

THE INTERNATIONAL DEVELOPMENT ASSOCIATION
AND
THE INTERNATIONAL MONETARY FUND

GUINEA-BISSAU

**Preliminary Document on the Initiative for
Heavily Indebted Poor Countries (HIPC)**

Prepared by the staffs of the Fund and the IDA¹

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I. INTRODUCTION

1. This paper presents a preliminary assessment of Guinea-Bissau's eligibility for assistance under the Initiative for Heavily Indebted Poor Countries (HIPC).² It summarizes the debt sustainability analysis (DSA) agreed by the staffs of IDA and of the IMF with the Guinea-Bissau authorities, and assesses Guinea-Bissau's vulnerability factors, debt sustainability threshold and adjustment record. Based on this analysis, the staffs are of the view that, even with the full application of all traditional debt relief mechanisms, Guinea-Bissau's external debt will remain at unsustainable levels throughout the 20-year horizon of the DSA scenario. This paper's proposals on the appropriate NPV of debt-to-export target range, decision and completion points are submitted for consideration to the Boards. Proposals on possible levels of assistance are necessarily provisional, pending data reconciliation and consultation with multilateral and bilateral creditors.

2. The rest of the paper is organized as follows: Sections II and III assess Guinea-Bissau's IDA and ESAF status and adjustment record, respectively. Section IV previews the main elements of the proposed structural adjustment strategy. Section V provides the results of the DSA, presents a sensitivity analysis, and assesses vulnerability factors. Section VI discusses possible decision and completion points for Guinea-Bissau, as well as a target range for its debt sustainability indicators, assuming proportional burden sharing by bilateral and multilateral creditors. Section VII contains the staffs' recommendations and issues for discussion by Executive Directors.

II. IDA AND ESAF STATUS

3. Guinea-Bissau is currently an Enhanced Structural Adjustment Facility (ESAF)-eligible and IDA-only country; its estimated GNP per capita in 1996 was US\$250. Assuming a steady annual real GDP growth of about 5 percent over the next twenty years, projections indicate that Guinea-Bissau's per capita GNP would reach about US\$430 (in 1997 U.S. dollars) in 2018. **Guinea-Bissau is one of the poorest countries in the world.** Its social indicators are among the weakest in sub-Saharan Africa.

III. ADJUSTMENT RECORD

4. Following independence in 1974, after a decade of a devastating war, Guinea-Bissau adopted a centrally planned and inward-looking growth strategy, with little emphasis placed

²For details regarding the Initiative, see "A Program for Action to Resolve the Debt Problems of Heavily Indebted Poor Countries—Report of the Managing Director of the IMF and the President of the World Bank to the Interim and Development Committees," EBS/96/152 (9/20/96) and DC-96-14 (9/20/96).

on increasing production in the agricultural sector. As a result, an inefficient parastatal sector distorted resource allocation and hampered economic growth. Furthermore, lax budgetary policies led to increased central bank credit to the government, causing systemic inflation for much of the period.

5. **Guinea-Bissau embarked upon a comprehensive reform program in 1987.** During 1987-89, the program was supported by two structural adjustment facility (SAF) loans, and two IDA structural adjustment credits, which focused on price and trade liberalization and banking reform. Although these structural reforms contributed to a pick-up in economic growth, the pursuit of uneven fiscal and monetary policies, combined with adverse exogenous developments, resulted in a deterioration of the external position and high inflation. In parallel with economic liberalization, political reforms were also adopted in the early 1990s. A revised constitution was approved in 1992, which embodies the principles of a multiparty system. The period of intense political reforms in 1991 and 1992 was associated with weakened stabilization policies.

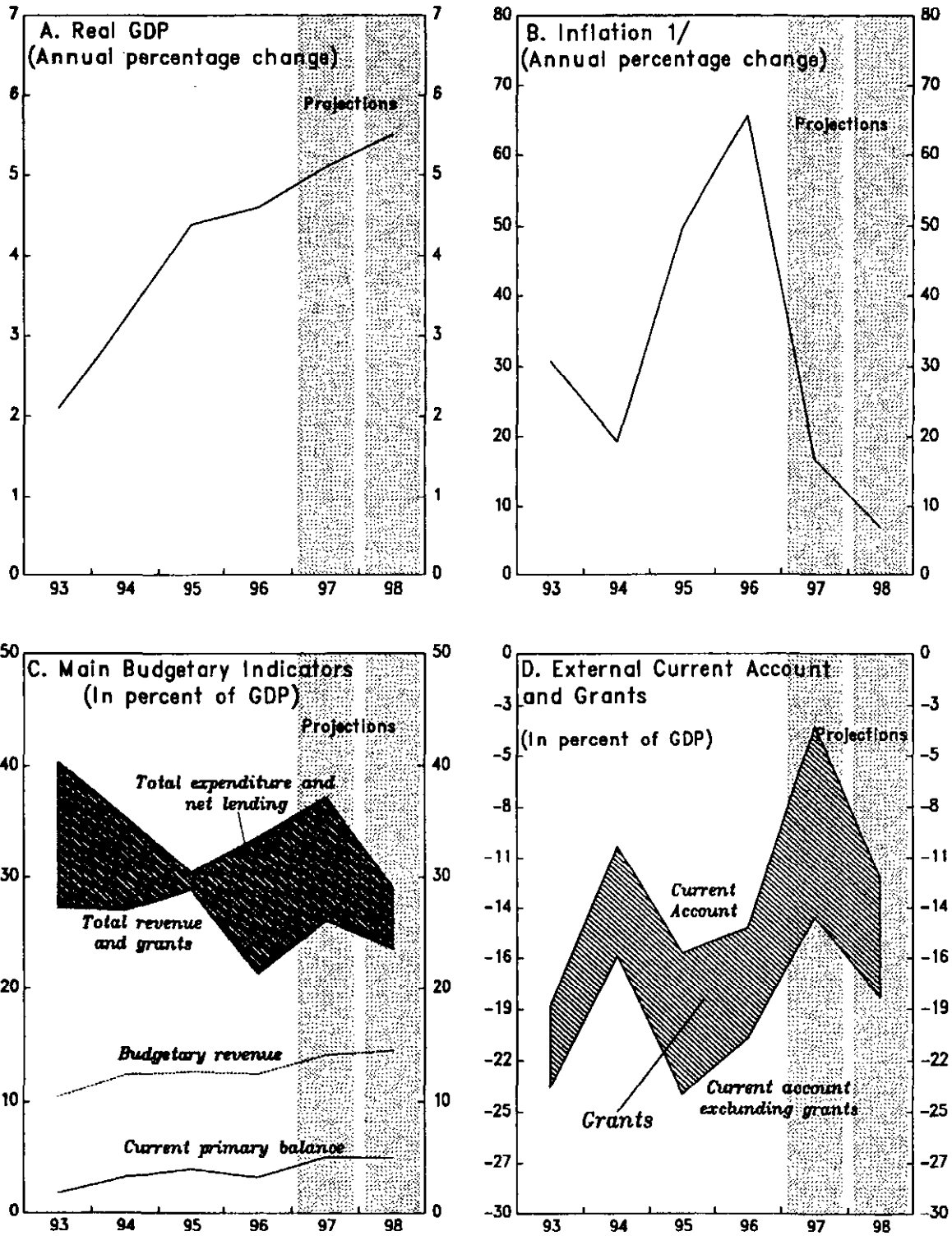
6. In order to reverse the deterioration of the economic situation, the authorities in 1993-94 successfully implemented an IMF staff-monitored program (SMP), which paved the way for the adoption of a medium-term adjustment program. A policy framework paper (PFP) was agreed in September 1994, which formed the basis for a three-year arrangement under the ESAF, approved in January 1995. In the meantime, free and fair presidential and parliamentary elections were held in mid-1994.

A. Economic Policies

7. The main objective of the ESAF-supported programs, based on successive policy framework papers prepared by the authorities with the World Bank and the Fund, was to reduce external and internal imbalances, and accelerate structural reforms so as to lay the foundations for sustained growth. The adjustment effort was sustained during the period, and the main objectives were achieved, although some slippages occurred in 1995 and 1996. Real GDP growth was steady, averaging 4.7 percent in 1995-97 (Table 1 and Figure 1). By 1997, a significant primary budget surplus was achieved, equivalent to 5.5 percent of GDP, the budgetary revenue/GDP ratio was raised to more than 15 percent, and the external current account deficit declined substantially, owing to a favorable export performance. Inflation was sharply curtailed to 16.8 percent in the 12-month period to December 1997, owing also to the entry into the Western African Monetary Union (WAMU) and Western African Economic and Monetary Union (WAEMU) in May 1997 and the conversion of the peso into CFA francs.³ During this period, significant structural reforms were also implemented.

³In particular, the membership in the WAMU implies: (i) a monetary policy determined at the union level; (ii) limits to bank financing of the government budget; and (iii) adoption of common banking and exchange regulations, including bank supervision by the Regional Banking Commission.

Figure 1. Guinea-Bissau: Selected Economic Indicators, 1993-98



Sources: Guinea-Bissau authorities

1/ End-of-period.

8. **Structural reforms.** Since embarking on a comprehensive economic reform program in 1987, Guinea-Bissau has made a significant shift from centralized controls to a market-based economy with growing private sector participation. Prices and trade have been liberalized, and foreign exchange distortions have been removed (see Box 1 and Appendix I).⁴ A comprehensive tax reform was introduced in 1997, public expenditure management has improved, the size of the civil service has been reduced, the banking system has been overhauled, and public enterprise reforms have gained momentum.

9. **A comprehensive tax reform package** was adopted in the last quarter of 1997, on the basis of Fund and Bank-supported technical assistance, and is scheduled to enter into effect in April 1998. It comprises the introduction of a general sales tax and the streamlining of the external customs tariff, with the introduction of five rates and a maximum rate of 30 percent, to be reduced to 25 percent in 1999 and to 20 percent in 2000. This is consistent with the common external tariff under preparation at the WAEMU level. The structure of excise taxes, including that on petroleum products, was also revised; the new petroleum products price structure entered into effect in February 1998, and includes an adjustment mechanism to make these prices responsive to changes in world market prices.

10. Since 1993, **public expenditure management improved**, particularly by scaling down public investment to a level more consistent with the country's absorptive capacity.⁵ On the current expenditure side, recurring civil service salary arrears were eliminated in 1997, and controls were tightened, particularly with the institution of a requirement of prior approval of *expenditure commitments* by the *Ministry of Economy and Finance*.

11. **The entry into the Western African Monetary Union (WAMU)** required a large recapitalization of the central bank, in order to bring into equilibrium its capital position, which recorded a large negative balance at end-1996, equivalent to US\$33 million or 12 percent of 1996 GDP. To that end, the Treasury, in conformity with the IMF arrangement, assumed all the outstanding external obligations of the central bank, and converted the bulk of government deposits at the central bank into equity. With the restoration of confidence in the monetary system, bank deposits rose by 45 percent in the first nine months of 1997, in concomitance with significant capital inflows.

⁴On January 1, 1997, Guinea-Bissau accepted the obligations of the Article VIII of the Fund's Articles of Agreement. As a member of the CFA zone, it maintains an exchange system that is free from restrictions on the making of payments and transfers for current international transactions.

⁵The share of public investment in GDP has been reduced from almost 25 percent in 1993, to about 14 percent in 1997.

Box 1. Guinea-Bissau—Liberalization Process

Trade

Until 1986, restrictions on international trade were significant. Foreign trade was liberalized in 1986, except for cereals and petroleum products. Imports continued to be subject to licencing. In 1987, a system of automatic licensing was introduced for 50 percent of non-petroleum commercial imports. In 1989, a system of open general licensing was introduced for imports (under which import licences are automatically granted, after verification of invoiced prices), except for petroleum products and imports included in a limited negative list (commodities excluded for reasons of health or security). Import monopoly on cereals was abolished in 1989, and for petroleum products in 1994. Export taxes on all products, except cashew nuts, were eliminated in 1987-88; export taxes on cashew nuts have been reduced from 80 percent in 1987 to 14 percent in 1997. A comprehensive tariff reform was adopted in October 1997, with a view to achieving convergence with the common external tariff under the WAEMU.

Price controls

In August 1986, the scope of price controls was substantially reduced. The number of goods subject to administrative prices was reduced to eight products: imported rice, vegetable oil, sugar, cement, fertilizers, pesticide and insecticide for agricultural use, and petroleum products. All price controls were eliminated in 1989, except for tariff on utilities and prices of petroleum products. Since 1989, these have been adjusted at regular intervals, taking into account domestic and foreign exchange cost. Following the entry into the WAMU and the tax reforms, the structure of petroleum prices was revised in February 1998. Guaranteed minimum producer prices were maintained until 1994 for cashew nuts, groundnuts, rice, cotton, and some other agricultural products.

Exchange rate regime

Beginning in 1987, Guinea-Bissau moved to a market-based exchange rate system. Under the adjustment programs supported by the SAF and SAC arrangements in 1987-89, this system aimed at containing the spread between the official and the parallel market exchange rates to less than 20 percent, through continued depreciation made necessary by insufficiently tight monetary and fiscal policies. The system ensured adequate competitiveness for the principal exports, and encouraged the agricultural sector to increase production. In January 1991, the Guinean peso was linked to the Portuguese escudo under a crawling peg regime; the spread between the official and the parallel market exchange rates was kept below 10 percent, declining to about 5 percent in 1992, and to 3.5 percent in 1993. In early 1994, the foreign exchange market was unified, as the Central Bank adopted a policy of adjusting the official exchange rate so as to keep it within 2 percent of an average of freely determined rates quoted by the two commercial banks. This policy continued to be implemented until Guinea-Bissau entered the WAMU on May 2, 1997, at the exchange rate of PG65 per CFA franc. The peso was replaced by the CFA franc between May and June 1997.

12. **Banking reforms** were launched in late 1989 leading to the separation of the central, commercial and development functions of the former National Bank. Privately-owned banks started operating in the early 1990s, putting an end to the previously monopolistic and state-owned system. With Guinea-Bissau's entry in the CFA franc zone, financial sector reforms is being deepened, with stricter banking supervision, development of financial markets and the creation of a network of microfinancial institutions.

13. **Public enterprise reforms** have progressed in recent years. In the early 1990s, there were about 46 public enterprises. By end-1997, 17 of these had been privatized or liquidated and 7 were placed under private management. Privatization has involved important sectors, such as the telecommunications and port services (now operating under long-term lease contracts with the private sector), trading companies, road haulage and public transportation. Management contracts involved hotels and public utility companies, and liquidation included the state-owned oil marketing company and the state airline. In addition, the government recently outlined the strategy for the second phase of privatization, designed in consultation with the social partners. This will lay the foundation for healthier, private-sector led, growth in the coming years.

14. During the past decade, **the size of the civil service** has been reduced by about 27 percent to some 12,120 at end-1997; this was achieved mostly through a voluntary departure program, and the elimination of about 1,000 "ghost workers," following a civil service census carried out in 1996. In 1996, payroll processing for all ministries was computerized and centralized at the Ministry of Economy and Finance on the basis of the census findings, although the Ministries of Agriculture, Education and Health still process their own payroll lists. Regarding the military and paramilitary personnel, a census was completed in October 1997, which revealed that its size was about 10 percent smaller than previously recorded (5,818). The government launched a comprehensive civil service assessment in 1997 to define a strategy to improve quality of services delivered and establish a more effective and professional administration with better motivated staff.⁶

B. Performance Under Fund- and Bank-Supported Programs

15. **Progress was achieved during the first annual ESAF arrangement for 1995**, although some slippages occurred in the first half of the year. The slippages were associated with the extended political transition following the mid-1994 multiparty elections, which gave a sizeable representation to the opposition parties. In the circumstances, a staff mission in May 1995 put in place a staff-monitored program (SMP) for the second half of 1995, under which compliance with notional benchmarks for end-September became a condition for completion of the midterm review (see Appendix II on ESAF program implementation).

16. **Performance under the SMP was satisfactory** (see EBS/96/79, 5/17/96). Budgetary revenues in 1995 exceeded the level set in the program, while expenditure remained within the established limits; the central bank accumulated more external reserves than programmed, while commercial banks' foreign holdings increased beyond expectations. The targets for end-September and end-December 1995 under the SMP were met, but the review could not be completed before the expiration of the first annual arrangement (January 17, 1996) because of

⁶Official data indicated that average civil service wages in Guinea-Bissau represented at end-1995 about one-third of that of WAMU countries with similar GDP per capita levels.

Fund staff constraints. In recognition of Guinea-Bissau's satisfactory performance, the Fund agreed to rephrase the missed disbursement, providing for higher disbursements over the following two annual arrangements.

17. **Performance under the second annual ESAF arrangement**, approved by the Executive Board on May 31, 1996 **was broadly satisfactory**. Real GDP growth accelerated to 4.6 percent in 1996, and the external current account deficit declined by more than programmed, on account of strong service and fishing licenses revenues and low merchandise imports. However, there were government expenditure overruns, and government revenue fell short of the target set for 1996 because cashew nut exporters delayed the sale of a part of the crop at end-year on the expectation of a recovery in international prices, which had temporarily weakened. All performance criteria for end-June 1996 were met, except for accumulation of external payments arrears in the third quarter of 1996. These arrears were settled before end-1996. The rate of inflation rose sharply in mid-year, in the wake of strong speculative pressures on the exchange rate resulting from uncertainties about a possible devaluation in connection with the entry of Guinea-Bissau into the WAMU, which was under negotiation.⁷ Following a sharp tightening of monetary conditions and clarification of the outlook with respect to the prospective entry into the WAMU and the WAEMU, the rate of inflation declined markedly in the last quarter of 1996, to less than 1 percent per month.

18. **Under the third annual ESAF arrangement**, which covered the period mid-1997–mid-1998, **performance strengthened further**. Real GDP growth continued to be strong, sustained by a favorable export performance; the budget position improved and the external current account deficit declined by more than programmed. While revenue was somewhat weaker than projected in the first half of the year, budgetary performance improved sharply in the second half of 1997, so that the program targets were exceeded; this permitted the granting of a waiver for the nonobservance of performance criterion for end-September 1997 on net bank credit to the government.

19. On the structural side, significant progress was achieved in 1997 in the privatization and liquidation of public enterprises, including the liquidation of the state airline, TAGB, and the oil marketing company, DICOL; the number of civil servants was reduced in line with the program target; and a comprehensive tax reform (see above) was enacted in October 1997, albeit with a short delay in relation to the program schedule, which required the granting of a waiver. Debt management improved, but some accumulation of external payments arrears occurred during the program period, for which a waiver was granted.

20. **Performance under IDA-supported operations was uneven up until late 1992**. IDA credits have supported a wide range of economic policy reforms, which have notably increased the role of market forces in the economy, laid the foundations for better public sector management and improved the country's competitiveness (see Box 1). Agriculture has

⁷In August and September 1996, the peso depreciated by 31 percent against the U.S. dollar.

been the most responsive sector to policy reforms and the main engine of growth, with output rising at an annual average of 5.7 percent during the period 1987-93. However, as mentioned above, policy slippages characterized particularly the early 1990s, which led to delays in program implementation (see Appendix III on implementation of IDA adjustment credits).

21. **Since late 1992, the government stepped up its adjustment efforts considerably, enabling the outcome of SAC II to be satisfactory.** Reforms supported by SAC II were sustained and expanded, helping to deepen the role of market forces in determining economic outcomes, to improve resource mobilization and allocation, and to increase private sector participation in the economy (see Appendix I). Supply response to reforms has been encouraging, with growth accelerating and agricultural output being robust, particularly in cashew nuts, the output of which expanded about 2.5 times over the last 5 years. Over the reference period, ownership of reforms strengthened.

C. Social Policies

22. **Social indicators in Guinea-Bissau are weak, even by sub-Saharan African (SSA) standards (see Box 2).** There is widespread poverty in the country, with about 70 percent of the population living on less than one dollar a day. Compared to SSA and all developing countries,⁸ the average share of total

Guinea-Bissau		SSA
250	GNP per capita (US\$, 1996)	490
38	Life expectancy at birth (years)	52
138	Infant mortality (per 1,000)	92
800	Maternal mortality (per 100,000)	700
74	Illiteracy (% population age 15+)	43
86	Of which: female	62
59	Gross primary enrollment (% age group)	72
35	Of which: female	65
25	Access to safe water	47

public expenditure in the social sectors is significantly lower. Despite tight fiscal constraints, there has been a reallocation of resources towards the social sectors in recent years, with their share increasing from 15 percent of total expenditures in 1991-94 to 19 percent in 1995-97 (see Box 3).

23. **Education.** Indicators in Guinea-Bissau are poor; the country's education system is among the ten least developed systems in the world. Over the decade ended in 1994, there was a move in the sector's current spending away from primary education, whose share declined by 19 percentage points to 48 percent of the sector's budget, and the gross primary school enrollment ratio (GPSER) declined from 68 percent to 53 percent during the period 1981-94. The latter deterioration seems to have been reversed in recent years, reaching an estimated 59 percent in 1996, but girls' enrollment ratios are lower than boys' (see Box 2).

⁸Developing countries as defined in Government Finance Statistics.

Box 3. Composition of Government Expenditure (%)				
	Guinea-Bissau 1991-94	Guinea-Bissau 1995-97	SSA (1)	DC (2)
General services	42	46	52	38
<i>Of which: defense (3)</i>	4	5	8	13
Economic services	43	35	22	23
Social services	15	19	26	39
<i>Of which: education</i>	8	10	14	17
Total	100	100	100	100

(1) Sub-Saharan Africa (1985-89).
 (2) Developing countries (1990).
 (3) Defense and Interior.
 Source: Ministry of Economy and Finance; and staff estimates.

Service quality and efficiency continues to be mediocre. In 1995, only an estimated 30 percent of primary education students had access to textbooks; high repetition rates translated into excessive costs per graduate of 4th grade, about \$260.⁹ Moreover, regional disparities are significant and compounded by a strong urban bias, with the GPSER varying widely across regions.¹⁰ Availability of five-year secondary education is limited to only 6 percent of the eligible age group, mostly concentrated in Bissau, compared to an average 18 percent for SSA countries. In order to address the existing situation and give priority to primary schooling, the government with the support of IDA, other donors, and NGOs, adopted in 1997 a medium-term program focusing on promoting the development of primary education.

24. **Health.** During the last ten years, sector indicators have been improving, with infant mortality being reduced from 163 to 138 per 1,000 live births, and the proportion of children immunized against DPT (diphtheria, polio and tuberculosis) more than doubling to about 45 percent. In the meantime, prevalence of HIV2 has increased, reaching about 10 percent of the adult population, and the percentage of attended births continues to be low (25 percent), resulting in a high maternal mortality rate. Overall, sector indicators continue to be below those of other SSA countries, reflecting mainly inadequate priority to primary health care (PHC), poor management of human and financial resources and deficient service quality.¹¹ A medium-term sector development program, supported by IDA, other donors, and NGOs, was approved by the government in 1997.

⁹Repetition rates were about 35 percent for 1st and 2nd graders.

¹⁰In 1994/95, GPSER ranged between 27 percent in Gabu and 64 percent in Bissau.

¹¹At the sectoral level, in recent years, only about 25 percent of the budget was allocated to PHC; more than 50 percent of staff is concentrated in Bissau; and only 10 percent of health centers were operational.

IV. POLICY OUTLOOK

25. In the coming three-year period, reforms will be monitored by the Fund and by IDA on the basis of a new three-year ESAF arrangement, and an IDA structural adjustment credit. Appendix I sums up the status of the main areas of structural reform and the expected major developments.

A. Macroeconomic Policies

26. **The macroeconomic objectives** for 1998-2001 are to (i) achieve an average rate of growth of GDP of least 5 percent a year; (ii) reduce the rate of inflation to about 3 percent; and (iii) reduce the external current account deficit, excluding grants, to about 16 percent of GDP in 2001. The 1998 program targets are a growth rate of real GDP of 5 percent, a rate of inflation on an end-period basis of about 5 percent, and an external current account deficit, excluding grants, of about 18 percent of GDP. The primary current budgetary surplus is targeted at 5 percent of GDP, and budgetary revenue at 15.2 percent of GDP.

27. A new PFP program from mid-1998 to 2001, to be supported by a second three-year arrangement under the ESAF, is scheduled to be discussed with the authorities at end-April 1998. IDA support of the adjustment program through a structural adjustment credit is expected to be approved in late 1998. A central element of the program will be the further strengthening of public finances, with the deepening of the tax reforms, including broadening the base of the general sales tax and strengthening of tax administration. A further restructuring of budgetary expenditure will take place, while streamlining the civil service. Public investment management will be strengthened, and the domestic contribution to the investment budget will be gradually increased. The budgetary stance will permit further net repayment of bank credit to government, so as to provide adequate room for the financing of the nongovernment sector. With regard to the financial system, a key objective is to strengthen the banking system, with new institutions expected to start operations; the supply of financial services will be broadened, including by encouraging the development of micro-financial institutions.

B. Structural Policies

28. **The government's agenda for structural reforms aims at laying the systemic basis for longer-term growth and poverty alleviation.** In this context, the authorities' reform package calls for a policy mix involving modernization of the government's structure and creation of a favorable environment for private and export-led growth.

29. In order to modernize its structure, **the government has defined a strategy for the period 1998-2001. The strategy aims at strengthening domestic resource mobilization, improving transparency, comprehensiveness, and accountability of public expenditure management, establishing a more effective administration and limiting the**

government's role in the economy. In this vein, the comprehensive reform of the tax system prepared in 1997 will be fully implemented in 1998, and steps will be taken to adopt the common external tariff (CET) of the WAEMU over the transition period up to the year 2000, as agreed at the WAEMU level. Furthermore, over the period up to 2000, public expenditure management will be improved by moving towards a medium-term budgetary framework, giving priority to resource allocation to social sectors and basic infrastructure, and reforming fiscal management systems and procedures to ensure convergence with the regionally agreed standards. In this context, a public finance organic law and public accounting regulations are expected to be enacted in 1998, and revised budgetary nomenclatures and treasury regulations will also be adopted.

30. **Additionally, the authorities intend to embark on a far-reaching public sector restructuring program during 1998.** Major components of this program will focus on: (i) contracting out to the private sector the provision of selected public services such as cleaning, maintenance, and protection of government buildings;¹² (ii) reforming the salary grid with a view to decompressing the salary scale and to providing better career incentives;¹³ (iii) privatizing or liquidating 22 public enterprises still in public hands in the fisheries, hotel, manufacturing and service sectors; and (iv) moving the water and power public utility to a long-term lease contract with a private operator, and reducing to a minimal symbolic share the state's involvement in a private commercial bank.

31. The creation of a favorable environment for private sector and export-led growth is a critical component of the government's strategy to raise the economy's productivity and encourage diversification. **The government is therefore determined to further liberalize key economic sectors.** To achieve the desired goals, a regulatory framework governing the telecommunications, port, airport and insurance sectors will be enacted, to permit free entry and exit in conformity with international norms. Moreover, the government is determined to revisit the privatization contract of telecommunications and port services, in order to abolish monopolistic positions and increase competition. In this view, the government has also decided to significantly reduce the state's shareholding in these sectors. In addition, the government will search for a reputable private airport operator to take charge of the new terminal, and a private insurance company will launch operations soon. Finally, the authorities intend to formalize and publicize a clear, simple and transparent legal and regulatory context for private business activity.

32. **Structural reforms coupled with improved macroeconomic stability and a revamped legal framework are expected to boost investor confidence and foster growth.** In this context, actions will be targeted at **agriculture**, which will continue to be the main

¹²Currently, these activities involve about 2,850 staff out of a total 12,123 employees.

¹³The current salary scale is tightly compressed with a ratio of 1 to 2 between salaries for lower and senior staff.

engine of growth, through improved land tenure security and development of agro-business activities. In addition, fishing, forestry, tourism and small-scale processing units are expected to contribute to a much-needed diversification. Overall, replication of successful examples of low-cost, labor-intensive, and income-generating activities and community-based natural resources management will help raise incomes¹⁴ and consequently reduce poverty, particularly in rural areas¹⁴. In order to prevent further depletion of resources and act on selected environmental priorities, the authorities have decided to implement a coastal zone-management program.

C. Social Policies

33. The government's **poverty alleviation strategy** focuses on encouraging rural-centered, and private sector-led growth and providing improved access to, and improving the quality of, primary health and education services, water supply and sanitation, particularly in rural areas. Moreover, the government attaches particular importance to improving the condition of women, especially by giving priority to programs aimed at increasing girls' enrollment in schools and women's access to primary health care. Government commitment to social sector development has been demonstrated by priority given to education and health employees in eliminating significant salary arrears in 1997. Furthermore, budgetary allocations to social sectors have been increased in 1998 (see below), and are projected to continue to rise thereafter. The social performance criteria will be based on implementation of the government's Health Sector Development and the Basic Education Support Programs, which started in 1998. A summary of social development indicators is presented in Appendix IV.

34. **Education.** Aware of the need to address the sector's poor performance, the government has decided to adopt a two-stage strategy aimed, first, at halting further deterioration and correcting major distortions (see para. 23), and, then, at improving the coverage and quality of education with priority given to primary education. **The main objectives of the 1998-2002 Basic Education Support Program** are to: (i) expand access to the system; (ii) raise quality and efficiency of services provided; (iii) correct gender and regional disparities; and (iv) improve resource management. The Program's specific goals for the year 2001 include increasing the gross enrollment ratio to 63 percent (with a long-term goal of 85 percent by 2010), reducing the 1st and 2nd grades repetition rates from 35 percent to 26 percent, and expanding by 50 percentage points, to 80 percent, the proportion of students in grades 1 to 4 using textbooks.

35. The authorities expect to approve in 1998 an action plan aimed at developing the educational system in rural areas, while significantly increasing the level of girls' enrollment. In order to reflect the priority given to education, the government is determined to ensure that the share of education in primary expenditures will increase from 12 percent in 1997 to

¹⁴Examples are the pilot activities are under way in Cantanhes, Quinhamel, Rio Grande de Buba, as well as those financed by FUNDEI and the Social Action Fund.

16 percent in 1998. From 1999 onwards, expenditures will exceed 16 percent. At the same time, cost-effectiveness is expected to improve during the program period, with the cost of a 4th grade graduate estimated to be reduced by about 10 percent.

36. **Health.** In order to improve the currently poor health of the population, a medium-term health sector development program was recently adopted. This program's underpinnings are geared to: (i) emphasize primary health services, particularly to women and children; (ii) increase the use and effective coverage of primary health care services and referral centers; (iii) implement cost-recovery at the health center level, in rural areas, and in-city hospitals; and (iv) strengthen the institutional capacity and intersectoral coordination at all levels and encourage the NGOs' and communities' role in service delivery.

37. During the period 1998-2003, **about 80 percent of the program's expenditure will be allocated to child and maternal care.** The program's key objectives for 2000 are to increase to 50 percent the proportion of children completely vaccinated by their first birthday (from about 30 percent in 1996), and increase to about 40 percent the coverage of births attended by trained midwives, up from 25 percent in 1996. To achieve these objectives, the number of fully operational health centers is expected to expand from an estimated 10 percent in 1996 to more than 40 percent by 2000. All these measures will be translated into an estimated cost of about US\$12/person/year (about 5 percent of per capita GDP in 1996), which is somewhat lower than the average US\$14 for sub-Saharan Africa recommended by the World Bank in its report on Better Health in Africa. Cost recovery is expected to be strengthened by expanding it to the whole country by end-2000. Consistent with the priority given to social sector development, the government is determined to ensure that the share of health expenditures in the current budget, excluding interest payments, will exceed 11 percent from 1998 onwards, compared to an estimated 8 percent in 1997. Capital expenditures in the health sector will also increase significantly; while during the period 1994-97 they represented, on average, about 10 percent of the public investment program, for the period 1998-2001 the authorities are committed to bringing this share to about 15 percent.

38. **Poverty Action Plan.** In 1998, the government plans to issue an updated poverty profile based on the 1994 household survey data. To improve the analytical capacity for policy formulation and to be better equipped to integrate and prioritize poverty issues in the decision-making process, the authorities plan to establish a poverty-monitoring system. Additionally, to protect vulnerable groups, the government will continue to provide a limited safety net. The government has developed a labor-intensive public work program, particularly in the road sector, through a specialized agency (AGEOPPE), established in 1995, which has performed well. The government has also launched programs to expand access to safe water, which will allow to increase the coverage by 15 percentage points to about 40 percent of the population in 2001.

V. DEBT SUSTAINABILITY, SENSITIVITY, AND VULNERABILITY

A. Debt Sustainability Analysis

39. This debt sustainability analysis (DSA) contains macroeconomic projections through to 2017, and was prepared by IMF and World Bank staff and the Guinea-Bissau authorities on the basis of loan-by-loan data collected from both the written records of the authorities and from some creditors, for outstanding debt at end-1997.¹⁵ The debt estimates and present value (NPV) calculations are preliminary and may be revised in the light of the authorities' efforts to reconcile all their debt data with multilateral and bilateral creditors. The NPV of debt-to-exports ratios reported are calculated using the three-year average of exports of goods and services centered on the preceding year, while the debt service ratios are measured in relation to current year exports.

40. At end-1997 external public debt is estimated at about US\$888 million, including arrears. The status of arrears is discussed in Box 4. As most of the debt is on concessional terms, the total debt stock in present value terms, at end-1997, amounts to about US\$612 million, or over 1,500 percent of three-year average exports (Table 2). Of the medium-term public debt outstanding in present value terms, about 31 percent was owed to multilateral creditors, 31 percent to Paris Club creditors (excluding Russia), and 22 percent to Russia, mainly in arrears. Non-Paris Club bilateral creditors accounted for the remaining 16 percent (Table 3).

Box 4. Guinea-Bissau: Status of Outstanding External Arrears

At end-January 1998, Guinea-Bissau had arrears toward non-Paris club bilateral creditors (estimated at US\$48 million), certain multilateral institutions (US\$15 million), Paris Club creditors for post-cutoff date debt (US\$13 million) and finally, Russia (US\$121 million). 1/ Some of these arrears have arisen from previous reschedulings with non-Paris Club bilateral creditors, which were not comparable with Paris Club terms. The authorities are in the process of reconciling debt data with relevant bilateral creditors.

To correct this situation, (i) the authorities intend to seek from non-Paris Club bilateral creditors terms at least comparable to those granted by the Paris Club; (ii) in regard to debt towards multilateral institutions (MDB), the authorities intend in 1998 to refrain from accumulating new arrears, while initiating negotiations toward settlement of existing arrears; (iii) with regard to Paris Club post-cutoff date debt, creditors have expressed a willingness to consider rescheduling this debt on concessional terms, along with pre-cutoff date debt, during future rescheduling agreements with Guinea-Bissau; and (iv) arrears toward Russia are expected to be addressed in the next Paris Club agreement.

During the March 1998 meeting of multilateral development banks in Washington, the staff has reviewed with the representatives of the MDBs the status of Guinea-Bissau's arrears, and discussed options for delivering HIPC debt relief through concessional rescheduling of arrears, in accordance with a note proposing a new approach to the treatment of arrears to MDBs (see SM/98/68 and IDA/SecM98-90). In line with the approach recommended in this note, all efforts would be made to clear MDB arrears before the decision point.

1/ Face value based on Gosbank exchange rate of SUR 0.6/US\$1, before any assumed upfront discount and treatment on Naples terms.

¹⁵Debt management issues are reviewed in Appendix V.

41. Of the debt owed to **multilateral creditors**, on a present value basis, 48 percent is owed to IDA, 27 percent is owed to the African Development Fund/African Development, and 5 percent is owed to the IMF (Table 3). Other multilateral creditors account for 20 percent; these include the Islamic Development Bank (IsDB), the International Fund for Agricultural Development (IFAD), the European Investment Bank (EIB), the OPEC Fund, the Arab Bank for Economic Development in Africa (BADEA), the ECOWAS Fund, and the European Union Development Fund. Arrears have accumulated to some multilateral creditors in recent years, and the authorities are currently negotiating their clearance, in a form consistent with Guinea-Bissau's financing constraints.

42. **Guinea-Bissau has benefited from three Paris Club rescheduling agreements.** The first agreement, in 1987, was on non-concessional terms. In 1989 the second agreement was concluded on Toronto terms, thus providing for up to a 33 percent reduction in the present value of debt rescheduled. The third Paris Club agreement, signed in February 1995, involved a comprehensive three-year flow rescheduling on Naples terms involving a 67 percent NPV reduction with a consolidation period to end-1997. Paris Club creditors agreed to extend the consolidation period of this agreement to end-July 1998.

43. About 37 percent of the Paris Club debt (excluding Russia) at end-1997 is post-cutoff date debt, mainly owed to Italy. The 1995 Paris-Club agreement included, on an exceptional basis, a non-concessional deferral of arrears and repayments falling due on post-cutoff date debt, which were to be repaid over 10 years. In 1995 and 1996, rescheduling agreements were also concluded with a number of non-Paris Club bilateral creditors, including the Saudi Fund for Development, the Kuwait Fund for Economic Development, and Algeria, which are now being renegotiated, in order to bring them in line with Paris Club terms.

44. **Baseline Scenario.** The baseline scenario assumes continued sound economic and financial policies are followed. This includes macroeconomic stability, deeper structural reforms, and a social development program concentrating on primary education and health services, targeting particularly women and rural areas.

45. The scenario assumes a real GDP growth rate of about 5 percent a year over the medium term (Table 4). The export projections continue to be dominated by prospects in the cashew sector. It is projected that total dollar exports will decline by over 20 percent in 1998 in value terms, following an exceptional level of exports achieved in 1997, when cashew inventories accumulated in 1996 were sold. Thereafter, export volume growth is projected at 7.5 percent on average through the year 2000, slowing down to about 6.0 percent a year subsequently. Within this total, exports of cashew nuts are expected to grow by about 5.5 percent a year. A trend toward the export of processed cashew, away from the present concentration on raw cashew, is expected. Similarly, it is expected that exports of tropical fruit and wood will grow at about this rate. Regarding fishing, it is projected that, over the medium term, there will be a shift from the present agreements with foreign partners on fishing licenses toward partnership agreements that will involve direct exports; thus, official

transfers on account of fishing licences, are projected to grow only modestly, while a faster growth of fish exports has been incorporated in the export projections.¹⁶ Import volume growth is projected at an average of 5 percent per year in the medium term, in line with growth of GDP. The terms of trade are projected to deteriorate slightly during 1998-2000, but to improve modestly thereafter.

46. On this basis, the external current account deficit, excluding official grants,¹⁷ is projected to decrease gradually from 18.1 percent of GDP in 1998 to about 13 percent in 2007, and to about 8.8 percent by 2017 (Table 5). It is assumed that the economy will continue to benefit from a substantial flow of external assistance to finance its investment budget, in the form of grants and highly concessional loans (on IDA terms). It is projected that foreign-financed public investment will gradually decline as a share of GDP (from 13 percent in the year 2000 to 7.5 percent by 2015), and that, within this declining aggregate, grants will continue to represent about two thirds of total external assistance. The decline in public investment is expected to be offset by rising private investment as a share of GDP. This scenario, which is predicated on the application of traditional debt relief mechanisms, as described below, indicates that a financing gap would remain over the medium term.

47. **Debt relief assumptions.** The debt relief under the baseline scenario is predicated on the full use of traditional debt relief mechanisms, in line with the approved methodology to determine eligibility under the HIPC Initiative. It assumes that a stock-of-debt operation with all Paris Club creditors, including Russia, would take place in mid-1998.¹⁸

48. Based on these assumptions and on the policies outlined above, debt burden indicators show that even after the full application of all traditional existing debt relief mechanisms, Guinea-Bissau's external debt would remain at unsustainable levels. On a present value basis, the external debt-to-export ratio would decline from 1,500 percent at end-1997 to 850 per-

¹⁶Differently than in recent Staff Reports (see EBS/98/29 of 2/19/98), revenue from fishing licenses are classified not in the income account, but under official transfers in conformity with the 5th edition of the Balance of Payment Manual (para. 300).

¹⁷Current account deficit, excluding official grants but not revenue from fishing licenses.

¹⁸All arrears and new maturities on debts not previously rescheduled on Naples terms by the Paris Club are assumed to be covered by this stock-of-debt operation, with all pre-cutoff-date debts being granted concessional relief of 67 percent in NPV terms. It is assumed that in the context of the stock-of-debt agreement, Russia will provide up front an 80 percent discount on outstanding debt, including arrears, before applying Naples terms, in line with the 1997 agreement between the Paris Club and Russia. Non-Paris Club bilateral creditors are assumed to grant concessional relief on terms at least comparable to a Naples terms stock operation. Multilateral and post-cutoff-date debt arrears are assumed to be rescheduled on a non-concessional basis.

cent at end-1998, to 750 percent by 2000 and 500 percent by 2007 (Table 6). External debt service, after rescheduling, would represent about 46 percent of exports in 1998, falling to about 39 percent in 2000 and 26 percent in 2007. As a share of government revenue, scheduled debt service would decline from 52 percent in 1998 to 42 percent in 2000 and 29 percent in 2007.

B. Sensitivity and Vulnerability

49. **Sensitivity Analysis.** The medium-term balance of payments projections are subject to considerable uncertainty, related not only to volatility in the size of the cashew crop and the level of world cashew prices, but also to the availability of grants and concessional loans assumed in the base case. The sensitivity analysis presented here considers the potential impact on the debt ratios of these two factors. Specifically, we consider the impact, relative to the baseline, of: (i) a 10 percent lower level for the cashew crop in 1998 combined with a subsequent growth rate that is 1 percentage point lower than in the baseline; this scenario would also correspond to a 10 percent downward shock in 1998 on cashew prices, followed by a 1 percentage point slower growth in prices over the period; and (ii) an interest rate of 2 percent on new borrowing, compared to the baseline assumption of 0.75 percent. These results are illustrated in Table 6.

50. **Output shock or weaker export prices.** A 10 percent lower level of export volume in 1998 compared with the baseline, and a 1 percentage point slower growth in the medium term, would raise the financing gap in 1998 and beyond, as well as reduce the denominator of the NPV debt-export ratio. Under this scenario, the NPV debt-export ratio would be 850 percent in 1998, falling to 800 percent in the year 2000, and 595 percent by 2007. The debt-service ratio would be higher by approximately 4 percentage points a year. This scenario is also applicable to a situation where cashew prices fall by 10 percent in relation to the baseline in 1998 and the annual growth rate in prices would be 1 percentage point lower over the medium term.

51. **Less concessional financing.** The second scenario shows the implications of new money and gapfill financing on less concessional terms. Raising the interest rate on new borrowing from 0.75 to 2 percent, would raise the NPV debt-export ratio to some 750 percent in 2000, and 540 percent by 2007. The debt service ratio would be higher by 4 percentage points, as in the previous scenario.

52. **Vulnerability.** The vulnerability of Guinea-Bissau's economy relative to other HIPC's is illustrated in Table 9, in which external and fiscal indicators for 1996 are compared with equivalent data for other HIPC cases. Cashew exports in 1997 accounted for about 82 percent of exports of goods and services, up from 65 percent in 1996, and a higher concentration on a single commodity than observed in any other HIPC. Further development of tourism, fishing, and wood products allows this percentage to fall to about 75 percent by 2010 in the baseline projection, but this still remains high. The variability of exports has also been higher than for

most other HIPCs. In contrast, a factor of strength is the presence in the official transfers of fishing license revenues, which currently represent about 25 percent of exports of goods and services. This factor, however, will have a diminishing influence over time, as explained above (see para. 45). Fishing license revenues are still projected to be around 24 percent of exports of goods and services in 2000, but would decline to about 13 percent by 2010. The non-interest current account deficit in 1997, at 8.7 percent of GDP, is about average for HIPCs as a group, but this reflects the exceptionally strong trade performance in 1997, and the figure is projected to rise to an average of 12.5 percent of GDP in 1998-2000, which is higher than for other HIPCs, but would decline to about 10 percent by 2010. Finally, Guinea Bissau's debt service, at 83 percent of government revenue in 1997 (including programmed repayment of arrears), is among the highest of all the HIPC, and shows the heavy burden of debt on government finance.

VI. DECISION AND COMPLETION POINTS, TARGET RANGE, AND BURDEN SHARING

A. Decision and Completion Points

53. On March 6, 1998 Guinea-Bissau completed the mid-term review of the third annual arrangement under its three-year ESAF-supported program. Guinea-Bissau's performance since 1993, first under a staff-monitored program and then under three successive annual ESAF arrangements and PFPs prepared with Fund and Bank staffs, could be considered sufficient to meet the initial three-year track record requirement. The fact that the Paris Club rescheduling arrangement on Naples terms has been in place over the last three years indicates that creditors are supportive of the adjustment effort. Also, given the complex situation of Guinea-Bissau arrears (see Box 4), there is a need to get debt relief efforts moving forward as soon as possible, which underlines the importance of a prompt decision point. The authorities strongly support the adoption of an early decision point, and are fully committed to a vigorous implementation of reforms, in order to achieve debt sustainability and make progress toward sustainable development. Following the Fund and World Bank Executive Board discussion, this document will be sent to Guinea-Bissau's other official creditors. The staff currently envisages the presentation of the final HIPC document for the decision point, as soon as a new three-year PFP for 1998-2001 has been approved, and a new three-year ESAF arrangement has been submitted to the Fund Executive Board for approval. As envisaged in the framework of the HIPC Initiative, and provided Guinea-Bissau is deemed eligible for assistance, the staff would expect a completion point to be reached three years later. The reaching of the completion point would be subject to the requirements of satisfactory performance under the ESAF arrangement and Bank-supported programs, and meeting the social targets. In particular, as indicated in Box 5, the authorities will need to achieve significant results in the area of tax reform and tax administration, public expenditure management, public sector reform, privatization, and social sector development (for more details, see Appendix VI).

Box 5. Guinea-Bissau: Main Reforms To Be Implemented Before Completion Point

Fiscal management

- Adopt common WAEMU external tariff
- Tighten tax and customs administration
- Privatize provision of public service, now employing 24 percent of government civil employees

Privatization

- Complete privatization of 22 state owned companies (in fisheries, hotels, and manufacture)
- Enact regulatory framework in telecommunications and ports, and further divest state shareholding in these sectors

Financial sector

- Enact regulatory framework of insurance sector
- Further divest state shareholding in commercial banking

Social sector

- Achieve social development targets indicated in Appendix IV

B. Target Range

54. To establish the appropriate target range for the NPV of debt-to-export ratio for Guinea-Bissau, it is necessary to take into account the high degree of vulnerability of Guinea-Bissau's economy; this would suggest a target at the lower end of the 200-250 percent range. However, it has to be taken into account that a relatively important component of the foreign exchange earning capacity, namely revenue from fishing licenses, is not included in the denominator of the target ratio, because it is classified as official transfers in the balance of payments; these earnings are expected to remain a significant, albeit declining, component of total current earnings.¹⁹ In view of these considerations, the staff recommends a target range of 200-230 percent.

¹⁹Fishing licenses revenue represent a significant part of total current foreign exchange earnings. In 1998-2000, on average they are projected to represent 25 percent of exports of goods and services. The agreed definition for the denominator for the NPV debt-export ratio used for the HIPC Initiative is exports of goods and services based on the IMF BOP manual, 5th edition, 1993 (see Box 3 of EBS/96/135). According to the *Balance of Payments* (5th manual), ¶300, "by convention payments (fees) for carrier registration or for licenses to fish, hunt, etc., are treated as taxes and included in transfers." However, royalties and other license fees are classified as services because they represent the use of a factor of production.

C. Eligibility and Potential Assistance Under the Initiative

55. The cost of assistance under the Initiative has been calculated assuming a completion point in mid-2001. Table 10 shows the results for a range of possible targets. The breakdown of costs into shares by creditor groups is also shown, based on a proportional burden sharing approach. The amount of relief that would be required to bring Guinea-Bissau's NPV of debt-to-export ratio to sustainability would range from US\$273 to US\$300 million, depending on where the target ratio is set within the overall 200-250 percent range. Of this amount, multilateral creditors would be expected to provide 51 percent, and bilateral creditors 49 percent. Preliminary calculations suggest that, fully proportional burden sharing would imply that bilateral creditors would have to provide more than 80 percent reduction in the present value of all their commercial debts, even including post-cutoff date debt (which the creditors concerned have indicated a willingness to consider) in order to achieve an NPV of debt-to-exports target within the range of 200-250 percent. Table 10 indicates that, even assuming inclusion of post-cutoff date debt in a Paris Club stock-of-debt operation on Lyon terms, and a strong effort on the part of non-Paris Club bilateral creditors regarding relief of debt on ODA terms, an 80 percent reduction in the present value reduction in bilateral debt would leave a gap in bilateral assistance ranging from about US\$16 million to US\$30 million, according to where the NPV target is set.

D. The Authorities' View

56. In the discussions of the debt sustainability analysis, the Guinea-Bissau authorities stated they were aware of the excessive debt overhang and were currently undertaking major improvements and reforms to strengthen debt management, including the creation of a Multilateral Debt Fund, the establishment of a Debt Monitoring Committee, and the installation of a debt data base with the help of the UNCTAD. Additionally, they pointed out that Guinea-Bissau's entry into the WAEMU last year has led to a strengthening of fiscal and monetary policies, which in turn will have a positive effect on the economy. In spite of all these undertakings, the authorities stressed that, even after full use of traditional existing debt relief mechanisms, the sustainability analysis shows that the country's external debt will remain well beyond sustainable levels. In particular, they emphasized that, despite efforts to diversify the export base, Guinea-Bissau continues to experience an extreme dependency on export earnings from a single crop—cashew nuts. Vulnerability on this account could only exacerbate the severity of the external debt situation.

57. The authorities also underlined the fact that Guinea-Bissau, after successfully implementing an IMF staff-monitored program in 1993-94, has had a continuous adjustment track record since mid-1995 and re-iterated their commitment to the implementation of the necessary reforms agreed in the PFP and the fulfillment of the macroeconomic targets incorporated in the Bank- and Fund-supported program. The authorities expressed their eagerness to benefit from the HIPC Initiative and welcomed the opportunity to participate in it. They stressed that assistance obtained under the Initiative would allow Guinea-Bissau to increase needed programs and accelerate structural reforms in priority social sectors.

VII. ISSUES FOR DISCUSSION

58. The preliminary debt sustainability analysis presented in this paper suggests that Guinea-Bissau could be eligible for debt relief under the HIPC Initiative, considering that its debt burden indicators are among the highest of all the HIPCs. Considerable progress has been made since the country started its economic reform process in 1987; additional adjustment and structural reforms will need to be implemented in order to secure a strong foundation for growth. The additional debt relief that may be available under the Initiative would allow a reduction of Guinea-Bissau's debt burden to sustainable levels and a regularization of relations with all creditors; the relief would also provide crucial resources for Guinea-Bissau to strengthen services in the social sectors and necessary infrastructure, while maintaining an appropriate budgetary stance to contribute to macroeconomic stability. The staff requires guidance from Executive Directors on the following issues:

Eligibility. Do Directors consider Guinea-Bissau eligible for assistance under the Initiative?

The decision point. Do Directors view that it would be appropriate for the two Boards to consider a final HIPC document following approval of a new three-year PFP and of a strong program supported by a new three-year arrangement under the ESAF for 1998-2001?

The completion point. Do Directors agree with the staff recommendation that the completion point should be reached three years after the proposed 1998 decision point?

Debt sustainability target. In view of Guinea-Bissau's external and fiscal vulnerability, as well as indications that the level of debt service in the absence of the Initiative would hamper the allocation of needed resources to the social sector and priority infrastructure, the staff recommends that the target range for NPV debt-to-export ratio should be set at 200-230 percent. Do Executive Directors find the proposed target range appropriate?

Table 1. Guinea-Bissau: Selected Economic and Financial Indicators, 1993-98

	1993	1994	1995	1996		1997		1998 Prog.
				Prog.	Est.	Prog.	Est. 1/	
(Annual percentage change, except where indicated otherwise)								
National accounts and prices								
Real GDP at market prices	2.1	3.2	4.4	4.3	4.6	5.1	5.1	5.5
GDP deflator	48.8	23.3	44.7	25.4	49.8	37.0	39.5	4.1
Consumer price index, period average	48.2	15.2	45.4	26.5	50.7	36.5	49.1	3.1
Consumer price index, end-of-period	30.7	19.3	49.7	15.0	65.6	10.3	16.8	5.1
Money and credit 2/								
Net foreign assets 3/	3.8	18.4	38.4	4.3	30.2	16.3	85.7	14.6
Claims on the government (net) 3/	22.5	-16.3	-20.8	-4.4	0.0	-3.0	-15.4	-2.9
Credit to the economy	46.3	57.2	5.6	34.8	37.4	13.0	1.7	15.9
Broad money	29.1	33.9	25.9	12.3	33.2	14.0	53.5	15.0
Peso broad money	31.7	48.5	42.9	18.8	44.6	...	...	...
Six-month deposit rate (percent per annum, end-of-period)	40.0	25.0	38.0	...	51.0	5.0	5.0	...
Velocity (GDP/broad money)	8.0	7.2	7.1	6.8	7.2	8.2	7.1	5.7
Gross official reserves (in months of imports of goods and services)	2.2	2.7	2.7	2.8	1.6	2.7	3.6	5.1
(In units indicated)								
External sector								
Exports, f o b (based on U S dollar values)	16.0	108.1	-28.0	6.3	-9.8	64.7	150.3	-21.4
Imports, f o b (based on U S dollar values)	-53.8	-0.1	10.4	3.3	-4.3	16.1	19.7	4.6
Export volume	164.6	133.8	-30.9	4.5	-12.8	65.7	139.2	-18.7
Import volume	-32.1	-4.8	-1.0	0.8	-7.5	17.7	21.1	10.3
Terms of trade (deterioration -)	-1.6	-15.2	-6.6	-0.9	-0.1	1.0	5.9	2.0
Real effective exchange rate (depreciation -)	8.6	-10.9	-7.7	...	4.8	...	12.4	...
(In percent of GDP)								
Investments and savings								
Gross domestic investment	30.9	21.8	22.3	24.4	23.0	21.8	18.9	23.4
Of which: Government investment	24.6	20.4	15.2	17.5	14.8	13.2	13.6	15.6
Gross domestic savings	7.0	3.9	-1.2	1.1	1.8	1.9	3.1	3.6
Of which: Government savings	1.8	3.3	4.0	4.3	3.3	5.0	5.5	5.3
Gross national savings	11.9	11.5	6.2	5.0	8.3	13.5	13.2	13.2
Government finances								
Budgetary revenue	10.4	12.4	12.7	13.4	12.5	13.7	15.4	15.2
(Excluding fishing licenses)	5.7	7.4	7.9	8.7	7.4	9.1	9.6	9.8
Expenditure and net lending	36.0	35.5	30.4	34.9	33.6	41.1	37.6	30.9
Current primary balance	1.8	3.3	4.0	4.7	3.3	5.0	5.5	5.0
Overall balance (commitment basis)								
Including grants	14.0	-6.1	-2.1	-6.1	-12.2	-13.1	-11.4	-4.6
Excluding grants and restructuring operations	-13.6	-4.6	-17.7	-17.8	-18.0	-12.3	-12.7	-15.4
External current account (including official current transfers)								
Excluding official current transfers	-23.2	-16.2	-23.6	-27.2	-20.6	-18.0	-14.2	-18.1
Excluding official current transfers and scheduled interest	-16.8	-10.3	-16.5	-17.9	-13.7	-13.0	-8.7	-13.9
Memorandum items:								
(In units indicated)								
Exchange rate 1/								
PG/ US\$ (period average)	10,082	12,892	18,073	23,879	26,374	35,610	38,318	...
PG/ US\$ (end of period)	11,464	15,369	21,927	25,234	34,936	37,180	...	...
CFAF/US\$ (period average)	283.2	555.2	499.2	...	511.6	547.8	589.5	589.5
Nominal GDP at market prices								
In billions of Guinea-Bissau pesos	2,389	3,038	4,589	6,035	7,136	10,315	10,173	...
In millions of U.S. dollars	236.9	235.6	253.9	252.7	270.6	289.7	265.5	292.4
In billions of CFA Francs	67.1	130.8	126.7	...	138.4	158.7	156.5	172.4

Sources: Guinea-Bissau authorities; and, staff estimates and projections.

1/ On May 2, 1997, the CFA franc replaced the Guinea-Bissau peso (PG) as legal tender, at a conversion rate of CFAF 1 = PG 65.

2/ At constant exchange rates; excluding the Banco do Credito Nacional in 1996 and reclassification of the medium- and long-term liabilities of the Central Bank of Guinea-Bissau (BCGB) in 1993-94; in 1997 excluding recapitalization of BCGB.

Table 2. Guinea Bissau--Net Present Value of Debt after Naples Terms Stock-of-Debt Operation 1/
(In millions of U.S. dollars)

	1997	1998	1999	2000	2001	2002	2003	2004
1. NPV of total debt (2+5)	612	396	406	410	421	432	443	455
2 NPV of old debt (3+4)	612	388	388	387	388	388	386	384
3 Bilateral	423	203	203	202	203	204	204	205
3a Paris Club 4/	325	172	172	170	170	171	171	171
ODA	0	0	0	0	0	0	0	0
post-cutoff date	75	79	79	79	79	79	78	78
pre-cutoff date	250	93	93	91	92	92	93	93
under standard terms	31	8	9	9	9	9	9	9
under Toronto terms	17	5	5	6	6	6	6	6
under Naples terms	69	69	66	67	67	68	68	69
Russia 2'	136	10	10	10	10	10	10	10
3b Other official/bilateral	98	30	31	31	32	32	33	34
Of which ODA debt 4/	48	16	16	17	17	18	18	19
Non-ODA	50	15	15	15	15	15	15	15
3c Commercial	1	0	0	0	0	0	0	0
4 Multilateral	189	185	185	186	185	184	182	180
IDA/IBRD	90	90	90	93	95	97	98	100
IMF	9	9	9	9	9	9	9	8
AfDB/AfDF	52	52	52	52	52	51	51	51
Other	37	34	34	32	30	27	24	21
5. NPV of new debt	0	8	18	23	33	45	57	70
Multilateral	0	8	18	23	33	45	57	70
Bilateral	0	0	0	0	0	0	0	0
<i>Memorandum items</i>								
Exports of goods and services 3/	62	51	55	59	64	70	76	83
Three-year averages 5/	40	47	56	55	60	65	70	76
NPV debt/exports of goods and services (3-year)	1532	843	729	747	708	669	632	596

1/ Stock of debt operation on Naples term is assumed to take place in the second half of 1998, along with comparable treatment from non-Paris Club bilateral creditors, and non-concessional rescheduling of multilateral and Paris Club post cut-off date arrears.

2/ Assumptions: 80% of end-97 stock (valued at SUR 0.6/US\$ 1), including arrears, is discounted, and the remainder is rescheduled on Naples Terms in 1998

3/ Based on the definition in the fifth edition of the BOP Manual, i.e., excluding factor income. Does not include workers' remittances or income from fishing licences.

4/ Data suggest all Paris Club ODA debt has been forgiven. For non-Paris Club, ODA is assumed to be debt with interest rate of 2 percent or less.

5/ Backward-looking average (e.g. average over 1997-99 for entry in 1999).

Table 3. Guinea-Bissau: Nominal and Net Present Value of External Debt Outstanding at End-1997 1/

	Nominal Debt			NPV of Debt		
	US\$ million	Percent of total	Percent of Multilateral	US\$ million	Percent of total	Percent of Multilateral 2/
Total	888	100.0		612	100.0	
Multilateral Institutions	401	45.1	100.0	189	30.8	100.0
IMF	12	1.4	3.0	9	1.5	5.0
IDA/IBRD	220	24.7	54.9	90	14.8	48.0
Other	169	19.0	42.1	89	14.5	47.1
<i>Of which:</i>						
AfDB	120	13.5	29.8	52	8.4	27.4
IsDB	13	1.4	3.2	7	1.2	3.9
IFAD	9	1.0	2.3	5	0.7	2.4
EIB	8	0.9	2.0	7	1.1	3.7
OPEC Fund	8	0.9	2.0	8	1.3	4.3
BADEA	8	0.9	1.9	7	1.2	3.8
ECOWAS	3	0.3	0.7	3	0.5	1.5
EU Dev. Fund	1	0.1	0.2	0	0.1	0.2
Bilateral creditors	488	54.9		423	69.2	
Paris Club	372	41.8		325	53.1	
<i>Of which: Russia 3/</i>	140	15.7		136	22.2	
Non Paris Club bilatera	116	13.0		99	16.1	

1/ Decision point is assumed to be in 1998. Thus, 1997 marks the latest year for which actual data are available at the decision point which actual data are available at the decision point.

2/ These shares are applied to the total multilateral NPV reduction required at the completion point, to determine each institution's amount of assistance under the Initiative.

3/ Before any stock of debt operation, or up-front discount, valued at SUR 0.6/US\$1.

Table 4. Main Assumptions on Macroeconomic Framework, 1997-2017

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2017	Average	
													1998-2007	2008-2017
	(percentage change, unless otherwise indicated)													
Economic growth and investment														
Real GDP	5.1	5.5	4.9	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Real GDP per capita	3.1	3.5	2.9	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Balance of payments														
Export volume growth	139.2	-18.7	7.0	7.9	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6	3.5	5.6
Import volume growth	21.1	10.2	5.4	4.4	4.9	4.9	4.9	4.9	4.9	4.9	5.0	5.1	5.4	5.0
Terms of Trade	5.9	-1.8	-0.8	-0.8	0.6	1.0	1.0	1.1	1.1	1.1	1.1	2.2	0.4	1.4
Exports of goods and services ^{1/} (percent of GDP)	23.3	17.3	16.9	17.2	17.2	17.3	17.4	17.7	17.8	17.9	17.9	18.0	17.5	17.9
Imports of goods and services ^{1/} (percent of GDP)	39.3	38.4	37.0	36.8	36.2	35.6	35.1	34.5	34.0	33.5	33.0	28.0	35.4	30.3
Current account, including grants (percent of GDP)	-5.6	-10.0	-12.0	-14.4	-15.2	-14.6	-14.1	-13.4	-12.8	-12.4	-12.0	-8.1	-13.1	-9.7
Current account, excluding grants (percent of GDP)	-14.1	-18.1	-17.5	-17.0	-16.4	-15.8	-15.2	-14.5	-13.8	-13.3	-12.9	-8.8	-15.4	-10.5

^{1/} Exports (imports) of goods and services as defined in IMF Balance of Payments Manual, 5th edition, 1993.

Table 5. Guinea Bissau Balance of Payments 1998-2017 1/
(In millions of U.S. dollars)

	Projections 1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Goods and services	-61.5	-65.3	-68.2	-71.0	-73.9	-76.8	-79.2	-81.9	-85.4	-89.1	-93.0	-96.9	-100.9	-105.1	-109.6	-114.1	-118.9	-123.9	-126.1	-128.2
Goods	-31.3	-33.2	-34.1	-35.5	-37.1	-38.6	-39.8	-41.3	-42.8	-44.3	-45.7	-47.2	-48.5	-49.8	-51.2	-52.5	-53.8	-55.2	-54.0	-52.4
Exports, f.o.b.	42.4	45.7	49.9	54.2	58.7	63.7	69.5	75.5	82.1	89.2	97.0	105.4	114.6	124.6	135.4	147.1	159.7	173.3	188.2	204.3
Of which: cashew nuts	39.0	42.0	45.8	49.3	53.2	57.5	62.1	67.0	72.4	78.2	84.5	91.2	98.5	106.4	114.9	124.0	134.0	144.6	156.2	168.7
Imports, f.o.b.	-73.7	-78.9	-84.0	-89.7	-95.8	-102.4	-109.4	-116.9	-124.9	-133.5	-142.7	-152.6	-163.1	-174.5	-186.6	-199.6	-213.6	-228.5	-242.1	-256.7
Services (net)	-30.2	-32.1	-34.1	-35.5	-36.8	-38.1	-39.4	-40.5	-42.6	-44.9	-47.2	-49.8	-52.4	-55.3	-58.3	-61.6	-65.0	-68.7	-72.1	-75.8
Credit	8.3	8.9	9.5	10.3	11.2	12.2	13.4	14.8	15.5	16.2	17.0	17.8	18.6	19.4	20.3	21.3	22.3	23.3	24.4	25.5
Debit	-38.5	-41.0	-43.6	-45.7	-48.0	-50.3	-52.8	-55.4	-58.2	-61.1	-64.2	-67.5	-71.0	-74.7	-78.7	-82.9	-87.3	-92.0	-96.5	-101.3
Scheduled interest ^{1/}	-12.2	-13.0	-13.0	-13.0	-13.1	-13.2	-13.3	-13.4	-13.5	-13.6	-13.7	-13.9	-14.0	-14.1	-14.1	-14.2	-14.2	-14.2	-13.9	-13.4
Current transfers (net)	44.5	39.4	31.2	27.2	28.0	28.8	29.6	30.4	31.3	32.1	33.1	34.0	35.0	36.0	37.0	38.1	39.2	40.4	42.6	44.8
Official	37.5	31.9	23.4	19.1	19.6	20.0	20.5	20.9	21.4	21.9	22.4	22.9	23.5	24.0	24.6	25.2	25.8	26.4	28.0	29.6
Of which: BOP support grants	15.1	8.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fishing license fees	13.8	14.1	14.4	14.7	15.0	15.3	15.6	15.9	16.2	16.5	16.9	17.2	17.5	17.9	18.2	18.6	19.0	19.4	19.8	20.1
Private	6.9	7.5	7.8	8.1	8.4	8.8	9.1	9.5	9.8	10.2	10.6	11.1	11.5	12.0	12.5	13.0	13.5	14.0	14.6	15.2
Current account	-29.3	-38.9	-50.0	-56.8	-59.0	-61.2	-63.0	-64.9	-67.7	-70.6	-73.6	-76.8	-79.9	-83.2	-86.7	-90.2	-93.9	-97.7	-97.5	-96.8
Including official transfers	-64.8	-70.8	-73.4	-75.9	-78.6	-81.2	-83.4	-85.8	-89.1	-92.5	-96.0	-99.7	-103.4	-107.2	-111.2	-115.3	-119.6	-124.1	-125.5	-126.4
Excluding official transfers and interest	-54.6	-57.8	-60.4	-62.9	-65.5	-68.0	-70.1	-72.4	-75.6	-78.9	-82.3	-85.8	-89.4	-93.1	-97.1	-101.2	-105.4	-109.9	-111.6	-113.0
Capital and financial balance	34.3	43.4	41.5	44.0	46.5	49.2	50.7	53.6	55.8	57.9	61.7	62.8	63.4	65.5	67.6	69.9	72.6	74.7	77.2	80.1
Capital account	16.7	34.0	36.0	36.1	37.2	38.4	39.5	40.8	42.0	43.3	44.7	46.1	47.5	49.0	50.5	52.1	53.7	55.3	57.0	58.8
Capital transfers	16.7	34.0	36.0	36.1	37.2	38.4	39.5	40.8	42.0	43.3	44.7	46.1	47.5	49.0	50.5	52.1	53.7	55.3	57.0	58.8
Financial account	17.7	9.4	5.5	7.9	9.3	10.8	11.2	12.8	13.7	14.6	17.0	16.8	15.9	16.6	17.2	17.8	18.9	19.4	20.2	21.3
Official medium- and long-term disburse	31.1	32.0	15.5	16.4	17.3	18.2	19.2	20.3	21.4	22.5	23.8	25.1	26.5	27.9	29.5	31.1	32.8	34.6	36.5	38.5
Balance of payments support	16.5	16.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Projects	14.6	15.5	15.5	16.4	17.3	18.2	19.2	20.3	21.4	22.5	23.8	25.1	26.5	27.9	29.5	31.1	32.8	34.6	36.5	38.5
Scheduled amortization ^{1/}	-10.5	-19.6	-12.0	-10.7	-10.5	-10.2	-11.1	-11.0	-11.6	-12.4	-11.7	-13.9	-16.8	-18.3	-20.1	-22.0	-23.7	-26.2	-28.6	-31.0
Short-term capital (comm. bank ^{2/} NFA; i	-0.2	-1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Private capital, errors and omissions	-2.7	-1.5	2.0	2.2	2.5	2.8	3.1	3.5	3.9	4.4	5.0	5.5	6.2	7.0	7.8	8.7	9.8	10.9	12.3	13.7
Overall balance	5.1	4.5	-8.5	-12.8	-12.5	-12.0	-12.2	-11.3	-11.9	-12.7	-11.9	-13.9	-16.5	-17.6	-19.0	-20.3	-21.3	-23.1	-20.3	-16.7
Financing	-5.1	-4.5	8.5	12.8	12.5	12.0	12.2	11.3	11.9	12.7	11.9	13.9	16.5	17.6	19.0	20.3	21.3	23.1	20.3	16.7
Change in NFA, excluding Fund position (	-5.3	-4.6	-4.2	-4.0	-4.0	-4.0	-5.0	-5.0	-5.0	-5.0	-5.0	-5.0	-5.0	-6.0	-6.0	-6.0	-6.0	-6.0	-6.0	-6.0
Of which: Central Bank debt cancellati	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net IMF credit	4.5	5.1	-0.7	2.7	-0.6	-0.2	-0.7	-1.3	-2.6	-2.4	-1.9	-1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IMF purchases	3.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IMF repurchases	-0.6	-0.6	-0.2	-0.7	-1.3	-2.6	-2.6	-2.4	-1.9	-1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap (+) ^{1/}	0.2	0.1	12.8	17.6	17.8	18.6	19.8	18.7	18.8	19.0	16.9	18.9	21.5	23.6	25.0	26.3	27.3	29.1	26.3	28.5
Memorandum items:																				
Current account balance (in percent of GDP)																				
Including official transfers	-10.0	-12.0	-14.4	-15.2	-14.6	-14.1	-13.4	-12.8	-12.4	-12.0	-11.5	-11.1	-10.7	-10.4	-10.0	-9.6	-9.3	-8.9	-8.2	-8.1
Excluding official transfers ^{2/}	-18.1	-17.5	-17.0	-16.4	-15.8	-15.2	-14.5	-13.8	-13.3	-12.9	-12.4	-12.0	-11.5	-11.1	-10.7	-10.3	-9.9	-9.6	-8.9	-8.8
Excluding official transfers and interest ^{2/}	-13.9	-13.5	-13.3	-12.9	-12.5	-12.1	-11.6	-11.2	-10.9	-10.6	-10.3	-10.0	-9.7	-9.4	-9.1	-8.8	-8.5	-8.3	-7.8	-7.8

1/ After assumed Naples terms stock of debt operation in 1998 from Paris Club creditors, including Russia, on all eligible debt including arrears, comparable treatment from other bilateral and commercial creditors, and non-concessional rescheduling of arrears on multilateral and Post Cut-off date Paris Club debt. Includes payments on short term debt.

2/ Deficit is calculated excluding official transfers other than on account of fishing licenses.

Sources: Data provided by the Guinea-Bissau authorities, and staff estimates and projections.

Table 6. External Debt Indicators: Baseline Scenario, 1997-2017 1/

	1997	1998	1999	2000	2001	2002	2007	Average	
								1997-2007	2008-2017
(In millions of U.S. dollars)									
Baseline Scenario (after assumed relief) 2/									
Nominal debt stock	889	712	735	742	765	788	918	814	1,079
Multilateral	401	425	449	457	480	505	643	513	828
Official bilateral	487	286	285	285	284	283	274	300	251
o/w Paris Club	372	210	209	209	208	207	199	221	180
Commercial	1	1	1	1	0	0	0	0	0
Nominal debt stock before rescheduling 2/	889	906	922	921	936	948	1,049	956	1,246
NPV of debt	612	396	406	410	421	432	490	455	566
Multilateral	189	193	202	209	219	229	284	231	368
Official bilateral	423	203	203	202	203	204	206	224	198
o/w Paris Club	325	172	172	170	170	171	170	185	160
Commercial	1	0	0	0	0	0	0	0	0
NPV of debt before rescheduling 2/	612	616	610	602	597	589	598	591	648
(In percent of exports of goods and services) 4/									
NPV of debt 5/ o/w multilateral	1532	843	729	747	708	669	501	731	381
	472	411	363	380	368	354	290	356	245
Scheduled Debt service 6/ o/w multilateral	29	47	40	39	39	36	26	35	22
	15	21	22	22	22	21	15	19	13
(In percent)									
NPV of debt-to-revenue ratio 3/	1501	874	799	743	704	667	505	738	372
NPV of debt-to-GDP ratio	231	135	125	118	113	107	83	117	63
Debt service-to-Revenue 7/	83	52	43	42	42	39	29	39	24
Sensitivity analysis: Impact of									
*Lower cashew export growth 8/									
NPV of debt-to-export ratio	1532	867	769	819	784	749	596	798	495
Debt-service ratio	29	50	43	42	42	40	30	38	27
*Less favorable financing 9/									
NPV of debt-to-export ratio	1532	852	744	766	733	699	544	758	426
Debt-service ratio	29	47	41	40	40	38	30	36	26

1/ All debt indicators refer to public and publicly guaranteed (PPG) debt and are defined after rescheduling, unless otherwise indicated.

2/ Naples terms stock-of-debt operation from Paris Club creditors, including Russia, assumed in 1998, with comparable treatment from other bilaterals. Post cut-off date Paris Club and multilateral arrears rescheduled on a non-concessional basis.

3/ Revenues are defined as central government revenues, excluding grants.

4/ As defined in IMF Balance of Payments Manual, 5th edition, 1993.

5/ Based on a three-year average of exports centered on the previous year (e.g. export average over 1997-99 for NPV of debt-to-exports ratio in 1999).

6/ 1997 is debt service due on current maturities.; 51 percent including programmed repayment of arrears.

7/ For 1997 based on service on current maturities and programmed repayment of arrears.

8/ Cashew export volume is 10 percent lower in 1998 than in the baseline, and growth by 1 percent less per annum in the medium term

9/ Interest charged on new money is at 2 percent rather than 0.75 percent in the baseline scenario

Table 7. External Debt Service After Rescheduling, 1997-2007

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
	(In millions of US dollars)										
Total debt service after rescheduling 1/	17.83	23.77	22.06	23.26	24.89	25.29	26.42	27.51	27.25	27.44	27.78
Principal	10.82	11.16	8.69	9.87	11.47	11.82	12.86	13.84	13.47	13.55	13.79
Multilateral	6.19	7.05	8.16	9.27	10.42	10.63	11.60	12.30	11.65	11.41	11.28
o/w IMF	1.02	0.61	0.61	0.21	0.71	1.28	2.20	2.20	1.98	1.49	0.92
World Bank	1.20	1.34	2.04	2.31	2.80	2.86	3.24	4.00	4.48	4.73	5.17
AfDB/F	1.73	1.92	2.04	2.54	2.74	2.43	2.12	2.13	2.30	2.30	2.30
Official bilateral	3.54	4.04	0.46	0.52	0.98	1.12	1.26	1.53	1.82	2.15	2.51
Paris Club	1.02	4.04	0.46	0.52	0.98	1.12	1.26	1.48	1.71	1.96	2.25
o/w post cut-off	0.69	0.56	0.00	0.00	0.32	0.37	0.42	0.47	0.53	0.60	0.67
Non-Paris Club	2.52	0.00	0.00	0.00	0.00	0.00	0.00	0.05	0.11	0.18	0.26
Commercial	1.17	0.07	0.07	0.07	0.07	0.07	0.00	0.00	0.00	0.00	0.00
New debt	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
o/w multilateral	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Interest	7.01	12.61	13.37	13.40	13.41	13.47	13.56	13.67	13.78	13.89	13.99
Multilateral	3.41	3.67	3.78	3.82	3.86	3.96	4.09	4.25	4.41	4.60	4.80
o/w IMF	0.10	0.06	0.06	0.05	0.05	0.05	0.04	0.03	0.02	0.01	0.00
World Bank	1.62	1.65	1.64	1.62	1.61	1.58	1.56	1.54	1.51	1.47	1.44
AfDB/F	1.11	1.13	1.07	1.01	0.95	0.89	0.86	0.84	0.82	0.80	0.78
Official bilateral	3.60	8.90	9.56	9.55	9.54	9.50	9.46	9.41	9.35	9.27	9.18
Paris Club	2.07	7.31	7.98	7.96	7.95	7.91	7.87	7.82	7.77	7.70	7.62
o/w post cut-off	0.13	3.84	3.84	3.84	3.83	3.81	3.79	3.77	3.75	3.72	3.68
Non-Paris Club	1.50	1.59	1.59	1.59	1.59	1.59	1.59	1.59	1.58	1.57	1.56
Commercial	0.03	0.03	0.03	0.02	0.02	0.02	0.01	0.01	0.01	0.01	0.01
New debt	0.00	0.12	0.35	0.54	0.73	0.99	1.26	1.54	1.83	2.13	2.44
o/w multilateral	0.00	0.12	0.35	0.54	0.73	0.99	1.26	1.54	1.83	2.13	2.44
Total debt service before rescheduling	35.73	34.47	36.83	36.82	38.48	41.58	43.11	43.91	36.36	27.91	26.28
Memorandum item:											
Debt-service ratio after rescheduling 2/ (	28.9	46.8	40.4	39.1	38.6	36.2	34.8	33.2	30.1	28.1	26.3

1/ 1997 figures are debt service on current maturities only after rescheduling. Assumes a Paris Club stock-of-debt operation on Naples terms in 1998, and at least comparable treatment from other official bilateral creditors. Post cut-off date debt and arrears to multilaterals are assumed to be included in the rescheduling operation on a non-concessional basis.

2/ Debt service in percent of current-year exports of goods and services, as defined in IMF Balance of Payments Manual, 5th edition, 1993.

Table 8. Discount Rate and Exchange Rate Assumptions 1/

	Discount Rates 2/ (in percent)	Exchange Rates 3/ (per U.S. dollar)
Currency		
Australian Dollar	7.07%	0.65
Austrian Schilling	5.79%	12.63
Belgian Franc	6.58%	36.92
Can. Dollar	6.72%	1.43
Danish Krone	6.24%	6.83
Finnish Markka	5.90%	5.42
French Franc	5.91%	5.99
German Mark	5.88%	1.79
Irish Punt	6.69%	0.70
Italian Lira	6.33%	1,759.20
Japanese Yen	2.50%	129.95
Neth. Guilder	6.81%	2.02
New Zealand Dollar	7.93%	1.72
Norwegian Krone	6.28%	7.32
Spanish Peseta	6.52%	151.70
Swedish Krona	6.81%	7.88
Swiss Franc	4.33%	1.46
UK Pound	7.95%	0.60
US Dollar	7.31%	1.00
ECU	5.88%	0.91
SDR	6.06%	0.74

1/ The base date for a decision point in 1998 is end-1997

2/ The discount rates used are the average Commercial Interest Reference Rates for the respective currencies over the six-month period prior to the base date.(July-December 1997)

3/ The exchange rates are those at the base date (end-1997)

Table 9. Summary Vulnerability Indicators 1/

Country 3/	Percent share in exports** of :			Public sector external debt service as a percent of : 2/		NPV of public and publicly guaranteed debt as percent of GDP 1/ 2/	Noninterest current account in percent of GDP 6/ 1/	Reserve coverage (months of imports) 7/	Fiscal indicators* as a percent of GDP 1/				
	Main product	Three main products	Variability of exports** 4/	Government revenue 5/	Government expenditure				Tax revenue	Official grants	Primary balance		
Guinea Bissau	65.0	Cashew	70.2	30.8	140.4	52.1	225.8	-13.7	CFA Zone	6.9	9.0	-14.5	
Group A													
Bolivia	12.2	Zinc	32.1	20.9	19.7	16.6	44.6	-5.8	7.8	17.4	2.4	-2.2	
Burkina Faso	38.7	Cotton	54.7	23.1	17.0	10.5	30.5	-12.1	CFA Zone	11.2	7.3	-8.7	
Guyana	19.9	Sugar	48.2	34.0	42.4	37.1	160.5	-4.4	5.2	31.8	2.3	2.6	
Mali	47.1	Cotton	75.1	20.6	17.4	11.6	47.6	-13.7	CFA Zone	12.7	7.1	-6.9	
Uganda	68.4	Coffee	74.0	35.2	18.2	11.3	31.0	-6.3	3.6	10.5	4.5	-1.0	
	<i>Mean</i>	37.3		56.8	26.8	23.0	17.4	62.8	-8.4	5.6	16.7	4.7	-3.2
	<i>Median</i>	38.7		54.7	23.1	18.2	11.6	44.6	-6.3	5.2	12.7	4.5	-2.2
Group B													
Cameroon	27.1	Oil	46.9	11.0	93.6	78.3	93.1	2.8	CFA Zone	9.9	0.5	5.2	
Chad	43.7	Cotton	67.7	13.6	22.9	9.5	32.7	-16.0	CFA Zone	9.0	6.9	0.2	
Congo	83.6	Crude oil	93.1	...	27.2	25.2	144.4	-39.6	CFA Zone	29.0	0.9	10.7	
Cote d'Ivoire	28.6	Cocoa	47.5	10.5	51.0	44.7	143.2	0.1	CFA Zone	18.9	0.7	2.8	
Ethiopia	36.8	Coffee	46.5	17.9	26.8	18.3	74.1	-6.8	8.7	12.8	6.3	-5.5	
Guinea	37.2	Bauxite	58.2	11.9	32.6	20.9	33.5	-6.5	2.8	7.1	3.1	-4.5	
Honduras	22.5	Coffee	46.3	13.3	70.7	59.9	71.7	-2.7	2.7	16.5	0.2	2.9	
Madagascar	12.3	Coffee	25.6	20.2	102.6	49.6	90.6	-3.8	2.3	7.8	3.1	-1.1	
Mauritania	52.0	Fish	91.1	6.9	12.6	15.4	134.1	-4.9	2.6	17.5	2.2	8.6	
Mozambique	15.5	Prawns	21.8	32.6	50.8	27.4	158.7	-22.2	3.2	12.8	7.8	-9.9	
Nicaragua	20.1	Coffee	39.8	30.3	134.6	99.3	205.9	-16.5	1.0	21.0	5.2	-6.5	
Niger	50.6	Uranium	69.3	19.3	25.5	13.4	42.5	-9.7	CFA Zone	7.4	4.0	0.6	
Senegal	17.8	Fish	32.2	11.7	30.4	27.1	42.0	-5.0	CFA Zone	13.9	1.9	0.6	
Sierra Leone	52.8	Rutile	97.3	18.6	22.2	13.3	58.7	-14.7	1.4	10.4	3.7	-1.2	
Tanzania	12.8	Coffee	26.8	32.7	63.6	47.9	112.7	-13.7	1.9	12.8	2.5	-1.2	
Togo	19.5	Phosphate	46.0	22.4	31.0	28.7	54.9	-5.0	CFA Zone	14.0	2.8	-3.4	
Zambia	48.0	Copper	67.4	20.0	33.5	25.1	96.2	-7.9	1.5	14.9	2.1	4.5	
	<i>Mean</i>	34.2		54.3	18.3	48.9	35.5	93.5	-10.1	2.8	13.9	3.2	0.2
	<i>Median</i>	28.6		46.9	18.2	32.6	27.1	90.6	-6.8	2.5	12.8	2.8	0.2
Both Groups' Mean	34.9		54.9	20.3	43.0	31.4	86.5	-9.7	3.5	14.5	3.5	-0.6	
Both Groups' Median	32.7		47.8	20.0	30.7	25.1	72.9	-6.6	2.7	12.8	3.0	-1.1	

1/ All data refer to 1996 (1995/96) unless otherwise indicated.

2/ After assumed debt rescheduling/relief, including Paris Club stock-of-debt operation on Naples terms, where applicable.

3/ Excluded from the original group of 41 HIPC are those for which no debt sustainability analysis has been prepared; that are not IDA-only; that have not embarked yet on the first stage of the Initiative; that have never received concessional Paris Club reschedulings; that have debt burden with an estimated NPV debt-to-exports ratio of below 100 percent at their earliest hypothetical completion points; or that have been found ineligible for assistance under the Initiative. Group A refers to countries that have already received a Paris Club stock-of-debt operation on Naples terms; Group B to all others.

4/ Defined as the standard deviation in export values over the 10-year period 1986-1995 (1985/86-1994/95), in percent of the average.

5/ Excluding grants.

6/ Current account balance excludes interest and net official transfers.

7/ Imports of goods and services.

* Note: Central Government. For Bolivia, Burkina Faso, Nicaragua and Madagascar government refers to general government.

** Exports of goods and services, as defined in IMF Balance of Payments Manual, 5th edition. Latest data available.

Table 10. Projected Assistance Under the HIPC Initiative 1/ 2/
(NPV reduction at the completion point in millions of U.S. dollars, unless otherwise indicated)

	Target for the NPV of Debt-to-Exports Ratio (in percent)	Assistance at Completion Point in Mid-2001					
Total	200	300					
	210	295					
	220	289					
	230	284					
	240	278					
	250	273					
Multilateral			Common reduction factor at the decision point 3/				
	200	153	81.0%				
	210	150	79.5%				
	220	147	78.0%				
	230	144	76.5%				
	240	142	75.0%				
	250	139	73.5%				
				Potential Additional Bilateral Assistance from 80 percent PV reduction			
				(1)	(2)	(3)	(4)
				assuming	assuming	40 percent	further 40 percent
				treatment of	inclusion of	PV reduction on	PV reduction on
				pre cut-off	post cut-off	non-Paris Club	non-Paris Club
				date debt only.	date debt 5/	ODA debts 6/	ODA debts
Bilateral 4/	200	148					
	210	145	Estimated Assistance	42	63	7	7
	220	142	Cumulative Assistance	42	105	111	118
	230	139					
	240	137					
	250	134					

1/ Assumes a completion point in mid-2001

2/ Assistance between the two groups is shared in proportion to their exposure (in NPV terms) at the completion point after a hypothetical stock-of-debt operation on Naples terms, and comparable treatment from other bilaterals.

3/ Each multilateral's NPV reduction at the completion point in percent of its exposure at the decision point.

4/ Bilateral refers to all official bilateral and commercial creditors.

5/ Post cut off date debt is defined as Paris Club debt contracted after 31st December 1986.

6/ Non-Paris Club debts carrying interest rate of 2 percent or less are treated as ODA. Data suggest Paris Club creditors have forgiven all ODA.

Table 11. HIPC Initiative: Status of Early Cases

Country (in order of expected decision point within groups)	Decision point	Completion point	NPV of debt-to-export target (in percent)	Assistance at completion point (US\$ millions, present value at completion point)				World Bank	Percentage reduction in NPV of debt 1/	Estimated total nominal debt service relief (in US\$ mn.)	Satisfactory assurances from other creditors
				Total	Bilat- eral	Multi- lateral	IMF				
<i>Decision point reached and assistance committed by Fund and Bank:</i>											
Uganda	Apr-97	Apr-98	202	338	67	271	69	160	19	700	Mostly received
Burkina Faso	Sep-97	Apr-00	205	115	21	94	10	44	14	200	Being sought
Bolivia	Sep-97	Sep-98	225	448	157	291	29	54	13	600	Being sought
Guyana	Dec-97	Dec-98	107 2/	253	91	161	35	27	25	500	Being sought
Côte d'Ivoire	Mar-98	Mar-01	141 2/	345	163	182	23	91	6 4/	800	Being sought
<i>Preliminary HIPC document issued; targets based on majority view in preliminary discussions at Bank and Fund Boards, assistance based on preliminary HIPC documents and is subject to change:</i>											
Mozambique 3/	early 98	mid-99	200	1,487	928	559	...	...	...	...	...
<i>Debt judged sustainable:</i>											
Benin	Jul-97	...	...	...	...	...	...	...	...	...	...

Sources: Fund and Bank Board decisions, final HIPC documents, preliminary HIPC documents, and staff calculations.

1/ In percent of NPV of debt at completion point, after full use of traditional debt relief mechanisms.

2/ Eligible under fiscal/openness criteria; NPV of debt to exports target chosen to meet NPV of debt-to-revenue target of 280 percent.

3/ Figures updated since preliminary document, consistent with *Republic of Mozambique; Further Information Note on the Status of Discussions under the HIPC Initiative* (EBS/98/21 and IDA/SecM98-56, 2/11/98).

4/ Nonreschedulable debt to non-Paris Club official bilateral creditors and the London Club which was already subject to a highly concessional restructuring are excluded from the NPV of debt at the completion point for this ratio.

GUINEA-BISSAU

Main Structural Measures: Past Reforms and "Future Milestones"

1. Agriculture and environment

a. Reforms

- Producer prices of key agricultural products increased by 76-114 percent (1984) and further adjustments henceforth
- Merchants allowed to purchase crops at any price at or above the government-set minimum price (1986)
- Elimination of all administered minimum farmgate prices (1994)
- Elimination of minimum shipment requirements for agricultural commodities (1994)
- Approval of fishery management program (1996)
- Consolidation of the forestry fund into the budget (1996)
- Approval of legal framework for artisanal fishing (1997)
- Approval of letter of agricultural policy (1997)
- Approval of legislation establishing protected areas in the Bijagos Archipelago and coastal mangroves (1997)
- Approval of agriculture sector expenditure program (Feb. 1998)

b. Future milestones

- Revise Land Tenure Law recognizing customary rights (1998-99)
- Implement coastal management plan, including biodiversity management program (1999-2001)
- Approve environmental and biodiversity law (2000)

2. Energy and water

a. Reforms

- Creation of EAGB-power and water public utility (1986)
- Introduction of power and water tariffs adjustment (1987)

- Move of EAGB to management contract (1989)
- Liberalization of imports of petroleum products (1994)
- Approval of petroleum sector's legal and regulatory framework (1995)
- Liquidation of DICOL-state owned oil marketing company (1997)
- Liquidation of Guinegaz-state owned household gas marketing company (1997)
- Approval of automatic price adjustment mechanism for petroleum products (Feb. 1998)

b. Future milestones

- Approve Letter of Energy and Water Development Policy (1998)
- Move public utility to long-term lease contract with private operator (1998)

3. Exchange rate system

a. Reforms

- Exchange rate devaluation of more than 400 percent (1987-89)
- Authorization of "bureau de change" in which exchange rate is market-determined (1990)
- Adoption of crawling peg system linked to the Portuguese escudo (1991)
- Unification of foreign exchange market (1994)
- Entry into the WAMU and the WAEMU on May 2, 1997; conversion of Guinean pesos into CFA francs (May 2-July 31, 1997)
- Acceptance of Article VIII of the Fund's Articles of Agreement (1997)

b. Future milestones

- Maintain an exchange system free of restrictions

4. Financial sector reforms

a. Reforms

- Promulgation of new central banking law (1989)
- Separation of commercial and central banking functions of National Bank (1990)
- Two new commercial banks with private capital launch operations (1990 and 1992)
- Start of liquidation of state-owned commercial bank (BCN) (1992)
- Abolition of interest rate differentials according to end-use and move to three rates according to lending term (1993)

- Approval of entry in the WAMU (1996)
- Approval of the WAMU common banking laws and exchange regulations (November 1996)

b. Future milestones

- Reduce to a symbolic share the government's participation in one of the commercial banks (BIGB) (1998-99)
- Enforce regionally established prudential regulations standards (1998-2000)
- Encourage development of microfinancial institutions, particularly in rural areas (1999-2001)

5. Tax reforms

a. Reforms

- Approval of income tax reform and conversion of consumer taxes from specific rates into ad valorem taxes (1984)
- Elimination of export taxes on all products except cashews (1987-88)
- Reduction of taxes on cashews from 80 to 14 percent (1987-97)
- Reform of customs tariffs (1990)
- Approval of comprehensive tax reform involving introduction of generalized sales tax, simplification and convergence of tariffs towards lower common external tariff for WAEMU countries, and changes in excise taxes (1997)

b. Future milestones

- Implement tax reforms (1998 - 2000)
- Strengthen customs management
- Introduce taxpayer identification number applied to domestic and trade taxes (1998)
- Centralize fiscal revenues in the budget (1998-99)
- Further reduce taxes on cashew exports (1998-99)
- Eliminate all intra-WAEMU tariffs in line with regional agreements (1998 - 2000)

6. Budgetary reforms

a. Reforms

- Strengthened budgetary management, particularly through reallocation of expenditures to social sectors and downsizing public investment (1993)
- Approval of PIP selection criteria (1995)
- Retrenchment of civil service by 27 percent (1987-97)
- Census of civil service and computerization of payroll processing for all ministries (1996)
- Enforcement by Ministry of Economy and Finance of prior authorization of expenditure commitment in all spending ministries (1997)
- Census of military and paramilitary personnel (1997)
- Creation of Multilateral Debt Fund (1997)

b. Future milestones

- Make operational the debt management system (DMFAS) (1998)
- Reform fiscal management system to comply with WAEMU-agreed standards (1998-99) (public finance law, public accounting regulations, treasury regulations, budgetary nomenclature)
- Privatize provision of selected public services (1998-99)
- Move towards a medium-term budgeting framework based on priority sectoral programs (1998-2000)
- Reallocate budgetary resources to priority spending, particularly social sectors (1998-2000)
- Implement employment and salary grid reforms (1998-2000)

7. Governance

a. Reforms

- Revision of constitution to adopt the principle of multiparty system (1992)
- Legalization of all political parties (1993-94)
- Free and fair presidential and legislative elections (1994)
- Installation of 24 small claims courts (1995-96)
- Creation of High Authority Against Corruption (1995)

b. Future milestones

- Carry-out free and fair legislative, local and presidential elections (1998-99)
- Adopt legislation to reinforce the independence of the judicial system (1999)

- Simplify legal and regulatory context for private business sector activity (1998-2000)

8. Trade and price policies

a. Reforms

- Reduction of price controls from 400 to 30 (1984) and 8 commodities (1986)
- Elimination of official mandatory maximum intermediation margins applicable to importers (1986)
- Liberalization of remaining administered prices except for tariff on utilities and prices of petroleum products (1989)
- Privatization of 200 out of 270 retail stores from two state-owned companies (1986)
- Liberalization of foreign trade except for imports of cereals and petroleum products (1986)
- Elimination of import licensing requirements for 50 percent of non-petroleum commercial imports (1987)
- Elimination of state monopoly on cereal imports (1989)
- Introduction of open general licensing system for all imports except for petroleum products and a limited negative list for reasons of health and security (1989)
- Approval of investment code (1991)

b. Future milestones

- Maintain the current liberalized price and marketing system

9. Public enterprise reforms and privatization

a. Reforms

- Creation of a Privatization Unit (1990)
- Approval of the legal framework for the divestiture of parastatals (1992)
- Privatization or liquidation of 17 public enterprises involving telecommunications and port services, airline, trading, road haulage and public transportation companies. Placement of 7 companies under management contract involving hotels and public utility (1992-1997)

b. Future milestones

- Implement second phase of privatization program involving 22 enterprises (1998-2001)
- Enact regulatory framework laws in the telecommunications, port, airport and insurance sectors to liberalize these sectors (1998-99)
- Further privatize Guiné-Telecom and port services (1998-99)
- Divest new airport terminal operations (1998-99)

10. Social policies

a. Reforms

- Approval of medium-term basic education program(1997)
- Approval of medium-term health sector development program (I 997)

b. Future milestones

- Approve action plan to develop basic education system in rural areas and target girls' enrollment increase (1998)
- Increase the gross primary school enrollment ratio to 63% while improving quality and effectiveness of services provided (1998-2001)
- Expand access to primary health care services, targeting women and children, while improving quality and effectiveness of services provided (1998-2001)

**Guinea-Bissau: ESAF Programs—Status of
Midterm Review and Program Interruptions and Waivers**

Date Granted	Program	Reason
A. Waivers and Status of Midterm Review		
March 1995	1995–First annual ESAF arrangement	Performance criteria on budgetary revenue , changes in domestic and external payments arrears, and changes in net domestic assets of the banking system not met, because of weaknesses in revenue performance. Completion of midterm review was delayed and subject to observance of quantitative benchmarks by end-September 1995. These benchmarks were met; however, review could not be completed before end of arrangement on January 18, 1996, because of delays in fielding mission. In recognition of satisfactory performance, amount of missed disbursement was offset by higher amount of the next two arrangements.
March 1997	1996-97–Second annual ESAF arrangement	Midterm review completed; waiver granted for temporary accumulation of external arrears during program period, as arrears were subsequently settled.
March 1998	1997-98–Third annual ESAF arrangement	Midterm review completed. Waiver granted for nonobservance of performance criterion on net credit to government at end-September 1997, as revenue shortfall in mid-year was corrected by end-year. Waiver granted for temporary accumulation of external arrears during program period. Waivers also granted for timing delays in enacting general sales tax, implementing custom tariff and introducing new petroleum price mechanism.
B. Program interruption		
No program interruption under the SAF arrangement. Lag between completion of <i>second SAF arrangement (July 1990)</i> and <i>negotiation of first annual ESAF arrangement</i> in mid-1994, following policy slippages in 1991-92, a staff-monitored program was implemented successfully in 1993.		

Guinea Bissau-Reforms Supported by IDA Adjustment Credits and Waivers

Credit-Approved Date	Reforms Supported	Waivers of Conditionality
Reconstruction Import Credit I (Cr. 1531-GUB/1984)	<ul style="list-style-type: none"> ● Reduce price controls from 400 to 30 commodities. ● Enact tax reforms. ● Increase producer prices of key agricultural products. ● Improve exchange rate management. 	None
Reconstruction Import Credit II (Cr. A-14-GUB/1986)	<ul style="list-style-type: none"> ● Adjust administered prices of consumer goods to reflect exchange rate devaluations. ● Eliminate official mandatory maximum intermediate margins applicable to imports. ● Remove government monopoly on export of palm kernels. ● Prepare state enterprise rehabilitation program. ● Transfer state retail outlets to private sector. ● Reduce price controls to 8 products. ● Modernize the accounting system of the National Bank. ● Adjust producer prices of rice, paddy, groundnuts, palm kernels, cashew nuts, and cotton in line with international price levels and variations in the exchange rate. 	Preparation of a state enterprise rehabilitation program was met with SAC I. Modernization of the accounting system of the National Bank and the adjustment of producer prices were partially met.
Structural Adjustment Credit I (Cr. 1798-GUB and A-26-GUB/1987)	<ul style="list-style-type: none"> ● Introduce automatic issuance of licenses for at least 75 percent of all commercial imports. ● Adjust minimum agricultural producer prices in line with international price levels, variations in exchange rate and production costs. 	Bank waived compliance on signing management control for EAGB. Compliance with civil service retrenchment, agricultural producer price changes, and adjustment of electricity tariffs were partial.

Credit-Approved Date	Reforms Supported	Waivers of Conditionality
Structural Adjustment Credit II (Cr. 2019-GUB/1989)	<ul style="list-style-type: none"> ● Adjust electricity tariffs. ● Sign management contract for EAGB (power utility). ● Reduce price controls. ● Scale down PIP and reduce level of the export taxes on cashew. ● Reduce number of civil servants. ● Further reduce exchange rate distortions. ● Improve management of public expenditure, emphasizing essential public services. ● Implement tax and tariff reforms, namely reduce taxes on cashew exports and eliminate subsidies on rice. ● Eliminate all remaining quantitative restrictions on imports, except for a limited list of goods for health and security reasons, and liberalize trade and prices. ● Launch banking reform. ● Continue retrenchment of civil service. ● Implement agreed public enterprise reforms. ● Implement agreed recommendations on fisheries policies. 	None.

Guinea-Bissau—Social Development Indicators

Objectives	Verifiable Indicators	Means of Verification	Target
Education			
1. Increase public spending in education	Share of current expenditure in education, relative to other current non-interest expenditures in the budget	Budget allocation and execution (Ministry of Economy and Finance)	Yearly expenditure to exceed 16 percent of primary expenditures from 1999 onwards.
2. Increase the effectiveness of expenditures in education	Cost per 4th grade graduate 1st and 2nd grade repetition rate	Periodical monitoring (Ministry of Education with support of Basic Education Project)	Reduce unit cost by about 10 percent by 2002. Reduce 1st and 2nd grade repetition rates from 35 percent in 1996 to 26 percent in 2001.
3. Expand access to primary education	Gross primary school enrollment ratio (GPSEER)	Periodical monitoring (Ministry of Education with support of Basic Education Project)	Increase GPSEER from 59 percent in 1996 to 63 percent by 2001, in line with long-term goal of 85 percent in 2010. Adopt by September 1998, action plan to: (i) develop basic education system in rural areas; and (ii) significantly increase girls' GPSEER.
4. Increase the quality of primary education	Book/pupil ratio	Periodical monitoring (Ministry of Education with support of Basic Education Project)	Increase to 80 percent by 2001 the proportion of students in grade 1-4 using textbooks in three basic subjects (Portuguese, Math and Science).
Health			
1. Increase public spending in health	Share of current expenditures in health relative to other current non-interest expenditures in the budget	Budget allocation and execution (Ministry of Economy and Finance)	Yearly expenditure to exceed 11 percent from 1998 onwards.
2. Increase the effectiveness of expenditure in health	Implementation of sectoral expenditure program adopted in 1997 Share of Ministry of Health budget spent on primary health care	Preparation of yearly reports on Health Sector Program (Ministry of Health)	Annual yearly reports completed no later than June every year. More than 50 percent from 2000 onwards.
3. Increase the use and coverage of primary health services	Children under one year completely vaccinated Births safely attended by trained midwives	Periodical monitoring (Ministry of Health)	By 2000, children under one year completely vaccinated increases to about 50 percent, and births safely attended by trained midwives expand to about 40 percent.
4. Increase the quality of health services	Proportion of operational health centers	Periodical monitoring (Ministry of Health)	By 2000, increase to more than 40 percent the proportion of health centers fully operational, up from 10 percent in 1996.

GUINEA-BISSAU

Debt Management Issues

1. In November 1997, the staff of the Fund and IDA did a joint review of the external debt database of Guinea-Bissau. Data on external debt of Guinea-Bissau is maintained in the Debt Division at the Ministry of Economy and Finance. Primary debt data have been recorded manually but are often inaccurate or incomplete, as relevant information (disbursements, actual debt service payments, cancellations and rescheduling) is not always systematically transmitted to the Debt Division. The joint mission helped the debt unit to investigate and reconstitute the database, so as to arrive at estimates of the stock of debt as of December 31, 1997, the level and composition of arrears and the projected profile of debt service due on public sector debt on a loan-by-loan basis. Multilateral debt has been entirely confirmed with creditors, while for bilateral creditors, data are still in the process of being confirmed.
2. The Ministry of Economy and Finance has undertaken in 1997 to strengthen its debt-management capabilities with the help of UNCTAD, which in September 1997 started the installation of a debt-monitoring system "DMFAS" (Debt Management and Financial Analysis System). During 1998, the system is expected to be fully operational, following intensive training that is being provided during the first half of the year.
3. A consultant has been selected recently with the support of the Debt Capacity Building Program (Debt Relief International), funded by the governments of Austria, Denmark, Sweden, and Switzerland. This program will provide assistance to the Guinea-Bissau authorities in debt management, including staff training and debt data processing, to ensure that the debt-management system is fully operational.
4. In addition, a Debt-Monitoring Committee was established late in 1997 under the chairmanship of the Secretary of State for the Treasury, with the aim of improving the management of debt at the operational level (e.g., negotiating debt reschedulings, and designing and monitoring borrowing strategies).

GUINEA-BISSAU

Key Structural Reforms under IDA- and Fund-Supported Programs, 1998-2001

1. **Fiscal and budgetary reforms**

- Complete computerization of tax revenue collection
- Strengthen tax and custom administration
- Adopt common WAEMU external tariff
- Broaden the base of the generalized sales tax
- Strengthen budgetary management, by adopting WAEMU sponsored budget law framework, public accounting regulations, and new budgetary nomenclature.
- Ensure annual submission to Parliament of government statement of accounts
- Move toward a medium-term budgetary framework
- Implement employment and salary grid reforms
- Implement the privatization of provision for public service

2. **Public enterprises reforms and privatization**

- Complete privatization or liquidation of 22 state owned companies (in fisheries, hotel, services, and manufactures)
- Enact regulatory framework law in the telecommunications, port, airport, and in insurance sectors
- Divest new airport terminal operations
- Further privatize state shareholdings in banking, telecommunication, and port sectors
- Start private sector management of electricity and water utility, under a long term lease contract

3. **Governance**

- Adopt legislation to reinforce the independence of the judicial system
- Strengthen the rule of law, including the function of courts

4. **Financial sector**

- Enforce regionally established prudential regulatory standards, including recapitalization of banks

- Encourage development of microfinancial institutions, particularly in rural areas

5. **Debt management**

- Start operation of the debt management system DMFAS
- Finalize agreement with non Paris Club bilateral creditors and multilateral institutions to regularize arrears.
- No new borrowing on non concessional terms

6. **Social sectors**

- Implement policies and achieve social development targets, indicated in Appendix IV
- Expand access to safe water