REPORT ON IMPLEMENTING POLICY CHANGE RECONNAISSANCE VISIT TO GUINEA-BISSAU

(DRAFT)

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Team Members:

John D. Blacken
Benjamin Crosby
Eduardo Pereira

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EXECUTIVE SUMMARY

Guinea-Bissau is implementing sweeping macro-economic and political reforms to transform its command economy and one-party system into a private sector-driven economy in a democratic, multiparty political system. Its objective is to obtain sustained economic growth. Key to this endeavor is private sector expansion and investment. The government's implementation capabilities, however, are limited and implementation problems could threaten the success of the reforms.

USAID requested a three-week reconnaissance visit to Guinea-Bissau to investigate whether USAID's Implementing Policy Change (IPC) project might provide assistance to Guinea-Bissau's reform efforts and to identify impediments and constraints hindering the continuing reform efforts. In Bissau, the IPC team met with U.S. Embassy and USAID officials and a wide range of Guinean government, private sector and political leaders, plus donor and non-governmental organization representatives.

The team reviewed the background of the decisions to launch the reforms, progress made, and problems encountered in implementation. It made an assessment of the depth of commitment and opposition of various sectors of society to the reforms and identified the reform areas seen by Guineans to have top priority. Particular attention was given to identifying constraints on private investment and the changes necessary to remove those constraints, thereby creating an "enabling" environment to increased investment.

Some of today's problems flow from the constitution and laws adopted after independence, which were designed for a command economy and one-party political system. The constitution and new laws were imposed on the existing Portuguese system of laws with the proviso that Portuguese laws not specifically invalidated by the new laws would still be valid. Since the policy at the time was to have an economy based on state control and ownership, the thrust of the new laws was anti-private sector.

The first post-independence government sought to industrialize the economy by squeezing the agricultural sector for resources and using foreign loans to build expensive and often ill-conceived industrial projects. Beneficiaries of these policies were the urban class and particularly government officials, the military and public employees to whom the government made available basic food and other necessities at subsidized prices. The gap between domestic production and consumption was made up by importing food either provided by donors or purchased with scarce hard currency. After a change of government in 1980, the emphasis was shifted from industrialization to agriculture.

In 1983, the first attempts were made toward liberalizing the economy. But after some initial improvement, the reform effort lost momentum due to several factors, particularly delays and partial implementation of the reforms. By 1986, the economy's stagnation had reached a crisis stage in which the urban population was hard hit by shortages of basic necessities and a breakdown of services. The government's leaders then decided that the command economy system should be replaced by a private sector-led economy. This time a consensus was created in support of radical change and the transformation was started. Assistance came from the World Bank and the IMF in the form of a structural adjustment program (SAP), as well as from other donors. The GOGB's performance in adhering to the discipline of the SAP has been generally good although periods of impressive progress were punctuated with what a World Bank report termed "slippage in monetary and fiscal discipline ... due in part to the lack of up-to-date and reliable information and to a very weak administrative capacity."

While growth has been significant, serious progress in enhancing private investment has been minimal. A number of serious constraints, in addition to inadequate infrastructure and shortage of skilled personnel, continue to inhibit private investment. The team's interlocutors identified three areas they considered as having priority for reform and would remove constraints on investment. The first area was the legal system. After reforms began in 1986, some of the restrictive laws were selectively not enforced, although there has been a tendency to use the Portuguese laws when disputes over commercial matters develop. However, the existence of the restrictive laws and the confusion of not knowing which laws are applicable or might be applied in the future, discourages some private investors, particularly foreigners.

A second constraint is the weak judiciary, which is still under the supervision of the Ministry of Justice (a constitutional amendment will soon separate the judiciary from the executive). Businesspeople cannot be certain that they can pursue a case with any certainty, that orderly procedures will be followed or that the magistrates will know or be able to identify the relevant laws.

Finally, a government bureaucracy designed for a command economy and a one-party state is unsuited for the private sector-led economy of a democracy. The system was intended for control rather than providing service, incentives and facilitation for private initiative.

The team found a strong commitment by government leaders and broad support throughout the society for the reform program. The beneficiaries of the reforms have been farmers, private sector actors, interest groups, which are now free to express their views, and the large sectors of the population that benefitted from economic growth, availability of goods and the increase in the number of private sector jobs. Losers in the early stage of the economic reforms have been the public employees who have lost employment as a result of reductions in public employment and those public employees still employed, who along with military personnel and, to some extent, the urban population who no longer obtain food and other necessities at subsidized low prices.

The team found that Guinean leaders placed high priority on legal, judicial and administrative reform and particularly those measures that would remove constraints on and facilitate private investment. The general concepts have not yet translated into policy directives, regulations and institutions. Specific policies to orient and set parameters for the investment environment are needed. Administrative structures will have to be eliminated, created, and/or redesigned as part of this process so that the means exist to give life to and enforce policies. Finally, a training program will have to develop human resources to interpret and carry out the policies.

Government leaders are aware that the process of designing and implementing specific and appropriate reforms will be difficult. They recognize the government's limitations and are eager to obtain the kind of assistance that IPC's strategic management techniques could offer.

Officials involved in the reform program, including the President and the Prime Minister, are prepared to work closely with IPC in designing and implementing policy changes to "enable" private investment.

The IPC team concluded that Guinea-Bissau's leadership could benefit greatly from IPC assistance in applying strategic management techniques to the planning and implementation of the reform program. To ensure that the project would be manageable, IPC would focus on actions and reforms aimed at creating an enabling environment for investment.

FAX COVER

MANAGEMENT SYSTEMS INTERNATIONAL
600 Water Street, S.W. NBU 7-7
Washington, D.C. 20024
FAX NO.: (202) 488-0754

Date: March 11, 1992

Total Pages: 6

Fax No.: (301) 986-0884

TO: Carlos Ramires

FROM: Julie Koenen-Grant

SUBJECT: PORTUGUESE TRANSLATION

Charge Number: 1111

[Confirm at (202) 484-7170]

Dear Carlos,

Here is the material to be translated into Portuguese. Please call me tomorrow when you have finished. Thanks kindly.

Julie

P.S. The abbreviations used in the report are as follows:

USAID = United States Agency for International Development

IPC = Implementing Policy Change Project

IMF = International Monetary Fund

SAP = Structural Adjustment Program

GOGB = Government of Guinea-Bissau

ACRONYMS AND FOREIGN WORD AND NAMES

ADP	Armazens do Povo
Armazens do Povo	Peoples Stores: A state owned system of wholesale and retail stores.
bolanhas	Rice fields in tidelands
djilas	itinerant traders
GOGB	Government of Guinea-Bissau
PAIGC	The Partido Africano da Independencia da Guine e Cabo Verde
ponta	land under concession from the government.
ponteiro	a farmer with a land use concession
tabanca	Small rural community or village
PAIGC	The Partido Africano da Independencia da Guine e Cabo Verde

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I. INTRODUCTION:

The government of Guinea-Bissau has embarked on one of the most comprehensive reform programs underway in Africa involving planning and simultaneous implementation of sweeping economic, political, legal and institutional changes. The reforms are aimed at achieving sustained private sector-led economic growth in a democratic multiparty political system. Success will depend in great part on the country's ability to stimulate domestic and foreign private investment. The government's implementation capabilities, however, are limited and implementation problems could threaten the reform process and the economy's viability.

To investigate the possibility of whether RD/EID's Implementing Policy Change (IPC) project might provide assistance to Guinea-Bissau's reform efforts, USAID/Bissau requested that an IPC team be sent to Guinea-Bissau in January 1992 for a three-week reconnaissance mission. The first members of the team, John Blacken, former American Ambassador to Guinea-Bissau, and Eduardo Periera, Chief of Staff to a Brazilian Senator, arrived in Bissau on January 13. The third member, Dr. Benjamin Crosby, a specialist in political science, public management and institutional analysis who serves as Deputy Director of the Implementing Policy Change Project, arrived in country on January 25. The team's economist, Dr. Antonio Cunha, became ill and did not join the team in Bissau. Dr. Cunha, however, did contribute to the preparation of this report by submitting valuable written material concerning the Guinea-Bissau economy and the economic impact of the reform program (See Appendix 5.). In Bissau, the team was assigned the following GOGB counterparts:

- Mario Filomeno Mendes Pereira, a lawyer who works for the Justice Ministry and serves on the Constitutional Revision Commission;
- Juliano Alberto Ferreira, Office of Legal Studies, Ministry of Justice;
- Vicente Fernandes, Senior Technician, Office of Support for the Judiciary, Ministry of Economy and Finance;
- Higino Lopes Cardoso, Director General, Ministry of Administrative Reform and Civil Service.

The IPC team was asked to ascertain whether GOGB leadership would accept as its own a joint GOGB-USAID/IPC investigation into key policy implementation issues. It also was to identify major reforms seen to be needed, supported and/or opposed by different segments of Guinean society, how specific reforms affect various segments of society, linkages among priority reforms, and finally based on the above, to propose to USAID and relevant GB groups a technical assistance and training program to help GB successfully formulate and implement its reform program. A proposal based on the findings of this report appears as Section IX.

Prior to departure from Washington, D.C., the IPC team members had interviews with the Guinea-Bissau Ambassador to the United States, World Bank staff, relevant USAID and State Department officials, and reviewed materials concerning IPC and Guinea-Bissau's economic situation. In Bissau, initial meetings were held with USAID officials and the American Ambassador.

During its TDY in Guinea-Bissau, the team met with various representatives of the sectors involved in or affected by the reform programs, including the President, Prime-Minister, several Ministers, Secretaries of State, Directors-General of Ministries, opposition party leaders, business leaders and members of the international community, including World Bank and European Community delegates. Repeat meetings were held with some key individuals, including the President and ministers of Finance, Administrative Reform and Civil Service, Agriculture and Rural Development, and Information and Telecommunications.

The team gave special attention to identifying areas considered by the GOGB to be of high priority in continuing the reform program. As the team's work progressed, special attention was devoted to constraints on and continuing impediments to private sector growth and investment.

This report of findings and recommendations is organized into seven chapters including: 1) description of post-independence policies and identification of how different groups were affected; 2) post-1986 structural adjustment and privatization reforms; 3) political reforms to establish a democratic multiparty system; 4) the team's findings, including priority reform areas identified by Guineans and constraints on private sector investment; 5) feasibility of IPC involvement in support of reforms/changes to "enable" private sector investment; 6) analysis of extent of support and commitment to reform program and of winners and losers in the process; and 7) conclusions and recommendations.

The IPC team members wish to thank government officials and other Guineans whom they interviewed for their generosity in giving time for extensive interviews and for the valuable information provided. USAID/Bissau's and Ambassador Jacobsen's hospitality and extensive sharing of information, insight, and points of view were deeply appreciated. Finally, our appreciation goes to our Guinean counterparts for their assistance and support during the visit.

II. Guinea-Bissau: POST-INDEPENDENCE POLICIES

A. Background

Guinea-Bissau is a west African country with a an area of 36,000 square km and a population of about 1,000,000. Approximately 80% of the population lives in rural communities called tabancas and 20% lives in urban areas. Per capital income in 1990 was about U.S. $180, and adult literacy 20-25%. The economy is predominantly agrarian. The 1989-90 agricultural census indicated that there are a total of 88,314 family farm units, representing about 80% of the population of the country, with an average cultivated area of 3.5 hectares. In 1986 these traditional farmers were producing 91.1% of the country's agricultural output; however, the rapid expansion of commercial agriculture in recent years has cut that share to about 80%. (Currie, Neil. "Private Sector Review" Project paper of AID's APLI PP Team, Dec. 1990). The principal food crop is rice and main exports are cashews, groundnuts, palm kernels, cotton, and fish and seafood.

Guinea-Bissau achieved independence from Portugal in 1974 after an 11-year liberation war. The Partido Africano da Independencia da Guine e Cabo Verde (PAIGC), which led the liberation war formed the post independence government. The war caused massive migration of people who needed to be resettled and heavy damage to economic infrastructure. The war caused a drop of 56% in groundnut production and a 72% decrease in land under cultivation for rice. The latter was caused by Portuguese bombing of dams that had kept seawater out of rice fields (bolanhas).(Portuguese data referred to in World Bank Study, 1982, Vol 1, p.12;

also see Renato Aguilar and Mario Zejan, "Guinea-Bissau, A Fresh Start" Gothemberg: Department of Economics, Gothemberg University, 17/91, Feb. 1991). The reclamation of this land has still not been completed.

B. 1974-83: A Command Economy

The new government adopted a Constitution that provided for one-party rule, a centrally controlled or "command" economy and prohibited private ownership of property. The formal private sector, a substantial part of which had been Portuguese citizens engaged in commerce, was virtually eliminated. The state took over 139 private companies in retail trade and incorporated them into the Armazens do Povo (ADP-People's Stores), adding them to 20 People's Stores that had been functioning in liberated areas during the war. This network collected the farmers' output and distributed consumer goods. Despite the ADP monopoly, some private itinerant traders (djilas) survived, primarily by engaging in illegal trade. Most of the agricultural sector remained in private hands, principally in the form of small holdings by traditional peasant farmers, although a few state-owned commercial farms were established. Government policies, however, contained substantial disincentives for official trade in agricultural goods (described later in this chapter).

The economic development strategy adopted by the first post-war government emphasized industrialization and had three main goals: 1) replace imports with domestic production, 2) create new exports, and 3) use agricultural products as raw materials.

The government launched an ambitious public investment program to establish state industries to process primary products and produce consumer goods. At the same time it installed a price control system with very low producer prices. The premise of this strategy, advocated by many academic development specialists at the time, was that economic prosperity in Africa could be reached through emphasis on industrial development, leaping over peasants and backward agriculture.

This approach assumed that traditional farmers did not respond to price incentives and, therefore, they could be used as sources of surplus without important effects on total production. In addition to negative incentives to farmers, other factors such as a lack of experience, poor project planning, both by the international aid community and Guineans, resulted in a long list of failures.

One prime example of failure was the Cumere agro-industrial plant, where a profitable operation would have required processing of 50,000 tons of rice and 70,000 tons of groundnuts each year (as well as large quantities of palm kernels and other products). But the quantities that the government's purchasers were able to obtain from growers in each of the years between 1978 and 1981 averaged only 5,000 tons of rice and 15,000 tons of groundnuts. When construction of the factory was halted in 1981 after the November 1980 change of government, it had already cost U.S. $ 28 million. Another example was a Citroen assembly plant which produced only 150 cars before closing. These industrial investments were financed mainly by external borrowing and created much of Guinea-Bissau's current debt burden. (For more complete coverage of this period, see Galli, R. and J. Jones, Guinea-Bissau. Politics, Economics and Society. (1987) London: Printers.)

The government's policies also failed to ensure adequate supplies of domestically produced food, particularly rice, for urban centers. Farmers resisted selling harvests to state buyers for low prices paid in over-valued Guinean pesos. Instead, they sold or traded their surplus to djilas. The latter, who were largely excluded from legal trade by the state-owned wholesale network (ADP), which discriminated against them by channelling available goods to the ADP retail outlets, conducted clandestine trade with Senegal and, to a lesser extent, Guinea Conakry. In Senegal they bought goods that farmers wanted, such as cooking oil, flour, sugar, and transistor radios, and then smuggled the goods into Guinea-Bissau where they were traded for farm products, mainly rice. The latter was then smuggled to Senegal where the djilas obtained high prices for rice (Senegal had support prices for rice well above world market prices).

Statistics for 1981 show that of an estimated production of 30,000 tons of groundnuts and 80,000 tons of rice that year, only 1547 and 6475 tons respectively, were sold to the government traders (FAO data cited in Galli and Jones, Ibid., pp. 113 and 114). One must assume that much of the remainder not used for local (rural) consumption entered clandestine trade. The government tried to stop this trade by installing armed frontier guards at check points on roads throughout the country to examine all vehicles for smuggled goods. One year it also sent army units to the major rice growing region (Tombali) after the harvest to force sales to the official buyers. The following year, farmers responded by leaving mature rice standing in fields during the dry period after the growing season, harvesting it only when needed for consumption or for trade with djilas.

From the above, it is clear that much of Guinea-Bissau's food production was being siphoned off to neighboring countries and was not getting to the urban population. It also illustrates the value of incentives in obtaining production from Guinea-Bissauan farmers. The government tried to close the urban food gap by importing food, particularly rice, through food aid donations and through use of scarce hard currency. Despite rising cost, rice continued to be sold in urban areas at subsidized prices.

C. Emphasis Shift: Industry to Agriculture

It soon became clear to many Guineans that the strategy of concentrating on industrial development in a predominately agricultural country was not working. This policy was one of the causes of the change of government in 1980. Some officials of the new government favored liberalization of the economy as well as ending the industrialization program. Although they failed to obtain general support in the PAIGC for dropping the command economy, there was a decision to shift emphasis from industrial development to agriculture. With this change, the government began developing agricultural projects and infrastructure, including rebuilding rice dams, creation of a crop protection and disease control agency and a seed laboratory to provide services to farmers.

This change in emphasis to agriculture and the creation of agricultural infrastructure were steps in the right direction, but insufficient incentives continued to be offered to farmers for them to sell to state traders. At the same time, other policies that stifled private sector activity remained in place. These included:

- Prohibition on private ownership of property;
- A state-owned and operated marketing monopoly that controlled all formal exports and imports and held a monopoly on wholesale and retail trade;
- Comprehensive government intervention in all aspects of the economy, rigid producer and consumer price controls, and an overvalued exchange rate.

D. 1983-85: First Attempts at Structural Adjustment

An attempt to depart from post-war policies began in 1983 with an economic recovery program, developed with World Bank/IMF participation. International agencies provided assistance in meeting the balance of payments deficit and the GOGB was to undertake fiscal and monetary stabilization measures, including devaluation of the peso, increases in controlled producer prices and wider latitude for domestic trade. The new policies recognized the agriculture sector as fundamental to economic growth and potential productivity increases. The program intended to shift the internal terms of trade in favor of farmers in order to stimulate production, reduce the state's role in the economy, and re-direct trade to normal channels. The program was also designed to decrease importation of rice, increase exports of agricultural products and reduce price distortions so as to let domestic price signals reflect international prices. Prices for agricultural products were to be systematically raised, although controls were maintained. Taxes were raised and interest on savings deposits was introduced for the first time.

These new policy measures had an initial positive impact among rural producers but the reforms soon lost momentum. Implementation delays, particularly in raising producer prices, allowed internal and external imbalances to continue. The GOGB failed to deal with the fiscal deficit and a sharp drop in export prices caused a deterioration in Guinea-Bissau's terms of trade. (Ahmed and Cunha, "Guinea-Bissau Private Sector Assessment," World Bank Report No. 9809-GUB, Nov. 1990).

A major reason for implementation delays was that the GOGB did not prepare a broad consensus in support of reforms, either in the PAIGC cadre or government bureaucracy. The rumors of "coup plotting" by high party, military and government officials that surfaced during 1984 and again in 1985 undoubtedly distracted attention from reforms. Whether this opposition was related to the reforms is not clear. In any event, delayed and partially implemented measures had the effect of being "bandaids" when the patient needed major "surgery."

Finally, the remnants of the private sector had no capital to invest and credit was not available. But even if capital had been available, with the state intervention apparatus and controls still in place there was little incentive for private activity. The fact that Armazens do Povo still held a monopoly on retail as well as wholesale trade remained a major constraint.

Failure of the 1983 reform effort indicated that:

- The environment had not yet been made hospitable for either domestic or foreign private investment.
- Half measures would not suffice. Any effort to prop up the command economy while private sector activity remained marginal was doomed to fail.
- The Government would have to develop a consensus in the ruling party and population in support of a radical change to a private sector-led economy.
- Private sector investment in sufficient volume to provide economic growth and employment would not be forthcoming without a change in system, including some means of providing capital or credit to potential entrepreneurs.

E. 1985-86: Economic Crisis and Urban Impact

With the failure of the 1983 attempt at reforms, farmers continued to resist selling their products to state buyers. The djilas' clandestine trade with neighboring countries continued. The population became further entrenched in subsistence agriculture. In 1986, traditional agriculture accounted for 91.1 percent of total output. (data provided in "Private Sector Review" by Neil Currie of AID's APLI PP team, December 1990). Shortages of food, especially rice, in the urban areas became chronic. International donors began urging the GOGB to change its pricing policies and began to cut back on food donations.

Public services began to break down. Public enterprises became an increasing drain on the GOGB budget and a source of problems. For example, government agencies and others were in deep arrears to the state-owned electrical company which in turn did not have resources to repair or buy fuel for generators. By 1985-86 constant electricity and fuel outages stalled production and transportation. Electric power service was restricted to limited periods each day (often only two hours), on a rotational basis to the various sections of the capital city. Water supplies, which depended upon electric pumps, also became sporadic. The urban economy had reached complete stagnation by 1986.

On a macroeconomic level, declining in domestic production brought a steady rise in the annual inflation rate. According to a World Bank report, inflation reached 110 percent before peaking in 1987 (Ahmed and Cunha, Ibid). By the end of 1986, gross official reserves had fallen to the equivalent of two weeks of imports. Outstanding external debt reached $333 million, external payments arrears rose to an estimated $75 million and the external debt service ratio to exports rose to about 90 percent. In 1986, the estimated per capita income was U.S. 160 dollars. (World Bank "Private Sector Development Study", by Messrs. Osman Ahmed and Antonio Cunha, July 1990). In sum, economic disequilibria resulting from policies of state control had become so great that the old system had become unsustainable.

F. Beneficiaries and Losers

The main beneficiaries of pre-1986 policies were government and PAIGC officials and cadre, the military, and public employees who owed their jobs to the PAIGC government. These groups received benefits in various forms, including housing and subsidized rice and other basic necessities at low prices. The urban population also benefitted from subsidized food prices when food was available.

The policies negatively affected the 80% of the population in rural areas that was dependent upon agriculture for its income. Low prices set for agricultural products discriminated against farmers in several ways. Prices for food crops, particularly rice, were set well below world market prices; low food prices enabled the government to keep public salaries low and, in that way, reduce current expenditures. Thus, artificially low farm-gate prices acted as an implicit tax on farmers and a subsidy for consumers. A substantial over-valuation of the peso contributed another bias against farmers.

The formal private sector was excluded from any meaningful participation in economic activity. Indeed, post-war government policies had virtually destroyed the commercial class, most of which eventually left the country.

It can be argued that these policies represented sound political tactics under the circumstances. Neither farmers nor the former commercial class could offer a political threat or direct pressure on the government and there was no noticeable political reaction to the policies. However, farmers responded by not selling to state ADP buyers who supplied the urban markets. They produced only enough for their own and local community consumption and for trade with djilas.

By 1985-86, the urban economy had stalled and former beneficiaries of command economy policies also had become "losers". Economic deterioration hurt the entire population.

III. STRUCTURAL ADJUSTMENT AND PRIVATIZATION: 1986 TO 1992

A. The Decision for an Agriculture/Private Sector-Led Economy

The obvious failure of command economy economic policies and the half measures toward reform attempted after 1983 convinced President Vieira and other government leaders that profound adjustment measures in conjunction with World Bank and IMF assistance were imperative. However, to avoid the implementation problems that defeated the 1983 efforts, they set about creating a political consensus to support radical reforms. In June 1986, reform leaders convened PAIGC cadre from the entire country for a two-week series of seminars to examine the economic situation, necessity for a break with socialist economic policies and advantages of private-sector led growth.

Following these seminars, GOGB leaders continued efforts to build support for reform by meeting with members of the former and potential commercial community to inform them of policy changes that were underway and receive input from them. Their basic message was that effective immediately the private sector would be free to develop. Certain price controls would no longer be enforced and eventually all price controls would be eliminated. Entrepreneurs wanting to import capital goods and certain consumer items would be given import permits without questions regarding where they obtained foreign exchange for transactions. Highway check points to stop clandestine trade were removed.

In July and August, the President and the Minister of Commerce made public statements signalling changes in policy and emphasizing the urgent need for drastic measures, sacrifice and sweeping change in the economic system. These and subsequent statements laid blame on erroneous government policies and mistakes, adverse weather that reduced crop yields, rises in prices of imported manufactured goods and oil, and reduced prices for exports. These statements were received with a mixture of enthusiasm, relief and initial skepticism by private sector leaders.

Government leaders' efforts to create support for change were successful. In December 1986, the PAIGC Congress approved plans for reforms including privatization, and also authorized renewed discussions with the World Bank/IMF. The task of obtaining support for change was undoubtedly made easier by the fact that people in urban areas, in addition to farmers, had, ultimately also had been "losers" as a result of the previous policies.

B. Structural Adjustment: Phase I, 1987-89

In April 1987, the GOGB signed an agreement with the World Bank and IMF for a Structural Adjustment Program (SAP) for 1987-89. This was supported by a Structural Adjustment Credit (SAC I) of U.S. $40 million under a World Bank/IMF co-financing facility, part of which was used to extend credit to private entrepreneurs. The SAP called for an agricultural/ private sector-led growth strategy with the following basic objectives: real per capita income growth; a narrowing of the external account deficit; normalization of relations with external creditors; reduction in size of government bureaucracy while increasing its efficiency through institutional reforms; and liberalization of internal and external trade through promotion of free play of market forces.

Specific conditions imposed by the World Bank/IMF included privatization of the economy, devaluation to achieve a realistic exchange rate for the peso, systematic removal of price controls and a 15% civil service personnel reduction. Except for the reduction in the civil service, these measures had been signalled in GOGB leaders' policy statements the previous year.

In some areas, progress under Phase I of the SAP was impressive. GDP growth rose above 5% in 1987 and remained at approximately that level during ensuing years. Export growth averaged 20% due to rapid expansion in agricultural production. Substantial progress was made in eliminating price distortions (except for petroleum and imported rice which continued to be distributed under controlled prices). In 1988, the exchange rate was brought broadly in line with its market value and trade restrictions were mostly removed. For example, quantitative quotas were eliminated on 75% of imports and import duties were reduced substantially. The export tax on cashews--the main export--was reduced from 50 to 40% (in 1991 it was further reduced to 35%). The Government abolished its former monopoly on cereals trade, introduced an excise tax on gasoline, increased electricity tariffs to realistic rates and reduced the civil service by 15% (Ahmed and Cunha, "Guinea-Bissau Private Sector Study" World Bank. 1990).

On the negative side, weaknesses in economic management limited progress in stabilization. In 1988, excessive credit was releases, the budget deficit exceeded targets and inflation which had reached 110% in 1987 remained at 70%, whereas the target had been 40%. The World Bank, however, recognized that "slippage in monetary and fiscal discipline were due in part to the lack of up-to-date and reliable information and to a very weak administrative capacity." ("Country Brief: Guinea-Bissau", World Bank, Nov. 19, 1991.)

C. Structural Adjustment: Phase II, 1989-92

Implementation of the second phase of structural adjustment (SAC II) for 1989-92 began in 1989, continuing implementation of earlier reform measures. Its objectives were to maintain a stable macroeconomic environment, reorient public investments toward creating infrastructure and remove institutional bottlenecks to growth, expand trade and price liberalization, and move ahead with institutional reforms in the public sector and banking. Once again, performance was strong in some areas and weak in others, with problems occurring during 1989. For example, whereas in 1988 the official exchange rate had been brought largely in line with the parallel rate, by 1989 the gap had become excessive again; the GOGB again had a high current account deficit, and inflation rose to 70% because of rapid expansion of domestic credit.

SAC II's second tranche, originally programmed for release in the first quarter of 1990, was not released until January 1991 after much improved performance, particularly in the budget management and exchange rate policy. Inflation in 1990 was brought down to 35%. The

GOGB had improved its performance by keeping expenditures constant and by increasing revenues, the latter was due to successful renegotiation of foreign fishing licenses and increased collection of taxation revenues from international trade.

The pattern of impressive progress interspersed with occasional slippages has continued. In 1991, fiscal and monetary performance again faltered due primarily to two causes: first, arrears in tax and customs were allowed to accumulate, contributing to a widening of the fiscal deficit, and second, another spurt of excessive credit occurred due to questionable lending by the now closed Banco de Credito Nacional (BCN), a bridge bank created in early 1990 to recover the commercial and development portfolio of the former National Bank. As a result, money supply increased rapidly, causing inflation to return to 70% by mid-1991. The peso's parallel market exchange rate depreciated sharply, with the gap between official and parallel market rates widening to over 50%.

During the final months of 1991, the GOGB took vigorous corrective measures. A recent World Bank technical mission (November 1991) noted several improvements: a) reduction of the fiscal deficit; b) reduction of public sector credit; c) significant reduction in the gap between official and parallel exchange rates; d) adoption of procedures to provide better financial discipline in the relationship between DICOL (state-owned petroleum import firm) and the Treasury; e) indications of a decline in inflation; and f) progress in modernizing the management of Customs.

On the negative side, the World Bank mission was concerned that: a) the National Credit Bank (BCN) had not yet been liquidated; b) repayments of counterpart funds owed by private sector creditors to the BCN were in major arrears; c) weak collection of taxes; d) excessive growth of expenditures for non-durable goods; and e) a failure to establish exchange houses. (Aide Memoire of World Bank Technical Mission, 29 November, 1991). The World Bank mission set a target of PG 30 billion, or 20% of the total PG 150 billion arrearage to the BCN, to be collected by the end of 1991. According to GOGB officials, most of these deficiencies had been corrected by January 1992: an exchange house was operating, the BCN had been liquidated, and PG 30 billion of arrearages had been collected and strenuous measures were being taken to collect the remainder.

D. Accomplishments of Structural Reform

Despite various problems described above, it was clear by early 1992 that the positive effects of structural adjustment were broad-based and readily visible throughout the economy. Real GDB growth since the initiation of reform in 1986 was 6% in 1987, 4% in 1988, 5.1% in 1989, and 4.5% in 1990 -- one of the highest growth rates in Africa. Per capita income rose by about 12% from U.S. $160 in 1986 to U.S. $180 in 1991. Inflation has see-sawed. After peaking at 110% in 1987, it dropped to 80% in 1988, 70% in 1989, and 35% in 1990. It soared back to 70% in the first half of 1991 then, according to GOGB officials, was brought down to the 30-40% range by year's end. The ratio of exports to GDP expanded to 20% in 1990 as compared to 8% in 1986, notwithstanding a 24% deterioration of terms of trade. Agricultural sector growth was 7% in 1987, 6.2% in 1988, and 5% in 1989. Production of rice, which is Guineans' main food staple and accounts for about two-thirds of crop production, has risen significantly each year, except in 1990 due to shortage of rain. Cashew production has been the main area of commercial agricultural expansion, with exports rising from about 6,000 tons in 1986 to 19,000 tons in 1991. And for the first time, several producers have begun exporting tropical fruits to Portugal.

The number and production of commercial farms has expanded steadily. Whereas in 1986, commercial agriculture's share of total crop production was less than 9%, it was between 15 and 20% in 1991 (For a more detailed analysis, see Ahmed and Cunha, "Guinea-Bissau Private Sector Assessment," World Bank Report No. 9809-GUB, Nov. 1990; and Currie, "Private Sector Review"). Commercial farmers (called "ponteiros") who have land use permits issued by the government, include expatriate settlers, small farmers who have enlarged their holdings and some ex-civil servants (and current civil servants). Currie's 1991 study of land use reported that 1337 land-use grants had been made since 1986, only some of which had been put into production. Ahmed and Cunha indicated that as of 1990 about 200-300 "ponteiros" had put their land in production. During the IPC team's meetings, visit, GOGB officials estimated that the number of active "pontas" had reached 400.

E. Private Sector Response to Economic Reforms

There is no question that private sector operators have responded positively to the reforms. Ahmed and Cunha describe "notable success" under both SAC I (1987-89) and II (1989-92) in private sector development. Numerous new enterprises have been formed, but as Ahmed and Cunha's assessment indicates, they found an "almost complete absence of hard data on the size and composition of the private sector".

Licensing and registration records are unorganized and fragmented. The newly formed Chamber of Commerce and Industry attempted to compile a list but could not carry it out for lack of resources. The IPC team was told in January 1992 that the Ministry of Commerce has almost completed a list of formally registered businesses. Staff at the National Institute of Research and Studies (INEP) cited an INEP study indicating that abut 60% of informal firms have never applied for licenses, let alone registered their existence with the Ministry of Commerce. Ahmed and Cunha estimated that the number of businesses operating in 1990 was between 3,000 and 5,000, with a large majority of them in informal and micro-enterprise sectors while the formal sector has about 50-100 active firms in the following activities: 10 import/export firms, 10 large construction firms, about a dozen bakeries, several sawmills, 10-15 distillers, and perhaps 25 service establishments.

Many firms described above, including nearly all formal firms, did not exist before 1986. In contrast to the situation in most other countries, informal firms and micro-enterprises generally had been in existence much longer than formal firms as they had found ways to evade the pre-1986 restrictions on private sector activity.

F. Key Factors Underlying Private Sector Growth

Once Guinean leaders had decided to create a private sector-led economy, the immediate problem was to generate private sector activity quickly in a situation where: the economy was stalled, a functioning private sector and credit institutions did not exist, and potential entrepreneurs lacked capital and, just as important, experience in management, business and commerce.

Finally, although there was broad support for policy change among government and PAIGC officials, as well in the society, only a few people understood what kind of climate or actions would be necessary to give incentive and confidence to investors. Key factors underlying private sector growth despite the obstacles were:

- The GOGB's basic policy decision to switch to a private sector;
- The provision of credit, albeit through makeshift channels;
- Systematic removal of producer price controls; and
- The Government's practice of ignoring some existing laws which prohibit or constrain private sector activities.

The Government began the liberalization process with public and private signals to private sector actors as described in section III. A., by encouraging private sector activities. Due to an absence of existing credit facilities, the government used Armazens do Povo as a short-term credit channel. Later the National Credit Bank (BCN) was established to supervise and liquidate outstanding arrearage on credit previously provided. The government channelled about U.S. $45 million under SAC I and II into the economy over a four-year period, much of it in sort-term loans to the private sector.

Despite the haphazard way in which credit was handled (in the absence of bank credit facilities and normal bank credit procedures) and the inflation caused by spurts of excessive credit, injection of credit into the economy had the positive effect of enabling prospective and existing entrepreneurs to begin or enlarge their operations. Traditional farmers, although not recipients of loans, benefitted indirectly from the loan program and directly from removal of price controls. Without credit, traders who replaced Armazens do Povo's agents in rural areas, could not have obtained goods that farmers needed. Higher prices for agricultural products helped to restore trade to normal channels and put food back in urban markets. Availability of goods through normal channels and increased prices provided incentives farmers needed to increase production.

The progressive withdrawal of Armazens do Povo from the retail and wholesale market was another important factor in facilitating private sector growth. Its withdrawal provided room for private sector expansion. The dismantling the Armazens retail network was a clear signal that the GOGB was serious about privatization.

Another element that essential to private sector growth was the government's practice of enforcing certain constitutional provisions, laws and decrees that constrained or prohibited private sector activities. Thus before price control laws were eliminated, many were selectively not enforced. Similarly, the constitutional prohibition on private property was ignored. In 1989, a law was passed to permit organization of a private bank despite a constitutional prohibition on private banking. Though exchange control laws existed they were not enforced and an open parallel market in pesos and various hard currencies developed on the streets. The expediency of ignoring laws, however necessary as an emergency measure, cannot be continued indefinitely. It is inherently arbitrary, subject to abuse, and can be a source of uncertainty for private sector actors, particularly potential foreign investors.

IV. POLITICAL REFORMS

The decision to launch political reforms was a natural follow-up to economic reform. By 1988, with economic reform underway, President Vieira and other leaders began considering the need for political reform and encouraged internal GOGB/PAIGC discussion concerning liberalization. They concluded that a one-party political system designed for a socialist economy and a legal system inherited from the Portuguese and adapted to command economy needs, were not compatible with the developing private sector economy or the sort of environment required for private or foreign investors.

The reformers argued that to achieve sustained private sector-led growth, economic reform had to be accompanied by complementary political, legal and administrative reforms. Without political reforms, private sector-driven economic growth would be ultimately unsustainable. A system with arbitrary law enforcement and failure to enforce laws lead to unpredictability, instability, and a poor climate for growth. Absence of accountability provides opportunities for economic corruption and waste. Long-term suppression of political openings can ultimately affect stability, disrupting production and commerce. The new system should encourage free dialogue between private entrepreneurs and government. It should also require government accountability and include a legal system that guarantees basic safeguards and establishes transparent "rules of the game" needed to induce sustained private investment. Only with the underpinning of these reforms can a stable, predictable environment for private investment be established.

Guinean leaders' based their decision to launch political reform on the foregoing rationale. In contrast to most reform movements elsewhere, stimulus for reform came from the ruling PAIGC leadership rather than from pressure groups. There were no demonstrations or public rallies urging liberalization. President Vieira designated 1991 as the "Year of Democracy." This decision was formalized during an extraordinary PAIGC Congress in January 1991 during which it was announced that democratic multiparty elections would be held before January 1993. Also in January, a special session of the National Legislative Assembly established a Constitutional Revision Commission (CRC) to plan reforms and recommend constitutional amendments and changes in laws to accomplish reform.

The CRC prepared constitutional amendments, which were approved by the legislature in May 1991. These amendments established rights of private property ownership and stipulated that Guinea-Bissau would have a market economy. A "Law of Political Parties" opened the way for the organization of political parties and by the end of 1991, five new parties had been registered and were operating. Several constitutional amendments passed in September 1991, further expanding rights of citizens and opposition groups. These included freedom of the media, rights of political parties to have access to media, and right of workers to strike. The December 1991 PAIGC Congress was designated as the "Congress for Restructuring for Multiparty Democracy." The Congress also declared that multiparty elections would be held during 1992.

V. FINDINGS: AN UNFINISHED AGENDA

A. Overview

Guinea-Bissau's macroeconomic and political reforms have opened the way for development of a pluralistic society and private sector-led economic growth. Benefits already visible represent a marked improvement over the former socialist system. The government's macroeconomic policy orientation has been clearly defined in policies that are in various stages of implementation and the government appears firmly committed to its reform objectives. Progress to date, however, is only a beginning. Private sector development has occurred despite an abnormal atmosphere. Numerous constraints on private sector activity still inhibit private investment.

B. Priority Reform Areas Identified By Guineans

During the IPC team's interviews in Bissau, it found a surprising degree of coherence and consensus that overall economic liberalization and political reforms are well under way, being implemented with varying degrees of success, and irreversible. Looking ahead, Guineans showed a high degree of consensus that top priority areas for reform are:

- legal reform;
- establishment of an independent and efficient judicial system;
- administrative reform.

Reform in these three areas was perceived as being complementary and essential to the continuing success of economic and political reform. The team noted that elements of all three areas were interrelated and involved reforms to remove constraints on private investment.

C. Reform of the Legal System

Legal reform was singled out by most of the IPC team's interlocutors as the most important and urgent reform needed to stimulate foreign and domestic private investment. An assessment of private sector attitudes by a World Bank team found that 94% of private sector individuals interviewed considered the legal and regulatory framework to be a serious problem. (Ahmed and Cunha, "Guinea-Bissau Private Sector Assessment"). Legal reform is viewed as the "construction" of a legal system, including its superstructure as well as specific laws. The IPC team's interlocutors emphasized that the present system does not offer a rule of law, but rather confusion and unpredictability. Nor does it reflect the realities of economic or political life in today's Guinea-Bissau.

Guineans told the team that a new law system should be designed for the needs of a private sector economy. It should also harmonize traditional elements of Guinean life with more modern and dynamic elements of economic progress. It should include an effective process to adjudicating disputes, upholding the sanctity of contracts, protecting entrepreneurs arbitrary decisions, and protecting the public from abuses by private entrepreneurs. Government and private sector leaders consider legal reform important for "enabling" or facilitating increased private investment and in removing confusion and constraints on private sector growth.

D. Legal System Constraints on Private Sector.

1. Laws designed for a command economy. Numerous laws dating back to 1975 relating to expropriation and nationalization of property remain on the books. In addition, various laws, decree-laws, decrees, and ministerial orders affecting the private sector, usually negatively, remain in force even though they are not enforced or enforced only selectively. It was asserted that these laws are not compatible with a private sector-led economy and need to be systematically eliminated.

A constitution designed for a command economy was superimposed on the system of laws inherited from the Portuguese colonial regime. The constitution abolished the right of private property and restricted private economic activity in various ways, but provided that these Portuguese laws not specifically invalidated by the constitution or subsequent legislation would remain valid. After independence, numerous laws and decrees were enacted to ensure state control over economic activity. Although many of these restrictive laws are not enforced, their existence remains a constraint on private sector investment.

2. Need for Legal Foundation for Private Property Ownership. Lack of clear definition of what economic areas will be reserved to the state and limits of state intervention in the economy was considered a constraint by private sector representatives. They want a definition

of what will eventually constitute the public and private sectors. Private sector leaders accepted that government should regulate and provide rules for private sector activity, but want rules to be simple and clear.

3. Arbitrary Decisions and Confusion. The ad-hoc practice adopted after 1986 in which Government officials did not enforce laws that inhibited private sector activity was recognized as an expediency useful in getting a private sector established in the absence of a complete revision of laws. However, this practice does not provide the certainty needed by investors considering large long-term investments in infrastructure. Future officials might arbitrarily change the ground rules, leaving private entrepreneurs no recourse under the laws. Also, the practice is inherently discretionary and can be subject to abuse. Friends and relatives of key ministers might get special privileges while their competitors do not.

4. Lack of Codification. Absence of codification of laws is seen as a constraint by both government officials and private sector representatives. Private sector representatives said they frequently cannot locate relevant laws. Even magistrates have problem with this. Some laws and decrees conflict with others. This hinders enforcement as well as private initiative. Mid-level public employees are reluctant to make decisions on requests and applications made by private sector actors because they cannot readily identify applicable laws.

5. Archaic Commercial Code. Commercial law in Guinea-Bissau is based on the 1888 Portuguese commercial code, as modified by the Constitution and subsequent legislation, decrees, and ministerial orders. The result is confusion and an inadequate legal framework for

a modern private sector-led economy. For example, it does not include provisions for such matters as patents protection, trademark registration, intellectual property, and franchising.

6. Insecure Land Tenure. Currently, the Constitution restricts ownership rights to the public sector, and land use, not ownership, is authorized by the state for productive use. However, local traditional law provides for communal- or family-based ownership. The two concepts have been a source of disputes. Neither system issues land titles. At present, land cannot be used as a capital base to guarantee investments for starting new enterprises or improving existing ones. Without the value of the land as part of the capital base, entrepreneurs must either be able to provide a heavy share of capital from cash reserves, obtain it by bringing in partners, or scale down the project. All these alternatives retard investment and private sector growth.

7. Contracts not Enforceable. One of the most frequently mentioned problems was lack of adequate laws establishing the sanctity of contracts. (Also see section below on judicial reform). This is a concern of legitimate private investors and also the public, which needs protection from unscrupulous entrepreneurs. Even the government has problems in this area. One of reason the government has had difficulty collecting arrearages on loans made to stimulate the private sector is the absence of legal framework for doing so. As a result, it has resorted to extra-legal means such as pressures and threats that all future government services will de denied the debtor. This practice, however, is also susceptible to abuse.

8. Chaotic Conditions: Need for Regulations and Licensing. A variant on the theme of inadequacies of the legal and regulatory systems was expressed by established merchants. They complained that the government's practice of allowing the private sector to function in a "totally free unregulated manner" adversely affects them. They charge that "everyone" is entering some sort of private sector activity. Large numbers of street vendors, some of them from neighboring countries, have established a proliferation of street stalls in Bissau and other urban centers. There are no rules or controls limiting entry into this type of commerce other than by the informal understandings reached by participants. Established merchants consider this unfair competition because vendors pay no taxes and have no overhead costs. Therefore, vendors sell more cheaply than do merchants who have a store, overhead costs and taxes. Another complaint was that foreign "adventurers"--usually Portuguese or French--can get a concession from a government official, bring in consumer goods duty-free, make a "killing" and disappear. Thus, one issue facing the government is whether and how to regulate burgeoning commerce occurring on the streets.

9. Legal Parameters for the Financial System. The Constitution bars establishment of private banks. Despite this, the GOGB passed a law in 1989 as an emergency measure to authorize establishment of a private bank. A constitutional amendment is being prepared to remedy this situation. However, setting legal parameters and possibly an organic law for a banking system are recognized as priorities. Laws are needed to regulate banking procedures and assure availability of financial services for the private sector. With the liquidation of the BCN, Guinea-Bissau has no banking mechanism for providing credit to the private sector.

Lack of credit was viewed by the IPC team's interlocutors as a serious constraint on investment.

10. Foreign Investment Code. The current Foreign Investment Code was promulgated in 1985. Although it was intended to be "investor friendly," according to GOGB officials it leaves much to be desired as it is too complex. Among other things, excessive regulations and "red tape" concerning "know-how" transfer are barriers to investment. Most observers agreed that the current Code (decree law No. 2/85) is not working and/or being circumvented.

11. Tax Laws. GOGB officials gave high priority to developing new and equitable tax laws. A World Bank report indicates that GOGB budget revenues are less than 14% of GDP. Clearly, there is an urgent need for new tax laws which increase revenues, but which are also designed to provide incentives for investors and producers. Anomalies in taxation combined with an overvalued (until recently) exchange rate have resulted in implicit subsidies for imports and tax on some exports. Consideration should be given to allowing local governments to levy some taxes as present law and practice favors the national government and discriminates against rural areas in supply of services.

12. Labor Law Constraints. Current legal provisions concerning termination and structurally motivated lay-offs of employees are considered too rigid and do not reflect today's reality. It is legally impossible to fire an employee for incompetence. Even in cases involving theft, procedures are lengthy and difficult. Some companies and ponteiros avoid hiring full time employees as the seasonal nature of their business requires them to reduce

their work force at times each year. Because of the law's rigid provisions, difficulties in applying it to today's labor/employer realities, and the fact that many employers and employees are do not understand its provisions, the law is frequently ignored. In its present form labor law is a serious constraint to investment and the creation of new private sector jobs.

13. Constraints on Sale of Public Property. Several public enterprises have been dismantled; others, however, have valuable assets which could be sold to private entrepreneurs. The constitution prohibits such sales. Most of these enterprises, lose money and strain the Government's budget. Their managers have no incentive to manage them efficiently since they know the enterprises will eventually be liquidated or sold. Competition by these firms is still at least a minor constraint on the private sector.

E. Cross-Cutting Nature of Legal Reform.

Several Ministries will have important roles in legal reform. The Ministry of Justice will be a key actor. The Ministry of Finance already has an office which prepares draft legislation and decrees on matters affecting liberalization of the economy and will continue to play a strong role. The Ministry of Commerce will be involved. Other ministries having a stake in aspects of legal reform include Agriculture and Rural Development, Fisheries, and Natural Resources and Industry and the Central Bank. The management capacity of the Ministry of Justice must be improved. At present, the Ministry has no organic law. Its budget is woefully small. For 1992, its budget is the equivalent of only U.S. $200 thousand, including U.S. $70 thousand for the court system and U.S. $3,000 for the penal system (which has about 45 prisoners). Officials spoke of plans to triple the budget for the legal and judicial systems in 1993.

F. Judicial System Constraints.

The Judiciary in Guinea-Bissau is under the Ministry of Justice. However, members of the Constitutional Revision Commission, the Chief Justice of the Supreme Court, and the Minister of Justice all said that the court system would be made independent as part of a planned constitutional revision. The judiciary-executive separation is, however, only a first step toward establishing an efficient and competent judiciary. Also needed are qualified personnel, adequate funding and infrastructure. The 1992 budget for the nation's entire judiciary is the equivalent of U.S. $70,000 (seventy thousand).

Lack of an independent and competent judiciary was identified by nearly all those interviewed as an important constraint on private sector development. Currently, a businessman involved in a dispute cannot be sure of getting his case heard, or of being certain that an orderly consideration of it will be conducted by the presiding magistrate. He cannot be certain that the magistrate will know which provisions of law are applicable to the case and which are not. There are no established courtroom procedures are applied uniformly. Finally, in cases involving the state, as long as courts and magistrates lack competence and prestige, they may not be able to prevail in enforcing a decision in favor of a private individual. Some problems described previously under legal reform also are linked to the non-functioning judicial system.

Guinea-Bissau has conflicting court systems. In addition to an official judiciary system, there are local community courts which apply customary law in adjudicating disputes and other matters. Investors in commercial farms who have government land use permits usually seek to avoid community courts. Nevertheless, jurisdictional disputes are common. The reform would clarify such jurisdictional confusion.

The team found solid support for judicial reform. It was considered necessary to create private sector confidence in the justice process. Of crucial importance to success of the reform effort will be training of magistrates and budgeting adequate funds for the judiciary. One Minister, speaking of a Portuguese shoe manufacturer who for a year was considering starting a factory in Bissau, said: "I am certain that he did not come because we could not offer guarantees or a rule of law."

For the reasons summarized above, private sector representatives, as well as government officials, expressed a need to have a court system which embodies recognized procedures and expectations for resolving conflicts, as well as protection against government arbitrariness. This sentiment was echoed by the newly appointed Supreme Court Chief Justice who stated that "The courts should be the guarantors of investors, both foreign and domestic."

The government as well as private sector would benefit from a efficient and capable judiciary system in which it can bring cases against individuals or firms who do not fulfill their financial, contractual, or fiduciary obligations with the state. At present, the virtually non-functioning judiciary leaves the government little recourse except to act arbitrarily to resolve such cases. For example, when it brought cases involving collection of taxes and customs payments and the matter of arrearage on the BCN debt to court, the magistrates did not find applicable laws and assumed the role of mediator rather than render of decisions. The result was a court suggestion that the government should reschedule debts owed by private individuals rather than seek immediate payment on arrearage. Perhaps because of this, a World Bank Aide Memoire (Nov. 29,1991), written to document findings of a recent visit of a World Bank technical team to Bissau, included a recommendation that court procedures for collection of debts should be improved. Judicial reform was also described by Ahmed and Cunha (op. cit. "Private Sector Assessment) as one of the major reforms needed to eliminate constraints on private sector development.

G. Administrative Reform.

Administrative reform is perhaps the most complex and difficult of the three reform areas examined herein. It is related to legal and judiciary reform as the structure and functions of government are determined by laws as well as political decisions. The present structure, as was repeatedly emphasized by government officials as well as private sector representatives, was designed for a one party state with a command economy. It constrains private sector investment and growth. The process of dismantling state enterprises is only partly completed. To complete this process, decisions must be made concerning the state's role and the extent of its intervention in the economy. Training must prepare civil servants for facilitating rather than constraining roles vis-a-vis the private sector.

Administrative reform has been recognized by the GOGB as a priority and donors have demanded reforms as a necessary condition for structural adjustment to succeed. The administrative reform program, as perceived by Guinean leaders, would go beyond simply reducing numbers of public employees. The government's role, structure and personnel, must be transformed into an "enabler" for private sector-led economic growth.

An attempt at administrative reform was made in 1988 when a project was developed jointly with UNDP and placed under a Secretary of State in the Presidency, however, there was little progress toward implementation. Two reasons were given for this: first, emphasis was primarily on personnel reductions. Secondly, the assignment should have been given to a Minister with enough authority to accomplish the task. As one person expressed it: "In African countries, everything depends upon a chief. A simple Secretary of State could not do it. Some cadre at the middle and lower levels oppose change. It (reform) must be imposed or it will not work. Now with the commitment of the President and the shift to the new Minister, considering his stature, there is hope that the administrative reform will be succeed."

In December 1991, in order to give new stimulus and urgency to administrative reform, the President created a Ministry for Administrative Reform and Civil Service and appointed a senior Minister to head it. One reason for urgency is that public administration in the countryside has been largely carried out by PAIGC party cadre, not the government. However, a 1991 constitutional amendment ended the PAIGC's role as "the guiding force in national life" and introduced a multiparty system. Therefore it is no longer appropriate or possible for party cadre to continue this administrative role. Another reason was that other reforms, such as fiscal reform, cannot be successfully implemented without overall administrative and legal reform which defines a new role for the state. The Minister of Administrative Reform recognized how complex implementation of reform would be, the "cross-cutting" nature actions needed and the necessity of establishing coordinating mechanisms among the various ministries and agencies involved and/or affected by reform.

H. Bureaucratic Constraints.

Some problems identified as generic to the present bureaucratic structure were:

1. Paternalistic Attitudes. Many public employees have never been trained to consider government's role to be that of facilitator to private sector economic growth. Their sole experience has been under a command-economy regime in which the state had a major role in national life. They have been accustomed to government being involved in production and control rather than promotion, setting policies and providing incentives for private sector economic growth. Many officials and civil servants continue to act in "dirigiste" or paternalistic manner, often arbitrarily and without consistency in matters relating to private sector initiatives.

2. Uncertainty over Government's Role. The Government has not yet established guidelines which define parameters for its intervention in the economy. The command economy framework still exists even though policy decisions mandate that the economy will be private sector-driven. The stultifying effect of lack of definition of government's role is

reinforced by the fact that Guineans have been accustomed to a strong central government. Traditional society also conditions people to look to "chiefs" or "homens grandes" for decisions and guidance. For their part, Guinean entrepreneurs also tend to believe that government should control and regulate the private sector for the good of all.

3. Centralized Bureaucracy a Constraint. Administrative reform will have to deal with the "macrocephaly" of Bissau's administrative structure, i.e., concentration of civil service positions in the capitol, by moving functions and responsibility for services to regional offices so that private farmers and entrepreneurs in interior towns can have easier access.

4. State-Owned Companies. Although some state-owned enterprises have been dismantled, many continue to operate. Some of these have valuable assets that could be sold, but present laws prevent this. Meanwhile, they continue to operate, usually losing money, and compete with private sector firms that must make a profit to survive. Reportedly, some employees of these companies, knowing that their organization will eventually be liquidated, are "decapitalizing" the enterprise by extracting benefits, goods and funds for themselves. These enterprises are a drain on the Government's finances as well as unfair competition for private entrepreneurs.

5. Cumbersome Licensing and Registration Procedures. Current procedures and practices are cumbersome and time-consuming. Private sector representatives would like to see simplification and streamlining of processes.

6. Inadequate Coordination Between Ministries. During the post-independence years, individual Ministers became accustomed to negotiating directly with donors for technical assistance and projects. The resulting agreements often resulted in additional costs, such as those needed for providing housing for "cooperantes" (foreign technicians) or for salaries of local staff required to implement projects. The Ministry of Finance might not learn of additional costs until the responsible Ministry should a cost over-run. To control this practice, the President established in 1988 a Ministry of International Cooperation and Plans with authority to coordinate and negotiate such agreements. He also established an economic coordinating commission chaired by himself and composed of the Ministers of Economic Coordination and Commerce, Finance, International Cooperation, and Governor of the Central Bank to coordinate matters relating to the structural adjustment program. These changes have notably improved GOGB performance in the economic and fiscal areas. Similar attention could be given to improvement of coordination between other Ministries.

I. The Cross-Cutting Nature of Administrative Reform.

Implementation of "administrative reform" will require a major effort requiring coordination and consensus about overall objectives. Opposition and foot-dragging by entrenched bureaucrats can be expected. Education and training about the necessity and objectives of reforms should be conducted to reduce resistance. Assistance in relocation of employees whose jobs are eliminated will be needed. Administrative reform has extensive cross-cutting links with legal reform and across ministerial lines. It will require coordination throughout the government and firm backing by the President.

VI. IPC AND THE THREE REFORM AREAS

A. Focus on "Enabling" Environment for Private Investment

Mid-way through its reconnaissance visit and following discussions with USAID/Bissau, the team concluded that the three areas identified by its interlocutors above were too broad to fit both within USAID's strategic objectives log-frame and IPC project criteria. The team noted, however, that some reforms in all three areas--legal, judicial and administrative--are crucial to the creation of a private sector-driven economy. It therefore began exploration of the feasibility of focusing an IPC effort on those aspects of reform that will improve the investment climate.

Under this approach the IPC project would identify and eliminate constraints on the private sector and creating an "enabling" climate for private sector-led growth. Strategic management concepts could be applied to the implementation of selected target reforms. The team encountered enthusiasm over the concepts of strategic management assistance in implementing reform. Similarly, Guineans agreed that an IPC program might focus on removing constraints on private sector investment and creating an "enabling" environment for investment.

B. Cross-Cutting Nature of Reforms to Establish Enabling Environment

Problems in implementation of reforms aimed at creating economic growth based on a private sector-driven economy stem from Guinea-Bissau's underdevelopment, shortage of skilled human resources and infrastructure, and constraints placed on private investment by inappropriate, confusing and archaic legal, judiciary and administrative systems. Elimination of constraints in this latter cluster--legal, judicial and administrative--would yield positive results at relatively low cost.

Many of these impediments and the changes required were seen as cross-cutting. For example, although the Justice Ministry will be central to implementing legal reform, it will need close collaboration with the Ministries of Finance and Commerce and representatives of the private sector in preparing changes in laws.

Some issues with cross-cutting aspects are:

- Many legal reform issues will require extensive coordination within the government and with private sector representatives.
- Decisions concerning which activities will remain under state ownership and management and which shall be solely private sector.
- Identification of existing government agencies and structures that are no longer needed or appropriate in a private sector-led economy.
- How to organize government to provide services, incentives, and regulation rather than control over private sector activities.
- Decentralization of provision of services so that rural areas and private agricultural producers can benefit from government.
- Elimination of cumbersome registration and licensing procedures.

- Change in attitude of civil servants through training and discipline to eliminate dissonance conflict between policy statements and official behavior.
- Programs to develop management skills in government so that new policies can be implemented and monitored.
- Issues related to the size of the government and its various agencies.

VII. COMMITMENT AND ENVIRONMENT FOR REFORMS

A. Broad Support for Reforms.

The IPC team found a strong commitment to reform by a broad spectrum of Guinean leaders in government, the PAIGC, the opposition parties and the private sector. The President, the Prime Minister and other Ministers expressed their determination to go forward with the reform program. The overall reforms have been solidly supported by successive PAIGC party congresses. Initial opposition to reform came from within the PAIGC leadership and cadre. This opposition was effective in limiting the scope and effective implementation of the 1983 reform program. However, by 1986, after command economy policies had brought the economy to a standstill, PAIGC leadership was able to create a solid consensus in favor of total transformation of the economy. The strong negative impact of economic collapse on urban dwellers, including public employees and PAIGC cadre, was an important factor in generating support for economic reform. Socialism had become discredited and even persons who had been considered staunch socialists were forced to admit that the command economy was not working.

Consensus on political liberalization reform came later and again involved extensive internal PAIGC discussions. The premise that "economic reform without political reform would be unsustainable" formed the foundation for consensus and a strong endorsement of political reform by the PAIGC party congress in January 1991 and a renewal of that endorsement by the December 1991 congress.

The team questioned several officials about the potential impact of the upcoming election on reform. Opposition leaders, who are also beneficiaries of existing reforms, expressed support for additional legal, judicial and administrative reform. The view was expressed repeatedly that even if any one or a coalition of opposition parties were to win the elections and form a government, there would be no basic change in the course of economic reform policy now being pursued.

The fact that reform was conceived and has been launched by the one-party government in power has not diminished its broad appeal throughout society. The reforms have been welcomed because they open up participation in economic and public life to groups previously excluded. The impending legal, judicial and administrative reforms are considered a continuation of reform now underway. Existing laws, regulations, and administrative structures which are to be eliminated or changed are considered to be remnants of a system that everyone agrees failed. This gives the reforms a universal patina of broad support.

B. Beneficiaries and Losers Under Economic Reform Program.

The question of who "won" and who "lost" as a result of economic reform might better be rephrased "who benefitted most and who benefitted least." Clear winners are the 80% of the population dependent upon agriculture who benefitted from the removal of producer price controls and resulting higher prices for their products. Other beneficiaries include the more than 1300 ponteiros and their families who received land use permits for commercial farming.

In addition to farmers and ponteiros, other obvious beneficiaries of reform are members of the burgeoning informal private sector, merchants and business people, skilled workers, particularly mechanics, and others who now have private sector employment. There are between 3,000 to 5,000 firms now in operation, while in 1986 there were very few. Owners of firms engaged in export-import trade and traders dealing with farmers have benefitted. Without the reforms, neither area of commerce would have been open to private firms. Other winners are owners and operators of taxis and buses, which transport people throughout the country.

Higher prices for food and other essential goods has placed hardships on public employees, military and those in the urban population who previously received subsidized food, when it was available. Government and private sector salaries were extremely low to begin with and have not risen to keep pace with inflation. The 5000 public employees who lost their state jobs and have no found alternate employment are also suffering hardships. More unemployment could follow as a result of future reductions in the government bureaucracy. Those most likely to be affected are older and less educated PAIGC cadre and government employees who have managed until now to retain their positions because they were either war veterans party loyalists.

Top government and PAIGC officials economic status has not been adversely affected by economic reform. They retain houses and automobiles that accompany their positions. Salaries remain low, however, with a Minister's base salary being less than the equivalent of U.S. $200 a month. These officials also have skills and resources that should enable them to prosper in private sector activities should they leave government service. Although the relative power and influence of top government and PAIGC officials has declined or will decline as a result of the growth of a pluralistic society with a commercial class, reform has not made them "losers" in an economic sense.

Some people who are suffering immediate difficulties or who will be affected adversely by the reforms can be expected to have negative attitudes toward reforms, but their numbers are relatively small in relation to large numbers of people and groups who will benefit from a more efficient civil service. The government, however, has sought to ameliorate hardship for dislocated employees by offering land use permits and credit to those who wish to enter agricultural work. Thus, some of the new "ponteiros" mentioned earlier herein are former public employees who lost their jobs as a result of reform but have been converted from "losers" into "winners". In recognition of problems faced by public employees with low salaries and rising prices, the government has also permitted public employees to have second jobs or establish private enterprises to supplement their income. A potential valuable contribution of strategic management could be a systematic examination of mechanisms to ease the transition of public employees to the private sector.

On balance, there have not yet been significant "losers," mainly because economic conditions being overcome were "equitably disastrous" to much of Guinean society. What has happened since 1986 is somewhat analogous to the situation of a grounded ship being lifted by a rising tide. Even if the boat still has leaks--and it does--at least it is now floating and moving.

Common recognition of this reality and hope that reform will promote sustained economic growth underpins broad support currently enjoyed by the economic reform program.

C. Beneficiaries and Losers under Political Reforms.

Principal immediate beneficiaries of political reform are leaders of opposition parties which have been formed. Support for political reform, however, is not limited to political parties. Private sector leaders welcome it and from all indications so does much of society. For the first time, persons who are not PAIGC members are free to challenge its right to govern the country.

The irony in Guinea-Bissau's political reform is that the initiative and implementation comes from leaders of a party which has held a monopoly on political power since 1974. The party and its leaders are major stakeholders in the reform process. The jobs of most, if not all, top GOGB officials are at stake in the upcoming elections. Even if the PAIGC wins, its monopoly on power will be gone and it will have to contend with the opposition of other parties in the legislature.

Government and PAIGC leaders, however, obviously do not consider themselves or their party to be "losers". Although they have opened the way for democratic political competition, they remain major stakeholders in the evolving system and appear confident of winning the elections.

There is general recognition in Guinean society, including the PAIGC, that everyone will benefit from an improved atmosphere created by open political dialogue, predictable rather than arbitrary enforcement of laws, and an accountable government in which officials can be held responsible for wrongdoing and corruption. An open political system such as that being developed provides a means of resolving conflicts through dialogue and the ballot box rather than use of repression and force. Long-term suppression of views would ultimately affect stability.

D. <u>Support for Legal, Judicial and Administrative Reforms.</u>

Analysis of "winners" and "losers" resulting from pre-1986 policies and those of the post-1986 macroeconomic and general political reforms yields some interesting conclusions. First, farmers, who were pre-1986 losers are beneficiaries of reform, had no organized political force. Their political weapon was their unwillingness to produce and sell production to state companies at low prices. This eventually led to food shortages in urban areas. The commercial class was totally suppressed during the late 1970's and early 1980's and had very little economic or political leverage until the government decided that command economy policies had totally failed and began consulting with private sector representatives in connection with reform.

The only opposition to reform came from within the PAIGC, mainly in the mid-1980's. While this opposition prevailed for a time, by 1986 many opponents of economic reform had been persuaded to change their minds or were outflanked by reformers. Party discipline was strong and once the 1986 PAIGC congress endorsed economic reform, and remaining dissidents had no leverage for resisting. As for political reform, a PAIGC official told the IPC team that any lingering ideological doubts about political reform were "put to bed" in the January 1991 PAIGC congress.

External actors have had a strong influence in motivating reform movement and shaping overall structural adjustment. Although Soviets and Cubans exercised considerable influence during the early 1980's, this influence steadily waned for a number of reasons. Other donors and/or democratic nations are by far the largest and most relevant sources of assistance. The World Bank, IMF, UNDP, and other international financial institutions such as the African Development Bank, have all supported implementation of structural adjustment. Some have conditioned assistance on implementation of economic reforms.

Finally, events outside Guinea-Bissau such as the world wide trend toward democratization, provide momentum to reform. One PAIGC official said, "One-party regimes and command economies were the convergence of the 1960's and 1970's. Today the convergence is multiparty democracy and private ownership of the means of production."

No organized opposition to reform exists. The PAIGC has initiated and can be expected to continue them. Other political groups are beneficiaries of political reform and also favor economic reform. The rural population, which will elect an overwhelming majority of parliamentary representatives, can also expect greater influence in politics as a result of reform.

The domestic political environment in which new reforms will be shaped and implemented, however, will be different in significant ways from that in which overall economic and political reforms were developed and implemented from 1986 to the present. A multiparty system will be in place and policies will be debated in a legislature. A Chamber of Commerce has been established. Other interest groups representing various sectors of society are forming and will inevitably make their presence and views felt in policy making.

Inevitably some interest groups will perceive their interests to be threatened or disadvantaged by some aspect of reform. Merchants and industrialists who have benefitted greatly overall reform may oppose specific parts of new proposals, such as incentives provided to attract foreign investment and therewith competition. Others will have proposals for legislation or changes in procedure that will "enable" investment. This is to be expected in a democratic system. Therefore, the PAIGC or whatever party that comes to power will need to devise consulting mechanisms to ensure that a variety of interests and viewpoints are taken into consideration as specific reform measures are developed and implemented. In this context, the government could benefit greatly by applying strategic management techniques in planning and implementing reform.

Another phenomenon underway in Guinea-Bissau that already has had a positive impact is generational change. A number of relatively well-educated individuals who have returned from abroad with university educations have been supporters of modernization and the reforms. In the past they often have been restricted to lower and mid-level positions or have not accepted government employment because they could not get a position they considered adequate for their qualifications. However, as the reform movement has gained momentum these younger people have increased their influence.

VIII. CONCLUSION

The government of Guinea-Bissau has committed itself to carrying out far-reaching reforms to create a democratic multiparty political system and a private sector-led economy. These changes have been underway since late 1986. They have achieved considerable success, including establishment of a private sector and an economic growth rate of 4 to 5% a year. The political system has been liberalized. Multiparty elections will be held during 1992. Guinea-Bissau's leadership has recognized the importance of private initiative and investment as primary forces for development and growth, with the public sector playing a complementary and supportive role. It has sought to encourage private sector investment and growth. The private sector has responded positively, but not yet to its full potential.

There is broad consensus throughout Guinean society concerning the desirability of overall reform. The private sector and opposition parties favor both political and economic liberalization, including the government's objective of achieving economic growth by means of a private sector-led economy. Success of reform and perhaps viability of the economy will depend heavily upon attracting a higher level of private investment.

To attract additional investment, further strengthening of an "enabling" environment for investment will be necessary. Such an environment will permit free expression of individual and group initiative within limits of established "rules of the game." Other necessary conditions include a stable macroeconomic setting, incentives for investment in productive enterprises, laws and regulations that limit unnecessary government interference while protecting the public interest, a competent legal and judiciary infrastructure for enforcing laws and regulations, and finally a financial and banking system that can provide credit and mobilize savings resources for use in production.

Unfortunately, many necessary conditions do not now exist. The government's performance in carrying out reforms has been hampered by a number of factors, including a lack of skilled human resources, inadequate infrastructure, an overwhelming debt burden, a bureaucracy and confusing legal system designed for a command economy, and a virtually non-functioning judicial system. These serve as serious constraints on private investment and on private activities in general. To eliminate constraints, additional reforms are needed in political, legal, judicial, regulatory and administrative frameworks for investment. Government leaders are aware of this and express determination to carry out comprehensive legal, judicial and administrative reforms. They have not yet defined, however, how to translate general concepts into policy directives, regulations and institutional changes. Specific policies to orient and set parameters for an environment to attract investment are needed. Administrative structures will have to be eliminated, created, and/or redesigned to give life to and enforce policies. Finally, a training program will have to develop human resources to interpret and carry out policies and enforce laws.

The IPC team concluded that Guinea-Bissau's leadership could benefit greatly from IPC assistance in applying strategic management techniques to planning and implementation of reforms. To ensure that the project would be manageable, IPC would focus on actions and reforms aimed at removing constraints to and creating an enabling environment for investment. The strong commitment to reform and reliance on the private sector for economic growth apparent in broad sectors of society and among leaders augers well for success. This commitment was evident during the team's meetings with the President, cabinet ministers, other officials involved in reform, private sector representatives and leaders of political parties. The team was told repeatedly that no matter who wins the elections later this year, there would be no change in basic economic policy. Officials involved in implementing reform, including the President and Prime Minister, requested IPC help and expressed a willingness to work closely with IPC in developing and implementing reforms aimed at "enabling" private investment.

PROPOSAL FOR IPC ACTIVITY IN GUINEA-BISSAU

Introduction:

At the request of the mission, the following is a proposal for follow-on activity by IPC. The activities suggested are the direct result of extensive conversations with Guinean officials, the IPC counterparts in the field, and USAID representatives in Guinea Bissau and Washington.

Broadly, the proposed activity consists of three components: first, the establishment of a Presidential Commission on Investment Policy. In conversations with top Guinean officials (including President Vieira), it was agreed that a coordinating body with access at the very top level would be necessary -- thus, the suggested creation of the Presidential Commission. Second, support for the development of institutional and organization capacity for strategically managing the implementation of change in investment policy. The final component suggests support for developing mechanisms for compliance and conflict resolution in implementing change in investment policy.

The proposal, especially in the latter components, is meant to be indicative and illustrative. Assuming a basic acceptance of the proposed activities, and since much will depend on the successful implementation of the Presidential Commission, the first task to be accomplished is to solidify the nature of the proposal and/or to assure that the Presidential Commission is the appropriate vehicle and to determine that there is sufficient support.

A planning phase involving a minimum of three person months (Senior Policy Change Specialist) will be required to carry out more analysis and interviews to fully determine the nature and depth of commitment to the concept of the Presidential Commission (this is more fully discussed in the final section of the proposed activities -- "Next Steps.")

The Policy Problem to be Addressed:

The report submitted by the IPC team notes that there is considerable consensus with respect to the need to continue and deepen the economic and political reform processes currently underway in Guinea-Bissau. At the same time it was noted that, although the liberalization process has been underway for several years, there has not been a marked increase in the level of fixed investment by the private sector. The report further notes that it is perceived that much of this lack of response is directly attributable to an absence of reform in the political, legal-regulatory, and administrative frameworks for investment.

While there is an apparent agreement that the environment for private investment needs to be improved, there is no specification as to what that might mean and how that might be translated into policy directives, regulations, and institutions. The creation of a more facilitative environment for private investment will require the design of specific policies to orient and demarcate the investment environment (including,) the framing of regulations and administrative codes to give life and teeth to those policies, the creation or redesign of appropriate institutions and administrative structures, and a core of adequately trained human resources to carry out those policies.

The IPC Approach to Implementation of Policy Change.

The report has noted that, at this stage, there are no specifically defined policies regarding the investment climate to be implemented. However, there is an agreement that fundamental changes in investment policy are needed. Despite the lack of specific policy certainty, IPC can be of assistance. According to the IPC project paper, the IPC project supports LDC managers in their use of strategic management to convert policy changes into actions. In addition, the IPC team provides expert services and applied research to help decision makers and managers improve their abilities to design and implement policies. Examples of the kind of activities IPC will support include:

- Assessing policies in terms of implementation options and constraints
- Guiding policy designs that are sensitive to implementation issues
- Assistance in planning and carrying out implementation of specific policy changes

In what follows, the IPC project will propose a set of activities designed to engender a process whereby Guinean policy makers and managers will frame and implement a set of policies aimed at enhancing the environment for (private) investment in Guinea-Bissau. These activities will be guided by a strategic management process approach to the problem of policy change.

The following is a brief description of the steps included in a strategic management process:

1. Agreement on and initiation of the strategic management process, clarification of objectives.
2. Identification of strengths and weaknesses for carrying out the policy, assessment of threats and opportunities in the external environment for policy change implementation.
3. Identification of key constituents/stakeholders and their expectations. Identification of winners and losers.
4. Identification of key strategic issues to be managed in implementing the policy. Design, analysis, and selection of strategy alternatives and options to manage strategic issues identified.
5. Implementation of strategy.
6. Monitoring and review of the strategy's performance.

In practice, when entering into a strategic management process for the implementation of policy change, it is not always possible to begin with step one, even if it is the most desirable place to start. However, the problem of creating an improved investment environment in Guinea-Bissau presents an excellent opportunity for initiation of a strategic management process from the beginning.

The nature of change in re-orienting investment from a state-led model to a model based on private sector-led investment is complex and cross-cutting. The breadth and range of constraints that impinge on improved investment is extremely wide and includes such issues as agricultural policy, land tenure, contract law, commercial codes, regulation of business practices and procedures, credit regulation and policy, banking policy, fiscal policy, investment promotion and incentives, labor policy and law, the role of foreign investment and its regulation, the role of state investment, the role of the state in promotion and regulation of investment, and so on. To fully effect a changeover will require changes in attitudes, policy, laws, regulations, administrative structures, human resource capabilities, and in adjudicatory and compliance mechanisms -- as well as a project horizon that stretches well beyond that contemplated by IPC.

Because investment takes place in many areas, can be public or private, foreign or domestic, change will require the collaboration and participation of a wide number of actors in both the public and private sector, including government, the Chamber of Commerce, ponteiros, traditional farmers, labor, public employees and so on. Therefore, the first task to be accomplished is to obtain agreement among these actors regarding the direction and parameters of investment policy change, what are the key or critical areas to be focussed, and among those areas what are the priorities. Further, the manner in which this first task evolves will also determine how the remainder of IPC's assistance and intervention will be carried out.

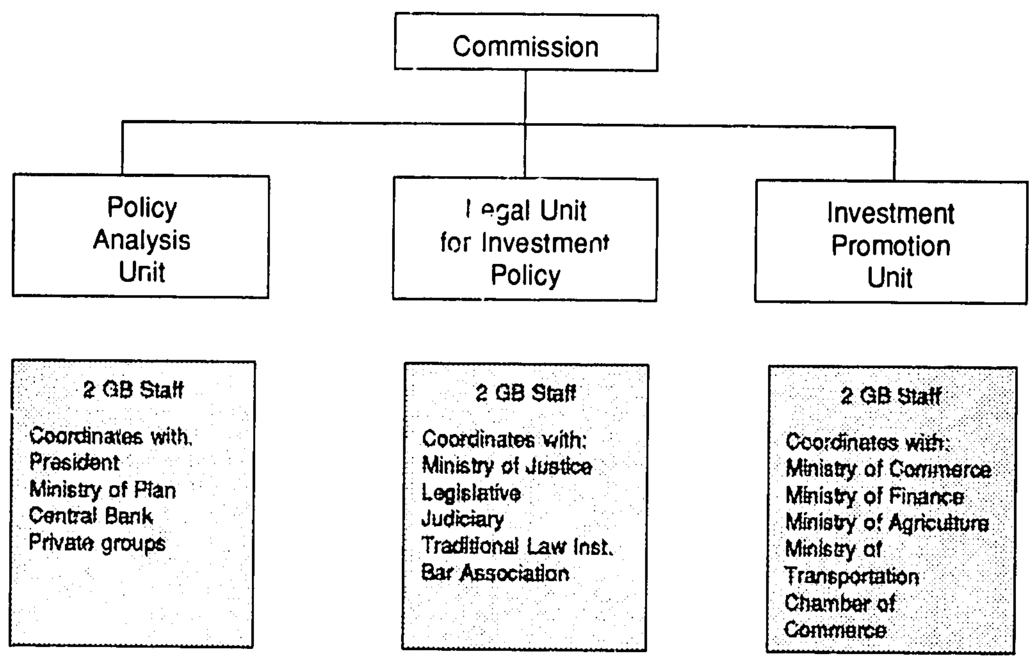
COMPONENT ONE: DEVELOPING A STRATEGIC APPROACH TO THE IMPLEMENTATION OF INVESTMENT POLICY REFORM.

Proposed Activities:

1. **Establishment of Presidential Permanent Commission on Investment Policy.** The use of special commissions in Guinea-Bissau has historically been an acceptable means of gaining group participation and ownership in matters of national importance, e.g., Constitutional Commission, land reform commission, etc. The purpose of the proposed Commission will be to decide the nature and direction of investment policy change, establish priorities for changes in investment policy, determine those laws which need to be changed or enacted to facilitate policy change, locate and determine strategies for the removal of obstacles impeding investment, and supervise and monitor implementation of the policy changes made. The Commission will be convened by the President of the Republic through an inaugural workshop to be attended by key ministers and several key private sector figures. The Presidential Commission will be the principal mechanism for opening the dialogue on investment policy to wider participation. Working with counterparts designated by the President, IPC will assist in the organization and facilitation of the workshop.

The purpose of the inaugural meeting will be to seek agreement on an approach to the reform of investment policy in Guinea-Bissau. At the same time decisions regarding tasks, organization, frequency of meetings, executive structure and membership, and nature of technical staffing will be made. Responsibility for assuring continuity of the commission throughout the upcoming electoral process and possible change of government should also be assigned, probably to an executive committee, composed of 5-6 committed individuals and should include members from both the public and private sector. Responsibility for management of the Commission's technical support function will also be assigned. (It is projected that the functions, carried out by the Commission will eventually be transferred to appropriate Ministries and/or agencies and that the Commission itself will be dissolved.)

Presidential Commission on Investment Policy (Proposed Organizational Structure)



Location: Since the activities of the Commission will cut across several Ministries, the Commission, while at the designation of the President should be centered in a location where it will be assured of both high legitimacy and solid access. At the moment, the office of the Prime Minister fulfills both major criteria.

1.a. **Support for organizational development of the Commission.** As most of the members of the Commission will be either Ministers of State or influentials in the private sector, it is expected that most of the analytical work of the group will be carried out by a technical staff. Since the Commission is intended to be permanent, IPC will assist in the development of the Commission's organizational structure, the design of specific functions and responsibilities, the development of tasks and institutional capacity, the development of workplans and budgets, the training of personnel as well as carrying out specific targeted technical assistance activities.

1.b. **Support for technical and institutional capacity of the Commission.** The Commission will have three areas of substantive concern and capacity: policy analytic capability in the area of investment to assess the needs, capacity, and feasibility of suggested policy changes for enhancing the investment environment; legal analytic capacity to address the problem of the current legal and regulatory structure for investment and assess the changes that need to be made; a promotional capacity to internally and externally promote Guinea-Bissau's investment potential as well as to capture information regarding potential investors' requirements and needs as well as perceptions regarding the desirability of investing in Guinea-Bissau.

b.1. **Policy Analysis Unit** - the primary purpose of this unit, which is subordinate to the Commission, is to establish the key areas of policy change needed to create a more propitious investment environment. The unit will provide the primary analysis for determination of which policies and consequently, which institutions must be changed or modified. Such a u it will also allow the Commission to be sensitive to policy changes that will enhance the investment environment for growth and equity in rural areas and traditional production.

Workshops - the aim of the workshops is to widen the dialogue surrounding alternative investment policies and to begin to shape the basis of agreements for those policies. In order to gain the support and commitment of those who will be charged with implementing the new policies as well those who will be affected by the changes, it is important that the breadth of dialogue be widened and opened to participants other than a narrow range of government officials.

Studies - the Policy Analysis Unit will carry out a series of studies analyzing the needs and local capacity for alternative investment policy changes and will also examine feasibility in terms of institutional and resource capacity. Studies will also be made of potential economic impact of alternative measures. These studies will feed into the workshops mentioned above.

IPC will provide support in the form of training in the area of policy analysis, experts to help organize the policy analysis unit, training abroad in the area of investment policy analysis and salaries to PAU technical staff. In the first phase there will be several consultancies to provide direct assistance in carrying out the early studies.

b.2 **Legal Unit for Investment Policy.** This unit will develop specialized capacity in the area of investment law and the legal environment for investment.

Activities:

Matrix for legal reform: the purpose of the matrix is to indicate which laws will need to be either created or revised in order to accomplish the desired policy changes. At the same time the matrix will also indicate which institutions will be affected by the changes and identify directions in which capacity will have to be strengthened or modified for policy implementation.

Studies: The legal unit will carry out a series of studies and analyses of commercial codes and investment laws from other countries (particularly from Portuguese-speaking countries) in order to extract both lessons and models for laws and codes in Guinea-Bissau. These studies will help provide the basis for recommendations for changes in current law.

IPC will support the legal unit through consultancies to the unit on investment law for the construction of the Matrix for Investment Law Reform; specialized training and assistance in investment and commercial law; salaries for technical staff and short-term training and observation visits to examine other investment codes.

b.3. **Investment Promotion Unit.** One means of addressing investment impediments would be the establishment of an investment promotion unit. The purpose of this unit could be to promote investment from both within and outside Guinea-Bissau as well as to serve as a mechanism for dissemination of information on the country's investment climate. The unit could serve as the primary point of contact for outside parties interested in investing in Guinea-Bissau. Although the promotion of foreign investment will be important, much greater emphasis might be given to the promotion of domestic investment. This will be especially important given the rather incipient nature of Guinea-Bissau's private sector. This activity will coordinate with the investment promotion unit that is currently in the Ministry of Finance as well as with the Ministries of Commerce, Transportation and Agriculture and the Chamber of Commerce. Staff for the unit will probably originate from line Ministries.

(The IPU is offered as one possible means of addressing investment issues in Guinea-Bissau. The mechanics for staffing and inter-Ministerial coordination would be worked out by the Commission; alternatives to the IPU may also be identified by the Commission.)

Activities:

Conferences: The unit will sponsor conferences and workshops to both agree on priority investment areas and strategies as well as to introduce new investment ideas and opportunities to Guinea-Bissau. It is expected that such workshops will be able to develop a series of target investment areas.

These latter conferences and workshops will draw on both local and expatriate expertise to disseminate investment ideas including such activities as export or perishable agricultural commodities, transport, agricultural services, drawback manufacturing, etc.

Information Dissemination: This unit could also be tasked with the dissemination of information concerning investment possibilities in Guinea-Bissau, and as a "one-stop" investment information center for domestic investors as well as potential foreign investors. The group will also serve as a feedback mechanism for both the policy analysis and the legal reform units by relaying perceptions from internal and external investors concerning the investment climate. It is also expected that this unit will track donor interests in target investment areas.

Study Tours: the unit will also sponsor study tours to provide local investors with the opportunity to visit successful investment projects in other similar environments and to learn from those examples. At the same time the group will act as sponsor for groups of potential investors visiting Bissau to examine investment potential.

IPC will support all of these activities both through training, salary for technical staff and direct consultancies regarding specific issues. IPC will also work in facilitation of workshops and conferences to establish priority investment areas and targets for promotion. IPC will also provide support for dissemination activities and the training of its personnel.

COMPONENT TWO: DEVELOPMENT OF INSTITUTIONAL AND ORGANIZATIONAL CAPACITY FOR STRATEGICALLY MANAGING THE IMPLEMENTATION OF CHANGE IN INVESTMENT POLICY.

(This component should initiate its activities approximately 6 months after the Presidential Commission's inaugural workshop.)

Activities to be carried out during this phase will be dependent on the decisions made and strategies designed in Phase One and therefore cannot be defined with a great degree of specificity. Nevertheless, the main purpose of activities in this phase will be the institutionalization of changes in investment policy adopted by the Permanent Commission to be implemented by various public sector agencies. Activities to be carried out by IPC in this phase will center on the development of strategic management capability in those managers tasked with the implementation of specific policies for carrying out tasks associated with implementing those policies.

It is expected that the policies developed by the Permanent Commission will require significant changes at the Ministry and/or agency level affected by those policy changes. In such cases, IPC will typically support a variety of activities:

- **Strategic management workshops** to develop agreement on the approach to be taken in implementing the change in investment policy. During these workshops, IPC may assist managers in identifying technical and political impediments to implementation, developing analyses of winners and losers, conducting stakeholder and institutional capability analysis, identifying strategic issues, or in other activities to enhance the manager's capacity to strategically manage implementation.

- **Specialized technical assistance** to help solve specific problems or increase the organization's capacity in certain areas. Such assistance will generally be short term and employ, where possible, a process approach in assisting the manager to solve his/her own problem. Such assistance might be in the area of duty drawback schemes, structuring fiscal incentives for investment, management information systems, and so on.

- **Agency re-organization or restructuring.** In some cases, decisionmakers may determine that an agency needs a major re-organization to carry out new policy directives. Here, IPC will assist the manager in developing a process for transformation, mechanisms for treating winners and losers, the development of new incentive structures, etc.

- **Simplification of the investment process.** The current complex of rules and regulations (many of which are contradictory due to the switches from Portuguese to a statist economy to a de facto free market) has created a confusing a congested process for the formal establishment of a new enterprise. Studies will be carried out to locate and determine the nature of bottlenecks and to help outline alternatives for their solution. IPC will assist managers in developing strategies to eliminate bottlenecks and to streamline the process for setting up new investments.

- **Special studies.** In certain instances, IPC will supply experts to carry out studies in specialized areas where there exists no local expertise or capacity. In each case, IPC will make an effort to help develop local capacity while carrying out the study.

- **Training.** IPC will also support training activity in areas designated by the policy changes made. This may involve the training of entire departments (new fiscal control mechanisms, or customs procedures) or of single individuals (in certain specialized areas of investment codes, for instance). Training may be short-term and long-term.

- **Study and/or observation tours.** In order that local managers may draw lessons from the experiences of others, IPC will also support study tours to countries with relevant or similar sorts of projects underway.

- **Inter-Institutional Coordination.** Typically, policy changes in investment will cut across several ministries or agencies. When pieces of the policy fail to be implemented in one agency, it will negatively affect the implementation process in another. Therefore, some measure of inter-institutional coordination will be needed.

IPC will support both the organization and structuring of mechanisms for inter-institutional coordination, be they committees or relatively simple information exchange systems.

- **Investment Regulation Revision.** There are currently myriad regulations covering investment policy in Guinea-Bissau. Should these be changed without heed to the needs of other agencies and regulations that will be affected, much of the work will be wasted. Coordination in revising regulations on investment policy is thus crucial. Through the technical assistance of IPC, the capability to review new and/or revised regulations to assure consistency and coherence will be enhanced.

COMPONENT THREE: DEVELOPING MECHANISMS FOR COMPLIANCE AND CONFLICT RESOLUTION IN IMPLEMENTING CHANGE IN INVESTMENT POLICY.

(This component should initiate its activities one year after the Presidential commission's inaugural workshop and run concurrently with activities in Component 2.)

Since one of the main purposes of changes in investment policy is to create a more level and more attractive playing field for potential investors, it is important that mechanisms be developed for resolution of the conflicts that will inevitably arise as the process of change develops. Actions that tend to produce disloyal competition on the playing field, or outright violations of new policies or regulations must be dealt with efficiently and equitably.

A frequent and serious problem mentioned in the report is that the whole judiciary and/or legal system is in need of significant modification or overhaul. That would certainly be beyond the scope of the proposal being made here. On the other hand, there are a variety of other options for modifications of a much lesser and more highly targeted nature that can be made more directly and speedily which can serve to arbitrate disputes or resolve conflicts. Such modifications might be based on improved utilization of the executive branch's adjudicatory capacity, minor revisions in statutory codes, or improvements in judicial procedure.

While it is often argued that the role responsibility for compliance and conflict resolution falls upon the legal (judiciary) system, much conflict and dispute can be dealt with via other adjudicatory mechanisms, many of which are not necessarily under the purview of the judiciary. For instance, specialized commissions or tribunals can be established to cope with restrictive business practices (eg., price fixing, collusion), to arbitrate labor conflicts, or to regulate the emission of stock.

At the same time, targeted interventions can be carried out in the judiciary system to deal with issues related specifically to investment policy such as improvement of judicial procedures to channel all investment-related conflicts to a particular court, or the establishment of exclusive authority over such matters in certain courts. Other interventions might be made in either updating or in revising statutory codes, or clarifying or defining the regulatory and/or adjudicatory authority of particular ministries or agencies.

If the intended judiciary reform project is carried out, IPC and appropriate Guinean officials should work closely with that project to provide the most effective and efficient solutions to the problem of conflict resolution in the investment policy area.

Some illustrative activities that might be carried out in this Phase are:

- **Strategic Management Workshops:** these would be used to assess alternatives and seek agreement regarding the problem of conflict resolution mechanisms on investment policy. IPC will assist managers in the analysis and development of various options and in the identification of strategic issues for the implementation of those options.

- **Specialized Technical Assistance:** these interventions will be aimed at specific problems in the creation or implementation of adjudicatory mechanisms or at increasing the capacity of the institution to manage implementation. Such assistance, where possible, will be process oriented, and might attempt to target such areas as: formation of specialized commissions on regulation of restrictive business practices or in the implementation of new judicial procedures.

- **Special Studies:** In certain instances, IPC will supply experts to carry out studies in specialized areas where no or insufficient local capacity exists. IPC will always make an effort to develop local capacity while carrying out the studies.

- **Institutional Strengthening:** IPC will work with those agencies which have conflict resolution or adjudication responsibilities to help implement those functions within the organization.

- **Training:** IPC will support training activity for those individuals and organizations who take on conflict resolution or adjudicatory responsibilities. This may involve the training of a commission, training of judges charged with dealing with investment policy conflicts, or specific individuals tasked with working on modification of procedures or regulations.

- **Study and/or Observation Tours:** there is a small but developing experience in the area of conflict and nonjudicial adjudicatory procedures and techniques. Guinean officials could certainly benefit from that experience, and IPC feels that it would be important to support such activity.

(Note: it is important to note that the activities suggested in Phases 2 and 3 are merely meant to be suggestive of the type of activity that could be carried out, and are not meant to be either exhaustive or definitive. More precisely what, where, and how much can only be determined after Phase 1 is well underway.)

Next Steps:

The first task to be accomplished is to assure that the Presidential Commission as proposed herein is the appropriate vehicle and to determine that there is sufficient support. Assuming a basic acceptance of the sketched proposal, the next step is a planning phase in which more analysis and preparation for the Presidential Commission Workshop would be carried out.

This particular phase will require a minimum of 3 person months (Senior Policy Change Specialist) and could involve either one or two visits depending on length and personnel resources available. The purpose of these visits is to carry out more analysis and interviews to fully determine the nature and depth of commitment to the concept of the Presidential Commission.

During this phase, the IPC team will work with an ad hoc group composed of Ministers and local counterparts designated by the President of the Republic. During its day, the IPC team worked with a group of four counterparts who may form an initial base for the counterpart team. All are senior-level officials from the Ministry of Economy and Finance, the Ministry of Administrative Reform and Civil Service, and the Ministry of Justice. All have expressed interest in collaborating with IPC.

Along with determining commitment, several other factors must be explored and/or determined:

- Establishment of the parameters for the Presidential Commission's inaugural workshop:

  1. What issues will be explored or examined? To what depth? Manageability of the issues?

  2. Who will be involved? Who will lead? What resources are available to manage the conference?

  3. Where should the conference be held? In Bissau? Pros and cons.

  4. When should the conference be held? How long should it be? Should there be more than one?

  5. Methodology of the conference. Residential, lectures, participatory, exercises, case studies, logistic resources availability, etc?

6. Who will be the participants? Only Ministers? Mix of public and private? What kind of mix?

Since there is already a core group of Guinean officials enthusiastic about the Presidential Commission, this group could constitute an "ad hoc" or "rump group" to work out the above issues. Regardless of whether it is the same group, the IPC team will work with key officials on the establishment of the workshop parameters.

- **Stakeholders:** during the visit a more complete analysis of stakeholders will be made. At the same time, the IPC team will also begin to cement contacts with key players and to develop a plan for communication that keeps the process transparent.

  At the very least, all potential participants in the first event should be interviewed in order to assess their needs and views on investment policy reform, and their opinions regarding most priority issues. Alternatively, one might consider the use of breakfast roundtables or focus groups to discuss issues and deepen commitment, and develop an investment policy reform network.

- **Recruitment.** The IPC team will also begin the process of recruiting local resources to the team. Two types of recruitment will be carried out:

  1. Groups and individuals to assist in the set up and management of the first event.

  2. Individuals to help serve the technical staff functions of the Presidential Commissions. Given the scarce nature of qualified resources, and serious competition for those qualified resources, serious effort will be given to strategies for recruitment. Profiles of different positions to be staffed will be developed.

     It will also be important to carry out an initial assessment of training needs for the technical staff.

- **Other Logistics:** The team should also begin to assess where the Commission should be located, needs for office space and availability, equipment and commodities needs (including telephone, fax, copying and computer equipment) and other personnel needs.

  Estimated level of effort for the planning phase: 3 person months.

APPENDIX 1

SCOPE OF WORK

ANNEX A

SCOPE OF WORK

I. BACKGROUND

The Government of Guinea-Bissau (GOGB) began in 1983 to move away from its command-economy development strategy. With the assistance of multilateral and bilateral donors, major reforms were initiated to achieve macro-economic stabilization and structural adjustment objectives. Government is clearly moving toward a development strategy that emphasizes broad-based, sustainable economic growth that is market-oriented and private sector-led. U.S.A.I.D. is supportive of this implicit policy.

Beginning in 1989, the GOGB and the country's sole legal political party took steps that would, over time, complement economic reforms by creating a more pluralistic and democratic political system. Significant revisions in the constitution and the law of political parties were made earlier this year. It is anticipated that political and governance reform will be continued, that there will be a separation of powers, and that within this new system there will be a strong president who, along with the other branches of government, will hold public agencies accountable for the programs they are to implement.

Government recognizes the need for comprehensive legal reform to authorize and implement the fundamental policy and political reforms now in process. Leadership, however, must consider whether proposed policies can be implemented. Policy-formulation and policy-implementation need to be considered as a single process. Therefore, drafting of laws will require that Government address the nature, costs, benefits, and incidence of impacts defined by policies and programs. These are politically-charged issues that can determine the outcomes and benefits of specific individual reforms, as well as the comprehensive reform program built on linkages among specific changes.

In summary, GB is perhaps unique in Africa for the comprehensiveness of its reform program. It involves the energizing and coordination of the formulation and implementation of simultaneous economic, political, legal, and institutional changes. Few if any other countries have assumed such a daunting challenge.

This challenge represents a test of whether fundamental, comprehensive economic, political, legal and institutional reforms can be successfully formulated, accepted, and implemented to achieve their intended effects. This challenge is a major justification for USAID to extend assistance to GB to help it succeed in its reform program.

GB has relatively few resources to successfully meet the challenge it has set for itself. In 1988, there were only 389 people in the country with the equivalent of a university undergraduate education. Few of these people are skilled in economics, policy formulation, operating within a pluralistic political environment, or managing the implementation of policies. Government reform capabilities are also limited by a severe shortage of financial resources. It is not surprising, therefore, that policy-formulation is not as speedy as many would prefer and that policies that are adopted are not always implemented as expected. These deficiencies threaten the reform process, the ability of government to attract continuing donor support, and the very viability of the economy, society, and state.

GB could greatly benefit from cooperative assistance and training to strengthen the policy-formulation and implementation process. Basic improvements in the entire process will help equip the country for sustainable and stable growth in the years ahead.

USAID will use the report to consider the feasibility, scope, and design of an IPC Guinea-Bissau program. The report will also be used by USAID to further refine its strategic plan, as well as projects currently in the design stage.

II. OBJECTIVES

The reconnaissance visit by the IPC experts has two general objectives and four specific ones:

General Objectives

1. To have the GOGB leadership accept as its own a joint GOGB-USAID/IPC investigation into key policy implementation issues in Guinea-Bissau.

2. Based on this joint investigation, to have the GOGB take the leadership and ownership of a GOGB-USAID/IPC technical assistance and training program proposed by the IPC team.

Specific Objectives

To achieve the above general objectives, the IPC experts are to prepare a report that will achieve the following four specific objectives:

1. To identify the major economic (stabiliziation and structural adjustment), political (constitutional reform and multi-party democracy), and legal reforms that are seen to be needed, supported and opposed by

different segments of society.

2. To identify how specific (priority) reforms will affect different segments of society, including those both within and outside government.

3. To identify the linkages and interrelationships among specific priority reforms from the perspective of costs and benefits, political support and opposition, and implementation.

4. Based on the above analyses, to propose to USAID and relevant GB groups a technical assistance and training program to help GB to successfully formulate and implement its comprehensive program of reforms, especially reforms identified as critical at this time.

III. SPECIFIC TASKS

In preparing a report to meet the above objectives, the IPC team shall:

1. Spend no more than one week in Washington to become well versed in the economic, political, and legal developments in GB. To this end, the team shall conduct interviews with the Ambassador of GB to the U.S., World Bank and IMF staff responsible for programs in GB, the State Department and A.I.D. desk officers responsible for GB, consultants with extensive first-hand experience and knowledge of GB (e.g., Gerald Peck), and others who have relevant information about the country. Furthermore, the team shall study and review materials USAID will provide, as well as other materials the team shall identify, as outlined in Attachment I to this scope of work.

2. Prepare and deliver to USAID on the team's arrival in country a brief summary of the above materials, and provide USAID a briefing on the implications of the findings for the team's assignment in GB.

3. Spend no more than three weeks in GB conducting interviews and reviewing materials to prepare a report covering the objectives stated in Section II above. Interviews will be conducted with key members of government and the political party in power, representatives of the private sector and political parties not in power, representatives of the World Bank, donors and embassies, and other individuals and groups who are able to contribute to the objectives of this assignment.

To the extent possible (given the time constraints on senior government officials and members of the private sector), the IPC team will work with and through a task force composed of senior officials and influential private sector figures to further enhance their commitment and ownership of the IPC-assisted program, gather information on policy issues, and where there is consensus and differences regarding these issues, to identify information needed for setting priorities and timing of reforms under consideration, and review with these counterparts the major conclusions of the study and proposal.

4. Cover in the final report and the proposed assistance program information on the following:

   a. The locus, level, and kind of interest in policies that contribute to sustainable, equitable economic growth and development.

   b. The ability of organizations key to specific kinds of reform to develop direction and consensus on new policies and to implement them.

   c. Leadership and commitment for initiating and sustaining needed changes.

   d. Strengths and weaknesses of the present structures, processes, procedures and personnel involved in policy-formulation and associated implementation.

   e. The degree and direction of the interests of different key actors and agencies regarding improving policy implementation and cooperation with an IPC project.

   f. Identification of those inside and outside government who will be favored or disfavored by specific reforms, what these effects are, and feasible means to mitigate possible negative impacts.

   g. The amount of "policy room" there is for different key actors and agencies to maneuver in formulating and implementing policy reform.

   h. Linkages among specific policy reforms.

   i. The feasibility of implementing different individual policies by themselves and in conjunction with other linked policies.

j. The perceived clientele of those involved in policy-formulation and implementation, the responsibilities that government believes it has to these clienteles, and government's relationships with them.

k. Formal and informal influence and approval linkages among individuals and agencies involved in key policy areas.

l. Points at which policy implementation currently falters, reasons for this, and what can feasibly be done to correct the defi .encies so identified.

IV. DELIVERABLES

The team shall:

1. On its arrival in GB, provide USAID with the report described in Tasks 1 and 2 above.

2. Deliver to USAID a draft of the team's final report at least three days prior to the team's departure from GB.

3. Conduct a short, informal workshop with Bissaun counterparts and USAID staff to discuss the team's draft report.

4. Upon receipt of USAID comments on the draft report (or amendments to it prepared by the team after its return to the U.S.), the contractor shall deliver to USAID ten (10) copies of a final report in English, as well as an equal number of Portuguese-language versions of the report's Executive Summary of major findings and recommendations. The report shall also include a detailed proposal for follow-on IPC assistance, either on a short-term demonstration basis or as a longer-term collaborative arrangement.

V. RELATIONSHIPS AND RESPONSIBILITIES

The USAID/Representative or his designee shall provide the IPC team with technical direction. The team's major GOGB counterpart is the Minister of Economy and Finance. The contractor shall also relate to and cooperate with other government entities and representatives of the private sector.

VI. PERFORMANCE PERIOD

The contractor shall perform this assignment over a four-to-five week period beginning in November, 1991.

APPENDIX 2

INTERVIEW FORMAT

Interviews of informants will designed to obtain answers to the following questions:

- What are in your opinion the three most crucial reforms that the government is implementing or should implement?
- How was the decision concerning the reforms arrived at?
- What is the process by which the reform policy is being implemented?
- What is your role in the implementation process?
    - -- Who are the other key actors?
    - -- Who supports/opposes the policy? Why?
    - -- Whose interests are affected?
    - -- What are the current and/or anticipated problems with implementation?
    - -- Relationship/impact of other policies? Laws and regulations?
    - -- What is the institutional capacity/resistance? Incentives?
    - -- How do you think implementation could be improved? Resistance overcome?
- Who else should we talk with for more information and/or for resource/collaborating institutions.

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APPENDIX 3

PERSONS INTERVIEWED

World Bank

Elena Cordeiro, Country Officer for Guinea Bissau
Judy O'Connor, former Country Officer

International Finance Corporation

Brian MacNamara, Country Officer for Guinea Bissau

USAID/Bissau

Michael Lukomski, Director
Robert E. Mitchell, Program Officer

American Embassy, Bissau

William Jacobsen, Ambassador

Donor Community

Ives Tencalla, World Bank Reperesentative in Guniea Bissau
Robert Collingwood, Chief Delegate European Economic Community
Marcleo Dideir, Brazilian Ambassador
Phillipe De Braconier, Director, Belgium Non-Governmental Organization, sponsor of Ilha de Paz Fishing Projct

Office of the President

Joao Bernardo Vieira, President
Carlos Correia, Prime Minister
Flavio Proenca, Chief of Staff of the Presidency

Ministry of Finance

Filintc Barros, Minister
Eduardo Fernandes, Secretary of State of the Treasury
Vicente Fernandes, Office of Investment Support, Ministry of Finance
Carlos Andrade, Office of Customs, Ministry of Finance
Juliano Fernandes, Director of Customs and member of CRC

Ministry of Natural Resources and Industry

Manuel Monteiro Santos, Minister (former Minister of Finance and Economy)

Ministry of Agriculture and Rural Development

Mario Cabral, Minister
Jorge Oliveira, Director General of Agriculture and Rural Develoment
Nelson Gomes Dias, Director General of Planning

Ministry of Justice

Joao Cruz Pinto, Minister
Mario Filomeno Mendes Pereira, Office of Studies, Ministry of Justice and staff member of National Legislative Assembly Juliano Alberto Fereira, Office of Studies

Ministry of Administrative Reform and Civil Service

Pedro Godinho Gomes, Minister (former Minister-Governor of the National Bank)
Higenio Lopes Cardoso, Director General of Administrative Reform

Supreme Court of Justice

Daniel Ferreira, President of the Supreme Court

Ministry of Information and Communications

Malam Bacai Sanha, Minister

Ministry of Commerce

Luis Oliviera Sanca, Minister

National Bank of Guinea Bissau

Luis Candido Ribeiro, Governor (former President of the National Social Security Institute)

Private Sector and Others

Henrique Rosas, Manager, Rosas e Roses, Lda., Lloyds of London repesentative in Guinea Bissau, and .nbr Chamber of Commerce
Victor Mandinga, Acting President Chamber of Commerce, owner of GETA agro-industrial plant, President-Coordinator, Democratic Convergence Party (PCD)

Fransisca Pereira, PAIGC, member of Legislature and President of National Womens Ogranization (UDEMU)
Jan van Maanen, Owner-Manager of MAVEGRO, and NISSAN dealer.
Julde Balde, Fishing industry, and PCD member
Paulo Gomes, official of political party FLING
Augusto Sane, Dirctor of COMECO (agro-industry) and member of political party PCD
Rui Ribeiro, National Institue of Studies and Research (INEP)
Hannes Stegleman, Director of Ilha de Paz Fishing Project
Carey Lifton, Anthropologist
Major Armindo Rodriques, Chief of Bissau Fire Department
Col. Manuel Saturnio da Costa, Mayor of Bissau, member of PAIGC Central Committee
Cmdr. Feliciano Gomes, Commandante of the Navy

Constitution Revision Commission (CRC)

Fidelis Cabral D'Almada, Counsellor to the President. Chairman of CRC
Malan Bacai Sanha, Minister of Information and Communications
Mario Cabral, Minister of Agriculture & Rural Development
Nicandro Barreto, former Minister of Justice
Jose Avito da Silva, Minister of Transport
Octavio Alves, Member CRC
Juliano Fernandes, Member CRC
Mamadu Saliu Djalo, Member CRC

Other Sources of Information

Some of the information in this report concerning the views of opposition parties is taken from notes of meetings with Eduardo Periera and John Blacken had with leaders and members of six political parties during a visit to Bissau in November 1991.

These included:

"Movimento de Bafata" - Partido da Resistencia da Giune-Bissau

Maria Kubala
Fausto Mendes
Joao Furtado

Aristides Menezes, President of the Social Democratic Party

Antonio Oscar Barbosa, from the "121" group of the PAIGC
Agnelo Regalo, from the "121" group of the PAIGC

Victor Saude Maria, President of the United Social Democratic Party (PUSD)

Amadeu Bailo Camara, Official of the United Social Democratic Party (PUSD)
Alfredo Antonio da Silva, Official of the United Social Democratic Party (PUSD)
Hermenegildo Mascarenhas, Official of the United Social Democratic Party (PUSD)
Alqueia Wassa, Official of the United Social Democratic Party (PUSD)

Domingos da Silva, Secretary General, Frente da Liberacao e Independecia da Guine
Jose Catengul Mendes, Official, Frente da Liberacao e Independecia da Guine

Filintro Martins - President of MUDE

Rafael Barbosa, President, Social Democratic Front (FDS)
Estevao Tavares, Secretary General, Social Democratic Front (FDS)
Braima Camaru, Social Democratic Front (FDS)
Mario dos Reis Pires, Social Democratic Front (FDS)
Fernando Batista, Social Democratic Front (FDS)
Anita Djalo, Social Democratic Front (FDS)

APPENDIX 4

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APPENDIX 5

Economic Performance and Structural Adjustment in the Republic of Guinea-Bissau

The Need for Immediate Legal, Regulatory and Institutional Reforms

A.G.M. Cunha, Economist
4 February 1992

1611-011.W51
March 6, 1992

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I. MACROECONOMIC SETTING[1] OBSTRUCTED

1. The task of rebuilding the economy after independence in 1974 was effectively ________ by the pursuit of inappropriate policies which resulted in a severe deterioration in performance in all sectors. Overbearing government intervention, inadequate pricing policies -- particularly in terms of low producers prices and an overvalued exchange rate -- together with an overambitious and ill-thought out public investment program (finance by foreign loans) which favored large (and grossly inefficient) agro-industrial projects but neglected crop production measures brought about a deleterious discouragement of exports through the regular channels concomitantly with the emergence of a thriving clandestine trade with the surrounding countries.

2. The end result was an anemic economy entirely dependent on foreign aid to finance essential imports, suffering from a serious misallocation of resources in an environment of endemic high inflation. The latter was brought about by the practice of automatically financing the widening fiscal imbalances via era-larger Central Bank credit emissions.

3. By the early 1980s, the external financial position of the country -- aggravated by adverse terms of trade and a severe drought -- became unsustainable, resulting in the accumulation of substantial external payments arrears.

II. THE FIRST STABILIZATION AND ADJUSTMENT PROGRAM (1933-84)

4. In an effort to reverse the longstanding deterioration of the economy and redress financial imbalances, the Government launched a far-reaching stabilization and adjustment program in 1983-84. That was supported in 1984 by a first credit tranche from the International Monetary Fund (IMF) and by a reconstruction import credit facility from the IDA/World Bank.

5. The primary objective of the adjustment measures were to restore internal and external balances, and to lay the foundations for sustained real growth, based
on reducing the State's role, encouraging private initiative, and relying on market forces to correct distorted price relationships.

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[1] Because statistical data series on Guinea-Bissau are fragmentary and not completely reliable, the analysis could not be based solely on the spotty statistics from the World Bank (See Tables 1,2,3). The author also benefitted from first-hand knowledge of having been stationed in Bissau in 1989 as the UNDP Senior Economist, from data collected during fact-finding missions to the country in 1990 and 1991 undertaken on behalf of the World Bank and COBA, SA (Portugal) respectively, and from interviewing a number of economic and legal experts on Guinea-Bissau from the World Bank and UNDP in January 1992.

6. Specific measures to meet these broad targets were, inter alia, formulated to: (i) correct the serious overvaluation of the Guineas Peso (PG); (ii) decontrol prices, both at the consumers' and producers' levels, and (iii) reduce the budget deficit.

7. Although these policy measures had an initial positive impact, particularly among the rural producers, the internal and external imbalances persisted due to implementation delays, the failure to decisively tackle the fiscal deficit, and another sharp deterioration in the country's terms of trade (in 1985) caused by a steep drop in export prices. In 1986, domestic output again declined, inflation rose to some 45 percent, while foreign exchange reserves dropped to cover only two weeks worth of imports; external payments arrears on the then-estimated US $330 million external debt rose to some US $75 million.

8. Against this state of affairs, the Government in 1987 adopted a second structural adjustment package, to cover the 1987-89 period, supported by a US $40 million Structural Adjustment Co-Financed Facility (IMF/world Bank). In general terms, this second structural adjustment package, besides reinforcing the aims of the first, particularly as it related to the opening of the economy to free market forces to correct distorted price relationships, emphasized the liberalization of internal and external trade, and, most importantly, the introduction of institutional reforms to reduce the scale and boost the efficiency of the public sector by eliminating superfluous manpower and by withdrawing the omnipresent State from direct involvement in commercial and industrial activity. There was also a need to align internal demand with available resources, and to normalize relations with foreign creditors.

III. THE BALANCE SHEET OF THE 1987-89 STRUCTURAL ADJUSTMENT CREDIT (SACI)

9. The results of the 1987-89 program were mixed. On the positive side, while the economy continued to expand by an estimated 5 percent annually in real terms and export growth averaged over 20 percent during the period due to continued expansion in agricultural output in response to the liberalization measures substantial progress was made in eradicating price distortions (except for petroleum products and imported rice), the exchange rate was brought broadly in line with its market value and trade restrictions were, in great part, removed. For example, quantitative quotas were eliminated on 75 percent of imports, and import duties were reduced sustantially; the export tax on cashews -- the country's main export -- was reduced from 50 to 40 percent.

10. The Government, for its part, not only abolished its own previous monopoly on cereals trade, but also introduced other positive measures such as excise tax on gasoline, an increase in electricity tariffs to more realistic levels and a reduction

in the size of the civil service by some 15 percent. Of equal importance, was undoubtly the preparation of a three-year-rolling public investment program.

11. On the negative side, persisting weaknesses in economic management continued to deny any significant progress on the stabilization front. Inflation, which should have been brought down to 40 percent per annum, reached 110 percent in 1987, 80 percent in 1988 and 70 percent in 1989, the direct result of the Government's inability to control credit, or to reduce the budget deficit.

12. For its part, the World Bank recognized that "slippages in monetary and fiscal discipline were due in part to lack of up-to-date and reliable information and to a very weak administrative capacity"[2]

13. The hugh external debt overhung (US $458 million at year-end 1989), notwithstanding the favorable results of the 1989 Paris Club rescheduling, continued to threaten the viability of the adjustment efforts (see Table 3). As post-rescheduling debt service remained at significantly over 40 percent of exports earnings; new arrears have continued to pile up.

IV. BALANCE SHEET OF THE 1989-92 SECOND STRUCTURAL ADJUSTMENT CREDIT (SAC II)

14. To signal it support for the second phase of the Government's economic recovery program, the IDA/World Bank approved the Second Structural Adjustment Credit (1989-92). The credit became effective in mid-1989, but the second tranch which was originally programmed to be released in the first quarter of 1990, was withheld because of poor performance during the second half of 1989. Only in January 1991 was it released, due to the improvements in performance in 1990, particularly in the areas of the budget and foreign exchange policy. The fiscal improvement was brought about by keeping expenditures constant, and by an increase in revenues, attained by the successful renegotiations of fishing licenses and higher collections of taxation revenues from international trade.

15. Thus, from the beginning until the end of 1990, the positive effects of the adjustment program were not only broad-based, but readily visible throughout the economy. Real DPG growth continued along the 4 to 6 percent path, while inflation, benefitting from the above improvements, dropped to a more tolerable 35 percent. On the external account's side, the ratio of exports to GDP expanded from 8 percent in 1986 to 20 percent in 1990, notwithstanding a 24 percent deterioration in the country's external terms of trade for the same period, and the pressures of the hugh debt overhang.

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[2] "Country Brief: Guinea-Bissau", World Bank, Nov. 19, 1991; p. 2.

V. THE CHRONIC PROBLEM OF INSTITUTIONAL AND STRUCTURAL WEAKNESSES IN PERSPECTIVE

16. This 1989-92 phrase of the adjustment program (SAC II) was supposed to zero in on the need to support and expand the monetized economy by bringing into its realm economic agents operating on the fringes, to improve the tools of economic management and coordination, and to master institutional and structural weaknesses. The latter have historically played a most deleterious role in the excessive expansion of domestic credit and its end-products; an inflation rate above 70 percent, high instability in the foreign exchange value of the Guinean Peso (PG), negative real interest rates (which effectively deny the accumulation of savings for investment and create the conditions of another credit explosion viscous cycle), and imservicable excessive foreign borrowing.

17. Although the Government has scored some notable success under both structural adjustment programs sponsored by the World Bank - SACI (1987-89) and SAC II (1989-92) in the areas of private sector development[3], price and trade reform and exchange rate reform, its has experienced some difficulties in maintaining macroeconomic stability and it has been largely unsuccessful in the restructuring of the areas of the economy previously in the domain of the public sector.

18. In 1991, in a return to the seesaw pattern, fiscal and monetary performance again took a turn for the worse, primarily due to two causes: fist arrears in tax and customs were allowed to accumulate, contibuting to a unnecessary widening of the fiscal deficit; second, another credit explosion took place, this time fed by questionable lending by the now-closed Banco de Credito Nacional (BCN), a bridge bank created in early 1990 with the purpose of recovering the commercial and development portfolio of the former National Bank (by all indicators, about 85 percent of the PG 150 billion -- US $45 million -- portfolio is unrecoverable).

19. As a result, money supply growth accelerated sharply, causing inflation to return to the 70 percent bracket in 1991, and the parallel market exchange rate to depreciate correspondingly. Notwithstanding the new monetary arrangement between Guinea-Bissau and Portugal which became effective in January 1991 and which aimed at the full unification of the official and the parallel foreign exchange markets before end-1991, the differential between the official and parallel markets actually widened to over 50 percent.

20. Predictably, The World Bank withheld release of The Third Tranche of the Structural Adjustment of Credit (1989-92) facility due to non-compliance. The

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[3] For a detailed analysis see Osman Ahmed and Antonio Cunha, "Guinea-Bissau Private Sector Assessment," <u>World Bank Report No. 9809-GUB</u>, Nov. 1991.

tentative release date -- March 1992 -- is now most unlikely, and, once again, the country finds itself in an unsustainable external financial situation, aggravated by the accumulation of substantial external debt service payment arrears.

VI. THE NEED FOR IMMEDIATE LEGAL, REGULATORY AND INSTITUTIONAL REFORMS

21. As we have seen, the main macroeconomic policy orientations of the Government has been clearly identified and a good number of them have already been translated into policies of structural reform in the various stages of implementation, with the help of the Bretton Woods institutions (see Table 4).

22. Equally important, "The Government remains committed to a program of structural adjustment to bring the country back on a growth path. The main elements once the period to 1992 are:

    a. to maintain a flexible exchange rate policy;
    b. to stabilize the economy by pursuing a prudent monetary policy while strengthening in the administrative capacity of the Central Bank and improving fiscal performance by implementing tax reforms and strengthening budgetary controls; and
    c. to promote productive private investment by improving commercial and development banking facilities and accelerating work on public enterprise reform, removing infrastructure bottlenecks, focusing the public investment on areas of highest priority, and revising the investment code."[4]

23. From such a perspective, it becomes apparent that the dearth of highly-skilled national human resources, the gross inadequacies in the areas of tax, legal, regulatory and institutional systems, the inconsistencies in the sequence of the phases of the reform process, and the insufficiencies in administrative capacity of the state apparatus become, in cruel reality, a barrier which would de facto negate the successful execution of such a vital strategy of economic reform.

24. In effect, optimal technical assistance in these areas becomes a crucial exogenous macroeconomic variable which as to be forcibly taken into consideration at this stage of the reform process. Without it, economic and social development in Guinea-Bissau will become increasingly chaotic.

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[4] "Country Brief: Guinea-Bissau", Ibid, p. 5.

VII. CONCLUSIONS

25. Despite the Government's notable successes in liberalizing prices and trade the inadequacies of the legal and regulatory framework in existence in Guinea-Bissau pose an unsurmountable constraint effectively denying the authorities the capacity to maintain macroeconomic stability and to launch a much-needed restructuring of those portions of the economy still in the domain of the public sector.

26. The above constraint has also had an adverse effect on the development of an efficient public sector. In our survey of the private sector in Guinea-Bissau[5], we found that "over 8 percent [of the enterprises surveyed] considered the legal and regulatory framework a serious problem; only 6 percent did not consider the legal and regulatory framework a serious problem. Major issues in this area include outmoded laws that have either been inherited from the colonial period (e.g., the Commercial Code) or are remnants of the staunchly socialist era (e.g., The Constitution), rigid land and labor laws, and extensive reliance on direct controls or case by-case decisions. In general, however, it is not the laws and regulations per se, but the manner in which they are implemented and enforced that pose the biggest."[6] (For further details on the contradictions and inconsistencies of the present legal and regulatory system see Annexes 1, 2 and 3).

27. Indeed, most entrepreneurs are fearful of the bureaucratic and discretionary nature in which laws are implemented, the lack of transparency and accountability of public servants, and the lack of information about the new "rules of the game."

28. The Court System, severely handicapped by a lack of qualified personnel and infrastructures, is extremely weak and devoid of the power to enforce decisions. The unreliability and general inefficiency of the courts means that there is no effective mechanism for the application and enforcement of the laws in litigation among individuals and between individuals and the State (i.e., it is unrealistic to expect the fair redressing of grievance, the enforcement of contracts, or the prevention of unfair market practices). It is not surprising that the Government has expressed serious difficulties in collecting taxes and customs payments, and that the cases against delinquent borrowers which have been brought to court have ended up in no more than in the rescheduling of certain claims.

29. With the recent restructuring of the banking system, the economy is left without a viable source of long-term credit. The new-private commercial bank, BIGB, which is Guinea-Bissau's sole source of commercial credit, has engaged

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5 Ahemd and Cunha, Ibid, p. 12.

6 Ibid

exclusively in the highly profitable low-risk business of short-term trade financing. As land ownership is a constitutional right exclusively reserved to the State, lack of titles and deeds of land to collaterize and guarantee bank credit on a selective, efficient bases of agricultural development.

30. The State continues to incur high opportunity costs due to its failure to privatize state enterprise. This is so because both manager and workers continue to have a strong incentive to "decapitalize" the public enterprises which employ them, i.e., to extract as much wealth as they can for themselves. They have no incentive to increase the value of the parastatals through wise investments, increasing productivity by restraining wages and new hirings, because they have no opportunity to sharing in the firm's future prosperity. In many public forms that value of the resources which are used as inputs exceeds the value of outputs, i.e., they experience chronic dieconomies of seale in the production process. In the case of the latter, firms will never make a profit, regardless of how much they cut wages, or eliminate superfluous jobs.

31. In what concerns the redefinition of the role of the State, the Government is yet to clearly define:

(i) what economic sectors must remain/become its exclusive domain; and
(ii) what will be the scope of its intervention in the economy.

An efficient system of tax administration should already have been in place, given the on-going development of the private sector. This inconsistency, an example of the problems associated with the sequencing of the various phases of the reform process, is compromising the Government's attempts at fiscal solvency.