled by the BNG. Foreign exchange proceeds must be surrendered to the central bank, and residents must declare all their physical assets and exchange holdings abroad. The country maintains bilateral payments agreements with Algeria and Cape Verde. Exchange control is exercised over all capital receipts and payments. Capital transfers associated with emigration are authorized by "transfer norms" within a monthly limit of GP 50,000 and up to 20% of total (accumulated) taxable income earned during no more than ten years. At present, however, such transfers are suspended. Exports and imports of gold are prohibited. The Guinean peso is not freely convertible, and the only market rate for the GP is an illegal one to finance unofficial imports from the neighboring countries, especially Senegal. This market rate was close to GP 1 = CFAF 1 in 1980, that is, about 20% of the official rate. This rate gives an indication of the current excess demand for consumer goods and the overvaluation of the official exchange rate.

2.28 In 1976 the BNG implemented a currency reform, whereby all bank notes denominated in Guinean escudo were withdrawn from circulation and replaced by new bank notes. A new monetary unit, the Guinean peso (GP), was created, with a value fixed at par with the Portuguese escudo and an exchange rate vis-a-vis the SDR of SDR 1 = GP 33.93 (US\$1 = GP 25.55). It was pegged to and fluctuated with the escudo until 1978, when it was pegged to the SDR at the rate of SDR 1 = GP 44. In dollar terms, the average value for the GP during 1976-80 was US\$1 = GP 30.22; 33.67; 35.04; 34.06; and 33.81. From 1975 (when the Guinean escudo was pegged to the Portuguese escudo and US\$1 = Esc. 25.55) until 1980, the GP official foreign exchange rate depreciated by 32%, in terms of the U.S. Dollar.

III. RECENT ECONOMIC PERFORMANCE, 1975-79

3.01 The political change of November 1980 (para. 1.41) is testimony to the economic problems prevailing at that time, especially in Bissau, where 15% of the country population was faced with shortages of basic foodstuffs and consumer goods. Furthermore, in mid-1980 there was a general consensus that the development effort had slowed down, or at least that the effort to direct it toward the most needy had faltered. This was not only a side-effect of the disastrous droughts of 1977 and 1979 but also, and more seriously, the failure of the institutional base to evolve. Critical decisions were being held up by the Government, where the financial power of the Minister of Trade was still favoring industrially oriented policies. The Administration was weak and somewhat dispirited. Donors were becoming weary of sluggish project implementation and the failure to utilize the substantial infrastructure that was being created, so that there was fear that future aid inflows would be considerably below their present levels. The Ministry of Planning had made a serious effort to initiate the preliminary preparation of a program of development, and an investment program for 1981-82 was prepared. These studies were representative of the position of the Ministry of Planning in development matters (namely in supporting rural development policies); they did not, however, imply any firm commitment of the Government to following their recommendations.

3.02 An important element in the phase preceeding the coup (1975-79) was the series of droughts and related bad harvests. The droughts discouraged the spread of inputs and influenced the production of rice (the main staple of the population) and groundnuts (the main export). Not only was rainfed production affected; the droughts also led to an increased level of salt content on the bolanhas, where paddy rice is grown, and some three years are needed for the soil to recover from the excess of salt. Contrary to its initial hope, Guinea-Bissau was still far from being self-sufficient in its main foodstaple, and rice--with prices controlled by the Government--was being sold increasingly on the black market. Finally in 1979, the farm-gate price of rice was increased by 50%, a record level under the flexible price policy the Government adopted in mid-1977 to promote agricultural production and avoid import subsidies, while the general increase in prices in 1979 was around 25%. Government employees on fixed wages saw their purchasing power eroded and their basic needs hardly being met.

3.03 The slow growth of Guinea-Bissau's economy during this period (roughly estimated at around 3% per annum) was basically due to the expansion of public services, commerce, and activities related to the investment program of the Government, such as construction, transportation, and workshop services. Production of consumption goods apart from soft drinks and beer was stagnant, and imported commodities were limited by the external disequilibrium (which has led to negative net foreign assets since 1978). By the end of 1980, the lack of foodstuffs and consumer goods in Bissau had become serious.

Reserves of rice and wheat flour were depleted, and until the arrival of more food aid shipments, Bissau's population remained without these main staples. At that point, the people were ready to support a new government in the hope of significant changes. The other factors that helped bring about the coup were analyzed above (para. 1.19).

Production

3.04 Tentative bank mission estimates of the GDP of Guinea-Bissau (para. 2.01) for the 1975-79 period show a small growth of the economy: 3.0% per annum of GDP, and GDP per capita is estimated to have increased by 1.0% per annum at constant 1979 prices and exchange rates. This is attributable mainly to the expansion of the public sector, as well as to the recovery of manufacturing of beverages, the expansion of the industrial sector, and the growth of fisheries, livestock, and wood production, all of which have offset the decline in agricultural production. Our estimates of agricultural output are, however, based on official elements and do not include production channeled toward parallel markets (both in domestic and external trade), which have been quite active in Guinea-Bissau for a long time, notably in trade of rice and groundnuts. ^{1/} Because of this, the agricultural estimates presented below could be considerably underestimated.

Table 4: GROSS DOMESTIC PRODUCT, 1975-79
(Constant 1979 prices in US\$ million)

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>Rate of Growth % Per Annum</u>
Gross Domestic Product	117.5	123.3	114.5	129.5	132.1	3.0
Primary Production	70.4	75.9	66.1	75.7	69.7	-0.0
Agriculture	(40.0)	(42.5)	(31.0)	(39.4)	(33.8)	(-0.4)
Livestock	(15.3)	(16.5)	(17.7)	(19.1)	(20.5)	(7.6)
Fisheries	(0.6)	(1.8)	(2.4)	(2.8)	(3.0)	(49.5)
Secondary Production	11.8	7.3	9.6	13.1	13.1	2.7
Services	35.3	40.0	38.8	40.6	49.3	8.7
Population ('000)	702.2	716.3	737.9	752.6	767.7	2.0
Per Capita GDP (US\$)	167.3	172.2	156.5	172.2	172.1	0.7

Source: Statistical Appendix, Table 2.3.

^{1/} Rice smuggling into Senegal, Gambia, and Guinea-Conakry has existed since the 1950s. At that time, Guinea-Bissau was a net exporter of rice (around 40,000 tons annually), mainly to Portugal. When Indochina became independent of French rule and former French colonies were thus cut off from Indochinese rice supplies, Guinea-Bissau became (unofficially) an important supplier of rice to its neighbors.

3.05 Fluctuations in agricultural output have a major influence on the performance of the economy as a whole. The period since 1975 has been characterized by two important droughts, which affected the amount of rice production and, consequently, total agricultural production. Rice accounts for around 40% of agricultural output. Its decline from 106,000 tons in 1976 to 45,000 tons in 1977 explains the drop in primary production. The 1979 drought had similar effects, but by then farmers were growing more drought-resistant crops, both for self-consumption and for sale. The change in Government-controlled prices had also favored a shift towards rainfed crops (see Tables 5 and 6 below). The shortage of rainfall also affected the production of groundnuts, the most important agricultural export, which until 1978 had accounted for more than 50% of export earnings. The 1977 drought led to a drop of 25% in groundnut production, and there was only a slight recovery in the following years; in 1980 it fell even further to a record low of 20,000 tons. Exports followed the same pattern, and by 1980 shelled groundnut exports were 6,800 tons, less than half of the 16,500 tons exported in 1977. These are official values, which do not include possible smuggling into neighboring countries. Conditions are, in fact, conducive for such trade. Even though the export price of groundnuts is more or less in line with the international market, constraints on foreign exchange and the widespread lack of consumer goods in the country make the smuggling of groundnuts into neighboring countries an attractive enterprise.

Table 5: PRODUCTION INDEX FOR MAIN AGRICULTURAL PRODUCTS, 1976-80
(1976 equal to 100)

	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
Rice	100	42.5	70.8	42.5	23.6
Manioc	100	116.7	133.3	150.0	167.0
Black maize	100	108.3	116.7	125.0	133.0
Brazilian maize	100	106.3	112.5	118.8	125.0
Sorghum	100	101.1	102.2	103.4	104.5
Groundnuts	100	73.3	80.0	72.0	66.7
Palm kernels	100	127.6	241.5	148.7	134.6
General Index	100	71.8	64.6	79.3	72.5

Sources: Estimates of Ministry of Agriculture; Statistical Appendix, Table 9.6.

3.06 The consequences of the fall in rice production were especially important in the urban sector. In the rural sector, farmers adapted to rice shortages by planting other crops; but in the urban centers, the shortage of rice had to be compensated by imports of rice and other basic foodstuffs. The amount of rice necessary to supply the urban centers and rural areas that

suffer rice shortages is estimated at around 17,000 tons annually. In average weather conditions, domestic supply (official trade) accounts for 5,500 tons, and imports fill the remainder. In 1978 traded rice surplus fell to 1,100 tons, and 28,000 tons were imported; 1/ The food import bill reached a record US\$19 million. By 1979 the domestic market for rice improved (5,500 tons of farmers' sales), owing to better weather and a 50% increase in producer prices (Table 6). However, in the following years, the trend became negative again. In spite of a second increase in producer price, the volume of marketed rice fell to 2,200 tons in 1980 and 685 tons in 1981. 2/ In 1980 imports were severely constrained by foreign currency shortages, and external rice supplies came in the form of food aid, which suffered several delays in delivery. By the end of the year, on the eve of the change in government, Bissau was facing serious shortages of this staple. In 1981, in order to prevent further social problems, the new Government imported 33,300 tons of rice, part of which was intended for restocking purposes. While the new Government plans to support expansion of rice production, no specific measures have so far been taken.

Table 6: FARM-GATE PRICES FOR SELECTED PRODUCTS: INDICES
(1976 = 100)

	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
Rice (Paddy)	100	100	100	147	167
Manioc	100	110	110	130	140
Black Maize	100	100	125	188	188
Brazilian Maize	100	100	100	120	120
Sorghum	100	100	267	300	300
Groundnut (Unshelled)	100	119	119	119	178
Palm Kernels	100	100	125	125	125
Global (weighted average)	100	106	116	150	166

Source: Statistical Appendix, Table 9.5.

3.07 Food aid has been quite important, representing 93% of food imports (including 15,000 tons of rice) in 1979. With the exception of a small fraction (around 1,000 tons, according to customs records) distributed to

1/ The average amount of rice imported by the Portuguese during 1970-74 to supply the regions still under their control, once the southern rice-producing areas fell under nationalist control.

2/ Statistical Appendix, Table 9.6.

hospitals and boarding schools, most food aid is sold on the domestic market at nonsubsidized prices. In 1979 government receipts from the sale of donated rice should have been as high as US\$7.6 million, that is, more than 30% of the tax revenues paid to the Treasury the same year.

3.08 Industrial fishing started in 1975, when the first mixed enterprise (with Soviet participation) was created. By 1979 two more had been created. In 1979 industrial fishing production attained 3,700 tons (3,000 tons of fish and 700 tons of shrimp), against 4,100 tons in 1977 (3,500 tons of fish and 600 tons of shrimp). This decline is the result of immobilization of one of the companies (Guialp) and of some boats of the main firm, Estrela do Mar. In 1979 the third company was activated, compensating in part for the decline in production of the first, but by 1981 it was itself paralyzed. Under current regulations, fishing enterprises must limit exports to 40% of their catch and sell at least 60% on the domestic market. This has restricted the amount of foreign currency the enterprises need to import fuel and other materials, pay for the services of expatriate managers, and repair and maintain ships and equipment. The Guinea-Bissau peso is not freely convertible, and delays in import authorization are frequent. Estrela do Mar, the only enterprise currently in operation, is apparently in better shape, for both fuel and other imports are sold by the USSR at subsidized prices. The proportion of shrimp in total production increased steadily from 5% to 25% between 1976 and 1980. In value terms, the increase in international prices for fishing products more than offsets the stagnation in total production: between 1975 and 1979, value of fish production in current prices increased at 30% per annum. Its contribution to GDP remains small (2%), but the contribution to total exports is substantial: 38% in 1980.

3.09 As for wood production, it recovered from the 1976-77 slump, and both domestic sales and exports were substantially increased. Again, its importance has been primarily as a source of export earnings; its contribution to GDP was less than 0.5% in 1979. The volume exported is still below the level reached in 1975, but the substantial increase in international prices for wood products explains the record export earnings (US\$969,000) attained in 1980.

3.10 The other sectors that contributed to growth in GDP were: public administration, whose contribution to GDP grew between 1975 and 1979 from 18% to 24%; manufacture of beverages, which recovered from its decline in 1977; and the activities of metallurgy and construction, stimulated by the investment program of the Government. Thus, much of the growth in GDP was geared to government expenditures. The resulting increased income was not matched by any increase in consumer goods supplies (especially foodstuffs). Domestic production was sluggish, and investment goods were given priority in sharing scarce resources to pay the import bill. Food supply did not increase as fast as urban population; the control on basic foodstuff prices (without rationing) encouraged the growth of parallel markets, and hoarding became evident.

Monetary Trends

3.11 The volume of Guinea-Bissau's money supply grew from GP 625 million at end-1975 to GP 1,360 million in December 1979, an average annual growth rate of 22%. The growth is ascribed primarily to the Government's financing needs. The current budget has been growing at 29% per annum, and the overall deficit at 33%. Until 1978 most of the current deficit had been financed through credit from the central bank, which amounted to 60% of current expenditures in 1978. In 1979 foreign resources expanded by a three-fold increase in external borrowing to US\$45.4 million and financed 88% of the current budget deficit (Table 8). Part of the government deficit has been offset by extraordinary receipts accruing from the marketing of food aid (mainly rice) and from credits allocated to development projects. In normal conditions, these receipts would finance investment expenditures and other special projects. Due to the low rate of implementation of investment programs (30% in 1979), unspent balances have accumulated in the Government's "earmarked deposits" account and in ministerial "special accounts"--during 1975-79, unspent balances represented 60% of BNG credit to the Government. The effects of government deficits on the money supply growth have been partially offset by the successive deficits in the balance of payments. In 1979 the substantial increase in foreign assets was partially offset by the decline in net credit from the central bank, so that money creation fell to the level of 1977 (Table 7).

Table 7: TRENDS IN PUBLIC FINANCE, 1975-79
(In GP millions)

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>
Current Budget					
Revenues	529.1	532.6	531.0	519.0	834.6
Expenditures	<u>776.1</u>	<u>907.5</u>	<u>945.3</u>	<u>1,039.1</u>	<u>1,533.2</u>
Balance	-247.0	-374.9	-414.3	-520.1	-698.9
Development Expenditure	458.1	516.6	771.3	1,653.0a/	1,800.0a/
Overall Balance	<u>-705.1</u>	<u>-891.5</u>	<u>-1,185.6</u>	<u>-2,173.4</u>	<u>-2,498.9</u>
financed from:					
Banking system (net)	150.6	258.7	326.8	556.3	84.8
Government accounts	(107.3)	536.1	668.5	667.4	386.8
Commissariat accounts	(43.3)	-175.7	-157.3	66.3	-268.7
Earmarked deposits	--	-101.7	-184.4	-187.4	-33.3
Foreign financing	687.8	679.3	1,011.9	1,507.6	2,538.6
Grants	236.5	426.0	705.1	940.0	991.7
Loans	451.3	253.3	306.8	567.6	1,546.9
Other b/	<u>-133.3</u>	<u>-46.5</u>	<u>-153.1</u>	<u>109.5</u>	<u>-124.5</u>

a/ Provisional estimates.

b/ Represents mainly financing differences between accounts of the different sources utilized.

Source: Statistical Appendix, Table 5.1.

Table 8: MONETARY SURVEY AND SOURCES OF MONEY CREATION, 1975-79
(In GP millions end-of-period)

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	March <u>1980</u>
Net Foreign Assets	224	256	59	-325	-78	-256
Net Domestic Assets	401	479	846	1,538	1,469	1,681
of which:						
Credit to Central Government(net)	111	370	696	1,253	1,338	1,436
Credit to Public Enterprises	312/a	315/a	336/a	628	411	444
Credit to Private Sector	..	..	..	51	62	103
Money and Quasi-Money	625	735	895	1,213	1,381	1,425
Business and Individuals	..	..	..	346	339	335
Public Enterprises	238/a	195/a	249/a	179	218	217
Notes and Coins in circulation	387	540	646	658	802	838
Quasi-money	..	..	..	31	25	26

Sources of Money Creation

Increase in Money Stock		<u>110</u>	<u>160</u>	<u>318</u>	<u>178</u>	<u>44</u>
Due to:						
Increase in Domestic Credit		<u>142</u>	<u>367</u>	<u>682</u>	<u>-69</u>	<u>212</u>
Central Government(net)		259	327	556	85	98
Operational accounts(net)		(536)	(669)	(677)	(387)	(-20)
Commissariat accounts		(-176)	(-157)	(66)	(-269)	(91)
Earmarked deposits		(-102)	(-184)	(-187)	(-33)	(27)
Public and mixed sector		3/a	21/a	343/a	-217	33
Private sector		..	..	..	11	41
Other items /b		-183	19	-208	53	40
Change in Reserves		<u>-32</u>	<u>-207</u>	<u>-374</u>	<u>247</u>	<u>-178</u>
Current Account		-711	-1,219	-1,881	-2,298	..
Capital Movements		679	1,012	1,508	2,545	..

/a Includes private sector.

/b Other items, including profits and losses of the bank system, which influence total money supply.

.. Not available.

Source: Statistical Appendix, Table 6.1.

3.12 Since state institutions receive allocations from both earmarked accounts and ministerial special accounts, their deficits are less important than the deficit of the government budget. Given that other financial flows, such as private credit, are quite negligible, money creation plus the decrease

in foreign assets provide an order of magnitude for the overall deficit of the public sector, which reached GP 430 million in 1979, that is, around 10% of GDP. The lack of adequate management increases the seriousness of current government deficit, as expansions in credit may not correspond to funding priorities. It seems, for example, that a considerable part of public receipts stays in the hands of commissariats, with no control exerted by the Ministry of Finance.

Budgetary Developments

3.13 Since independence, both current and development expenditures have increased rather rapidly. Almost totally financed from abroad, development expenditures increased during 1975-79 at about 50% per annum; their weight in total outlays reached 59% in 1979 (against 37% in 1975). Current expenditures have grown at the slower pace of 18.6% per annum. Public revenues have been stagnating, except for a sharp jump in 1979 due to the introduction of a new tax on imports of consumer goods. Even so, public revenues were vastly insufficient to cover current expenditure, and the ordinary budget deficit reached more than 80% of current revenue in 1979.

3.14 The growth of current expenditures reflects the expansion of public services, e.g., education and health, and the increased role of the state in the economy. More than 60% of current outlays are spent on wages and salaries. Unit salary levels, however, remained frozen until late 1980. In 1979 1/ education and health were allocated 23.5% of current expenditures, defense and public safety 15.1%, and the remaining ministries received less than 10% of total outlays each. There are no data on the composition of actual development expenditures. Besides planned expenditures, the mission obtained information only on planned expenses and provisional information on the global realization of programmed investment. For 1979 and 1980 the percentage of planned investment expenditures actually realized was 55% and 35% respectively. With respect to the composition of programmed investment (see Table 9), transport infrastructure has been allocated almost one-fourth of total development expenditures, followed in 1979 by energy (13%), agriculture (10.8%), and education (10.1%). The lack of statistical information prevents the analysis of the relative success of each ministry in the implementation of their own projects.

1/ See Statistical Appendix, Table 5.3.

Table 9: PLANNED DISTRIBUTION OF PUBLIC DEVELOPMENT EXPENSES, 1978-81
(in percentage of total programmed)

	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u> <u>a/</u>
Productive Sectors, of which	..	<u>45.2</u>	<u>31.3</u>	<u>29.2</u>
Agriculture, forestry and livestock	10.5	<u>6.1</u>	<u>10.8</u>	<u>11.7</u>
Fisheries	4.3	21.3	6.9	6.9
Industry	15.1	13.2	9.8	6.8
Economic Infrastructure, of which	<u>40.6</u>	<u>33.2</u>	<u>46.4</u>	<u>39.7</u>
Energy	2.3	<u>3.6</u>	<u>13.1</u>	<u>7.4</u>
Transports	36.7	21.6	26.1	24.4
Social Sectors, of which	..	<u>17.5</u>	<u>18.3</u>	<u>24.8</u>
Education	4.9	<u>7.8</u>	<u>10.1</u>	<u>14.8</u>
Health	0.6	2.0	3.1	4.3
Other	0.8	4.2	3.9	6.3
Total	100.0	100.0	100.0	100.0
(Actually realized)	(72.7)	(54.8)	(35.3)	(67.7)

.. Not available.

a/ Estimate provided by CECEP.

Source: Statistical Appendix, Table 5.5.

3.15 One of the main problems in administering public finance has been the shortage of qualified personnel, which has rendered difficult the task of running day-to-day operations of the Government and the launching of a major development effort. These problems have been especially evident in the areas of budget preparation and control and government accounting. A Treasury statement of accounts has not yet been prepared, and the preparation of expenditure and revenue accounts is sometimes delayed for several months. A complete record of the overall central government operations is not available, owing, in part, to these accounting problems and also to the fact that until 1978 some of the ministries did not transfer to the Treasury part of the revenue they collected; these amounts were then spent independently, thereby making it difficult to centralize the accounts of all financial resources available to the Government. After 1978 this situation was altered; all revenues and expenditures have been centralized, and all accounts of the commissariats at the Banco Nacional da Guine-Bissau (BNG) have been frozen, pending their transfer to the Treasury.

Wages and Prices

3.16 The Government is, by far, the largest employer. An employment survey conducted in 1977 showed a total of 24,357 persons employed in the wage sector of the economy, 6.8% of whom were in the primary sector, 7.6% in the secondary industry, and 85.6% in the services sector. Government employees numbered 15,051, not including armed forces personnel. Data on wages are fragmentary. ^{1/} Prior to independence, the minimum monthly wage in Guinea-Bissau was GP 800; on taking office, the new Government raised the minimum to GP 2,400 (US\$70). This wage does not apply to household servants and other employees, who receive part of their remuneration in kind. No further increases were granted until the post-coup (November 1980), when the minimum wage was increased by 25%. In the civil service, salaries range from GP 2,400 a month (US\$70) for the lowest grade to a maximum of GP 23,400 (US\$690) at the highest level. Wages are generally higher in mixed enterprises than in public enterprises and Government. In early 1980 the average salary in the mixed sector was around GP 6,400 a month; no minimum level wages were being paid. In public enterprises, 4.1% of workers were receiving less than the minimum wage (perhaps due to their being under 18 years of age), and the average wage was around GP 3,900 a month. The lowest wage is paid to cleaning people, porters, and clerk assistants. For accountants, cashiers, and secretaries with experience, the monthly wage can go up to GP 10,000 in public enterprises and to GP 13,000 in mixed enterprises. Electricians, forgemen, mechanics, and other blue-collar workers are paid wages ranging GP 3,000-12,000 a month; senior managers, ministers, and general directors are on the top of the pay scale, with salaries ranging from GP 15,000 to GP 25,000. Wages in the private sector are unknown. In the public sector, employees contribute 6% of their remuneration to a pension fund; retirement is set at age 65. In addition, there are a few specialized pension funds applicable to different parts of the government service, such as the Postal Service, Customs Administration, etc. In the private sector, workers are insured by the Trade Union Providence Fund, under the supervision of various trade unions, which together form the National Union of Workers of Guinea-Bissau (UNTG). Trade unions are controlled by the Party, PAIGC. Working Party committees in each enterprise participate in personnel management and help in solving most of the working problems.

3.17 Prices of consumer goods are controlled by the Ministry of Commerce and Handicrafts. For control purposes, consumer goods are divided into three categories: (1) basic necessities for which the Government tries to keep prices stable for long periods; (2) commodities also with fixed prices which are allowed to change at shorter intervals in accordance with trends in import prices; and (3) other products whose prices are controlled by the setting of retail and wholesale margins. Price statistics are very limited. The Statistics Division of the Planning Ministry collects prices of a list of foodstuffs, household goods, and services for the city of Bissau on a monthly

^{1/} See Statistical Appendix, Tables 7.1 and 7.2.

basis. However, a study of consumption patterns has been undertaken only recently, and its results are awaited for devising an overall price index. In addition, most prices are set by the government-owned retail stores, Armazens do Povo (People's Stores), which are committed to selling products at government-controlled prices, and may not reflect the average price. In many cases, prices of small retailers substantially exceed those officially reported by the Armazens do Povo. Finally, because of supply constraints, some of the items on the commodity list are not available for sale in certain months, which explains why price series for individual commodities are often discontinuous.

3.18 In spite of these shortcomings, the Bank mission prepared rough estimates for a general price index based on informal elements collected for a more or less typical family in Bissau. ^{1/} They provide a rough (and probably low) approximation of the actual price trend, especially during 1975-77, when many prices were not provided. On this basis, one observes a small increase in prices in 1976, followed by a considerable acceleration since that time: 9% in 1977, 14% in 1978, and 21% in 1979. The upward trend continued through 1980, with inflation estimated at more than 50%. The growth in the consumer price index reflects the increase in government-controlled prices, which aimed at avoiding subsidizing imported products and at increasing farm-gate prices to stimulate production. The price of rice, which accounts for an estimated 34% of consumer expenditure, rose by 50% between 1977 and 1980, butter by 33%, meat products by 81%, soap and drugs by 170%, groundnut oil by 36%, and bread prices tripled. The price of fish, which accounts for 10% of consumer expenditure, rose by 128%, reflecting the competition of the export sector (international prices for fish products increased by 160% during 1976-79). Finally, the price of fuel more than tripled. Charcoal, which accounts for around 11% of consumer expenditure, was by the end of 1980 six times more expensive than in 1978. Elements for the second quarter of 1981 confirm this tendency. In spite of the fact that rents have been fixed, the presence of hundreds of expatriates in Bissau has resulted in a shortage of housing and a dynamic parallel market, where current rents are twice or thrice the official ones. With this rapid growth in prices over the past few years, fixed-wage government employees saw their already low standards of living rapidly eroding. The prompt decision of the new government to increase the minimum wage by 16% (early 1981) reflects the importance of this problem in the capital of the country.

^{1/} Statistical Appendix, Tables 7.3 and 7.5.

Table 10: PRICE TRENDS FOR SELECTED COMMODITIES IN BISSAU, 1976-81
(1976 = 100)

	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>June 1981</u>
Rice	100	100	117	150	150	150
Sugar	100	100	100	100	115	120
Groundnut oil	100	114	125	125	155	164
Butter	..	..	100	121	133	129
Fish	100	100	154	131	228	274
Kerosene	100	113	188	253	396	413
Soap	100	120	120	214	324	375
Estimated Price						
Index (low)	100	102	116	141	221	379
Index (high)	100	117	145	232	280	452

Source: Statistical Appendix, Table 7.3.

3.19 In order to keep prices of some basic necessities relatively stable, the Government established in 1976 a Commercialization Fund to subsidize certain consumer goods, for which the retail price determined by the authorities was fixed below cost. Provision was also made for the subsidization of export products, and export prices were below producer prices. Since 1977 subsidies on imported goods have been very limited, although some implicit subsidies arise when imports obtained through donations are sold below international prices. However, since such goods are provided free of charge by foreign donors, they do not represent a financial burden on the Commercialization Fund. On the contrary, until 1981 it became a major source of finance for the ex-Ministry of Commerce and Industry (now Ministry of Commerce and Arts and Crafts), which until late 1980 had complete control over the resources of the Fund. These accrue from (a) the difference between producer and export prices; (b) the difference between import prices and sale prices, after taking into consideration marketing margins of the intermediaries (Armazens do Povo and SOCOMIN); and (c) a certain percentage of the consumption tax on spirits and imported tobacco. Since subsidies have been quite limited, the resources of the Fund have been accumulating. Finally, they were invested in the construction of an oxygen plant, in storage facilities for butane and gasoline, in a fruit tree plantation, and possibly in other ventures over which the Ministry of Planning had little control.

Balance of Payments

3.20 Data on private remittances and transfers, on tourism, shipping, and insurance costs, as well as on various factor and nonfactor services were not available during the 1980 mission. Information from various government

sources (Central Bank and Ministry of Finance primarily) enabled the mission to make tentative estimates of Guinea-Bissau's balance of payments for the period 1977-80, based on information available for the trade balance and for the capital movements in the public sector, although these are hardly monitored in a systematic way. IMF estimates were used for 1975 and 1976.

3.21 The results for 1975-80 show a growing deficit on current account, caused by a 50% increase in the resource balance deficit and consecutive deficits in net factor income and private transfers. It is difficult to determine the cause of these deficits, which by 1980 reached US\$17 million. This may be due to payments of services for technical assistance and military aid or unrecorded imports for which there was foreign financing (recorded). In fact, in many cases major gifts such as ships, airplanes, and other heavy equipment do not appear in official external trade statistics. External borrowing and official transfers increased by 60% between 1975 and 1978, but they were not enough to offset the current deficit; the overall deficit rose from US\$1.5 million in 1975 to US\$10.7 million in 1978. At the end of 1978, net foreign assets had declined to -US\$9.5 million, and payment arrears totalled US\$10.8 million. In 1979 the external disequilibrium was improved through external borrowing. Including concessionary project loans, capital inflows amounted at end-1979 to US\$72.0 million, of which 40% was in the form of grants. This was sufficient to bring the overall balance to positive levels and raise net foreign assets to -US\$2.3 million. In 1980 merchandise imports were strongly controlled and remained at US\$61 million--less than the previous year. However, declining export earnings and smaller capital flows led to a US\$7.6 million deficit in the overall balance. Net foreign assets were now at -US\$9.9 million, and payment arrears were at US\$3.3 million. Gross reserves covered two months of imports.

Table 11: SUMMARY BALANCE OF PAYMENTS, 1975-1980
(US\$ million at current prices)

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
<u>Current Balance</u>	-31.2	-44.9	-32.3	-48.8	-64.8	-69.6
Exports, NFS	7.3	6.7	15.9	15.1	17.6	20.2
Merchandise (fob)	(5.9)	(5.4)	(12.7)	(12.1)	(14.1)	(11.3)
Imports, NFS	42.5	41.2	41.3	55.4	68.9	72.5
Merchandise (cif)	(37.8)	(36.6)	(36.7)	(49.2)	(63.3)	(61.3)
Net Factor Income and Private Transfers (M< Interest Paid)	4.0 (..)	-10.4 (..)	-6.9 (..)	-8.5 (..)	-13.5 (-2.1)	-17.3 (-0.9)
<u>Capital Account</u>	29.7	46.0	26.2	38.1	72.0	62.0
Official Grant Aid	9.3	14.1	20.9	26.8	29.1	28.6
Net M< Loans	17.7	8.4	9.1	16.2	45.4	13.9
Disbursements	(17.7)	(8.4)	(9.2)	(16.5)	(46.7)	(16.8)
Repayments	(0.0)	(0.0)	(0.1)	(0.3)	(-1.3)	(-2.9)
Other Capital i.n.e. a/	2.7	23.5	-3.8	-4.9	-2.5	19.5
<u>Overall Balance</u>	-1.5	1.1	-6.1	-10.7	7.2	-7.6
Change in Reserves (-increase)						
Foreign Exchange	-1.2	-7.0	4.5	8.8	-2.5	5.7
Payment Arrears	2.7	5.9	1.6	1.9	-4.7	1.9
<u>Memorandum Item:</u>						
Net Foreign Assets	6.6	7.5	1.4	-9.5	-2.3	-9.9
Gross International Reserves	11.5	17.7	14.8	9.5	17.7	12.5
Equivalent Months' Imports	3.2	5.1	3.2	2.1	3.1	2.1
Debt Service/Exports	..	..	..	..	18.8	18.1 (paid)

a/ Includes some short credit lines and errors and omissions.

Source: Statistical Appendix, Table 3.2.

3.22 After declining by 9% between 1975 and 1976, export earnings (in US dollars current value) recovered substantially in 1977 and have increased since then at 8.3% per annum. Imports remained (in dollar terms) at the same level during 1975-77, increasing during 1977-80 to 20% per annum. This resulted in a persistent and growing trade deficit, which reached record proportions in 1979, owing to the sharp increase in goods imports. The coverage ratio of imports to exports ranged between 16% and 39% in 1975-80,

being 28% in 1980. Increase in export earnings was due mainly to the increase in value of exported groundnuts, palm kernels, and fish products. In 1978 the decline in export of groundnuts was offset by increased export of palm kernels. By 1979 both palm kernels and groundnuts were exported in less quantity than two years prior, but the increase in their export prices together with the substantial increase in fish exports raised total export earnings by 16% (compared with 1978). In 1980, however, both volume and export price of all main commodities (except fish products) went down, and the value of goods exports fell by 20%. The average growth rate in goods exports during 1975-80 (14% per annum) reflects for the most part the increase in main export prices, which on the average increased at 27% per annum. In volume and after the 1977 spurt (32%), exports have actually been declining.

Table 12: TRENDS IN PRINCIPAL EXPORTS
(Current US\$ Million)

	1975		1980		Annual Rate of Change (%) 1975-80
	\$ Million	%	\$ Million	%	
Total Exports	5.87	100.0	11.30	100.0	+14.0
of which:					
Groundnuts	4.13	70.3	2.97	26.3	-6.4
Palm Kernels	0.65	11.1	2.06	18.3	+25.6
Fish <u>a/</u>	--	--	0.62	5.5	+18.9 <u>b/</u>
Shrimp <u>a/</u>	--	--	3.34	29.6	+63.0 <u>b/</u>
Wood Products	0.51	8.7	0.97	8.6	+13.7
Other Products	0.58	9.9	1.34	11.7	+18.2

a/ Export of fish products started only in 1976.

b/ 1976-80.

Source: Statistical Appendix, Table 3.3.

3.23 The recent evolution of goods imports in Guinea-Bissau reflects a phase of rapid growth during 1975-79 (12.5% per annum), followed by an absolute decline of 10% in both 1980 and 1981 (provisional values). The change in the trend is due mainly to Government efforts to solve the balance of payments problem by restraining merchandise imports. The rapid growth during 1975-79 was, for the most part, the result of the growth in imports of capital goods (machinery and transportation equipment) and intermediate goods: 41% and 23% per annum, respectively. Consumer goods imports, including food, increased at the rate of only 1.7% per annum (in US\$ current value). Food imports had actually declined after the abnormal import of foodstuffs in 1978 to compensate for the effects of the drought on domestic food production);

imports of beverages and tobacco, constant over 1976-78, fell by 30% in 1979; the only other imported consumer goods--mainly household appliances, furniture, clothing, and medical products and drugs--had grown at higher rates: 18% per annum. Fuel imports (including lubricants) fluctuated significantly--and continue to do so--and were in 1979 almost at the same level as that in 1975, which may reflect the erratic performance of the industrial sector. In 1980 the situation changed drastically. Import of capital goods declined by 25%, growth in intermediate goods imports slowed down to 12%, and, while imports of food rose by 27% to compensate for another bad agricultural year, imports of beverages and tobacco fell 11%, and other consumer goods by 25% (Table 13).

Table 13: TRENDS IN PRINCIPAL IMPORTS
(Current US\$ Million)

	1975		1980		Annual Rate of Change (%)		
	\$ Million	%	\$ Million	%	1975-80	1975-79	1979-80
Total Imports	37.8	100.0	55.0	100.0	+7.8	+12.6	-9.4
Of which:							
Consumer Goods	15.6	41.2	16.9	30.7	+1.6	1.7	1.2
Foodstuffs	9.5	25.2	10.2	18.5	+1.4	-4.2	+27.2
Beverages and Tobacco	2.2	5.8	1.2	2.2	-11.4	-11.6	-10.5
Other Goods	3.8	10.1	5.5	10.0	+7.7	+17.6	-25.1
Intermediate Goods	5.4	14.2	14.0	25.4	+21.0	+23.5	+12.1
Oils	5.2	13.7	3.4	6.1	-8.2	-6.6	-14.5
Machinery	1.4	3.6	8.8	16.0	+44.4	+90.0	-51.3
Transportation Equipment	5.7	15.0	12.1	22.0	+16.3	+13.8	+27.4

Source: Statistical Appendix, Table 3.6.

3.24 As a result of the rapid growth in imported capital and intermediate goods (closely associated with investment in infrastructures and the implementation of some new industrial plants) and despite the decline in 1980, the structure of total imports changed considerably during the period 1975-80. The share of capital goods in total imports rose between 1975 and 1980 from 19% to 38%, and at the end of the period, capital and intermediate goods accounted for 67% of total imports. The share of imported fuel, having doubled from 1973 to 1974 (from 6% to 13%), due to the rise in world oil prices, has oscillated around an average of less than 9% and accounted for 6.1% of 1980 imports. Consumer goods, which had accounted for more than 40% of imports during 1975-78, fell to 30% in 1980. The amount of imported foodstuffs has fluctuated between 13% and 39%, depending on domestic production of foodstuffs.

3.25 The recent evolution of Guinea-Bissau's imports, as analyzed above, is associated both in composition and rhythm of growth with the flows of foreign aid into the country. In fact, the role of foreign grants in financing the country's imports is substantial. In 1979 foreign grants, both in cash and in kind, covered 48% of total imports; grants in kind in the same year made up 71% of food imports and more than 50% of capital goods imported. Moreover, the slow growth observed in food imports during 1975-79 (1978 imports excluded) and the rapid growth in imported capital goods can be explained by the growth of foreign aid in kind, which has been flowing into the country at the annual average rate of 5.3% for food aid and 56.8% for equipment and other materials (Appendix Tables 3.11 and 3.12). The dependence of the country on the continuation of this foreign aid to secure the necessary food imports--as well as to pursue its program of developing basic infrastructure--is, therefore, quite heavy. Whether or not the enormous amount of food grants flowing into the country has had any negative effect on domestic food production is still to be studied. It is likely, however, that the relative ease with which the country has obtained food aid may have alleviated the urgency the Government would otherwise have felt to stimulate agricultural production, which has been stagnant since independence.

3.26 Average import prices paid for food tend to oscillate with the proportion of donations in total imports and with the price value imputed by donors to their gifts. This is why in 1978 the average price of food stuffs increased by more than 50%. 1/ (They afterwards declined). Of the main food products imported, prices for powdered milk and butter were the only ones higher in 1979 than in 1976. For other food imports, the price was the same or lower. Nevertheless, a gradual change in the structure of imports, with the emphasis shifting from relatively low-valued, bulk foodstuffs towards high unit-value, intermediate and capital goods, caused the total import bill to double between 1975 and 1979. 2/

3.27 Although there is no import price index for Guinea-Bissau, estimates of terms of trade based on official values indicate that after a favorable shift in 1977 (reaching 198.2 versus 100 in 1976), the terms of trade began to deteriorate, reaching 158.7 in 1978 and 143.6 in 1979. This unfavorable trend is due mainly to the increase in both prices and weight of machinery and construction materials imports, which has offset the threefold increase in the average export prices since 1976. Taking into account the fact that imports are being evaluated at donors' prices and the high quality of some donated equipment (vehicles and other machinery), the actual declining trend in terms of trade may be not significant, for it may reflect the quality of the material donated rather than the actual prices the country would pay, were it to buy similar products on external markets. In 1980 the terms of trade showed a considerable recovery, due to the increase in price of fish products and wood exports and to the decline in imported machinery.

1/ Statistical Appendix, Table 3.9.

2/ Statistical Appendix, Table 3.6.

3.28 Both exports and imports have shown great diversification since independence. In export markets, Portugal's share fell from 92% to 27% between 1974 and 1980. New partners, such as Switzerland and Spain, now absorb 23% and 25% respectively. Exports to Europe still represent the bulk of exports: 80%. Export of groundnuts to Angola during 1978 and 1979 increased Africa's share to 32% (1979). This figure fell to 16% in 1980, when exports to Angola ended. The sources of imports were also diversified (Appendix Table 3.11). The share of imports from Portugal decreased from 64% to 31% between 1974 and 1980, and those from EEC countries increased from 9% to 26%. Imports from COMECON countries, which began in 1975, represented 15% of total imports in 1979 and 8% in 1980. The role of imports from Europe is still very large, having reached 79% in 1980.

External Assistance

3.29 Official grants to Guinea-Bissau, including food aid, have been growing quite rapidly--from US\$9.3 million in 1975 to US\$29 million in 1980. Most of this increase represents donations of equipment and material for projects, which have increased more than four times since 1975 and which in 1979 represented 50% of total grants. Food grants (20% of official grant aid in 1979) have grown at a slower pace. Cash grants, which until 1978 were growing in importance (representing in that year 55% of total grants), declined in 1979 to about half the 1978 level, representing only 29% of foreign grants. Given the manifest lack of adequate administration to manage grants in cash, as perceived by donors, it is likely that grants in kind will continue to substitute for grants in cash.

3.30 Foreign loans, most on highly concessionary terms, have fluctuated between US\$9 million (1977) and US\$46 million (1979). Some short-term credit lines were opened, namely with Portugal and Cape Verde. As mentioned above, part of these loans were used in financing the current deficit of the balance of payments. In 1979, partly due to the inability of the economy to absorb all incoming foreign aid for projects and partly due to the application of foreign loans to the settlement of a portion of the outstanding payment arrears, the overall balance presented a surplus of US\$7.2 million, reducing substantially the negative position of the net foreign assets account. The volume of foreign aid flowing into Guinea-Bissau was roughly US\$90 per capita in 1979, or about 50% of GDP. Total debt outstanding, including undisbursed, was US\$164.2 million at the end of 1979, or about 120% of GDP.

Table 14: EXTERNAL PUBLIC DEBT OUTSTANDING END-OF-PERIOD
AND AVERAGE TERMS, 1975-79

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>
<u>Total (in US\$ million)</u>	<u>14.5</u>	<u>18.4</u>	<u>21.6</u>	<u>45.1</u>	<u>164.2</u>
Type of Creditor:					
Bilateral Loans	14.5	16.4	17.9	26.9	84.3
Multilateral Loans	-	-	1.7	7.6	54.4
Financial Institutions	-	-	-	4.1	7.1
Suppliers Credits	-	2.0	2.0	6.5	18.4
<u>Average Terms</u>					
Interest rate (%)	1.7	1.3	3.3	3.9	3.4
Maturity years	14.6	28.9	13.5	17.5	26.1
Grace years	7.7	7.9	3.3	4.2	5.7
Grant element	53.7	65.1	37.4	40.6	45.4

Sources: Ministry of Finance data; Bank staff estimates.

3.31 Debt service payments have been relatively insignificant up to 1979 because of the concessionary nature of the loans received and disbursed. However, as the grace period on some of the loans expires, debt servicing costs have risen sharply and will average during 1981-86 US\$10 million per annum. In June 1981 the Ministry of Planning addressed the problem at the Conference on the Least Developed Countries, proposing that a study should be made of the possibility of cancelling the country's external debt. He also added that a meeting for renegotiation of the debt was to be held as soon as possible. Table 15 below displays the projected debt service during 1981-85 and the weight of debt service obligations on public revenues and export earnings.

Table 15: PROJECTED DEBT SERVICE, 1981-85

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
<u>Debt Service (US\$ million)</u>	<u>8.3</u>	<u>8.5</u>	<u>16.3</u>	<u>8.4</u>	<u>8.2</u>	<u>11.2</u>
Interest	1.6	2.5	2.8	2.2	2.0	1.8
Repayments	6.7	6.0	13.5	6.2	6.2	9.4
% of Government Revenues	34.7	30.3	49.5	22.1	18.7	22.3
% of Merchandise Exports	73.5	80.2	110.4	44.4	36.9	42.8

Source: Bank estimates on the basis of official data.

PART B: DEVELOPMENT PROSPECTS AND ISSUES

IV. DEVELOPMENT PRIORITIES IN THE 1980s

The Challenge

4.01 After centuries of little change, Guinea-Bissau's economy has entered a period of transition and diversification, both in political and economic terms, with consequences for the country's medium term potential. The Government in power is committed to planned economic development and to reversing the traditional neglect of the rural areas. Structural changes in the economy and the new rhetoric have aroused enormous expectations among Guinea-Bissau's people. Meeting these expectations will not be easy. While there is a substantial potential for sustained economic growth, the country needs to develop the tools with which to exploit it. The political, economic, and institutional infrastructure inherited by the Government at independence is being transformed, and this has brought a new vitality and a greater awareness of what it is possible to achieve. Major development initiatives have already been launched with support of external assistance, but the need for adequate institutions and skills is still far from being met, and the constitution of a government machinery geared to the development effort is likely to prove both long and painful. The challenge for the country's leadership lies in ensuring that expectations do not run too far ahead of the Government's ability to deliver results.

The Government's Strategy for 1982-86

4.02 Development planning in Guinea-Bissau started quite recently. At the time of the 1980 mission, the first sectoral investment plan (1980-81) had been put together, and the preparation for the first four-year development plan (1982-85) had been initiated. The plan aimed at implementing the rural development strategy chosen by the III PAIGC Congress in 1977 as the official strategy for the country. After 1977 the official development activities deviated from this ideal strategy, but its inclusion in the general principles approved in 1980 by the Government reflects the attempts of the Ministry of Planning to reorient Government policies toward the 1977 strategy. Agriculture was envisaged as the main engine of growth. By concentrating the investment effort in the agricultural sector, the country could attain self-sufficiency in foodstuffs and increase export earnings. With higher productivity levels and an increase in farmers' incomes, a domestic market for simple farm implements and consumer goods could develop and thus promote the expansion of a small-scale industry based on traditional skills. In the medium run, increased export activity and higher agricultural production would provide the necessary means of financing the development of processing industries based primarily on agricultural products. In the short run, the initial development would be supported by external assistance (both financial

and technical), which would continue to be sought under the present strict nonaligned foreign policy. The Government would maintain a central role in the planning and coordination of the development effort, which would, however, depend primarily on the farmers' private initiative. Through this strategy, the following medium-term objectives would be possible:

- (a) a rate of economic growth sufficient to ensure adequate increase in real per capita income and consumption;
- (b) an equitable distribution of the benefits of development between rural and urban areas; and
- (c) provision of basic needs in education and public health to the rural world.

4.03 As previously mentioned, early hopes of promoting the country's development by emphasizing the rural sector were frustrated by poor coordination of activities of the different Ministries, neglect of the agricultural sector, excessive emphasis given to the State trading sector, and unwise investments in projects of doubtful economic viability. By the end of 1980, the country was facing serious problems: increasing budget deficits resulting from unlimited bank credit; high rates of inflation; sluggish agricultural production; increased smuggling of cash crops to neighboring countries; high deficits in the balance of payments; and greater dependence on external assistance for financing imports and debt service obligations.

4.04 In view of these circumstances, the new Provisional Government has postponed the First Development Plan by one year (now 1983-86) and prepared a short-term stabilization program for 1982, aimed at solving the most urgent short-run problems. Specific measures include: increased budget discipline; devaluation of the official rate of exchange; reorganization of the state trading sector; reversion of a large part of the distribution circuits to private concerns; support of private initiatives and private investment; revision of the structure of farmers' prices; and establishment of control over imports. During our last visit in early-1982, the stabilization program was still being discussed, and we do not know the nature or magnitude of the measures that have been approved. It is expected, however, that it will be quite difficult for the Government and the political Party to reach a consensus on this short-run program, given the current lack of capacity for establishing an overall plan that could provide some relief from the consequences of some of these measures (notably, the deregulation of rural prices, privatization of cash crops trade, devaluation of the Guinean Peso) on the urban standard of living, which the political structure is unwilling to disrupt.

4.05 The First Economic and Social Development Plan, now scheduled for 1983-86, is being drafted by a recently established planning body under the supervision of three Ministries: Planning, Finance, and the Central Bank.

The Plan is expected to be approved by the Government and the National Assembly by December 1982. Its basic development strategy is, again, rural development aimed at satisfying the population's basic needs, making the country self-sufficient in food production, and laying the foundations of a balanced economic and social development policy, while keeping the country's external deficit within tolerable limits. These objectives are to be attained in gradual stages, and the allocation of investment and of external aid will have to be carefully planned. Special attention is given to the need to stimulate participation of all economic agents in the development effort; to rehabilitate the modern sector; to support the agricultural sector; and to transfer the role the Government currently plays as principal agent of development to a dynamic private sector.

4.06 Specific sectoral programs have already been outlined, although in a rough form.

- Agriculture. In the first phase, agricultural output is to be increased through extension of the area under cultivation, particularly the rice-growing areas (bolanhas), and through more efficient management of water resources. Gradually, agricultural production is to be intensified through the introduction of improved seeds, fertilizers, pesticides, and other inputs, under the guidance of extensionists. The principal crops to benefit from this program are (in addition to rice and other food crops) groundnuts, cotton, cashew nuts, and palm kernels. As a consequence of agricultural expansion, it is expected that more animal feed will become available to support larger herds of livestock and thus increase the production of meat, poultry, dairy products, and eggs to supplement the population's diet.
- Forestry. Provision is to be made for exploration of forestry resources as possible sources of fuel (firewood and charcoal), building material, packing material, and veneers (for export).
- Fisheries. Support to industrial fisheries oriented toward export markets and small-scale fishing to supply the internal market is to be provided.
- Mining. Mining is to be developed and deposits of bauxite, phosphates, and petroleum explored through foreign direct investment.
- Industry. The industries that are to receive Government support are those processing agricultural products (e.g., rice-milling, groundnut processing, palm oil and copra processing, etc.), which use simple machinery and relatively little energy. Sugarcane is to be transformed into sugar and alcohol through the use of simple and relatively inexpensive machinery (such as that used in Brazil). Palm oil is to be used for making soap, certain hard fibers (ramie, jute) are to be cultivated and used for the manufacture of sacks, rope, etc., and tobacco is to be grown for the manufacture of

cigarettes (at present being imported in considerable quantities). Cottage industries for the manufacture of fabrics, yarns, garments, and textiles are to be encouraged. Other industries to be established or expanded include potteries and those manufacturing or repairing agricultural machinery, bicycles, metal goods, etc. The already implemented industrial capacity, which for the most part is operating with huge deficits, is to be appraised in terms of economic viability, so that it can become a source of economic wealth, rather than an additional burden on the central budget and balance of payments.

- Infrastructure. Support for the establishment of a marketing and storage network is to be an important component in fostering agricultural expansion. Besides an adequate price policy, storage facilities are to be constructed at the village level, and reserve stocks of essential foodstuffs are to be established in the capital and in regional centers. The road network is to be improved, and the use of waterways for transporting goods is to be encouraged. The authorities are planning the formation of a public transport enterprise, which is to be responsible for managing and maintaining a fleet of trucks and boats for cargo transport.
- Energy. The electricity supply system, which at the moment experiences frequent power failures, is to be expanded and extended, especially in the rural areas. All existing generating plants are thermal and use petroleum products. Efforts are to be made to utilize alternative sources of energy (wood, hydroelectric, biomass).
- Education. The emphasis will be on training people for the tasks of daily life, on instruction in the elements of hygiene, on literacy, simple arithmetic, and vocational training. Efforts are to be made by the central authorities to supervise more closely and to coordinate investments in the educational sector.
- Investment policy. A higher share of planned investment is to be allocated to agriculture, forestry, and livestock, with a consequent reduction in the shares of industry and economic infrastructure. This redistribution of investments is expected to correct the imbalance that exists between the capital and the interior and contribute to a slowing down of the rural/urban migration.

Learning from Past Experience

4.07 While these principles are still very broad, they show quite a change in the Government's attitude since our first visit in October 1980. Apparently, the country has now gained political and administrative experience upon which it can draw to avoid a recurrence of certain problems. At independence, a new and inexperienced administration took office. This explains

deviations from the official rural development strategy. Examples are the industrial projects implemented during 1976-79, for which the country was not prepared, either in terms of markets or skilled labor. This was the case of the large agro-industrial complex of Cumere (financed on hard terms and of dubious profitability), the car assembly plant (Citroen), the factory to produce oxygen and acetylene, and other industrial projects, which are today recognized as unwise experiments to be avoided in the future. However, during the period 1976-79, these projects probably accounted for not more than 15% of total development expenditure. The remainder was allocated to a myriad of small projects in agriculture (11% of total), infrastructure (transport, energy, and water systems), education, and public health. Most of them have encountered delays in implementation, which were mainly due to the lack of qualified manpower and scant administrative capacity. At present, the Government believes that the effort to create a minimum economic infrastructure has already produced results and that during the quadrennial plan period (1983-86), development outlays in agricultural production will be feasible. The return of Guineans studying abroad and the graduation of several hundred pupils in secondary education will help to alleviate the current human capital constraints.

Assessment of Development Policies

4.08 The mission considers the Government's objectives adequate (in as far as they are available). Increasing rural productivity and income, improving health and literacy standards, and improving the availability of consumer goods in the villages seem to be appropriate objectives, if living standards are to be raised. There is, however, reason for concern about the success of the Government in implementing this strategy, given the human and financial constraints facing the country. So far, priority has, in effect, been given to the establishment of economic and social infrastructure, which has been financed by external assistance and is expected to enhance the medium-term potential of the country. The problem of feeding people under drought conditions was alleviated by food aid programs of external donors, and direct programs to increase farm production have been limited to certain projects (still in an experimental phase) aimed at increasing average yields. Very little has been done to stimulate cultivation in areas that were abandoned during the war, to provide price incentives to agriculture producers, and to improve the marketing channels in rural areas. The results of the first agricultural projects have been encouraging: average yields of rice and groundnuts more than doubled, and the receptive attitude of the farm population has been quite good. However, seldom has there been serious economic evaluation of these projects, for the benefits derived have been low, compared with the cost of building water pumps, irrigating fields, or using improved seeds and fertilizers. While the Government is planning to extend these programs to larger areas (and also to improve the marketing and transportation system to rural areas), the effort may prove economically unjustified, if farmers must

start paying for those improvements they are now enjoying for free. Moreover, the macroeconomic climate could, in the short run, impose serious constraints on development. In particular, the Government's liberal fiscal and monetary policies might have eroded the confidence in the Government's economic management needed to assure the heavy flow of foreign aid, which by 1979 had reached 50% of GDP. Fortunately, the new Government has become aware of the limitations the present macroeconomic situation represents for the future development of the country.

4.09 Notwithstanding the understandable political orientation toward self-reliance, it is likely that in Guinea-Bissau's case, there will be an alternate policy of reliance on foreign aid for many years to fill the resource gap. The financial role previously played by Portugal would thus be assumed (and broadened) by the international community. The existence of large volumes of foreign aid since independence already reflects this alternative, particularly since the aid has financed consumption as well as investment. The Government recognizes, however, that foreign aid cannot be considered a permanent feature of the economy, depending as it does on political circumstances and the competing demands of other developing countries. About 15% of the foreign assistance to Guinea-Bissau is food aid directly related to the drought, and this support should end if and when climatic conditions improve. The Government must now seek to reorient the foreign aid presently available to a public investment program which links the development infrastructure to production possibilities, particularly in the sectors where the country has the best comparative advantage and in undertakings with shorter gestation periods. These actions are necessary to prepare Guinea-Bissau for greater economic independence in the future.

4.10 In the medium term, however, the need for foreign aid will continue in order to carry out the investments under way or planned, as well as to help finance recurrent costs. Efforts to upgrade social services, especially in education and health, are likely to create recurrent cost financing requirements well before the productive investments are able to generate the needed funds. This emphasizes the continued importance of foreign aid to finance both capital and recurrent expenditures in the coming years.

Prospects

4.11 The uncertainty of weather conditions, the future level of foreign aid, and the impact of current projects in Guinea-Bissau, combined with the very rough nature of past macroeconomic data, make it particularly difficult to evaluate the long-term development prospects for this country. While the potential for economic recovery and expansion are certainly substantial--notably in the primary sector--the country's institutional constraints, its lack of absorptive capacity, and the serious domestic and external disequilibria are likely to confine Guinea-Bissau's future economic growth to levels lower than those that might be feasible were its potential fully

developed. For illustrative purposes, the potential of the primary sector is analyzed in detail, and a picture of the situation in 1990 is presented under conservative assumptions. The overall macroeconomic situation includes assumptions of a recovery in primary output, a substantial increase in private consumption (needed as an incentive to farmers' production), a reduction in the growth of public expenses, and a slowing down in the investment rate, taking into account the country's absorptive capacity and the inflationary effects of high investment rates.

4.12 The following review of sectoral possibilities indicates the economic potential of Guinea-Bissau's primary sector:

- (a) Agricultural output has the potential to rise sharply with the implementation of current and proposed projects, more rainfall, and some increase in the cultivated area in response to growth of the labor force. By 1990 agricultural production could meet the country's consumption requirements of food in terms of cereals 1/, fruits, vegetables, root crops, and oil seeds. Achievement of such growth would require the extension of current productivity-raising projects to 30% of the rice-cultivated area and to 12% of that cultivated with rainfed crops (that is, 53,100 ha of rice and 13,600 ha of rainfed crops). It would also require substantial, but feasible, improvement of marketing mechanism, storage, and transport facilities; reform in prices; and availability of consumer goods to compete with parallel markets. Moreover, if present groundnut development projects could be extended to 60% of the actual area planted (60,000 ha), or if the 1953 level (105,000 ha) could be restored, groundnut production would plausibly attain 100,000 tons, of which 80,000 could be exported.
- (b) Fish landings can reach 13,200 tons or nearly double the 1979 level, with an increase of the industrial fleet from 11 to 20 boats (as currently planned for the 1980-85 period) and substantial but feasible expansion in the number of motorized canoes. Assuming an annual per capita fish consumption twice as high as today, this would yield a volume of fish exports around 8,000 tons (four times the 1978 exports) which, at 1979 prices, would represent US\$16.0 million. This would be well below the potential annual catch, estimated at 300,000 tons, so that the country is in a reasonable position to pursue its policy of granting fishing permits under bilateral agreements. But this in turn would require improvement in capacity to administer and enforce the terms of these agreements.

1/ Consumption of cereals was estimated on the basis of per capita annual consumption of rice: 105 kg (175 kg paddy); 65 kg of rainfed cereals; and 32 kg of manioc. Population was projected as reaching one million in 1990, based on an average growth rate of 2.3% per annum.

Investment in storage facilities, equipment for artisanal fisheries, and, later on, development of fish processing activities are appropriate approaches to the expansion of value added in the sector. Foreign investment could also be attracted to the sector, provided proper connections were established.

- (c) With a consistent plan for the prevention of forestry depletion, wood production could reach the full potential of annual yields-- around 120,000 tons. Out of this total, 16,000 tons could be exported in the form of logs and timber (more than five times that currently exported, yielding at 1979 prices a total of US\$3.0 million a year). Given the country's present limited managerial capacity, the Government would need to consider joint ventures to exploit its forestry resources, although strong administrative support at the central level would still be needed primarily for control purposes.

4.13 The above developments would correspond to annual growth rates during 1980-90 of 13% in agriculture, 5.3% in fishing, and 17.8% in forestry. Compared to the actual decline in agricultural output during 1975-80 and to a much smaller growth rate in forestry, these growth rates seem highly unrealistic. The strategy chosen for the agricultural sector (see para. 4.06) is that of expanding agricultural output, firstly by increasing the cultivated area, and secondly by increasing the use of chemical inputs, improved seeds, new crops, and active extension services. The success of these policies is, however, primarily dependent on farmers' incentives, and while such policy measures are already under preparation, it will take time until they are implemented and the results become significant. Moreover, some of the most urgent measures (e.g., privatization and marketing of agricultural products, deregulation of agricultural prices, devaluation of official exchange rate, improved project selection, etc.) will probably be delayed, for it will be difficult for the politicians to accept their immediate consequences in sensitive areas, such as urban food prices. Finally, official estimates for 1980-81 indicate a continuing trend of falling agricultural output, and while these figures may underestimate the amount of agricultural production sold on parallel markets, we have no alternative but to use the conservative assumptions in our projections.

4.14 Under these assumptions, the average growth in real GDP of 3-3.5% per annum would seem realistic over the 1980-90 period, although higher rates could be achieved in the last half of the decade. To achieve these rates of growth, investment would have to be concentrated in the rural sector, so that agricultural production could by 1985 attain the levels reached ten years earlier, and the country could attain a greater degree of food self-sufficiency than currently exists. The development of fisheries and forestry would continue at a slow rate until 1985, until the Government's position on private foreign investment in these sectors becomes more defined and can actually produce some results, and the managerial capacity that hinders development in these sectors could be substantially increased. Given the

low level of domestic savings, external aid would continue to play an important role in the financing of necessary investments. The last part of the period could lead to a gradual decrease in dependence on foreign savings, although total independence would still lie far in the future.

4.15 The results of these assumptions are shown below. GDP per capita would rise to US\$193 (in 1979 prices) in 1990, up from US\$170 in 1979. Primary production is projected to recover from the zero-growth during 1975-79 and reach 2.5% during 1980-85 and 3.0% during the second half. The growth in services is projected to decline from 9% to 4 and 4.5%, as a consequence of the considerable reduction in growth of the public sector (from 10% per annum during 1975-79 to 4% per annum during 1980-90), to levels that can be complemented by domestic and foreign financing (see Table 19). Projected growth rates for forestry and fisheries are somewhat less than those observed in the past, since past growth rates reflect primarily the low base year values. Secondary production is assumed to grow at more or less the same level as GDP.

Table 16: GDP PROJECTION, 1980-90
(at 1979 prices)

	<u>US\$ Million</u>			<u>Annual Growth Rate</u>		
	<u>1980</u>	<u>1985</u>	<u>1990</u>	<u>1975-79</u>	<u>(% p.a.)</u> <u>1980-85</u>	<u>1985-90</u>
Primary Production	74.2	84.0	97.4	0.0	2.5	3.0
Secondary Production	13.3	15.5	18.4	2.7	3.0	3.5
Services	50.9	61.9	77.1	8.7	4.0	4.5
<u>Gross Domestic Product</u>	<u>138.5</u>	<u>161.4</u>	<u>192.9</u>	<u>3.0</u>	<u>3.1</u>	<u>3.6</u>
Population('000)	785.4	879.0	985.9	2.0	2.3	2.3
Per Capita GDP (US\$)	176.0	183.4	195.7	0.7	1.2	1.2

Sources: Table 4; mission estimates.

4.16 While GDP growth is projected at the same rate as that observed during 1975-79, the need for improved investment decisions and clearer policies means that its realization will be more difficult than in the past. Furthermore, the base value in 1975 was low, and growth during the period was essentially attributable to public administration and services, with stagnation in the primary sector. The projected 2.5-3.0% annual growth in agricultural production may now be optimistic. First, rainfall may not be "normal", and the variability of rainfall from year to year is likely to continue to frustrate predictions of agricultural output. Second, many of the development projects in Guinea-Bissau only recently got started, and there is little

experience to indicate how rapidly they can be fully implemented and extended. Integrated rural development projects in particular may encounter delays, owing to the complex issues involved and the limited staff available for project management. A political commitment to agricultural development is, however, a necessary condition for the country to recover from its almost total dependency on foreign aid. This will not be achieved in this decade, even with higher agricultural growth, since exports cannot rise much faster than growth in the primary sector, unless they do so at the cost of private consumption. Meanwhile, imports will have to rise to provide both consumption and intermediate goods, and there will be a continuing need for foreign aid to finance current balance deficits, as well as to provide the extra savings needed for the investment effort.

4.17 The projected value for GDP per capita in 1990 was based on the assumption of a population growth of 2.3% per year. Improvements in the public health system and water supply would decrease the mortality rate to 17/1,000, the natality rate remaining constant at 40/1,000. The increase in the number of women in the reproductive age group and the constant fertility rate will likely increase that natality rate beyond our value, so that population growth could eventually proceed at a much higher rate. Owing to the lack of data, the mission was unable to look further into this problem. However, upon availability of the 1979 census data, it may be appropriate for the Guinean authorities to address the problem. High population growth can cause important delays in the desired growth, increase the financial needs of social sectors (mainly education), and produce eventual employment problems. Inclusion of family planning services (for those who want it) in the now improved health system could then be considered by the Government.

4.18 To draw the macroeconomic scenario, we used a simple methodology (Annex C), adapted to the weak data base that is available. These values should not be viewed as targets or as resulting from past trend extrapolations: they are intended only to provide a tool for analyzing the potential of the country's economic development under the current constraints and for demonstrating the importance of specific recommendations. Because of this, they should be used with caution. Table 16 below depicts the components of national expenditure obtained by application of that methodology.

Table 17: COMPONENTS OF NATIONAL EXPENDITURE, 1979-90
(at 1979 prices)

	US\$ Million			Average Annual Growth (%)	
	1979	1985	1990	1979-85	1985-90
Consumption	74.2	94.4	112.5	4.1	3.6
Investment	43.3	32.7	39.1	-	3.6
Government	66.0	80.5	91.4	3.4	2.6
Exports, NFS	17.6	26.2	36.6	6.9	5.3
- Imports, NFS	68.9	70.3	84.2	0.3	3.7
Consumer Goods	16.7	22.0	26.9	4.7	4.1
Intermediate	16.4	19.0	22.7	2.5	3.6
Capital Goods	40.1	35.8	42.3	-	3.4
<u>Gross Domestic Product</u>	<u>137.2</u>	<u>163.5</u>	<u>195.4</u>	<u>3.0</u>	<u>3.6</u>
- Terms of Trade Effect	-2.5	-1.7	-2.3	-	-
Gross Domestic Income	134.7	161.8	193.1	-	-
Gross Domestic Savings	-5.5	-13.1	-10.8	-	-

Source: Bank mission estimates.

4.19 Private consumption was assumed to grow at higher rates than national income, which seems reasonable, given the Government's plans to provide for increased consumption by rural people, a policy which *inter alia* would offer the incentives to stimulate growth. A higher growth rate in private consumption would only be possible at the expense of a decline in government expenditures or a deceleration of exports, and both of these categories are related to the development effort of the country. Investment was assumed to fall in 1985 to 20% of GDP. This reflects the official goals of limiting investment in the industrial sector and infrastructure and concentrating investment in the agricultural sector. Imports were made a function of growth in the productive sectors, capital formation, and overall consumption.

4.20 A public finance scenario (Table 18), based on an assumed 3% annual real growth in current expenditures (excluding public debt service) and 70% government contribution (with foreign aid) to total investment (as in the past), indicates the need for a dramatic increase in public revenues--13.1% per annum--if the current budget is to be balanced in 1990. This represents a revenue elasticity with respect to GDP of about 3.6, as opposed to the 1975-79 actual elasticity of about 1.0. We assumed that attaining the former value is quite unrealistic and used a revenue elasticity of 1.4 instead. This implies continuing need for foreign aid to finance development projects, part of recurrent expenditures, and debt service obligations. The remaining part

would have to be financed by additional Bank credit, unless the Government implements a scheme to attract private savings to finance the budget, or the participation of the private sector in the investment effort increases. This implies a current deficit on the order of 18% of GNP in 1985, which would probably put considerable pressure on both the domestic price level and the parallel foreign exchange rate.

Table 18: PUBLIC FINANCE PROJECTIONS, 1979-90
(at 1979 prices)

	US\$ Millions			Average Annual Growth Rate (%)	
	1979	1985	1990	1980-85	1985-90
<u>Revenues</u>	<u>24.8</u>	<u>32.0</u>	<u>40.9</u>	<u>4.3</u>	<u>5.0</u>
<u>Expenditures</u>					
Ordinary Budget	45.0	53.7	62.3	3.0	3.0
Development Outlays	58.6	58.1	64.9	-	2.2
(current)	(26.7)	(28.6)	(35.4)	(1.2)	(4.4)
(capital)	(31.9)	(23.8)	(29.5)	-	(4.4)
Debt Service	(3.4)	7.1	6.0		
<u>Current Deficit before Debt Service</u>	<u>-16.8</u>	<u>-21.7</u>	<u>-21.4</u>	<u>4.4</u>	<u>-</u>
<u>Current Deficit after Debt Service</u>	<u>-20.2</u>	<u>-28.8</u>	<u>-27.4</u>	<u>6.1</u>	<u>-</u>
<u>Overall Deficit</u>	<u>-78.8</u>	<u>-86.9</u>	<u>-95.3</u>	<u>1.6</u>	<u>1.9</u>
<u>Financing Required</u>	<u>78.8</u>	<u>86.9</u>	<u>95.3</u>	<u>..</u>	<u>..</u>
Foreign Financing	74.7	..	..	..	..
Grants	(29.1)	..	..	..	..
Loans	(45.6)	..	..	..	..
Domestic	4.1	..	..	..	..

Source: Bank mission estimates.

4.21 The balance of payments trend indicated by this scenario includes rising exports but unfavorable evolution in the terms of trade, so the increase in import capacity is lower than the growth in volume exported. This is explained by the fact that Guinea-Bissau exports are mostly agricultural products, for which prices in the current decade are expected to rise at a lower rate than the prices of the country's main imports: food, fuel, and

intermediate materials. By 1990, the resource gap (in constant prices) would amount to 24% of GDP, against 34% in 1979. Factor income and net private transfers were assumed to remain at the 1979 level, except debt service, which is derived from the outstanding debt in 1979 ^{1/} and new committed debt, which was projected to compensate future current deficits and debt service obligations. The terms of debt committed after 1979 were assumed to be the same as in the past, that is, an average interest rate of 2.6% and an average maturity of 23 years (with 6 years of grace), which implies a grant element of 51%. Table 19 below shows balance of payments variables derived from these assumptions.

Table 19: BALANCE OF PAYMENTS VARIABLES, 1979-90
(at current prices)

	US\$ Millions			Annual Growth (%)	
	1979	1985	1990	1979-85	1985-90
Exports, NFS	17.6	32.7	57.4	10.9	11.9
Imports, NFS	68.9	103.8	170.7	7.1	10.5
Resource Balance	-51.3	-71.1	-113.3	5.6	9.8
Factor Income and Net					
Private Transfers	-13.5	-13.0	-21.5	-	10.6
of which:					
M< Interest	2.1	1.8	11.4	-	44.7
Debt until 12/79	(2.1)	(1.8)	(0.7)	(-)	(-)
Debt after 12/79 ^{/a}	(-)	(-)	(10.7)	(-)	(-)
<u>Current Balance</u>	<u>-64.8</u>	<u>-84.1</u>	<u>-134.8</u>	<u>4.4</u>	<u>9.7</u>
Debt Service (Repayments)	1.3	9.4	21.1	39.0	17.6
Debt until 12/79	(1.3)	(9.4)	(5.1)	(39.0)	(-)
Debt after 12/79 ^{/a}	(-)	(-)	(16.0)	(-)	(-)
<u>Needed Capital Flows</u>	<u>64.8</u>	<u>93.8</u>	<u>155.9</u>	<u>6.4</u>	<u>10.7</u>
<u>Four memoire</u>					
Debt Service/Exports (%)	18.8	34.3	46.5	10.1	6.3
Required (obtained) Capital Flows	(72.0)	93.8	155.9	4.5	10.7

^{/a} Assuming new debt will keep past debt average terms: 2.6% interest rate, 23 years of maturity, with 6 years of grace.

Source: Bank mission estimates.

^{1/} Statistical Appendix, Table 4.2.

4.22 The values in Table 19 raise some questions of concern. Even with a considerable reduction in import of capital goods and a recovery in agricultural exports, foreign aid needed to finance the balance of payments would rise by 1990 to US\$156 million, or more than twice the level of 1979. This is equivalent to an aid inflow per capita of US\$160, against US\$90 in 1979. Considering that aid per capita for 32 African Sub-Saharan countries averages US\$20 (1979), it may be difficult for Guinea-Bissau to secure those values. The considerable attention this country has been receiving from the international community is partly explained by the long eleven-year war the country fought to achieve independence. With time, as the war and its destructive effects fade into the past, securing the present high levels of aid may require a substantial improvement in Guinea-Bissau's economic performance. Even if that aid were available and the terms of newly committed debt were as soft as it was in the past, debt servicing would eventually consume about 50% of the country's export earnings. A ratio of debt service to export earnings of 65-70% is already expected for the next few years (1982-83) because of some hard borrowing made in the late 1970s. The Government now needs to take measures to avoid high debt service ratios in the future.

4.23 This scenario illustrates the importance of foreign aid to support Guinea-Bissau's development, as well as the risk of this country's becoming too dependent on it. The following measures do, therefore, appear to be urgently required: a firm commitment to agricultural development; re-orientation of investments from capital intensive infrastructure projects to productive sectors; increase in foreign earnings through adequate exploration of fisheries and forestries; and a careful selection of ongoing and planned projects. Moreover, the Government should make efforts to reduce current budget deficits. This implies a careful evaluation and appraisal of the economic situation of public enterprises and the reduction of current deficit. Taxable income is unlikely to rise beyond the projected growth, so that participation of the private sector in total investment should be sought. Social sectors growth, important as it is, should be guided according to the public sector's capacity to finance the recurrent expenditures associated with the investments and expansion now under way.

Recommendations

4.24 While the problems of Guinea-Bissau appear somewhat intractable and may become even more so in the next few years, they are not insurmountable. The country's development potential is underexploited, and the nation is small enough for many of the problems to be addressed responsibly, given adequate resources and wise management. As stressed before, the mission supports the Government's strategy of increasing investment in the rural sector to replace foreign-financed food and achieve increased export earnings. What has now become urgently needed is a set of short-run measures aiming at those objectives. The political commitment to rural development should start with a reorientation of investment towards agriculture. The share of agriculture in public development expenditures has been since 1975 around

10%. And, in spite of a small increase planned for 1981 (11.7%), the largest shares are still for infrastructure (40%) and social sectors (25%). The portfolio of ongoing and planned projects (Annex D) depicts a similar composition--transports, telecommunications, and energy absorb 60% of planned budget. Given the country's poverty, the worrisome growth in debt service obligations, and continuing dependency on food imports (or food aid), public funding should now be channeled to the primary sector and to exploring the potential of some products to generate foreign earnings--groundnuts (43% of exports), fish (28%), palm products (20%), and wood (5%). There are good possibilities for agricultural growth through expansion of rotation of groundnuts, cotton, and rainfed cereals, as already included in some projects. To diminish dependency on food imports, short-season varieties could be introduced, as well as fertilizers and pesticides; new varieties of rice could also be used. A more effective taxation system on fish and forestry concessions could yield, in the short-run, substantial foreign earnings.

4.25 The importance of an adequate rural policy in this country calls for a close look into the major components of such a policy. The most important are: (a) emphasis on smallholders; (b) rehabilitation of existing infrastructure and construction of rural roads; (c) research in agriculture and livestock; (d) expansion of pest control activities to reduce harvest losses; and (e) reform of the incentive structures, aiming at better prices, more open and competitive marketing systems, and larger supplies of consumer goods. Some of these points are included in preparing for the quadrennial plan of 1983-86; others are part of the many ongoing projects, even if still on a small scale. Positive aspects are, for instance, the emphasis on smallholders in many projects (versus large estate farms that have performed unsatisfactorily in the past), research on improved seeds, and the utilization of fertilizers and pesticides in pilot projects. The results obtained for average yields, as well as farmers' acceptance, have been encouraging. The division of the country into four ecological regions, aimed at integrating the numerous planned projects into a regional framework, is an intelligent scheme to promote coordinated rural policies. This group of conditions indicates that upon project extension, agricultural growth would be feasible. However, the system of incentives to farmers has to be adequate.

4.26 The last Bank mission found that the new Government has serious intentions of reforming the current incentive system. Essential to motivating farmers' energy and willingness to produce and sell, these incentives will have to include the level, structure, and stability of prices; the efficiency, fairness, and stability of marketing arrangements; the supply and prices of off-farm inputs and consumer goods; and the degree of participation in decisions that affect them. We are led to believe that lack of adequate incentives in Guinea-Bissau has been as important in explaining the recent sluggish agricultural performance as the shortages of rainfall and irregularities in the weather. Our review of the system shows that the current policy of prices, trade, and exchange rate may be among the most serious (and also the most difficult to eradicate!) obstacles to agricultural growth in this country.

4.27 Farm-gate prices of export crops (mainly groundnuts) are fixed by the Government every year according to international prices and the marketing margins of the two state enterprises, with a monopoly of the marketing of export crops. Farm-gate prices are then computed as residual, 1/ taking little into consideration the costs of production or location. Besides marketing levies and processing (milling, in the case of groundnuts), current export taxes and an overvalued exchange rate have added to the tax burden of the farmers. We estimate that during 1975-79, farmers were receiving for groundnuts only 60% of their economic value (that is, export price less transport and processing costs). This reduces the incentives of smallholders to produce, and increases sales outside official channels.

4.28 Food crop prices are also fixed by the Government. Faced with the dilemma of increasing producer prices to encourage production while supporting urban consumers by keeping food prices at low levels, the Government has chosen the latter alternative. Producer prices of food crops have thus remained lower than the market price and remained constant, in spite of a considerable fall in output. Food aid has helped the Government to keep prices low. However, keeping low food crop prices has hurt both farmers and consumers. On one hand, the fixed price policy has been diluted, for prices in parallel markets have risen to twice or three times the official prices. On the other hand and in spite of food aid received, foodstuffs have been scarce, and product prices not regulated by the Government have risen, probably more than they would have without price regulations. Selling food aid at low prices also hurts the farmer: foreign foodstuffs replace similar domestic items (rice, milk, meat) and reinforce consumption of products not produced locally; for example, wheat has been consumed instead of cassava, sorghum, and other local food crops.

4.29 Marketing. The main characteristic of the marketing system in Guinea-Bissau is too much responsibility given to public agencies and too little to other agents, such as individual traders, private companies, and producer cooperatives. Two state agencies now have the monopoly of purchasing export crops and importing and distributing of foodstuffs, besides transportation and retail sale of rural produce. Marketing efficiency is, however, quite limited in a monopolistic system, and in a country such as Guinea-Bissau, this inefficiency has high costs. Farmers get lower prices for their products and a low share in proceeds from exports. Moreover, since the marketing system is often the only point of contact between farmers, the market economy, and the state bureaucracy, inefficient marketing arrangements tend to make farmers dissatisfied with the latter two.

1/ In fact, producer prices have been constant for a long time, the monopoly agencies having reaped the gains of the rise in groundnut prices from 1975-79.

4.30 The monopoly of agricultural marketing has evolved since independence. Most external trade was controlled by foreign companies and traders, and naturally the Government wanted to take control of the sector. Given the lack of non-Government alternatives, two public agencies took control. After five years of independence, the acquired experience (together with the experience of many African countries) supports the fact that increased competition can only bring advantages to the agricultural sector and that private traders could be allowed fuller participation in the agricultural trade. There is today a very active parallel market operating in the country and across its borders, and the ability and dynamism of local markets in Guinea-Bissau appear to deny the arguments against open rural markets on the grounds that private traders would exploit farmers (given the imperfection of rural markets and farmers' inexperience). Even if this were so, it would be better for the Government to increase competition--improving rural roads, announcing prices (by radio or otherwise), introducing gradually a homogeneous system of measures and weights--than to replace private initiative. An important step in increasing the efficiency of local markets would be to capitalize on the indigenous trading system, giving the private trader a greater role in the distribution system. Private traders are accepted today, but their role is marginal. This precludes their full commitment to improvement of distribution, storage, and transportation, and prevents systematic organization of an adequate commercial system. The mobility of the private system and the small trader provides for more efficiency than do the large public agencies in managing a volume of operation over which they hardly have control. This does not mean that the agricultural trade should be left to the private sector alone. Other agencies (public agencies and cooperatives) should coexist. Public agencies would still be left with important functions: grain imports; stock provision to offset seasonal price fluctuations and lack of grain in drought years; extension systems of storage; and supply to collective units such as the army, schools, and hospitals. This work, if it is to be done well, is enough to occupy their staff. However, it can only be done successfully if these public agencies stop regulating domestic prices.

4.31 Trade and exchange rate policies. Since 1978, when the GP was pegged to the SDR, the Guinean authorities have let the official rate of exchange become overvalued. Although hard data are lacking to prove it, there are some symptoms: the increasing use of direct controls and restrictions in imports and transferences; the profitable opportunities for smuggling; the disparity between the official exchange rate in official and parallel markets (1 to 5 in 1980); and the sluggish growth of traditional exports. To save foreign currency, the Guinea-Bissau Government has increasingly taken recourse to trade restrictions and high tariffs on consumer goods, instead of a currency devaluation. The problem of devaluating is not easy, and the Government is rightly worried about the effects of a devaluation on prices of basic food-stuffs (now imported), which would result in a charge to poor consumers. As will be seen later, these costs could be lowered, and the long-run benefits of a correct incentive system are in general higher than the short-run adjustment costs.

4.32 The trade policy of the last few years has also benefited the industrial sector, biasing the incentive system against agriculture. Duty-free imports of capital equipment and raw materials together with an almost automatic protection for any import-substitution industry have supported the growth of an industrial sector whose major units have proved to be economically unviable (such as the Cumere complex and the Citroen car assembly line). In the meantime, import restrictions have led to shortages of consumer goods in rural areas, raising their cost and favoring smuggling, while an overvalued exchange rate has held down the prices farmers receive for their crops. The combined effect of the overvalued exchange rate and duty-free imports of food has engendered a dependence on food imports at the cost of domestic production.

4.33 It is, therefore, natural that the current system of incentives, prices, marketing, and rate of exchange will need to be reviewed and eventually adapted to the needs and objectives of the rural sector. Besides the monopolistic system prevailing in the marketing of the principal rural products, an overvalued rate of exchange and a tariff system favoring imports (or at least consumption) of food produced abroad have not provided the farmers with much incentive and have thus restricted the stimulation of agricultural production and sales--at least in the domestic markets. Thus, the opening of agricultural markets to local traders (who, in the case of export products, could sell to a state agency or to producer cooperatives); the reduction of customs controls; and a change in the official exchange rate are measures that in the long term could help the economy effectively explore its agricultural potential. This is proven by the experience of many countries which faced situations similar to that of Guinea-Bissau.

4.34 Should this type of policy be beyond the capacity or willingness of the Government, there are alternatives that permit a new equilibrium in the price system, albeit at the expense of budgetary support: the price of export products would rise in order to stimulate production but would require subsidies in order to compete with international prices; subsidies would also be necessary for food products, so that producer prices would be higher than the price of imported foodstuffs. On the whole, measures of this type have negative effects on public finances, which already face considerable deficits. The administrative burden of export subsidies would also be substantial, particularly if the smuggling of agricultural products is to be reduced--products which, as in the case of groundnuts, are re-exported through Senegal and The Gambia. The fiscal and administrative burden would be less severe and the adjustment process easier, however, if the exchange rate were set at a reasonable level. The Government is highly concerned with the consequences of a devaluation on internal inflation, as well as with the available capacity (technical and administrative) to deal with such reform. The experience of other countries ^{1/} shows, however, that the negative effects are less than anticipated (for example, the necessary wage increase, as well as price increase, normally does not reach half of the devaluation rate), and that in

^{1/} See "Accelerated Development in Sub-saharan Africa", the World Bank, Washington, D.C., 1981, which discusses the effects of devaluation in 24 African countries.

the long run, an adequate exchange rate on the increase of agricultural production and on the alignment of internal production is in accordance with the country's comparative advantages. The negative effects can be mitigated through adequate external aid. This can play a crucial role, not only in analyzing the problem but also in providing necessary support during the difficult period between the outset of the reform and the time that its effects on production become noticeable. It is not the intent of this report to suggest that such measures should or should not be taken. What is recommended is that the Government systematically evaluate its existing price, trade, and exchange rate systems, to make them effective tools in pursuing agricultural growth and achieving development goals. International aid could be vital in this sphere. It should be emphasized that any reforms of exchange rate and foreign trade policies should envisage a long-term structural readjustment and not just a short-term adjustment in the balance of payments.

4.35 Still within the incentives system to the agricultural sector, marketing of agricultural inputs has to be referred to, as it will become increasingly important in the coming years. It would be appropriate for the Government to avoid subsidizing or monopolizing inputs after the initial phases of experimentation. The experience of other countries shows that it is more efficient both for the Government and farmers if the marketing is done by private agents. The reasons are several: first, the monopolistic distribution of agricultural inputs makes innovation difficult, since inputs begin to be ordered following routine procedures, regardless of location and specific needs. Funds available for subsidies generally limit the volume of fertilizers or pesticides sold to farmers, so that input supply is less than demand for inputs at the subsidized price. Instead of increasing the number of users, monopoly and subsidies tend to benefit fewer farmers than an open market scheme with no subsidy would do. It is also likely that with demand higher than supply, price will rise (in spite of the subsidies) above what farmers would pay under open-market conditions.

4.36 Other important points are as follows. The private sector should be encouraged to invest in productive enterprises; the Government can provide assistance by identifying opportunities, financing, and providing infrastructure in water, power, and other needs. It would be worthwhile analyzing the success of programs in support of small enterprises in countries at a similar stage of development. Technical school and secondary school graduates could take a lead role in these initiatives, which would necessarily be small in scale. Better provision of finance to local enterprises and cooperatives is important. While a separate development bank may not be feasible at present, the activities of the Investment Department of the BNGB should be increased. Training in project analysis and in the identification and promotion of viable enterprises may be required for BNGB personnel. Second, the role of foreign private investment could be reviewed by the Government for appropriate high-priority projects. Whatever the Government's posture, foreign firms are in a position to provide the marketing knowledge and access necessary for export projects and can transfer managerial skills to the Guineans if the terms of agreements are right. The intervention of neutral intermediaries would help provide the mutual confidence required for mixed-capital enterprises to succeed. However, the Government needs to define its posture before entering into such agreements and should also undertake a few pragmatic initiatives before promulgating a comprehensive investment code.

4.37 As for institution building, the first objective should be an enhanced capability to select among investment opportunities and to coordinate external aid. The role of the Ministry of Planning will certainly be fundamental, namely, in helping to determine these investment priorities and to integrate specific investments into a viable medium-term development program. While the first steps in preparing a minimum basis for planning have already been taken, much is still to be done. Technical assistance available to the country should be used to help in preparing the sectoral and macro-economic studies needed in the near future. The points which need to be stressed concern resource mobilization, manpower, administration, and the definition of priority sectors.

Domestic Resource Mobilization: At the macro-level, first priority must be given to achieving a higher public savings effort than in recent years. The Government could usefully draw on the services of a fiscal expert to assist in the planning of budget reforms and in fiscal data collection and analysis. An overall study of domestic resource mobilization would have to include: (a) impact on the budget of a much-needed simplification of the present fiscal structure; (b) the potential for domestic borrowing and the creation of new outlets for small savers--postal savings accounts, life insurance, provident funds, etc.; (c) the potential for improved returns from public enterprises and the fiscal implications of wage raises, salaries, and other benefits in the public sector; and (d) the impact of direct and indirect taxes on incentives in the productive sectors.

Manpower and Administration: Given the extreme shortage of trained people, manpower and administrative resources will be a serious constraint on development efforts in the near future, and a careful analysis of skilled manpower requirements and availability over the 1980-90 period will be essential. This must be followed by a thorough review of the administrative system, with a view to improving coordination and ensuring a more coordinated focus on development.

Sector Studies are needed to establish medium-term objectives for the key sectors and programs, identify required investments and their phasing, and determine manpower and institutional needs. In many sectors, a great deal of work has already been done and only requires updating and identification of specific actions and investments priorities. Fisheries may need an overall appraisal, and completion of the agricultural census should have first priority. As for the social sectors, such as education, we would recommend that the Government consider preparing ten-year health and education programs with assistance from WHO and UNESCO (the latter with a strong manpower component). Both programs would draw from the considerable experience that UN agencies have already accumulated in Guinea-Bissau.

4.38 The last point to be made concerns the necessity for Guinea-Bissau to reach a minimum level of microeconomic efficiency to assure its macro-economic viability. As acknowledged by Guinean authorities, many past economic decisions were made more on political than on economic criteria;

the economic efficiency in Government projects was very low and worker productivity quite poor. These conditions have deep roots and cannot be quickly eliminated, although the Government is striving to overcome them. No doubt, it is impossible, and indeed not desirable, for the country to become economically self-sufficient within the next ten years. It could, however, reach a relatively high degree of food production and improve its export capacity. A wise use of surpluses generated by a productive primary sector could then enable the Government at least to meet its current account budget and perhaps cover part of its investment budget. Realistically speaking, no important new sources of revenue can be found for several years. Even if the exploration of oil, bauxite, and phosphates proves feasible, it would take several years for them to earn foreign exchange, quite apart from the requirements of investment capital. These constraints dramatize how essential it is to increase agricultural production and productivity. Unless it does so, Guinea-Bissau's overall economic policy may be doomed to failure. With the right policies and programs and continuing external assistance for another ten years, the Government should, however, be able to meet the aspirations of this quite young African nation.

V. THE ROLE OF EXTERNAL ASSISTANCE

5.01 The success of Guinea-Bissau's experiment with planned economic development is, as we have shown, contingent upon the volume and quality of external assistance. From the outset, the Government has undoubtedly been very successful in attracting foreign aid. Under an explicitly neutral foreign policy, bilateral economic aid has played the most important role, representing 78% of total foreign aid during 1976-78. The United Nations Development Program (UNDP) has been active in Guinea-Bissau since independence and has provided an umbrella for other UN agencies supplying technical assistance on a grant basis. In 1977 Guinea-Bissau joined the International Monetary Fund and the World Bank and in 1979 made its first use of these multilateral financial resources with a Road Credit from the International Development Association (IDA). At present, Guinea-Bissau is one of the countries receiving the highest amount of foreign aid: in per capita terms, foreign aid amounted to US\$90 in 1979, that is, more than half of per capita GDP. Yet, as noted before, the country's absorptive capacity is limited by shortages of qualified manpower and weaknesses in the government machinery to handle a larger volume of external assistance and suffers from inadequate project preparation and implementation capabilities.

Project Aid

5.02 The ease with which Guinea-Bissau is obtaining foreign aid for project financing is reflected in Annex D, where a list of ongoing and proposed project activities is provided. In fact, out of all the projects planned for the next few years, less than 10% of the total financing needed is still being sought. In agriculture, where 29 projects are planned to start soon with a total estimated cost of around US\$14 million, around 90% was already secured at the time of the mission's visit. However, only a detailed analysis could indicate whether these flows have been allocated to priority areas and whether proper selection criteria have been used in their selection.

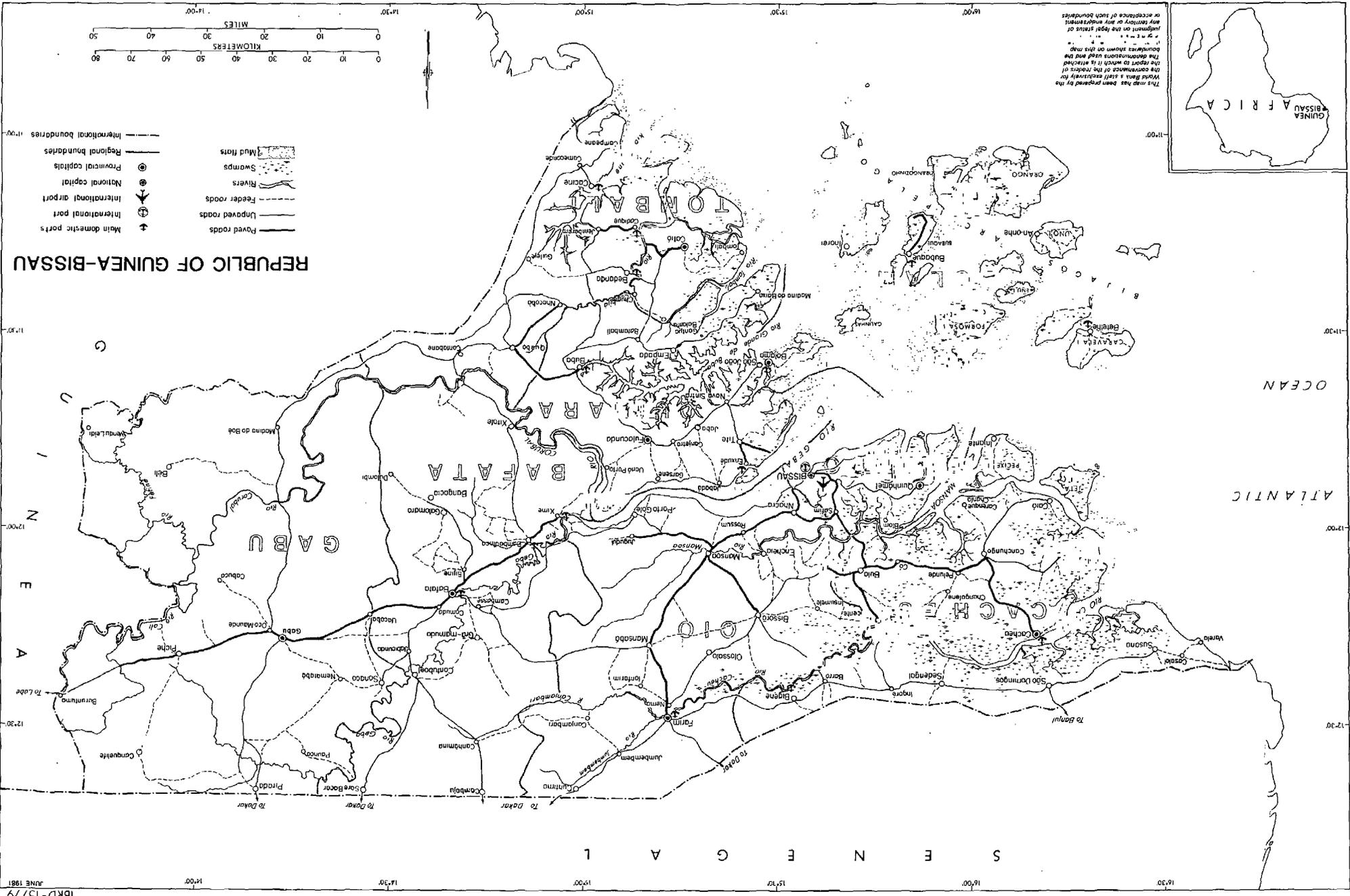
Technical Assistance

5.03 A well-designed technical assistance program is crucial to the success of the Government's development program. Since independence, the Government has had access to numerous expatriates, in general young and without much experience, who have helped in multiple tasks. At this moment, after five years of slow but steady upgrading of nationals--in general graduates from high school--the country may benefit from another type of technical assistance, concentrated in some senior key specialists on a long-term basis (short-term consulting has proved of little benefit in the past), chosen by their capacity both to work in a quiet and low-key manner and to train counterparts to replace them. Planning, project preparation and implementation, the establishment of a legislative framework, and administration reorganization are some of the areas where such experts may be used. The country's experience in this type of technical assistance provided to the Planning Ministry has been quite successful and should be expanded to other ministries.

5.04 The primary thrust of technical assistance programs, however, must lie in the training of Guineans. An essential first step is to identify training needs and to make them widely known to donors. The Government can also rely on bilateral training programs in other developing countries where conditions are similar to those of Guinea-Bissau and where training costs are low. This would also reduce the risk of brain drain.

Terms of Aid and Aid Coordination

5.05 Given the country's severe resource constraints and its level of development, donors should attempt to continue to provide aid on grant or near grant terms. This is essential, especially taking into consideration the fact that the debt service ratio expected for the next 3-5 years is already at dramatic heights. The establishment of a Foreign Aid Coordination Unit (DGCFI, Direccao Geral para a Coordenacao do Financiamento Internacional) is an effort to discourage individual line ministers from dealing directly with donor agencies and to ensure coordination in the Government's approach to external assistance. This is an important development, and the unit should be strengthened to ensure that it can cope with the responsibilities entrusted to it. The DGCFI's first priority must be to develop information on aid commitments and disbursements by source and type of aid and to establish a reporting procedure for the line ministers. This is not only to ensure that it remains abreast of the overall aid situation, but also to provide information on activities of all donors to prevent needless duplication of effort. DGCFI's activities will be of great use to the activities of the planning unit and to the Planning Ministry to ensure adequate donor support both for the planning exercise and for individual projects. This agency or a similar one should concentrate efforts on improving the phases of the project cycle, including identification, selection, and evaluation of development projects. This is essential for ensuring that the resources available for investment are allocated adequately, that is, to projects selected according to the country's absorptive capacity, their impact on the government budget in terms of recurrent costs, and their contribution to increasing export earnings.



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