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**CONSTRAINTS
TO THE DEVELOPMENT
OF THE PRIVATE SECTOR
IN GUINEA-BISSAU**

ROUNDTABLE MEETING

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**CONSTRAINTS TO THE DEVELOPMENT
OF THE PRIVATE SECTOR IN GUINEA-BISSAU**

A ROUNDTABLE MEETING
jointly organized by:

UGREP
(Unidade de Gestão da Reforma das Empresas
do Ministério das Finanças)

GAI
(Gabinete de Apoio ao Investimento
do Ministério do Plano e da Cooperação Internacional)

Institute for Economic Development (World Bank)

with support from the TIPS Project

Bissau, October 4-5, 1995

TIPS Conference Room

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I - EXECUTIVE SUMMARY

“Constraints to the Development of Private Sector Activities in Guinea-Bissau,” a workshop jointly organized by UGREP (Unidade de Gestão da Reforma das Empresas do Ministério das Finanças), GAI (Gabinete de Apoio ao Investimento do Ministério do Plano e da Cooperação Internacional) and the Institute for Economic Development (World Bank) in collaboration with the TIPS Project was held at the TIPS Auditorium, in Bissau, on October 4 and 5, 1996 with the participation of more than thirty representatives from Financial Institutions and Private and Public Sectors. The primary objectives of the workshop were to create a forum for the exchange of ideas and to give entrepreneurs an opportunity to express their concerns regarding the following subjects:

- the major constraints to the development of the Private Sector;
- the solutions that need to be prioritized;
- the measures and recommendations they propose;
- the actions the World Bank and/or other sponsors can take to help solve them.

A Work Plan that served as basis for the debates consisted of four categories considered potential constraints to the development of the Private Sector in Guinea-Bissau. They were:

- the political climate (efficacious management of the economy),
- human resources (competence and skills),
- the infrastructure (financial and material),
- institutional support system (mechanisms to link the public and private sectors).

The participants concluded that the constraints to development in Guinea-Bissau and, particularly, to the Private Sector were related to the following causes:

- 1- Lack or poor management of sector-related government policies;
- 2- Situations resulting from the application of the Structural Adjustment Program.

Regarding the problems resulting from poor or lack of management of sector-related government policies - and as a good example of the poor application of policies - the participants unanimously affirmed that, in spite of the economic liberalization initiated in 1986, policies and attitudes have not changed as much as expected, and have not accompanied in practice the behavior of the population and, above all, the behavior of the economic operators. This situation leaves the economy running on two different tracks. One, the structure of day-to-day actions that regulate the operation of the Private Sector and the other, a system with structures still enshrouded by the old system. The Judicial System, for instance, is still functioning according to a structure geared toward a State economy and not a market economy.

Regarding the situations resulting from the implementation of the Structural Adjustment Program, they found that, although the adjustment is important, it is not an end in itself. The objective of the adjustment program should be the country's development. To achieve that purpose, Guinea-Bissau should find ways to create greater wealth. For that reason, the participants voiced their opinion that finding a suitable model to run and develop the country's economy is an urgent task. The Private Sector functions according to a model conceived by the World Bank that stipulates interest rates and credit limits. The Government budget goals have not been met and the foreign debt limits the development of the Private Sector. The participants said that donors and, in particular, the World Bank could do a lot to help the Guinean Private Sector resolve the impasse they face at this time. They suggested the following support measures:

Other than the formulation and execution of the policies that, in a certain way need the assistance of other donors, excessive bureaucracy has been a major obstacle for the development of the Private Sector that requires urgent changes. They said that the ongoing administrative reform is not more profound only because of the social consequences it would bring. Thus, while reducing the excessive number of government employees is necessary, it is also necessary to make sure the private sector will be able to absorb them. They thought the World Bank could play an important role in solving this issue by developing a pilot-project to channel resources to finance business initiatives by the terminated employees. The banking system would manage the funds allocated to this project. That would be a way to motivate the State to continue the reforms since solid adjustments require the State to adjust its size and cut expenses. Because of smaller government, the State could reduce fiscal pressure. The World Bank should continue to pressure the Government to make many adjustments. First, in matters concerning the size of government, the larger the government structure, the greater the expenses and the fiscal pressure to maintain it. Consequently, more resources would be directed to the Public Sector instead of being spent to purchase goods and services offered by the Private Sector. That is the primary reason the government should adjust its size.

The participants also considered the possibility that, not putting aside the problem of adjustment, the World Bank could serve as a coordinator for attracting external resources that could be used to solve the problem of short and long-term credit. This suggestion would have to be followed-up by concrete actions for the management and training of business operators aiming at creating a business mentality in the country. For that reason they recommend that the World Bank departments that apply PAE guidelines and intend to aid the development of the Private Sector try to coordinate their actions to avoid creating more obstacles to the development of the Private Sector, though they recognize that the adjustment is necessary for the development of the country. Therefore, they propose that the obstacles originated by the execution of the PAE were analyzed under an economic growth perspective, leaded by the Guinean Private Sector using a solid management basis.

Thus, the meeting offered the participants an opportunity to discuss the major constraints to the development of the country, and in particular to the Private Sector, to analyze the best means to surpass these obstacles and allow the coexistence of an efficacious Public Sector and a dynamic Private Sector that would lead the country to a durable and sustainable economic, political, social and ecological development.

II - INTRODUCTION

Mr. Cesar Barbosa, from the Management Unity for the Reform of Mixed and Public Companies opened the meeting, welcomed everyone and thanked the participants for joining in the workshop. He said the event had been planned with a theoretical and a practical approach. The representatives of institutions would explain the theoretical framework prepared by the World Bank showing the constraints to investment programs in the Private Sector. The practical aspect of the event would consist of the debate between small groups to identify the problems of the Guinean reality, find solutions and recommend solutions.

However, if the framework prepared by the World Bank did not cover all existing constraints as seen by the participants, they could suggest the specific situations they wanted to discuss. The objective would be to select the constraints closely related to Guinea-Bissau, identify sources for direct or indirect financing and, finally, define the assistance the World Bank and other donors could offer Guinea-Bissau.

Following the initial statement by Mr. Cesar Barbosa, Ambassador John Blacken began his address by greeting and thanking the participants, adding that TIPS was honored, again, to collaborate in the event and be a host to this initiative of the Ministry of Finances and the World Bank. He said he would make everything within his reach to help solve the problems that halt the development of Guinea-Bissau. He said he was very happy to learn that the World Bank intends to devise a Program to aid the development of the Private Sector and that this program would eventually complement the project to be developed by the TIPS Project.

Next, Mr. Ernesto Dabó, GAI director, also a sponsor of the event, praised the initiative and said he expected to learn a lot from the participants.

Finally, Ms. Isabelle Bleas, from the World Bank Institute for Economic Development, also a sponsor of the workshop, said that the Institute she represents was concerned primarily with development financing for the Private Sector. She said she hoped to learn much from the participants, particularly in the financial area. She pointed out that she was acquainted with some documentation on the country, but that she hoped to hear from the participants themselves, and in particular from the economic operators working in the formal or informal sectors, what were the main obstacles they encounter for development. She told the participants she would like them to discuss the problems among themselves first and then choose the themes to be debated, either in the workgroups or during the plenary session. What mattered, she said, was to find answers for the existing obstacles for the development of the Private Sector. She said she also would like the participants to indicate their priorities for the removal of obstacles, how to remove them and how they see the role of the World Bank and other development institutions.

She said that, contrary to what had happened so far - the World Bank proposing projects to Guinea-Bissau -, the World Bank wanted the economic operators to point out the problems they want the World Bank to help them solve, considering the actual needs and the reality of Guinea-Bissau and the economic operators.

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The participants pointed out that there was little representation from the Private Sector in the workshop. However, Ms Bleas said that many Guinean business operators had contacted her previously and had expressed their ideas of what were the major barriers for the development of the country.

Next, the facilitators defined the workshop's methodology and format. The options were to form small groups and discuss specific obstacles in each sector or set up a plenary discussion to give the participants a chance to bring up the specific problems in their area of activity. After a long debate, they chose the second option.

The participants began by asking Ms. Bleas what expectations the Guinean Private Sector could have from her mission. They asked her if she had any ideas of what were the World Bank's plans regarding the problems she observed, the solutions proposed by the economic operators and how the economic operators would like the World Bank to help them solve these problems.

Ms. Bleas said that, as representative of the World Bank, she had been asked by the project division working with Guinea-Bissau to come to the country and gain a different perspective on how to solve the problems. She said that the division was totally disoriented regarding what actions to take to help Guinea-Bissau. **She said that she was in Guinea-Bissau to try to find out solutions for the Private Sector by asking the entrepreneurs how the World Bank can help them solve their problems.** That is why she insisted in hearing the participants' priorities on what obstacles need to be removed. **The participants asked Ms. Bleas to talk about her experience with other countries in similar situations.**

She responded by speaking about her experience regarding institutional relations between the Private and Public Sector and mechanisms that can be created to connect them. She said that it is important for people to understand that, in order for development to be successful, there needs to be real partnership between the Public and the Private Sectors.

Regarding institutional mechanisms she said that they depend on the actual situation of the country and the good will of the government. If the government is open, it would look for that partnership and would establish the connecting mechanisms. Sometimes it was the Private Sector that pressured the government to install those mechanisms. Sometimes the donating institutions made the need for that partnership clear.

She mentioned her experience in Madagascar. The participants asked her to present previous examples of other countries that could teach the participants more practical ways to develop the Private Sector. In Madagascar, the Private Sector asked the World Bank to help motivate and sensitize the population, in face of the enormous political instability the country was undergoing. That political situation is not the case of Guinea-Bissau. **The Private Sector in Madagascar is aware that it could not expect the government to move things forward and that the entrepreneurs cannot expect anything from the government in the current state of affairs. Consequently, a small portion of the Private Sector decided to develop a program to sensitize the population and Public and Private Sectors individuals, by inviting government officials, including Ministers, for lunch meetings and by publishing articles in the press about the privatization.** Then, step by

step, the Private Sector operators began to create activities such as an export strategy, with the participation of private businesses, the public administration, NGO's and elected representatives. They established follow-up committees, responsible for proposing correct reforms to the government through evaluation committees. In the Mauritius Island, for instance, there had only been sugar cane farming, but not an entrepreneurial tradition. About twenty years ago the people in Mauritius Island realized they did not have the means to develop this small island, unless they exported their sugar production. They had abundant and inexpensive manual labor available, which is the case of Guinea-Bissau that, like Mauritius Island, is also a small country. They took advantage of those conditions, attracted foreign investors and began producing for export-quality sugar.

The government of Mauritius Island created different structures, usually under the tutelage of the Ministry of Industry. One of them is the Joint Economic Council that represents the interests of the entire Private Sector (commercial, industrial and agricultural) that meets twice a year with government officials and extraordinarily when entrepreneurs have problems with governmental policies, taxes, fees, etc. The Council has direct contact with the government and has power to pressure the government - working with it and not against it - to find solutions for the country's problems. She emphasized the fact that they have direct and immediate access to the government.

Establishing a connecting mechanism between the Private Sector and the Public Sector is not difficult. It requires only good would.

Two aspects of the economic policy were emphasized during the explanations and debates that followed. The participants affirmed that the problem of the country's development at large and the Private Sector in particular could be summed as follows:

1. General Governmental Policies
2. Structural Adjustment Program

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III - GENERAL GOVERNMENT POLICIES

a) Definition and Execution of the Policies

The general opinion of the participants was that the government is partially responsible for the problems the country has been undergoing due to poorly-devised policies adopted in the past. Though agriculture was recognized as the primary activity for the development of Guinea-Bissau and the government declared, soon after the independence that agriculture would be the strategic economic activity for the development of the national economy it became clear that, after twenty years, nothing concrete was done in the sector in spite of the millions of dollars spent in agricultural projects. **One factor they considered constraining was the nonexistence of a coherent development policy and said that, without one, real development would be impossible.** Regarding inter-sectoral policies, they suggested greater collaboration among State departments.

Another aspect the participants perceived as an obstacle for development was the absence of an inter-sectoral development policy. **They said that there were duplicated efforts of actions simultaneously taken by different institutions without a coordinated application of efforts, resulting in a waste of financial and human resources.**

A third aspect the entrepreneurs considered important was the implementation of a clear and transparent regulatory agenda. Also, the judicial system should be improved. The State should conceive a credible judicial system that works and create new laws adapted to the market economy system it plans to adopt. The Land Act and the Labor Act should be modified. There also should be a revision of the Commercial Code adopted from the Portuguese Commercial Code that, in practice, never existed.

In spite of the changes in the economic policy made in 1986, the entrepreneurs said that the State still has a firm grip in the economy, leading it with an outdated legislation that imposes barriers to the Private Sector. In their words, **Guinea-Bissau moved from a planned and centralized economy to a market economy with the participation of the Private Sector but the policies, the attitudes and structures did not change in the way expected, in order to follow the actual changes taking place in the country, the behavior of the population and, above all, the behavior of entrepreneurs. This has the economy running simultaneously on two tracks. One is the actual system used by the Private Sector and the other, the structure still resting on the old system, which is an obstacle to the development of the Private Sector.**

Other than the constraints mentioned above, **they also pointed out to excessive bureaucracy and the unreasonable number of government employees as deterrents that should be eradicated through a genuine administrative reform.** They complained about the fact that the State cannot conduct a deeper, across-the-board administrative reform due to the social consequences such a reform would have.

b) Sector Policies

agricultural policies

Agriculture should be among the first sectors of the economy to be developed, they said, since the country consumes large amounts of produce. Guinea-Bissau imports between sixty and eighty thousand tons of rice per year. **There was no coherent policy between the development of agriculture sector and other sectors. For instance, the government asked farmers to increase production but offered them no guarantees that their crops would reach the consumer centers. In other words, there were no intermediary entrepreneurs to transport and market them.** Crops began rotting before reaching consumers and, consequently, farmers were not motivated to continue cultivating surplus produce. That has harmed the development of the agricultural sector.

Ms. Bleas pointed out that, based on meetings she had with some entrepreneurs, she realized that agriculture was a very important sector for the Guinean economy. She said she thought the development of the country would have to obligatorily be through the development of this sector. Therefore, it should receive special attention.

The problem is, the participants asked, how could Guinea-Bissau finance agricultural projects if the country has an enormous foreign debt and cannot borrow more resources? It was necessary to develop an agricultural policy oriented toward export that would generate foreign currency and food self-sufficiency.

The country is forced to develop its agriculture and it should be done through mid and long-term financing. It could not be done otherwise, they emphasized, as credit problems in Guinea-Bissau are well known. Establishing an agriculture bank to support the sector was also necessary.

The Ministry of Agriculture should foster better conditions for the development of agriculture in the country. It should create better conditions for the traditional farmer. Also, they recognized the need for farmers to yield export-quality products.

They said that the World Bank could contact governments in many other countries and ask them to donate agricultural information to Guinea-Bissau, which could be commercialized through the Private Sector.

The participants also thought that another area the World Bank or the OIC could aid was in matters regarding stock financing. Guinea-Bissau does not have any experience in this field. This could protect farmers on an initial phase. Farmers do produce but they have trouble selling their crops, which is a problem all developing countries face at the beginning of any activity. First, producers need stock financing and after they harvest their crops they need temporary financing until they sell them.

savings and credit policy

Once the basic conditions for the development of the Private Sector were in place, there was another issue: the necessary means for sector development, which can only be done with credit availability.

Guinean entrepreneurs and decision-makers understand the current situation. Internal savings are negative, which means that the country needs continuous foreign aid. The Private Sector itself depends on foreign aid. Credit is limited and high rates are charged, which leaves a very limited field of action.

They said that they found the major constraint to be the credit system. It has failed because no one honors agreements, which leads lenders to make even stricter conditions for credit and, consequently, credit costs become even higher. Without recovering credibility, getting new credit for investment will be impossible.

Their major difficulty was access to mid and long-term credit, which the existing banking system could create. However, there were also limitations for short-term credit operations. The solution to this problem could be found through an alteration of the conditions for the granting of a credit established by the World Bank. The Bank could create agreements between the sectors to be developed and the banks, as done five or six years ago. There were also agreements for structural programs for some development sectors in which agreement protocols were made between the World Bank and the lending banks to generate funds for certain areas.

Another aspect that the World Bank could support, according to the participants, is the allocation of funds for mid and long-term credit that the existing banking system could create. Developing any sector of the economy without proper financial means could not be done, they said. The country cannot create its own mid and long-term credit systems. Therefore, foreign institutions have to consider the possibility of creating the opportunity for an investment structure in key economic sectors. Creating alternatives to ease the access to credit for entrepreneurs is also necessary. They suggested that a credit system should be devised to serve that particular need. Otherwise, the participants said, the country would not develop its potential. Moreover, inflation is high in Guinea-Bissau. When entrepreneurs apply for credit, they have to pay a market rate of 30%. This one-third of the operation that remains in the bank is not profit for the banking institution.

The participants believed that training for entrepreneurs was fundamental. They agreed with the idea of offering training for entrepreneurs, but questioned what would be the purpose of training people if, later, they do not have working conditions and access to credit. Also, they pointed out that it was necessary to monitor on loans granted to entrepreneurs.

They stressed the idea that were no long and midterm loans with rules governing their use are offered to them, there cannot be development. The problem was, they said, that people borrow from the banks, but do not pay them. Financing in Guinea-Bissau should be well defined: whom, how, which area and the purpose of the loan.

In a sense, they reinforced the philosophy of the World Bank, since the participants agreed that there cannot be development without mid and long-term financing. The World Bank could, through other countries, make financing available without any difficulty, since Guinea-Bissau is a country that has great potential but cannot do the necessary adjustment without financing. An agency must control the World Bank financing for short and midterm, according to the participants. It should be based in Guinea-Bissau, so it could follow-up and control operations, according to a set of rules. Any financing granted without this follow-up would be a waste. Experience shows that financing that has not been monitored ends up loss without any outcome, resulting in a wasted effort. Considering those experiences, they said that financing was necessary but the lending agency also needed it to monitor the development of the investment.

According to the participants, the situation of bad credit in Guinea-Bissau is a consequence of the traditional structure that banks have difficulty changing. Frequently, entrepreneurs cannot pay for their loans and end up in debt. The bank takes over the collateral, put them on sale but with the generalized lack of funds in the country, there are no buyers for those properties. However, the structures will not work if the judicial and legal systems do not act properly or are slow. All this constitutes a serious limitation to the banking system.

the banking system

The participants asked how could savings be channeled to the Private Sector if there were no financial intermediaries in the country? They thought the banking system was not working at its best and that there is need for more banking institutions in the country operating in the country. They said that it was easier to get a loan in a bank, exchange the loan in the parallel market and send the money to Lisbon, instead of wasting time with banks in Guinea-Bissau. This was a cheaper and easier method. They said that people avoid banks because Guinean banks do not work as they should. That creates one of the greatest constraints to the country's development and that, therefore, establishing a favorable environment and competition in the financial sector is necessary. They called the competition currently taking place in Guinea-Bissau a "family business."

The representatives of the financial system said that they would welcome a third institution interested in taking the risks that Guinea-Bissau presents. The participants also recommend the use of checks to avoid carrying large amounts of cash. They requested banking transactions to be made through "cashier" checks (cheques visados) to guarantee payments. Otherwise, there would always be an endless counting and recounting of piles of bills. Additionally, they said, the printing of bills is a very expensive process. They also commented that Guineans need to start trusting one another.

BIG representative said that there were too many irregularities in the financial system and that, unfortunately, the system allows for that. He referred to the fact that, for instance, there are three open exchange offices operating in Guinea-Bissau and five more have been authorized to open shortly. That means that the foreign exchange will continue to operate under this irregularity, and that this may lead to the lack of capital in Guinean banks, because the export revenues start to circulate in the parallel market and do not return to the foreign financial institutions, which causes the Guinean banks not to have enough funds to cover their payments in foreign currency. Exchange

companies do not have autonomy to transfer funds or make payments against pesos.

Regarding the credit policy, representatives of the Private Sector complained about the fact that the Sector does not have access to credit. They recognized that there have been bad experiences with financing in Guinea-Bissau and admit that the Private Sector was partially responsible for the mistakes made in the first attempt to create financing for the privatization of the country's economy. They said that it was advisable not to dwell on those episodes and that it was necessary to move forward.

They asked if establishing a selective credit policy would be possible, with different rates for different types of investment.

The entrepreneurs criticized the financial system by saying that it does not reach rural zones and that, therefore, entrepreneurs end up functioning as banks. However, the judicial system does not help them collect the money they lend.

These issues, they said, need immediate solutions.

direct foreign investment and promotion policy

The participants agreed that there were obstacles to attracting foreign investment that are not related to macroeconomics. They have to do with simple problems, such as not responding to the letters from potential foreign investors; poor guidance and attention to potential investors; lack of adequate information for potential investors; lack of foreign currency available for export businesses; penalties on export, instead of subsidies, among other problems.

Because Guinea-Bissau is a country with only a million inhabitants without sufficient domestic savings to stimulate the economy, the country should adopt foreign investment as its main strategy for development.

The participants considered that, to plan this strategy, the Guinean decision-makers should place themselves in the position of potential foreign investors, whose primary objective is to find the best available conditions any country will offer for their investment. When comparing the conditions in each country, investors take into account the risks in each country, because a particular country may offer high potential profit but also greater risks, which means that it may not be selected for investment. Therefore, Guinea-Bissau should foster favorable conditions and a good environment for foreign investment, as a strategy to attract direct foreign investment.

Other than these issues, and because Guinea-Bissau has a very small market, they agreed that the export of products to neighboring countries should be guaranteed to investors through privileged relations or regional integration agreements. In other words, a small country should adopt a commerce policy as liberal as possible to attract investors. Panama, Singapore, Mauritius Islands, among others, explore their geographical position and size. Other countries like Nigeria for example, do not need to adopt such policies because their domestic market alone can make the investment returns. The participants recognized that this is was not the case of Guinea-Bissau. **They also**

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recognized that the Guinean economic policy should be geared toward the establishment of a commercial hub in Western Africa to attract more investment.

They concluded that Guinea-Bissau should turn its efforts toward other countries, since it cannot survive on its own. With its negative budget balance, significantly conditioned by foreign influences, Guinea-Bissau should obligatorily adopt an open-market economy and address the issues of price and quality. In their opinion the country cannot allow itself the luxury of protectionism.

They said that there had been much talk about a Duty-Free Zone and pointed out there would be advantages and disadvantages. An advantage of the entry of Guinea-Bissau in the Duty-Free Zone would be monetary stability, an indispensable condition for development. They recognized, however, that it would be necessary to employ the monetary stability more efficiently than did other member-countries in the last twenty years. They thought the Duty-Free Zone or CEDEAO was an opportunity that Guinea-Bissau could not miss. A country with an area of 36,000 Km² and a million inhabitants, a \$300-million GNP, unique, in a subregion with 200 million people, they said, could not continue to be closed to that market. Guinea-Bissau had to either become part of the Duty-Free Zone and part of a subregion or use the decision of not joining it to its advantage. So far neither possibility had been fully explored. Additionally, they understood that the government could not be solely responsible for the participation in the Zone. It should also be the responsibility of the *Assembléa Nacional Popular* (National Popular Assembly). Later, there should be a consensus about this decision, with the participation of the Private Sector and the population so that all Guineans can take responsibility for it.

Private Sector promotion

The participants made clear they think it was necessary to change the overall mentality pervading in the country, particularly the mentality among leaders and decision-makers. They must allow the development of the Private Sector. The State should commit to its role of regulator, promoter, incentivator and creator of economic conditions and let the Private Sector grow autonomously. They said there are still too many irregularities and duality showing that the State did not follow rules of the market economy.

According to the participants, the State should not be excluded from the production process, but the Private Sector should have better opportunities. Also, they recognized the need for State pressure in certain sectors of the economy.

On the other hand, they felt it was time to characterize the Guinean entrepreneurs and entrepreneurship. They found the Guinean Private Sector should be characterized by its ability to take risks and resist immediate consumerism. It should be identified by its capacity to seize opportunities and be able to devise projects of investments for improved utilization of funds.

They said the Private Sector should take responsibility for educating Guinean entrepreneurs. Entrepreneurs should begin to take responsibility for their initiative and actions and use their own savings. They cannot expect the system to continue working as it has been with private sector entrepreneurs acting as mere foremen for State companies. They should feel the need to fight for

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their business.

They thought the Chamber of Commerce (CCIA) should be the interlocutor between them and the government, but it has not played that role yet. That has been a constraint for which the government cannot be made accountable. The Private Sector should take responsibility for its actions. Also, they saw a need for more dialogue among the institutions, since the government cannot debate with each entrepreneur separately. The entrepreneurs' representatives (the Chamber of Commerce and associations) should operate effectively and the fact that they have not been is a grave flaw.

The associations complained about the lack of support on the government's part. They said that many times the constraints they suffer concern political issues playing greater roles than economic ones.

In their view, the associations function under great limitations, as for instance, the lack of installations. Several associations suggested the creation of a lobbying group to pressure the government to contribute. They suggested the establishment of installations to house and benefit all associations with the same services and help one another. The associations cannot exist without that government aid.

Another issue was the strengthening of the Private Sector by the privatization of Public Companies because, though public companies have been on sale for a while, potential buyers have not been interested. They wanted to know the reasons for this lack of interest and the reason for creating a privatization process if foreign investors were not interested in buying them and Guinean entrepreneurs could not afford them. They thought privatization, as instituted by the government, has been seen as a source of extra revenue and said the State should put this philosophy aside and emphasize the economic aspect of the privatization and not the immediate financial gains. They also proposed a review of the privatization process that could be done in many ways. They they said they find the State should not be worried about the revenues resulting from the sale of these companies, but their ability to function, to create jobs and to activate the economy. This, they affirmed, should be the major function of the State. The State invested money and is still paying the debt that resulted from that investment. They alluded to the Cumeré Complex and other enterprises that do not function well and could not be privatized. However, the State continues to amortize this investment. In their opinion there could be found a way to reduce the costs of these public companies, attracting Guinean entrepreneurs and make them profitable. However, reminding the government that to privatize companies does not mean to abandon private entrepreneurs but, on the contrary, to support their initiatives.

energy policy

The participants said they find the State must urgently prepare an energy development strategy for Guinea-Bissau. Within the context of the subregion, Guinea-Bissau showed the greatest need for energy, an essential element for the execution of any economic activity. They said that there was the possibility of building the Saltinho Hydroelectric Plant, if proper funding were available. They would like the World Bank to help Guinea-Bissau in that particular area, so that the country could develop its hydroelectric potential, which is very important for its economic development.

training and recognition of human resources

The participants considered that another obstacle to development of the Private Sector was training. Without it, financial resources could be available but, they asked, what would be the use of having funds if there were no human resources trained to manage them properly? They thought contact with more experienced entrepreneurs was necessary to acquire knowledge and use the financial resources available to them.

Thus, it became clear during the debates that a major reason for the constraint to the development of Guinea-Bissau and to the Private Sector, in particular, is the lack of human resources.

The participants considered that the policy of the government concerning human resources does not respond the Private Sector's needs. There is lack of specialized works and, what is even worse, poor use of the existing qualified workforce.

They viewed human resources as a basis for the development of the Guinean economy and that, without a policy to recognize the talents of the Guinean human resources and efficiently use it, development would not take place. They recommended planning for the development of the human resources in the country.

They also recommended that courses were initiated to respond to the needs for the country's development.

On the other hand, they considered the employment policy deficient, as practiced by the Private Sector. They think the Private Sector does not employ technical personnel as desirable and suggested that entrepreneurs bet on the use of technical personnel.

They pointed out that there were other factors, such as the qualification of human resources, material support and incentives that constrain the development of the Private Sector.

The participants asked the World Bank to support Guinea-Bissau in this area by creating conditions to offer proper training for technical personnel.

c) Structural Adjustment Program

The participants saw a need to find a model for the Guinean economy. Currently, the economy has been steered by a model formulated by the World Bank that establishes tax rates, credit restrictions, budget goals and foreign debt. They said that these limitations condition the development of the Private Sector.

Therefore, they said that finding out what kind of support would work best for a country with the characteristics of Guinea-Bissau could be the starting point for the World Bank actions. Though they recognized the contradictions between the structural adjustment and the support they were asking for the development of the Private Sector, they thought that adjustment was an essential issue, due to the importance of controlling the macroeconomics indicators. However, that alone was not

sufficient to create the proper environment for the development of the Private Sector. They thought that taking parallel actions concerning customs fees, taxes, etc. is also necessary.

They said that making that issue well understood was important, because it would be a mistake to try to talk about the development of the Private Sector without addressing the issue of the adjustment. They thought when the adjustment is accomplished, the whole economy would be adjusted. They thought the adjustment was important, but that it could not be taken as an end in itself.

The development of the country should be the primary purpose of the adjustment. Therefore, they posed the question in the following terms: How could the Private Sector persist and evolve in an extremely restrictive macroeconomic setting such as is the current context in Guinea-Bissau? Therefore, they said that it was necessary to make it clear to the decision-makers at the World Bank that there should be greater compatibility between the Private Sector and the World Bank. The Bank has carried out a program in Guinea-Bissau that restricts the action of the Private Sector.

While on one hand there was great pressure to allow the Private Sector to perform its role as the economy driving force, on the other hand the government was greatly pressured to increase fiscal revenues to pay the foreign debt. These two forces pushed the economy into different directions at the same time. They suggest, then, that the obstacles to the development of the Private Sector should be analyzed under the light of the Adjustment Plan.

The participants said that the discussions were productive and thought that the representative of the World Bank would realize, by watching the debate, that there were different approaches to solving the country's problems. They thought the debate could only improve the image of Guinea-Bissau. They said that, usually, Guinea-Bissau has been combined with French-speaking or English-speaking African countries to give the impression that Africa was one homogeneous continent. They think Africa is more heterogeneous than most believed it to be.

As a message to the World Bank, they said that the institutions, within the framework of the structural adjustment, should try to reconcile that which neither Guinea-Bissau nor the greatest majority of other countries could do: make adjustments and grow at the same time. The reason was a sudden rise in the inflation rates when the government of Guinea-Bissau made an attempt at development. Immediately, the issue of adjustment came up. Since the country does not have enough savings, it should look for funds in foreign banks, which causes enormous external unbalances with consequences for the internal sectors of the economy. They said that adjustment alone has shown not to be sufficient, since the country cannot continue to adjust indefinitely. They think the adjustment should be a "pause," and then the normal process should continue. For that reason, they said they find the World Bank should try to reconcile growth and adjustment.

Additionally, they made a remark that an experienced financial institution such as the World Bank must have recognized that Guinea-Bissau needs capital. They also acknowledged that, to invest, Guinea-Bissau should save first, which is an impossible undertaking within the current context. Therefore, they pondered if, to aid Guinea-Bissau, the World Bank could lead a group of donors and combine their financial resources. They could assign the responsibility for this action to the World

Bank financing department. The World Bank could, then, make this resource available to an institution such as the TIPS Project that works to sustainably increase the level of economic activity in sectors considered key development areas. These sectors generate revenue in foreign currency that, in its turn, could be reinvested in the country through long and midterm credit. They thought the TIPS activities should be supplemented with other forms of support, because the Project alone will not be successful.

They suggested that the World Bank should continue to pressure the government of Guinea-Bissau to continue to make adjustments. First, to cut its size because the greater the government the more expensive to run it and, consequently, greater fiscal pressure on tax payers, canalizing great quantities of resources from the Private to the Public Sector.

They also said the government should make adjustments by creating a functional fiscal system that would motivate private initiatives and be conducive to the establishment of the formal economy. They said they find the informal sector of the economy has reached proportions that the government should curb at all costs. One way to that, they said, was by levying taxes that the businesses can afford to pay by creating incentives to assure their permanence in the formal sector. The fiscal system should attract entrepreneurs currently in the informal to operate their business in the formal sector.

IV - RECOMMENDATIONS

Below are the most important recommendations presented by the participants:

Development policies should reflect the new economic system designed for the country, i.e., a market economy; government and decision-makers must make their decisions compatible within these new guidelines;

As the strategic sector for the development of the Guinean economy, the participants recommended that the World Bank should try to granting financial resources for the financing of agricultural and cattle-raising projects that could be channeled to the Private Sector through to-be-developed mechanisms;

Establishment of mid and long-term loans by the World Bank with clearly-defined rules of use set by the structural program agreements for areas considered critical for the development of Guinea-Bissau; establishments of protocols according to the World Bank and management of the funds;

Incentive for greater competition in the banking system by creating or attracting private banks to the country;

Given the lack of savings in the country and the small consumer market, the development strategy should be directed toward attracting direct foreign investment by adopting a liberal commercial policy and regional integration;

For being a small country - 36,000 Km², with a million inhabitants, \$300 million

GNP, and therefore, unique in the region the Duty-Free Zone and CEDEAO would permit countries with the same characteristics as Guinea-Bissau to develop; they recommend that the government, the National Popular Assembly, the Private Sector and the civil society, decide the consensual form for entering the Zone;

Because of its importance as an element for the development of energy, its shortage and cost could make it impossible to carry out any economic activity, they asked the World Bank try to raise funds to build the "Saltinho" Hydroelectric Plant once its economic feasibility has been established;

Since human resources is the most important capital for the development of any country and since there has been no training and employment policy in the country, they recommended that the World Bank support the government in that area;

Although the adjustment is necessary for the development of the country, it was not sufficient. They recommended that World Bank tries to reconcile the issues of adjustment and growth within the framework of the structural adjustment;

Finally, they recommend that the World Bank continues to pressure the government to meet the goals established and, particularly, the continuation of the administrative reforms in place and that the World Bank help Guinea-Bissau to attenuate the social consequences that may result from this reform.

At the end of the workshop, Ambassador John Blacken, thanked everyone for their participation and collaboration and asked Ms. Bleas, the representative of the World Bank, to communicate the problems raised by the participants to the World Bank decision-makers. He said that the exchange of ideas that took place for the two days was very important and productive, as for instance the debate about the realities of the Guinean banking system and what could be done to improve it. He said the major part of foreign donors face serious internal problems because, often, foreign aid is not a popular issue in their countries and it does not receive much popular support. That was why, he said, the use of foreign aid should be well defined. This process can only be successful if the countries that receive such aid help themselves, by making good use of the aid.

Ms. Bleas also thanked everyone for participating and apologized for the last-minute invitation. She said that, in spite of that, everyone showed great interest in the subject and that it alone sent a good signal to the World Bank. In closing, she said that she would take the recommendations to the World Bank and would do her best to pass them along to the institution's decision-makers. To close the workshop, Mr. César Barbosa from UGREP, representing the Ministry of Finances and the Ministry of Planning thanked the participation of everyone and, specially, the presence of the TIPS coordinator.

Participants in the event

1. Pedro A. Codinho Gomes	Presidência do Conselho de Ministros
2. AGostinho Fenandes	Director Geral do BIGB
3. Seco Sané	Director CCI -GETA Bissau
4. Babuna Djabi	Director Comercial: Djabi & Filhos
5. António Tubento	Presiderite da AGUIFEM
6. Suleimane Djassi	Secretario Executivo AGUIPEM
7. André Soares Semedo	DGCI
8. Califa Seidi	FUNDEI
9. Hemitério Arlindo L. Costa	DGEI
10. Víctor Arsénio Baldé	DGEI
11. Alfredo Pereira	DGEI
12. Hugo Reis Borges	DGEI
13. Carlos Correia	ADP
14. Felicidade Brito Abelha	BCGB
15. Filinto Barros	USAID
16. Vitorino Soares da Gama	ANAG
17. Malam Djassi	ANAG
18. Mário Alfredo Mendonça	ANAG
19. José Emlilio	MF (UGREP)
20. Seco Camará	MF (UGREP)
21. Ernesto Dabó	GAI (M. Plano)
22. Mamadú Badji	TIPS
23. Jim LaFleur	TIPS
24. John Blacken	TIPS
25. Carmen Neto	TIPS
26. Josué Almeida	TIPS
27. Dauda Sow	TIPS
28. Braima Jamanca	TIPS
29. Joaquim Lobo de Pina	AJE
30. Carolino Reis	AJE
31. Elísio Carlos gomes	CADOGO
32. Joaquim Correia Pimentel	Emp. Pimentel
33. Agnelo Correia	Bissaugui
34. Cirilo Vieira	Pesca
35. Octávio Alves	Gabinete do Primeiro Ministro
36. Jacinto Gomes Pereira	Emp. João & Gomes
37. Armando Gil Pereira	S.V.T. Ltda.