Guinea-Bissau: Country Assistance Strategy and Basic Education Support Project

I express my appreciation to the staff for their constructive dialogue with our Guinea-Bissau authorities in preparing this CAS.

With a population of about one million, Guinea-Bissau is one of the smallest and poorest countries in Africa, with a per capita income of US $240 (1995). The 1994 Poverty Assessment indicated that 86% of the population lived in extreme poverty and an additional 23% is considered moderately poor. About 85% of the poor live in the countryside, and approximately 74% and 59% of the incomes of the extreme and moderate poor, respectively, are generated in agriculture. Education and health indicators rank among the worst in Sub-Saharan Africa. (Illiteracy rate 73%, gross primary enrollment ratio 53%, extreme poor without formal education 84%, infant mortality 138 per 1,000.) Access of the population to safe water and sanitation is also low. The country’s infrastructure is very poor. On the institutional side, the country successively moved to a multiparty system with free and fair elections held in 1994. The first democratically elected government in Guinea-Bissau took office in 1994.

After a period of backsliding, the macroeconomic situation started improving from late 1992. The government has taken further steps to improve economic management in order to maintain a stable macroeconomic framework. Marked progress was made in managing fiscal policy, slowing down monetary expansion and reducing the external current account deficit. This led to a significant reduction in the rate of inflation, from 48% in 1993 to about 15.2% in 1994. However, in 1995-1996, the inflation rate went up again to almost 60%, reflecting a rapid increase in the money supply fueled by an increase in net foreign assets. Nevertheless, the mixed results achieved in 1994-1995, as the GDP growth rate accelerated to 4.6%, the budgetary situation strengthened and the external current account deficit declined, contributed to reduce macroeconomic imbalances. The improved macroeconomic performance paved the way for an ESAF arrangement with the IMF in 1995, which will, hopefully, move to its third year soon. In the meantime, following a sharp tightening of monetary policy in the fourth quarter of 1996, inflation decelerated to about 2% per month, following in January 1997 to 1.9%, and GDP growth was close to 6%, owing to favorable agricultural crops. In the period 1997-1999, expectations are that there will be a marked improvement in the macroeconomic environment.
as a result of Guinea-Bissau's integration into the Western Africa Monetary Union (WAMU). On the structural front, developments were also somewhat positive, especially in the areas of the civil service and public enterprise reforms. The civil service was retrenched by about 10% in 1994-1996, the payroll was computerized and updated with the civil service census results which helped in eliminating about 1,000 "ghost" workers. Seven public enterprises were liquidated and another eight put up for sale.

The government's efforts aim at further improvement of macroeconomic performance and accelerating structural reforms, while deepening its commitment to social development and poverty alleviation. The government is aware that higher real GDP growth, poverty reduction, and over the long term, an eventual return to external viability, require a rapid elimination of the remaining macroeconomic imbalances through the continuation of prudent monetary and budgetary policies, as well as comprehensive structural reforms, to promote private sector participation in the economy.

The last CAS for Guinea-Bissau was presented to the Board in February 1993. In that CAS, the government's development priority was placed on improving health and education. The Bank's objective was to assist Guinea-Bissau in promoting sustainable poverty reduction. To this end, the thrust of the policy dialogue for the 1993 CAS was to support policies and expenditures that would promote efficient and sustainable growth and the provision of basic social services.

This Bank's assistance strategy draws mainly on consultations with the government, the civil society (private sector, NGOs, trade and labor unions, and donor agencies). The broad consultations, held in Bissau in 1995, 1996 and 1997, respectively, stressed that the key objective of the strategy should be to reduce poverty through rapid, sustainable, broad-based, and export-oriented economic growth. Additionally, it was stressed that this would require to accelerate economic reforms aiming at macroeconomic stabilization and reallocating resources to give priority to both rural and human capital development. This strategy is indeed designed to contribute to consolidating the foundations for future growth of the country. It is consistent with the government's policies and objectives, and with the conclusions of the above-mentioned consultations, which took also stock of the national long-term perspective studies (NLTPS) that identified high priority areas (education/training, governance, infrastructure, agriculture/industries, health). Furthermore, this strategy took into account the national capacity assessment report issued in 1996, pointing out priority actions to strengthen institutional and local capacities. Lessons from the previous CAS and the CPPR carried out in 1997 were used to formulate the strategy before us. Our authorities call for a Bank strategy in capacity building, based on the projects and programs being developed by the authorities in the context of "The Partnership for Capacity Building in Africa".

The proposed CAS should provide new opportunities for Guinea-Bissau to renew its economic growth and to alleviate also its heavy debt burden in the context of HIPC initiatives. It is evident that Guinea-Bissau faces a substantial debt burden that constitutes a major impediment to the development of the country. The authorities hope that IDA and other donors will help them to ease the debt and debt services burden on their adjustment efforts.

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1 The new Minister of Finance was the leader of that study, before becoming a member of the new cabinet.
In terms of lending scenarios provided by the CAS, the base case seems to be the appropriate one in the current environment. It is in line with the projections and expected to contemplate the high priority areas. Non-lending services, particularly ESW and PER, should focus on macroeconomic stabilization, public resources management, poverty assessment, and rural development.

In terms of portfolio management and performance, it should be noted that the authorities are aware of major generic problems which affected it. They are committed to continue to give high attention to the issues for an improvement.

With one of the least developed education systems in the world, the authorities recognize that this severely constrains the country’s long-term development prospects. The government is committed to urgently address the current situation in order to attain its objectives. Therefore, I call for a support to this extremely important project for Guinea-Bissau.

Finally, I would like to underline that our Guinea-Bissau authorities are, in spite of all achievements and weaknesses, fully aware that still much remains to be done. They recognize that attaining macroeconomic stability and reducing poverty should be at the forefront of their reform agenda. To this end, I can reaffirm that they are fully committed to a third year ESAF to move forward, and despite all constraints, they are fully committed to minimize the risks. In the meantime, due to the capacity weaknesses of the country, I hope that the Bank will contemplate the possibility of reopening a resrep mission in Bissau.

In closing, I would like to express my authorities’ appreciation for the crucial support from the Bank, the IMF and other donors in dealing with their country’s difficult situation. I trust that they will continue to play their crucial role for a successful implementation of the reform agenda.