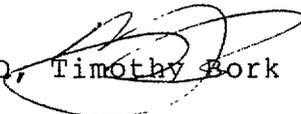




AGENCY FOR INTERNATIONAL DEVELOPMENT  
WASHINGTON, D C 20523

ACTION MEMORANDUM FOR THE ACTING ASSISTANT ADMINISTRATOR FOR  
AFRICA

FROM: AFR/PD,  Timothy Bork

SUBJECT: Guinea-Bissau Agricultural Sector Assistance  
Program (ASAP) (657-0013 and 657-0016)

PROBLEM: Your approval is requested for a grant of \$4.68 million to the Government of Guinea-Bissau (GOGB) to implement a program of policy reform in the agricultural sector as described below. The planned obligation for FY89 is \$1.58 million.

BACKGROUND: The purpose of this program is to increase farmgate prices for two important agricultural crops, rice and cashews. This program forms an integral part of a broader macro-economic reform program that the GOGB has negotiated with the World Bank's IDA, and in consultation with the IMF. The World Bank program, the Second Structural Adjustment Credit (SAC II), consolidates and expands the adjustment process begun previously. The policy agenda includes maintenance of a stable macroeconomic environment, redirecting public investments towards basic needs and eliminating institutional bottlenecks to growth, expanding trade and price liberalization, institutional reforms to improve the efficiency of the public sector, and alleviation of some of the social costs of adjustment. SAC II will provide \$19 million from World Bank resources; combined with co-financing from other donors (including this program), the SAC II package will provide over \$50.3 million.

A.I.D. participated in the development and negotiation of SAC II, focussing on the agricultural sector within SAC II. The specific conditions chosen for inclusion in this program are:

- An incremental decrease in export taxes on cashews; and
- Elimination of subsidies on rice to civil servants.

The benchmarks for disbursement of the first tranche of \$1.5 million are that the cashew export tax be cut from 47% to 40%, and that subsidies on rice sold to civil servants be eliminated. Second and third tranche benchmarks call for

continuation of the policy to eliminate the rice subsidy to civil servants, and a reduction of the export tax on cashews to 35% in year 2 and 30% in year 3.

Given their ominous debt overhang and the projected foreign exchange gap of between \$72 million and \$155 million for the 1989-91 period, we expect that the grant will be used for debt relief.

In order to stay within the IMF program to achieve some control over rampant inflation, the PAAD requested that any equivalent GOGB local currency contribution be sterilized (i.e., be placed in a blocked account), except for a minimal amount (3%) to cover remaining local costs of one USAID project in the process of closing out, and of impact monitoring of this program. This would be in line with the SAC II CIP generations which are also being placed in blocked accounts.

In addition to the total of \$4.5 million for the sector grant, the PAAD included \$180,000 to set up and implement an impact monitoring system to follow the effects of this program.

DISCUSSION: The ECPR had some initial hesitation concerning the proposed placing of the local currencies in blocked accounts. However, once the inflationary situation was further described, and the tight measures being imposed by the IMF, and supported by the World Bank, were detailed, the rationale was accepted and the justification for sterilization was strengthened in the PAAD.

Once the ECPR agreed that the local currency should be placed in a blocked account, the ECPR explored the need to have the GOGB provide local currencies at all. The ECPR decided that, since the dollars being provided to the GOGB were not generating local currencies, either through a foreign exchange auction or a commodity import program, the GOGB would not be required to contribute any local currencies at all. OAR/GB will negotiate separately to insure adequate counterpart for the last eighteen months of the USAID project, and the local currency costs (\$30,000) will be added to the dollars requested for the impact monitoring system.

Another issue discussed was whether conditions which had been met prior to signature of an agreement should qualify for first tranche disbursement. Both the conditions precedent to first

tranche disbursement have in fact been met. However, the conditions were conceived as part of the SAC II development and negotiations, in which A.I.D. participated actively from the beginning. REDSO/WCA contributed an agricultural economist to the World Bank SAC II team, and A.I.D./W was involved in the final SAC II negotiations in Washington. The GOGB clearly understood that the USG contribution was part of the SAC II package. Given A.I.D.'s early and active participation in SAC II, the ECPR accepted the rationale that disbursement under the A.I.D. program could be made because the reforms made by the GOGB were due in part to the assistance to be provided under this program.

The ECPR noted our still incomplete knowledge of the Agricultural Sector in Guinea-Bissau and highlighted the importance of the impact monitoring system to be developed for this program as well as the technical assistance and special studies. The impact monitoring system will provide much useful baseline data regarding the dynamics of the sector, especially the rice markets. The ECPR believed that adequate basic information was included in the PAAD to justify this program and that the conditionality was deemed acceptable given our current understanding of the sector. It was noted, however, that subsequent year conditionality may need to be amended if data from the program monitoring system indicates the need for such a change. Any future proposed changes in conditionality must be approved by AID/W.

The ECPR approved the use of \$180,000 in project assistance to cover the technical assistance and local costs of the impact monitoring system. Funds from this component may not be used for salary supplements to GOGB staff involved in impact monitoring.

Initial Environmental Examination (IEE): A categorical exclusion based on Sections 22 CFR 216.2(c)(1)(i), 216.2(c)(1)(ii), and/or 216.2(c)(2)(vi) was concurred with by the Bureau Environmental Officer on 11 July 1989.

Congressional Notification (CN): Congress was notified on 21 June 1989. A Congressional enquiry was raised during the waiting period. Questions were resolved satisfactorily and the Congressional hold was lifted on 9 August 1989.

RECOMMENDATIONS:

- (1) That you sign the PAAD facesheet, thereby authorizing DFA program financing of up to \$4.5 million for the Guinea-Bissau Agricultural Sector Assistance Program (657-0013), to be provided as non-project assistance; and
- (2) That you sign the attached Project Authorization, thereby authorizing DFA funding of up to \$180,000 for a project grant complementary to the Agricultural Sector Assistance Program, to provide impact monitoring.

Clearances:

DAA/AFR:ELSaiers	<u>ELS</u>	date	8/24/89
GC/AFR:PJohnson	<u>PJ</u>	date	23 Aug 89
AFR/CONT:RKing	(draft)	date	21 July 1989
AFR/PD/CCWAP:AGetson	(draft)	date	17 July 1989
AFR/CCWA:BPounds	(draft)	date	15 Aug. 1989
AFR/DP/PAR:JWolgin	(draft)	date	21 July 1989
AFR/DP/PAB:LStamberg	(draft)	date	17 July 1989
PPC/PB:RMaushammer	(draft)	date	19 July 1989
M/FM/PAFD:SOWens	(draft)	date	18 Aug 1989
AFR/TR:RCobb	(draft)	date	18 Aug 1989

DRAFTED BY: AFR/PD/CCWAP:SL SL :x79069:8/17/89:5109K

<b>AGENCY FOR INTERNATIONAL DEVELOPMENT</b>  <b>PROJECT DATA SHEET</b>	<b>1. TRANSACTION CODE</b> <input type="checkbox"/> A = Add <input type="checkbox"/> C = Change <input type="checkbox"/> D = Delete  <b>Amendment Number</b> _____	<b>DOCUMENT CODE</b>  <b>3</b>
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<b>2. COUNTRY/ENTITY</b> Guinea/Bissau	<b>3. PROJECT NUMBER</b> 657-0016
---	--------------------------------------

<b>4. BUREAU/OFFICE</b>  AFR <span style="float: right;">06</span>	<b>5. PROJECT TITLE (maximum 40 characters)</b> Agricultural Sector Assistance Monitoring
--	--

<b>6. PROJECT ASSISTANCE COMPLETION DATE (PACD)</b>  MM DD YY 01 01 92	<b>7. ESTIMATED DATE OF OBLIGATION</b> <i>(Under "B" below, enter 1, 2, 3, or 4)</i>  A. Initial FY <u>89</u> B. Quarter <u>4</u> C. Final FY <u>91</u>
---	--

8. COSTS (\$000 OR EQUIVALENT \$1 = )						
A. FUNDING SOURCE	FIRST FY			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
<b>AID Appropriated Total</b>						
(Grant)	( 80 )	(    )	( 80 )	( 180 )	(    )	( 180 )
(Loan)	(    )	(    )	(    )	(    )	(    )	(    )
Other U.S. 1.						
Other U.S. 2.						
Host Country						
Other Donor(s)						
<b>TOTALS</b>	80		80	180		180

9. SCHEDULE OF AID FUNDING (\$000)									
A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) DFA	910	052				180		180	
(2)									
(3)									
(4)									
<b>TOTALS</b>									

<b>10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)</b>	<b>11. SECONDARY PURPOSE CODE</b>
--	-----------------------------------

<b>12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)</b>
A. Code
B. Amount

<b>13. PROJECT PURPOSE (maximum 480 characters)</b>
To provide the capability to monitor the impact of the Agriculture Sector Assistance Program (657-0013) farmer incomes, for evaluative purposes and to refine and adjust ASAP as required during the life of project.

<b>14. SCHEDULED EVALUATIONS</b>	<b>15. SOURCE/ORIGIN OF GOODS AND SERVICES</b>
Interim    MM YY    MM YY    Final    MM YY	<input checked="" type="checkbox"/> 000 <input checked="" type="checkbox"/> 941 <input type="checkbox"/> Local <input type="checkbox"/> Other (Specify) _____

**16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a \_\_\_\_\_ page PP Amendment.)**

<b>17. APPROVED BY</b>	Signature: <i>Walter G. Bably</i> Title: _____	<b>18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION</b>  Date Signed: MM DD YY 01 24 92
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UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
WASHINGTON D C 20523

ASSISTANT  
ADMINISTRATOR

PROJECT AUTHORIZATION

Name of Country: Guinea-Bissau  
Name of Project: Agricultural Sector Assistance  
Monitoring  
Number of Project: 657-0016

1. Pursuant to Section 103 of the Foreign Assistance Act of 1961, as amended, and the section of the Foreign Assistance Appropriations Act for FY 1989 entitled "Sub-Saharan Africa, Development Assistance," I hereby authorize the Agricultural Sector Assistance Monitoring Project (the "Project") for Guinea-Bissau (the "Cooperating Country") involving planned obligations of not to exceed One Hundred Eighty Thousand United States Dollars (US\$180,000) in grant funds ("Grant") over a three-year period from the date of authorization, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing the foreign exchange and local currency costs of the Project. The planned life of the Project (the "PACD") is three years and two months from the date of initial obligation, except as A.I.D. may otherwise agree in writing.

2. The Project consists of technical assistance and financial support required to develop and support impact monitoring of the Agricultural Sector Assistance Program (657-0013) for Guinea-Bissau.

3. The Project Agreement, which may be negotiated and executed by the officer to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority, shall be subject to the following essential terms and covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate:

a. Source and Origin of Commodities, Nationality of Services

Commodities financed by A.I.D. under the Project shall have their source and origin in countries included in A.I.D. Geographic Code 935, except as A.I.D. may otherwise agree in writing. Except for ocean shipping, the suppliers of commodities or services shall have as their place of nationality countries included in A.I.D. Geographic Code 935, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Project shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of the United States or countries included in A.I.D. Geographic Code 935.

\_\_\_\_\_  
Walter Bollinger  
Acting Assistant Administrator  
Bureau for Africa

Date: \_\_\_\_\_

Clearances:

As shown on Action Memorandum

*PGJ*  
GC/AFR, PGJohnson/tim:647-9218:16Jun89:3002H/5168K

AGENCY FOR INTERNATIONAL DEVELOPMENT

**PROGRAM ASSISTANCE  
APPROVAL DOCUMENT  
(PAAD)**

1. PAAD Number	657-T-601 (657-0013)
2. Country	Guinea-Bissau
3. Category	Sector Assistance
4. Date	May 15, 1989
5. To	A/AA/AFR, Walter G. Bollinger
6. OYB Change Number	N/A
7. From	AFR/PD, Timothy Bork 
8. OYB Increase	To be taken from: N/A
9. Approval Requested for Commitment of	\$1,500,000 (LOP: \$4,500,000)
10. Appropriation Budget Plan Code	GSSA-89-31657-KG39 72-1191014 (914-61-657-00-53-91)
11. Type Funding	<input type="checkbox"/> Loan <input checked="" type="checkbox"/> Grant
12. Local Currency Arrangement	<input type="checkbox"/> Informal <input type="checkbox"/> Formal <input checked="" type="checkbox"/> None
13. Estimated Delivery Period	
14. Transaction Eligibility Date	

15. Commodities Financed

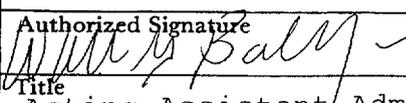
16. Permitted Source	17. Estimated Source
<input type="checkbox"/> U.S. only	<input type="checkbox"/> U.S.
<input type="checkbox"/> Limited F.W.	<input type="checkbox"/> Industrialized Countries
<input type="checkbox"/> Free World	<input type="checkbox"/> Local
<input type="checkbox"/> Cash	<input type="checkbox"/> Other

18. Summary Description

I. Program Overview: The Guinea-Bissau Agricultural Sector Assistance Program (ASAP, 657-0013) is a three-year, \$4.68 million sectoral assistance activity developed in conjunction with the second phase of the Government of Guinea-Bissau's Structural Adjustment Program (SAP). A.I.D.'s program will cofinance SAC II and will participate in its implementation using the parallel financing mechanism. ASAP will consist of a cash grant to the Government of Guinea-Bissau (GOGB), to be released in three equal tranches of \$1.5 million each in accordance with Articles 3 and 4 of the Agreement. The three tranches will be released to the GOGB as it implements reforms pertinent to the agricultural sector. In addition to the cash grant, ASAP also includes provisions for technical assistance financing (\$180,000) for impact monitoring and evaluation services. Total planned financing for ASAP will therefore be \$4,680,000.

II. Special Conditions and Covenants: The following conditions and covenants, in substance, will be included in the Program Grant Agreement:

(continued)

19. Clearances	Date	20. Action
DAA/AFR:ELSaiers <i>h</i>	8/24/89	<input checked="" type="checkbox"/> APPROVED <input type="checkbox"/> DISAPPROVED  Authorized Signature:  Title: Acting Assistant Administrator, AFR Date: 08/24/89
AFR/DP:JWestley (Draft)	7/21/89	
PPC/PB:RMaushammer	8-15-89	
M/FM/PAFD:ESowens <i>h</i>	8/23/89	
GC/AFR:PJohnson <i>h</i>	7/21/89	
AFR/CCWA:JColes <i>h</i>		
AFR/CONT:RKing (Draft)	7/21/89	

AID 1120-1 (5-82)

Additional Clearances Attached. CLASSIFICATION: UNCLASSIFIED

Clearances (Continued)

AFR/TR:RCobb ~~2007~~ Date 8/19/89  
AFR/PD/CCWAP:AGetson ~~AS~~ Date 17 July 89

A. Conditions Precedent to Disbursement

1. First Disbursement: Prior to any disbursement of the Grant or to the issuance by A.I.D. of documentation pursuant to which disbursement for the first tranche will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D., the following:

a. An opinion of counsel that this Agreement has been executed on behalf of and duly authorized and/or ratified by the Grantee and that it constitutes a valid, legally binding agreement of the Grantee in accordance with all of its terms;

b. A statement of the name of the person holding or acting in the office of the Grantee and of any additional representatives, together with a specimen signature of each person specified in such statement;

c. Evidence that the total level of export taxes on cashews, customs and other fees inclusive, has been reduced from 47 percent to 40 percent;

d. Evidence that the rice subsidy to civil servants by the Grantee has been eliminated.

2. Second Disbursement: Prior to the disbursement of the second tranche of the Grant or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee shall, except as the Parties may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D., the following:

a. Evidence that the total level of export taxes on cashews, customs and other fees inclusive, has been reduced from 40 percent to 35 percent, or to a rate which may otherwise be agreed upon between the Grantee and A.I.D.;

b. Evidence that the rice subsidy to civil servants, eliminated as a condition for disbursement of the first disbursement herein, has not been reinstated.

3. Third Disbursement: Prior to the disbursement of the third tranche of the Grant or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee shall, except as the Parties may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D., the following:

- a. Evidence that the total level of export taxes on cashews, customs and other fees inclusive, has been reduced from 35 percent to 30 percent, or to a rate which might otherwise be agreed upon between the Grantee and A.I.D.;
- b. Evidence that the rice subsidy to civil servants, eliminated as a condition for disbursement of the first disbursement herein, has not been reinstated.

#### B. Special Covenants

The Grantee covenants and agrees as follows:

1. To adhere to the Action Program for Agriculture as set forth in the Matrix of Policy Actions of the Second Phase of the Government of Guinea-Bissau's Second Structural Adjustment Program;
2. Not to use foreign exchange funds provided hereunder for the procurement or use or both of pesticides;
3. Not to reverse, discontinue, undo, change any of the actions taken, or otherwise impede the implementation of any of the actions taken in fulfillment of meeting the conditions precedent set forth in Article 3 herein, except with the prior written consent of A.I.D.;
4. To carry out the Program as set out in the Amplified Program Description (Annex I Program Agreement), or cause it to be carried out with due diligence and efficiency, in conformity with sound technical, financial, and management practices, and in accordance with those documents, plans, specification, contracts, schedules or other arrangements, and with modifications therein, approved by A.I.D. pursuant to this Agreement;
5. The funds provided hereunder shall not be used to finance military, paramilitary, or police requirements of any kind, including the procurement of commodities or services for those purposes, or for abortion equipment or services, or to pay principal or interest on loans to or for the military or police.
6. The Grant will be free from any taxation or fees imposed under the laws in effect in Guinea-Bissau.

#### C. Amendments

Substantive deviations from the above conditions precedent and special covenants will require advance notification to AID/W and REDSO/WCA concurrence.

PROGRAM ASSISTANCE APPROVAL DOCUMENT

GUINEA-BISSAU

AGRICULTURAL SECTOR ASSISTANCE PROGRAM

(657-0013)

AND

(657-0016)

May 1989  
OAR/Guinea-Bissau

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(657-0013)  
(657-0016)

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Acronyms

A.I.D.	Agency for International Development
AfDB	African Development Bank
ADF	African Development Fund
BNGB	National Bank of Guinea-Bissau
CIP	Commodity Import Program
CNCED	National Commission for Economic Coordination and Management (GOGB)
CPS	Crop Protection Service (GOGB)
DHAS	Department of Hydrology, Agriculture, and Soils (GOGB)
GOGB	Government of Guinea-Bissau
IBRD	International Bank for Reconstruction and Development (World Bank)
IDA	International Development Association (World Bank)
IMF	International Monetary Fund
MOC	Ministry of Commerce (GOGB)
MOF	Ministry of Finance (GOGB)
MOP	Ministry of Plan (GOGB)
OAR/GB	Office of the A.I.D. Representative, Guinea-Bissau
REDSO/WCA	Regional Economic Development Services Office for West and Central Africa
SAC	Structural Adjustment Credit (same as SAL)
SAF	Structural Adjustment Facility
SAL	Structural Adjustment Loan (same as SAC)
SAP	Structural Adjustment Program of the Government of Guinea-Bissau
SEPAECI	Secretariat of State for Economic Affairs and International Cooperation (GOGB)
USG	United States Government
USAID	United States Agency for International Development (Field Mission)

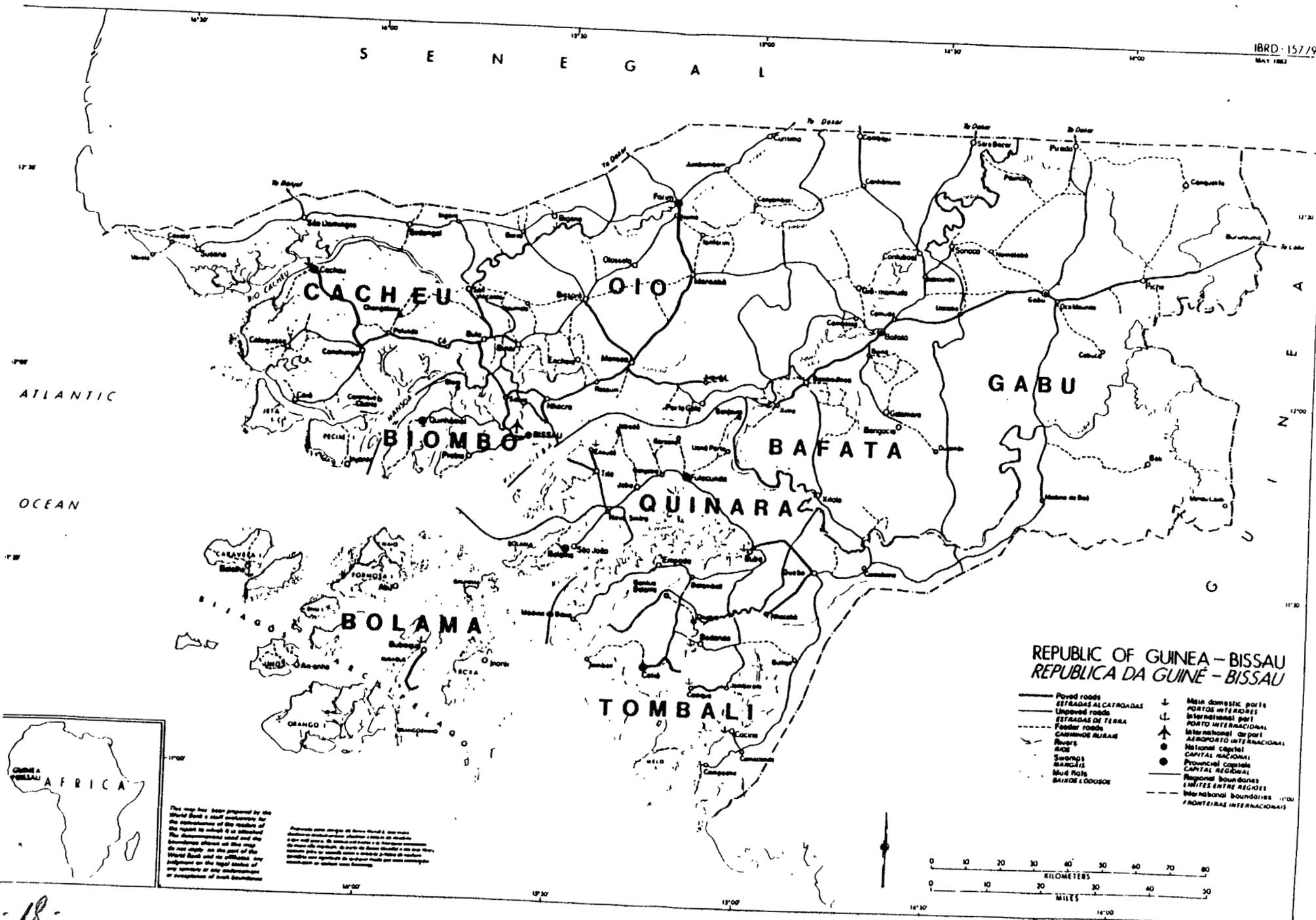
Map of Guinea-Bissau

UNIVERSITY OF CALIFORNIA

BEST AVAILABLE COPY

IBRD-157291  
MAY 1981

S E N E G A L



This map has been prepared by the World Bank as a part of a study for the assistance of the member of the region to which it is attached. The responsibility for the accuracy of the information shown on this map does not rest on the staff of the World Bank and is published only for reference. It is not intended to constitute any form of a contract or any other legal instrument or to be used as evidence in any court of law.

As shown on this map, all rivers shown are subject to change in course or flow. The World Bank does not assume any responsibility for the accuracy of the information shown on this map.



## I. Executive Summary and Recommendation

### A. Economic History of Guinea-Bissau

Following independence from Portugal in 1974, and until recently, the Government of Guinea-Bissau (GOGB) was committed to centrally-planned economic development. Major investments in large industrialized projects and manufacturing, with little attention to agriculture or to rebuilding the infrastructure damaged during the war, created massive external debts without a commensurate ability to service them. By the early 1980s, the country suffered from an overvalued exchange rate, inappropriate pricing policies and an inefficient marketing system which depressed agricultural production and exports, and stimulated a growing parallel market. Increasingly, Guinea-Bissau grew more dependent upon foreign aid for financing imports of its basic necessities. With mounting foreign exchange arrears, imported consumer goods were rationed and farmers were unable to obtain desired consumer goods, further constraining incentives and more firmly entrenching the population in subsistence agriculture.

Recognizing that past policies had failed the Government, in 1983, with the assistance of the IMF and IDA, made a fundamental decision to change its policies from that of promoting a centrally-planned economy to that of market-orientation and a development strategy based on agriculture. In December 1983, the Government began to implement these policy changes under the first phase of its structural adjustment program, which was supported by the World Bank, the IMF and the Swiss. Under that program, the Government devalued the currency by 100% and instituted subsequent weekly adjustments, increased producer and consumer prices, imposed higher taxes, and paid interest for the first time on savings deposits. The structural adjustment program continued to be implemented through 1984, but in 1985-86, it lost momentum, partly due to unexpected exogenous factors and partly because of implementation delays and inadequate measures on the part of the Government. Although the measures did have some positive impact on the level of agricultural output, the country continued to be confronted by serious macro-economic imbalances. By mid 1986, the Government recognized that incremental policy changes hitherto implemented were inadequate to reverse the deteriorating economy and that profound adjustment measures would be required to turn around the economy.

In 1986, the World Bank prepared a "Prescription for Comprehensive Adjustment." This document remains a blueprint of current policies. It outlines an agriculture-led growth strategy. The strategy is based on the premise that, given Guinea-Bissau's human and natural resource base in the medium-term, the economy will continue to be predominately based on agriculture. The strategy exploits the existing production base for agricultural commodities that are tradable in regional and international markets. The strategy focuses particularly on increasing rice and cashew production and marketing. According to the "Prescription," the country will grow out of its balance of payments deficit, in part by reducing rice imports

and increasing cashew exports. The agriculture-led growth strategy was based on sound economic theory, and it received the continuing support of the multilateral institutions and a growing number of bilateral donors.

Under the First Structural Adjustment Credit (SAC I), which was cofinanced by various multilateral and bilateral donors, the objective was to use its foreign exchange resources, coupled with pricing reforms, to increase real incomes of the rural poor by making imported goods available at international terms of exchange. This program was based on the realization that, if the domestic terms of exchange continued to be shifted against the agricultural sector through administrative interventions, the farmers would continue to exercise the option of exporting many of their goods across Guinea-Bissau's porous borders, outside the official channels, as became the practice during the period when the central control model was applied.

Performance under SAC I during 1987 and 1988 was encouraging, with a reduction of the GOGB's budgetary current account by two thirds, reduction of civil service rolls by 5%, increase in GDP by some 5% in 1987 and 4% in 1988 (with agriculture increasing by 9% and 5% in 1987 and 1988 respectively), an increase in officially recorded exports, a decline in the trade deficit, an increase in private investment, and in 1988, an increase in consumption by some 3% in real terms. These changes occurred against a backdrop of falling world market prices for cashews and adverse weather conditions in 1988.

In March 1989, the GOGB negotiated the Second Structural Adjustment Credit (SAC II) in Washington, D.C. The objectives of SAC II are to consolidate and expand the adjustment process, address remaining institutional and structural weaknesses in the economy so as to improve the level and quality of investment, and deal with the uncertainty introduced by exogenous shocks as well as the high debt overhang. The main feature of the program is continued devaluation of the Guinean Peso, which is intended to increase the relative price for locally produced tradeables thereby causing incomes to rise. In the Guinea-Bissau context, where 80% of the population is engaged in agriculture, these policies should result in increased incomes in the agricultural sector.

The SAC II program is not without risks. First, there is the possibility that the program will falter due to inadequate administrative capacity. Another risk is that price and trade liberalization measures and reduction in civil service numbers might result in increasing opposition to these measures, especially in urban areas. A final risk is that the government, because of its high debt overhang, will remain extremely vulnerable to exogenous factors, for instance, a decline in world prices for cashews, inability to mobilize necessary concessional aid and debt relief on a timely basis, and unfavorable developments in the global economy.

To mitigate these potential risks, the World Bank, A.I.D., and other cofinanciers to SAC II must remain flexible in governing the pace at which the adjustment process is to proceed. Emphasis also must be directed towards minimizing the adverse effects of the structural adjustment effort on the most vulnerable groups in the economy. In this regard, IDA has recently concluded negotiations on the Social and Infrastructure Relief Project (SIRP), which will, among other things, attempt to facilitate the transition of released civil servants into the private sector.

## B. Program Strategy

The Guinea-Bissau Agricultural Sector Assistance Program (ASAP, 657-0013) and complementary Agricultural Sector Assistance Monitoring Project (657-0016) constitute a three-year, \$4.68 million sectoral assistance activity developed in conjunction with the second phase of the Government of Guinea-Bissau's Structural Adjustment Program (SAP). A.I.D.'s program will cofinance SAC II and will participate in its implementation using the parallel financing mechanism. Multilateral and bilateral donor assistance is being coordinated through the World Bank's International Development Association (IDA). SAC II provides a total financing package to the GOGB of \$50.38 million (IDA, \$19.0 million equivalent; the African Development Fund, \$18.0 million equivalent; the Netherlands, \$4.8 million equivalent; A.I.D., \$4.68 million; and the International Monetary Fund, \$3.9 million equivalent).

Under SAC II, the Government will focus on a wide-sweeping policy reform agenda, including: maintaining a stable macroeconomic environment, including a flexible exchange rate system and restrictive monetary and fiscal policies; reorienting public investments increasingly towards removing infrastructural and institutional bottlenecks to growth, and towards basic needs and away from directly productive investments; expanding the trade and price liberalization started in 1983 to encourage private investment and foster greater economic growth, particularly in agriculture, forestry, and fisheries; institutional reforms to improve the efficiency and effectiveness of the public sector, particularly public enterprises and banking; and policies and programs to alleviate some of the main social costs of the adjustment program. Under SAC II, foreign exchange resources will be provided to the GOGB, primarily to finance private import requirements, upon satisfaction of policy conditionality negotiated between IDA and the GOGB.

The ASAP has been designed to parallel the SAC II program, but its focus is limited to the agricultural sector. The agricultural sector, which has only recently begun producing beyond subsistence levels, is beset with a panoply of constraints, including poor transport infrastructure, poor communications, lack of credit, low input use, and low farmgate prices due to inappropriate policies and the deteriorated state of the transport infrastructure. Because of overriding policy constraints and the need to coordinate relief of sectoral constraints in tandem with macroeconomic adjustments, the ASAP will focus on those sectoral policy constraints which have adversely affected agriculture.

The rationale of the program is to increase the production and marketing of rice and cashews, which are two principal commodities in Guinea-Bissau's agricultural sector. The specific policies supported by A.I.D. are aimed at improving the incentive structure for agricultural products in Guinea-Bissau and fall into two areas: gradual reduction of export tax on the country's most important export crop, cashews; and elimination of the rice subsidy to civil servants.

Through the GOGB's commodity producer tax and consumer subsidization policies, distortions have affected the prices of two key tradable commodities: rice and cashews. Groups, whose real incomes the state has wanted to protect, were paying only about 10% of the internationally traded value of limited quantities of rice, and farmers were receiving only about 35% of the value of cashew production, which is Guinea-Bissau's leading export. The rice subsidy

and cashew tax policies have been disincentives to production and marketing through official (public and private) channels. By removing these distortions, it is believed that the farmgate prices for rice and cashews will rise, therefore stimulating greater production and, ultimately, an increase in rural incomes.

Cash disbursements are planned to be made in three equal tranches of \$1.5 million. This disbursement plan appropriately offsets the front-loaded disbursement plan under SAC II, providing a regular flow of foreign exchange to the GOGB. For the first year, disbursement will be made upon the GOGB's decreasing the export tax on cashews from 47% to 40%, and elimination of the rice subsidy to civil servants. A.I.D. recognizes that the reduction of the cashew export tax and the elimination of the rice subsidy has already been instituted by the GOGB. Satisfaction of these conditions prior to signature of SAC II was required by the World Bank. However, as a cofinancier not requiring additional conditionality outside of SAC II, A.I.D. proposes to disburse its initial tranche based upon these conditions, even though these conditions were satisfied prior to signature of A.I.D.'s agreement.

Subsequent disbursements will be made following further reductions in the cashew export tax (expected to be to 35% in year 2, and 30% in year 3), and upon satisfaction that the GOGB has not reinstated rice subsidies for civil servants. Because the GOGB's structural adjustment process is subject to risks associated with factors beyond the Government's control, these benchmarks will remain flexible and dependent upon subsequent review missions and negotiations between the IDA and the GOGB. A.I.D. will continue to participate in such missions and negotiations.

The dollar resources to be provided to the GOGB under this program will be unprogrammed. The PAAD provides several reasons for this approach: analysis of the GOGB budget and foreign exchange requirements indicates that it will have a foreign exchange gap between \$72 and \$155 million for the period 1989-91; that sectoral program guidance for the Development Fund for Africa does not require allocation of dollar resources; and finally, because such a program formulation best fits within the current management limitations of the OAR/Guinea-Bissau. Additional financing could be provided under this program up to the level of the projected financing gap. However, any amendment to this program to increase funding should also be associated with conditionality beyond that specified in this document.

The PAAD contains an Initial Environmental Examination/Categorical exclusion. All of the activities to be undertaken during this program are categorically excludable pursuant to the provisions of 22 CFR 216.2(c)(1)(i), 216.2(c)(1)(ii), and/or 216.2(c)(2)(vi). The activities will either not have an effect on the natural or physical environment, or A.I.D. does not have knowledge of or control over, and the objective in furnishing assistance does not require prior to approval of financing or prior to implementation of specific activities, knowledge of or control over, the details of the specific activities that have had an effect on the physical and natural environment for which A.I.D. is providing financing. Provision of assistance for the procurement or use or both of pesticides will be prohibited under the terms of the Program Assistance Agreement.

Responsible officers for this program will be Vara LaFoy, AFR/PD/CCWAP (AID/W backstopping), and Anne Williams, A.I.D. Representative, OAR/GB (field

implementation). Major implementation actions will require REDSO/WCA concurrence, pursuant to Africa Bureau Delegation of Authority 551, as amended.

#### C. Impact Monitoring

In order to monitor the effects of these sectoral reforms, the Program will provide \$180,000, under a complementary Agricultural Sector Assistance Monitoring Project (657-0016), to support the Ministry of Plan's Statistical Unit, which will be charged with conducting rural income baseline and monitoring surveys over the life-of-program.

#### D. Audit

The Mission has reviewed the methods of implementation and proposed disbursement processes in light of potential risks and financial vulnerability. Insofar as disbursement will be based on conditionality established jointly between IDA, A.I.D. and the GOGB, it has been deemed that in light of potential risk, provision for a project financed audit is not necessary under this program.

#### E. Recommendation

It is recommended that the Program Assistance Approval Document and Program Authorization for the Guinea-Bissau Agricultural Sector Assistance Program (657-0013) and the Guinea Bissau Agricultural Sector Assistance Monitoring Project (657-0016) be approved for a total program life of three years and a total life-of-program funding of \$4.5 million and \$180,000 respectively. It is also recommended that authority be delegated to execute subsequent amendments to the Program Authorization to the A.I.D. Representative, OAR/Guinea-Bissau, pursuant to Africa Bureau Delegation of Authority 551, as amended, and Africa Bureau guidance for non-project assistance under the Development Fund for Africa.

## II. Background

### A. Macroeconomic Framework

#### 1. Historical Overview

The Republic of Guinea-Bissau gained independence in 1974 after a twelve year war against Portugal. It is a West African nation of approximately 925,000 inhabitants, which is bordered by the Atlantic Ocean to the west, Senegal to the north, and Guinea (Conakry) to the south and east. The country covers a total area of 36,125 square kilometers. Bissau, the capital, is the country's main port and largest city (160,000 inhabitants). The country is one of the poorest in West Africa, with an estimated GDP per capita of \$200, an adult literacy rate of less than 20%, an infant mortality rate within the first year of 134 per 1,000 live births, and an overall life expectancy rate at birth of under 40 years. The population growth rate in 1987 was estimated at 3.3% in comparison to 1.7% in 1978. There are approximately 7,500 persons per physician and 500 persons per hospital bed (latest IBRD estimate).

Several factors make Guinea-Bissau a special case among the lesser developed countries in Africa: its long colonial period, stretching over four hundred years, winning independence only after a long war which displaced up to one-fifth of the population and destroyed agricultural and physical infrastructure; limited natural resources; its small size; and its physical terrain, separated by wide estuaries and rivers making internal transport difficult. Moreover, unlike other Portuguese colonies, the colonial regime did not establish a modern agricultural sector in Guinea-Bissau, and the traditional pattern of subsistence agriculture was never supplanted.

The country's main resource base is agriculture (60% of GDP). Known mineral resources include some bauxite, phosphate, and off-shore oil, the potential of which is under study. There are substantial resources in fisheries and forestry, but their exploitation is still limited. The country is predominately specialized in farming, supplemented by fishing, palm-growing, and cattle raising.

Following independence and only until recently, the Government was committed to centrally planned economic development. Major investments in large industrialized projects and manufacturing, with little attention to agriculture or to rebuilding the infrastructure damaged during the war, created massive external debts without a commensurate ability to service those debts. By the early 1980s, the country had an overvalued exchange rate, inappropriate pricing policies and an inefficient marketing system which deterred agricultural production, depressed exports, and stimulated a growing parallel market. Increasingly, Guinea-Bissau grew more dependent upon foreign aid for financing importation of its basic necessities. With mounting arrears, imported consumer goods were rationed and farmers were all but unable to obtain desired consumer goods, further constraining incentives and more firmly entrenching the population in subsistence agriculture.

In 1983, Guinea-Bissau turned to the IMF and the World Bank to finance its balance of payments deficit. The Government previously had taken the significant action of devaluing the peso. However, a comprehensive set of macroeconomic reforms, involving fiscal and monetary stabilization measures and sectoral restructuring, would be required for external balance to be

reestablished. They would include monetary ceilings and fiscal austerity. They also would involve removing the distortions in the real sectors that had been introduced by centrally-controlled pricing policies. The previous central controls model consisted of building a public industrial sector through the heavy taxation of agriculture and foreign loans. The central controls model also consisted of maintaining public sector consumption through subsidies.

In December 1983, the Government began to implement the initial measures of the first phase of their structural adjustment program, which was supported by the World Bank, the IMF, and the Swiss. Under that program, the Government devalued the currency by 100% and instituted subsequent weekly adjustments, increased producer and consumer prices generally in line with the devaluation, imposed higher taxes, and paid interest for the first time on savings deposits. The structural adjustment program continued to be implemented through 1984, but in 1985-86, it lost momentum, partly due to unexpected exogenous factors and partly because of implementation delays and inadequate measures on the part of the Government. Although the measures did have some positive impact on the level of agricultural output, the country continued to be confronted by serious economic imbalances, in particular, the extent of relative pricing distortions and the size of macroeconomic disequilibria. By mid 1986, the Government realized that incremental policy changes hitherto implemented would be inadequate to reverse the deteriorating economy; profound adjustment measures would be required to save the economy from collapse.

In 1986, the World Bank prepared a "Prescription for Comprehensive Adjustment." This document remains a blueprint of current policies and outlines an agriculture-led growth strategy. The strategy is based on the premise that, given Guinea-Bissau's human and natural resource base, the economy will continue to be predominately fed by agriculture in the medium-term. The strategy exploits the existing production base for agricultural commodities that are tradable in regional and international markets and focuses particularly on increasing rice and cashew production and marketing. According to the "Prescription," the country will grow out of its balance of payments deficit, in part, by reducing rice imports and increasing cashew exports. The agriculture-led growth strategy was based on sound economic theory, and it received the continuing support of the multilateral institutions and a growing number of bilateral cofinanciers.

Specific mechanisms for implementing the agriculture-led strategy were identified in another document that was prepared by the World Bank's consultants, SCET AGRI, also in 1986 ("Study of Prices and Incentives for Rural Producers," SCET AGRI Paris). It proposed bringing greater volumes of rice, cashew, and other agricultural commodities into official marketing channels, by offering farmers increased incentives for their production of these goods. Previously, low official procurement prices based on the official rates of exchange had been offered to the farmers coincident with a shortage of consumer goods available for pesos. As a result, there were few incentives for farmers to produce beyond subsistence levels.

The report foreshadowed the design of the First Structural Adjustment Credit (SAC I) which made foreign exchange available to the GOGB for imports of goods that would stimulate production and marketing of tradable commodities from the agricultural sector.

Under SAC I, which was cofinanced by various multilateral and bilateral donors, including the World Bank, the IMF, the African Development Fund, IFAD, the Saudi Fund, and Switzerland, the objective was to use its foreign exchange resources, coupled with pricing reforms, to increase real incomes of the rural poor by making imported goods available at international terms of exchange. This program was based on the realization that, if the domestic terms of exchange continued to be shifted against the agricultural sector through administrative interventions, the subsistence farmers would continue to exercise the option of exporting many of their goods across Guinea-Bissau's porous borders, outside the official channels, as became the practice during the period when the central control model was applied.

Specific policy reforms under SAC I included easing of import license restrictions for all but a limited number of items (e.g., luxury items); adjustment of minimum agricultural producer prices in line with world market price levels; adjustment of consumer prices of key consumer goods and petroleum products; substantial increases in electricity tariffs to recover more operating costs; adoption of a fiscal program for public investment and adjustment of export taxes for cashews; adoption of a monetary program acceptable to the IMF; reduction in the number of civil servants; and preparation of a State Enterprise Rehabilitation Program.

Performance under SAC I was encouraging. In 1987, the first year of SAC I, the Government's current account deficit was reduced by about two-thirds to approximately 3% of GDP, and the civil service was reduced by 5% from 16,600 to 15,900. GDP grew by between 4 and 5%, with agriculture increasing by some 9%, and officially recorded exports increased by about 20% in real terms resulting in a 6.5% improvement in the terms of trade and a 14% decline in the trade deficit. In 1988, the current fiscal deficit is estimated to be reduced from 3% to 2.5%, but civil service reform has been slowed due to limited funds available for redundancy payments. A decline in the world market price of cashews, in addition to adverse climatic conditions affected the cashew harvest in 1988, but nevertheless, agriculture still grew at an estimated rate of 4 to 5%, and the overall economy by approximately 4%. Also in 1988, investment is estimated to have grown by some 15% and consumption by 3% in real terms.

The far-reaching adjustment measures undertaken under SAC I and being continued under SAC II were identified in close consultation with the IMF and the World Bank. Under SAC II, the GCOB will continue to tighten and deepen the reform measures begun earlier and will focus on maintaining a stable macroeconomic environment, reorienting public investments towards removing infrastructural and institutional bottlenecks to growth, expanding trade and price liberalization, and institutional reforms in the public sector and banking. While these reforms will promote medium-term stability within the Guinea-Bissauan economy, the overall effect of the structural adjustment effort will be reduced because of other constraints in the real sectors of the economy.

## 2. Financing Gap

Guinea-Bissau will need substantial concessionary resources to continue its adjustment program during and beyond the next three years. Guinea-Bissau's need for concessionary financing stems from an inability to finance imports

and debt service payments from exports and private flows. Imports appear to be structurally determined at the \$50-60 million level, whereas exports are generally in the \$10-15 million range. Interest payments and debt amortization are expected to increase from \$30.7 million in 1989, to \$44.7 in 1991. The current account is expected to be -\$24.9 million in 1989, and -\$26.2 million in 1991. This is offset by surpluses on capital account of \$10.1 million (1989) and \$5.4 million (1991). However, the capital account surpluses are insufficient to fully offset the current account deficits, giving rise, with errors and omissions, to negative overall balances ("financing gaps"). In 1989, the financing gap is expected to be \$12.8 million, decreasing in 1990 to \$4.2 million, but increasing again in 1991 to \$18.8 million.

According to the World Bank staff analysis, total financing requirements for 1989-91 will be \$368 million. Inflow of grants, from the EEC, the Netherlands, Sweden, Switzerland, and the USAID grant, are projected to total approximately \$142 million. In addition, existing and expected new loan commitments are about \$71 million. This brings a total of \$213 million, and a financing gap of \$155 million.

After taking into account possible rescheduling of existing debt at the best prevailing terms, the total financing gap for 1989-91 could be reduced to \$72 million. Possible financing under the World Bank's Special Program of Assistance, from IDA, and the IMF may come close to closing this gap. To facilitate the process, the GOGB has requested the World Bank to organize a Consultative Group for Guinea-Bissau to focus on mobilizing the resources required to sustain the adjustment program.

It should be noted that the A.I.D. grant of \$4.68 million is included in the Bank staff analysis under current account official grants balance of payments support. The financing gap of \$72 million remains after A.I.D.'s and all similar grants are included in the balance of payments analysis.

### 3. Other Donor Assistance

Donor assistance to Guinea-Bissau has come from a variety of bilateral and multilateral donors, and aid has been in the form of both project (agriculture, fisheries, transport infrastructure, technical assistance, health) and nonproject assistance (import financing, structural adjustment). The most important donors have been IDA, the IMF, Sweden, The Netherlands, Switzerland, and Portugal. Development assistance and food aid has also been provided by the United States, the European Community, the World Food Program, Japan, the Soviet Union, and Angola.

The UNDP has also played an active role in Guinea-Bissau. In July 1984, it coordinated the first Round Table in July 1984, and at the first follow-up meeting in July 1988, it was agreed to hold subsequent sectoral consultations on agriculture, fisheries, health, technical assistance, and human resources. The UNDP is also active in providing assistance to mitigate the adverse social impacts of structural adjustment, although this, like the new IDA-financed Social and Infrastructure Relief Project, is focussed on the urban sector.

Support to the structural adjustment effort, in particular, foreign exchange support for import financing, has been coordinated through IDA and has been

discussed in detail above. In 1985, IDA approved the \$10.0 million Reconstruction Import Credit to finance imports of essential commodities and consumer goods. An additional \$5.0 million was added to this in 1986. In 1987, IDA coordinated resources from other multilateral and bilateral donors for the SAC I program. SAC I financing totalled approximately \$44 million, with cofinancing from IDA, Switzerland, the Saudi Fund, the African Development Fund, the International Fund for Agricultural Development, and the IMF. Donor support under SAC II will be provided by IDA, Switzerland, the Netherlands, the African Development Fund, the IMF, and A.I.D., for a total financing package of \$50.3 million.

Guinea-Bissau is one of 19 countries qualifying for assistance under the IDA's Special Program of Assistance for Low-Income Debt-Distressed Countries in Sub-Saharan Africa. As such, IDA is taking the lead in coordinating other multilateral and bilateral donor assistance to mobilize the needed resources to ease the acute balance of payments difficulties facing these countries. A.I.D.'s contribution to SAC II is considered part of IDA's coordination efforts.

#### 4. Major Problems

Although the SAC II program represents a comprehensive package of assistance which is not only necessary but appropriate for the country, critical analysis of the program also indicates that it is not without its drawbacks. The program is but one step in many which will be required for long-term development in Guinea-Bissau. Economic recovery remains a long way off, and will continue to be exacerbated by high debt overhang and the economy's vulnerability to exogenous factors, continued constraints to economic development in the real sectors, as well as the risk of fostering monoculture in agriculture (i.e., cashews). However, despite these drawbacks, the SAC II also represents a comprehensive program to address the most critical needs in order to stabilize the economy. IDA also recognizes that due to changing conditions, implementation of the SAC II program will have to be done flexibly and within the capability of the GOGB.

Despite the recent shift in policies towards the private sector, the GOGB will continue to be burdened with the instability occasioned by high debt overhang, mounting external arrears, an unstable currency, and the continually shifting economic horizon, leaving the country subject to factors beyond the Government's control.

The overall macroeconomic package provided under SAC II will attempt, through regular devaluations, to stabilize the Guinean Peso which is currently in a free fall. Unless this fall can be stopped, or at least slowed down, there will continue to be pressures to trade cashews, rice, and other goods on the unofficial market to traders destined for Senegal and Guinea.

In addition, the program is based on the assumption that world market prices will be stable and climatic conditions will be such that production levels will continue along their present path. A sudden change in the world market price of cashews, or a sudden increase in the price of rice imports coupled with a poor crop could be devastating to the economy.

Economic recovery will also be dependent on improvements in the real sectors: transportation infrastructure, communications, rural credit, improved technologies, and the human resource base. In these critical areas, the country is extremely weak; investments in them are well beyond the country's ability to pay, and their eventual amelioration will take not only resources, but many years, to develop. The danger inherent with SAC II, as well as other structural adjustment programs, is that its full impact cannot and will not be felt without commensurate improvement in these real sectors.

A final drawback of this program is that it puts considerable emphasis on the development of cashews as a major export earner and might foster the shift from the present practice of diversified agriculture to that of a monoculture. The design team saw evidence of this shift near Bissau, where the trend was to increase cashew production at the expense of rice production. The dangers of this strategy are obvious - dependence on a single crop holds the country hostage to fluctuations in world market prices for cashews, and also leaves the country vulnerable to climatic catastrophes (drought, sandstorms) which are not unknown to this part of the continent.

To alleviate this danger, it is important that future policies be structured to improve the pricing structure for a balanced variety of agricultural crops. In addition, focus might also be directed towards diversification and agro-processing of major crops in order to capture revenues from value added processes, for instance, cashew nut processing (shelling, roasting, and packaging) prior to exportation.

Because of these factors, it is important that the adjustment process be flexible in order to react to the changing economic environment. A.I.D. is building in this flexibility in its ASAP program in two ways. First, conditionality established under this program, while specified in discrete terms at the beginning of the program, will remain subject to adjustment as agreed upon by the GOGB, IDA and A.I.D. A.I.D.'s experience with similar cofinancing arrangements with IDA has shown that flexibility needs to be built into such programs in order to respond to the changing economic conditions. A.I.D.'s participation in the annual review missions are intended, in part, to allow an annual review of the global economic situation and to make further refinements to the overall economic reform agenda if required. Secondly, A.I.D. will disburse funds to the GOGB in the form of a cash disbursement. The only restrictions that will be placed on these funds will be a prohibition to use these funds for military, para-military, pesticides and luxury goods, or to repay debt or finance other items from sources outside of A.I.D. Geographic Code 935.

## B. Agricultural Sector Framework

### 1. Overview - Salient Characteristics

Guinea-Bissau lies on the west coast of Africa bordered to the north by Senegal, and to the east and south by Guinea. The general topography consists of a coastal plain deeply interspersed with rivers, and a transition plateau, forming the Bafata plain in the center of the country and the Gabu plain which abuts on the Fouta Djallon. The main physical characteristic of Guinea-Bissau is its meandering rivers and wide estuaries, where it is difficult to distinguish mud, mangrove swamps, and water from solid land.

The climate in Guinea-Bissau is characterized by a short rainy season from June to September and a long, eight-month dry season (October to May/mid-June). Rainfall levels increase as one moves south and west, with annual rainfall averaging over 2,000 mm in the south and less than 1,400 mm in the northeast. Rainfall in the remainder of the country averages between 1,400 and 1,800 mm per annum.

Agriculture accounts for approximately 60% of GDP, 75% of merchandise exports (cashews, groundnuts, and palm kernels), and between 80% and 90% of employment. In 1987, it is estimated that agricultural GDP grew by about 9%, and in 1988 by 4-5%, primarily due to more consumer goods being available for purchase.

Of the country's total land area of 36,125 square kilometers, it is estimated that the area under cultivation is only slightly over 300,000 hectares, representing less than 10% of the total land area and about 30% of the total land area suitable for rainfed or irrigated agriculture. This reduced level of cultivation is contrasted to the pre-independence period, when approximately 460,000 hectares were under cultivation. With the exception of cashews nut production, which has greatly increased over the past five years, production of primary food crops has stagnated at levels well below those achieved in the 1950s.

Crop production in Guinea-Bissau is predominantly through the small, family farm. Use of modern inputs (fertilizers, pesticides) is rare. There is no problem with land scarcity in most areas, and land is allocated on a usufruct basis. The basic social unit is the tabanca, formed by groups from 100 to 1,000 people with access to land and is the basis of recruitment of labor that plays an important role in the production process on family holdings. Commercial farms (pontieros) have focused mainly on export crops. However, it appears that small family farms have recently diversified into crops traditionally dominated by commercial farms, e.g., cashews.

The traditional subsistence diet is diversified, combining plants and animals from both the Sahel and coastal regions (rice, beans, groundnuts, millet, sorghum, maize, cattle and small ruminants, fish and shellfish, mangoes, palms, bananas, papayas, citrus fruit, roots and tubers, cashews). The growing of such a wide variety of plants and animals demonstrates the farmers' risk-averse behavior; by including both Sahelian and tropical crops, farmers are able to mitigate the adverse impacts of changing weather conditions.

Of the land under cultivation, approximately one-third is devoted to rice cultivation, with roughly 55% devoted to saltwater paddy production, and the remainder to freshwater and upland rice production. Saltwater rice cultivation is predominately focused in the southern and western parts of the country and requires highly refined traditional techniques, particularly in mangrove swamps requiring delicate control of water and the maintenance of significant infrastructure. Due to the low level of inputs, as well as problems of salinity, rice yields are generally low (0.8 tons/ha). Rainfed upland and irrigated lowland rice production is concentrated in the northwest and north east. Input application is also practically nonexistent, and yields are extremely susceptible to drought. Global production levels of rice currently average approximately 145,000 tons of paddy, or 94,300 tons milled, per annum. Rice imports, both commercial and food aid, have averaged some 40-45,000 tons per annum.

Due to favorable world market prices for cashew nuts over the past several years and the policy of exchanging rice for cashews at a ratio of 2 kilos of cashews for one kilo of rice, there has been widespread new plantings of cashew trees throughout the country by the small farmer. Prior to the recent boom, cashews came predominately from the northwest of the country from commercial farms. No statistics are presently available for the area devoted to cashew trees, but cashew export figures, from 400 tons in 1979 to a projected 12,000 tons in 1989 demonstrate the emerging predominance of cashews as the country's leading export crop. GOGB Department of Agriculture officials estimate that when the new trees come into production, export levels may reach 20,000 MT per annum or beyond. Cashews accounted for over 57% of the country's total exports in 1988.

Groundnut production accounts for approximately 20% of the land, and is concentrated in the northeast. Groundnut exports accounted for approximately 5% of total export earnings in 1988.

Palm and fruit trees (mangoes) are also an important factor in the agricultural economy. Extraction of palm oil using artisinal methods is practiced throughout the country, and exportation of palm kernels, originating from the northwest, accounted for over 8% of the country's export earnings.

A study conducted in 1976 by SCET-AGRI reviewed the country's land use capability. The study found that of Guinea-Bissau's total land area of 36,125 square kilometers, about 45% is suitable for agriculture. Comparing the figures cited above with Table 1 below, it would appear that land is not a constraint to increased production in Guinea-Bissau.

Table 1  
Guinea-Bissau Land Use Capability

Land Use	Area (ha)	%
Palms and fruit trees	173,765	5.2
Annual and semi-perennial crops associated with palms or fruit trees	87,490	2.6
Annual and semi-perennial crops	341,823	10.2
Fallow associated with annual crops	622,107	18.6
Rice production	281,285	8.4
Productive forest and forest plantation	466,110	13.9
Natural vegetation for extensive pasture	1,378,720	41.1
Total	3,351,290 <sup>1/</sup>	100.0

<sup>1/</sup> Difference in land figure due to cities, towns, and land periodically submerged due to tides.

Source: SCET-International. "Rèpublica da Guinea-Bissau. Potentialites agricolas, forestrières e pastorales". Vol. I and II, 1978.

## 2. Rice Production Characteristics

There are three types of rice culture practiced in Guinea-Bissau: salt water and fresh water swamp culture grown in low-lying areas (bolanhas), and upland rice. All three are grown under rainfed conditions and, with minor exceptions, only one crop per year is sown.

### a. Swamp Rice

Salt water swamp rice accounts for slightly more than half of the rice grown under swamp conditions. Most of this production takes place in the Tombali, Cacheu, Oio, Quinara, and Bafata regions. Swamp rice is mainly produced by four tribes: Balanta, Manjaco, Mandinga, and Felupe. Yields range between 0.8-1.5 MT/ha paddy for salt water swamp rice, and between 0.6-0.9 MT/ha for fresh water swamp rice. This is far below the production potential - demonstration plots have yielded between 4.5-6.5 MT/ha paddy for salt water swamp rice, and between 3.0-4.5 MT/ha paddy for fresh water swamp rice. Generally, yields in the salt water swamps are below optimum because of the pests and inadequate water control (timing and management of the bringing in and draining off of salt water and the ponding and subsequent evacuation of fresh water).

Swamp rice is grown exclusively using traditional techniques with manual labor and basic handmade tools. Land preparation begins in late June or early July after sufficient rain has fallen to soften the soils.

The rice is grown on the tops of ridges in the paddy basin. Tilling in preparation for each year's crop consists of several steps, beginning with shaving off a thin layer of soil from both flanks of the old ridge and inverting these in the old furrow to bury the weeds. The second stage is to take a further layer of soil from the old ridge and use this to build up the ridge to its final height, upon which the rice is transplanted. The final height of the ridge may be from 30 to 60 cm and the distance between ridges varies from 80 to 120 cm.

Nursery beds are used for transplanting in the salt water swamps and some of the fresh water swamps. Nurseries are usually established in the village, adjacent to the huts and they are fenced against domestic animals with local materials. Paddy seed is sown rather densely in June/July, in raised beds about 10 cm high and 50 cm wide. Sometimes, animal manure is incorporated into the beds, but virtually no inorganic chemical fertilizer is used. Seed rates are high, usually in the range of 50-60 kg/ha of paddy required to be planted. High seed rates are required to counter poor germination percentages and losses due to birds. The nurseries are rainfed and hand watering is not generally used. Approximately 220 square meters of nursery is required to grow paddy seedlings for one hectare of land.

Transplanting from nursery beds takes place in August/September. Because of the cultivation technique carried out in the fields before transplanting, weeds do not pose a serious problem to the farmer. Harvesting begins in early December and continues until the end of January. Harvesting is done by cutting off the paddy head with a small knife, allowing the heads to dry in the sun in the fields, followed by threshing, usually during February-April.

Salt water swamp rice culture requires special water and soil management techniques to adapt to the complex rice growing conditions. By using a combination of salt water to counteract the excess acidity and rainwater to leach out salts, the farmers are able to cultivate these difficult acid-sulphate soils and obtain relatively good yields without the use of purchased inputs.

The soil management in the salt water swamp areas takes several years to develop. During the dry season of the first year, the villagers will construct a dike along a selected area alongside a small river or creek, high enough to prevent further ingress of salt water due to the tides, but with the ability to be opened as needed to let water out during the rainy season. During the dry season of the second year, the vegetation enclosed by the dike is cleared with machetes, axes, and other local tools. The vegetation is normally cut, dried, and later burned at the site. Additional internal dikes are also built to enclose small paddy basins, generally measuring about 40 meters by 50 meters.

Following this process, the fields are left for up to six years to allow for natural ripening and desalinization. When brought into production, ridges and drainage ditches are formed within the paddy basins. It is on these ridges that the rice is transplanted.

When the heavy rains start, the paddy basin is sealed off and water is allowed to collect to a depth of 40-60 cm. This allows soluble acids and salts to dissolve. The fields are subsequently drained and ready for planting.

Once in production, the fields are annually flooded with salt water at the end of the dry season. This is done for weed control, as well as to control soil acidity. The process of sealing off the paddy basins described above helps reestablish the proper conditions for rice cultivation.

#### b. Upland Rice

Upland rice is of secondary importance to other upland crops and is concentrated in the central and western parts of Guinea-Bissau. Upland rice is reported to yield between 0.3-0.4 MT/ha paddy. The shortage of water, poor soils, and deficient agricultural practices are limiting factors for increased production. Fula, Manjanco, and Mandinga tribes are the main producers.

Upland rice is usually grown in shifting cultivation. The forest or other vegetation is first cut down and burned, and then the fields are prepared by using rudimentary hoes. A normal rotation would be a first crop of upland rice followed by millet or sorghum and groundnuts for two to four years. At that point, the soils are depleted and they are left fallow for five to fifteen years to allow for natural regeneration.

Upland rice is direct-seeded. At the beginning of the rains in mid-June, the farm women sow the rice in holes, with two to three grains per hole. The seed is carried over from the previous years production, and no fertilizers are used. Weeding of the crop is generally done in August, and the harvest takes place in September/October.

#### c. Rice Situation

The 1987/88 (October to September) crop year is the last full year for which data are available. Production was an estimated 142,000 MTs (paddy), having a value of \$5.9 million at the official price of 50 GP/kg, \$23.7 million at an average open market price of 200 GP/kg, and \$25.8 million at the C&F price of \$275/MT (extraction rate of 66%). Rice's importance in GDP crucially depends on the pricing formula that is utilized.

With 21,300 tons of paddy rice retained as seed from domestic production, total rice availability, was 117,238 metric tons. Storage is a problem in Guinea-Bissau, and stock adjustments are ignored in this analysis.

In Table 2, uses are estimated as follows based on a total population of 900,000 and per capita average annual rice consumption of 88 kgs:

Table 2  
Total Estimated Annual Rice Consumption in Guinea-Bissau  
in Metric Tons

Bissau City	10,057
Subsidized sale	7,543
Exchange for cashews	5,000
Special uses	5,000
Farm home consumption	61,600
Border trade exports	28,038
Total	117,238

Border trade exports to Senegal alone in 1984 were estimated in a 1984 study at \$10-15 million, or 60% to 80% of all official exports. More recent figures tend to place a lower estimate. In 1987/88, 28,000 tons of rice would have a value of \$7.7 million in international or regional trade. Guinea-Bissau's role, as a low tariff transit point vis-a-vis Senegal, appears analogous to Togo's vis-a-vis Nigeria or Ghana.

Rice imports in 1988 totalled 46,238 metric tons, having a value of \$10.9 million.

### 3. Cashew Production Characteristics

Cashews are grown throughout Guinea-Bissau. Traditionally, they have been predominately concentrated in the northwest, however, with the increased world market prices in the mid 1980s, the rice for cashew exchange policy, and the relatively low labor requirements to grow cashews, additional plantings of cashew trees have been observed throughout the country. While cashew production has traditionally been the domain of commercial farmers (pontieros), it appears that new production coming on line is attributable to small farmers as well. The cashew tree's adaptability, relative ease of growth, and tolerance to the long dry season makes it an ideal crop for either commercial production, or for the smallholder.

Cashew saplings at the village level are germinated in rudimentary nurseries and later transplanted in the fields when the plants reach a height of about one foot. They are then transplanted at approximate three meter intervals to guard against failure of some of the saplings from establishing themselves. After the young trees are established, the weaker trees are removed, and the resulting plant density is about one tree per 100 square meters.

When the cashew trees are 4-5 years old, they begin to bear fruit, though initial nut production may only be 1-2 kg/tree. Full production is realized when the trees reach the age of 10 years, and the productive life is about 30 years. When in full production, yields may reach as high as 20 kg/tree, although this is rarely attained due to adverse weather conditions and lack of inputs.

The cashew tree yields two products, and in the village context, the cashew nut is actually the by-product, with the cashew fruit, or pear, being the primary product. The juice from the cashew pear, which resembles a small, red or yellow bell pepper, is used to make cashew wine which is naturally fermented. When the cashew pear is mature, it drops to the ground, whereupon it is collected and transformed. The cashew nut itself is not subject to spoilage, however, the pear, if left on the ground too long after dropping, is unusable for juice production.

The cashew season normally stretches from April to October. In February through late March, the blossoming trees are particularly vulnerable to sandstorms. In 1988, a sandstorm sweeping the country in February caused significant damage to the cashew crop and resulted in lower than expected yields. In February 1989, Guinea-Bissau again was victim of a sandstorm, however, at this writing, the damage it caused is impossible to estimate.

The labor requirements for the cashew harvest are met from several sources. One source is the farmer's extended family, which may live with him, or who visit the farm during the harvest season to assist. Another source is the village (or tabanca), itself, which may organize labor parties to assist in the harvest through the pooling of labor. Regardless of the source, however, it is generally women who are involved with the harvest and the transformation of the cashew pear into juice.

Payment for the labor required for the cashew harvest is in-kind. Since the cashew nut is the by-product, farmers will "engage" their families or women from their village to collect the fruit and extract the juice for their use (though a portion is retained by the farmer) in exchange for their leaving the nuts. The nuts are then bagged and sold to merchants, or gilas, who ply the rural roads in search of the nuts.

The competitiveness of cashew marketing was not able to be studied in detail by the PAAD design team, however, on the surface, it would appear that there are both positive and negative forces working on the marketing system that gives the cashew farmer a balanced share of the world market price. The system has several levels, owing to the large quantities (500 tons minimum contract) required to export. In 1988, there were seven merchants, in addition to Armazens do Povo, who had the economic wherewithal to obtain needed short term credit to finance the purchasing campaign. In 1988, in order to bargain for the best price possible, Armazens do Povo took the lead and negotiated, on behalf of itself and the seven other exporters, two international contracts totalling some 11,000 tons (under which a total of 10,100 tons were exported). Under the agreement among the merchants, cashews exports were consolidated and exported under the precontracted price. Payment to the merchant was made by the consignee to the National Bank of Guinea-Bissau (BNGB), which, in 1988, automatically deducted 47% for taxes (the total amount of export and other taxes), as well as outstanding loans and

interest due extended for the purchasing campaign, before paying the exporters. Payment was made half in local currency, and half in the form of foreign exchange credits which the exporter could use to import offshore commodities.

Cashew marketing is done in kind as well as on a cash basis. In December 1984, the GOCB announced a policy of exchanging two kilos of cashews for one kilo of milled rice. Given the relative difference in labor requirements required to raise two kilos of cashews vs. one kilo of rice, the exchange policy has resulted in production substitution towards cashews and away from rice, especially in areas where rice production is particularly difficult due to high soil salinity. The exchange rate of two kilos of cashews for one kilo of rice is not fixed, however. Depending on when the cashews are harvested and the extent to which the nuts have dried in the shell, farmers may receive more up to one and a half kilos of rice for two kilos of cashews.

Collection of the cashews at the farm level is done by gilas. Gilas either operate under contract with one of the large export firms, or they operate independently and sell the nuts to the exporters once the nuts are brought to Bissau. Since over the past several years cashew prices have been relatively favorable on the world market, farmers have a good idea of what they should be selling their commodity for and will not release their crops until they receive a satisfactory price. During one field visit, the village farmers were on their way to a meeting to discuss the very issue of what price they would collectively sell their cashews for this year.

While there has been suspicion of possible collusion among the main exporters to depress the farmgate prices for cashews, the design team notes that there are mitigating factors which would tend to limit the adverse effects of this alleged collusion. Because traders from Senegal also engage in the cashew marketing campaign (exporting them illegally through Guinea-Bissau's porous borders), and since Senegal does not have an export tax on cashews, traders are able to purchase the cashews at a higher price than the Bissauan merchants. Although these traders also run the risk of confiscation and higher transport costs, the general effect has been to maintain an upward pressure on the farmgate price of cashews. It is suspected that a significant amount of unofficial trade goes into Senegal, but due to nonexistent statistics, it is impossible to estimate the level to which this affects the market.

Another factor weighing in favor of the farmer is that the exchange ratio of two kilos of cashews for one kilo of rice has been established and farmers have an expectation of exchanging their production on the same or better terms each year. In periods where world market prices of cashews is increasing, the farmer is disadvantaged, since he is unable to capture a larger share of the world market price. However, in periods where the world market price is falling, as it has been the case since 1987, the farmers actually receive a greater proportion of the world market price due to the constant rate of exchange of rice for cashews.

Finally, the cashew marketing system, although concentrated at the export levels among a few large exporters, appears to benefit from competition among the exporters, who must compete among themselves for the cashews. There is also the influence of outside firms coming in and competing for available cashews. The exporters compete for the cashews since it is an effective means

of obtaining foreign exchange to finance imports of consumer goods. According to Armazens do Povo, exporters were paying as much as 600 GP/kilo, while the officially established price was only 230 GP/kg at the farmgate and 350 GP/kg delivered to Bissau.

According to the GOGB Ministry of Rural Development, cashew production in certain areas of Guinea-Bissau appears to have led to a decline of rice production, especially in areas of high salinity where rice production is difficult. In one such area to the northwest of Bissau, it was observed that cultivation of rice was practically nonexistent, but the cultivation of cashew was thriving. When the design team queried several farmers, it was explained that the cashew trees, by virtue of their hardiness and relatively low labor requirement, provided a viable alternative to the difficult cultivation of rice. Cashew farmers, instead of depending upon rice cultivation for their own consumption, have begun to rely on cashews, which they could exchange for rice.

This phenomenon, if consistent throughout the country, would represent a bleak picture for domestic rice production. However, it appears that for the moment, the phenomenon is most pronounced in those areas where rice production is extremely weak due to the high salinity and lack of appropriate water control structures. The phenomenon does not appear to be occurring in the south, the country's major rice producing area.

### III. Program Description

Under this \$4.68 million program described below, the United States Government will support the GOGB's reform efforts through cofinancing SAC II, with particular emphasis on the agricultural sector reforms delineated under the SAC II Agreement. Implementation of these reforms will have the long-term effect of raising rural incomes.

#### A. Rationale and Major Problem

##### 1. Agricultural Sector Constraints

Under SAC II, the development of the agricultural potential of Guinea-Bissau is seen as the engine which will drive the reform program to its ultimate success. However, such successes will be elusive unless several constraints to such development are removed. These constraints can be divided into two categories: policy constraints and real constraints. Policy constraints refer to those policies adversely affecting the agricultural sector and include fiscal, monetary, pricing, subsidization, and taxing policies, as well as conflicting macroeconomic policies that disadvantage the agricultural sector. Real sector constraints refer to physical, cultural, marketing, and credit constraints which adversely affect the agricultural sector, including transport infrastructure, communications, and production technologies. They are discussed in greater detail below.

##### a. Policy Constraints

###### (1) Fiscal and Monetary Policies

GOGB monetary policies which resulted in high inflation and caused the local currency to lose value have ultimately negatively impacted on the agricultural sector. Because the policies had the effect of shifting the comparative advantage away from domestic producers of agricultural commodities and toward the cheaper imports, farmers found themselves in the position where they found little incentive to produce beyond their own needs. Only when absolutely necessary did they produce beyond subsistence levels to, for instance, have something to barter for needed consumer items. Through a number of reforms in the fiscal/monetary area, the GOGB is seeking to reverse this trend. These reforms have been described earlier under the description of the SAC II program.

###### (2) Rice Pricing and Subsidies

Until the early 1980s, Armazens do Povo (ADP) had successfully conducted domestic rice purchasing operations. However, by the 1980s, the low prices offered for such domestic rice, as well as the total unavailability of any kind of consumer goods, resulted in the unavailability of domestically produced rice. The farmers preferred to keep what rice was produced for self-consumption and seeds. This resulted in a continued high need for imported rice to support the urban areas.

Under its reform efforts, the GOGB has endeavored to increase domestic rice production by increasing minimum producer prices for rice and by loosening up import license restrictions to increase the supply of needed consumer goods to the rural areas.

At the same time, however, the GOGB continued to import rice and, through ADP, began in 1987 to sell it to civil servants at a price of 65 GP/kg, well below the imported price of such rice (currently 650 GP/kg), and below the minimum price for farmers (currently 200 GP/kg for unmilled rice and 500 GP/kg for milled rice). As a result, there was little encouragement to increase rice production to supply the urban areas where most civil servants resided and where most imported rice was sold.

This subsidization of rice for the civil servants had the added effect of creating an unrecorded debt in the GOGB budget. As a result, IDA has required under SAC II that farmgate prices for rice be realistic and that civil servants pay at least import parity prices for their rice.

### (3) Cashew Export Tax

Cashew production was itself also subject to the disincentive of a 50% export tax. Due to the limited administrative ability of the government to collect indirect taxes, the GOGB tended to rely on direct taxation of export commodities. When it was introduced on May 4, 1987, the cashew export tax was set at 50% of the FOB value calculated in pesos at the official exchange rate. Due to the lack of reporting on the local-level impacts of the privatization of commerce, it is unclear how much of a reduction in the cashew export tax will be actually being passed on to the farmers. It is felt that in the short-term, the gains will accrue mainly to traders and exporters; gains received by the small farmer will be through increased production levels - this should be witnessed over the next several years as trees planted two to three years ago come into production. However, over the medium- to long-term, it is anticipated that rural incomes will increase through both higher prices due to increased competition, and higher production.

### (4) Relevant Agricultural Policies

In late 1984, the government began a program of exchanging rice in the rural areas for cashew nuts. Since the beginning of this program, the terms of exchange have been 1 kilogram of rice in exchange for 2 kilograms of cashews. However, the world price relationship is roughly the reverse, or 2 kilograms of rice for 1 kilogram of cashews. While it has been found that the rate of exchange can vary depending on the moisture content of the cashews (i.e., cashews that have been dried might fetch more than newly harvested cashews), the policy is nonetheless an example of the government policies delaying the introduction of appropriate price signals at the sectoral level. Up to 5,000 tons of rice have been imported each year since 1984 to finance the cashew campaign. In the long term, the policy of favoring cashew production might undercut the rice production objectives of the strategy, thereby exposing the economy to excessive dependence on a single export crop. While this will remain a risk of the program, the PAAD design team noted that the general shift towards cashews and away from rice observed in the north and around Bissau was not evident in the major rice producing regions in the south.

#### b. Real Sector Constraints

### (1) Low Profitability of Rice Production

The relative profitability to the farmer of different commodities also affected the implementation of the agriculture-led growth strategy. The low profitability of rice, measured in unit of output per man-day, does not appear to have been definitively overcome through technical change to augment the productivity of labor. Recent increases in rice production have been the result of increased land being brought into production, not higher yields.

### (2) Transport and Communications Infrastructure

An important sectoral constraint is the rural transportation and communications system. The transport infrastructure in Guinea-Bissau is in extremely poor condition. The road system consists of approximately 3,000 km of classified roads, of which only about 500 km are paved. Because of the deteriorated state of the roads and bridges, and virtual lack of maintenance beyond that of relief of key bottlenecks, much of the country is cut off from Bissau during the rainy season.

Water transport is used extensively, and has traditionally carried about half of the total freight transported in Guinea-Bissau. It is estimated that some 85% of the population of Guinea-Bissau lives within 20 km of a navigable waterway. However, the number of boats is small, and the general condition of the boat fleet is poor.

This particularly affects rice production which has, over time, shifted towards the southern areas of the country (Tombali, Quinara), in response to climatic changes where transportation and communications facilities are at their worst. For example, current data show large price differences around the country, indicating that markets in the south especially are not effectively integrated.

### (3) Private Marketing Structure

Another constraint to agricultural output was the private marketing structure that emerged from the liberalization of domestic commerce. The number of financially-able private traders was small and, in some localities, price collusion was practiced. Moreover, the official producer prices which, as we shall discuss below, were actually declining in real terms, sanctioned paying low prices to the farmers. Often the traders did not pass on to producers of exportable goods (i.e., rice and cashew producers) the higher prices, in local currency terms, that devaluation was supposed to bring. As mentioned elsewhere in this paper, the effects were somewhat mitigated due to the fact that illegal border trade with Senegal has put upward pressure on cashew prices at the farmgate.

### (4) Credit

Rural and small scale commercial credit are virtually non-existent in Guinea-Bissau. Attempts to alleviate this problem informally have failed. For example, due to the weakness of the private trading community, and in the absence of a commercial bank, in 1988, ADP administered commercial credit to the traders, in an attempt to foster a "new commercial class." Whether the

"new class" was intended to be a competitive or a corporate group, along the lines of the typical neocolonial Portuguese trading company in Africa, is unclear. In any event, the experiment ended when many of the small traders failed to repay the debts, and dropped from sight. The episode also showed that ADP was an unacceptable substitute for a commercial bank.

### c. Selection of Particular Reforms

Given the numerous constraints to agricultural development, it can be asked why OAR/GB has chosen only to address itself to two specific policy reforms under the ASAP. The answer lies in the decision to provide program versus project assistance, the choice of method to provide such program assistance, and the legislative constraints on the form of program assistance.

A necessary precondition to long-term economic growth is a stable economy, as characterized by a stable exchange rate, moderate inflation, access to credit at reasonable rates, etc.. At present, the Guinea-Bissauan economy is far from stabilized, with inflation averaging 86% in 1987 and 70% in 1988, an active parallel market periodically pushing the differential between the official and parallel exchange rate to over 40%, rapid monetary expansion, and a mounting trade deficit, increasing to \$41.7 million in 1988 (up from \$27.8 million in 1987). At this time, the greatest need of the Government is in the area of stabilization measures to create the environment which will foster, rather than repel investments in productive sectors. A.I.D.'s support to SAC II will contribute to that stabilization effort.

The above situation also underlines the futility of directing scarce resources toward traditional agricultural production project activities at this time - agricultural production projects, while definitely needed to upgrade present cultural techniques, ultimately will depend on a stable economy to have their full effects. Moreover, Guinea-Bissau suffers from a plethora of donor activities in agriculture - to the point where not only financial, but human resources are strained to the limit. For this reason, program, rather than project, assistance is seen as the most rational approach for A.I.D. at this time.

A.I.D. chose to cofinance SAC II rather than initiate a separate program because that procedure allows A.I.D. to pool its limited resources with those of other donors to leverage policy reforms which might not otherwise be leveraged by A.I.D. alone. By aligning its assistance with that of the IDA and other donors, A.I.D. is able to provide direct support, not only to the agricultural sector reforms, but to the general macroeconomic reform regime required to bring about economic stabilization in Guinea-Bissau. By retaining control over its funds via the parallel financing mechanism as well as by focusing its support to agricultural sector reforms, A.I.D. is also able to retain its identity in the reform effort and show demonstrable support to the GOGB for its Structural Adjustment Program.

The management limitations facing the Bureau and the Agency force A.I.D. to seek new ways in which to implement its development assistance program abroad. Cofinancing is one way in which to implement a development assistance program with minimal drain on scarce USDH resources. This program is structured with these management realities in mind. This program is funded under the Development Fund for Africa which requires that program assistance be aimed at a specific sector. A.I.D. will emphasize

the agricultural sector because that is the sector in which it already has made considerable investment. However, at this time, A.I.D. does not go beyond the SAC II program in its choice of reforms to target due to the management constraints noted above.

## B. Program Rationale

Under ASAP, the objective is to effect even greater improvements in the incentive structure in order to further benefit the country's rural population. It is expected that improvement of the pricing incentives for cashews and rice will result in greater production and higher incomes for producers of those crops.

The rationale for this program is based on the recognition that sustained economic development in Guinea-Bissau will necessarily rely on the agricultural sector and at the same time will benefit primarily those working in that sector. The rural sector accounts for some 80% of the country's population and is mainly comprised of small farming family units. Because of the disruption caused during the protracted war for independence, policies all but neglecting agriculture during the post-independence period, low producer prices for agricultural commodities, and lack of consumer goods, the population had little incentive to produce beyond basic subsistence levels. However, with the recent reform efforts, incentives for farmers have improved considerably: prices paid at the farmgate have stabilized or are gradually increasing, and more consumer goods are available in the market. Agriculture has, since 1986, demonstrated an average annual GDP growth rate of some 7% (1986-88), and its projected annual growth rate during the period 1989-91 is over 6%. However, this growth rate will not be sustained unless the farmers continue to perceive it would be worth their while to increase production.

## C. Purpose

### 1. Program Goal and Purpose

Based on the above, the program goal for the Guinea-Bissau Agricultural Sector Assistance Program is to increase rural incomes. The program purpose is to increase farmgate prices for two important agricultural crops, rice and cashews. This will be accomplished through the alleviation of two policy constraints affecting such prices: reduction of the cashew export tax, and elimination of rice subsidies to civil servants.

### 2. Outputs

The outputs of this program will be the alleviation of two identified agricultural policy constraints presently depressing farmgate prices for cashews and rice.

For the first year of ASAP, the cashew export tax will be reduced from 47% to 40%. Subsequent reductions of the cashew export tax will be the subject of future negotiations among IDA, the GOGB and A.I.D., and the rate of reduction will take into account the fiscal impact of the cashew export tax reduction, the world market prices for cashews, the progress of implementation of the overall policy reform agenda under SAC II, and the effect of exogenous factors

that might adversely affect the pace of the reform program. It is currently thought that such reduction will be approximately 5% per year (Year 2 to 35% and Year 3 to 30%), although the GOGB appears to be moving more quickly at this point (a reduction to 33% is expected to be announced imminently).

For rice, the output will be the elimination of the rice subsidy for civil servants, and the requirement that the rice subsidy not be reinstated. This will not only have a positive fiscal impact on the GOGB's budget, but will also increase the demand for locally produced rice which will favorably impact the Guinea-Bissauan farmers. The requirement that the rice subsidy not be reinstated is more real than it appears at first glance. The people most affected by the removal of this subsidy, the civil servants, are those most likely to destabilize the country and thus this program. The quid pro quo for the removal of the subsidy was an increase in salary. However, the GOGB is having considerable difficulty meeting salary payments. As inflation continues to mount, so do rice prices. Therefore, pressures to reinstate this subsidy could become considerable.

### 3. Developmental Impact

It is important to note here that the alleviation of these policy constraints in and of themselves may not result in immediate higher incomes for the rural sector. Too many other factors are involved, including alleviation of the other constraints noted above. However, it is contemplated that together with the other macroeconomic and structural adjustments being promoted under SAC II, the environment will be created whereby the productive sectors, particularly agriculture, will play an increasing role in the country's economic recovery. As this occurs, rural incomes should increase.

With cashews, the reduction in the cashew export tax will increase the margin between what the exporter receives and the world market price. While in the short-term, it is not expected that these "savings" will be immediately passed on to the farmer, a basic assumption under this program is that over the medium- to long-term increased competition both among exporters and among traders working independently or for the account of the exporters, will push the farmgate price for cashews upwards and will eventually result in increased rural incomes. Nonetheless, rural incomes are expected to increase in 1989 due to the projected increase in production.

In the case of rice, elimination of the rice subsidy is expected to provide a more competitive atmosphere for domestically produced rice which should, over the long term, result in increased farmgate prices for rice which will in turn stimulate production due to price responsiveness.

### D. Conformance with A.I.D. and GOGB Objectives

In mid-1988, while the IBRD was beginning its planning for the Second Structural Adjustment Credit (SAC II), A.I.D. was undergoing another exercise regarding future directions for its small country programs. Owing to continued cuts in operating expenses as well as the difficulties in attracting staff to Guinea-Bissau, the Africa Bureau in April/May 1988 conducted a Mission Strategy Review, with the objective of developing a mid- to long-term development strategy in Guinea-Bissau appropriate to the realities facing the Bureau. The decisions arising from this strategy review called for an

eventual phase-out of all USDH presence in Guinea-Bissau at the end of FY 90, allowing ongoing projects to continue to an orderly conclusion, new program assistance through cofinancing arrangements with the World Bank, and new project and food aid assistance through Private and Voluntary Organizations (PVOs).

To carry out this mandate, the OAR/Guinea-Bissau decided to cofinance IDA's SAC II program for Guinea-Bissau. Even though the mandate for OAR/GB has now changed, it will continue to support SAC II as a central part of its program. Therefore, ASAP is designed to parallel the SAC II program, but its focus is limited to the agricultural sector.

The provision of unprogrammed dollars to the GOGB in support of policy reforms favoring the agricultural sector conforms to guidance emanating from the Guinea-Bissau Strategy Review ECPR. It provides direct support to the GOGB in an area of demonstrated need, it limits the requirement for heavy USDH oversight, and it allows A.I.D. to capitalize on a larger World Bank program, while still retaining for the U.S. Government a high degree of visibility in supporting the GOGB's roles and objectives.

This program also directly supports the GOGB's Structural Adjustment Program, which is basically an agriculture-led growth strategy. The strategy is based on the premise that, over the medium term, the economy will continue to be predominately agriculturally-based, given Guinea-Bissau's human and natural resource base. The strategy exploits the existing production base for agricultural commodities that are tradable in regional and international markets and focuses particularly on increasing rice and cashew production and marketing.

The following policy agenda highlights the main points of the GOGB's second phase of its Structural Adjustment Program:

- Maintain a stable macroeconomic environment, including a flexible exchange rate system and restrictive monetary and fiscal policies;
- Reorient public investments increasingly towards removing infrastructure and institutional bottlenecks to growth, and towards meeting basic needs, and away from directly productive investments;
- Expand the trade and price liberalization started in 1983 to encourage private investment and to foster greater economic growth, particularly in agriculture, forestry, and fisheries;
- Institutional reform to improve the efficiency and effectiveness of the public sector, particularly public enterprises and banking; and
- Policies and programs to alleviate some of the main social costs of the adjustment program.

A sixth area of concern has been the high level of external debt, and has been included as part of the policy agenda.

## E. Implementation

### 1. General Strategy

The general strategy of ASAP is to follow the lead of the IDA under SAC II, especially in negotiating program conditionality and determining when the selected conditions are met and A.I.D. will disburse the funds. Since A.I.D.'s independent analysis of the foreign exchange requirements indicate that the greatest needs of the GOGB are for general as opposed to tied foreign exchange support, A.I.D. has elected to grant program resources to the GOGB in unprogrammed fashion.

### 2. Conditionality

The conditionality of the Agricultural Sector Assistance Program is designed to overcome certain significant policy constraints of implementing the agriculture-led growth strategy. Policy changes are defined as government decisions not requiring further investment. In other words, they are changes that the government can make solely on the basis of new information or change in preferences, and that can be monitored using existing or easily obtainable information. Changes requiring investment in physical, human, or other resources would need to be financed by project funding, with its greater management burden.

Two reforms will be conditions of the grant: elimination of the rice subsidy, and reduction in the cashew export tax. SAC-II stipulates that rice subsidies be fully eliminated as a prior action by December 31, 1988. The cashew export tax will be gradually reduced, subject to annual reviews, over a period of 3 years, from 47% to 30%. The same conditions will apply to the ASAP grant. The A.I.D. grant will emphasize rice sales that reflect exchange rate developments and are based on actual marketing costs.

The cashew export tax dates from May 4, 1987, when it was applied at the 50% rate and all other commodity export taxes were abolished. The rice subsidy was first applied in January, 1987, and is applied on an individual shipment basis. In October 87/88, ADP received 11 rice shipments, and 11 decrees apparently were issued pricing the commodity for consumers. During some months since January, 1987, there has been no imported, subsidized rice available.

The GOGB announced that, as of January 1, 1989, rice would no longer be sold at subsidized prices to civil servants. The reform seems to be "credible." That is, the public in Bissau city appears to believe that the decision will not be reversed. "Shock treatment" in the removal of subsidies on politically-sensitive goods, such as rice in Guinea-Bissau, is unusual in developing countries. Although it was coupled with an offsetting increase of 80% in civil service salaries, as of March, 1989, this salary increase was unpaid. As a result of removing the subsidy, civil servants must now pay 650 GP/kg rather than 65 GP/kg, for rice. The Ministry of Plan officially estimates that, on January 1, 1989, the average price of rice for consumers in the city of Bissau jumped from 204 GP/kg to 884 GP/kg, due to the subsidy elimination.

The two reforms will bring about greater consistency between official domestic and world prices. With rice consumption being subsidized, and cashew exports

being taxed, official domestic prices of these major commodities in Guinea-Bissau have been below border prices. Groups whose real incomes the state has wanted to protect were paying only about 10% of the internationally traded value of limited quantities of rice, and farmers were receiving only about 35% of the value of cashew production, which is Guinea-Bissau's leading export. The rice subsidy and cashew tax policies have been disincentives to production and marketing through official channels. At the same time, the subsidy on rice has made it difficult for the private sector to compete.

### 3. Benchmarks

#### a. Initial Year

For the initial year of this program, A.I.D.'s conditionality will mirror that of the SAC II program for those elements impacting the agricultural sector. This is in line with A.I.D.'s active participation with World Bank staff in the process of appraisal and negotiation of the SAC II program, as detailed in paragraph 7 below of this Section. It is noted that as preconditions to negotiations for the SAC II program, the GOGB has had to undertake numerous reforms (see Annex F), including those targeted under this program: reduction of the export tax on cashews from 47% to 40%, and elimination of the rice subsidy for civil servants. Therefore, while these reforms have already occurred, the impetus for the GOGB undertaking these reforms was the SAC II program, within which A.I.D. is named as a cofinancier. Moreover, A.I.D. was involved in all negotiations leading up to the finalization of SAC II in March 1989. OAR/GB therefore considers that the prior adoption of these reforms is sufficient to effect the first disbursement of funds under the ASAP because such adoption was part of an ongoing process of which A.I.D. has been a part.

#### b. Future Years

Future year conditionality will probably be identical to that under the SAC II program, i.e., continued reduction of the cashew export tax from 40% to 35% in Year 2, and from 35% to 30% in year 3; and continued adherence to the decision to eliminate the rice subsidy to civil servants. The rate of export tax reduction tentatively negotiated will probably be accelerated if the GOGB does indeed announce the reduction to 33% that appears likely. As previously mentioned, much of the success of the structural adjustment effort depends on the assumption that adverse exogenous factors will not cause the structural reform effort to lose momentum, or to cause the Government to not execute its planned reform agenda. Recognizing that the economic conditions facing the Government are constantly changing, and also recognizing that the reforms chosen under this program are but a part of a larger macroeconomic reform agenda, it is entirely likely that general positive progress might be made in some areas of the structural adjustment program, but not all. Planned review missions of the IDA to review overall progress on the SAC II conditionality might well result in adjustments to agreed-upon benchmarks. Moreover, A.I.D.'s experience with other program assistance activities in Africa has also demonstrated the impracticability of specifying the conditions too early in the program since it has found on several occasions that original conditionality had been based on indicators which later were found to be irrelevant. To avoid similar problems, the approach taken in this program will be to specify firm conditionality for the first tranche disbursement and to tie future disbursements to the GOGB's progress in carrying out conditionality in the overall SAC II program, in particular, as they pertain to the agricultural sector.

The mechanism by which this will be accomplished is through establishing in this PAAD and the Program Assistance Agreement with the GOGB that conditionality for subsequent year disbursements be identical to those negotiated by the GOGB, IDA and A.I.D., but also include a covenant that these may be subsequently modified in writing between A.I.D. and the GOGB pending IDA's and A.I.D.'s scheduled review missions to evaluate the GOGB's progress on the SAC II program.

The resources and technical assistance that A.I.D. will be providing to the GOGB are intended to liberalize markets in the agricultural sector. A.I.D.'s interest in the area of improving agricultural incentives will be supported through support of data collection and analysis by the Ministry of Plan. The results of the data collection and analysis will be available to decision-makers in government and the private sector, and will serve as the bases for discussion for diagnosis and solutions to problems of market liberalization.

On the basis of this information, A.I.D. will be in a position to discuss with GOGB officials performance and constraints affecting implementation of the reforms. The covenant will be to gain GOGB agreement to a continuing dialogue between the USG, as represented by OAR/GB, and senior GOGB officials, regarding performance and constraints to market liberalization in agriculture. The expected result is the continuation of currently proposed subsequent year conditionality, or the identification of more appropriate policy reforms that A.I.D. can use as conditions for releasing tranches two and three of the grant. Any alternative and amended conditionality for years two and three will be submitted to REDSO/WCA for concurrence.

#### c. Disbursement Decision

The ultimate decision to disburse funds will be made by the A.I.D. Representative, Guinea-Bissau, with appropriate legal and technical review and concurrence from the REDSO/WCA Director, pursuant to Section 5.B.(2) of Delegation of Authority 551, as amended. The determination at the Mission level will take into consideration the review and recommendations made by IDA during annual review missions, as well as the REDSO/WCA or A.I.D./Washington staff members who also should have participated in the annual review mission.

#### 4. Disbursement

The dollars provided under this program will be unprogrammed, i.e., A.I.D. will not specify the use to which they should be put. However, notwithstanding this, limited restrictions on the use of these funds will apply. The Program Assistance Agreement will contain a paragraph which will outline these restrictions:

"The Grantee agrees that the funds provided hereunder shall not be used to finance military, paramilitary, or police requirements of any kind, including the procurement of commodities or services for those purposes, or to pay principal or interest on loans to the military or police."

Disbursement of the cash grant will be made by A.I.D. upon satisfaction of the appropriate conditions precedent.

## 5. Local Currency

The current economic situation in Guinea-Bissau justifies an exception to the A.I.D. policy of expecting host governments to make local currency available for joint programming in support of program objectives. Inflation and devaluation accelerated again in the first half of 1989, attaining a one-hundred percent annual rate. High inflation is adversely affecting domestic food and agriculture producers and consumers. Its effects are aggravated by the fact that the principal economies in the sub-region (in particular, Senegal) are members of the BCEAO, and have low rates of inflation. The effects of high inflation on GOGB civil servants have already been stressed by the GOGB and the World Bank. The present discussion emphasizes the importance of implementing a sound monetary program which is expected to benefit producers in the agricultural sector.

High inflation erodes purchasing power of the peso, discouraging production for the local market by Guinea-Bissau's farmers. It encourages traders to smuggle produce out of the country, and to sell cash crops in the neighboring CFA franc zone countries. Negative real interest rates are a consequence of high inflation, and they tend to reduce investible funds for the agricultural sector. High inflation also increases the burden on government and private sector managers; it constantly requires senior government officials to revise price policies as they attempt to maintain a positive incentive structure.

Controlling inflation has become a top priority for the GOGB in 1989. Since the cause of the inflation is recognized to be the rapid expansion in money and credit that took place prior to March 1989, the current monetary program provides for no increase in money and credit through 1990. Though there will be an increase in credit to the private sector of 7 billion PG in 1989-90, this will be offset by an equivalent decrease of 7 billion PG in credit to the Government. Sterilization is an integral part of the monetary program. The improvement in the Central Government's position vis-a-vis the Central Bank depends on crediting assistance to the Central Government, and sterilization of the peso equivalent that is not already planned in the investment program.

The SAC II, in line with IMF targets to control inflation, will be depositing the local currencies generated from its commodity import program into a blocked account in order not to put at risk these efforts, in effect sterilizing them. Given that the assistance provided under the ASAP program will not generate local currencies, either through a foreign exchange auction or through import financing, it would be counter-productive to require the GOGB to deposit the local currency equivalent of the dollar disbursements. The developmental impact therefore of not requiring the local currency equivalent is to help insure a stabilized currency to strengthen incentives to farmers to produce larger crops for cash.

## 6. Beneficiaries

The beneficiaries of the ASAP will be the farmers in Guinea-Bissau (commercial, as well as small family farmers), as well as the traders and exporters who will benefit from the decreased cashew export tax.

The beneficial effects are expected to take several forms. First, the reforms are expected to improve the farmgate prices for rice and cashews. This will yield greater rural incomes, and give the rural sector the wherewithal to purchase increasing levels of consumer goods; as discussed earlier, however, the beneficial impact will probably be felt over the medium- to long-term, rather than immediately. Second, the reforms are expected to give the traders and exporters of cashews the needed incentive to continue importing consumer goods from the proceeds of their cashew exports. This will further enhance the incentive structure for the farmer. The reforms will also allow importation of consumer goods to proceed without using scarce foreign exchange for these purposes.

Because of the geographic distribution of cashew and rice producers, the effects of the sectoral reforms will be felt first in the current rice and cashew production regions in Guinea-Bissau. Increased cashew plantings in other parts of the country as a result of the rice for cashew exchange policy will cause the beneficial effects of the reforms to be spread out over a wider range of the country. Rice producing areas, predominately in the south and west, will also benefit. It is expected that those areas presently most accessible by road or by boat will benefit the greatest.

Although disaggregation of beneficiaries by gender could conceivably be done, it is important to note that both cashew and rice production are done by both men and women. Increased revenues from either crop are shared by the family, and therefore it is anticipated that the reforms will impact both men and women equally.

The ASAP is also expected to have some adverse effects. The main adverse effect will be that it will disadvantage those members of the public sector who have hitherto depended on the rice subsidy as a form of salary supplement. This has been mitigated to an extent by the 80% increase in civil service salaries to compensate the civil servants for the rice subsidy elimination.

The IDA-financed Social and Infrastructure Relief Project will also look at several ways in which to alleviate the adverse social effects of the civil service reform program under SAC II. This will take place through employment generation activities or projects and skills development.

## 7. Negotiating Status and Linkage with IDA

The SAC II program was negotiated between the GOGB, IDA and A.I.D. on March 13-17, 1989, in Washington, D.C. During those negotiations, the conditions of effectiveness were detailed for the first year conditionality. Regarding the conditionality affecting the ASAP, the cashew export tax was to be reduced from 47% to 40% in the first year, and subsequent year reductions would be subject to further negotiation. The elimination of the rice subsidy was also agreed to as a precondition to negotiations, effective 1 January 1989, and under the ASAP, A.I.D. is stipulating that this subsidy not be reinstated during the life of program.

Along with AfDB and the Dutch, A.I.D. has played an active role as a co-financier of SAC II, compared to most other co-financiers who have chosen to be more passive during the design and evaluation phases. A.I.D. staff have participated with World Bank staff in the process of appraisal and negotiation of the Program. This has included attendance at ministerial level negotiations in Bissau, and wide-ranging discussions with GOGB staff in Bissau. Meetings also have been held with World Bank and IMF staff in Washington, D.C., and in the field.

The linkage with IDA during implementation of this program will continue to be close. Because of the limited OAR/GB staff, the program implementation and monitoring will depend in large part on the analyses and recommendations coming out of annual review missions. A.I.D. intends to participate in these annual review missions, with support being provided either through A.I.D./Washington or REDSO/WCA/PRM. In addition, A.I.D. is carving out for itself a role in monitoring the sectoral impact of the reforms dealing with agricultural market liberalization. This corresponds to a gap in the GOGB-World Bank reporting plan regarding the adjustment program.

Regarding separate negotiations for the ASAP, contacts have been made with several ministries, including the Ministries of Economic Cooperation and Commerce, Plan, Finance, and Agriculture, the National Bank of Guinea-Bissau, and the Secretariat of State for Economic Affairs and International Cooperation. The working ministry will be the Ministry of Plan, and the Program Assistance Agreement will be signed between the A.I.D. Representative and the Minister of Economic Affairs and International Cooperation.

#### 8. Future Year Amendments

The procedures for authorizing incremental funding for a nonproject assistance program, where (1) the funding is within an overall program amount that has been approved by A.I.D./W, (2) the amendment entails no substantive changes to the program as approved by A.I.D./W, and (3) OAR/GB, with REDSO/WCA concurrence, has been delegated authority to authorize incremental funding, are the following:

- a. OAR/GB will send a cable to AFR/DP (info copies to FM/CAD, FM/PAFD/NPAB, and AFR/PD) requesting a budget allowance and PAAD amendment number. The Cable should either affirm that the proposed amendment will not make substantive changes to program objectives or conditionality or specify any substantive proposed changes in conditionality to provide a reasonable amount of time for AID/W comments.
- b. After ensuring that OYB and Congressional Notification requirements are met, AFR/DP will prepare the advice of budget allowance and the allowance cable which include the PAAD amendment number (obtained from FM/PAFD/NPAB), and forward them to FM/CAD for approval. The cable must indicate FM/PAFD as a clearing office.
- c. Upon receipt of the allowance cable, OAR/GB may proceed to authorize the PAAD amendment and obligate the funds.
- d. The mission will report the dates and amount of the authorization and obligation by immediate cable and will pouch copies of the PAAD amendment and obligating document to FM and AFR/PD.

## F. Monitoring and Evaluation Plan

### 1. Monitoring Requirements

A key concern under this program is the impact the policy reforms will have on the agricultural sector. The basic assumption is that the relief of the sectoral policy constraints, addressed in the ASAP program, which have hitherto depressed farmgate prices for agricultural commodities will result in increased incentives to stimulate an increase in production of rice and cashews. Analysis of the rice and cashew prices over the past several years indicates that the prices have remained stable or have even fallen in real terms. Nonetheless, production has increased. This is in part due to the increased availability of consumer items, which during the early 1980s were unavailable. Therefore, the monitoring of the impact of the ASAP must not only include agricultural sector incomes but incentives for small farmers as well.

IDA's reporting plan under SAC II does not insist that the GOGB monitor and report on farmgate prices and incomes. This, as well as A.I.D.'s interest in monitoring the impact of sectoral programs on the intended beneficiaries, has necessitated that a separate monitoring and evaluation component be employed under ASAP. A.I.D.'s impact reporting will complement the macroeconomic reporting done by the GOGB to IDA, the IMF and A.I.D.

### 2. Monitoring Plan

The engine of this program is the pricing structure for the key agricultural crops of cashews and rice. Through increasing the relative prices of these commodities, it is expected that the income of farm families will increase thereby benefiting the rural sector. Cashews and rice account for as much as 30% of total agricultural output and play a significant role in rural income levels. OAR/GB believes that removal of constraints to cashew and rice prices will positively affect production and thus farm income. The link is the farmgate price for the rice and cashews. If farmgate prices go up, production should go up, thus improving rural incomes.

Based on this thesis, OAR/GB proposes to measure the following in its monitoring program:

- changes in farmgate prices for cashews and rice;
- changes in production of cashews and rice; and
- changes in rural incomes in Guinea-Bissau.

It must be noted that at this time Guinea-Bissau has no systematic information concerning open market prices for agricultural commodities. Moreover, no disaggregated information concerning rural incomes in Guinea-Bissau exists, nor are there any other donors collecting such information at the national level.

Therefore, OAR/GB proposes first to do a baseline study and then studies during the two successive years of the ASAP to gather the needed information. OAR/GB will work closely with the Ministry of Plan's Statistical Division to undertake these studies and to make the required analyses. To do so, OAR/GB will have to provide funding to the Ministry of Plan's Statistical Division

for all local costs, including per diem and travel costs for enumerators, as well as foreign exchange costs which may include short term technical assistance.

As a caveat, OAR/GB notes that certain important exogenous factors can also affect prices and production and thus seriously distort any direct link between ASAP and rural incomes. Of particular importance are world market prices and the weather. These will have to be taken into consideration in this monitoring program and by subsequent evaluators.

An illustrative budget for the ASAP's rural income data collection and analysis component is shown in Table 3 below.

Table 3  
Illustrative Budget  
Monitoring and Evaluation Component

	Dollars
Design/Testing of Questionnaire	22,500
Administration of Baseline Survey	30,000
Analysis and Report Preparation	27,500
Year 2 Follow-up	32,500
Report Preparation	17,500
Year 3 Follow-up	32,500
Report Preparation	17,500
Total	180,000

The illustrative timetable for these activities is shown in Section III. I., Implementation Schedule.

### 3. Evaluation Plan

Regular evaluation of the SAC II program will be undertaken by the IDA during its annual review missions. It is anticipated that the first annual review of this program will be in November 1989, to review progress on the conditions of effectiveness for release of the second tranche under SAC II and to determine if any amendments to the conditions are required based on changed economic conditions during 1989. A similar review is planned for November 1990 prior to release of the third tranche under SAC II.

A.I.D. participation in these annual reviews is expected, with assistance provided either through A.I.D./Washington or REDSO/WCA/PRM. Planning for this will be effected during the annual REDSO/WCA Workload Scheduling Conference held each September in Abidjan.

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## G. Financial Planning and Management

### 1. Disbursement Procedures

Dollar disbursement to the GOGB's U.S. bank account will be effected using the following procedures, as outlined in A.I.D. HB 4, Chapter 8, Cash Transfer Procedures.

#### a. Preparation, Negotiation, and Execution of the Program assistance Agreement

The obligating document for this activity will be the Program Assistance Agreement signed between A.I.D. and the GOGB. This will be negotiated with the GOGB following approval of the PAAD and will contain the provisions and conditions required by A.I.D. for cash disbursements under NPA programs utilizing DFA funds. A draft Program Assistance Agreement is provided as Annex H of this PAAD.

#### b. Preparation of Program Assistance Agreement Abstract

Once the PAAD for this activity is approved and the Program Assistance Agreement signed between A.I.D. and the GOGB, the Africa Bureau (AFR/PD/CCWAP) will prepare a Program Assistance Agreement Abstract for the AA/AFR's approval. Per HB 4, Chapter 8, E4 f., clearance will be required by the GC/AFR for the purpose of indicating the status of the agreement concerned with respect to validity under Section 1311 of the Supplemental Appropriation Act of 1955. Once the Program Assistance Agreement Abstract is completed and authorized, it will be sent to M/FM/PAD for the official record.

#### c. Notification of Meeting of Conditions Precedent to Disbursement and A.I.D. review

Upon satisfaction of the conditions precedent to disbursement described in the Program Assistance Agreement, the GOGB will notify A.I.D. (OAR/GB) in writing of its compliance, and request disbursement. The OAR/GB will review the documentation and obtain an opinion from the REDSO/WCA Regional Legal Advisor that the conditions have been met and that disbursement should be made.

#### d. Preparation of Financing Request

Upon advice from the Regional Legal Advisor that the conditions have been met and that disbursement should be made, OAR/GB will prepare a Financing Request per paragraph 8 above.

Subsequent disbursements will be handled in similar fashion. However, in the event that IDA and the GOGB agree to different terms regarding conditionality affecting the ASAP (i.e., different rates of export tax reduction), and upon A.I.D.'s acceptance of these new benchmarks, the Program Assistance Agreement between the GOGB and A.I.D. will have to be amended prior to making the request for disbursement of funds.

### 2. Financial Plan

Three annual cash disbursements of \$1.5 million will be made to the GOGB upon satisfaction of conditions precedent to disbursement. As stated above, no

local currencies will be generated from these disbursements. Thus, the financial plan presented in Tables 4 and 5 below reflect only A.I.D.'s financial contribution.

Table 4  
Summary Cost Estimate and Financial Plan  
(\$000)

	Total FX
Cash Grant (\$)	4,500
GOCB Contribution	0
Impact Monitoring Component	180
TOTAL	4,680

Table 5  
Projection of Disbursements by Fiscal Year  
(\$000)

Fiscal Year	Total
1989	1,580
1990	1,550
1991	1,550
Total	4,680

Table 6 below summarizes the planned methods of implementation and financing to be used under ASAP. The methods of implementation and financing were selected taking into consideration the OAR/GB's staffing limitations, A.I.D. internal control requirements, potential for financial vulnerability, and potential risks. Under the justification provided herein, no local currencies will be made available under the ASAP. For these reasons, an audit clause will not be included. For the Monitoring and Evaluation component, it is proposed that A.I.D. direct contracting be used, with payment to the contractor being made directly by A.I.D. Use of this mechanism is considered to have good to excellent internal financial control.

Table 6  
Methods of Implementation and Financing

<u>Element Description</u>	<u>Method of Implementation</u>	<u>Method of Financing</u>	<u>Approximate Amount</u>
1. Cash Disbursement	Non-Project Assistance (no programming)	Dollar Payment by Electronic Funds Transfer (EFT)	4,500
2. Monitoring & Evaluation	A.I.D. Direct Contract	A.I.D. Direct Payment	180
Total Program			4,680

#### H. Reporting Requirements

The ASAP program consists of U.S. dollars transferred to GOGB from the DFA account via EFT from the Federal Reserve Bank of New York. As stated above, IDA, with A.I.D. participation, will be reviewing performance on conditionality prior to permitting release of tranced disbursements.

#### I. Implementation Schedule

The ASAP will be implemented over a period of 27 months. Below is an illustrative schedule of planned actions and dates.

Program Approval (AID/W)	6/89
Program Grant Agreement Signed	8/89
Meeting of Conditions Precedent to First Disbursement	8/89
Disbursement of First Tranche	8/89
Initiate Contracting for Baseline Study Assistance	7/89
Develop and Test Baseline Study Questionnaire	9/89
Conduct Baseline Study and Complete First Report	11/89
Joint A.I.D./IDA Program Review	11/89
Add Second Tranche Funding to ASAP	11/89
Meeting of Conditions Precedent to Second Disbursement	1/90
Disbursement of Second Tranche	1/90
Conduct Year 2 Follow-up Rural Income Survey	8/90
Complete Year 2 Follow-up Rural Income Report	9/90

Joint A.I.D./IDA Program Review	11/90
Add Third Tranche Funding to ASAP	11/90
Meeting of Conditions Precedent to Third Disbursement	1/91
Disbursement of Third Tranche	1/91
Final Program Review	6/91
Conduct Year 3 Follow-up Rural Income Survey	8/91
Complete Year 3 Follow-up Rural Income Report	9/91
Program Assistance Completion Date	9/91

#### IV. Feasibility Analyses

##### A. Social/Institutional Analyses

A detailed social and institutional analysis has not been completed for this program since A.I.D. is cofinancing the larger SAC II program and is a minor donor to that activity. Since IDA has also negotiated the overall SAC II program with the understanding that A.I.D. will be cofinancing the program with particular emphasis on the agricultural sector, it has been deemed unnecessary to further analyze the institutional capabilities of the various GOGB ministries which will be involved with implementation of this program beyond those analyses already completed by IDA. Nonetheless, it is important to describe the relationships of the ministries involved, as well as the role of IDA in this structural adjustment program.

##### 1. Host Country

For the host country, there are various ministries that have been involved during the negotiations and which will be responsible for implementing the various elements of the SAC II program. These are described in greater detail below.

##### a. National Commission for Economic Coordination and Management:

The National Commission for Economic Coordination and Management (CNCEC) is the body under the control of the President which oversees the overall adjustment program.

##### b. Secretariat of State for Economic Affairs and International Cooperation:

The Secretariat of State for Economic Affairs and International Cooperation (SEPAECI) serves as the technical secretariat for the CNCEC. It is responsible for providing monthly "flash" reports as well as quarterly progress reports on economic performance under the structural adjustment program to IDA. As part of the structural adjustment program, SEPAECI will be charged with a broader mandate, will hire additional staff, receive technical assistance from other donors, as well as have improved support facilities in order to better fulfill its responsibilities. SEPAECI also will be expected to manage implementation of the public enterprise reform program, with technical assistance provided under SAC II.

##### c. National Bank of Guinea-Bissau

The National Bank of Guinea-Bissau (BNGB) serves as Guinea-Bissau's central bank and is responsible for the management of foreign exchange, cashflow, balance of payments monitoring, credit policy, and trade and development term credit. The BNGB's Research Department is expected to be strengthened in order to provide independent input into the GOGB's policy formulation and analysis in these areas. The BNGB will also be responsible for supervising the establishment of a commercial bank in Guinea-Bissau, which is expected to open later in 1989. Finally, the BNGB oversees a development window (DESECO), to which A.I.D., the AfDB, and the EEC are providing support and credit funds.

d. Ministry of Finance

The Ministry of Finance (MOF) is charged with management of all government revenues and expenditures. Within the MOF is the Debt Management Unit, which is responsible for the management of all bilateral and multilateral debt. Technical assistance has been provided through IDA and the IMF and, in late 1988 a debt management strategy was developed to obtain clear picture of the debt situation and to create a strategy to ensure that most urgent debt would be paid. The MOF's Budget and Internal Revenue Units are also being strengthened to enable them to carry out respectively budget preparation, monitoring and control, and administration of tax and tariff policies. Ongoing computerization of customs, assisted by IDA and UNIDO, is expected to enhance the MOF's revenue collection responsibilities.

e. Ministry of Commerce

The Ministry of Economic Coordination and Commerce is responsible for overall coordination of economic affairs and for managing and overseeing the liberalization of trade and prices in the economy, and providing assistance where required, either directly or through the state trading company, Armazens do Povo (ADP). It is the intent of the GOGB to gradually shift the focus of ADP away from direct import/export activities and towards the provision of advisory services. In this regard, assistance is to be provided through the EEC to devise a strategy and to assist in its implementation.

f. Ministry of Plan

The Ministry of Plan (MOP) is responsible for coordinating donor assistance, monitoring and evaluating donor and GOGB projects, and management of counterpart fund contributions to ongoing projects. The MOP will also be the Ministry with which A.I.D. will establish its working relationship for the rural income data collection and analysis component under ASAP. The MOP is also responsible for the implementation of the IDA-financed Social and Infrastructure Relief Project which deals with the social costs of structural adjustment. In this connection, the MOP's Statistical Division will be collecting and analyzing urban income information. It is this division to whom OAR/GB intends to provide financial support to expand its focus to the collection and analysis of rural income data, in order to gain a better perspective of the impact of the ASAP program.

g. Ministry of Natural Resources and Industries

The role of the Ministry of Natural Resources and Industry under SAC II will be to improve the overall performance of the parastatal sector, including divesting itself of loss-making parastatals, improving the performance of the electricity and water utility, EGAB; and to improve the environment for private industry by revising the regulatory framework for investment to encourage greater private sector involvement in industrial development. Technical assistance has already been provided through IDA and UNDP for the conduct of studies, and further assistance may be required.

h. Ministry of Civil Service, Labor, and Social Security

The Ministry of Civil Service, Labor, and Social Security will be responsible for implementing the civil service reforms under SAC II. Flowing from technical assistance from IDA and UNDP, the GOGB intends to develop a

comprehensive strategy which will reduce the number of redundant employees, improve working conditions and pay. The GOGB will also design a compensation package which will ensure adequate remuneration for key middle and senior level staff.

## 2. IDA

The role of IDA under SAC II will be to take the lead in negotiations, in evaluating the performance of the GOGB to determine whether additional disbursements can be made to finance imports, and to renegotiate the conditions of effectiveness, if found to be required due to unforeseen exogenous factors adversely affecting the economy.

IDA will undertake this role through evaluation of "flash" and quarterly reports submitted to it by the GOGB (SEPAECI), which will track the rate of inflation, the rate of monetary growth, interest rates, and general progress of the structural reform program.

Additionally, annual review missions to evaluate the GOGB's performance regarding the overall program will be conducted. A.I.D. expects to participate actively in these missions, with support provided either out of A.I.D./Washington, or from REDSO/WCA/PRM.

### B. Impact Analysis

#### 1. Fiscal Impact of the Reforms

In addition to improving the incentive structure for cashews and rice, the reforms promoted under ASAP are also expected to have a positive fiscal impact. Elimination of the rice subsidy will result in savings to the GOGB as it will not have that expense, and reduction of the cashew export tax will be offset by an anticipated 20% increase in official exports.

Evaluated in current prices for 1988/89, the rice subsidy cost the government 3.5 billion Guinean Pesos in 1987/88. The net savings to the GOGB will therefore be equivalent to that amount in 1989. Revenues from the cashew export tax in 1988 were 5.5 billion GP. Net result of the two fiscal policies in 1987/88 was a positive 2 billion GP contribution to government revenues.

In 1988/89, cashew export tax revenues are expected to increase from 5.5 billion GP to 8.4 billion due to projected official exports of 12,000 MT of cashews vs. 10,000 MT in 1987/88, and devaluation of the Guinean Peso from 1,373 GP/\$ to 2,000 GP/\$, or a net nominal increase of 2.9 billion GP. The increase in export tonnage indicates that the lower tax rate in 1988/89 of 40% versus 47% in 1987/88, as well as a good production year, are inducing farmers and traders to market more output through official channels. A portion of cashew production has been marketed through unrecorded transactions with Senegal, thereby evading the tax.

With elimination of the rice subsidy, the net nominal impact of the two reforms on the 1988/89 budget will be a positive 6.4 billion GP, or 13% of projected total fiscal deficit in 1989.

## 2. Impact of the Cashew Export Tax Reduction

The reduction of the cashew export tax is expected to have three primary effects: increasing the price that can be paid to cashew farmers; increased production of cashews as farmers respond to the improved incentive structure; and fostering an environment where, together with the GOGB's price liberalization policies, increased competition and improved marketing conditions for cashews will be promoted. While the medium- to long-term effect will be ultimately to raise rural incomes, it must be recognized that in the short-term, because of the rudimentary level of the marketing system and high concentration of the cashew trade at the export level, the initial benefits will most likely devolve on the traders and exporters of cashews.

In 1988, the world market price for cashews varied between \$1,100 and \$850/MT. According to Armazens do Povo, the normal price pattern for cashews is to start out at the lowest price at the beginning of the year, increase until it peaks in April-May, whereupon it levels out until August-September and then drops again. This pattern is driven by the production patterns of the largest cashew exporting countries, Brazil and India. In 1988, the normal price pattern was not followed due to a dispute between the Government of India and its major cashew exporting companies. This kept the price of cashews high until the dispute was resolved, whereupon prices dropped considerably. ADP, waiting for the prices to rise in April-May, was suddenly forced to negotiate its contracts quickly to lock in the rapidly falling price. The price it eventually received on its two contracts were \$850/MT and \$897/MT.

At the time of the PAAD design, the world market price of cashews was in the \$700 range. Assuming that 1988 was an anomaly, ADP hopes that the price will rise again in April-May and is anticipating an average price of \$800/MT.

As a result of the cashew export tax reduction, the price cashew exporters will receive will increase. Table 7 below illustrates the gross amount cashew exporters will receive based on several world market prices for cashews and the anticipated tax reduction of 7% in 1989, and 5% for both 1990 and 1991.

Table 7  
Amount of World Market Price (Gross) Received by Cashew Exporters

World Market Price (\$/Metric Ton)	Tax Rate (%)			
	47%	40%	35%	30%
950	503.50	570.00	617.50	665.00
900	477.00	540.00	585.00	630.00
850	450.50	510.00	552.50	595.00
800	424.00	480.00	520.00	560.00
750	397.50	450.00	487.50	525.00
700	371.00	420.00	455.00	490.00

The effect of the cashew export tax reduction will therefore increase the marketing margin with which, in a world of perfect competition, would result in increased amounts that could be paid to farmers. However, the cashew marketing system is not perfectly competitive. Because of several factors, including a limited number of traders, the rice for cashew exchange policy, and the somewhat mitigating force resulting from Senegalese traders, it is

anticipated that in the short-term, the reduced cashew export tax will yield increased profits for the cashew exporters. However, in the medium- to long-term, it is expected that the developing marketing system, an increased number of traders dealing with cashews, and increased competition, will force the price paid at the farmgate to increase, thereby yielding higher rural incomes.

Since the world price of cashews fluctuates, and since the marketing costs are assumed to remain constant, the concept of higher prices paid to the farmer can be measured using an analysis of the marketing margins, and the calculation can be done on a cash account basis. An additional perspective must be taken in that much of the cashew marketing is done in-kind (exchange of rice for cashews), so the analysis will include an evaluation of the value of the goods received at the farmgate.

The figures used below are based on interviews and anecdotal data collected during the PAAD design. Also, where data were unavailable, certain basic assumptions were made for the 1988 marketing season, based on current (1989) costs.

The marketing margin comprises all of the costs associated with collecting the product (in this case, cashews) at the farmgate to its ultimate delivery on board the ship (FOB) in Bissau. Such costs include the cost of transport, handling, credit, storage, and labor, as well as a profit margin for the exporter. The basic assumptions used in this analysis are as follows:

GP/\$ = 1,118 (ave. for 1988)  
World Market Price for Cashews = \$900/MT  
Total amount of taxes (1988) = 47%  
Total amount received/MT of cashews = \$477  
Official Price for cashews at farmgate = 200 GP/kg (\$179/MT)  
Average Price actually paid at farmgate = 200-300 GP/kg. (\$179-\$268/MT)  
Average in-kind exchange rate: Rice:cashews = 1:2  
Average C&F price of rice/MT: \$290  
Average transport cost ("interior" - Bissau) = 28 GP/kg (\$25/MT)  
Average value of rice/MT at farmgate (handling and transport included) = \$400/MT  
Average market price of rice (paddy) at farmgate = 200 GP/kg (\$179/MT)  
Interest Rate on Short-Term Credit = 38%  
Average duration of loan = 6 months  
Average interest cost per dollar loaned = \$.19

From the above, one can see that the farmer in 1988 received between \$179 and \$268/MT for cashews sold on a cash basis, and \$200/MT for cashews sold on an exchange basis. Assuming that the world market price was \$900/MT, the figures would indicate that the farmers received between 20% and 30% of the world market price. Deducting for the 47% tax rate in 1988, farmers received between 38% and 56% of the amount received by the cashew exporters.

Assuming an average world market price of \$800 for 1989, a 40% export tax rate, an exchange rate of 2,000 GP/\$, and the officially announced price of 300 GP/kg of cashews, the amount received by the farmers will be \$150/MT for cashews sold on a cash basis, and \$200/MT for cashews exchanged for rice, representing 19% and 25% of the world market price respectively, and 31% and 42% of the amount received by the cashew exporters. At the world market price

of \$800/MT, the price received by the exporters will be roughly equal to that received in 1988, with the decrease in the export tax offsetting the fall in world market prices (in 1988, the exporters received \$477/MT; in 1989, they will receive \$480/MT).

When coupled with the expectation expressed to the PAAD design team by farmers that they will receive the same, or better, ratio of rice for cashews as they have since 1985, it is anticipated that the effect in the short run will be for a sharing of the profits when world market prices are falling, and more of the profits going to the exporters when the world market prices are increasing. Over the medium to long-term, it is projected that the earning potential related to the cashew trade will attract more traders and exporters and result in increased competition, thereby causing a greater proportion of world market prices to be passed on to cashew farmers.

Rural incomes are also expected to increase as a result of the reform measure. With the gradual reduction of the tax, exporters not only will be able to pay higher prices for the cashews, but will also be able to obtain foreign exchange to finance importation of consumer items. Although analysis of the real prices received by cashew farmers indicates that cashew prices have remained essentially constant (and will likely fall in 1989), increased cashew production has nonetheless been observed. This is most likely attributable to two factors: the rice for cashew exchange policy, and the increased availability of consumer goods on the market to stimulate production of tradable goods.

Although the farmgate price for cashews has increased in nominal terms, analysis shows that the prices, evaluated in constant terms, increased in 1985, remained constant during the period 1986-88, and is projected to fall in 1989. The decrease in the real price of cashews in 1989 can be attributed to several factors, including a lower world market price and the rapidly deteriorating exchange rate. ADP estimates that the average world market price for 1989 will be \$800/MT, which is 11% less than that received for the 1988 crop. The falling exchange rate also erodes the real price the farmer receives for his commodity. The price deflator used for Table 9 below used the current parallel market rate of 2,000 GP/\$, compared with the official rate of 3/22/89 of 1,686 GP/\$. If calculated using the official exchange rate, then the official producer price for cashews for 1989, in 1985 prices would be 28.5 GP/kg.

Table 8  
Official Producer Prices of Cashews  
(Guinean Pesos/Kilogram in Current Prices)  
1985 - 1989

Year	Official Purchase Price - Cashews
1985	28.5
1986	38.5
1987	125.0
1988	230.0
1989	300.0

Source: Armazens do Povo, 3/89

Table 9  
 Official Producer Prices for Cashews  
 (Guinean Pesos/Kilogram in Constant Prices)  
 1985 - 1989  
 (1985 = Base Year)

1985	28.5
1986	30.1
1987	30.1
1988	30.1
1989	24.0

During the period 1986-88, favorable world market prices for cashews and the establishment of a rice-for-cashew exchange policy resulted in increased cashew production and an observed increase in new cashew plantings at the small farm level. Table 10 below shows the steady increase of cashew exports since 1977. Given the production curve of cashew trees, which begin production in their fourth year and reach full production in their tenth year, a continued positive growth in cashew exports can be expected.

Table 10  
 Total Estimated Cashew Exports from Guinea-Bissau (MT)  
 1977 - 1988

Year	(000MT)	% change from previous year
1977	1.0	
1978	1.2	20
1979	n.a.	-
1980	0.9	-25
1981	1.2	33
1982	1.2	0
1983	3.0	150
1984	6.0	100
1985	6.0	0
1986	6.0	0
1987	10.4	73
1988	10.5	0
1989	13.7	30 <u>1/</u>

1/ Projected

Source: Ministry of Rural Development, GAPLA, 3/89

In conclusion, the effect of the cashew export tax reduction is expected to increase the price that can be paid to cashew farmers, stimulate production, and foster an environment which, in tandem with the liberalization policies of the GOGB, will foster increased competition, and will in the medium- to long-term, increase rural incomes. Short-term increases in rural incomes are also anticipated, although this will be primarily due to increased production levels, and not from the farmer capturing a higher percentage of the world market price.

### 3. Impact of Rice Subsidy Elimination

The elimination of the rice subsidy is intended to increase the price that the farmer receives for this commodity and to stimulate rice production. The subsidized rice has been provided through imports. To some extent, the rice subsidy probably has had the effect of depressing market prices for domestically-produced rice. This would be caused by reducing monetary demand in the marketplace from civil servants for rice, and the fact that some of the subsidized rice was re-supplied back to the market by civil servants preferring to have other goods.

The first stage of this analysis consists of estimating the increase in the farmgate price of rice due to elimination of the rice subsidy. Besides the rice subsidy, the major factors determining the farmgate price of rice in Guinea-Bissau are demand-supply conditions, ADP's resale price for unsubsidized imported rice, trading margins of the private sector, and demand for rice in Senegal and Guinea-Conakry. A number of special conditions should be noted. Most of Guinea-Bissau's rice production is consumed by farm households. The households are also market participants. With small quantities being traded, prices tend to be volatile. Due to devaluation of the Guinean peso, and a correspondingly high rate of inflation, Bissauan farmers analyze exchange possibilities in real, rather than nominal, terms. That is, they demand physical goods, rather than money, for their output. Because of inadequate transport and storage, rice prices vary considerably by region and season. Marketing margins tend to be high due to costs of doing business, government regulations that encourage price fixing, and collusive behavior by private traders. In 1988, three-quarters of the rice imported by ADP was unsubsidized. It was either sold at an import parity price or used to exchange for cashew nuts. ADP sells the unsubsidized imported rice on a wholesale basis to private traders, who retail it particularly at Bandim market, Bissau city. Because Senegal, particularly, has subsidized the producer price of rice, and due to monetary instability in Guinea-Bissau, Bissau's farmers historically have marketed a portion of their rice output in Senegal for CFA francs.

The second stage in this analysis concerns the relationship of the farmgate price to production. By how much will production be increased as the result of higher prices? Evidence suggests that Guinea-Bissau's farmers are price responsive. However, supply-side constraints affect the rate at which farmers will increase their production in response to rising prices. The major constraints are on water control, labor supply, improved seed, and the weather. During the period of ASAP effectiveness, a number of foreign donor projects will be investing in aspects of rice production. Food-for-work on water control structures for mangrove rice production is being given by WFP, using U.S.-supplied, PL480 Title II rice. The present analysis of the ASAP focuses on the effects of price policy change, through elimination of the rice subsidy, on rice production. Unlike project assistance, the ASAP does not involve additional planned investment in the rice sub-sector.

Table 11 shows consumer rice prices per kg. in Bissau city from January 1986-March 1989. Subsidized rice, sold to civil servants at 65 GP/kg, has been available in most, but not every month, beginning in January, 1987. When it was available, the price shown is a weighted average of the subsidized and open market price (with weightings of 3/4 and 1/4, respectively). Months in which no subsidized rice was available are noted, and include the three months since January, 1989. Table 13 clearly shows that the average consumer rice

price in Bissau city was higher in months when no subsidized rice was available. The consumer rice price was 1,000 GP/kg in March, 1989.

Table 12 shows official current purchase prices of paddy during the 1980-89 period. In Guinea-Bissau, the official purchase prices have served two purposes. First, they are the minimum producer prices that private traders are supposed to observe in their dealings with the farmers. Second, they are the purchase prices that ADP actually uses in making its purchases from farmers.

Table 11  
Consumer Rice Prices in Bissau  
(Guinean Pesos/Kilogram in Current Prices)  
January 1986 to March 1989

Month	Year			
	1986	1987	1988 <u>3/</u>	1989
Jan	114.3	280.5 <u>1/</u>	143.0	884.0
Feb	96.8	336.0	146.0	888.0
Mar	99.0	131.0	131.0	1,000.0
Apr	86.3	132.0	205.0	
May	86.3	124.5	173.0	
Jun	73.8	175.5	182.0	
Jul	81.0	175.5	217.0	
Aug	111.3	523.0 <u>2/</u>	157.0	
Sep	111.3	420.0 <u>2/</u>	186.0	
Oct	111.3	180.5	284.0	
Nov	111.3	141.0	203.0	
Dec	98.8	148.5	204.0	

1/ first month of subsidized rice at GP 65/kg.

2/ no subsidized rice available.

3/ subsidized rice available each month.

Source: Ministry of Plan, General Direction of Statistics, 3/89

Table 12  
Official Producer Prices of Paddy Rice  
(Guinean Pesos/Kilogram in Current Prices)  
1980 - 1989

Year	Official Purchase Price - Paddy
1980	8.5
1981	8.5
1982	9.5
1983	9.5
1984	14.5
1985	24.0
1986	35.0
1987	50.0
1988	85.0
1989	220.0

Source: Armazens do Povo, 3/89

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In order to analyze whether official price changes are production incentives, current prices must be converted into constant (real) prices. Since a price deflator for the 1980-89 period was not available, the exchange rate was used. This is based on the World Bank's finding that, in Guinea-Bissau, there is a rough equivalence between movements in domestic prices and devaluation of the peso. Most consumer goods in Guinea-Bissau are imported. Table 13 shows official prices in constant terms. In real terms, the official purchase price of paddy during the 1980-89 period has fallen by 25%. This explains why little rice or other agricultural commodities are sold through official channels.

Table 13  
 Official Producer Prices of Paddy Rice  
 (Guinean Pesos/Kilogram in Constant Prices)  
 1980 - 1989  
 (1980 = Base Year)

1980	8.5
1981	9.5
1982	11.1
1983	11.8
1984	8.2
1985	8.5
1986	9.7
1987	4.3
1988	4.0
1989	6.2

Most paddy rice is sold by the farm households in Guinea Bissau at open market, rather than official, producer prices. Official data series of open market prices are not available. However, recent data shows that the open market prices are considerably higher than the official producer prices. For example, in March, 1989, farmers in the north sold milled rice at 875 GP, or 59% above the official purchase price. In the south, the paddy rice was selling for 450 GP on the open market, or 94% higher than the official purchase price. Due to the importance of open market prices, it appears that real prices received by farmers for paddy in the 1980-89 period probably increased, in contrast to official prices, which declined.

Table 14 shows that rice production and consumption in Guinea-Bissau tend to be divided between (southern) surplus and (northern) deficit areas. In the south, farm households tend to be net sellers of rice, whereas in the north they tend to be net rice buyers. In the north, therefore, it follows that farmers' incentive to produce more rice, until becoming self-sufficient, is determined by consumer rice prices. The producer price is irrelevant as long as the farmer is a rice purchaser. By raising consumer prices, the elimination of the rice subsidy should give greater impetus to rice production in the northern part of the country. As net rice sellers, farmers in the southern area should respond principally to official and open market producer prices. While producer prices will be affected by consumer price developments, marketing margins tend to reduce the linkages. Furthermore, the marketing of the southern rice faces severe transportation bottlenecks.

Table 14  
Rice Production and Needs in Guinea-Bissau  
Surplus/Deficit, 1988-89 By Administrative Region  
(Metric Tons Paddy)

Administrative Region	Production	Needs	Difference
Bissau City	4,365	17,344	(12,979)
Bafata	14,550	18,426	(3,876)
Bolama	2,183	4,088	(1,905)
Biombo	8,002	8,967	(965)
Cacheu	24,008	20,681	3,327
Gabu	11,640	16,566	(4,926)
Oio	29,100	21,457	7,643
Quinara (s)	24,007	5,643	18,364
Tombali (s)	27,645	8,750	18,895
TOTAL	145,500	121,922	23,578

Source: Ministry of Plan, General Direction of Statistics, 10/88

Table 15 shows total rice production in Guinea-Bissau for the 1976-88 period. The annual average percent change in production has been 25%. Production increased 137% in the 1980-88 period, while, as stated above, official farm-level producer prices declined in real terms by 53%. However, most production probably was sold on the open market during the entire period. This shows a) the ineffectiveness of government marketing controls and b) the productiveness of the farmers despite an official negative price policy.

A linear multiple regression analysis for the 1980-88 period using national production data (in metric tons), official current prices (in pesos), and a dummy variable, to indicate changed macroeconomic policies during the 1984-88 period, shows that there has been a large supply response of rice production to price and macroeconomic policy reform. According to the estimates, which are statistically significant, a one peso increase in official current price has led, on average, to a 584 ton increase in output. The change in macroeconomic policy about 1984 additionally led to a base increase in rice production of 36,000 metric tons. If the 1980-88 relationship between the rice price and production continues along the same linear slope, production will increase to 223,000 and 271,000 metric tons in 1989 and 1990, with producer prices of 220 and 300 pesos per kilogram. However, the data also suggest a downturn in the rate of rice production growth beginning in 1984. For the period 1980-83, rice production increased by 42% annually, reflecting in part unusually low production (only 33,500 metric tons) in 1980. In the 1984-88 period, rice production slowed to 8.5% annual increases. As rice production has recovered, more important constraints can be expected to keep the rate of production growth in the lower range.

Table 16 is presented as additional evidence of the price responsiveness of Bissauan farmers. It shows the sale of paddy and milled rice to ADP during the period of declining real official rice prices prior to 1987. This suggests that, while overall rice production was increasing during the

1984-1986 period especially, production was increasingly being diverted into unofficial channels, including clandestine domestic sales and exports to Senegal. This shows the short-run price sensitivity of Bissauan farmers to marketing opportunities, as well as the ineffectiveness of the controls even prior to liberalization of commodity markets in 1986.

Table 15  
Total Paddy Rice Production in Guinea-Bissau (000 MT)  
1976 - 1988

Year	Paddy Rice (000MT)
1976	94.0
1977	57.0
1978	92.5
1979	71.0
1980	33.5
1981	80.0
1982	84.0
1983	85.0
1984	105.0
1985	115.0
1986	125.0
1987	142.0
1988	145.5

Source: Ministry of Rural Development, GAPLA, 3/89

Table 16  
Sale of Paddy and Milled Rice to Armazens do Povo (MT)  
1977 - 1986

	Paddy (MT)	Milled Rice (MT)
1977	8,008	4,664
1978	846	177
1979	4,211	2,354
1980	5,082	3,172
1981	-	-
1982	1,956	824
1983	1,082	560
1984	481	240
1985	130	82
1986	598	-

Source: Ministry of Plan, General Direction of Statistics, 3/89

If viewed as credible by the farmers, the announcement of permanent elimination of the rice subsidy should affect crop planting decisions, particularly in the northern part of the country where farmers are net purchasers of rice, and therefore are directly affected by consumer market developments. The supply response in the south will be slower due to price collusion among traders, and the physical distribution problems of rice in the south.

### C. Other Special Issues

#### 1. Cofinancing Arrangement with IDA

Implementation of ASAP will be in tandem with IDA as it provides parallel financing under SAC II. Because of this relationship, and because A.I.D.'s contribution to the SAC II program is minor, A.I.D. must necessarily rely on IDA for negotiations at the global program level. A.I.D. did participate in the evaluation of SAC I and the development of SAC II, and our contribution to the program is spelled out in the SAC II document.

#### 2. Implementation Responsibilities and Relations

This program has been designed to minimize the USDH management requirements for its implementation, while maximizing the role of the IDA. The roles and relationships of the various parties are outlined below:

##### a. A.I.D.'s Responsibilities

###### (1) OAR/GB:

- Will negotiate terms of and sign Program Assistance Agreement in order to specify conditions of A.I.D.'s contribution to the SAC II program and to obligate funds;
- Upon meeting of conditions precedent to disbursement to A.I.D.'s satisfaction and upon appropriate REDSO/WCA/RLA review and clearance, OAR/GB will prepare Financing Request and submit to M/FM/PAD, to process the cash disbursement to the GOGB's U.S. bank account;
- OAR/GB will participate in joint review missions with IDA and maintain regular contact with the World Bank Resident Representative in Bissau;
- OAR/GB will work closely with the GOGB Ministry of Plan Statistical Division for the collection and analysis of baseline and follow-up data regarding rural incomes and market prices for cashews and rice.;
- OAR/GB will be responsible for making required amendments and obtaining REDSO/WCA concurrence pursuant to DOA 551 to the Program Assistance Agreement between A.I.D. and the GOGB in the event GOGB and A.I.D., in consultation with IDA, agree to amend conditionality; and
- Will provide A.I.D./W with regular reporting per Africa Bureau guidance on sectoral assistance programs

(2) REDSO/WCA:

- Will, to the extent possible, participate on joint review missions with IDA to review progress under SAC II; and
- Will provide timely technical reviews (legal, financial) and concurrences, as required, pursuant to DOA 551, as amended; and

(3) AID/W:

- Will provide required backstopping and follow-up regarding cash disbursements to the GOGB;
- Will effect cash disbursement to GOGB account upon receipt of the Financing Request from the OAR/GB; and
- Will meet on regular basis with Bank staff on status of SAC II and will apprise OAR/GB of developments.

b. World Bank's Responsibilities

Because of the linkage between the ASAP and the SAC II, some of the measures the World Bank will take in the process of implementing SAC II, will be important to the process of implementing this Agreement. Through its International Development Association, it will take the lead in negotiations and monitoring of SAC II progress, conduct regular missions to review progress under SAC II and take the lead in renegotiating conditions of effectiveness, if required. A.I.D. will keep abreast of developments pertaining to the overall reform program, and in particular, SAC II through consultation with the World Bank and GOGB.

c. GOGB's Responsibilities:

(1) Ministry of Plan:

- Will be A.I.D.'s prime working contact for this program for the rural income data collection and analysis component.

(2) Ministry of Commerce and Economic Coordination:

- Will continue to manage the liberalization of trade and prices in the economy and will be responsible for overseeing and managing all economic affairs within Guinea-Bissau.

(3) The Secretariat of State for Economic Affairs and International Cooperation (SEPAECI):

- Will be the technical secretariat for the National Commission for Economic Coordination and Management (CNCEC), and will provide information and progress reports on economic performance under the structural adjustment program which are required to monitor the impact of this program.

(4) Ministry of Finance

- Will be responsible for all external debt, including debt negotiations and reporting.

3. The Program Assistance Agreement

The Program Assistance Agreement will specify conditions precedent to disbursement (discussed in Section III.D.1.), as well as program covenants. Provided below are the covenants planned to be incorporated into the agreement.

a. Structural Adjustment Credit II

Adhere to the Action Program for Agriculture as set forth in the Matrix of Policy Actions of the Second Phase of the Government of Guinea-Bissau's Second Structural Adjustment Program.

b. Pesticide Procurement and/or Use Prohibition Using Program Funds

Agree not to use funds provided hereunder for the procurement or use or both of pesticides.

c. Continuance of Action Taken by Grantee in Satisfaction of Conditions Precedent Under This Program

Not reverse, discontinue, or otherwise impede any action taken in satisfaction of any condition precedent to the initial, second, or third disbursement under this Grant, except as the Parties may otherwise agree in writing.

d. Completeness of Information

Confirm that the facts and circumstances of which it has informed A.I.D. or caused A.I.D. to be informed, in the course of reaching agreement with A.I.D. on this Grant are accurate and complete, and include all facts and circumstances which might materially affect this Grant and the discharge of responsibilities under this Agreement.

e. Changes in Circumstances

Agree that it will inform A.I.D. in a timely fashion of any subsequent facts or circumstances that might affect the Program, or that it is reasonable to believe might affect the Program, the Grant, or the discharge of responsibilities under the Agreement.

f. Execution of Program

Carry out the Program as set out in the Amplified Program Description, or cause it to be carried out with due diligence and efficiency, in conformity with sound technical, financial, and management practices, and in accordance with those documents, plans, specifications, contracts, schedules, or other arrangements, and with modifications therein, approved by A.I.D. pursuant to this Agreement.

g. Negotiation of Amendments to Subsequent Year Conditionality

The purpose of the conditionality under this agreement is to insure a more liberal rice and cashew market without Government-imposed distortions. The GOGB agrees to continue discussions concerning these markets and, based upon data collected, review annually the conditionality in this agreement.

h. Reports, Records, Inspections, Audits

The Grantee will:

- (1) Furnish A.I.D. such information and reports relating to the Program and to this Agreement as A.I.D. may reasonably request;
- (2) Maintain or cause to be maintained, in accordance with generally accepted accounting principles and practices consistently applied, books and records relating to the Program and to this Agreement, adequate to show, without limitation, the receipt and use of the Grant; such books and records will be maintained for three years after the date of last disbursement by A.I.D.; and
- (3) Afford authorized representatives of A.I.D. the opportunity at all reasonable times to inspect activities under the Program and books and records and other documents relating to the Program and the Grant.

V. Annexes

Annex A. PAIP Approval Cable

Annex B. Logical Framework

Annex C. Initial Environmental Examination

Annex D. Statutory Checklist

Annex E. GOCB Request for Assistance

Annex F. IDA's SAC II Document

Annex G. Policy Framework Paper

Annex H. Draft Program Assistance Agreement

- A-1 -

Annex A. PAIP Approval Cable

(3) ACTION: REDSO INFO: WAAC ECON

VZCZCAE0601  
PP RUEHAB  
DE RUEHC #6565/01 0450811  
ZNR UUUUU ZZH  
P 140207Z FEB 89  
FM SECSTATE WASHDC  
TO RUTABS/AMEMBASSY BISSAU PRIORITY 9365  
RUEHAB/AMEMBASSY ABIDJAN 2629  
BT  
UNCLAS STATE 046565

LOC: 53 615  
14 FEB 89 2211  
CY: 01839  
CERG: AID  
DIST: AIDL

AIDAC ABIDJAN FOR REDSO/WCA

E.O. 12356: N/A

SUBJECT: ECPR GUIDANCE - GUINEA-BISSAU AGRICULTURAL  
SECTOR ASSISTANCE PROGRAM (657-0013)

REFS: (A) STATE 39892; (B) SUBJECT PAIP DATED 1/10/89

1. THE ECPR, CHAIRED BY AFR/DAA SAJERS, MET 1 FEBRUARY  
AND APPROVED SUBJECT PAIP AT A DOLS 4.5 MILLION LEVEL.  
PARTICIPATING OFFICES INCLUDE AFR/PD, AFR/CCWA, AFR/DP,  
GC/AFR, PPC/EA, AFR/TR/ANR, AND OAR/GB (A. WILLIAMS).

2. SINCE OAR/GB HAD NOT HAD THE OPPORTUNITY TO REVIEW  
AND ENDORSE THE PAIP PRIOR TO SUBMISSION TO REDSO/WCA  
AND AID/W, SOME ADJUSTMENTS WERE PROPOSED BY OAR/GB TO  
THE PROJECT COMMITTEE: (A) PARALLEL RATHER THAN JOINT  
FINANCING; (B) BROADENING TO PRIVATE SECTOR INSTEAD OF  
AGRICULTURAL; (C) DISBURSEMENT OF DOLLARS TO GOGB FOR  
UNTIED USES; AND (D) PREFERENCE FOR NDF TO PROGRAM AND  
MANAGE LOCAL CURRENCIES, NOT STERILIZATION.

3. PARALLEL VS. JOINT FINANCING. AS FAR AS THE  
FINANCING MECHANISM BY ITSELF IS CONCERNED, THE ECPR  
BELIEVED THAT THERE DID NOT APPEAR TO BE ANY SIGNIFICANT

DIFFERENCE IN MANAGEMENT INTENSITY BETWEEN THE MODIFIED  
FORM OF JOINT FINANCING PROPOSED BY THE PAIP AND  
PARALLEL FINANCING. A SUBSTANTIAL BENEFIT OF PARALLEL  
FINANCING WOULD BE TO PROVIDE A MUCH MORE DIRECT AND  
VISIBLE ROLE FOR THE AGENCY IN SUPPORT OF GOGB GOALS AND  
OBJECTIVES. AT THE SAME TIME OAR/GB WOULD RETAIN  
GREATER CONTROL OVER VERIFYING THE SATISFACTION OF  
CONDITIONALITY BEFORE AUTHORIZING  
DISBURSEMENTS. CONSEQUENTLY, THE PROPOSAL FOR PARALLEL  
FINANCING WAS APPROVED. AID/W IS CONTINUING DISCUSSIONS  
WITH THE WORLD BANK TO FORMULATE THE MOST APPROPRIATE  
DISBURSEMENT MECHANISM.

4. MANAGEMENT AND USE OF DOLLARS. THE ECPR STATED ITS  
PREFERENCE FOR THE DOLLARS TO BE DISBURSED TO THE WORLD  
BANK TO BE INCLUDED WITH OTHER SAC II FUNDS FOR COMMODITY  
IMPORTS. HOWEVER, IF OAR/GB DETERMINES DURING PAAD DESIGN

Handwritten notes and stamps on the right side of the page, including "PJO", "Info", "G-DO", "Due Date 2/21", and "Action Taken".

THAT GOGB IS IN CRITICAL NEED OF UNTIED FOREIGN EXCHANGE WHICH CANNOT BE MET THROUGH SAC II, AND THE PAAD MAKES A VERY STRONG CASE TO JUSTIFY DISBURSEMENTS DIRECTLY TO THE GOGB, THIS DECISION MIGHT BE RECONSIDERED.

5. PRIVATE VS. AGRICULTURAL SECTOR. DESPITE THE INCREASED FLEXIBILITY OFFERED BY SELECTION OF THE PRIVATE SECTOR TO ADDRESS INCOME-GENERATING OPPORTUNITIES, IT WAS DECIDED TO RETAIN THE ORIGINAL EMPHASIS ON THE AGRICULTURAL SECTOR. THIS DECISION WAS STRENGTHENED BY REVIEW OF THE WORLD BANK DOCUMENT, WHICH INCLUDES CLEAR, MONITORABLE ACTIONS ONLY IN THE AGRICULTURAL SECTOR, TOGETHER WITH CLEAR EXPECTED IMPACT (INCREASING RURAL INCOMES). AN ADDITIONAL REASON WAS TO KEEP THE PROGRAM SIMPLE AND STRAIGHTFORWARD.

#### 6. SECTOR ANALYSES

A. ECPR AGREED WITH REDSO/WCA OBSERVATION THAT, WHILE WORLD BANK DOCUMENT WAS ADEQUATE FOR THE OVERALL, MACRO-ECONOMIC PROGRAM, ADDITIONAL ANALYSES WILL BE NECESSARY IN THE PAAD FOR THE AGRICULTURAL SECTOR. A SHORT DESCRIPTION OF SAC II'S GENERAL PROGRAM WILL BE SUFFICIENT, BUT THE LINKAGES OF SAC II TO EFFECTS IN THE AGRICULTURAL SECTOR MUST BE STRENGTHENED.

B. IN CONFORMITY WITH GUIDANCE IN MANAGEMENT NOTICE NO. 88-44 DATED JULY 12, 1988, THE PAAD SHOULD CLEARLY DEFINE THE SECTORAL ISSUES AND THE CHANGES TO BE ACHIEVED. DESCRIPTION OF THE IMPACT OF SAC I ON THE AGRICULTURAL SECTOR SHOULD BE INCLUDED AND THE EXPECTED IMPACT OF SAC II (THE DEVELOPMENT HYPOTHESIS). THE ECPR RECOMMENDED THAT

THE PAAD SHOULD INCLUDE A BETTER PERSPECTIVE ON CASHEW AND RICE PRODUCERS, AND RICE CONSUMERS. HOW IMPORTANT ARE THESE COMMODITIES TO THE AGRICULTURAL SECTOR AND TO THE ECONOMY AS A WHOLE? THE PAAD WILL NEED TO IDENTIFY THOSE WHO WILL BE AFFECTED BY THE PROGRAM, POSITIVELY OR NEGATIVELY. THE RICE AND CASHEW MARKETS NEED TO BE DESCRIBED: ARE THE PRODUCERS SMALLHOLDERS OR ESTATES? WHAT ARE CURRENT (BASELINE) LEVELS OF RICE CONSUMPTION, PRODUCTION, ESTIMATED UNOFFICIAL EXPORTS AND IMPORTS. WHAT EFFECTS DO CURRENTLY INCREASING RICE IMPORTS HAVE ON DOMESTIC PRODUCTION AND ON BALANCE OF PAYMENTS. LIKEWISE, THE CASHEW MARKET SHOULD BE DESCRIBED, INCLUDING CURRENT LEVEL OF EXPORTS, SIGNIFICANCE OF EXPORT EARNINGS FROM CASHEWS, ANTICIPATED EFFECTS OF REDUCING EXPORT TAXES ON GOVERNMENT REVENUES AND ON DOMESTIC PRODUCTION.

C. SUBJECT TO CONFIRMATION DURING FINAL NEGOTIATIONS, WE ACCEPT WORLD BANK CONDITIONALITY FOR AGRICULTURE FOR THE FIRST YEAR, WHICH INCLUDE A MODEST INCREASE IN PRODUCER PRICES, REDUCTION IN THE CASHEW EXPORT TAX, AND ELIMINATION

OF RICE SUBSIDIES. WE EXPECT THE PAAD TO INCLUDE SUBSEQUENT YEAR CONDITIONALITY. THE ECPR RECOGNIZED THAT ADJUSTMENTS IN THIS CONDITIONALITY MAY BE REQUIRED, BASED ON THE ANNUAL REVIEWS. FOLLOW-ON YEAR CONDITIONALITY, CONSOLIDATING PRIOR ACHIEVEMENTS, SHOULD BE CHOSEN SO AS TO INFLUENCE FARMER DECISIONS AND BEHAVIOR (SUCH AS INCREASED HECTARAGE CULTIVATED, CHANGES IN CROPS PLANTED), RATHER THAN TARGETS THAT ARE BEYOND THE CONTROL OF THE PROGRAM, LIKE AGGREGATE PRODUCTION INCREASES. INDICATORS OF IMPACT SHOULD BE SELECTED WHICH ARE MEASURABLE, USING AVAILABLE INFORMATION SOURCES TO THE EXTENT POSSIBLE.

D. PAAD SHOULD ALSO INCLUDE ENVIRONMENTAL ANALYSIS, LACKING FROM THE PAIP, AS WELL AS STATUTORY CHECKLISTS.

7. DISPOSITION OF LOCAL CURRENCIES. OAR/GB PREFERRED THAT THERE BE LOCAL CURRENCIES AVAILABLE FOR IMMEDIATE SUPPORT TO A.I.D. PROJECTS IN THE PROCESS OF PHASING OUT, TO COVER LOCAL CURRENCY COSTS OF THE PVO VOCATIONAL TRAINING PROJECT, AND FOR EVENTUAL USE AS GOGB COUNTERPART TO THE SOCIAL EFFECTS OF STRUCTURAL ADJUSTMENT PROGRAM (SIRP) AND CREDIT TO A REFORMED BANKING SYSTEM. GIVEN (A) BUREAU POLICY THAT LOCAL CURRENCIES WHICH BECOME AVAILABLE UNDER SECTOR PROGRAMS SHOULD SUPPORT PRIMARILY THE IDENTIFIED SECTOR; (B) THE POTENTIALLY HEAVY MANAGEMENT BURDEN TO REVIEW, MONITOR AND ACCOUNT FOR LOCAL CURRENCY USES, AND (C) THE IMF'S EFFORTS TO RESTRICT INFLATIONARY PRESSURES, ECPR RECOGNIZED THAT THE BULK OF THE LOCAL CURRENCY

MAY HAVE TO BE RETAINED AS PROPOSED IN THE SAC II PROGRAM (I.E. STERILIZED). WHILE SOME LOCAL CURRENCIES MAY BE PROGRAMMED FOR THE A.I.D. PROJECTS BEING PHASED OUT, THE PAAD SHOULD PROVIDE BUDGETS FOR THESE PROJECTS, JUSTIFY NEED FOR CONTINUED A.I.D. SUPPORT, AND SET OUT MISSION MECHANISMS TO MONITOR AND ACCOUNT FOR LOCAL CURRENCY PURSUANT TO A.I.D. GUIDANCE. THE SIRP MIGHT BE CONSIDERED LATER, BUT IT IS OUR UNDERSTANDING THAT SIRP IS STILL IN THE PROCESS OF DEVELOPMENT. MORE INFORMATION IS NEEDED ON WHAT FORM SIRP WILL TAKE AND HOW THE GOGB COUNTERPART WOULD BE USED BEFORE THIS PROJECT CAN BE CONSIDERED FOR LOCAL CURRENCY FUNDING. LOCAL CURRENCY REQUIREMENTS FOR THE PVO VOCATIONAL TRAINING PROJECT SHOULD BE INCLUDED IN THE DESIGN (BUDGET) OF THAT ACTIVITY AND WILL NOT BE MET BY THE AG. SECTOR PROGRAM.

8. THE LATEST INFORMATION RECEIVED FROM THE WORLD BANK IS THAT THE WORLD BANK-GOGB NEGOTIATIONS WILL NOW TAKE PLACE IN WASHINGTON RATHER THAN BISSAU, AND THAT THE DATE HAS BEEN PUT BACK TO 13 MARCH. HOWEVER, GIVEN A TARGET OBLIGATION DATE OF JUNE 1989, IT WAS AGREED THAT THE PAAD DESIGN ASSISTED BY REDSO/WCA SHOULD GO FORWARD AS SCHEDULED IN LATE FEBRUARY/MARCH.

9. PAAD REVIEW AND APPROVAL WILL BE IN A.I.D./WASHINGTON. ARMACOST  
BT  
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Annex B. Logical Framework

LOGICAL FRAMEWORK:  
Guinea-Bissau Agricultural Sector Assistance Program  
(637-0013)

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<b>GOAL:</b>	<b>MEASURES OF GOAL ACHIEVEMENT:</b>	<b>MEANS OF GOAL VERIFICATION:</b>	<b>ASSUMPTIONS FOR ACHIEVING GOAL TARGETS:</b>
To increase rural incomes.	Annual net positive GDP growth.  Increased domestic rice and cashew production and marketing.  Annual net positive growth of agricultural sector.	- SOG reports  - IERD/IMF reports  - National Account figures.	- SOG continues to implement its Economic Reform Program  - No natural disasters.  - world market prices for major export crops remain stable  - higher prices will stimulate increased competition among traders of rice and cashews.
<b>PURPOSE:</b>	<b>MEASURES OF PURPOSE ACHIEVEMENT:</b>	<b>MEANS OF PURPOSE VERIFICATION:</b>	<b>ASSUMPTIONS FOR ACHIEVING PURPOSE:</b>
To remove policy constraints affecting farmgate prices, especially, elimination of the rice subsidy to civil servants and a gradual reduction of the cashew export tax, which are currently adversely affecting farmgate prices for these commodities.	Cashew exports increase yearly.  Rice production increases yearly.  Farmgate prices for rice and cashews increase.	ERGB records,  IERD reports,  SOG reports,  SOGS statistics.	- Farmers responsive to increased price incentives.  - Stable world market for export crops.  - No natural disasters.  - higher prices will stimulate increased competition among traders of rice and cashews.

OUTPUTS:	END OF PROJECT STATUS (EOPS): AND MAGNITUDE OF OUTPUTS:	MEANS OF EOPS VERIFICATION:	ASSUMPTIONS FOR ACHIEVING OUTPUTS:
A. Cashew tax	A. Cashew tax systematically reduced from 46% to 30%	GOBB Tax schedules	Macroeconomic situation allows for continued reduction of cashew export tax.
1. Cashew export tax reduced to 4% in Year 1 of program.*		ENBF records	GOBB willing to systematically abolish tax.
2. Cashew export tax reduced to 35% in year 2 of program.*			World market price for cashews remains stable.
3. Cashew export tax reduced to 30% in Year 3 of program.*			No natural disasters.
* Tentative, subject to further negotiation between IDA and the GOBB.			
B. Rice subsidy	B. Rice subsidy removed in year 1 of program is not reinstated.	GOBB Budget Armazens do Povo records ENBF records	GOBB does not have undue political pressure to reinstitute subsidy. World market price of rice remains stable. No natural disasters that would adversely affect domestic rice crop.
1. Rice subsidy to civil servants eliminated.			
INPUTS:	MEASURE OF INPUTS TYPE AND QUANTITY:	MEANS OF INPUT VERIFICATION:	ASSUMPTIONS FOR INPUTS:
A. Cash disbursements to GOBB in support of sectoral policy reforms.	A. \$1.3 million year cash disbursement to GOBB	A.I.D. GOBB records.	GOBB disburses funds for appropriate uses (i.e., seed servicing, etc.)
B. PI support for monitoring and Evaluation.	B. \$150,000 over life of program.	A.I.D. records.	
C. Local currency support for Food Crop Protection	C. up to <u>\$123,419</u> equivalent of <u>1000</u> year to PEP	DFB records.	DFB able to properly manage funds.
D. Local currency support for rural income data collection, analysis, and ongoing monitoring.	D. Income data collection and analysis - \$21,000 LC over life of program.	GOBB Ministry of Plan	GOBB Ministry of Plan, Statistical Division able to properly manage funds.
E. Local currency sterilization.	E. <u>\$4,346,581</u> visiers per year sterilized at ENBF.	ENBF records.	INF and IDP policy remains that funds should be sterilized.

Annex C

Initial Environmental Examination

Country: Guinea-Bissau  
Program Title: Guinea-Bissau Agricultural Sector Assistance Program  
Funding: \$4.68 million (FY 1989-91)  
IEE Prepared by: David Leong, REDSO/WCA/PDO

Environmental Action Recommended:

Positive Determination \_\_\_\_\_  
Negative Determination           X          

Program Description:

The Guinea-Bissau Agricultural Sector Assistance Program will provide cofinancing with the World Bank's Second Structural Adjustment Credit (SAC II), a multilateral donor effort with a planned life-of-program cost of \$50.2 million, of which A.I.D.'s contribution will be \$4.68 million. Other donor financing includes that of the World Bank's International Development Association (\$19.0 million), the Netherlands (\$4.8 million), the Africa Development Fund (\$18.0 million), and the International Monetary Fund (\$3.9 million).

The program will provide yearly cash disbursements of \$1.5 million to the GOGB upon satisfaction of conditionality related to improving the agricultural pricing structure for farmers in Guinea-Bissau, and will also finance rural income data collection and analysis. Conditionality within A.I.D.'s program is identical to conditionality under the larger SAC II program, although A.I.D. has elected to target a subset of these conditions affecting the agricultural sector. Because of the drastic need of the GOGB for foreign exchange, the dollar disbursements will be unprogrammed, although it is anticipated that the GOGB will use these funds to repay outstanding debt or to finance importation of consumer goods.

Summary Findings:

All of the activities to be undertaken during this program are categorically excludable pursuant to the provisions of 22 CFR 216.2(c)(1)(i), 216.2(c)(1)(ii), and/or 216.2(c)(2)(vi). The activities will either not have an effect on the natural or physical environment, or A.I.D. does not have knowledge of or control over--and the objective in furnishing assistance does not require prior to approval of financing or prior to implementation of specific activities, knowledge of or control over--the details of the specific activities that have had an effect on the physical and natural environment for which A.I.D. is providing financing.

However, noting that the recent increases in rice production have been the result of increased land being brought into cultivation, some long-term adverse impacts can be expected. Especially, this would apply to the case of cultivation and increased cashew planting to the exclusion of other agroforestry species. Consequently, it is proposed that as part of A.I.D.'s impact reporting, which will be carried out using a Monitoring Plan Questionnaire, several brief questions on long-term environmental impacts should be included among the topics when this questionnaire is developed. Provision of assistance for the procurement or use or both of pesticides will be prohibited under the terms of the Program Assistance Agreement.

On the basis of the above, a negative determination is recommended.

Approval:

Africa Bureau  
Environmental Officer: John Gaudet

Approved:   
Disapproved: \_\_\_\_\_  
Date: July 11, 1989

Clearance:

GC/AFR: Pauline G. Johnson (Draft) Date: 31 July 1989

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Annex D. Statutory Checklist

3M(1) - COUNTRY CHECKLIST

Listed below are statutory criteria applicable generally to FAA funds, and criteria applicable to individual fund sources: Development Assistance and Economic Support Fund.

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FAA Sec. 481(h)(1); FY 1985 Continuing Resolution Sec. 528. Has it been determined or certified to the Congress by the President that the government of the recipient country has failed to take adequate measures or steps to prevent narcotic and psychotropic drugs or other controlled substances (as listed in the schedules in section 202 of the Comprehensive Drug Abuse and Prevention Control Act of 1971) which are cultivated, produced or processed illicitly, in whole or in part, in such country or transported through such country, from being sold illegally within the jurisdiction of such country to United States Government personnel or their dependents or from entering the United States unlawfully? NO
  
2. FAA Sec. 481(h)(4). Has the President determined that the recipient country has not taken adequate steps to prevent (a) the processing, in whole or in part, in such country of narcotic and psychotropic drugs or other controlled substances, (b) the transportation through such country of narcotic and psychotropic drugs or other controlled substances, and (c) the use of such country as a refuge for illegal drug traffickers? NO

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3. FAA Sec. 620(c). If assistance is to a government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) the debt is not denied or contested by such government? NO
4. FAA Sec. 620(e)(1). If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities? NO
5. FAA Sec. 620(a), 620(f), 620(D); FY 1985 Continuing Resolution Sec. 512 and 513. Is recipient country a Communist country? If so, has the President determined that assistance to the country is important to the national interests of the United States? Will assistance be provided to Angola, Cambodia, Cuba, Laos, Syria, Vietnam, Libya, or South Yemen? Will assistance be provided to Afghanistan or Mozambique without a waiver? NO
6. FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction by mob action of U.S. property? NO

7. FAA Sec. 620(l). Has the country failed to enter into an agreement with OPIC? NO
8. FAA Sec. 620(o); Fishermen's Protective Act of 1967, as amended, Sec. 5. (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing activities in international waters? NO
- (b) If so, has any deduction required by the Fishermen's Protective Act been made?
9. FAA Sec. 620(q); FY 1985 Continuing Resolution Sec. 518. (a) Has the government of the recipient country been in default for more than six months on interest or principal of any AID loan to the country? (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the appropriation bill (or continuing resolution) appropriates funds? NO
10. FAA SEC. 620(s). If contemplated assistance is development loan or from Economic Support Fund, has the Administrator taken into account the amount of foreign exchange or other resources which the country has spent on military equipment? (Reference may be made to the annual "Taking Into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.) N/A

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11. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption? NO
12. FAA Sec. 620(u) What is the payment status of the country's U.N. obligations? If the country is in arrears were such arrearages taken into account by the AID Administrator in determining the current AID Operational Year Budget? (Reference may be made to the Taking into Consideration memo.) N/A
13. FAA Sec. 620A; FY 1985 Continuing Resolution Sec. 521. Has the President determined that the country (a) grants sanctuary from prosecution to any individual or group which has committed an act of international terrorism, or (b) otherwise supports international terrorism? Has the government of the recipient country aided or abetted, by granting sanctuary from prosecution to, any individual or group which has committed or is being sought by any other government for prosecution for any war crime or act of international terrorism? NO
14. ISDCA of 1985 Sec. 552(b). Has the Secretary of State determined that the country is a high terrorist threat country after the Secretary of Transportation has determined, pursuant to section 1115(e)(2) of the Federal Aviation Act of 1958, that an airport in the country does not maintain and administer effective security measures? NO

15. FAA Sec. 666. Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA? NO
16. FAA Sec. 669, 670. Has the country, after August 3, 1977, delivered or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.) NO
17. FAA Sec. 670. If the country is a non-nuclear weapon state, has it, on or after August 8, 1985, exported illegally (or attempted to export illegally) from the United States any material, equipment, or technology which would contribute significantly to the ability of such country to manufacture a nuclear explosive device? NO

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18. ISDCA of 1981 Sec. 720. Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Assembly of the U.N. of Sept. 25 and 28, 1981, and failed to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the Taking into Consideration memo.) NO
19. FY 1985 Continuing Resolution. If assistance is from the population functional account, does the country (or organization) include as part of its population planning programs involuntary abortion? N/A
20. FY 1985 Continuing Resolution Sec. 530. Has the recipient country been determined by the President to have engaged in a consistent pattern of opposition to the foreign policy of the United States? NO

B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria

FAA Sec. 116. Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy? NO

2. Economic Support Fund  
Country Criteria

FAA Sec. 502B. Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the country made such significant improvements in its human rights record that furnishing such assistance is in the national interest?

N/A

5C(2) - PROJECT CHECKLIST

Listed below are statutory criteria applicable to projects. This section is divided into two parts. Part A includes criteria applicable to all projects. Part B applies to projects funded from specific sources only: B(1) applies to all projects funded with Development Assistance; B(2) applies to projects funded with Development Assistance loans; and B(3) applies to projects funded from ESF.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PROJECT?

A. GENERAL CRITERIA FOR PROJECT

1. FY 1989 Appropriations Act Sec. 523; FAA Sec. 634A. If money is sought to obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified?
2. FAA Sec. 611(a)(1). Prior to an obligation in excess of \$500,000, will there be (a) engineering, financial or other plans necessary to carry out the assistance, and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?
3. FAA Sec. 611(a)(2). If legislative action is required within recipient country, what is the basis for a reasonable expectation that such action will be completed in time to permit orderly accomplishment of the purpose of the assistance?

YES, CN WAS  
SUBMITTED TO  
CONGRESS ON  
21 JUNE.

NO

N/A

4. FAA Sec. 611(b); FY 1989 Appropriations Act Sec. 501. If project is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? (See A.I.D. Handbook 3 for guidelines.) N/A
  
5. FAA Sec. 611(e). If project is capital assistance (e.g., construction), and total U.S. assistance for it will exceed \$1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability to maintain and utilize the project effectively? N/A
  
6. FAA Sec. 209. Is project susceptible to execution as part of regional or multilateral project? If so, why is project not so executed? Information and conclusion whether assistance will encourage regional development programs. THIS PROJECT SUPPORTS A PARALLEL FINANCING PROGRAM WITH THE WORLD BANK AND OTHER DONORS.
  
7. FAA Sec. 601(a). Information and conclusions on whether projects will encourage efforts of the country to:  
(a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions. IT IS EXPECTED THAT THIS ACTIVITY WILL PROVIDE DATA TO SHOWING INCREASED EXPORTS OF CASHEWS, INCREASED PRIVATE INITIATIVES AND REDUCTION OF MONOPOLISTIC PRACTICES
  
8. FAA Sec. 601(b). Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise). THIS IS NOT ADDRESSED UNDER THIS ACTIVITY.

9. FAA Secs. 612(b), 636(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars. N/A
10. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release? N/A
11. FY 1989 Appropriations Act Sec. 521. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity? NO
12. FY 1989 Appropriations Act Sec. 549. Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel? NO
13. FAA Sec. 119(q)(4)-(6) & (10). Will the assistance (a) support training and education efforts which improve the capacity of recipient countries to prevent loss of biological diversity; (b) be provided under a long-term agreement in which the recipient country agrees to protect ecosystems or other NO

wildlife habitats; (c) support efforts to identify and survey ecosystems in recipient countries worthy of protection; or (d) by any direct or indirect means significantly degrade national parks or similar protected areas or introduce exotic plants or animals into such areas?

14. FAA Sec. 121(d). If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (either dollars or local currency generated therefrom)? N/A
  
15. FY 1989 Appropriations Act. If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government? N/A
  
16. FY 1989 Appropriations Act Sec. 538. If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of A.I.D., and is the PVO registered with A.I.D.? N/A
  
17. FY 1989 Appropriations Act Sec. 514. If funds are being obligated under an appropriation account to which they were not appropriated, has prior approval of the Appropriations Committees of Congress been obtained? N/A
  
18. State Authorization Sec. 139 (as interpreted by conference report). Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and A.I.D. LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision). N/A

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

- a. FY 1989 Appropriations Act Sec. 548  
(as interpreted by conference report for original enactment). If assistance is for agricultural development activities (specifically, any testing or breeding feasibility study, variety improvement or introduction, consultancy, publication, conference, or training), are such activities (a) specifically and principally designed to increase agricultural exports by the host country to a country other than the United States, where the export would lead to direct competition in that third country with exports of a similar commodity grown or produced in the United States, and can the activities reasonably be expected to cause substantial injury to U.S. exporters of a similar agricultural commodity; or (b) in support of research that is intended primarily to benefit U.S. producers?

N/A

- b. FAA Secs. 102(b), 111, 113, 281(a).  
Describe extent to which activity will (a) effectively involve the poor in development by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, dispersing investment from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life, and otherwise encourage democratic private and local governmental

THIS PROJECT PROVIDES FUNDS TO MONITOR THE IMPACT OR RURAL INCOMES OF THE AGRICULTURAL SECTOR ASSISTANCE PROGRAM.

institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries.

- c. FAA Secs. 103, 103A, 104, 105, 106, 120-21; FY 1989 Appropriations Act (Development Fund for Africa). Does the project fit the criteria for the source of funds (functional account) being used? YES
- d. FAA Sec. 107. Is emphasis placed on use of appropriate technology (relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)? N/A
- e. FAA Secs. 110, 124(d). Will the recipient country provide at least 25 percent of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)? NO, THIS ACTIVITY IS MULTILATERAL IN NATURE. CONSEQUENTLY THIS REQUIREMENT DOES NOT APPLY."
- f. FAA Sec. 128(b). If the activity attempts to increase the institutional capabilities of private organizations or the government of the country, or if it attempts to stimulate scientific and technological research, has it been designed and will it be monitored to ensure that the ultimate beneficiaries are the poor majority? YES

g. FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civil education and training in skills required for effective participation in governmental processes essential to self-government.

THIS ACTIVITY WILL USE THE MINISTRY OF PLAN'S STATISTICAL UNIT FOR IMPACT MONITORING. SOME TECHNICAL ASSISTANCE WILL BE PROVIDED.

h. FY 1989 Appropriations Act Sec. 536. Are any of the funds to be used for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions?

NO

Are any of the funds to be used to pay for the performance of involuntary sterilization as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilizations?

NO

Are any of the funds to be used to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning?

NO

i. FY 1989 Appropriations Act. Is the assistance being made available to any organization or program which has been determined to support or participate in the management of a program of coercive abortion or involuntary sterilization?

NO

If assistance is from the population functional account, are any of the funds to be made available to voluntary family planning projects which do not offer, either directly or through referral to or information about access to, a broad range of family planning methods and services?

N/A

- j. FAA Sec. 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? YES
- k. FY 1989 Appropriations Act. What portion of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, colleges and universities having a student body in which more than 40 percent of the students are Hispanic Americans, and private and voluntary organizations which are controlled by individuals who are black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including women)? NOT DETERMINED.
- l. FAA Sec. 118(c). Does the assistance comply with the environmental procedures set forth in A.I.D. Regulation 16? Does the assistance place a high priority on conservation and sustainable management of tropical forests? Specifically, does the assistance, to the fullest extent feasible: (a) stress the importance of conserving and sustainably managing forest resources; (b) support activities which offer employment and income alternatives to those who otherwise would cause destruction and loss of forests, and help countries identify and implement alternatives to colonizing forested areas; (c) support training programs, educational efforts, and the establishment or strengthening of institutions to improve forest management; (d) help end destructive slash-and-burn agriculture by supporting stable and productive farming practices; (e) help conserve forests which have not yet been degraded by helping to increase N/A THIS IS A MONITORING ACTIVITY

production on lands already cleared or degraded; (f) conserve forested watersheds and rehabilitate those which have been deforested; (g) support training, research, and other actions which lead to sustainable and more environmentally sound practices for timber harvesting, removal, and processing; (h) support research to expand knowledge of tropical forests and identify alternatives which will prevent forest destruction, loss, or degradation; (i) conserve biological diversity in forest areas by supporting efforts to identify, establish, and maintain a representative network of protected tropical forest ecosystems on a worldwide basis, by making the establishment of protected areas a condition of support for activities involving forest clearance or degradation, and by helping to identify tropical forest ecosystems and species in need of protection and establish and maintain appropriate protected areas; (j) seek to increase the awareness of U.S. government agencies and other donors of the immediate and long-term value of tropical forests; and (k) utilize the resources and abilities of all relevant U.S. government agencies?

- m. FAA Sec. 118(c)(13). If the assistance will support a program or project significantly affecting tropical forests (including projects involving the planting of exotic plant species), will the program or project (a) be based upon careful analysis of the alternatives available to achieve the best sustainable use of the land, and (b) take full account of the environmental impacts of the proposed activities on biological diversity?

N/A

- n. FAA Sec. 118(c)(14). Will assistance be used for (a) the procurement or use of logging equipment, unless an environmental assessment indicates that all timber harvesting operations involved will be conducted in an environmentally sound manner and that the proposed activity will produce positive economic benefits and sustainable forest management systems; or (b) actions which will significantly degrade national parks or similar protected areas which contain tropical forests, or introduce exotic plants or animals into such areas? NO
- o. FAA Sec. 118(c)(15). Will assistance be used for (a) activities which would result in the conversion of forest lands to the rearing of livestock; (b) the construction, upgrading, or maintenance of roads (including temporary haul roads for logging or other extractive industries) which pass through relatively undegraded forest lands; (c) the colonization of forest lands; or (d) the construction of dams or other water control structures which flood relatively undegraded forest lands, unless with respect to each such activity an environmental assessment indicates that the activity will contribute significantly and directly to improving the livelihood of the rural poor and will be conducted in an environmentally sound manner which supports sustainable development? NO
- p. FY 1989 Appropriations Act. If assistance will come from the Sub-Saharan Africa DA account, is it (a) to be used to help the poor majority in Sub-Saharan Africa through a process of long-term development and economic growth that is equitable, participatory, environmentally sustainable, and self-reliant; (b) being provided in accordance with the policies contained in section 102 of the FAA; YES

(c) being provided, when consistent with the objectives of such assistance, through African, United States and other PVOs that have demonstrated effectiveness in the promotion of local grassroots activities on behalf of long-term development in Sub-Saharan Africa;

(d) being used to help overcome shorter-term constraints to long-term development, to promote reform of sectoral economic policies, to support the critical sector priorities of agricultural production and natural resources, health, voluntary family planning services, education, and income generating opportunities, to bring about appropriate sectoral restructuring of the Sub-Saharan African economies, to support reform in public administration and finances and to establish a favorable environment for individual enterprise and self-sustaining development, and to take into account, in assisted policy reforms, the need to protect vulnerable groups;

(e) being used to increase agricultural production in ways that protect and restore the natural resource base, especially food production, to maintain and improve basic transportation and communication networks, to maintain and restore the renewable natural resource base in ways that increase agricultural production, to improve health conditions with special emphasis on meeting the health needs of mothers and children, including the establishment of self-sustaining primary health care systems that give priority to preventive care, to provide increased access to voluntary family planning services, to improve basic literacy and mathematics especially to those outside the formal educational system and to improve primary education, and to develop income-generating opportunities for the unemployed and underemployed in urban and rural areas?

- q. FY 1989 Appropriations Act Sec. 515. If deob/reob authority is sought to be exercised in the provision of DA assistance, are the funds being obligated for the same general purpose, and for countries within the same general region as originally obligated, and have the Appropriations Committees of both Houses of Congress been properly notified? N/A
2. Development Assistance Project Criteria (Loans Only)
- a. FAA Sec. 122(b). Information and conclusion on capacity of the country to repay the loan at a reasonable rate of interest. N/A
- b. FAA Sec. 620(d). If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20 percent of the enterprise's annual production during the life of the loan, or has the requirement to enter into such an agreement been waived by the President because of a national security interest? N/A
- c. FAA Sec. 122(b). Does the activity give reasonable promise of assisting long-range plans and programs designed to develop economic resources and increase productive capacities? N/A

3. Economic Support Fund Project Criteria

- a. FAA Sec. 531(a). Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA? N/A
  
- b. FAA Sec. 531(e). Will this assistance be used for military or paramilitary purposes? N/A
  
- c. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made? N/A

3(A)2 - NONPROJECT ASSISTANCE CHECKLIST

The criteria listed in Part A are applicable generally to FAA funds, and should be used irrespective of the program's funding source. In Part B a distinction is made between the criteria applicable to Economic Support Fund assistance and the criteria applicable to Development Assistance. Selection of the criteria will depend on the funding source for the program.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? HAS STANDARD ITEM CHECKLIST BEEN REVIEWED?

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

1. FY 1989 Appropriations Act Sec. 523; FAA Sec. 634A. Describe how authorization and appropriations committees of Senate and House have been or will be notified concerning the project.
2. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?
3. FAA Sec. 209. Is assistance more efficiently and effectively provided through regional or multilateral organizations? If so, why is assistance not so provided? Information and conclusions on whether assistance will encourage developing countries to cooperate in regional development programs.

The CN was submitted to Congress on 23 June 1989 and cleared on 9 August 1989.

N/A

This activity cofinances the IDS's Second Structural Adjustment Credit (SAC II) for Guinea-Bissau, using the parallel financing mechanism. This was selected since a) it would not require substantially more management, and b) it would allow the USG to maintain identity and show demonstrative support to the GOGB in its structural reform effort.

4. FAA Sec. 601(a). Information and conclusions on whether assistance will encourage efforts of the country to:  
(a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.  
It is expected that this activity will foster increased flow of international trade, foster private initiative and competition, and discourage monopolistic practices, by the alleviation of sectoral constraints presently facing the agricultural sector in Guinea-Bissau. These are addressed in the PAAD.
5. FAA Sec. 601(b). Information and conclusions on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).  
This is not addressed under this activity.
6. FAA Secs. 612(b), 636(h); FY 1989 Appropriations Act Secs. 507, 509. Describe steps taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. are utilized in lieu of dollars to meet the cost of contractual and other services.  
N/A
7. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?  
N/A
8. FAA Sec. 601(e). Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?  
N/A
9. FAA Sec. 121(d). If assistance is being furnished under the Sahel Development Program, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of A.I.D. funds?  
N/A
10. FY 1989 Appropriations Act. Will assistance be designed so that the percentage of women participants will be demonstrably increased?  
This sectoral program will improve the incentive structure for farmers in Guinea-Bissau, and 80% of the country's population is in the rural sector. Women are expected to benefit equally from the policy changes targeted under this program.

B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

1. Nonproject Criteria for Economic Support Fund

a. FAA Sec. 531(a). Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA? N/A

b. FAA Sec. 531(e). Will assistance under this chapter be used for military or paramilitary activities? N/A

c. FAA Sec. 531(d). Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will at least 50 percent of such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106? N/A

d. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made? N/A

e. FY 1989 Appropriations Act. If assistance is in the form of a cash transfer: (a) are all such cash payments to be maintained by the country in a separate account and not to be commingled with any other funds? (b) will all local currencies that may be generated with funds provided as a cash transfer to such a country also be deposited in a special account to be used in accordance with FAA Section 609 (which requires such local currencies to be made available to the U.S. government as the U.S. determines necessary for the requirements of the U.S. Government, and which requires the remainder to be used for programs agreed to by the U.S. Government to carry out the purposes for which new funds authorized by the FAA N/A

would themselves be available)? (c) Has Congress received prior notification providing in detail how the funds will be used, including the U.S. interests that will be served by the assistance, and, as appropriate, the economic policy reforms that will be promoted by the cash transfer assistance?

2. Nonproject Criteria for Development Assistance

a. FAA Secs. 102(a), 111, 113, 281(a). Extent to which activity will (a) effectively involve the poor in development, by expanding access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries?

By reduction of the cashew export tax and elimination of the rice subsidy for civil servants, it is expected that farmgate prices for these products will increase and thus stimulate production and improve incomes at the rural level. Beneficiaries will be those currently in productive sectors, which in Guinea-Bissau means the rural sector, which comprises 80% of the population in the country.

b. FAA Secs. 103, 103A, 104, 105, 106, 120-21. Is assistance being made available (include only applicable paragraph which corresponds to source of funds used; if more than one fund source is used for assistance, include relevant paragraph for each fund source):

(1) [103] for agriculture, rural development or nutrition; if so (a) extent to which activity is specifically designed to increase productivity and income of rural poor; [103A] if for agricultural research, account shall be taken of the needs of small farmers, and extensive use of field testing to adapt basic research to local conditions shall be made; (b) extent to which assistance is used in coordination with efforts carried out under Sec. 104 to help improve nutrition of the people of developing countries through encouragement of increased production of crops with greater nutritional value; improvement of planning, research, and education with respect to nutrition, particularly with reference to improvement and expanded use of indigenously produced foodstuffs; and the undertaking of pilot or demonstration programs explicitly addressing the problem of malnutrition of poor and vulnerable people; and (c) extent to which activity increases national food security by improving food policies and management and by strengthening national food reserves, with particular concern for the needs of the poor, through measures encouraging domestic production, building national food reserves, expanding available storage facilities, reducing post harvest food losses, and improving food distribution.

FAA Sec. 103: Resources will be used to effect policy changes that will ultimately improve the incentive structure for farmers in Guinea-Bissau. Since farmers have proven to be price responsive it is anticipated that increased production and increased rural incomes will result.

FAA Sec. 103A: N/A

(2) [104] for population planning under Sec. 104(b) or health under Sec. 104(c); if so, extent to which activity emphasizes low-cost, integrated delivery systems for health, nutrition and family planning for the poorest people, with particular attention to the needs of mothers and young children, using paramedical and auxiliary medical personnel, clinics and health posts, commercial distribution systems, and other modes of community outreach.

FAA Sec. 104: N/A

(3) [105] for education, public administration, or human resources development; if so, (a) extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, and strengthens management capability of institutions enabling the poor to participate in development; and (b) extent to which assistance provides advanced education and training of people of developing countries in such disciplines as are required for planning and implementation of public and private development activities.

FAA Sec. 105: N/A

(4) [106] for energy, private voluntary organizations, and selected development problems; if so, extent activity is:

FAA Sec. 106: N/A

(i)(a) concerned with data collection and analysis, the training of skilled personnel, research on and development of suitable energy sources, and pilot projects to test new methods of energy production; and (b) facilitative of research on and development and use of small-scale, decentralized, renewable energy sources for rural areas, emphasizing development of energy resources which are environmentally acceptable and require minimum capital investment;

(ii) concerned with technical cooperation and development, especially with U.S. private and voluntary, or regional and international development, organizations;

(iii) research into, and evaluation of, economic development processes and techniques;

(iv) reconstruction after natural or manmade disaster and programs of disaster preparedness;

(v) for special development problems, and to enable proper utilization of infrastructure and, related projects funded with earlier U.S. assistance;

(vi) for urban development, especially small, labor-intensive enterprises, marketing systems for small producers, and financial or other institutions to help urban poor participate in economic and social development.

(5) [120-21] for the Sahelian region; if so, (a) extent to which there is international coordination in planning and implementation; participation and support by African countries and organizations in determining development priorities; and a long-term, multidonor development plan which calls for equitable burden-sharing with other donors; (b) has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of projects funds (dollars or local currency generated therefrom)?

FAA Sec.120-121: N/A

c. FY 1989 Appropriations Act. Have local currencies generated by the sale of imports or foreign exchange by the government of a country in Sub-Saharan Africa from funds appropriated under Sub-Saharan Africa, DA been deposited in a special account established by that government, and are these local currencies available only for use, in accordance with an agreement with the United States, for development activities which are consistent with the policy directions of Section 102 of the FAA and for necessary administrative requirements of the U. S. Government?

Yes.

d. FAA Sec. 107. Is special emphasis placed on use of appropriate technology (defined as relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?

N/A - This nonproject activity addresses sectoral constraints presently depressing the incentive structure for small farmers in Guinea-Bissau.

e. FAA Sec. 281(b). Describe extent to which the activity recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.

N/A - This nonproject activity addresses sectoral constraints presently depressing the incentive structure for small farmers in Guinea-Bissau.

f. FAA Sec. 101(a). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?

Yes.

- E-1 -

Annex E. GOGB Request for Assistance



Unofficial Translation

LETTER FROM GOVERNMENT OF GUINEA-BISSAU

Most Excellent Mme. Anne Williams  
A.I.D. Representative  
Bissau

Dear Mrs. Williams:

As a result of our conversation of last week, I am writing in the name of the Government of Guinea-Bissau to request USAID's participation in the Second Structural Adjustment Program recently negotiated with the World Bank.

My Government understands that USAID's three year contribution will be for approximately \$4.5 million, to be disbursed in annual installments of \$1.5 million when the Government of Guinea Bissau satisfies certain conditions precedent, as established by our two Governments. The Government of Guinea-Bissau also understands that USAID's contribution is subject to annual allocations by the United States Congress.

In expectant gratitude, accept our sincere wishes.

Fraternal Greetings

Unity    Struggle    Progress

Minister of State for C.E.C. Tourism  
Manuel Santos

MF

- F-1 -

Annex F. IDA's SAC II Document

REPORT AND RECOMMENDATION  
OF THE  
PRESIDENT OF THE  
INTERNATIONAL DEVELOPMENT ASSOCIATION  
TO THE EXECUTIVE DIRECTORS  
ON A  
PROPOSED DEVELOPMENT CREDIT  
OF SDR 15.0 MILLION  
TO THE REPUBLIC OF GUINEA-BISSAU  
FOR PHASE TWO OF ITS  
STRUCTURAL ADJUSTMENT PROGRAM

January 18, 1989

### CURRENCY EQUIVALENTS

Currency unit = Guinea-Bissau Peso (GP)

Annual Average				
Exchange Rate:	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u> <sup>1/</sup>
US\$1.00 = GP	205	560	1118	1585

### ABBREVIATIONS

ADP	Armazens do Povo
AfDB	African Development Bank
ADF	African Development Fund
BNG	Banco Nacional da Guiné-Bissau
DESECO	Direcção de Serviços de Desenvolvimento Económico
DICOL	Distribuidora de Combustíveis e Lubrificantes
EAGB	Electricidade e Águas da Guiné-Bissau
EEC	European Economic Community
FAC	Fonds d'Aide et Cooperation
GAPLA	Gabinete de Planificação (Planning Bureau, Ministry of Rural Development)
GDP	Gross Domestic Product
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
LDP	Letter of Development Policy
PFP	Policy Framework Paper
PPF	Project Preparation Facility
RIC	Reconstruction Import Credit
SDA	Social Dimensions of Adjustment
SAF	Structural Adjustment Facility of IMF
SAC	Structural Adjustment Credit
SAP	Structural Adjustment Program
SFA	Special Facility for Africa
SEPAECI	Secretária de Estado da Presidência para os Assuntos Económicos e Cooperação Internacional
SOCOMIN	Sociedade Comercial e Industrial
SPPF	Special Project Preparation Facility
UGAB	Unidade de Gestão da Ajuda a Balança de Pagamentos
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organization
USAID	United States Agency for International Development

### FISCAL YEAR

January 1 - December 31

1/ Projected

REPUBLIC OF GUINEA-BISSAU  
SECOND STRUCTURAL ADJUSTMENT CREDIT

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REPUBLIC OF GUINEA-BISSAU  
SECOND STRUCTURAL ADJUSTMENT CREDIT  
CREDIT AND PROGRAM SUMMARY

Borrower: Republic of Guinea-Bissau

Amount: SDR 15.0 million (US\$19.0 million equivalent)

Terms: Standard IDA Terms

Cofinancing: 1/ Netherlands: DF10 million (US\$4.8 million equivalent)  
United States Agency for International Development  
(USAID): US\$4.5 million  
African Development Fund: 15.0 million UOAs (US\$18.0 million equivalent)  
IMF: contributions under the second and third annual SAF of SDR3.0 million (US\$3.9 million equivalent)  
Financing package totals about US\$50.0 million.

Project Description: The proposed IDA credit would provide US\$19.0 million equivalent to support the second phase of the Government's Structural Adjustment Program (SAP), and facilitate the continued expansion of economic activity while reforms are being implemented. These reforms supported by IDA credits were started in 1983 under the Government's Economic Recovery Program, and continued under phase one of the SAP (1987-1988).

Under phase two of the SAP (1989-1991) the Government is expected to focus on the following policy agenda: (a) maintaining a stable macro-economic environment, including a flexible exchange rate system, and restrictive monetary and fiscal policies; (b) reorientating public investments increasingly towards removing infrastructure and institutional bottlenecks to growth, and towards meeting basic needs, and away from directly productive investments; (c) expanding the trade and price liberalization started in 1983 to encourage private investment and to foster greater economic growth, particularly in agriculture, forestry and fisheries; (d) institutional reforms, to improve the efficiency and effectiveness of the public sector, particularly public enterprises, and banking; and (e) policies and programs to alleviate some of the main social costs of the adjustment program. A sixth area of concern, namely, the very high external debt, has been included as part of the policy agenda, although many elements are outside the control of Government.

---

1/ to be confirmed

Estimated Disbursements:

The credit will be disbursed in three equal tranches of SDR 5.0 million each. The first tranche will be available for disbursement upon effectiveness and the second and third tranches following performance reviews at end-1989 and end-1990. The estimated period of disbursements is July 1989 to July 1991. Retroactive financing has been included up to 20 percent of the credit, for eligible goods and services to be procured within four months of credit signing.

Benefits and Risks:

The second phase of the adjustment program is expected to improve the growth prospects of the economy through deepening the stabilization measures, by providing more assured availability and efficient allocation of foreign exchange for vital inputs, and by concentrating public investments on areas in which the private sector has no comparative advantage. There is expected to be a further improvement in the incentives structure, particularly in the form of increased minimum producer prices and the removal of most remaining price controls. The program is also expected to help improve the climate for productive private investment, by strengthening the institutional framework and simplifying the investment code.

The main risks are that: (a) inadequate administrative capacity may prevent the Government from implementing the program on schedule; (b) due to price and trade liberalization and reductions in civil service numbers, opposition to the program may grow, especially in urban areas; and (c) the debt overhang or more adverse movements in the terms of trade than projected will continue to overshadow the economic gains.

To minimize the first of these risks, the program has been designed to limit the role of the State, and improve its efficiency, focussing on key areas: tax and budget administration, the public investment program, external debt management, public sector reform, particularly reform of the public enterprise sector, and banking. Technical assistance for many of these posts is already in place, and working well. To counter the second risk, the Government has prepared a related Social and Infrastructure Relief Project, and IDA has been asked to contribute to its financing. Finally, the risks presented by the debt overhang and adverse terms of trade are being addressed to the extent possible by putting in place an aid group meeting for Guinea-Bissau, to be hosted by IDA, focussed on debt reduction and by efforts to encourage diversified economic growth in Guinea-Bissau.

Map: IBRD 15779R

There is no separate Staff Appraisal Report

REPORT AND RECOMMENDATION OF THE  
INTERNATIONAL DEVELOPMENT ASSOCIATION  
TO THE EXECUTIVE DIRECTORS  
ON A PROPOSED DEVELOPMENT CREDIT OF SDR 15.0 MILLION  
TO THE REPUBLIC OF GUINEA-BISSAU FOR PHASE TWO OF ITS  
STRUCTURAL ADJUSTMENT PROGRAM

1. I submit the following report and recommendation on a proposed credit of SDR 15.0 million (US\$19.0 million equivalent), on standard IDA terms to the Republic of Guinea-Bissau to support phase two of the Government's Structural Adjustment Program for the period 1989-1991. Financing would also be provided by the Netherlands and USAID in amounts of US\$4.8 million equivalent and US\$4.5 million respectively. Additional financing would be provided by the African Development Fund of US\$18.0 million equivalent. The IMF is expected to provide US\$3.9 million equivalent, representing the second and third annual contributions under its Structural Adjustment Facility (SAF) covering the period 1987-1990.

PART I. THE ECONOMY

2. Report No. 6361-GUB, "Guinea-Bissau: A Prescription for Comprehensive Adjustment," distributed to the Executive Directors in April 1987, presents an analysis of the country's economic performance and the essential elements of a comprehensive structural adjustment strategy for Guinea-Bissau. The following section updates the economic situation and describes Guinea-Bissau's performance under the first structural adjustment program. Economic data appears in Annexes 1 and 2.

A. Background

3. In May 1987, the Board approved a Structural Adjustment and African Facility Credit (SAC I) of US\$15 million equivalent to Guinea-Bissau. This supported the first phase of the Government's Structural Adjustment Program (1987-1988), aimed at re-establishing external and internal equilibria, stimulating growth and improving the efficiency of domestic and external financing. The IMF supported the program with a Structural Adjustment Facility (SAF), and it also received the support of other bilateral and multilateral donors including the Netherlands, Switzerland, the Saudi Fund, AfDB and IFAD.

4. The structural adjustment program followed on from the Government's 1983 Economic Recovery Program, designed to correct the inappropriate policies of the post-independence decade. The economic recovery program had been supported by two Reconstruction Import Credits (RICs) from IDA and a first credit tranche from the IMF. However, the adjustment process lost momentum in 1985 due to a sharp deterioration in the prices of the country's major exports, delays in implementation of institutional reforms, insufficient production incentives and inappropriate fiscal and monetary controls. It was against this background that the Government embarked upon a renewed effort at structural adjustment in 1987.

B. Progress under Phase I of the Structural Adjustment Program (1987-1988)

5. To date results under phase one of the adjustment program have been quite impressive and the Government's commitment remains very high. To keep exports competitive and encourage import substitution, as well as reduce the direct role of government in the economy, starting in early 1987 the Government took the following measures: (a) adopted a flexible exchange rate system, leading to a reduction in the gap between the official and parallel markets; (b) introduced more restrictive monetary and fiscal targets, and reduced net transfers to public enterprises; (c) to contain the wage bill and increase average salaries, embarked on a program to reduce the number of civil servants by 15 percent during 1987 and 1988; and (d) pursued vigorously trade and price liberalization measures.

6. Results in 1987 were as follows: tight fiscal and monetary policies resulted in the Government's current account deficit being reduced by about two-thirds in real terms, to approximately 3 percent of GDP. Civil service numbers were reduced by about 5 percent, as scheduled, from approximately 16,600 to 15,900. Money and credit expanded more than programmed, partly due to a need to recapitalize the private sector, especially private traders, with year-on-year inflation estimated at 86 percent, as measured by the GDP deflator. GDP grew by between 5 and 6 percent, agriculture by about 9 percent, investment by 4 percent and consumption by 3 percent. Officially recorded merchandise exports increased by about 20 percent in real terms, compounded by a 6.5 percent improvement in the terms of trade. These results helped to effect a substantial, 14 percent, decline in the trade deficit.

7. In 1988, the Government continued with the tight fiscal policies introduced during the previous year, and the 1988 current fiscal deficit is estimated to have improved slightly over 1987, from 3 to approximately 2.5 percent of GDP, meeting the program targets agreed with the IMF. The civil service reduction program was implemented slowly due to the limited funds available for redundancy payments, and Government's concern that the rate of redundancy be geared to the economy's ability to provide alternative productive employment. Consequently, the number of civil servants was reduced by 5 percent, compared to the 10 percent programmed.

8. Until the second quarter of 1989, prices remained stable due to tight monetary and credit policies, and the gap between the parallel and official market exchange rates was virtually eliminated. However, particularly during the period of the cashew harvest (April to October) the credit to the economy increased by 80 percent for the year as a whole in terms of beginning broad money stock. This has continued to put pressure on prices and on the exchange rate, with inflation in 1988 estimated at about 70 percent. By end-June, 1988, a significant, 40 percent, differential between the official and parallel exchange rates had emerged. Notwithstanding these developments, by end-November 1988, the rate of inflation had begun to slow down and the exchange rate differential had again been reduced, to about 27 percent. This was due mainly to the Government's continued tight control over the current fiscal deficit, the reintroduction of the crawl in July, and its tightening of credit controls in the last quarter of 1988.

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9. Also during 1988, the Government expanded its automatic issuance of import licenses to cover some 75 percent of non-petroleum commercial imports. Prices were further liberalized and producer prices raised by 60 percent or more, with the cashew export tax reduced from 51 to 46 percent, to further stimulate exports.

10. Overall during the first phase of the structural adjustment program (1987-1988), GDP exhibited strong growth. Unforeseen external developments have kept the estimated growth rate at about 4 percent in 1988, due to a decline in the price Guinea-Bissau receives for its major export crop, cashew nuts, and climatic conditions affecting the cashew harvest. Nevertheless, agriculture is estimated to have grown between 4 to 5 percent in 1988. Such a strong growth in the face of adverse weather conditions and low international cashew prices implies a significant supply response to the improved incentives adopted by the Government over the past several years. Also in 1988, investment is estimated to have grown by about 15 percent, and consumption by some 3 percent in real terms.

11. The trade deficit deteriorated significantly in US dollar terms in 1988, from US\$27.8 million in 1987 to US\$41.7 million. This was mainly due to an 18 percent drop in the price of cashews and an almost 20 percent increase in imports, reflecting the normalization of market supply, increased investment, and a large, 30 percent, rise in the price of food imports.

#### C. Current Status of Structural Adjustment Program

12. Notwithstanding successes to date, several problems currently affect the program: (a) an increase in domestic credit has put upward pressure on the inflation rate and led to a deterioration in the exchange rate; (b) unfavorable international prices for the major export crop, cashew nuts, compounded by adverse weather conditions earlier in 1988, contained the increase in export earnings for the year below levels previously anticipated and has led to a deterioration in the balance of payments; (c) growing and unsustainable import levels, particularly of food (mainly rice), undermining domestic food production; (d) a public administration and parastatal sector still await reform, particularly in day-to-day management and coordination of the economy and oversight of credit, public expenditure and tax administration; (e) continued weaknesses in the private sector, particularly outside of agriculture and commerce; (f) social problems, exacerbated by unemployment, mainly in urban areas, and increased prices; and (g) a huge debt overhang and high debt service burden that call for exceptional financing.

13. Consequently, the economy is still far from stabilized and institutional and structural distortions are likely to remain well into the 1990s. This in spite of the encouraging response of the donor community to Guinea Bissau's technical and financial needs. Indeed, a large financing gap still exists. Even with Government's decision to borrow only on concessional terms, the debt service burden at an average of 90 percent between 1989 and 1991, before rescheduling, is unsustainable. Substantial debt forgiveness as well as rescheduling is needed.

PART II. STRUCTURAL ADJUSTMENT PROGRAM -- PHASE II: 1989-1991

A. Medium Term Outlook and Objectives

14. The Government's Structural Adjustment Program aims at achieving the following objectives over the medium term: (a) stabilizing further the economy; (b) stimulating economic growth; (c) reducing the role of Government in the economy, as well as improving its efficiency; (d) alleviating some of the main social costs of the adjustment program; and (e) reducing the external debt burden to manageable proportions.

15. The quantifiable macro-economic objectives for the Second Structural Adjustment Credit are:

- (a) to achieve an average annual GDP growth of 4.5 percent in real terms, which would improve per capita income by over 1 percent annually;
- (b) to work towards a viable external payments position by:
  - (i) reducing the resource balance deficit to about 35 percent of GDP by end-1991, by encouraging exports and restricting import growth; and
  - (ii) reducing the differential between domestic and international inflation to less than 20 percentage points in 1990 through appropriate exchange rate, monetary and fiscal policies; and
- (c) to improve the efficiency of the public sector by:
  - (i) containing the Government's wage and salary bill, and using savings from the reduction in force to accelerate civil service reform, by measures to improve training and staff development, and increase average civil service salaries;
  - (ii) starting in early 1989, agree on a strategy and timetable for reorganizing, privatizing or liquidating the 10 main public enterprises 1/ and improving the composition and implementation efficiency of the public expenditure program; and
  - (iii) reforming the banking system, including a timetable and plan of action for establishing a commercial bank by end-1989 and improving the development banking functions of the National Bank.

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1/ FOLBI, DICOL, CICER, CMV, Socotram, Semapesca, Suimave, Guimetal, Guinave, Estrela do Mar.

16. During the period 1989-91, the Government intends to emphasize the following:

- (a) maintaining a stable macro-economic environment, including a flexible exchange rate system, and restrictive monetary and fiscal policies;
- (b) reorientating public investments increasingly towards removal of infrastructure or institutional bottlenecks to growth, and meeting basic needs;
- (c) expanding the trade and price liberalization measures started in 1983 to encourage greater economic growth, particularly in agriculture, forestry and fisheries;
- (d) institutional reforms, to improve the efficiency and effectiveness of the public sector, particularly public enterprises and banking; and
- (e) policies and programs to alleviate some of the main social costs of the adjustment program.

A sixth area of concern, namely, the very high external debt, has been included as part of the policy agenda, although many elements are outside the control of Government.

**B. Stabilizing the Macro-economic Environment**

17. **Exchange Rate, Monetary and Fiscal Policy.** The Government intends to continue a flexible exchange rate policy, and this will be confirmed at negotiations. This would be backed by complementary monetary and fiscal policies, realizing that this is the key to improving stability in the domestic economy, keeping a lid on inflation and achieving a viable external position. Monetary and fiscal targets have been set for 1989, and agreed with the IMF. These will be confirmed at negotiations. Ongoing technical assistance from the IMF, IDA, and UNDP should help government in achieving these targets, notably in foreign exchange cashflow and debt management, in credit, in the fiscal area, including tax and tariff reform, and budget administration.

18. **Monetary Policy.** The Government aims to reduce the average differential between domestic and international inflation to less than 20 percentage points in 1990, by appropriate exchange rate, monetary and fiscal policies. This would involve restrictions to domestic credit expansion, giving priority access to the private sector. There is expected to be no net recourse to bank credit by the Government during this second phase of the adjustment program, and the Government's outstanding debt to the National Bank is expected to be liquidated by end-1990. A foreign exchange budget is expected to be agreed annually and implemented with the help of technical assistance already in place. The Government intends to adjust interest rates to simplify its structure and to maintain positive

real interest rates throughout the program period and this will be confirmed at negotiations.

19. Because of the slippage in credit controls during 1988, we informed the Government that before negotiations we would expect to see satisfactory performance in meeting the agreed monetary and credit targets for end-December, 1988 -- an 18 percent reduction in net credit to the Government during the last two months of 1988. The preliminary results for the month of November showed a satisfactory, [10] percent, reduction over the previous month, reflecting repayments of trade credits after the cashew harvest, as well as tighter credit controls and better administration by the National Bank introduced in late October, 1988.

20. **Fiscal Policy.** The Government has adopted a budget for 1989 that implies a targetted reduction in the current fiscal deficit from 2.5 to 1.1 percent of GDP, and this will be confirmed at negotiations. A comprehensive review of the tax system will be carried out in 1988 with a view to improving economic efficiency, expanding the revenue base and enhancing its incentive effects. Some reforms have already been introduced during the 1989 budget, on tax administration, on simplifying the tax system, and on the cashew tax. The Government intends to implement a more comprehensive program of tax and tariff reform by the time of the 1990 budget, affecting export taxes, mainly on cashews, and import, sales, and income taxes, and this would be confirmed at negotiations. Adherence to this target will be influenced by the timely availability of technical assistance already programmed, notably from the IMF.

21. The Government is expected to maintain tight fiscal discipline to further reduce the budget deficit by restraining current expenditure, in line with growth of budgetary revenues, except for the government wage bill. Improvements in budgeting and expenditure control are already underway, with technical help from the Portuguese government. It is expected that the Government would use the savings from reductions in civil service numbers to increase average salaries. Already approved staff reduction targets of 15 percent in 1989, representing some 1,500 staff, would be implemented flexibly, taking into account availability of funds from the budget to finance the redundancy package, and the buoyancy of the labor market to absorb redundant staff. The Government intends to centralize decisions regarding civil service employment in [MOF][MFPTSS], backed by a strengthened civil service registry, with technical help from UNDP.

### C. The Public Investment Program

22. The Government intends to strengthen the capacity of the planning and spending ministries in budgeting and expenditure control, as well as in project evaluation, monitoring and implementation, with technical assistance provided under IDA [and AfDB] credits. It also intends to strengthen the Ministry of Plan's key role in the preparation of the public investment program, and in monitoring the implementation of ongoing projects, including a semi-annual review of project implementation (both technical and financial progress), with updated estimates of timetable to complete and expected project impact. The Government has

already put in place an inventory of projects, their profiles, sources of financing, recurrent budget and debt service implications. Criteria for project selection continue to be those for which the technical, economic and financial viability have been demonstrated. In this second stage of the structural adjustment program (1989-91), expenditure will continue to be re-oriented toward rehabilitation of existing infrastructure, human resource development, and alleviating poverty and away from directly productive investments, with commercial potential. The public investment program for 1989 was agreed during appraisal at a figure of US\$75 million equivalent, with a budgetted execution rate of 80 percent, and this is expected to be confirmed during negotiations.

#### D. Encouraging Growth

##### 1. Trade Policy

23. During the second phase of the structural adjustment program (1989-91), there is need to further liberalize the import system, to cover all commercial imports. By end-1989, bans would be replaced by excise taxes on luxury items as part of the ongoing tariff reform to be implemented with technical assistance from the IMF. The Ministry of Commerce and Tourism expanded its issuance of licenses to 100 percent of commercial imports, excluding petroleum and a short negative list, and is expected to issue a decree to this effect by end-1988. This will be confirmed at negotiations. The subsidy on imported rice was removed at end-1988, and a one-time compensatory salary increase of 70 percent given to civil servants. This will be confirmed at negotiations. Government also removed, at end-1988, the preferential treatment accorded the "Lojas Francas," duty free shops that deal only in foreign exchange, in view of the improved availability of imports within the country, which has minimized their raison d'etre. Including all taxes and handling fees, the overall implicit tax on cashew exports is expected to be no more than 40 percent for the 1989 season, and this will be confirmed at negotiations. The Government intends to review this tax regularly with a view to reducing it to 30 percent by the end of 1991, taking into account expected production levels, international cashew prices and impact on Government's revenues. The first such review is planned for mid-1989. The intention is to replace this source of Government revenue by sales and income taxes, with technical help from the IMF and IDA.

##### 2. Pricing Policies

24. To encourage a more efficient use of the country's limited resources, price controls for almost all imports have been abolished. The exceptions are: (a) petroleum products, which would be maintained at import parity levels (including transport, distribution margins and excise taxes) throughout the program period, and (b) rice, on which price controls would be eliminated by end-1989, and this is expected to be confirmed at negotiations. Minimum producer prices would be continued, to provide stability to domestic agriculture, and producer prices for 1989 would be agreed at negotiations. The Government intends to continue to base its official minimum producer prices on those prevailing in the world market.

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### 3. Agriculture, Forestry and Fishing

25. **Agriculture.** With the implementation of the first phase of the adjustment program, the Government has made a good start in addressing some of the more limiting factors to agricultural expansion, namely, inadequate incentives due to low producer prices and the unavailability of imported consumer goods in rural areas. The Government is committed to continuing to provide a stable macro-economic environment for farmers, including a reasonable minimum price for producers, to elicit the desired supply response. It has agreed to a formula for producer prices that gives a larger share of the world price to the farmer, and sufficient margins to marketing firms. In addition, it introduced a significant 6 percentage point reduction in the export tax on cashew nuts at end-1988. In general, the sector's short- to medium-term performance will be determined largely by measures to remove infrastructure and institutional bottlenecks, particularly credit and extension services.

26. Currently IDA is working with Government to develop an agricultural sector strategy focusing on: (a) policies related to pricing, marketing and land tenure; (b) strengthening agricultural services, particularly extension and research, with a view to introducing new or improved technologies and crop diversification; (c) improving supporting infrastructure; (d) establishment of a suitable rural credit system, serving both the traditional and emerging commercial sub-sector within the context of the overall improvements expected in the development/commercial credit system; and (e) development of bas-fond areas for increasing rice production. IDA is also financing a livestock study with a view to developing suitable policies and programs for this sub-sector.

27. **Forestry.** In forestry, the emphasis would be placed on optimal exploitation and replenishment of forestry resources with a view to increasing export earnings while preserving the ecological balance. A review of this subsector, including the environmental impact, is being undertaken with help from a Bank-financed SPPF.

28. **Fishing.** To stimulate local production while increasing revenues from foreign fishing, the Government intends to: (a) renegotiate existing fishing licenses with a view to obtaining more favorable terms; (b) ensure increased local value-added for foreign-dominated operations through joint-venture arrangements with the domestic private sector; (c) improve monitoring of licenses and their catch; (d) improve domestic fishing operations, artisanal fishing and fish exports; and (e) develop a longer term strategy for the sector based on expanding domestic involvement in industrial fishing. The Government is already preparing an action plan for the fisheries sector, with implementation scheduled to begin in the second half of 1989. Financing for this is provided under a Bank SPPF. This action plan will examine taxation, marketing, infrastructure, labor legislation, pricing policies, and the possible impact of fishing on the Government's budget.

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#### 4. Other Sectors

29. **Transport.** The Government intends to concentrate on maintenance and improvement of transport infrastructure rather than competing with private operators in new areas of transport services. Transport prices have already been substantially liberalized, and a timetable for removing remaining controls would be agreed at negotiations. A study of transport parastatals being financed under a Project Preparation Facility (PPF) for an Infrastructure Rehabilitation Project is being prepared for possible IDA financing in FY90. Government intends to launch a study of transport parastatals -- TAGB, J.A.P.G., GUINEMAR, RODOFLUVIAL, SILO DIATA, Fab. Sandino -- to complement the Louis Berger International study. This would be done in a manner consistent with Government's policy of limiting the role of the public sector and with its public enterprise reform program to be supported under phase II of the structural adjustment program. See also para 33.

30. Other sectors to be developed include tourism and agro-processing industry, e.g., cashew and oil palm processing. These sectors are expected to be encouraged through an improved and more stable incentive framework, a revised investment code, and a program of entrepreneurial development, particularly for small-scale industrialists, as well as improved access to credit and greater efficiency of the commercial and development banking system.

31. **Private Investment.** The Government intends to implement measures to increase both private savings and investment. Given its size and per capita income, the avenues for profitable investment, particularly in industry, are limited in Guinea-Bissau. There is a need to stimulate small-scale industrial and agricultural investment, including private foreign investment, to consolidate the gains from the current adjustment efforts. Accordingly, the Government intends to review the investment code by end-1989, in consultation with IDA, to ensure that it is attractive to foreign and domestic investors, particularly in agro-processing, fisheries and agriculture. This revision should streamline the administrative framework, and other impediments to private investment in the country, including exchange controls. It is intended also to review land tenure arrangements; to allow lease or freehold title to land, and to encourage its use for productive purposes. Public investment will be increasingly focussed on social and economic infrastructure to complement private investment and commercial and development banking activities will be strengthened, as outlined in paras 46 and 47 below.

#### E. Institutional Reform

32. In the context of strengthening the efficiency of government, and the main institutions supporting the structural adjustment program, the Government intends to carry out a program of institutional reform targetted at (a) public enterprises; (b) the civil service generally, with special emphasis on the economic ministries; and (c) the banking system.

1. Public Enterprises

33. The Government intends to restructure its public enterprise sector. By mid-February 1989 it is expected that the Government will be in a position to agree with IDA on a strategy and implementation timetable for divestiture or restructuring of the 10 major public enterprises, including EAGB (see para 34 below). This would be confirmed at negotiations. It is the intention of Government to phase out net transfers to revenue earning public enterprises by end-1990. The Government also intends to privatize Armazens do Povo, the Government trading firm as soon as possible, in view of the continued improvements in private trading firms. A plan of action for this will be worked out with technical assistance from the EEC, and the timetable will be reviewed with IDA by mid-1989.

34. Electricidade e Aguas da Guinea-Bissau. The Government intends, by mid-February, 1989, to agree on a timetable for introducing an internationally expert technical management partner to EAGB for a period of 2-3 years, starting mid-1989, to ensure that EAGB operates more efficiently and does not remain a bottleneck to economic development during the second phase of the adjustment program. Possible IDA financing is being discussed with the Government and an energy project tentatively scheduled for FY91 that would focus on improving the efficiency of the energy sector, including electricity production and distribution and petroleum distribution. The subvention for low income electricity consumers in Bissau was eliminated in mid-1988. The Government intends to eliminate the remaining operating subsidy of EAGB by end-1989. A plan of action and a timetable to this effect covering improvements in both management and in EAGB's financing would be confirmed at negotiations.

2. Civil Service Reform

35. Civil service reform is a long-term goal of government. During the second phase of the adjustment program, progress is expected to be focussed on improving the Government's ability to analyse the impact of economic policy and to take adjustment measures as needed, on further reducing the number of civil servants, and on streamlining the civil service structure, particularly the economic ministries. Coordination of the adjustment process needs to be improved, to provide a better forum for the relevant government agencies to review economic performance and to improve policy administration. Currently the National Commission for Economic Coordination and Management (CNCEC), under the control of the President, is the apex body overseeing the adjustment program. To make the Commission more effective a "primus inter pares" below the level of the President is expected to be appointed to coordinate economic policies on a day-to-day basis.

36. The Secretariat of State for Economic Affairs and International Cooperation (SEPAECI) acts as the technical secretariat for the CNCEC, and intends to provide monthly "flash" reports, as well as quarterly progress reports, on economic performance under the structural adjustment program. See also the Government's Letter of Development Policy, Annex IV. SEPAECI will be strengthened with a broader mandate, more staff, technical assistance and support facilities, to better fulfill these

responsibilities. In addition SEPAECI is expected to manage implementation of public enterprise reform program, with technical assistance to be provided under the proposed Second Structural Adjustment Credit.

37. In addition to SEPAECI, agencies and ministries directly involved in the adjustment program include the National Bank, the Ministry of Finance, the Ministry of Commerce and Tourism, the Ministry of Plan, Ministry of Natural Resources and Industry and the Ministry of Civil Service, Labor and Social Security. While many of the adjustment measures under their control are working well, some, including oversight of public enterprises, credit allocation, the budget process, debt management, and public expenditure planning and control, are not. Further improvements are also needed in DESECO (the development banking arm of BNG).

38. The National Bank of Guinea-Bissau (BNG) has introduced improved management of foreign exchange and cashflow, balance of payments monitoring, credit policy, and trade and development term credit. Its Research Department should be further strengthened to provide independent input into the Government's policy formulation and analysis in these areas. It also needs to build up its banking supervisory role in anticipation of separating fully its commercial banking functions, possibly with joint venture participation from abroad. The IMF and IDA are already helping in this, with USAID, AfDB and EEC interested in assisting development of the development bank (DESECO).

39. The Government intends to coordinate management of all MLT Debt in the Ministry of Finance (MOF) Debt Management Unit, which will be responsible for all matters pertaining to external debt, including debt negotiations and debt reporting. Technical assistance is already in place to assist the Government in this. MOF's Budget and Internal Revenue Units are also being strengthened to enable them to carry out respectively budget preparation, monitoring and control, and administration of tax and tariff policies. The ongoing computerization of customs, assisted by IDA and UNIDO, is expected to enhance the performance of MOF's revenue collection.

40. The Ministry of Commerce will continue to manage the liberalization of trade and prices in the economy, providing technical help where needed; either directly or through the state trading company, Armazens do Povo (ADP). ADP's role will be orientated increasingly towards provision of advisory services and away from direct import/export activity. A study of how best to implement this proposal will be drawn up by the Ministry of Commerce with technical help from EEC. This study is expected to be ready by mid-1989, at which time a timetable and plan of action would be worked out to privatize ADP except for some essential services, and this is expected to be confirmed at negotiations.

41. The Ministry of Plan intends to improve further its project evaluation, monitoring, and coordination. Already there has been some improvement in these areas, and further assistance is planned from IDA and AfDB. See also para \_\_. The Ministry is also charged with monitoring, in collaboration with the Ministry of Civil Service, Labor and Social Security, the social costs of adjustment; and IDA and other donors are

assisting Government in developing a project to alleviate some of these adjustment costs (see para 48 below).

42. The Ministry of Natural Resources and Industries intends to improve the performance of (a) the parastatal sector overall, including divesting itself of loss-making parastatals; (b) EAGB; and (c) private industry, by revising the regulatory framework for investment, to encourage greater private sector involvement in industrial development. Assistance is already being provided for this under IDA- and UNDP-sponsored studies, and further assistance may be required.

43. The Ministry of Civil Service, Labor and Social Security is responsible for civil service reform. Government is working with the UNDP and IDA to develop and implement a study on civil service reform, including improvements in pay and conditions. Such a review is expected to include design of a compensation package to ensure adequate remuneration for key middle and higher level staff, to stem their current exodus from the public service. A senior advisor to this Ministry is expected to be recruited shortly to help oversee the civil service reform program.

44. The Government has embarked on a program to develop medium-term training for its key staff economic ministries, and is undertaking a program of training (both locally and abroad) to redress critical skill shortages, and to ensure that the necessary transfer of skills takes place under the ongoing technical assistance programs. The Government, assisted by IDA and other donors, has embarked on a program to enhance the efficiency of the Ministry of Education and the school system generally to produce the needed manpower in the longer term. In implementing the structural adjustment program, the intention is to maximize the use of available local resources and expertise.

### 3. Banking

45. To improve the allocative efficiency and resource mobilization role of the financial system, the Government intends that the banking system maintains positive real interest rates throughout the program period. It also intends to simplify the interest rate structure by mid-1989, as currently there are a plethora of rates. By end-1989, following consultations with the IMF and IDA, the Government expects to see at least one commercial bank established, followed by others, with private sector participation. In the interim, it will seek to improve the operations of the commercial banking window of the BNG, as well as the National Bank's development banking window, DESECO. There is urgent need to improve access to credit, particularly rural crop credit and term credit for productive purposes, to further encourage productive investment. Consequently, the commercial banking system would be expected to develop a much larger network of branches than currently operated by the National Bank, including mobile branches in rural areas.

46. As the sole source of term lending in Guinea-Bissau, DESECO will be required to play an increasingly important role in the country's economic development. DESECO is currently operating with a skeleton project appraisal staff. During 1989, it is expected to be strengthened in

project appraisal and supervision with technical assistance from the EEC and USAID. In addition, the EEC, ADF and USAID intend to provide DESECO with financing for on-lending to the private sector for productive purposes.

#### F. Social Impact of the Program

47. The adjustment program is expected to continue to have a significant impact on increasing the income of the poorest groups in Guinea-Bissau, namely, small rural farmers. Higher farmgate prices and greater availability of imports have already increased the welfare of some of the rural poor. At the same time, however, some groups, particularly government employees and the urban poor, have been adversely affected in the initial, transitional, phase of the program. This is due to the shrinking size of the civil service, retrenchment in most urban services and the drive toward full cost recovery, as planned reductions in the current and capital budget of the Government are put into effect.

48. As economic growth is reestablished on a sounder footing, it is believed that all segments of the Guinea-Bissau economy will benefit. Nevertheless, the Government is committed to easing the transitional costs of the adjustment process. The Social and Infrastructure Relief Project (SIRP), to be implemented over the 1989-91 period, will contribute to alleviate the negative impacts of adjustment, as will with the expected improvements in health and educational services, supported by IDA and other donors. The Government, with support from the UNDP-funded Social Dimensions of Adjustment Program, will carefully monitor the real income effects of the adjustment program and introduce measures designed to alleviate any negative impact on family incomes and welfare. The Government also intends to prepare, by end-1989, a progress report on the known dimensions of the problems and on efforts to alleviate them.

#### G. External Financing Requirements

49. Guinea-Bissau will need substantial resources to continue its adjustment program during the next three years. For 1989-91, total financing requirements, including arrears, will reach approximately US\$368 million. Inflow of grants, mainly from the EEC, the Netherlands, Sweden and Switzerland to assist the adjustment effort, are projected to total approximately US\$142 million. In addition, existing and expected new loan commitments are about US\$71 million, including US\$3.9 million from the IMF's SAF and US\$6 million from private creditors. This brings a total of US\$213 million in existing and new commitments. Thus the financing gap, before debt rescheduling, is estimated at US\$155.0 million for the three-year period. After taking into account possible rescheduling under the best prevailing terms, the total financing gap for 1989-91 could be reduced to approximately US\$72 million. Possible financing under the Special Program of Assistance, from IDA, the IMF and cofinanciers could get close to filling this gap. To facilitate this process the Government of Guinea-Bissau has asked the World Bank to organize a Consultative Group for Guinea-Bissau to focus on mobilizing the resources required to sustain the adjustment program.

## H. Macro-Economic Prospects

50. With sustained implementation of the structural adjustment program, Guinea-Bissau's economy could grow at an average annual rate of some 4-5 percent over the period 1989-1991, thereby ensuring real per capita income growth, with real per capita consumption also growing at an average of over one percent a year. Agriculture is expected to maintain its strong showing, with average annual growth rate of 6 percent over the program period, while investment, including private investment, is expected to be maintained at between 2.5 and 3 percent average and growth rate between 1989 and 1991. The Government's current deficit is expected to be eliminated by the end of the program period, and a small surplus registered.

51. Non-agricultural sectors will be in a better position to make sustained progress in the medium term. Contraction of public consumption, improved public sector resource allocation, along with improved incentives for the private sector, would imply increased private savings and investment. Maintaining the real value of the exchange rate, combined with import parity pricing, and the substitution of domestic for imported rice, supported by measures to improve domestic self-sufficiency comparative advantage, are expected to lead to the contraction of food imports in the short to medium term. Barring further adverse movement in the markets for Guinea-Bissau's major exports, it is expected that exports would continue to expand, leading to a progressive reduction in the trade deficit.

52. The Government's structural adjustment program should place Guinea-Bissau in a position to achieve self-sustained growth over the longer term. Guinea-Bissau's relatively generous natural resource endowment, particularly arable land, provides a basis for optimism about the country's long-term prospects, now that distortions in the system of economic incentives are being eliminated, and assuming a way is found to reduce the debt overhang to manageable proportions, including significant debt forgiveness.

## I. Benefits and Risks

53. The second phase of the adjustment program is expected to improve the growth prospects of the economy through deepening the stabilization measures, by providing more assured availability of vital inputs, including a more efficient allocation of foreign exchange, and by concentrating public investments on areas in which the private sector has no comparative advantage. There is expected to be a further improvement in the incentives structure, particularly in the form of increased minimum producer prices and the removal of most remaining price controls. The program is also expected to help improve the climate for productive private investment, by strengthening the institutional framework and simplifying the investment code.

54. The main risk is that inadequate administrative capacity may prevent the Government from implementing the program on schedule. To minimize this risk, the program has been designed to limit the role of the government, and improve its efficiency, focussing on key areas: tax and

budget administration, the public investment program, external debt management, public sector reform, particularly reform of the public enterprise sector, and banking. Technical assistance for many of these posts is already in place, and working well. In this connection, IDA, through its technical assistance credit, and other donors (UNDP, IMF, IFAD, as well as bilateral donors) will fund several advisors and technical experts. The emphasis will be on developing a critical mass of local experts, and accordingly, ensuring that there are local counterparts to understudy the foreign experts would be an integral part of the structural adjustment program.

55. A second risk is that, due to price and trade liberalization and reductions in civil service numbers, opposition to the program may grow, especially in urban areas. To counter this second risk, the Government has prepared a related Social and Infrastructure Relief Project, for which IDA and other donors financing is also been sought. See also para 43.

56. Finally, there is a risk that the debt overhang or further adverse movements in the terms of trade will continue to overshadow the economic gains. This may take the form of a greater than programmed decline in major export prices, unfavorable developments in the global economy and inability to mobilize the necessary concessional aid and debt relief on a timely basis. These will call for flexibility in the pace of the adjustment process. IDA stands ready to assist the Government in approaching creditors and donors to redirect their assistance, if necessary, along the lines of the country's greatest needs. The Government has requested IDA to organize a Consultative Group meeting, focussed on debt, and on securing agreement of the main donors with a debt reduction strategy for Guinea-Bissau. This meeting is tentatively scheduled for March 2, 1989 in Paris.

57. In order to offer some protection from adverse movements in the terms of trade, the Government is encouraging diversification of the main agricultural crops. Lower-than-expected supply responses, especially from farmers and private entrepreneurs, could prevent realization of the targets for diversification of exports and import substitution. This could result from any number of situations: (a) the full benefits of trade liberalization may not be felt if there is inadequate competition; (b) the full effects of devaluation may not be felt if there is not enough adjustment in producer prices or taxes; (c) if there is lack of private sector response to the Government's incentives possibly based on misgivings about the permanence of the measures; and (d) if farmers do not receive effective technical assistance in food and export crops production geared toward the adoption of new agrotechnologies to improve productivity.

58. In addition, the program: (a) provides for expansion of credit consistent with macroeconomic stability, with preferential access for the private sector; (b) envisages adequate producer prices each year that take account of exchange rate developments and export taxation; (c) anticipates improvements in agricultural services including rural credit, and availability of agricultural inputs; (d) attempts to identify and remove infrastructural and institutional bottlenecks; (e) assumes flexibility in the pace of adjustment measures depending on unforeseen developments; and

(f) hopes to strengthen the formation of human resources mainly through on-the-job training provided by existing technical assistant staff.

### PART III - FINANCING THE STRUCTURAL ADJUSTMENT PROGRAM

#### A. Resource Mobilization

##### 1. External Resource Mobilization

59. The Government intends, over the medium term, to increase self-reliance and reduce dependence on foreign credit, with the expectation that domestic resources cover a growing portion of government expenditures. To this end, the Government adopted on April 2, 1986 a decision that "forbids the contracting of nonconcessionary loans for financing of projects and the signing of concessionary loans or even grants by Ministers without a decision of the Council of Ministers based on an opinion of the Ministry of Plan analyzing the impact of the recurrent costs which would increase the operating budget of the State and/or have an impact on the foreign exchange balance." The Government will also continue to refrain from guaranteeing non-concessional loans. In addition, the Government will report to the National Commission for Economic Management and Coordination on a quarterly basis regarding this policy. As a result of the heavy burden of existing debt and the imbalances in the economy, Guinea-Bissau will however require continuing high levels of external assistance and increased debt relief on concessional terms for some years to come.

60. The Government has prepared a comprehensive medium-term Policy Framework Paper and financial strategy, in coordination with IDA and the IMF. This paper focusses on the rationale for substantial resources in the short term, but with a rapidly declining need for extraordinary assistance, consistent with a viable balance of payments scenario in the medium term. The key elements of the financial restructuring strategy include: (a) maintaining grants at approximately the historical levels; (b) mobilizing additional concessional inflows during the second phase of the adjustment program (1989-91), to assist the structural adjustment process and to the extent possible write down the debt stock; (c) extending the ban on non-concessional loans to short-term credits, including those to the National Bank, except trade credits that are self-liquidating within one year; and (d) approaching creditors for debt rescheduling to relieve the heavy burden of servicing Guinea-Bissau's existing and new debt. Some combination of rescheduling and debt forgiveness will be needed, with new money, to offset the projected financing gap. A Paris Club meeting covering the period 1989 (and 1990) is scheduled for March/April 1989, where attempts will be made to pursue debt forgiveness and very concessionary rescheduling terms. The Government has also requested IDA to organize a Consultative Group meeting focussed on debt management and debt reduction, and this is currently scheduled for March 2, in Paris.

61. We understand that the Government remains committed to eliminating all of its external arrears as soon as possible, and has already made appreciable progress in this direction. Government's strategy is to make all debt service payments promptly, to the extent consistent

with its commitment to growth in income and consumption per capita. We see our role as assisting Government in managing its external debt, and in achieving a viable balance of payments situation in the shortest possible time, through a combination of the best possible rescheduling terms and extraordinary relief, in the form of debt writedown.

## 2. Internal Resource Mobilization

62. To increase domestic resources mobilization by the banking system, the Government intends to maintain positive interest rates during the program period. To restrain credit expansion, while facilitating access to credit by the private sector, in line with the Government's development strategy, the Government will limit public sector credit, including credit to public enterprises. In addition, the Government will improve banking services by establishing a joint venture commercial bank with an overseas partner during 1989, and introduce a new central banking law. As part of the new commercial bank mandate, during 1989 the number of bank branches will be increased, especially mobile branches that would visit villages on a regular schedule. In addition, the Government intends to implement by end-1989 appropriate measures to improve access to credit in rural areas. Also during the structural adjustment program, the Government intends to broaden the tax base, to include much more reliance on sales and income taxes and to reduce export or production taxes. Specific measures will be worked out with technical help from the IMF [and IDA].

### B. The Role of IDA

63. IDA has played a key role in supporting Guinea-Bissau's economic recovery program, beginning with the 1982 Country Economic Memorandum. IDA's country assistance strategy is geared to supporting the Government's Structural Adjustment Program by a series of balance of payments credits, designed to support a policy package which would maintain a stable macro economic environment and increase domestic investment and savings, leading to sustainable macroeconomic growth. Given the size of the country and the dearth of qualified and experienced manpower, IDA is in a very good position to help the country. As the largest donor in Guinea Bissau, IDA intends to play a very active role in donor coordination, and to help in this we have recently established a resident mission in Guinea Bissau.

64. In addition, continued inflows in concessional resources from other donors are necessary for the success of the program. For details see para \_\_\_ and Annex II. These inflows are unlikely to be forthcoming in the levels required without a strong IDA involvement. Since the problems confronting Guinea-Bissau are deep-rooted and widespread, the proposed Second Structural Adjustment Credit should be seen as part of a series of operations to remove macro-economic distortions and to strengthen vital economic institutions that otherwise would impede economic recovery.

65. The recently approved Technical Assistance Project (TAP II) is designed to complement the policy measures being introduced under the adjustment program, and to help improve the absorptive capacity and efficiency of the economic ministries. Under the technical assistance project, IDA has supported a study of public enterprise reform

requirements, and implementation of these reforms will be carried out under phase two of the adjustment program, with technical assistance to be provided under SAC II. SAC II also supports institution-building of key economic ministries, vital also at the sectoral level. IDA through its economic and sector work is assisting Government in carrying out a public expenditure review to ensure that as far as possible intersectoral and intrasectoral budgetary allocations and to macroeconomic policies and targets conform to sectoral priorities.

C. The Role of the IMF and other Donors

66. Bank-IMF Coordination. IDA has coordinated closely with the IMF in the preparation of the structural adjustment program, including overlapping missions to Guinea-Bissau. IMF has provided significant input into the exchange rate, fiscal and monetary policies incorporated in the program. The jointly-prepared PFP has formed the basis for the medium-term macroeconomic framework underlying the program and the IMF's SAF. An updated draft Policy Framework Paper covering the period 1989-91 has been worked on jointly by the IMF and IDA. This is currently being reviewed by the Government.

67. The IMF is expected to continue to provide vital assistance to the authorities in formulating their macroeconomic policies, as well as technical assistance in key areas, notably in foreign exchange cashflow, balance-of-payment projections and tax and tariff reform. An IMF mission in late November to agree the second annual program under its SAF overlapped with our SAC II appraisal mission and the two institutions working together to update the Policy Framework Paper (PFP) covering the period 1989-1991.

68. The UNDP continues to play an active role in Guinea-Bissau. It organized a first Round Table in July 1984, a technical assistance/human resources meeting in May 1987, and another Round Table in July 1988. In addition, Guinea Bissau has had generous amounts of donor support since it embarked on its economic recovery program in 1983, not all, unfortunately, for projects or programs with the highest return. A more effective coordination of external aid would, however, substantially enhance the performance of the various sectors, and we expect our new resident mission to play a greater role in this activity, in close coordination with the Government and other donors. The proposed strengthening of SEPAECI and better day-to-day management of the economy are also expected to help in this regard.

69. In addition to project lending, assistance to meet the country's minimum import requirements has been provided by several countries, especially the Netherlands, Switzerland, and Saudi Arabia, and most recently, the EEC, as well as AfDB, IFAD and IMF. In addition, there have been substantial food aid disbursements principally from the European Community, the World Food Programme, USAID, and the Soviet Union. During the First Structural Adjustment Credit, Special Joint Financing was provided by the Netherlands, Switzerland, and the Saudi Fund in the amount of US\$11.9 million. A further US\$21.9 million was provided by multilateral agencies -- AfDB, IFAD, and the IMF.

D. Procurement, Disbursements and Administration

70. Procurement. IDA funds would be used exclusively to finance the foreign exchange cost of imports procured from Bank member countries, including Switzerland and Taiwan, China. Except for a specific list of excluded items, such as military, para military and luxury items, all imports from these countries would be eligible.

71. Contracts above US\$2 million would be procured according to international competitive bidding procedures as defined in the World Bank's Guidelines on Procurement. To facilitate disbursements, and further encourage local importers, contracts between US\$2 million and US\$100,000 would be procured on the basis of international shopping three quotations from reputable suppliers in Guinea-Bissau and abroad. Contracts under US\$100,000 would be procured according the procedures currently in use in Guinea-Bissau which have proved satisfactory to IDA.

72. Disbursements. The National Bank of Guinea-Bissau (BNG) would administer the Credit Funds on behalf of the Government and disburse these funds through the Unit responsible for the Management of Balance of Payments (UGAB), as it did satisfactorily under the first SAC, and this unit would maintain separate accounting records for disbursements of foreign exchange and repayments in counterpart funds. These accounts would be audited on an annual basis by auditors acceptable to IDA. BNG would submit certified copies of the relevant audited accounts within 12 months of effectiveness and annually thereafter.

73. Payment for all imports under the program would be effected either through a special account held in an acceptable commercial bank, through requests for special commitments directly from the World Bank, or by requests for direct payment to suppliers.

74. Replenishment for payments of contracts of US\$100,000 and above would be requested from IDA with full supporting documentation attached. Requests for special commitments from IDA would be made only for contracts of US\$100,000 and above, and would be accompanied by a copy of the Letter of Credit, proforma invoice and evidence of three quotations.

75. Replenishment for payments of contracts below US\$100,000 would be made on the basis of statements of expenditures (SOEs) certified by BNG with supporting documentation retained for review by visiting missions. The annual audit report would also include separate audits of amounts withdrawn on the basis of SOEs and through the special accounts.

76. Not more than [US\$4.75 million] or [25 percent] of the proceeds of the IDA credit would be used for petroleum imports and not more than [US\$4.75 million] or [25 percent] would be used for imports of foodstuffs. Furthermore, as it is essential to maintain the flow of incentive and productive goods into Guinea-Bissau to support the adjustment program, and particularly the 1989 agricultural campaign that starts in March up to [US\$3.8 million (20 percent)] of the credit may be used to finance

retroactively imports procured up to four months prior to loan signing, but not before January 1, 1989.

PART IV -- THE CREDIT: AMOUNT, TRANCHING AND MONITORING

77. Phase two of the Government's structural adjustment program will be supported by a proposed IDA credit of SDR 15.0 million (US\$ 19.0 million equivalent), the Netherlands [US\$4.8 million equivalent], ADF [US\$18 million equivalent, USAID [US\$4.5 million] and the IMF [US\$3.9 million equivalent]. The proposed financing package is expected to total the equivalent of US\$50 million, or approximately 14 percent of the country's overall external financing requirements during the period 1989-91.

78. The IDA credit will be disbursed in three tranches as follows:

- (i) a first tranche of SDR 5.0 million would be available immediately following effectiveness [May/June 1989];
- (ii) a second tranche of SDR 5.0 million would be available after a review of performance to determine satisfactory implementation of the program [December, 1989]; and
- (iii) a third tranche of SDR 5.0 million would be available after a review of performance to determine satisfactory implementation of the program [December, 1990].

79. The Government would be expected to take the following measures:

1. Before Effectiveness

- (i) implement the agreed 1989 budget, including PIP (para 20 and 22);
- (ii) implement the agreed 1989 monetary program (para 18);
- (iii) implement the agreed (a) minimum producer prices for 1989; (b) cashew export tax in 1989; and (c) elimination of rice subsidy (para 23 and 24);
- (iv) implement the agreed action plan, and timetable for implementing public enterprise reform (para 33); and
- (v) implement the agreed strategy and timetable for implementing reform of EAGB (para 34).

2. Before Second Tranche Release [end December, 1989]

- (i) continued satisfactory progress on the exchange rate (para 17);
- (ii) continued satisfactory progress in implementing the agreed fiscal and monetary program in 1989, and adoption of satisfactory fiscal and monetary program for 1990, including (a) PIP; (b) export tax for cashews; and (c) tax and tariff reforms (paras 18 to 23).
- (iii) agreement on producer prices for 1990 (para 24); and
- (iv) satisfactory progress on implementation of public enterprise reform including reform of EAGB (paras 33 and 34).

3. Before Third Tranche Release [End December, 1990]

- (i) continued satisfactory progress on the exchange rate (para 17);
- (ii) continued satisfactory progress in implementing agreed fiscal and monetary program, and adoption of satisfactory fiscal and monetary program for 1991, including (a) public investment program; (b) export tax for cashews; and (c) tax and tariff reforms (paras 18 to 23).
- (iii) agreement on producer prices for 1991 (para 24); and
- (iv) satisfactory progress on implementation of public enterprise reform, including reform of EAGB (paras 33 and 34).

PART V. RECOMMENDATION

80. I am satisfied that the proposed credit would comply with the Articles of Agreement of the Association and recommend that the Executive Directors approve the proposed credit.

Barber B Conable  
President

Attachments  
Washington, D.C.  
February \_\_, 1989

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## 1988 SOCIAL INDICATOR DATA SHEET

ANNEX I  
Page 1 of 2

## GUINEA-BISSAU

	1965	1975	Most Recent Estimate	Reference Groups (MRE)	
				Low-income	Lower mid income
<b>LABOR FORCE</b>					
Total Labor Force (thou)	280	324	432		
Female (%)	43	43	42	34	29
Agriculture (%)	86	83	82	66	55
Industry (%)	2	3	4	14	16
Participation rate (%):					
Total	53	52	48	47	37
Male	63	61	58	38	51
Female	44	42	39	35	23
Age dependency (%)	..	..	90.8	71.6	82.7
<b>HOUSING</b>					
Average size of household:					
Total	..	..	..	..	..
Urban	..	..	..	..	..
Rural	..	..	..	..	..
Percentage of dwellings with electricity:					
Total	..	..	..	..	..
Urban	..	..	..	..	..
Rural	..	..	..	..	..
<b>EDUCATION</b>					
Enrollment rates:					
Primary: Total	26	64	60	99	104
Male	38	90	81	110	109
Female	13	39	40	87	99
Secondary: Total	2	3	11	34	42
Male	2	5	18	41	47
Female	2	2	4	25	36
Pupil-Teacher ratio:					
Primary	30	38	25	39	31
Secondary	19	10	12	..	23
Pupils reaching grade 6 (%)	..	..	12	..	72
<b>INCOME, CONSUMPTION, AND POVERTY</b>					
Energy consumption per cap. (kg of oil equivalent)					
Percentage of private income received by:	..	..	..	327	351
Highest 10% of households	..	..	..		
Highest 20%	..	..	..		
Lowest 20%	..	..	..		
Lowest 40%	..	..	..		
Est. absolute poverty income level (US\$ per capita):					
Urban	..	..	..		
Rural	..	..	..		
Est. pop. below absolute poverty income level (%)					
Urban	..	..	..		
Rural	..	..	..		
Passenger cars/thou pop.	..	..	..	..	..
Newspaper circulation (per thousand population)	..	9.6	6.9	32.0	43.5

IECSE August 1988

.. Not available. Note: Most recent estimates of population and GNP per capita are for 1987 unless otherwise noted.  
Group averages are population weighted. Country coverage depends on data availability and is not uniform. Unless otherwise noted,  
1965 refers to any year between 1962 and 1968; 1975 between 1972 and 1978; and most recent estimate between 1980 and 1985

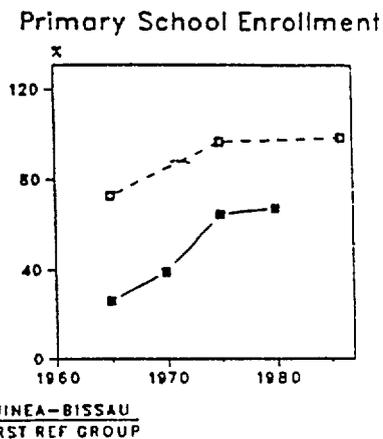
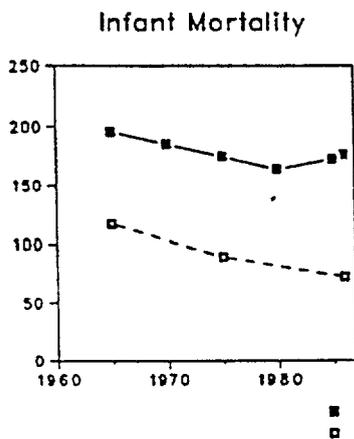
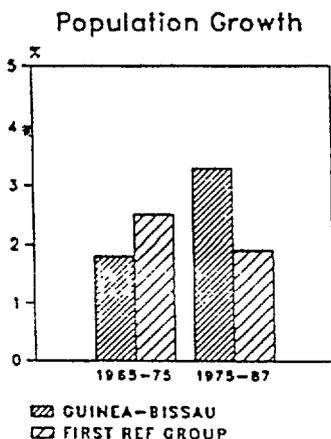
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1988 SOCIAL INDICATOR DATA SHEET

GUINEA-BISSAU

Reference Groups (MRE)

	1965	1975	Most Recent Estimate	Low-income	Lower mid income
<b>AREA</b>					
Total land area (thou sq km)	36.1	36.1	36.1		
Agricultural (% of total)	42.7	43.4	43.5		
<b>GNP PER CAPITA (current US\$)</b>					
	..	190	160	280	730
<b>POPULATION AND VITAL STATISTICS</b>					
Total population (thou)	525	628	924		
Urban pop. (% of total)	16	21	28	28	38
Population growth rate(%):					
Total		1.8	3.3	1.9	2.5
Urban		4.6	6.1	5.7	4.2
Life expect. at birth (yrs)	35	36	39	61	59
Population projections:					
Pop. in 2000 (thou)			1,226		
Stationary pop. (thou)			3,572		
Population density per sq km of agricultural land	34	40	55	349	404
Pop. age structure (%):					
0-14 yrs	..	..	44	37	42
15-64 yrs	..	..	52	59	55
65 and above	..	..	3	4	3
Crude birth rate (per thou)	46	46	46	30	35
Crude death rate (per thou)	29	28	25	10	10
Total fertility rate	5.9	6.0	6.0	3.9	4.7
Infant mort. rate (per thou)	196	175	176	72	76
Child death rate (per thou)	41	35	31	9	11
Family planning:					
Acceptors, annual (thou)	..	..	..	..	..
Users (% of married women)	..	1	..	..	..
<b>FOOD, HEALTH AND NUTRITION</b>					
Index of food production per capita (1979-81 = 100)	135	125	132	115	106
Per capita supply of:					
Calories (per day)	1,862	1,806	2,073	2,327	2,507
Proteins (grams per day)	36	35	41	55	56
Pop. per physician (thou)	..	..	7.5	5.8	7.5
Pop. per nurse (thou)	..	..	1.1	4.0	..
Pop. per hospital bed (thou)	..	..	0.5	1.1	1.1
Access to safe water					
(% of population):					
Total	..	11	31	..	..
Urban	..	20	21	..	..
Rural	..	8	37	..	..



## GUINEA-BISSAU: KEY ECONOMIC INDICATORS, 1984-1995 1/

	-----Actual-----			Est. 1987	-----Proj.-----							
	1984	1985	1986		1988	1989	1990	1991	1992	1993	1994	1995
National Accounts 2/	(real change from previous year in percent)											
GDP at market prices	5.5	4.3	-1.0	5.6	4.1	5.1	4.5	4.4	4.5	4.6	4.5	4.5
GDY 3/	N.A.	N.A.	N.A.	5.7	3.2	5.0	4.6	4.3	4.4	4.5	4.3	4.3
GDY/capita 3/	N.A.	N.A.	N.A.	3.3	0.9	2.7	2.2	2.0	2.0	2.1	2.0	1.9
Total consumption/capita	N.A.	4.7	-3.8	2.9	0.9	1.3	1.2	0.9	0.9	1.2	0.8	1.2
Exports Goods & NFS	73.0	-41.7	-0.6	21.4	8.4	21.7	10.9	10.5	10.2	8.3	8.8	9.3
Imports Goods & NFS	19.2	6.7	-9.4	-13.3	7.9	3.6	2.5	1.7	1.5	1.3	0.5	2.5
Import Goods Elasticity	N.A.	-1.5	3.0	-4.1	3.8	1.0	0.6	0.7	0.5	0.5	0.5	0.9
Import Elasticity excluding rice	N.A.	N.A.	N.A.	-4.7	4.1	1.5	1.1	1.2	1.0	1.0	1.1	1.2
Gross Investment/GDP (real)	30.0	32.0	21.2	14.5	16.1	15.7	15.4	15.2	15.0	14.8	14.6	14.4
Domestic Savings/GDP (real)	-8.9	-11.2	-4.3	-3.0	-2.9	-1.6	-0.5	0.7	1.9	3.1	4.4	5.2
Marginal Domestic Savings Rate	N.A.	-0.7	-0.8	3.2	18.5	26.6	20.6	26.5	28.2	25.6	32.9	25.0
Public Investment/Total Investment	N.A.	N.A.	N.A.	N.A.	N.A.	97.6	97.7	97.7	97.6	97.2	96.7	96.2
Government Finances 4/	(in percent of GDP)											
Current Revenues*	12.6	11.7	8.1	13.8	14.0	16.7	17.5	17.9	17.9	17.9	17.9	17.9
Current Expenditures	20.3	19.3	17.8	16.8	16.5	17.7	17.1	16.6	16.0	15.4	14.9	14.4
Current Deficit (-)	-11.0	-9.9	-9.7	-3.0	-2.5	-1.1	0.3	1.3	1.9	2.4	2.9	3.4
Balance of Payments	(in US\$ million)											
Exp. of Goods and Services	25.4	18.1	17.5	23.8	25.8	32.8	36.9	41.7	47.1	52.5	59.2	67.0
Imp. of Goods and Services	-82.6	-85.1	-82.3	-80.9	-98.7	-108.7	-109.7	-119.4	-123.5	-128.3	-134.2	-143.0
Goods and Services Balance	-57.2	-67.0	-64.8	-57.0	-72.9	-75.8	-72.9	-77.7	-76.4	-75.8	-75.0	-76.0
Grants (official)	29.3	32.7	43.5	44.7	42.9	49.9	49.6	50.5	51.6	52.6	52.7	54.8
Current Account Balance	-36.2	-40.4	-22.8	-14.3	-28.5	-24.9	-22.3	-26.2	-23.7	-21.9	-19.7	-19.4
Overall Balance	-15.8	-13.3	-17.5	-7.7	-17.5	-12.8	-4.2	-18.8	-14.4	-12.1	-7.5	-1.0
Resource Balance 4/	(in percent of GDP)											
Goods and Services Balance 4/	-20.1	-22.9	-25.5	-30.4	-42.6	-41.1	-37.9	-35.5	-32.9	-30.5	-27.5	-25.5
Current Account Balance 4/	-29.9	-39.3	-25.0	-40.7	-44.3	-37.6	-45.4	-44.6	-40.1	-39.6	-35.4	-31.9
Terms of Trade Index	-22.4	-23.9	-15.8	-24.5	-15.6	-9.4	-17.7	-14.7	-12.3	-13.3	-11.0	-9.2
Debt and Debt Service 5/	(in US\$ million)											
DDD, End of Period	225.2	281.9	404.5	431.0	455.6	494.7	508.4	524.5	537.4	550.5	516.6	537.2
Principal Payments Due	6.1	4.9	8.1	14.5	15.2	17.5	14.7	27.3	27.4	28.0	26.2	20.8
Interest Payments Due	3.4	5.1	6.3	7.0	10.6	13.4	11.9	17.3	16.7	16.0	15.6	15.4
Debt Service Ratio (in %)	40.2	63.5	82.3	90.2	100.1	94.1	72.0	107.0	93.6	83.8	70.6	54.0
Change in Debt Arrears	7.2	7.6	15.3	14.1	8.1	-45.0	-33.0	-8.2	0.0	0.0	0.0	
Additional Debt Rescheduling						15.3	11.3	10.3				
DDD/GDP (in %)	139.3	166.8	176.6	261.8	311.6	319.2	316.1	308.6	296.1	280.8	239.5	226.1

Sources: National Bank of Guinea-Bissau and IBRD estimates

1/ Despite recent improvements the data base in Guinea-Bissau remains weak. Therefore, the above indicators should be interpreted with caution.

2/ National Accounts estimation methodology was changed in 1986, therefore estimates for previous years are not comparable.

3/ GDY = GDP adjusted for changes in the terms of trade.

4/ Calculated from current price data.

5/ Excluding IMF, except as noted.

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GUINEA-BISSAU: BALANCE OF PAYMENTS  
(in million of U.S. dollars)

	1984	1985	1986	1987 prel.est	1988 proj.	1989 proj.	1990 proj.	1991 proj.	1992 proj.	1993 proj.	1994 proj.	1995 proj.
<b>A. Current Account</b>	-36.2	-40.4	-22.8	-14.3	-28.5	-24.9	-22.3	-26.2	-23.7	-21.9	-19.7	-19.4
Trade Balance	-42.7	-47.9	-31.5	-29.3	-41.7	-40.4	-38.2	-37.9	-37.1	-36.8	-36.6	-37.2
Exports, f.o.b.	17.4	11.6	9.7	15.3	15.9	22.1	25.9	30.0	34.8	39.5	45.1	51.8
Imports, f.o.b.	-60.1	-59.5	-51.2	-44.6	-57.6	-62.6	-64.0	-67.9	-71.9	-76.4	-81.8	-89.1
Services (net)	-17.9	-19.6	-23.3	-27.7	-31.2	-35.4	-34.6	-39.9	-39.3	-39.0	-38.3	-38.8
Interest due	-4.1	-2.2	-6.5	-7.2	-10.7	-13.2	-12.0	-17.4	-16.8	-16.1	-15.7	-15.5
IMF charges	-0.2	-0.3	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
MLT debt end B?	-3.9	-1.9	-6.3	-7.0	-10.6	-7.2	-6.2	-10.9	-9.5	-7.9	-6.6	-5.5
MLT debt new						-1.5	-2.3	-3.1	-4.0	-4.9	-5.8	-6.7
Other Interest						-4.4	-3.4	-3.3	-3.2	-3.2	-3.2	-3.2
Freight and Insurance	-5.9	-6.4	-7.3	-7.6	-8.2	-8.6	-9.0	-9.0	-9.4	-9.9	-9.7	-10.6
Other Invisibles	-7.9	-11.0	-9.5	-12.9	-12.3	-13.6	-13.7	-13.4	-13.2	-13.0	-13.0	-12.7
Transfers (net)	24.4	27.1	42.0	42.7	44.4	50.9	50.6	51.5	52.7	54.0	55.3	56.7
Official Grants	29.3	30.5	43.5	44.7	42.9	49.9	49.6	50.5	51.6	52.6	53.7	54.8
Food & BOP support		5.1	11.9	17.7	11.7	15.5	13.0	13.0	13.0	13.3	13.5	13.8
Project Aid *		25.4	31.6	27.0	31.2	34.4	36.6	37.5	38.6	39.4	40.2	41.0
Private Transfers	-4.9	-3.4	-1.5	-2.0	1.5	1.0	1.0	1.0	1.1	1.3	1.6	1.9
<b>B. Capital Account</b>	37.8	39.9	9.8	17.8	17.7	10.1	16.1	5.4	7.3	7.8	10.2	16.4
MLT Disbursements	47.1	47.1	17.9	32.3	32.9	27.6	39.8	32.7	34.7	35.8	36.4	37.2
BOP-support			7.0	16.7	20.7	12.3	13.5	14.6	15.7	16.0	16.3	16.7
Projects			10.9	15.6	12.2	15.3	17.3	18.1	19.0	19.7	20.1	20.5
Amortization	-5.3	-3.2	-8.1	-14.5	-15.2	-17.5	-14.7	-27.3	-27.4	-28.0	-26.2	-20.8
<b>C. Err. &amp; Oms. and Priv. Dept.</b>	-16.6	-12.8	-4.5	-11.2	-6.7	2.0	2.0	2.0	2.0	2.0	2.0	2.0
<b>D. Overall Balance (A+B+C)</b>	-15.0	-13.3	-17.5	-7.7	-17.5	-12.8	-4.2	-18.8	-14.4	-12.1	-7.5	-1.0
<b>E. Refinancing of Arrears</b>	0.0	0.0	8.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>F. Financing</b>	15.0	13.3	9.9	7.7	17.5	12.8	4.2	18.8	14.4	12.1	7.5	1.0
Changes in NFA	7.9	5.7	-6.4	-8.2	-4.2	-2.6	-0.2	-1.6	-0.7	-0.8	-1.0	-1.1
Use of Fund Credit (net)	1.6	-0.9	-1.1	-0.3	-1.2	-0.9	0.0	0.0	0.0	0.0	0.0	0.0
Drawings, excl. SAF	1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repurchases	0.0	-0.9	-1.1	-0.3	-1.2	-0.9	0.0	0.0	0.0	0.0	0.0	0.0
Other NFA	6.2	6.6	-5.3	-7.9	-3.0	-1.7	-0.2	-1.6	-0.7	-0.8	-1.0	-1.1
Arrears (decrease)	7.2	7.6	15.3	14.1	8.1	-45.0	-33.0	-8.2	0.0	0.0	0.0	0.0
SAF drawings	0.0	0.0	0.0	1.8	0.0	2.9	0.0	0.0	0.0	0.0	0.0	0.0
Debt Relief Needed to close Gap					13.6	57.5	37.3	28.6	15.1	12.9	8.4	2.0
<b>Memoranda Items:</b>												
Nominal Exchange Rate (Pesos/US\$)	100	159	205	561	1118	1584	1782	1902	2010	2103	2157	221
Current Account without Grants	-65.5	-70.9	-66.3	-59.0	-71.4	-74.8	-71.9	-76.7	-75.3	-74.5	-73.4	-74.1
Exports of Goods & Non-factor Serv.	29.3	30.5	17.5	23.8	25.9	32.8	36.9	41.7	47.1	52.5	59.2	67.1
<b>Shares of GDP (Current US\$):</b>												
1. Resource Balance	-20.1%	-22.9%	-25.5%	-30.4%	-42.6%	-41.1%	-37.9%	-35.5%	-32.9%	-30.5%	-27.5%	-25.1%
2. Total Interest Payments	-1.5%	-0.8%	-2.8%	-4.4%	-7.3%	-8.7%	-7.4%	-10.2%	-9.2%	-8.2%	-7.3%	-6.1%
3. Current Account Balance	-12.9%	-15.1%	-10.0%	-8.7%	-19.5%	-16.4%	-13.8%	-15.4%	-13.1%	-11.2%	-9.1%	-8.1%

Source: National Bank of Guinea-Bissau, IMF, and Bank Staff estimates.

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	Amount (million US\$ at current prices) 1986	Annual growth rate (%) at constant prices 1986											
		Actual					Prelim	Projected					
		1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
<b>EXTERNAL TRADE</b>													
Merchandise Exports	9.7	37.3	-41.5	0.5	31.7	15.5	32.8	14.8	13.0	12.9	10.2	10.7	11.2
Groundnuts	0.6	-2.4	-46.9	4.7	38.0	-18.0	10.0	6.0	6.0	6.0	5.0	5.0	5.0
Palm kernels	1.0	30.2	-63.8	320.0	-22.0	10.0	40.0	20.0	10.0	5.0	5.0	5.0	5.0
Cashew Nuts	5.2	300.0	-17.5	13.6	73.3	1.0	30.0	10.0	10.0	10.0	8.0	8.0	8.0
Fish and Shrimp	1.2	141.7	-41.4	-42.2	-60.0	60.0	20.6	50.0	50.0	50.0	30.0	30.0	30.0
Other	0.2	-19.6	-37.8	10.0	-90.0	100.0	200.0	50.0	20.0	20.0	20.0	20.0	20.0
Merchandise Imports	58.5	5.7	12.4	-1.6	-21.0	13.4	4.3	2.7	2.3	2.3	2.2	1.1	3.9
Food Items	11.5	-15.2	19.3	-18.0	-11.2	-5.2	-5.8	-7.1	-9.2	-11.2	-14.3	-28.0	0.0
Other Consum. Good	12.3	-1.2	-0.5	3.0	-62.6	39.1	4.7	4.1	3.8	3.4	3.7	3.3	3.7
Petroleum	6.4	3.5	44.6	17.0	-7.8	-20.3	17.0	5.0	4.8	4.5	4.6	4.5	4.5
Manufactured Goods	28.3	16.6	3.6	0.0	-9.9	23.9	5.4	4.8	4.4	4.5	4.5	4.4	4.3
<b>PRICES</b>													
Export Index (1986=100)		84.0	102.8	100.0	129.3	108.0	113.4	115.0	118.5	121.9	125.5	129.5	133.7
Import Index (1986=100)		105.0	101.4	100.0	113.0	125.6	130.3	139.0	133.8	138.3	143.7	150.6	158.0
Terms of Trade Index		80.0	101.4	100.0	106.5	86.0	87.0	88.5	88.6	89.1	87.4	84.0	94.6

Composition of Merchandise Trade (%)  
(at current prices)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
<b>Exports</b>	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Groundnuts	16.4	6.2	5.6	5.6	5.1	4.9	5.1	5.3	5.6	5.8	6.1
Palm kernels	8.6	19.3	6.7	8.3	9.5	10.2	11.0	11.3	11.9	12.5	13.0
Cashew Nuts	41.4	53.6	71.0	56.7	52.9	50.0	47.2	44.8	42.6	40.3	37.9
Fish and Shrimp	27.5	12.4	3.3	5.2	4.7	6.2	8.3	11.0	13.0	15.2	17.7
Other	6.0	17.5	13.4	24.2	27.9	28.7	28.5	27.7	27.0	26.2	25.4
<b>Imports</b>	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Food	23.3	19.7	21.3	20.4	17.9	15.0	13.4	11.7	9.7	6.8	6.4
Other Consum. Goods	24.7	21.0	9.7	11.5	11.8	12.2	12.4	12.5	12.6	12.7	12.5
Petroleum	12.5	10.9	13.1	6.7	8.1	8.8	9.3	9.7	10.2	10.6	10.7
Intermediate	23.9	23.6	20.3	19.3	18.7	18.9	19.7	20.3	20.9	21.5	21.4
Manufactured Goods	15.5	24.8	35.7	42.1	43.5	45.0	45.2	45.7	46.6	48.4	49.0

Source: IBRD Staff Estimates and Projections

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GUINEA-BISSAU - ECONOMIC INDICATORS

Indicator	Amount (million GDP at current prices) 1986	Annual growth rate (%) at constant prices 1986											
		Actual					Prelia			Projected			
		1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
<b>NATIONAL ACCOUNTS</b>													
Gross Domestic Product	46967.4	5.5	4.3	-1.0	5.6	4.1	5.1	4.5	4.4	4.5	4.6	4.5	4.1
Agriculture	21271.0	2.4	3.0	6.0	10.5	4.5	8.0	6.0	5.7	5.4	5.2	5.0	5.1
Industry	9309.1	-0.5	-0.4	-3.0	-16.8	1.0	1.0	3.0	3.0	3.5	4.0	4.0	4.1
Services	14942.9	3.0	4.4	-2.4	12.7	5.0	3.0	3.0	3.0	3.5	4.0	4.0	4.1
Indirect Taxes	1544.4	1.0	1.2	1.4	5.6	4.1	5.1	4.5	4.4	4.5	4.6	4.5	4.1
Consumption	46993.2	7.6	5.5	-2.6	5.2	3.2	3.7	3.5	3.2	3.3	3.5	3.1	3.1
Public	7476.0				-31.5	-10.0	-3.0	1.0	1.0	1.0	1.0	1.0	1.1
Private	41517.2				11.9	4.7	4.3	3.8	3.4	3.4	3.7	3.3	3.1
Gross Investment	9966.7	5.5	10.1	-9.2	-27.6	15.0	2.5	3.0	3.0	3.0	3.2	3.2	3.1
Public	9966.7	5.5	10.1	-9.2	-27.6	15.0	3.1	3.1	2.8	2.8	2.8	2.7	2.1
Private	0.0	0.0	0.0	0.0	0.0	-33.3	0.0	0.0	0.0	10.0	20.0	20.0	20.1
Exports of GNFS	3587.5	26.7	-27.6	10.6	21.4	8.4	21.7	10.9	10.5	10.2	8.3	8.8	9.1
Imports of GNFS	15290.0	16.5	2.9	-1.8	-13.3	7.9	3.6	2.5	1.7	1.5	1.3	0.5	2.1

Share of GDP at Market Prices (%)  
(at current prices)

Gross Domestic Product	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture	47.6	47.8	45.3	47.4	47.6	48.9	49.5	50.2	50.6	50.9	51.1	51.1	51.1
Industry	18.6	17.3	19.8	15.6	15.1	14.5	14.3	14.1	14.0	13.9	13.9	13.9	13.9
Services	32.2	33.0	31.6	33.7	34.0	33.3	32.8	32.4	32.1	31.9	31.7	31.7	31.7
Indirect Taxes	1.6	1.9	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3
Consumption	105.2	111.8	104.3	106.8	113.8	111.7	109.2	106.9	104.5	102.3	99.7	98.1	98.1
Public			27.8	16.8	16.5	17.7	17.1	16.6	16.0	15.4	14.9	14.1	14.1
Private			86.5	90.0	97.3	94.0	92.1	90.3	88.5	86.8	84.8	83.9	83.9
Gross Investment	34.5	38.7	21.2	23.6	28.8	29.4	28.7	28.7	28.5	28.2	27.8	27.1	27.1
Public	34.5	38.7	21.2	23.6	28.8	28.8	28.1	28.1	27.9	27.5	27.1	26.1	26.1
Private	0.0	0.0	0.0	0.0	0.0	0.7	0.6	0.6	0.6	0.7	0.7	0.7	0.7
Exports of GNFS	10.5	14.2	7.6	14.5	17.6	21.6	22.9	24.5	25.9	26.8	27.4	28.1	28.1
Imports of GNFS	49.8	64.6	33.2	44.9	60.2	62.7	60.9	60.1	58.8	57.3	54.9	53.1	53.1

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## REPUBLIC OF GUINEA-BISSAU

## SECOND STRUCTURAL ADJUSTMENT CREDIT

## SUPPLEMENTAL CREDIT DATA SHEET

Section I: Timetable of Key Events

- a) Time taken to prepare project: 5 months
- b) Departure of appraisal mission: November, 1988
- c) Completion of negotiations: [February, 1989]
- d) Planned date of effectiveness: May, 1989

Section II: Special Conditions(a) Conditions for effectiveness 1/

- (i) implement agreed 1989 budget, including PIP;
- (ii) implement agreed 1989 monetary program;
- (iii) implement agreed (a) minimum producer prices for 1989; (b) cashew export tax in 1989; and (c) elimination of rice subsidy;
- (iv) implement agreed action plan and timetable for implementing public enterprise reform; and
- (v) implement agreed strategy and timetable for implementing reform of EAGB.

(b) Conditions for release of second tranche

- (i) continued satisfactory progress on the exchange rate;
- (ii) continued satisfactory progress in implementing agreed fiscal and monetary program;
- (iii) agree with IDA on producer prices and cashew export tax for 1990 and elimination of remaining price controls on rice; and
- (iv) satisfactory progress on implementation of public enterprise reform including reform of EAGB.

(c) Conditions for release of third tranche

- (i) continued satisfactory progress on the exchange rate;
- (ii) continued satisfactory progress in implementing agreed fiscal and monetary program;
- (iii) agreement with IDA on producer prices and cashew export tax for 1991; and
- (iv) satisfactory progress on implementation of public enterprise reform, including reform of EAGB.

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1/ These conditions are all expected to have been met by negotiations.

REPUBLIC OF GUINEA-BISSAU  
SECOND STRUCTURAL ADJUSTMENT CREDIT  
Government Letter of Development Policy, 1989-1991

Mr. Barber B. Conable  
President  
International Development Association  
Washington, D.C., U.S.A.

Dear Mr. Conable:

Re: Guinea-Bissau's Structural Adjustment Program -- Phase II: 1989-91

1. As Guinea-Bissau enters the second phase of its structural adjustment program (SAP), the Government is committed to continue implementation of a wide range of economic reforms. By this letter, the Government requests from the International Development Association (IDA) a second Structural Adjustment Credit to support the second phase of its SAP.

2. To this end, let me first briefly recapitulate our experience with the reforms we introduced during the first phase (1987-88) and then describe in some detail the objectives and further actions we intend to implement as part of the second phase (1989-91). Accompanying this letter is a matrix presenting these actions in timetable form.

I. INTRODUCTION

A. Background

3. Faced with a rapidly deteriorating economic and financial situation, the Government of Guinea-Bissau adopted in 1983 a market-oriented development strategy based on the expansion of agricultural output and exports along the lines of the country's comparative advantage. In support of this strategy, the Government implemented an economic stabilization program aimed at correcting internal and external price distortions, shifting the internal terms of trade in favor of the rural sector, and improving efficiency in the management of the public sector. This program was supported by two Reconstruction Import Credits from IDA and an IMF first credit tranche. Notwithstanding the comprehensive nature of the program, it lost momentum in 1985, due to a sharp deterioration in the prices of the country's main exports, delays in implementing institutional reforms, insufficient production incentives and inappropriate fiscal and monetary controls. Against this background the Government embarked on renewed and, to date, largely successful efforts at structural adjustment, at the beginning of 1987, supported by IDA, the IMF, ADF, as well as the Netherlands, Switzerland, the Saudi Fund and IFAD.

B. Progress under the First Structural Adjustment Program: 1987-1988

4. The Government has been very encouraged by the economy's response to the measures taken under the first phase of the structural adjustment program. These measures included: (a) adoption of a flexible exchange rate system, leading to a reduction in the gap between the official and parallel markets; (b) more restrictive monetary and fiscal targets, restructuring of external and internal public debt and an attempt to reduce net transfers to public enterprises; (c) reduction in the number of civil servants, to contain the wage bill and to increase average salaries; and (d) vigorous pursuit of trade and price liberalization measures.
5. Results in 1987 were as follows: (a) GDP grew by between 5 and 6 percent; (b) agriculture by approximately 9 percent; (c) investment by 4 percent; and (d) consumption by 3 percent officially recorded merchandize exports by about 20 percent in real terms, compounded by a 6.5 percent improvement in the terms of trade. This caused a substantial, 14 percent, decline in the trade deficit; and the current budget deficit was also reduced substantially in real terms, to approximately three percent of GDP. To make the civil service more cost-effective, we have implemented a program to reduce civil servant numbers by 30 percent -- approximately 5,000 people -- over a three-year period. In 1987, numbers were reduced by about 5 percent, from approximately 16,600 to 15,900.
6. In 1988, the Government continued with the tight fiscal policies introduced during the previous year, and the 1988 current fiscal deficit is estimated to have improved slightly over 1987, from 3 to approximately 2.5 percent of GDP, meeting the program targets agreed with the IMF. The civil service reduction program was implemented slowly due to the limited funds available for redundancy payments, and Government's concern that the rate of redundancy be geared to the economy's ability to provide alternative productive employment. Consequently, the number of civil servants was reduced by 5 percent, compared to the 10 percent programmed.
7. Until the second quarter of 1988, prices remained stable due to tight monetary and credit policies, and the gap between the parallel and official market exchange rates was virtually eliminated. However, particularly during the period of the cashew harvest (April to October) credit to the economy increased by 80 percent for the year as a whole in terms of beginning broad money stock. This has continued to put pressure on prices and on the exchange rate, with inflation in 1988 estimated at about 70 percent. Notwithstanding these developments, by end-November 1988, the rate of inflation had begun to slow down and the exchange rate differential had again been reduced, to about 27 percent. This was due mainly to the Government's continued tight control over the current fiscal deficit, the reintroduction of the crawl in July, and its tightening of credit controls in the last quarter of 1988.
8. Also during 1988, the Government expanded its automatic issuance of import licenses to cover some 75 percent of non-petroleum commercial imports. Prices were further liberalized and producer prices raised by

60 percent or more, with the cashew export tax reduced from 51 to 46 percent, to further stimulate exports.

9. Overall during the first phase of the structural adjustment program (1987- 1988), GDP exhibited strong growth. Unforeseen external developments have kept the estimated growth rate at about 4 percent in 1988, due to a decline in the price Guinea-Bissau receives for its major export crop, cashew nuts, and climatic conditions affecting the cashew harvest. Nevertheless, agriculture is estimated to have grown between 4 to 5 percent in 1988. Such a strong growth in the face of adverse weather conditions and international cashew prices implies a significant supply response to the improved incentives adopted by the Government over the past several years. Also in 1988, investment is estimated to have grown by about 15 percent, and consumption by some 3 percent in real terms.

10. The trade deficit deteriorated significantly in US dollar terms in 1988, from US\$27.8 million in 1987 to US\$41.7 million. This was mainly due to an 18 percent drop in the price of cashews and an almost 20 percent increase in imports, reflecting the normalization of market supply, increased investment, and a large, 30 percent, rise in the price of food imports.

#### C. Current Status of Structural Adjustment Program

11. Notwithstanding successes to date, several problems currently affect the program: (a) an increase in domestic credit has put upward pressure on the inflation rate, and led to a deterioration in the exchange rate; (b) unfavorable international prices for the major export crop, cashew nuts, compounded by adverse weather conditions earlier in 1988, contained the increase in export earnings for the year below levels previously anticipated and has led to a deterioration in the balance of payments; (c) growing and unsustainable import levels, particularly of food (mainly rice), undermining domestic food production; (d) a public administration and parastatal sector still await reform, particularly in day-to-day management and coordination of the economy and oversight of credit, public expenditure and tax administration; (e) continued weaknesses in the private sector, particularly outside of agriculture and commerce; (f) social problems, exacerbated by unemployment, mainly in urban areas, and increased prices; and (g) a huge debt overhang and high debt service burden that calls for exceptional financing.

12. Consequently, the economy is still far from stabilized and institutional and structural distortions are likely to remain well into the 1990s. This in spite of the encouraging response of the donor community to Guinea Bissau's technical and financial needs. Indeed, a large financing gap still exists. Even with Government's decision to borrow only on concessional terms, the debt service burden at an average of 90 percent between 1989 and 1991, before rescheduling, is unsustainable. Substantial debt forgiveness as well as rescheduling is needed.

II. STRUCTURAL ADJUSTMENT PROGRAM -- PHASE II: 1989-1991

A. Medium Term Outlook and Objectives

13. The Government's Structural Adjustment Program aims at achieving the following objectives over the medium term: (a) stabilizing further the economy; (b) stimulating economic growth; (c) reducing the role of Government in the economy, as well as improving its efficiency; (d) alleviating some of the main social costs of the adjustment program; and (e) reducing the external debt burden to manageable proportions.

14. The quantifiable macro-economic objectives for the Second Structural Adjustment Credit are:

- (a) to achieve an average annual GDP growth of 4 percent in real terms, which would improve per capita income by over 1 percent annually;
- (b) to work towards a viable external payments position by:
  - (i) reducing the resource balance deficit to about 35 percent of GDP by end-1991, by encouraging exports and restricting import growth; and
  - (ii) reducing the differential between domestic and international inflation to less than 20 percentage points in 1990 through appropriate exchange rate, monetary and fiscal policies; and
- (c) to improve the efficiency of the public sector by:
  - (i) containing the Government's wage and salary bill, and using savings from the reduction in force to accelerate civil service reform, by measures to improve training and staff development, and increase average civil service salaries;
  - (ii) starting in early 1989, agree on a strategy and timetable for reorganizing, privatizing or liquidating the 10 main public enterprises and improving the composition and implementation efficiency of the public expenditure program.
  - (iii) reforming the banking system, including a timetable and plan of action for establishing a commercial bank by end-1989 and improving the development banking functions of the National Bank.

15. During the period 1989-91, the Government intends to emphasize the following:

- (a) maintaining a stable macro-economic environment, including a flexible exchange rate system, and restrictive monetary and fiscal policies;
- (b) reorientating public investments increasingly towards removal of infrastructure or institutional bottlenecks to growth, and meeting basic needs;
- (c) expanding the trade and price liberalization measures started in 1983, to encourage greater economic growth, particularly in agriculture, forestry and fisheries;
- (d) institutional reforms, to improve the efficiency and effectiveness of the public sector, particularly public enterprises, and banking; and
- (e) policies and programs to alleviate some of the main social costs of the adjustment program.

A sixth area of concern, namely, the very high external debt, has been included as part of the policy agenda, although many elements are outside the control of Government.

#### B. Stabilizing the Macro-economic Environment

16. **Exchange Rate, Monetary and Fiscal Policy.** The Government intends to continue a flexible exchange rate policy backed by complementary monetary and fiscal policies, realizing that this is the key to improving stability in the domestic economy, keeping a lid on inflation and achieving a viable external position. Monetary and fiscal targets have been set for 1989, and agreed with the IMF. Ongoing technical assistance from the IMF, IDA, and UNDP should help government in achieving these targets, notably in foreign exchange cash flow and debt management, in credit, in the fiscal area, including tax and tariff reform, and budget administration.

17. **Monetary Policy.** The Government aims to reduce the average differential between domestic and international inflation to less than 20 percentage points in 1990, by appropriate exchange rate, monetary and fiscal policies. This would involve restrictions to domestic credit expansion, giving priority access to the private sector. There is expected to be no net recourse to bank credit by the Government during this second phase of the adjustment program, and the Government's outstanding debt to the National Bank is expected to be liquidated by end-1990. A foreign exchange budget is expected to be agreed annually and implemented with the help of technical assistance already in place. The Government intends to adjust interest rates to simplify its structure and to maintain positive real interest rates throughout the program period.

18. Because of the slippage in credit controls during 1988, the Government intends to maintain particularly tight control over credit. The preliminary results for the month of November, showed a satisfactory [10] percent reduction over the previous month, reflecting repayments of trade credits after the cashew harvest, as well as tighter credit controls and

better administration by the National Bank introduced in late October, 1988.

19. **Fiscal Policy.** The Government has adopted a budget for 1989 that implies a targetted reduction in the current fiscal deficit from 2.5 to 1.1 percent of GDP. A comprehensive review of the tax system will be carried out in 1988 with a view to improving economic efficiency, expanding the revenue base and enhancing its incentive effects. Some reforms have already been introduced during the 1989 budget, on tax administration, on simplifying the tax system, and on the cashew tax. The Government intends to implement a more comprehensive program of tax and tariff reform by the time of the 1990 budget, affecting export taxes, mainly on cashews, and import, sales and income taxes. Adherence to this target will be influenced by the timely availability of technical assistance already programmed, notably from the IMF.

20. The Government expects to maintain tight fiscal discipline to further reduce the budget deficit by restraining current expenditure, in line with growth of budgetary revenues, except for the government wage bill. Improvements in budgeting and expenditure control are already underway, with technical help from the Portuguese government. The Government intends to use the savings from reductions in civil service numbers to increase average salaries. Already approved staff reduction targets of 15 percent in 1989, representing some 1,500 staff, would be implemented flexibly, taking into account availability of funds from the budget to finance the redundancy package, and the buoyancy of the labor market to absorb redundant staff. The Government intends to centralize decisions regarding civil service employment in [MOF][MFPTSS], backed by a strengthened civil service registry, with technical help from UNDP.

### C. The Public Investment Program

21. The Government intends to strengthen the capacity of the planning and spending ministries in budgeting and expenditure control, as well as in project evaluation, monitoring and implementation. It also intends to strengthen the Ministry of Plan's key role in the preparation of the public investment program, and in monitoring the implementation of ongoing projects, including a semi-annual review of project implementation (both technical and financial progress), with updated estimates of timetable to complete and expected project impact. The Government has already put in place an inventory of projects, their profiles, sources of financing, recurrent budget and debt service implications. Criteria for project selection continue to be those for which the technical, economic and financial viability have been demonstrated. In this second stage of the structural adjustment program (1989-91), expenditure will continue to be re-oriented toward rehabilitation of existing infrastructure, human resource development, and alleviating poverty and away from directly productive investments, with commercial potential. The public investment program for 1989 has been set at US\$75 million equivalent, with a budgetted execution rate of 80 percent.

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D. Encouraging Growth

1. Trade Policy

22. During the second phase of the structural adjustment program (1989-91), there is need to further liberalize the import system, to cover all commercial imports. By end-1989, bans would be replaced by excise taxes on luxury items as part of the ongoing tariff reform. The Ministry of Commerce and Tourism expanded its issuance of licenses to 100 percent of commercial imports, excluding petroleum and a short negative list, and is expected to issue a decree to this effect, shortly by end-1988. The subsidy on imported rice was removed at end-1988, and a one-time compensatory salary increase of 70 percent given to civil servants. Government also removed, at end-1988, the preferential treatment accorded the "Lojas Francas," duty free shops that deal only in foreign exchange, in view of the improved availability of imports within the country, which has minimized their raison d'etre. Including all taxes and handling fees, the overall implicit tax on cashew exports will be, no more than 40 percent for the 1989 season. The Government intends to review this tax regularly with a view to reducing it to 30 percent by the end of 1991, taking into account expected production levels, international cashew prices and impact on Government's revenues. The first such review is planned for mid-1989. The intention is to replace this source of Government revenue by sales and income taxes.

2. Pricing Policies

23. To encourage a more efficient use of the country's limited resources, price controls for almost all imports have been abolished. The exceptions are: (a) petroleum products, which would be maintained at import parity levels (including transport, distribution margins and excise taxes) throughout the program period, and (b) rice, on which price controls would be eliminated by end-1989. Minimum producer prices would be continued, to provide stability to domestic agriculture, and producer prices for 1989 have already been announced. The Government intends to continue to base its official minimum producer prices on those prevailing in the world market.

3. Agriculture, Forestry and Fishing

24. Agriculture. With the implementation of the first phase of the adjustment program, we believe that we have made a good start in addressing some of the more limiting factors to agricultural expansion, namely, inadequate incentives due to low producer prices and the unavailability of imported consumer goods in rural areas. The Government is committed to continuing to provide a stable macro-economic environment for farmers, including a reasonable minimum price for producers, to elicit the desired supply response. It has agreed to a formula for producer prices that gives a larger share of the world price to the farmer, and sufficient margins to marketing firms. In addition, it introduced a significant 6 percentage point reduction in the export tax on cashew nuts at end-1988. In general, the sector's short- to medium-term performance will be determined largely

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by measures to remove infrastructure and institutional bottlenecks, particularly credit and extension services.

25. Currently Government is working with IDA to developing an agricultural sector strategy focusing on: (a) policies related to pricing, marketing and land tenure; (b) strengthening agricultural services, particularly extension and research, with a view to introducing new or improved technologies and crop diversification; (c) improving supporting infrastructure; (d) establishment of a suitable rural credit system, serving both the traditional and emerging commercial sub-sector within the context of the overall improvements expected in the development/commercial credit system; and (e) development of bas-fond areas for increasing rice production. The Government has also commissioned a livestock study with a view to developing suitable policies and programs for this sub-sector.

26. Forestry. In forestry, the emphasis would be placed on optimal exploitation and replenishment of forestry resources with a view to increasing export earnings while preserving the ecological balance. A review of this subsector, including the environmental impact, is being undertaken with help from a Bank-financed SPPF.

27. Fishing. To stimulate local production while increasing revenues from foreign fishing, the Government intends to (a) renegotiate existing fishing licenses with a view to obtaining more favorable terms; (b) ensure increased local value-added for foreign-dominated operations through joint-venture arrangements with the domestic private sector; (c) improve monitoring of licenses and their catch; (d) improve domestic fishing operations, artisanal fishing and fish exports; and (e) develop a longer term strategy for the sector based on expanding domestic involvement in industrial fishing. The Government is already preparing an action plan for the fisheries sector, with implementation scheduled to begin in the second half of 1989. Financing for this is provided under a Bank SPPF. This action plan will examine taxation, marketing, infrastructure, labor legislation, pricing policies, and the possible impact of fishing on the Government's budget.

#### 4. Other Sectors

28. Transport. The Government intends to concentrate on maintenance and improvement of transport infrastructure rather than competing with private operators in new areas of transport services. Transport prices have already been substantially liberalized, and a timetable for removing remaining controls will be agreed. A study of transport parastatals is being financed under a Project Preparation Facility (PPF) for an Infrastructure Rehabilitation Project is being prepared for possible IDA financing in FY90. Government intends to launch a study of transport parastatals -- TAGB, J.A.P.G., GUINEMAR, RODOFLUVIAL, SILO DIATA, Fab. Sandino -- to complement the Louis Berger International study. This would be done in a manner consistent with Government's policy of limiting the role of the public sector and with its public enterprise reform program to be supported under phase II of the structural adjustment program.

29. Other sectors to be developed include tourism and agro-allied industry, e.g., cashew and oil palm processing. These sectors are expected to be encouraged through an improved and more stable incentive framework, a revised investment code, and a program of entrepreneurial development, particularly for small-scale industrialists, as well as improved access to credit and greater efficiency of the commercial and development banking system.

30. **Private Investment.** The Government intends to implement measures to increase both private savings and investment. Given its size and per capita income, the avenues for profitable investment, particularly in industry, are limited in Guinea-Bissau. There is a need to stimulate small-scale industrial and agricultural investment, including private foreign investment, to consolidate the gains from the current adjustment efforts. Accordingly, the Government intends to review the investment code by end-1989, to ensure that it is attractive to foreign and domestic investors, particularly in agro-processing, fisheries and agriculture. This revision should streamline the administrative framework, and other impediments to private investment in the country, including exchange controls. It is intended also to review land tenure arrangements; to allow lease or freehold title to land, and to encourage its use for productive purposes. Public investment will be increasingly focussed on social and economic infrastructure to complement private investment and commercial and development banking activities will be strengthened.

#### E. Institutional Reform

31. In the context of strengthening the efficiency of government, and the main institutions supporting the structural adjustment program, the Government intends to carry out a program of institutional reform targetted at (a) public enterprises; (b) the civil service generally, with special emphasis on the economic ministries; and (c) the banking system.

##### 1. Public Enterprises

32. The Government intends to restructure its public enterprise sector. By mid-February 1989 it is expected that the Government will be in a position to agree on a strategy and implementation timetable for divestiture or restructuring of the 10 major public enterprises, in addition to EAGB (see para 33 below). It is the intention of Government to phase out net transfers to revenue earning public enterprises by end-1990. The Government also intends to privatize Armazens do Povo, the Government trading firm as soon as possible, in view of the continued improvements in private trading firms. A plan of action for this will be worked out with technical assistance from the EEC, and the plan of action and timetable will be agreed by mid-1989.

33. **Electricidade e Aguas da Guinea-Bissau.** The Government intends, by mid-February, 1989, to agree on a timetable for introducing an internationally expert technical management partner to EAGB for a period of 2-3 years, starting mid-1989, to ensure that EAGB operates more efficiently and does not remain a bottleneck to economic development during the second phase of the adjustment program. The subvention for low income electricity

consumers in Bissau was eliminated in mid-1988, and the Government intends to eliminate the remaining operating subsidy of EAGB by end-1989.

## 2. Civil Service Reform

34. Civil service reform is a long-term goal of government. During second phase of the adjustment program, progress is expected to be focussed on improving the Government's ability to coordinate the structural adjustment program on further reducing the number of civil servants; and on streamlining the civil service structure, particularly the economic ministries. Coordination of the adjustment process needs to be improved, to provide a better forum for the relevant government agencies to review economic performance and to improve policy administration. Currently the National Commission for Economic Coordination and Management (CNCEC), under the control of the President, is the apex body overseeing the adjustment program. To make the Commission more effective a "primus inter pares" below the level of the President is expected to be appointed to coordinate economic policies on a day-to-day basis.

35. The Secretariat of State for Economic Affairs and International Cooperation (SEPAECI) acts as the technical secretariat for the CNCEC, and intends to provide monthly "flash" reports, as well as quarterly progress reports, on economic performance under the structural adjustment program. SEPAECI will be strengthened with a broader mandate, more staff, technical assistance and support facilities, to better fulfill these responsibilities. In addition SEPAECI will manage implementation of the public enterprise reform program.

36. In addition to SEPAECI, agencies and ministries directly involved in the adjustment program include the National Bank, the Ministry of Finance, the Ministry of Commerce and Tourism, the Ministry of Plan, Ministry of Natural Resources and Industry and the Ministry of Civil Service, Labor and Social Security. While many of the adjustment measures under their control are working well, some, including oversight of public enterprises, credit allocation, the budget process, debt management, and public expenditure planning and control, are not. Further improvements are also needed in DESECO (the development banking arm of BNG).

37. The National Bank of Guinea-Bissau (BNG) has introduced improved management of foreign exchange and cashflow, balance of payments monitoring, credit policy, and trade and development term credit. Its Research Department should be further strengthened to provide independent input into the Government's policy formulation and analysis in these areas. It also needs to build up its banking supervisory role in anticipation of separating fully its commercial banking functions, possibly with joint venture participation from abroad. We appreciate the help of the IMF in this area, with USAID, AfDB and EEC interested in assisting development of the development bank (DESECO).

38. The Government intends to coordinate management of all MLT Debt in the Ministry of Finance (MOF) Debt Management Unit, which will be responsible for all matters pertaining to external debt, including debt negotiations and debt reporting. Technical assistance is already in place

to assist the Government in this. MOF's Budget and Internal Revenue Units are also being strengthened to enable them to carry out respectively budget preparation, monitoring and control, and administration of tax and tariff policies. The ongoing computerization of customs, assisted by IDA and UNIDO, is expected to enhance the performance of MOF's revenue collection.

39. The Ministry of Commerce will continue to manage the liberalization of trade and prices in the economy, providing technical help where needed; either directly or through the state trading company, Armazens do Povo (ADP). ADP's role will be orientated increasingly towards provision of advisory services and away from direct import/export activity. A study of how best to implement this proposal will be drawn up by the Ministry of Commerce with technical help from EEC. This study is expected to be ready by mid-1989, at which time a timetable and plan of action would be worked out to privatize ADP except for some essential services.

40. The Ministry of Plan intends to improve further its project evaluation, monitoring, and coordination. Already there has been some improvement in these areas, and further assistance is planned from IDA and AfDB. The Ministry is also charged with monitoring, in collaboration with the Ministry of Civil Service, Labor and Social Security, the social costs of adjustment; and IDA and other donors are assisting Government in developing a project to alleviate some of these adjustment costs.

41. The Ministry of Natural Resources and Industries intends to improve the performance of (a) the parastatal sector overall, including divesting itself of loss-making parastatals; (b) EAGB; and (c) private industry, by revising the regulatory framework for investment, to encourage greater private sector involvement in industrial development. Assistance is already being provided for this under IDA- and UNDP-sponsored studies, and further assistance may be required.

42. The Ministry of Civil Service, Labor and Social Security is responsible for civil service reform. Government is working with the UNDP and IDA to develop and implement a study on civil service reform, including improvements in pay and conditions. Such a review is expected to include design of a compensation package to ensure adequate remuneration for key middle and higher level staff, to stem their current exodus from the public service. A senior advisor to this Ministry is expected to be recruited shortly to help oversee the civil service reform program.

43. The Government has embarked on a program to develop medium-term training for its key staff economic ministries, and is undertaking a program of training (both locally and abroad) to redress critical skill shortages, and to ensure that the necessary transfer of skills takes place under the ongoing technical assistance programs. We intend to enhance the efficiency of the Ministry of Education and the school system generally to produce the needed manpower in the longer term. In implementing the structural adjustment program, the intention is to maximize the use of available local resources and expertise.

### 3. Banking

44. To improve the allocative efficiency and resource mobilization role of the financial system, the Government intends that the banking system maintains positive real interest rates throughout the program period. It also intends to simplify the interest rate structure by mid-1989, as currently there are a plethora of rates. By end-1989, the Government expects to see at least one commercial bank established, followed by others, with private sector participation. In the interim, it will seek to improve the operations of the commercial banking window of the BNG, as well as the National Bank's development banking window, DESECO. There is urgent need to improve access to credit, particularly rural crop credit and term credit for productive purposes, to further encourage productive investment. Consequently, the commercial banking system would be expected to develop a much larger network of branches than currently operated by the National Bank, including mobile branches in rural areas.

45. As the sole source of term lending in Guinea-Bissau, DESECO will be required to play an increasingly important role in the country's economic development. DESECO is currently operating with a skeleton project appraisal staff. During 1989, it is expected to be strengthened in project appraisal and supervision with technical assistance from the EEC and USAID. In addition, the EEC, ADF and USAID intend to provide DESECO with financing for on-lending to the private sector for productive purposes.

### F. Social Impact of the Program

46. The adjustment program is expected to continue to have a significant impact on increasing the income of the poorest groups in Guinea-Bissau, namely, small rural farmers. Higher farmgate prices and greater availability of imports have already increased the welfare of some of the rural poor. At the same time, however, some groups, particularly government employees and the urban poor, have been adversely affected in the initial, transitional, phase of the program. This is due to the shrinking size of the civil service, retrenchment in most urban services and the drive toward full cost recovery, as planned reductions in the current and capital budget of the Government are put into effect.

47. As economic growth is reestablished on a sounder footing, it is believed that all segments of the Guinea-Bissau economy will benefit. Nevertheless, the Government is committed to easing the transitional costs of the adjustment process. The Social and Infrastructure Relief Project (SIRP), to be implemented over the 1989-91 period, will contribute to alleviate the negative impacts of adjustment, as will with the expected improvements in health and educational services, supported by IDA and other donors. The Government, with support from the UNDP-funded Social Dimensions of Adjustment Program, will carefully monitor the real income effects of the adjustment program and introduce measures designed to alleviate any negative impact on family incomes and welfare. The Government also intends to prepare, by end-1989, a progress report on the known dimensions of the problems and on efforts to alleviate them.

#### G. External Financing Requirements

48. Guinea-Bissau will need substantial resources to continue its adjustment program during the next three years. For 1989-91, total financing requirements, including arrears, will reach approximately [US\$368] million. Inflow of grants, mainly from the EEC, the Netherlands, Sweden and Switzerland to assist the adjustment effort, are projected to total approximately [US\$142] million. In addition, existing and expected new loan commitments are about [US\$71.2] million, including [US\$3.9] million from the IMF's SAF and [US\$6] million from private creditors. This brings a total of [US\$213] million in existing and new commitments. Thus the financing gap, before debt rescheduling, is estimated at [US\$155] million for the three-year period. After taking into account possible rescheduling under the best prevailing terms, the total financing gap for 1989-91 could be reduced to approximately [US\$ 72] million. Possible financing under the Special Program of Assistance, from IDA, the IMF and cofinanciers could get close to filling this gap. To facilitate this process the Government of Guinea-Bissau has asked the World Bank to organize a Consultative Group for Guinea-Bissau to focus on mobilizing the resources required to sustain the adjustment program.

#### H. Macro-Economic Prospects

49. With sustained implementation of the structural adjustment program, Guinea-Bissau's economy could grow at an average annual rate of some 4-5 percent over the period 1989-1991, thereby ensuring real per capita income growth, with real per capita consumption also growing at an average of over one percent a year. Agriculture is expected to maintain its strong showing, with average growth of 6 percent over the program period, while investment, including private investment, is expected to be maintained at between 2.5 and 3 percent average between 1989 and 1991. The Government's current deficit is expected to be eliminated by end of the program period, and a small surplus registered.

50. Non-agricultural sectors will be in a better position to make sustained progress in the medium term. Contraction of public consumption, improved public sector resource allocation, along with improved incentives for the private sector, would imply increased private savings and investment. Maintaining the real value of the exchange rate, combined with import parity pricing, and the substitution of domestic for imported rice, supported by measures to improve domestic self-sufficiency comparative advantage, are expected to lead to the contraction of food imports in the short to medium term. Barring further adverse movement in the markets for Guinea-Bissau's major exports, it is expected that exports would continue to expand, leading to a progressive reduction in the trade deficit.

51. We believe that with these measures Guinea-Bissau is in a position to achieve self-sustained growth over the longer term. Guinea-Bissau's relatively generous natural resource endowment, particularly arable land, provides a basis for optimism about the country's long-term prospects, now that distortions in the system of economic incentives are being eliminated, and assuming a way is found to reduce the debt overhang

to manageable proportions, including significant debt forgiveness, and also assuming no significant adverse movements in the terms of trade.

### I. Benefits and Risks

52. The second phase of the adjustment program is expected to improve the growth prospects of the economy through deepening the stabilization measures, by providing more assured availability of vital inputs, including a more efficient allocation of foreign exchange, and by concentrating public investments on areas in which the private sector has no comparative advantage. There is expected to be a further improvement in the incentives structure, particularly in the form of increased minimum producer prices and the removal of most remaining price controls. The program is also expected to help improve the climate for productive private investment, by strengthening the institutional framework and simplifying the investment code.

53. The main risk is that inadequate administrative capacity may prevent the Government from implementing the program on schedule. To minimize this risk, the program has been designed to limit the role of the government, and improve its efficiency, focussing on key areas: tax and budget administration, the public investment program, external debt management, public sector reform, particularly reform of the public enterprise sector, and banking. Technical assistance for many of these posts is already in place, and working well. In this connection, the Government welcomes the assistance of IDA, through its technical assistance credit, and other donors (UNDP, IMF, IFAD, as well as bilateral donors), who will fund advisors and technical experts in key areas. The emphasis will be on developing a critical mass of local experts, and accordingly, ensuring that there are local counterparts to understudy the foreign experts would be an integral part of the structural adjustment program.

54. A second risk is that, due to price and trade liberalization and reductions in civil service numbers, opposition to the program may grow, especially in urban areas. To counter this second risk, the Government has prepared a related Social and Infrastructure Relief Project, for which IDA and other donors financing is also been sought.

55. Finally, there is a risk that the debt overhang or further adverse movements in the terms of trade will continue to overshadow the economic gains. This may take the form of a greater than programmed decline in major export prices, unfavorable developments in the global economy and inability to mobilize the necessary concessional aid and debt relief on a timely basis. These will call for flexibility in the pace of the adjustment process. The Government has requested IDA to organize a Consultative Group meeting, focussed on debt, and on securing agreement of the main donors with a debt reduction strategy for Guinea-Bissau. This meeting is tentatively scheduled for March 2, 1989, in Paris.

56. In order to offer some protection from adverse movements in the terms of trade, the Government is encouraging diversification of the main agricultural crops. Lower-than-expected supply responses, especially from farmers and private entrepreneurs, could prevent realization of the targets

for diversification of exports and import substitution. This could result from any number of situations: (a) the full benefits of trade liberalization may not be felt if there is inadequate competition; (b) the full effects of devaluation may not be felt if there is not enough adjustment in producer prices or taxes; (c) if there is lack of private sector response to the Government's incentives possibly based on misgivings about the permanence of the measures; and (d) if farmers do not receive effective technical assistance in food and export crops production geared toward the adoption of new agrotechnologies to improve productivity.

57. In addition, the program: (a) provides for expansion of credit consistent with macroeconomic stability, with preferential access for the private sector; (b) envisages adequate producer prices each year that take account of exchange rate developments and export taxation; (c) anticipates improvements in agricultural services including rural credit, and availability of agricultural inputs; (d) attempts to identify and remove infrastructural and institutional bottlenecks; (e) assumes flexibility in the pace of adjustment measures depending on unforeseen developments; and (f) hopes to strengthen the formation of human resources mainly through on-the-job training provided by existing technical assistant staff.

### III. FINANCING THE STRUCTURAL ADJUSTMENT PROGRAM

#### A. Resource Mobilization

##### 1. External Resource Mobilization

58. The Government intends, over the medium term, to increase self-reliance and reduce dependence on foreign credit, with the expectation that domestic resources cover a growing portion of government expenditures. To this end, the Government adopted on April 2, 1986 a decision that "forbids the contracting of nonconcessionary loans for financing of projects and the signing of concessionary loans or even grants by Ministers without a decision of the Council of Ministers based on an opinion of the Ministry of Plan analyzing the impact of the recurrent costs which would increase the operating budget of the State and/or have an impact on the foreign exchange balance." The Government will also continue to refrain from guaranteeing non-concessional loans. In addition, the Government will report to the National Commission for Economic Management and Coordination on a quarterly basis regarding this policy. As a result of the heavy burden of existing debt and the imbalances in the economy, Guinea-Bissau will however require continuing high levels of external assistance and increased debt relief on concessional terms for some years to come.

59. The Government has prepared a comprehensive medium-term Policy Framework Paper and financial strategy, in coordination with IDA and the IMF. This paper focusses on the rationale for substantial resources in the short term, but with a rapidly declining need for extraordinary assistance, consistent with a viable balance of payments scenario in the medium term. The key elements of the financial restructuring strategy include the need to: (a) maintain grants at approximately the historical levels; (b) mobilize additional concessional inflows during the second

phase of the adjustment program (1989-91), to assist the structural adjustment process and to the extent possible write-down the debt stock; (c) extending the ban on non-concessional loans to short-term credits, including those to the National Bank, except trade credits that are self-liquidating within one year; and (d) approach creditors for debt rescheduling to relieve the heavy burden of servicing Guinea-Bissau's existing and new debt. Some combination of rescheduling and debt forgiveness will be needed, with new money, to offset the projected financing gap. A Paris Club meeting covering the period 1989 is scheduled for March/April 1989, where attempts will be made to pursue debt forgiveness and very concessionary rescheduling terms. The Government has also requested IDA to organize a Consultative Group meeting focussed on debt management and debt reduction, and this is currently scheduled for March 2, in Paris.

60. The Government remains committed to eliminating all of its external arrears as soon as possible, and has already made appreciable progress in this direction. Government's strategy is to make all debt service payments promptly, to the extent consistent with its commitment to growth in income and consumption per capita.

## 2. Internal Resource Mobilization

61. To increase domestic resources mobilization by the banking system, the Government intends to maintain positive interest rates during the program period. To restrain credit expansion, while facilitating access to credit by the private sector, in line with the Government's development strategy, the Government will limit public sector credit, including credit to public enterprises. In addition, the Government will improve banking services by establishing a joint venture commercial bank with an overseas partner during 1989, and introduce a new central banking law. As part of the new commercial bank mandate, during 1989 the number of bank branches will be increased, especially mobile branches that would visit villages on a regular schedule. In addition, the Government intends to implement by end-1989 appropriate measures to improve access to credit in rural areas. Also during the structural adjustment program, the Government intends to broaden the tax base, to include much more reliance on sales and income taxes and to reduce export or production taxes. Specific measures will be worked out with technical help from the IMF and IDA.

## D. Aid Coordination

62. The Government will work closely with the donor and creditor community to channel assistance in line with the country's highest priority needs. In this regard, the Government will continue its policy of:

- (a) using SEPAECI to monitor and coordinate all aid requests;
- (b) improving communications with the international community by encouraging meetings of donors in Bissau at least semi-annually, with minutes to be subsequently prepared for circulation to a broader audience; and

- (c) strengthen the Ministry of Plan's key role in the process of planning, preparation of the public investment program, and supervision of the implementation of ongoing projects, including a semi-annual review of project implementation (both technical and financial progress).

Bissau, \_\_\_\_\_, 1989

s/ Pedro Godinho Gomes  
Minister Governor  
National Bank of Guinea Bissau

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GUINEA-BISSAU  
SECOND STRUCTURAL ADJUSTMENT CREDIT  
MATRIX OF POLICY ACTIONS

I. MACRO ECONOMIC MANAGEMENT

Actions already taken by Government	Structural Adjustment Credit II Action Program	Monitorable Actions and Schedule
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A. Exchange Rate Policy

Objective: Maintain a flexible exchange rate system.

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|--|---|---|
| 1. Significant devaluation of peso, to maintain competitiveness of exports and encourage greater use of official market. | 1. Continue flexible exchange rate systems, to maintain difference of not more than 20% with parallel market. | 1. By effectiveness: none.<br>2. By second tranche: gap with parallel market not more than 20%.<br>3. By third tranche: gap with parallel market not more than 20%. |
|--|---|---|

B. Fiscal Policy

Objective: a) To simplify tax budget administration, broaden revenue base and reduce distortions.

- |   |   |  |
|---|---|--|
| 1. Reduced some import duties and most export taxes, except on cashews. | 1. Rationalize tax and tariff structure.<br>2. Eliminate preferential tax treatment for duty free shops.<br>3. Abolish duty exemptions.<br>4. Achieve import parity pricing for petroleum products, and eliminate all other price controls. | 1. By effectiveness: implement agreed 1989 budget.*<br>2. By second tranche: implement tax/tariff reforms; agree on 1990 budget.<br>3. By third tranche: agree on 1991 budget. |
|---|---|--|

C. Monetary and Credit Policy

Objective: a) Allow growth in money and credit consistent with balance of payment, inflation, and growth targets for economy; and b) restrict access of central government and public enterprise to credit, and expand private sector access to credit for productive purposes.

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|--|--|--|
| 1. Met 1987 money/credit targets. Did not meet 1988 targets. As result, inflation higher in 1988 than expected. Also as result, Government has established a committee to ensure credit benchmarks observed. | 1. Implement satisfactory money/credit policy during 1989-91.<br>2. Implement agreed timetable for liquidating Government's debt with National Bank.<br>3. Improve commercial and development banking and credit allocation. Expand availability of commercial banking services to rural areas.<br>4. Continued flexible adjustment of interest rates to maintain positive real rates. | 1. By effectiveness: satisfactory implementation of money and credit policy/targets during last quarter 1988.<br>2. By second tranche: satisfactory implementation of credit and interest rate policy during 1989.<br>3. By third tranche: satisfactory implementation of credit and interest rate policy during 1990. |
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[\* Action already taken]

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II. PUBLIC EXPENDITURE PROGRAM AND PROCESS

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Objective: Improve planning, execution, monitoring and evaluation of public expenditure program particularly the Government's counterpart funds.

Actions already taken by Government	Structural Adjustment Credit II Action Program	Monitorable Actions and Schedule
<p>1. Introduced better data collection re projects under implementation.</p> <p>2. Introduced tighter controls on public investment programming. They now require feasibility study by Ministry of Plan, a "no objection" from Ministry of Finance and approval of National Commission for Economic Coordination and Control.</p>	<p>1. Improve Government's project evaluation capability.</p> <p>2. Improve project monitoring.</p> <p>3. Improve Government's capital expenditure budgeting and control.</p>	<p>1. By effectiveness: agree PIP for 1989.*</p> <p>2. By second tranche: agree PIP for 1990, and review outcome for 1989.</p> <p>3. By third tranche: agree PIP for 1991 and review outcome for 1990.</p>

[\* Action already taken]

III. GROWTH SECTORS

Actions already taken by Government	Structural Adjustment Credit II Action Program	Monitorable Actions and Schedule
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A. Agriculture

**Objective:** To stimulate domestic production by:  
 a) Maintaining competitive economic environment.  
 b) Further reducing biases against exports and improving efficiency and effectiveness of institutional support.

1. Annual upward adjustment in producer prices to maintain agriculture incentives.	1. Continue annual adjustment of minimum producer prices.	1. By effectiveness implement agreed: (a) producer prices for 1989; (b) cashew export tax for 1989*; (c) elimination of rice subsidy.*
2. Reformed rural development projects.	2. Continue to reduce cashew export tax (fiscal situation permitting).	2. By second tranche implement: (a) producer prices for 1990; (b) cashew export tax for 1989; (c) elimination of remaining price controls on rice.
3. Reinforced Government's planning capacity, with help of IDA-financed PASA project.	3. Eliminate agriculture price controls.	3. By third tranche agree on: (a) producer prices for 1991; (b) cashew export tax for 1991.
4. Reduced cashew export tax to encourage production and official exports.		

B. Forestry

**Objective:** Improve efficiency and export earnings of forestry sector paying attention to ecological balance.

1. Implemented study to develop action plan financed by IDA-SPPF.	1. Implement action plan for optimal exploitation and replenishment of forest resources.	None
	2. Produce forestry policy action plan by end-1989.	
	3. Implement forestry policy action plan by end-1990.	

C. Fishing

**Objective:** Increase revenue to economy and to Government from fishing sector.

1. Renegotiated some licenses basing them on ship's tonnage rather than value of catch.	1. Implement action plan to improve value-added from sector.	None.
2. Approved terms of reference for study/action plan of sector funded by IDA SPPF.	2. Launch action plan for fisheries study by early 1989.	
	3. Implement results of action plan, including privatizing of fisheries parastatals, starting end 1989.	

D. Private sector Investment Promotion

**Objective:** Promote investment, particularly import substitution and export promotion of small scale private enterprises.

1. None	1. Implement revised investment code, improve investment climate, information.	None.
	2. By end-1989: agree on terms of reference for study to propose revisions in investment code and improve investment climate.	
	3. By end-1990: implement results of the study.	

[\* Action already taken]

IV. INSTITUTIONAL REFORM

Actions already taken by Government	Structural Adjustment Credit II Action Program	Monitorable Actions and Schedule
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A. Public Enterprise Reform

Objective: Reorganize and improve efficiency of public enterprises, and privatizing public enterprises engaged in directly productive investments with commercial potential.

<p>1. Some public enterprises already ceased operations.</p> <p>2. Study on remaining public enterprises to be completed shortly.</p>	<p>1. To implement results/ recommendations arising from public enterprise study, as agreed between Government and IDA.</p> <p>2. To reform EAGB.</p> <p>3. Privatize ADP under an action plan and timetable to be developed with EEC technical assistance, action plan and timetable to be agreed with IDA by end-1989.</p> <p>4. To complete liquidation of SOCOMIN.</p>	<p>1. By effectiveness agree on: (a) action plan and institutional support and timetable for implementing public enterprise reform. (b) strategy and timetable for reform of EAGB, including installing new management, new tariff and new capital structure.</p> <p>2. By second tranche: (a) achieve satisfactory progress in implementing I(a) and (b) above. (b) achieve and thereafter maintain operating cost recovery within EAGB.</p> <p>3. By third tranche: (a) maintain satisfactory progress in implementing I(a) and (b) above. (b) maintain full operational cost recovery within EAGB.</p>
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B. Civil Service Reform

Objective: Improve efficiency and cost effectiveness of civil service.

<p>1. Reduction in force of 15% of civil service of 16,100.</p> <p>2. Improved salary and conditions.</p> <p>3. Improved training.</p>	<p>1. Continue RIF in line with budget's ability to pay redundancy packages.</p> <p>2. By early-1989 agree on: target numbers for RIF during 1989.</p> <p>2. By end-1989: (a) introduce bonus scheme. (b) introduce civil service registry. (c) agree target civil service numbers for 1990.</p> <p>3. By end-1990; implement comprehensive civil service reform and agree target for civil service numbers for 1991.</p>	<p>None.</p>
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C. Banking Reforms

Objective: To improve efficiency and effectiveness of financial sector.

<p>1. Study of commercial/central banking legislation and institutional set up.</p> <p>2. Separation of accounts of National Bank between Central and commercial banks.</p>	<p>1. Improve credit allocation policies and procedures.</p> <p>2. By end-1989: (a) introduce new commercial banking law; (b) create separate commercial bank, preferably with private sector involvement; and (c) increase bank branches, including mobile branches.</p> <p>3. Improve functioning of development bank and introduce new policies/procedures.</p>	<p>None.</p>
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V. SOCIAL IMPACT

Objective: Policies to alleviate negative impact of the structural adjustment program.

Actions already taken by Government	Structural Adjustment Credit II Action Program	Monitorable Actions and Schedule
1. Implemented some employment generation measures.	1. Prepare annual report on social impact of SAP.	None.
2. Prepared Social and Infrastructure Rehabilitation Project.	2. Update base line survey of SAP impact and agree on further measures to alleviate social costs of adjustment.	
	3. By end-1989: (a) implement SIR Project. (b) agree with IDA on further measures to alleviate social costs of adjustment including any change required to SIRP.	
	4. By end-1990: agree with IDA on further measures to alleviate social costs of adjustment, including any changes to SIRP.	

VI. EXTERNAL DEBT MANAGEMENT

Objective: To reduce the debt service burden on economy by combination of maximum relief from rescheduling and contracting new loans with grant element of not less than 50 percent.

Actions already taken by Government	Structural Adjustment Credit II Action Program	Monitorable Actions and Schedule
1. Paris Club 1987 concluded.	1. Conclude negotiations for 1989, 1990 and 1991.  2. Reduce debt service to managerial levels, reduce outstanding arrears of BNG.  3. Consolidate debt management and monitoring under auspices of Ministry of Finance.  5. By end-1989: (a) conclude negotiations with Paris Club on 1989. (b) implement timetable to eliminate arrears.  6. By end-1990: (a) continue to implement timetable to eliminate arrears, including arrears of BNG. (b) conclude negotiations with Paris Club on 1990.	

## THE STATUS OF BANK GROUP OPERATIONS IN GUINEA-BISSAU

## STATEMENT OF BANK LOANS AND IDA CREDITS 1/

(As of November 30, 1988)

Credit Number	Fiscal Year	Borrower	Purpose	Amount 2/	Undisbursed 3/
Two credits have been fully disbursed				15.80	0.00
1334-GUB	1983	Guinea-Bissau	Petroleum Exploration II	13.10	0.93
1392-GUB	1984	Guinea-Bissau	Bissau Port	16.00	3.49
1473-GUB	1984	Guinea-Bissau	Roads II	4.00	0.22
F018-GUB	1984	Guinea-Bissau	Roads II	4.00	0.19
1517-GUB	1984	Guinea-Bissau	Technical Assistance	6.00	0.39
1531-GUB	1985	Guinea-Bissau	Reconstruction Import	10.00	1.41
A-014-GUB	1986	Guinea-Bissau	Supplem.Reconst.Import	5.00	1.77
1798-GUB	1987	Guinea-Bissau	SAC	10.00	1.26
A-026-GUB	1987	Guinea-Bissau	Structural Adjustment	5.00	1.34
1799-GUB	1987	Guinea-Bissau	Agricultural Services	3.70	4.21
1800-GUB	1987	Guinea-Bissau	Pop, Health & Nutrition	4.20	2.44
1914-GUB	1988	Guinea-Bissau	Education	4.30	4.24
1935-GUB	1988	Guinea-Bissau	Technical Assistance II	9.70	9.56
Total				110.80	31.45
of which has been paid				0.00	
Total now outstanding				110.80	
Amount sold					
of which has been repaid				0.00	
Total now held by IDA				110.80	
Total Undisbursed				31.45	31.45

1/ The status of the projects listed in this part is described in a separate report on all Bank/IDA-financed projects in execution, which is updated twice yearly and circulated to the Executive Directors on April 30 and October 31. There are no IFC investments in Guinea-Bissau.

2/ IDA Credits after 1980 and Special Fund Credits are denominated in Special Drawing Rights. U.S. dollar amounts in table are calculated using exchange rates prevailing at time of credit negotiations.

3/ Includes the exchange rate adjustment.

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Annex G. Policy Framework Paper

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DRAFT

November 2, 1988

GUINEA-BISSAU

Medium-Term Economic and Financial Policy Framework (1989-91) 1/

Prepared by the Guinea-Bissau authorities  
in collaboration with the staffs of the  
International Monetary Fund and the World Bank

October \_\_, 1988

I. BACKGROUND

1. After independence in 1974, Guinea-Bissau faced the task of rebuilding its economy from the devastation brought about by a protracted liberation war. An ambitious public investment program, mainly financed by external borrowing, focused on agro-industrial development but neglected the agricultural sector. Widespread government intervention, inappropriate pricing policies, and an increasingly overvalued exchange rate discouraged exports through regular channels and stimulated a parallel market for trade with neighboring countries. The official sector of the economy became dependent on foreign aid to finance imports. Widening fiscal imbalances were increasingly financed by central bank credit, thereby fueling inflation. During the period 1980-82, the deterioration in the external position was aggravated by drought and depressed world market prices for the principal exports, and substantial external payments arrears were accumulated.

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1/This paper updates and extends the Policy Framework Paper of April 17, 1987.

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2. Adjustments measures were implemented in 1983/84 in the context of an economic and financial program that was supported in 1984 by a first credit tranche purchase from the Fund and by a reconstruction import credit from the World Bank. However, the adjustment process lost momentum during 1985. Domestic output declined again during 1986 and the inflation rate reached some 45 percent, as internal and external disequilibria became unsustainable. At end-1986, gross official foreign reserves fell to about two weeks of imports, and even essential imports could not be financed on a regular basis. Total outstanding external debt reached US\$333 million (a doubling since 1982), and external payments arrears were estimated to have risen to US\$75 million, while the scheduled debt service ratio rose to about 90.0 percent.

## II. THE ADJUSTMENT PROGRAM FOR 1987-89

3. Against the background of a deteriorating situation, the Guinea-Bissau authorities prepared in early 1987 a policy framework paper (PFP), in close collaboration with the staffs of the International Monetary Fund and the World Bank, setting forth the Government's medium-term economic and financial objectives, and the policies designed to achieve these objectives according to a specified timetable. The basic objectives of the program for 1987-89 were fourfold: (a) to achieve an average annual rate of growth of real GDP of around 3.5 percent, which would raise real per capita income; (b) to reduce the annual rate of inflation to some 8 percent in 1989; (c) to reduce the external current account deficit, excluding official grant, from US\$73 million in 1986 to US\$55 million in 1989; and

(d) to normalize relations with external creditors by eliminating external payments arrears through rescheduling or cash payments. The adjustment program was subsequently supported by a SAC from the World Bank and an arrangement under the Fund's SAF.

### III. POLICY IMPLEMENTATION AND PERFORMANCE IN 1987-88

4. During 1987, the envisaged policy measures were vigorously implemented, including a substantial devaluation in May 1987, an accelerated removal of price controls, the adoption of tight fiscal policies, and a liberalization of marketing arrangements in conjunction with a retrenchment of the public sector. However, slippage in the area of credit controls, adverse weather conditions and a drop in cashew nut export prices are expected to affect the overall balance of payments outcome in 1988.

5. Available information for 1987 indicates that the economic and financial situation improved rapidly in response to the measures that were introduced, and that the program targets were largely achieved. Although reliable national accounts data are not available, real GDP is estimated to have grown 5-7 percent, compared with a target of 3-4 percent, owing mainly to a strong expansion of agricultural production, particularly of cashew and rice. Fiscal imbalances were reduced more than programmed, mainly due to a strong revenue performance and a sharp reduction of real wages. Nonetheless, due to a substantial liquidity expansion, inflation accelerated to an estimated average annual rate of 107 percent, and the

spread between the official and parallel market exchange rates widened in the second half of 1987. By end-1987, the authorities had taken a number of corrective actions to bring the program back on track, including an accelerated depreciation of the official exchange rate. Furthermore, a tight budget for 1988 was adopted, including a number of substantial tax measures, and appropriate credit targets were established. During the first four months of 1988, inflation slowed sharply, the parallel market rate appreciated and the spread between the official and parallel market rates was kept at about 10 percent. However, as credit continued to expand faster than programmed during the second quarter of 1988, inflation accelerated and the spread between official and parallel market exchange rates began again to widen. During the third quarter the authorities renewed the depreciation of the official exchange rate.

6. The Government's fiscal policy in 1987-88 was designed to share in the positive impact of the devaluation on receipts from trade taxes and foreign fishing licenses, and to hold expenditure growth below the increase in revenue. Preliminary data indicate that the overall deficit, on a commitment basis and excluding grants, was reduced from about 80 percent of total expenditure in 1986 to about 72 percent in 1987, compared with a target of 75 percent (Table 1). Total tax and nontax revenues more than tripled, as the collection of income taxes improved more than expected, and receipts from export taxes exceeded the programmed level owing to a record harvest and a large increase in exports of cashew nuts. However, revenue from import taxes fell short of the budget estimate, reflecting the lower than expected imports through regular channels, as well as the persistence

of import tax exemptions. Current and capital expenditures were contained at about the target level, and the number of civil servants was reduced by 750 employees, or by about 5 percent.

7. With regard to the monetary program for 1987, major problems occurred in the administration of the foreign-financed imports under the structural adjustment program. While the programmed increase in bank credit to the non-government sector was designed to accommodate the purchase of foreign exchange to pay for these imports, the procurement process was slower than anticipated. Consequently, gross official reserves were boosted by the disbursed but not utilized foreign exchange, and the impact of the increase in domestic liquidity resulted in an acceleration of the inflation rate and a depreciation of the parallel market exchange rate. During the period December 1987-January 1988, the authorities accelerated the depreciation of the official exchange rate and tightened credit policies. As the delayed imports began to arrive in early 1988, the parallel market exchange rate dropped. As the growth of domestic liquidity was slowed considerably during the first quarter of 1988, inflation decelerated sharply and the parallel market rate remained stable through April 1988.

8. Interest rates were raised in May 1987, to range of 12-30 percent for deposits and 25-38 percent for lending, on the assumption that the underlying inflation rate at the end of the year would decelerate to about 25 percent. As the inflation rate in the last quarter of 1987 was about four times the targeted level, interest rates remained highly

negative in real terms. However, during the first quarter of 1988, most lending rates became positive in real terms as the inflation rate declined to an estimated annual rate of 20 percent.

9. The balance of payments position improved in 1987, reflecting the growth in agricultural output, a decline in imports through regular channels and a substantial increase in foreign aid. Export earnings (in terms of U.S. dollars) are estimated to have risen by about 75 percent, largely because of an increase in the volume and unit price of cashew nuts, while imports declined by nearly 5 percent in value. The external current account deficit, including official transfers, is estimated to have been reduced to US\$14 million, compared with a programmed level of US\$18.8 million. This deficit, together with the reduction of arrears on medium- and long-term debt through cash payments, was more than offset by the net inflow of highly concessional loans and the rescheduling under the auspices of the Paris Club; gross official foreign reserves, including disbursements under the structural adjustment program, reached the equivalent of nearly 11 weeks of imports.

10. On the strength of the 1987/88 adjustment program supported by the first annual arrangement under the Structural Adjustment Facility (SAF), the Paris Club creditors agreed in October 1987 to reschedule principal payments on eligible medium- and long-term official debt falling due during the period July 1, 1987 through December 31, 1988, and interest and principal in arrears accumulated through June 30, 1987. The maturity

is 20 years with a 10 year grace period. The bilateral agreements were to be concluded before March 31, 1988.

11. During 1987, the increased producer prices, together with favorable weather conditions for agriculture, and the liberalization of trade, led to growth in agriculture of about 9 percent, with the volume of cashew nuts increasing by 35 percent, rice by 12 percent, and cotton by 54 percent. The fishing sector, although registering an increase in production, remained far below potential, and depended on the activity of foreign fleets. Output in the energy sector is estimated to have increased only slightly while industrial output decreased due to inefficiencies in most industrial enterprises and irregular supply of raw materials and energy. Only the food industry subsector appears to have registered some increase. Commercial activity grew strongly, stimulated by the trade liberalization and the growth in exports. Total growth of GDP was of the order of 5 to 7 percent.

12. The exchange and trade system was substantially liberalized in 1987-88. Export proceeds are subject to a 100 percent surrender requirement and exporters are guaranteed access to 50 percent or more of the surrendered receipts for financing eligible imports. Since March 1988 import licenses are automatically issued for most commercial imports, excluding petroleum and a few luxury items, licenses for foreign-financed project imports were issued freely already in 1987.

#### IV. THE TARGETS AND STRATEGIES FOR 1989-91

13. The Government of Guinea-Bissau will pursue the structural and financial policies set out in the initial medium-term policy framework (1987-1989). The measures taken in 1987 resulted in a positive supply response, particularly in agriculture and trade, and are expected to contribute to sustained growth of the economy over the next few years. Accordingly, in consultation with the staffs of the Fund and the World Bank, the Government has updated and extended its medium-term policy framework to cover the period 1989-91. The revised framework remains consistent with the action plans described in the letter of development policy of March 27, 1987, in support of which the World Bank and other creditors and donors approved structural adjustment loans and grants.

14. The basic objectives for the 1989-91 program are: (a) to sustain growth of real GDP at an average annual rate of about \_\_\_ percent, which would permit the growth of real per capita consumption of at least one percent; (b) to reduce the rate of inflation to about \_\_\_ percent in 1989 and to about \_\_\_\_\_ percent in 1990 and 1991, respectively; and (c) to reduce the external current account deficit to a sustainable level by \_\_\_\_\_.

15. The Government's development strategy continues to focus on an expansion of agricultural output, including agro-processing, and exports based on the encouragement of small holdings and of the activities of private traders. Accordingly, the growth of GDP would be based on significant growth in rice production, expansion and diversification of

export crops, mainly cashews, cotton, and timber, the rehabilitation and expansion of the fishing sector, particularly industrial fishing, and some investment in tourism.

16. The Government will pursue these objectives through a continued reorientation of public investment towards infrastructure and social services that support the directly productive sectors, appropriate incentive policies to enhance private sector economic activity, and a more efficient utilization of resources through appropriate pricing policies and better public resource management. As part of the latter, the programming and implementation of public investment will be improved, focussing on removing bottlenecks to growth. A major reform of the public enterprise sector will be undertaken, and Government finances will be strengthened with a view to releasing resources to the private sector. As part of this strategy, the Government's overall fiscal balance, on a commitment basis and excluding grants, is expected to be contained at about \_\_\_\_\_ percent of total expenditures, while the current budget deficit is expected to be reduced from \_\_\_ in 1987 to \_\_\_\_\_ of current expenditures. <sup>1/</sup> As these deficits would be financed by external budgetary grants and loans, the Government will eliminate its outstanding debt to the central bank and become a net creditor to the banking system by end-1988.

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<sup>1/</sup> Due to the weak statistical base, the ratios in term of GDP have been omitted in this paper. However, these targets would be equivalent to an overall deficit and a current account deficit of \_\_\_ percent and \_\_\_ percent of unofficial GDP estimates, respectively.

17. Barring unforeseen developments, Guinea-Bissau would, in the period 1989-91, make substantial progress towards a viable external payments position, consonant with sustainable economic growth; however, in view of the heavy and rising debt service burden during this period, Guinea-Bissau is likely to require continuing exceptional external financing, including debt relief.

#### V. MACROECONOMIC AND STRUCTURAL ADJUSTMENT POLICIES

18. Within the broad framework described above, the Government will pursue a coherent set of adjustment policies designed to reduce further the external and internal financial imbalances and alleviate the impediments to growth. Accordingly, action will be taken in several key areas, with high priority given to removing remaining obstacles to private sector economic activity, further reduction of major price distortions, improved financial management, including enhanced revenue mobilization, better public resource management, and civil service and public enterprise reform. A summary and the time frame for the Government's policies is provided in the attached matrix.

##### (a) External Policies

19. The Government will maintain a flexible exchange rate policy with a view to limiting the spread between the official and parallel market exchange rates and encouraging transactions through the regular markets. The exchange and trade system will be further liberalized. In 1988, the

Government adopted a general open license system, under which import licenses are automatically granted for all imports, except petroleum and a few luxury items that are included in a short negative list. The monopoly for cereal imports has been abolished. The import tariff system has been simplified and revised, as described below, with a view to reducing incentives for smuggling and other distortions, and to improving fiscal revenues. All export taxes were abolished in 1987, with the exception of the tax on cashews. The cashew export tax will be reduced to \_\_ percent in 1989, and will be further reduced in the light of the expected increase in production levels and the anticipated improvements in the fiscal situation.

20. Given the existing difficult external debt situation, the Government will improve the management of its external debt, and follow a prudent external debt management policy during the program period. In particular, the Government and public entities will not contract or guarantee any new loans with a grant element of less than 50 percent, except normal short-term trade credits, and where necessary, refinancing of existing debt. The Government will also continue its policy of requiring concessional loans and grants to obtain authorization by the Council of Ministers before they are signed, based on an opinion of the Ministry of Plan, which would analyze the impact of the recurrent costs of borrowing on the Government budget and on the foreign exchange balance.

21. The monitoring of the external debt will continue to be improved through the consolidation of all medium- and long-term debt at the Ministry of Finance, and through better coordination between the National Bank and

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the Ministry of Finance. All data concerning the external public debt will be computerized with technical assistance under the IDA technical assistance credit and from bilateral donors. On this basis, the Government will establish, by end-1988, a quarterly foreign exchange budget for 1989 to ensure the timely discharge of all debt service obligations.

22. The maintenance of an appropriate exchange rate policy, together with the supporting policy changes indicated below, is expected to reduce Guinea-Bissau's trade deficit during 1989-91. In particular, the liberalized pricing and marketing policies will provide an incentive for increasing the flow of exports through regular channels. Prospects are particularly good for the expansion of cashew nut exports, in which the country has a comparative advantage, and in view of the tree plantings in response to the reform measures since 1983. At the same time, the value of imports is expected to be contained at around US\$\_\_\_ million, because of increased import substitution for rice, stimulated by the liberalization of producer prices, and despite a modest increase in imports of investment goods, and in imports of consumer goods, destined for the rural areas, a vital incentive for increasing exports through regular channels. Thus, assuming no major changes in the current outlook for world commodity prices, the trade deficit is expected to be contained at the average annual level of about US\$\_\_\_ million during the program period.

23. The Government has concluded the bilateral negotiations with the Paris Club creditors according to the Agreed Minute of October 1987, and is pursuing the negotiations with other official creditors to obtain

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comparable treatment. Furthermore, the Government will eliminate all remaining payments arrears to multilateral institutions by end-1988. With regard to short-term arrears of the National Bank, the Government has proposed a timetable for their phased elimination by end 1990, and will have approached all creditors in this regard by end-1988.

24. Taking into account the proposed elimination of arrears, external financing gaps are projected to emerge in the period 1989-91 and in the medium-term, which cannot be filled unless exceptional financing, including additional debt relief, becomes available. The Government will prepare a proposal to be submitted to the Paris Club by end-1988, requesting the rescheduling of all principal and interest payments due to bilateral official creditors during 1989 on debt not already rescheduled. In this manner, Guinea-Bissau's balance of payments position could be financed. However, Guinea-Bissau's balance of payments position could be substantially strengthened if other creditors followed the example of Canada, the Netherlands, and Portugal by cancelling debt or converting it into a local currency obligation.

(b) Fiscal Policies

25. In order to achieve the program's medium-term fiscal objectives, the Government will take further measures to reduce the fiscal imbalances by raising revenues and containing overall expenditure growth. The fiscal deficit will be entirely financed by the use of part of the domestic counterpart of external balance of payments loans, which will also permit

the accumulation of government deposits in a blocked account to be used for a future increase in the capital of the National Bank, whose net worth remains highly negative.

26. On the revenue side, measures will focus on the implementation of tariff reform and the abolition of exemptions. A substantive reform of the tariff system, based on Fund staff technical assistance, will be implemented in 1989. The reform will simplify the administration of the tariff system, lower a number of rates to remove distortions, and broaden the tax base through the elimination of exemptions for all government, parastatal and other public agencies, and for the foreign currency shops. With regard to foreign-financed, project-related imports, the Government will negotiate with the donors with a view to making these imports subject to normal tariffs. In order to reduce the reliance on trade taxes, the Government will prepare a comprehensive tax survey and propose an action plan. Government proposals for a general sales tax and a tax on agricultural income are being reviewed with technical assistance from the Fund and the World Bank.

27. On the expenditure side, the Government will continue its civil service reform, with emphasis on improving the efficiency and cost effectiveness of the civil service, based on a comprehensive study to be carried out with UNDP/World Bank assistance. To improve the monitoring of the payroll, a civil service employment register has been established. The overall wage bill of the Government in real terms will be adjusted annually during the period 1989-91, taking into account the results of the civil

service study. The Government will continue to implement a differentiated salary structure with a view to attracting and keeping qualified personnel. The growth of other current expenditure will be contained in line with the increase in budgetary revenue; all subsidies to public enterprises will be phased out in 1990.

28. The Government is aware that the programming and monitoring of public investment expenditure has to be improved. As a first step, the National Commission for Economic Coordination and Management has been given sole authority for final approval of all public sector projects. The Commission will ensure that information on disbursements and project implementation is collected and reviewed in a timely fashion. A complete project inventory has been established, including a profile of each project, sources of financing, and implications for recurrent budgetary expenditure and debt service. In this context, the capacity of the Ministry of Planning and of the spending ministries to evaluate, monitor and implement investment projects will continue to be strengthened by the provision of technical assistance and training from the World Bank, UNDP, and the ADB. The start-up of new projects will be limited to those for which the technical, economic and financial viability has been demonstrated through the use of cost/benefit analysis whenever possible. Where this is not possible, the selection of projects will be based on the Government's overall development strategy, taking into account the requirement that the project would realize quick yields; place no inappropriate burden on the recurrent budget when completed, increase human capital resources, and contribute to a net inflow to the balance of payments.

29. The Government has adopted a 3-year rolling investment plan for 1989-91 in consultation with the World Bank. The investment program for 1989 has been reviewed in detail with the World Bank staff. Total government outlays are targeted at US\$\_\_\_\_\_ million, and actual expenditures expected to reach about US\$\_\_\_\_\_ million. These expenditures have been reoriented towards the development of human resources, health and education, and the rehabilitation of infrastructure. This reorientation will continue during 1990-91, while the level of public investment (in terms of U.S. dollars) has been raised compared with the medium-term policy framework for 1987-89, reflecting the economic opportunities requiring public sector involvement, a more thorough assessment of the economy's absorptive capacity, as well as the depreciation of the U.S. dollar vis-a-vis other currencies. The annual investment outlays in this period are tentatively projected at about US\$\_\_\_\_\_ million.

(c) Credit Policies

30. A prudent monetary policy will be pursued consonant with the adjustment objectives. Total domestic credit will be contained without compromising the financing needs for the marketing of the cash crops and the productive activities of the private sector and public enterprises. There will be no net recourse to bank credit by the Government in view of the proposed fiscal adjustment and the availability of budgetary support. Furthermore, as mentioned above, the outstanding net indebtedness of the Government to the National Bank was eliminated during 1988 and substantial

Government deposits will be sterilized in a special account with the National Bank. These deposits will not be drawn upon during the program period, except to finance a capital increase of the National Bank.

31. The authorities will follow a flexible interest rate policy with a view to maintaining positive real rates in 1989-91 in order to encourage domestic financial savings and more efficient use of bank credit. The Fund is providing technical assistance to improve the availability of monetary statistics on a timely basis for the effective monitoring of the adjustment program. The World Bank is providing technical assistance to improve the accounting procedures of the National Bank and both the Fund and the World Bank are providing assistance to separate the central banking functions of the National Bank from its commercial and development banking functions. The Government will promulgate banking legislation by end-1989 in consultation with the Fund and the World Bank, to prepare for an orderly establishment of private commercial banks, including foreign-owned ones, in Guinea-Bissau.

(d) Promotion of Productive Priority Sectors

32. In order to expand agricultural output and exports without direct government intervention, the guaranteed minimum producer prices will be adjusted annually to reflect international prices and costs of production, and private merchants are free to purchase crops from producers at or above the guaranteed minimum prices. The export tax on cashew nuts will be further reduced, as mentioned above, with a view to reducing

incentives for smuggling and taking into account the overall fiscal situation.

33. The Government has prepared, in conjunction with the 1987 UNDP agricultural sector consultation, a strategy paper, aimed at redirecting foreign assistance to high priority needs in agriculture and fishing. The strategy will include the following steps to stimulate output: (a) the encouragement of competition in marketing; (b) the restructuring of the mangrove rehabilitation projects and the integrated rural development projects, in collaboration with donors and creditors; and (c) further development of the fishing industry, including the establishment of joint venture industrial fishing as well as the renegotiation of existing fishing license agreements so that license fees will be based on tonnage and duration of the license rather than on the value of the catch.

34. Output in agriculture (including fishing) is expected to increase by about \_\_\_ percent per annum in real terms in the period 1989-91, based on the anticipated increase in production of cashews; the expected rapid increase in rice yields from the restoration of low-cost mangrove fields; the restoration of groundnut output to the level of the 1950's with the application of fertilizers, greater incentive to produce for sale, and improved marketing facilities; the anticipated substantial increases in local value added in fishing through displacement of foreign boats operating in national waters; and the foreseen exploitation of the country's extensive and largely untapped forestry resources, possibly in conjunction with foreign private investors. The potential for oil

development is being explored and, depending on price and technology, commercial exploitation of petroleum may be a possibility in the 1990's.

(e) Public Enterprises

35. The Government is undertaking a diagnosis of the public enterprise sector, with financing from the World Bank. Based on this diagnosis, which is expected to be completed in early 1989, a major reform of the public enterprise sector will be initiated. The reform will aim at a reduction in the size of the Government's portfolio through liquidation or privatization of those public enterprises that do not provide vital public services. For enterprises remaining in the Government's portfolio, rehabilitation programs will be designed, and technical, financial and managerial assistance sought, as necessary, for their implementation. An overhaul of the regulatory framework for the public enterprises operate will be initiated with a view to clarifying the initial responsibilities of the public enterprises and the Government and strengthening the autonomy of public enterprises with regard to day-to-day management. Finally, a timetable for the elimination of all verified cross-debts between public enterprises and the Government will be established with implementation beginning 1989. One of the two state trading firms (SOCOMIN) has been liquidated in 1988, while reform of the other firm (Armazens do Povo) is continuing, with assistance from the European Economic Community. As its remaining retail outlets are being transferred to the private sector, and the private sector expands its activities in the trading sector, the future role of the public trading firm will be re-evaluated.

36. The principal loss-making public enterprise is the water and electric utility (EAGB). A sector review, financed by the World Bank, has been undertaken in 1988, and it is expected that a management agreement will be concluded with a foreign firm by mid-1989 to strengthen the managerial and technical capabilities of EAGB. An audit of EAGB's accounts, to be undertaken shortly with UNDP financing, will establish the level of gross debt with other government entities and the level of debt to be written off--or transferred into equity--to put EAGB on a sound financial footing. In order to generate financial resources to pay for fuel and essential repairs to the distribution system, EAGB has implemented more rigorous tariff collection procedures. The level and the structure of the electricity tariffs will be revised, beginning in 1989, in consultation with the World Bank staff, to ensure that there will be no transfers or subsidies from the government budget to EAGB.

(f) Pricing Policies

37. Since 1986, the Government has been narrowing the scope of the comprehensive system of price control. In 1987 the prices of five import categories remained centrally administered: petroleum products, rice, sugar, cooking oil and fertilizers. The controlled prices for transport services were replaced in 1987 by a system of maximum and minimum rates for transports to and from the interior of the country. At end-1988, prices for sugar, cooking oil, and fertilizers were liberalized, and the centrally administered prices for private transport services will be phased out in

1989 in order to encourage a more efficient use of the country's limited supply of trucks and boats.

## VI. SOCIAL IMPACT

38. The adjustment program will significantly increase the income of the poorest segment of the population in Guinea-Bissau, namely small farmers. The welfare of the rural population will increase as higher farm gate prices and greater import availability will more than offset the impact of higher prices for imports and services. Real per capita consumption is expected to rise by about one percent per annum in 1989-91. At the same time, however, some urban groups, especially public sector employees, will continue to be adversely affected as Government salaries in real terms as well as the number of civil servants and employment possibility in public enterprises are being reduced.

39. The Government's response to the negative impact of adjustment on certain social groups included: (a) the implementation of an emergency Social and Infrastructure Relief program (SIRP) supported by IDA funds, to ensure the availability of job opportunities, and improved or expanded health and education services for vulnerable groups; and (b) the implementation of a program for retraining and resettling of laid-off employees in rural areas aided by severance payments, which are financed by the UNDP and other donors and with additional financing under the auspices of the SIRP. In order to ensure broad-based participation in the process of economic growth, particular attention will be paid in the credit

allocation process to the financing requirements for the creation and expansion of small businesses in the private sector. A World Bank-managed study, financed by the UNDP, is being launched to evaluate the real income effects of the structural adjustment program and the pace of adjustment at the household level in representative segments of the population.

Furthermore, an ongoing survey of the impact of the adjustment program in the rural areas will be financed by the UNDP and IFAD.

## VII. FINANCING REQUIREMENTS

40. As set out in Annex II, the total financing requirement for the period 1988-91 amounts to approximately US\$ \_\_ million, to which must be added a margin for an increase in official foreign exchange reserves to enable the elimination of external arrears. The Government intends to eliminate all medium- and long-term debt service arrears by end-1988. The total financing requirement for 1988-91, including arrears liquidation and an increase in official reserves, will be of the order of US\$ \_\_ million.

41. On the basis of existing commitments, US\$ \_\_ million is expected to be disbursed by donors and creditors. In the light of the historical record of commitments and in view of the ongoing adjustment program, additional disbursements of US\$ \_\_ million from new commitments are assumed to be realistic, excluding possible disbursements under the SAF. The disbursement in 1988-91 under existing commitments from IDA (including Special Facility for Africa financing) are estimated at US\$ \_\_ million in project credits, and US\$ \_\_ million in program credits. Other major loan

financing is obtained from the ADF, IFAD, Kuwait and Saudi Arabia. The principal grant financing is obtained from France, Germany, the Netherlands, Sweden, and Switzerland. Grants are being reprogrammed toward assistance in support of the adjustment effort, and project assistance is conservatively set below historical levels. In order to improve coordination among donors and creditors, the World Bank intends to sponsor a session on program assistance within the framework of its proposed meeting of donors in December 1988.

42. On the basis of the expected disbursements under existing and new commitments, a financing gap of the order of US\$ \_\_ million would remain for the period 1989-91. This gap could be financed through additional exceptional financing, including debt relief. The Government is preparing a proposal to be submitted to the Paris Club in late 1988, to seek debt relief for calendar 1989. As the Government proceeds with the implementation of the adjustment measures, it is also expected that the international community would be encouraged to provide additional exceptional financing.

Guinea Bissau: Summary and Implementation Timetable of  
Adjustment Policies, 1989-1991

Policy Areas	Objectives and Targets	Measures	Timetable
<u>1. External policies</u>			
a. Exchange rate	Limit the spread between the official and parallel market exchange rates.	* Maintain tight financial policies; and a flexible official exchange rate policy so as to limit the spread to about __ percent.	1989-91
b. Exchange system	Encourage repatriation of foreign exchange.	Surrender of foreign exchange permitted irrespective of source.	1989-91
c. Foreign trade liberalization	Reduce quantitative restrictions and reliance on barter agreements.	* Issue import licenses automatically for all nonpetroleum commercial imports under Open General License system, except for a short negative list.	1989-91
d. Taxes on exports and imports	Reduce export taxes, eliminate exemptions and exonerations, and achieve uniform tariff rates.	* Reduce the cashew export tax in function of fiscal situation.  * Abolish all import tariff exemptions, including those for the public sector, for public enterprises and for the "lojas de vendas em divisas"  * Negotiate with donors to reduce exemptions for foreign-financed project-related imports to the extent possible.	1989-91  1989  1989-91
<u>2. External debt management</u>			
	Contracting or guaranteeing of new loans on concessional terms only.	* No new loans with grant element of less than 50%, except normal trade credits and refinancing of existing debt.	1989-91
	Service external debt on orderly basis and eliminate arrears. No new external arrears.	Consolidate medium- and long-term debt of the National Bank with Central Government debt and complete computerization of all external debt data.  Prepare quarterly foreign exchange budgets to ensure timely service of external debt obligations.	1989  1989
		Eliminate all short-term external arrears of the National Bank.	1989-90
		Complete implementation of agreement with Paris Club creditors of October 1987; and prepare request for further debt relief under auspices of the Paris Club.	1989-91
<u>3. Fiscal policy</u>			
a. Revenues	Simplify and rationalize tax system, improve collection, and broaden the tax base. Enhance tax administration.	Prepare comprehensive tax survey with action plan.  Enhance tax administration in line with Fund staff recommendations.  No new tax exemptions; curtailment of existing exemptions except those based on contractual obligations.  Reduce the export tax on cashews and revise import tariffs, see 1.d above.	1989-90  1989-90  1989-91  1989-91

Guinea Bissau: Summary and Implementation Timetable of  
Adjustment Policies, 1989-1991 (continued)

Policy Areas	Objectives and Targets	Measures	Timetable
b. Expenditures	Contain current expenditures by limiting increases in the wage bill; eliminating subsidies and increasing expenditure controls.	Establish and maintain civil service register to monitor government employment policies.	1989-91
		Adopt plan for a further reduction in the number of civil servants by about — percent in 1989-90.	1989-90
		The increase in the wage bill to be limited to — percent; adequate provisions for materials and supplies	1989
		Improve monitoring of government cash transactions.	1989
4. <u>Monetary and credit policy</u>			
a. Credit	Design policies consistent with the targets for the balance of payments, inflation, and growth. Priority in access to bank credit to be given to the nongovernment sector.	No net use of bank credit by the Government in 1989-91; elimination of the Government's debt to the National Bank and strengthening of the National Bank through appropriate capital increases.	1989-91
b. Interest rates	Flexible interest rate policy with the aim of achieving and maintaining positive real rates	* Lending and deposit rates to be adjusted periodically to maintain positive real rates during the program period.	1989-91
c. Banking system	Institutional reform to strengthen financial intermediation and banking services	* Improve ENG accounting system. * Separation of commercial and central banking functions of ENG. * Promulgate a new central bank law in consultation with the Fund staff to prepare for the establishment of private banks.	1989-91 1989 1989
5. <u>Public Investment</u>	Emphasize projects in support of directly productive activities, especially in agriculture and fishing and remove identified bottlenecks.	Integrate all public investment outlays into the annual budget exercise and budgetary control process. Establish project inventory, and update regularly to improve assessment of financial implications of public investment, in consultation with the World Bank. Prepare and implement a three-year "rolling" investment program. Strengthen the role of the National Commission for Economic Coordination and Management in programing and monitoring public investment.	1989-91 1989-91 1989 1989
6. <u>Priority sectors</u>			
a. Agriculture	Export parity pricing without implicit or explicit taxation  Implement agricultural sector strategy and re-evaluate investments in line with it	* Adjust minimum producer prices annually. * No export taxes, except on cashew nuts; see 1(d) above. * Redesign mangrove rice and integrated rural development projects in line with conclusion of the 1987 sectoral consultation.	1989-91 1989-91 1989
b. Fishing	Increase value added of the fishing sector.	* Prepare and implement a development strategy. * Continue to renegotiate fishing license agreements to obtain more favorable terms. * Strengthen control of coastal waters.	1989 1989-91 1989-91

Guinea Bissau: Summary and Implementation Timetable of  
Adjustment Policies, 1989-1991 (concluded)

Policy Areas	Objectives and Targets	Measures	Timetable
7. <u>Public sector management</u>			
a. <u>Public enterprises</u>	Reduce scope of public enterprise sector through liquidation and privatization	* Complete liquidation of SOCOMEX. Continue reform of Armazens do Povo.	1989
	Increase efficiency of remaining public enterprises.	Implement plan of action based on diagnostic study on public enterprise sector with World Bank assistance, including a phased elimination of cross debts, the liquidation of public enterprises considered non-viable; the privatization of public enterprises not providing essential public services; and the rehabilitation of remaining public enterprises.	1989-91
	Improve economic and financial performance of the electricity company.	* Sector review with World Bank; if necessary, engage foreign management. * Increase tariffs annually, with current cost recovery by 1990. * Strengthen new tariff collection policy.	1989 1989-91 1989
b. <u>Civil Service</u>	Improve efficiency and cost-effectiveness.	Carry out study of the structure and staffing with assistance from the World Bank and UNDP. Initiate recommendations	1989 1989-90
8. <u>Pricing and marketing</u>	Continued reduction of price controls and elimination of all import monopolies.	* Eliminate controlled prices for all imports, except petroleum. * Maintain import parity prices for heavy fuels; adjust prices for all petroleum products in line with the evolution of import costs and fiscal objectives. Revise retail prices quarterly for all petroleum products.	1989 1989-91
	Encourage private trade and transport	* Liberalize private transport tariffs.	1989
9. <u>Social Impact</u>			
a. <u>Accompanying social policies</u>	Reduce any negative social impact of the program	* Implement a study of social impact with World Bank assistance. * Implement program for training and redeployment of civil servants with assistance from the World Bank, UNDP, and other donors. * Improve health and education services for the rural poor and other vulnerable groups in the context of the IDA-supported social and infrastructure relief program.	1989-91 1989-91 1989-91

\* / Refers to measures incorporated in the World Bank's structural adjustment program.

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Annex H

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PROGRAM GRANT AGREEMENT

BETWEEN

THE UNITED STATES OF AMERICA  
ACTING THROUGH  
THE AGENCY FOR INTERNATIONAL DEVELOPMENT  
("A.I.D.")

AND

THE REPUBLIC OF GUINEA-BISSAU  
("GRANTEE")

(657-0013)

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ARTICLE 1: THE GRANT

Pursuant to the authority contained in the Foreign Assistance Act of 1961, as amended, and the "Sub-Saharan Africa, Development Assistance" section of the Foreign Assistance Appropriations Act, 1989, A.I.D. hereby agrees to grant to the Grantee under the terms of this Agreement an amount not to exceed One Million Five Hundred Thousand United States Dollars (US\$1,500,000) ("Grant"), being the initial increment out of a planned life of program grant of Four Million Five Hundred United States Dollars (US\$4,500,000), to promote its agricultural sector reforms as set out in this Agreement. Subsequent increments will be subject to the availability of funds to A.I.D. for this purpose and to the mutual agreement of the parties, at the time of a subsequent increment, to proceed. It is planned that such subsequent increments will be made available to the Grantee in two equal tranches of One Million Five Hundred Thousand United States Dollars (US\$1,500,000) each upon the satisfaction of the applicable conditions precedent to disbursement.

The additional amount of One Hundred Eighty Thousand United States Dollars (US\$180,000) is planned to be provided through the execution of a Complementary Program Grant Agreement concurrently with the signing of this Agreement. The Complementary Program Grant Agreement will finance the foreign exchange and local currency costs of technical and financial assistance required to develop and support impact monitoring of the Agricultural Sector Assistance Program. The total amount of United States financing planned for the program, therefore, is Four Million Six Hundred Eighty Thousand United States Dollars (US\$4,680,000).

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The assistance made available through this Agreement is provided in conjunction with the second phase of the Grantee's Structural Adjustment Credit Program ("SAC II") with the World Bank's International Development Association ("IDA").

## ARTICLE 2: PROGRAM DESCRIPTION

### Section 2.1. Background

The United States Development Fund for Africa ("DFA") provides for program support for economic reform efforts undertaken by African countries. Because of the recent macroeconomic and sectoral policy reforms undertaken by Guinea-Bissau, the Grantee has been selected for program support under the DFA within the context of the Grantee's Second Structural Adjustment Credit being implemented with the World Bank's International Development Association and other donors [the International Monetary Fund, African Development Fund, the Netherlands].

The Guinea-Bissau Agricultural Sector Assistance Program ("Program") recognizes the important macroeconomic and sectoral policy reforms, in particular, the agricultural sector reforms, already initiated by the Grantee and provides support for certain additional actions which the Grantee will be undertaking over the next three years.

### Section 2.2. Purpose

The purpose of the Program is to support and consolidate the Government of Guinea-Bissau's agricultural sector reforms with primary emphasis on improving the agricultural pricing incentive structure for farmers in Guinea-Bissau. This Program is further described in detail in the attached Amplified Program Description, Annex I, of this Agreement. Within the limits of the above description of the Program, elements of the Amplified Program Description may be changed by written agreement by the authorized parties named in Section 9.2. without formal amendment of this Agreement.

## ARTICLE 3: CONDITIONS PRECEDENT TO DISBURSEMENT

### Section 3.1. First Disbursement

Prior to any disbursement of the Grant or to the issuance by A.I.D. of documentation pursuant to which disbursement for the first tranche will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D., the following:

A. An opinion of counsel that this Agreement has been executed on behalf of and duly authorized and/or ratified by the Grantee and that it constitutes a valid, legally binding agreement of the Grantee in accordance with all of its terms;

B. A statement of the name of the person holding or acting in the office of the Grantee specified in Section 8.2 and of any additional representatives, together with a specimen signature of each person specified in such statement;

C. Evidence that the total level of export taxes on cashews, customs and other fees inclusive, has been reduced from 47 per cent to 40 per cent; and

D. Evidence that the rice subsidy to civil servants by the Grantee has been eliminated.

### Section 3.2. Second Disbursement

Prior to the disbursement of the second tranche of the Grant or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee shall, except as the Parties may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D., the following:

A. Evidence that the total level of export taxes on cashews, customs and other fees inclusive, has been reduced from 40 per cent to 35 percent, or to a rate which may otherwise be agreed upon between the Grantee and A.I.D.; and

B. Evidence that the rice subsidy to civil servants, eliminated as a condition for disbursement of the first disbursement herein, has not been reinstated.

### Section 3.3. Third Disbursement

Prior to the disbursement of the third tranche of the Grant or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee shall, except as the Parties may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D., the following:

A. Evidence that the total level of export taxes on cashews, customs and other fees inclusive, has been reduced from 35 per cent to 30 percent, or to a rate which might otherwise be agreed upon between the Grantee and A.I.D.; and

B. Evidence that the rice subsidy to civil servants, eliminated as a condition for disbursement of the first disbursement herein, has not been reinstated.

### Section 3.4. Notification

When A.I.D. has determined that the Conditions Precedent specified in Sections 3.1, 3.2 and 3.3 herein have been met, it will promptly notify the Grantee.

## ARTICLE 4: DISBURSEMENTS

### Section 4.1 Disbursement Procedures

After satisfaction of the conditions specified in Sections 3.1, 3.2 and 3.3 herein, the Grantee may request in writing that A.I.D. make the disbursement of funds under each tranche of this Grant. After review and approval of the documentation submitted by the Grantee, A.I.D. will disburse the funds under the Grant to the United States bank and account number designated by the Grantee. The procedures for disbursement will be further detailed as necessary in Implementation Letters.

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Section 4.2 Date of Disbursement

Disbursement(s) by A.I.D. will be deemed to occur on the date(s) on which the proceeds of the Grant are disbursed pursuant to Section 4.1 herein.

Section 4.3 Terminal Dates for Requesting Disbursements

Except as A.I.D. may otherwise agree in writing, the terminal dates for requesting disbursement of the three tranches under this Agreement will expire as follows:

A. For the first tranche, six (6) months from the date of signing of this Agreement.

B. For the second tranche, six (6) months from the date of notification that the conditions precedent set forth in Article III, Section 3.2 have been met;

C. For the third tranche, six (6) months from the date of notification that the conditions precedent set forth in Article III, Section 3.3 have been met.

In the event that disbursements of the Grant have not been requested as set forth above, or such later date as A.I.D. may agree to in writing, A.I.D., at its option, may terminate this Agreement by written notice to the Grantee.

ARTICLE 5: COVENANTS

Section 5.1 Completeness of Information

The Grantee confirms that:

A. The facts and circumstances of which it has informed A.I.D., or caused A.I.D. to be informed, in the course of reaching agreement with A.I.D. on this Agreement, are accurate and complete, and include all facts and circumstances that might materially affect this Grant and the discharge of responsibilities under this Agreement; and

B. It will inform A.I.D. in a timely manner of any subsequent facts and circumstances which might materially affect, or which it is reasonable to believe might so affect, the Grant or the discharge of responsibilities under this Agreement.

### Section 5.2 Special Covenants

The Grantee covenants and agrees as follows:

A. To adhere to the Action Program for Agriculture as set forth in the Matrix of Policy Actions of the Second Phase of the Government of Guinea-Bissau's Second Structural Adjustment Program;

B. Not to use foreign exchange or local currency funds provided hereunder for the procurement or use or both of pesticides or for abortion equipment or services;

C. Not to reverse, discontinue, undo, change any of the actions taken, or otherwise impede the implementation of any of the actions taken in fulfillment of meeting the conditions precedent set forth in Article 3 herein, except with the prior written consent of A.I.D.;

D. To carry out the Program as set out in the Amplified Program Description (Annex I), or cause it to be carried out with due diligence and efficiency, in conformity with sound technical, financial, and management practices, and in accordance with those documents, plans, specifications, contracts, schedules or other arrangements, and with modifications therein, approved by A.I.D. pursuant to this Agreement.

### Section 5.3 Achievement of Policy Objectives

The Grantee agrees that evaluation of progress made under the SAC II Program may require modifications to the conditionality presently agreed upon in order to achieve the Program objectives.

### Section 5.4 Reports, Records, Inspections, Audits

The grantee will:

A. Furnish A.I.D. such information and reports relating to the Program and to this Agreement as A.I.D. may reasonably request;

B. Maintain or cause to be maintained, in accordance with generally accepted accounting principles and practices consistently applied, books and records relating to the Program and to this Agreement, adequate to document, without limitation, the receipt and use of Grant funds. Such books and records will be maintained for three years after the date of last disbursement by A.I.D.; and

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C. Afford authorized representatives of A.I.D. the opportunity at all reasonable times to inspect activities under the Program and books and records and other documents relating to the Program and the Grant.

ARTICLE 6: USE OF FUNDS

The Grantee agrees that the funds provided hereunder shall not be used to finance military, paramilitary, or police requirements of any kind, including the procurement of commodities or services for those purposes, or to pay principal or interest on loans to the military or police; or to finance pesticides or abortion equipment or services.

ARTICLE 7: TERMINATION; REMEDIES

Section 7.1. Termination

This Agreement may be terminated by mutual agreement of the parties at any time. Either party may terminate this Agreement by giving the other party thirty (30) days written notice. Termination of this Agreement will terminate any obligations of the parties to provide financial or other resources to the Program pursuant to this Agreement, except for payments which they are committed to make pursuant to noncancellable commitments entered into with third parties prior to the termination of this Agreement.

Section 7.2. Suspension

If at any time:

- A. The Grantee shall fail to comply with any provision of this Agreement;
- B. Any representation or warranty made by/on behalf of the Grantee with respect to obligating this Grant or made under this Agreement is incorrect in any material respect;
- C. Any event occurs that A.I.D. determines to be an extraordinary situation that makes it improbable either that the purpose of this Grant will be attained or that the Grantee will be able to perform its obligations under this Agreement;
- D. Any disbursement by A.I.D. would be in violation of the legislation governing A.I.D.; or
- E. A default shall have occurred under any other Agreement between the Grantee or any of its Agencies and A.I.D. and any of its Agencies;

Then A.I.D. may suspend this Agreement.

Section 7.3. Cancellation by A.I.D.

If, within sixty (60) days from the date of any suspension pursuant to Section 8.2., the cause or causes thereof have not been corrected, then A.I.D. may cancel any part of this Grant that is not then disbursed.

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Section 7.4. Refunds

In the case of any disbursement which is not supported by valid documentation in accordance with this Agreement, or which is not made or used in accordance with this Agreement, A.I.D., notwithstanding the availability or exercise of any other remedies provided for under this Agreement, may require the Grantee to refund the amount of such disbursement in U.S. dollars to A.I.D. within sixty (60) days after receipt of a request therefor.

The right to require a refund of a disbursement will continue, notwithstanding any other provision of this Agreement, for three years from the date of the last disbursement under this Agreement.

Section 7.5. Non-waiver of Remedies

No delay in exercising or omitting to exercise any right, power, or remedy accruing to A.I.D. under this Agreement will be construed as a waiver of such rights, powers, or remedies.

ARTICLE 8: MISCELLANEOUS

Section 8.1. Implementation Letters

From time to time, for the information and guidance of both parties, A.I.D. will issue Implementation Letters describing the procedures applicable to the implementation of the Agreement. Except as permitted by particular provisions of this Agreement, Implementation Letters will not be used to amend or modify the text of this Agreement.

Section 8.2. Representatives

For all purposes relevant to this Agreement, the Grantee will be represented by the individual holding or acting in the office of \_\_\_\_\_, Ministry of \_\_\_\_\_, and A.I.D. will be represented by the individual holding or acting in the office of A.I.D. Representative, USAID Mission to Guinea-Bissau, each of whom, by written notice, may designate additional representatives for all purposes other than exercising the power under Section 2.2. to revise elements of the Amplified Program Description, Annex I. The names of the representatives of the Grantee, with specimen signatures, will be provided to A.I.D., which may accept as duly authorized any instrument signed by such representatives in implementation of this Agreement until receipt of written notice of revocation of their authority.

Section 8.3. Communications

Any notice, request, document, or other communication submitted by either party to the other under this Agreement will be in writing or by telegram or cable, and will be deemed duly given or sent when delivered to such party at the following addresses:

- To the Grantee: Minister of \_\_\_\_\_, Bissau, Guinea-Bissau.

- To A.I.D.: Office of the A.I.D. Representative  
Apartado 97, Bissau 1021  
Bissau, Guinea-Bissau

Section 8.4. Language of the Agreement

This Agreement is prepared in English and Portuguese. In the event of ambiguity or conflict between the two versions, the English version will control.

ARTICLE 9: PROGRAM ASSISTANCE COMPLETION DATE

The Program Assistance Completion Date ("PACD"), which is September 30, 1991, or such other date at the parties may agree to in writing, is the date by which the parties estimate that all U.S. dollar disbursements to the Grantee will have been completed for the Program as contemplated in the Agreement.

Except as A.I.D. may otherwise agree in writing, A.I.D. will not make disbursements under the Grant subsequent to the PACD.

IN WITNESS THEREOF, the Grantee and the United States of America, each acting through its duly authorized representative, have caused this Agreement to be signed in their names and delivered as of the day and year written below.

FOR THE REPUBLIC  
OF GUINEA-BISSAU  
Date:

FOR THE UNITED STATES  
OF AMERICA  
Date:

[ fill in name ]  
Secretary of State for Economic  
Coordination and International  
Cooperation

Anne M. Williams  
A.I.D. Representative  
USAID/Guinea-Bissau

John D. Blacken  
The Ambassador of the  
Embassy of the United States  
of America

Fiscal Data:  
Appropriation Symbol: 72-1191014  
BPC: GSSA-89-21657-KG13 (814-50-657-00-69-81)

REDSO/WCA Concurrence: Abidjan \_\_\_\_\_ dated \_\_\_\_\_.

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Annex I

AMPLIFIED PROGRAM DESCRIPTION

Guinea-Bissau Agricultural Sector Assistance Program

I. Introduction

The Guinea-Bissau Agricultural Sector Assistance Program (ASAP, 657-0013) is consistent with Guinea-Bissau's Policy Framework Paper and supports the objectives of the International Development Association's (IDA) Second Structural Adjustment Credit (SAC II) for Guinea-Bissau. The ASAP is intended to reinforce the already major accomplishments of the Structural Adjustment Program of the Government of Guinea-Bissau, and in particular, will support policy reforms in the agricultural sector. The reforms are consistent with the agriculture-led growth strategy of the Government.

The ASAP is a three-year, \$4.68 million sectoral assistance activity developed in conjunction with the second phase of the Government of Guinea-Bissau's Structural Adjustment Program (SAP). A.I.D.'s program will cofinance SAC II and will participate in its implementation using the parallel financing mechanism. ASAP will consist of a cash grant to the Government of Guinea-Bissau (GOGB), to be released in three equal tranches of \$1.5 million each in accordance with Articles 3 and 4 of the Agreement. The three tranches will be released to the GOGB as it implements reforms pertinent to the agricultural sector. In addition to the cash grant, ASAP also includes provisions for technical assistance financing (\$180,000) for impact monitoring and evaluation services, which will be obligated separately. Total planned financing for ASAP will therefore be \$4,680,000.

II. Objectives

The program goal for the Guinea-Bissau Agricultural Sector Assistance Program is to increase rural incomes. This implies both higher prices paid for domestically produced agricultural commodities, as well as increased production levels.

The program purpose is to increase farmgate prices for two important agricultural crops, rice and cashews. This will be accomplished through the gradual reduction of the cashew export tax, and elimination of rice subsidies to civil servants.

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For the first year of ASAP, the cashew export tax will be reduced from 47% to 40%. Subsequent reductions of the cashew export tax will be the subject of future negotiations between the GOGB, IDA and A.I.D., and the rate of reduction will take into account the fiscal impact of the cashew export tax reduction, the world market prices for cashews, the progress of implementation of the overall policy reform agenda under SAC II, and the effect of exogenous factors that might adversely affect the pace of the reform program. It is tentatively planned that such reduction will be 5% per year (Year 2 to 35% and Year 3 to 30%) although the pace might be accelerated.

For rice, the output will be the elimination of the rice subsidy for civil servants, and the requirement that the rice subsidy not be reinstated. This will not only have a positive fiscal impact on the GOGB's budget, but will also increase the demand for locally produced rice which will favorably impact the Guinea-Bissauan farmers.

### III. Policy Reform

Release of the three tranches will be subject to GOGB performance in policy reform in the agricultural sector: gradual reduction of the cashew export tax, and elimination of the rice subsidy to civil servants.

#### A. Cashew Export Tax

In order to increase incentives at the farmgate and to stimulate marketing of cashews through official and commercial channels, the GOGB will gradually reduce the level of the cashew export tax over the life of program. As the GOGB accomplishes this, A.I.D. will release the tranches accordingly:

##### First Tranche (target date: July 1989)

GOGB submission of documentation, acceptable to A.I.D., which demonstrates that the cashew export tax (rural property and port taxes inclusive) has been reduced from 47% to 40%.

##### Second Tranche (target date: January 1990)

GOGB submission of documentation, acceptable to A.I.D., which demonstrates that the cashew export tax (rural property and port taxes inclusive) has been reduced from 40% to 35%, or some other rate as mutually agreed upon between A.I.D., the GOGB, and IDA.

##### Third Tranche (target date: January 1991)

GOGB submission of documentation, acceptable to A.I.D., which demonstrates that the cashew export tax (rural property and port taxes inclusive) has been reduced from 35% to 30%, or some other rate as mutually agreed upon between A.I.D., the GOGB, and IDA.

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B. Rice Subsidy

In order to foster a more competitive environment for domestically produced rice, promote higher farmgate prices, and stimulate production due to price responsiveness, the GOGB will take actions to eliminate identified policy constraints to domestic rice production. As the GOGB does this and maintains actions previously undertaken, A.I.D. will release the tranches accordingly:

First Tranche (target date: July 1989)

GOGB submission of documentation, acceptable to A.I.D., which demonstrates that the rice subsidy to civil servants has been eliminated.

Second Tranche (target date: January 1990)

GOGB submission of documentation, acceptable to A.I.D., which demonstrates that the rice subsidy to civil servants has not been reinstated.

Third Tranche (target date: January 1991)

GOGB submission of documentation, acceptable to A.I.D., which demonstrates that the rice subsidy to civil servants has not been reinstated.

IV. Complementary Program Assistance

In addition to the total of \$4.5 million cash grant to be disbursed as described above, A.I.D. will provide a total of \$180,000 to finance technical assistance and local costs to the Ministry of Plan Statistical Division associated with development and testing of the baseline study questionnaire, administration of the questionnaire in selected rural areas of Guinea-Bissau, tabulation and analysis of the collected data, and preparation of the baseline study report. These funds will also be programmed to finance costs associated with the collection of time series data in subsequent years, tabulation and analysis of collected data, and report preparation. To assist in this activity, the ASAP will provide funding for technical assistance for this impact monitoring component.

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V. Implementation Responsibilities and Schedule

A. Implementation Responsibilities

The implementation responsibilities for this program take into consideration the cofinancing relationship between ASAP and SAC II. The roles of the A.I.D., the World Bank, and the GOGB are summarized below.

1. A.I.D.'s Responsibilities

(a) OAR/GB:

- Will negotiate terms of and sign Program Assistance Agreement in order to specify conditions of A.I.D.'s contribution to the SAC II program and to obligate funds;
- Upon meeting of conditions precedent to disbursement to A.I.D.'s satisfaction and upon appropriate REDSO/WCA/RLA review and clearance, OAR/GB will prepare Financing Request and submit to M/FM/PAFD, to process the cash disbursement to the GOGB's U.S. bank account;
- OAR/GB will participate in joint review missions with IDA and maintain regular contact with the World Bank Resident Representative in Bissau;
- OAR/GB will work closely with the GOGB Ministry of Plan Statistical Division for the collection and analysis of baseline and follow-up data regarding rural incomes and market prices for cashews and rice.;
- OAR/GB will be responsible for making required amendments and obtaining REDSO/WCA concurrence pursuant to DOA 551 to the Program Assistance Agreement between A.I.D. and the GOGB in the event IDA, GOGB, and A.I.D. agree to amend conditionality; and

(b) REDSO/WCA:

- Will, to the extent possible, participate in joint review missions with IDA to review progress under SAC II; and
- Will provide timely technical reviews (legal, financial) and concurrences, as required, pursuant to DOA 551, as amended; and

(c) AID/W:

- Will provide required backstopping and follow-up regarding cash disbursements to the GOGB;
- Will effect cash disbursement to GOGB account upon receipt of the Financing Request from the OAR/GB; and
- Will meet on regular basis with Bank staff on status of SAC II and will apprise OAR/GB of developments.

## 2. World Bank's Responsibilities

Although the World Bank is not a party to this Agreement, because of the linkage between the ASAP and the SAC II, some of the measures it will take in the process of implementing SAC II, will be important to the process of implementing this Agreement. Through its International Development Association, it will take the lead in negotiations and monitoring of SAC II progress, conduct regular missions to review progress under SAC II and take the lead in renegotiating conditions of effectiveness, if required. A.I.D. will keep abreast of developments pertaining to the overall reform program, and in particular SAC II, through consultation with the World Bank and GOGB.

### 3. GOGB's Responsibilities:

#### (a) Ministry of Plan:

- Will be A.I.D.'s prime working contact for this program for the rural income data collection and analysis component.

#### (b) Ministry of Commerce and Economic Coordination:

- Will continue to manage the liberalization of trade and prices in the economy and will be responsible for overseeing and managing all economic affairs within Guinea-Bissau.

#### (c) The Secretariat of State for Economic Affairs and International Cooperation (SEPAECI):

- Will be the technical secretariat for the National Commission for Economic Coordination and Management (CNCEC), and will provide information and progress reports on economic performance under the structural adjustment program which are required to monitor the impact of this program.

#### (d) Ministry of Finance

- Will be responsible for all external debt, including debt negotiations and reporting.

## B. Implementation Schedule

The ASAP will be implemented over a period of 28 months. Below is an illustrative schedule of planned actions and dates.

Program Approval (AID/W)	6/89
Program Grant Agreement Signed	8/89
Meeting of Conditions Precedent to First Disbursement	8/89
Disbursement of First Tranche	8/89
Initiate Contracting for Baseline Study Assistance	7/89
Develop and Test Baseline Study Questionnaire	9/89
Conduct Baseline Study and Complete First Report	11/89
Joint A.I.D./IDA Program Review	11/89
Add Second Tranche Funding to ASAP	11/89
Meeting of Conditions Precedent to Second Disbursement	1/90
Disbursement of Second Tranche	1/90
Conduct Year 2 Follow-up Rural Income Survey	8/90
Complete Year 2 Follow-up Rural Income Report	9/90
Joint A.I.D./IDA Program Review	11/90
Add Third Tranche Funding to ASAP	11/90
Meeting of Conditions Precedent to Third Disbursement	1/91
Disbursement of Third Tranche	1/91
Final Program Review	6/91
Conduct Year 3 Follow-up Rural Income Survey	8/91
Complete Year 3 Follow-up Rural Income Report	9/91
Program Assistance Completion Date	9/91

VII. Monitoring and Evaluation Plan

A. Monitoring

A key concern under this program is the impact the policy reforms will have on the agricultural sector. The purpose of the policy reforms is to improve incentives in the agricultural sector. The elimination of the consumer rice subsidy, and the reduction in the cashew export tax, are supposed to increase farm prices and incomes. However, the degree to which the policy reforms are actually passed through to the farm level will depend on many factors such as the characteristics of the marketing system (i.e. market structure and transport constraints). The M&E plan will establish a system of measuring changes in farm prices and incomes. In addition, other indicators will be identified and monitored in an effort to isolate the impact of ASAP policy changes and identify other constraints which are frustrating the intent of the policy reforms.

The purpose of the analysis resulting from the M&E Plan will be to learn about the behavior of the agricultural sector in Guinea-Bissau in response to policy changes. This will indicate the extent to which policy changes must be accompanied by other policy or investment measures.

IDA's reporting plan under SAC II does not insist that the GOGB monitor and report on farmgate prices and incomes. This, as well as A.I.D.'s interest in monitoring the impact of sectoral programs on the intended beneficiaries, has necessitated that a separate monitoring and evaluation component be employed under ASAP. A.I.D.'s impact reporting will complement the macroeconomic reporting done by the GOGB to IDA and the IMF.

Based on the above, the following will be measured under ASAP's impact monitoring component:

- changes in farmgate prices for cashews and rice;
- changes in production of cashews and rice;
- changes in rural incomes in Guinea-Bissau; and
- changes in other relevant indicators.

OAR/GB proposes first to do a baseline study and then studies during the two successive years of the ASAP to gather the needed information. OAR/GB will work closely with the Ministry of Plan's Statistical Division to undertake these studies and to make the required analyses. To do so, OAR/GB will have to provide funding to the Ministry of Plan's Statistical Division. It proposes to provide funds for all local costs, including per diem, and travel costs for enumerators, and to cover foreign exchange costs which may include short term technical assistance.

An illustrative budget for the ASAP's rural income data collection and analysis component is shown below.

Illustrative Budget  
Monitoring and Evaluation Component

	Total Dollars
Design/Testing of Questionnaire	22,500
Administration of Baseline Survey	30,000
Analysis and Report Preparation	27,500
Year 2 Follow-up	32,500
Report Preparation	17,500
Year 3 Follow-up	32,500
Report Preparation	17,500
Total	180,000

B. Evaluation

Regular evaluation of the SAC II program will be undertaken by the IDA and A.I.D. during its annual review missions. It is anticipated that the first annual review of this program will be in November 1989, to review progress on the conditions of effectiveness for release of the second tranche under SAC II and to determine if any amendments to the conditions are required based on changed economic conditions during 1989. A similar review is planned for November 1990 prior to release of the third tranche under SAC II.

A.I.D. participation in these annual reviews is expected, with assistance provided either through A.I.D./Washington or REDSO/WCA/PRM. Planning for this will be effected during the annual REDSO/WCA Workload Scheduling Conference held each September in Abidjan.

COMPLEMENTARY PROGRAM GRANT AGREEMENT  
Between  
THE UNITED STATES OF AMERICA  
Acting Through  
THE AGENCY FOR INTERNATIONAL DEVELOPMENT  
("A.I.D.")  
and  
THE REPUBLIC OF GUINEA-BISSAU  
("Grantee")  
  
(657-0016)

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Dated: \_\_\_\_\_

1. Program Title: Agricultural Sector Assistance Program for FY 1989.
2. A.I.D. Program Number: 657-T-601 (Guinea-Bissau 657-0016)
3. Fiscal Data:  
Appropriation: \_\_\_\_\_  
Budget Plan Code: \_\_\_\_\_

The above-named parties hereby mutually agree to carry out the Program described in this Agreement in accordance with (1) the terms of this Agreement, including any annexes attached hereto, (2) the terms of the Program Grant Agreement for Agricultural Sector Assistance for FY 1989 executed concurrently with the signing of this Agreement, and (3) any general agreements between the two governments regarding economic or technical cooperation.

4. Amount of A.I.D. Grant: US \$180,000, described in Annex 1, Paragraph \_\_\_\_\_.
5. The Grantee's Contribution to the Program is described in Annex 1, Paragraph \_\_\_\_\_.
6. Program Assistance Completion Date: September 30, 1991.

7. This Agreement consists of the title page, Annex 1 (Program Description) and Annex 2 (Standard Provisions).

8. Language of Agreement: This Agreement is prepared in both English and Portuguese; the English language version will control in the event of ambiguity or conflict between the two versions.

9. IN WITNESS WHEREOF, the Grantee and the United States of America, each acting through its duly authorized representative, have caused this Agreement to be signed in their names and delivered as of the day and year first above written.

10. FOR THE UNITED STATES OF AMERICA

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Ambassador

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Anne M. Williams  
A.I.D. Representative  
USAID/Guinea-Bissau

FOR THE REPUBLIC OF GUINEA-BISSAU

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Secretary of State for Economic  
Coordination and International  
Cooperation

Fiscal Data:  
Appropriation Symbol:  
BPC:

REDSO/WCA Concurrence: Abidjan \_\_\_\_\_ Dated \_\_\_\_\_

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GC/AFR, PGJohnson/tim:16Jun89:647-9218:2998H