

**Guinea-Bissau: Ex Post Assessment of Performance Under
Fund-Supported Programs, 1993–2003**

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GUINEA-BISSAU

Ex Post Assessment of Performance Under IMF-Supported Programs, 1993–2003

Prepared by a staff team from the African, Fiscal Affairs, and
Policy Development and Review Departments¹

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I. INTRODUCTION

1. **Despite considerable development potential, Guinea-Bissau remains one of the poorest countries in the world.** Per capita GDP, which has declined by about 25 percent since the early 1990s, is estimated at about US\$185 and it ranks among the lowest ten countries on the human development index. More than two-thirds of the population of approximately 1.3 million is living below the poverty line. After independence in 1974, economic policy initially was based on the central-planning model. Reform toward more market-oriented policies started in the mid-1980s. The Fund provided support to these efforts through arrangements under the Structural Adjustment Facility (SAF; 1987–89) and the Enhanced Structural Adjustment Facility (ESAF; 1995–98) (Table 1). Guinea-Bissau started moving from a single-party system to a multi-party democracy in the early-1990s and the first democratic elections were held in 1994. However, political and social tensions persisted, culminating in an armed conflict in 1998–99 that left several thousands dead, displaced most of the capital's population and caused wide-spread damage to infrastructure, and led to the emigration of many of the higher-educated.

2. **Following elections, a new government came to power by early 2000, but political and economic stability proved elusive.** The Fund supported the post-conflict reconstruction effort under the emergency post-conflict assistance policy (EPCA; 1999–2000) and approved an arrangement under the Poverty Reduction and Growth Facility (PRGF; 2000–03) on December 15, 2000, at which time Guinea-Bissau also reached the decision point under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative. However, divisive and erratic policies led to further political tension and, combined with weak institutions and low technical capacity, to increasing fiscal problems as the authorities gave priority to expenditure schemes to strengthen their political support over macroeconomic stability. The PRGF-supported program quickly went off track and, after two unsuccessful short-term staff-monitored programs, the staff abandoned efforts to revive it by mid-2002 and the arrangement expired at end-2003 without the completion of a review.

3. **Following delays in elections, worsening economic conditions, and a collapse in fiscal management and rapidly mounting public sector wage arrears, the military removed the President in September 2003.** With international intermediation, a national civilian transition government was installed, which prepared, with technical assistance from several international partners including the Fund, an emergency economic management plan for 2004. Financial support for this program was disbursed partly through a UNDP-managed trust fund. Fiscal control was largely restored, but the economic and financial situation remained very difficult. Parliamentary elections were held on March 28, 2004.² The new

² The transition President will remain in office until elections to be held before end-March 2005.

government that took office on May 12, 2004, is committed to a strong reform program and has declared that its priority is to resolve the serious fiscal problems.

4. **This paper reviews economic and policy developments and performance under Fund arrangements with Guinea-Bissau during 1993–2003 and draws lessons for future Fund engagement.** It is organized as follows: Section II describes developments under Fund-supported programs since 1993, when Guinea-Bissau embarked on a second round of stabilization and reform efforts. Section III summarizes the lessons learned and the challenges for the near future. Section IV concludes with a discussion of the possible future role of the Fund in Guinea-Bissau.

II. ECONOMIC AND POLICY PERFORMANCE DURING FUND ARRANGEMENTS, 1993–2003³

A. The Situation in the Early 1990s

5. **Overall performance under the 1987–89 SAF arrangement was poor and the problems inherited from the period of central planning—large fiscal deficits, high external debt, and an inefficient public enterprise sector—remained largely unresolved.** With the continuation of market-oriented reforms, initiated in 1986, the authorities removed legal impediments to private sector participation in the economy, liberalized prices and external trade, devalued the currency and introduced a more flexible exchange rate policy. However, there was little progress in stabilizing the economy as fiscal policy (reflecting both revenue shortfalls and expenditure overruns) and monetary policy (because of large increases in credit to the private sector, reflecting negative real interest rates) remained loose. Policy slippages caused a delay in the approval of the second annual arrangement under the SAF and it was not possible to reach understandings on a third annual arrangement before the end of the three-year commitment period. Thus, in the early 1990s, Guinea-Bissau's economy remained beset by high inflation, a rapidly declining currency in the parallel market, high external debt and increasing external arrears, and low economic growth (Figure 1). The economy remained dominated by inefficient public enterprises, the government sector was highly overstaffed, and technical capacity and the macroeconomic database were weak.

B. The 1993–94 Staff-Monitored Program

6. **Guinea-Bissau embarked on a second attempt to reduce macroeconomic imbalances and advance structural reforms in 1993, which was initially supported by a**

³ Table 2 provides key economic indicators for the period 1993–2003 and Table 3 compares actual outcomes of the programs against the main macroeconomic objectives. Table 4 provides the main sectoral policies and describes their implementation, and Tables 5 and 6 provide an overview of performance against the programs' quantitative and structural performance criteria, benchmarks and indicators.

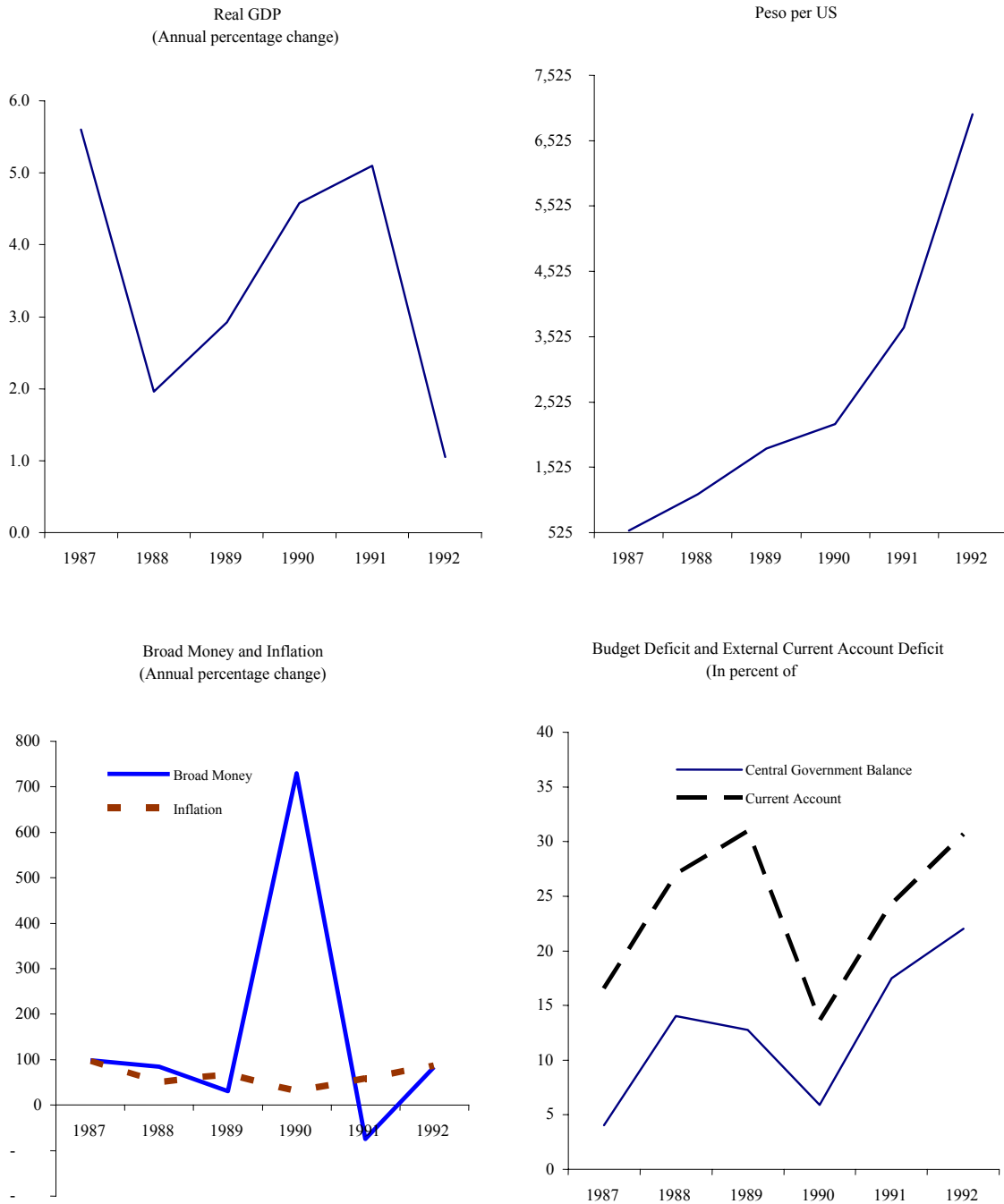
staff-monitored program (SMP). Under the SMP, which focused on macroeconomic stabilization, tighter fiscal policies—aiming at increasing the primary surplus by revenue enhancing and expenditure reducing measures—allowed a reduction in the banking system's net claims on the government. In combination with an increase in interest rates to positive levels in real terms, this contributed to a sharp decline in the expansion of broad money, inflation and the rate of depreciation of the peso. However, revenue performance faltered somewhat because of lower than projected cashew nut exports and dutiable imports, delays in taking revenue enhancing measures, and lower revenue from privatization than anticipated. Moreover, the fiscal deficit, while declining because of lower expenditure on capital projects (under the program, the authorities put greater emphasis on economic criteria in the setting of investment priorities), remained considerably above target. Combined with lower than anticipated external assistance (which peaked in 1992), this resulted in a further increase in external debt arrears.

C. The 1995–98 ESAF Arrangement

7. **The authorities formulated a new medium-term program in mid-1994, which was supported by the Fund through an arrangement under the ESAF for 1995–98.** The program built on progress under the SMP, but, in addition to reducing macroeconomic balances, put more emphasis on economic growth. The main policies in support of these objectives were as follows:

- With regard to macroeconomic policies, the key element was further fiscal tightening by strengthening revenue through tax and tariff reform and improvements in tax administration. Domestically-financed capital expenditure was to be reduced further on the basis of better selection criteria, and reoriented toward health and education. The main fiscal policy target was to gradually increase the current primary surplus (to 6½ percent of GDP by 1997), to meet a rapid increase in external interest payments.

Figure 1. Guinea-Bissau: Selected Economic Indicators, 1987-92



Sources: Guinea-Bissau authorities; and Fund staff

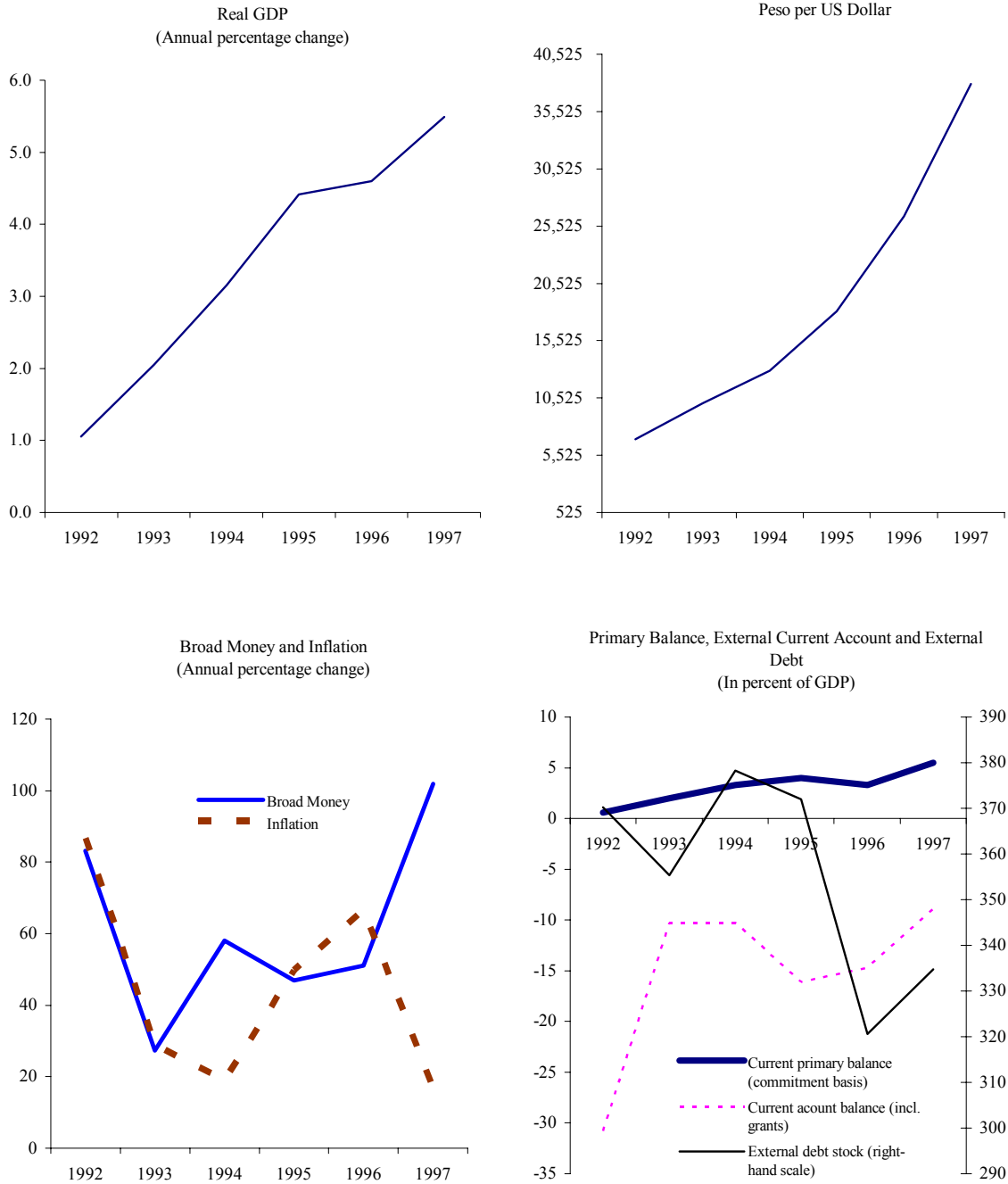
- On the structural side, the program aimed at improving the efficiency of the economy and the investment climate. Measures in this area included streamlining the investment code, reforming the legal and regulatory framework, public enterprise reform aiming at substantially divesting the remaining enterprises by end-1996, further reduction in government employment, and agricultural policies to increase food security and diversify exports. Moreover, the authorities intended to improve the efficiency of the economy also by removing all external current account restrictions by end-1995.
- In support of program implementation and in order to address the serious weaknesses in institutions and technical capacity, the program identified the need for extensive technical assistance in the areas of macroeconomic policy formulation, public expenditure management, tax administration, bank supervision, private sector development, export promotion, public enterprise reform and strengthening the macroeconomic database.

Developments and performance under the program

8. Notwithstanding slippages, the economic situation eventually improved and performance under the ESAF-supported program was broadly satisfactory (Figure 2).

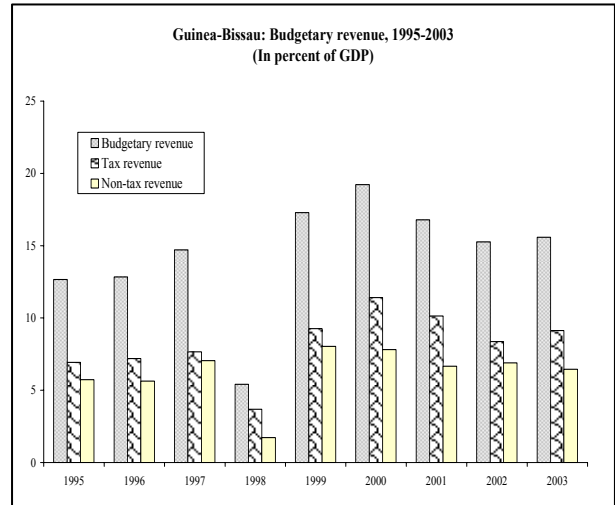
- Economic growth accelerated and exceeded the program's medium-term target for 1997. However, the sources were mainly the cashew sector and donor-financed construction projects and the intended diversification of the economy was not achieved. The latter not only reflects the usual lags in investment to improving policies, but also delays in implementing wide-ranging reforms in the investment code and the legal and regulatory framework.
- The main slippage was at the beginning of the program in 1994–95. This was caused by a revenue shortfall because of delays in completing an agreement on fishing licenses and a sharp increase in credit to the economy because of the removal of bank-by-bank credit ceilings in the second half of the year, spilling over in much higher inflation and continued depreciation of the peso in 1995. However, the program was brought back on track under an SMP for the latter part of 1995 by measures to mobilize fiscal revenue and contain expenditure, and by tightening monetary policy.

Figure 2. Guinea-Bissau: Selected Economic Indicators, 1992-97



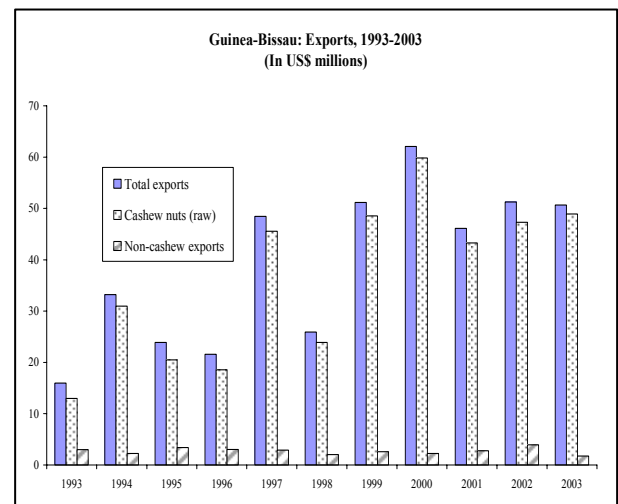
Source: Guinea-Bissau authorities; and Fund staff estimates.

- On the fiscal side, the authorities succeeded in raising revenue and the current primary surplus, missing the original program targets of about 15 percent of GDP for revenue and 6½ percent of GDP for the primary surplus by only ½ percent of GDP and 1 percent of GDP, respectively, at end-1997. Revenue performance was weaker than targeted in 1996 and early 1997 but, under a new government and stronger collection efforts, improved sharply in the second half of 1997. The reduction in the civil service, on the basis of a voluntary departure package, also advanced, contributing to containing expenditure. The improvement in the current primary balance allowed the budget for 1998 to provide for a considerable increase in the domestic financing of public investment, particularly in health and education.



- Monetary policy, however, was not successful. Although credit to the government declined, this fell short of what was needed to sterilize large external inflows in late 1995 and the first half of 1996. Thus, control of monetary developments and inflation proved elusive until Guinea-Bissau entered the WAEMU in mid-1997 (Box 1), after which inflation fell rapidly.

- With regard to the external sector, gross official reserves, in terms of imports, were slightly lower than targeted in 1994 and 1995, but over performed in relation to the program by end-1997, mainly because of higher exports (from cashew nuts) and lower imports than projected. Guinea-Bissau removed all restrictions on current account transactions as of January 1, 1997 (accepting Article VIII status in the Fund), and implemented wide-ranging tariff reforms, making it the first country to adopt a system broadly in line with the WAEMU's common external tariff.



Box 1. Guinea-Bissau's Membership of the WAEMU and the BCEAO

Guinea-Bissau joined the West-African Economic and Monetary Union (WAEMU) and became a member of the Central Bank of West-African States (BCEAO) on May 2, 1997. The country's membership application which reflected the government's intention to improve Guinea-Bissau's integration in the region, had been approved by 1993, and policies during the 1990s aimed at complying with the convergence criteria. The expected benefits of membership were principally lower inflation and exchange rate stability, something that had eluded Guinea-Bissau but the WAEMU members appeared to have achieved. However, monetary union membership also involved costs. Membership meant less flexibility with the surrender of independent monetary and exchange rate policy. Also, there were substantial financial costs associated with the required recapitalization of the Central Bank of Guinea-Bissau and with participation in the capital of the BCEAO.

The direct costs of BCEAO membership were considerable and have still not been fully paid. A key requirement was that the negative capital position of the Central Bank of Guinea-Bissau be eliminated before being incorporated into the BCEAO. The costs of this recapitalization were \$33 million, or 12 percent of 1996 GDP, in transfers of resources or the assumption of liabilities. The government also committed to paying its capital share of the BCEAO, one seventh of the net capital of the institution, or \$84 million, on a graduated schedule over 20 years; this capital contribution is yet to be paid and it imposes a significant potential burden on the budget on top of already high external debt service.

The benefits for Guinea Bissau from WAEMU membership in terms of greater price stability were immediate. Some price and exchange rate volatility preceded Guinea-Bissau's entry into the WAEMU but the currency conversion during May–July 1997 proceeded smoothly. Traders took the opportunity during this period to increase prices, but after August the rate of inflation declined sharply, with the year-over-year increase in consumer prices falling to 17 percent in 1997. In 1998, inflation dropped into the single digit range and has since remained relatively moderate despite the political and economic turbulence that has beset the country. The conversion took place at Peso 65 per CFAF, based on prevailing market rates at end-1996.

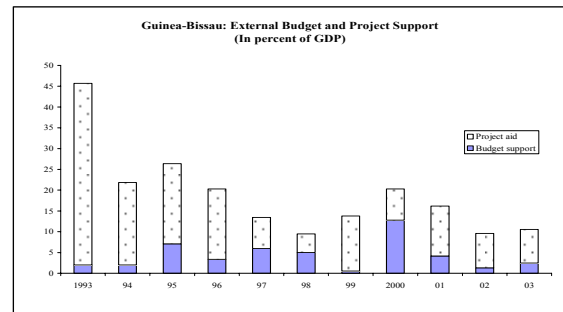
- Major reforms had been undertaken to recapitalize the banking system—consisting of two foreign-owned commercial banks, of which the largest was 26 percent government owned—and privatize public enterprises, although the original (ambitious) target of divesting all government-owned enterprises was not reached.
- With considerable technical assistance from the Fund, the World Bank and other donors, Guinea-Bissau made good progress in building institutions and capacity.⁴

⁴ Between 1994 and mid-1998, Fund technical assistance included 40 months of resident experts on monetary and banking issues; seven months of resident experts on the

(continued...)

Effective assistance led to, among others, stronger budget management, including with regard to the payroll, public employment, and debt management, and to improvements in the macroeconomic database. Technical assistance was also very effective in preparing the broad tax reform implemented in 1998.

9. **Guinea-Bissau's economic program received considerable financial assistance from donors.** Grants and loans, which were broadly in line with the program projections for most years, amounted to about 25 percent of GDP on average per year during 1994–1997, of which about two-thirds was in the form of grants. Budget support averaged almost 5 percent of GDP during this period.



D. The 1999–2000 EPCA

10. **Discussions on a successor arrangement for the ESAF started in early-1998, but were interrupted by the conflict.** In June 1998, a power struggle between the President and the Chief of Staff of the Army rapidly escalated into a broad civil conflict, reflecting deep-seated political and social tensions in the country (Box 2). The fighting, which centered on the capital Bissau, displaced most of the city's civilian population (about a third of the total country) to the rural areas. Bissau's industrial infrastructure, the telecommunications and utility systems, and the international airport were severely damaged, and thousands of houses destroyed. The government's administrative capacity was paralyzed as many civil servants departed and computers and files were destroyed or looted. Economic output contracted sharply because of the interruption of trade and services.

11. **Following international intermediation and the formation of a national interim government, the authorities submitted an emergency program to a special donor meeting in May 1999.** Key priorities of the emergency program were the rehabilitation of housing and basic infrastructure, restoration of government administration and social services, demobilization of the armed forces—which had expanded substantially during the conflict—the return of displaced persons, support for the private sector, and the organization of elections by end-1999.

introduction of the general sales tax, and two short-term missions on tax policy and import tariff reform; and one STA multi-topic mission to review macroeconomic statistics.

Box 2. Guinea-Bissau—The Causes of Development Failure

Guinea-Bissau's failure in attaining sustained growth and reducing poverty despite considerable natural resources and donor assistance has several causes. The country started with a colonial economic structure, weak institutions, and a very low level of education and technical capacity. The subsequent period of central planning laid the basis for serious macroeconomic imbalances, large inefficiencies in the economy, and a protracted external debt problem.

The unfavorable starting position and the wrong policy choices played a role, but the root cause of the country's unsuccessful development effort is its failure to build an effective and accountable national political system after independence. There is broad consensus in academic literature, as well as among many observers in Guinea-Bissau, that this failure led to a development policy aimed at building a modern sector around the political elite in Bissau, with little attention for the development of rural areas.¹ The country lacked instruments to promote consensus on the development strategy, and the political system evolved around individuals and factions. In an environment with weak controls, this structure encouraged bad governance. These factors contributed to continuing political instability, marked by repression, coups and coup attempts, and, finally, the armed conflict of 1998–99, which destroyed much of what had been achieved in building up physical and human capital in the previous decades.

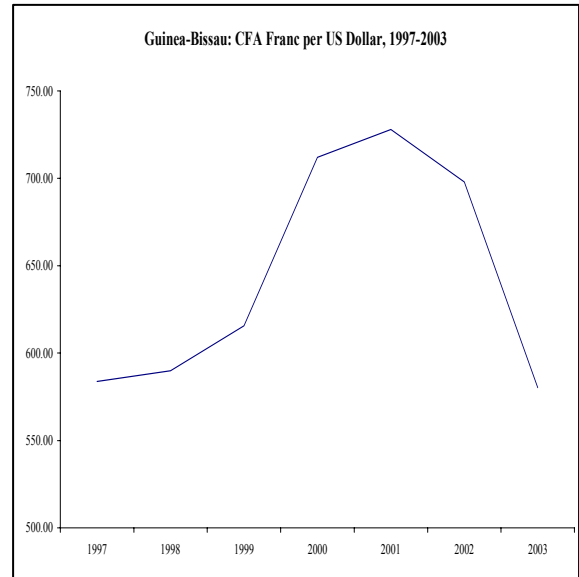
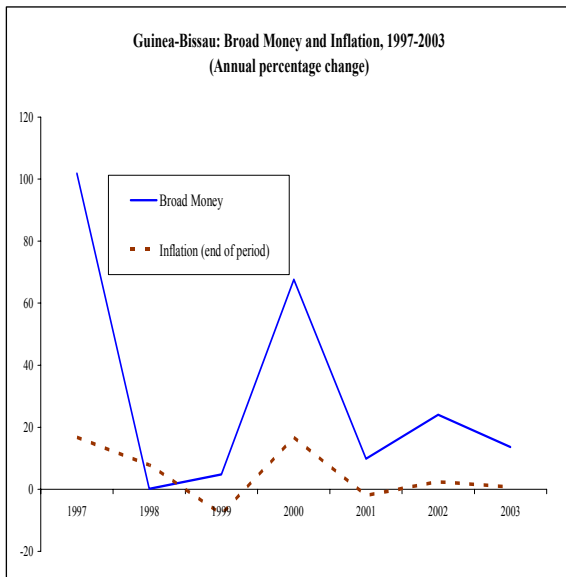
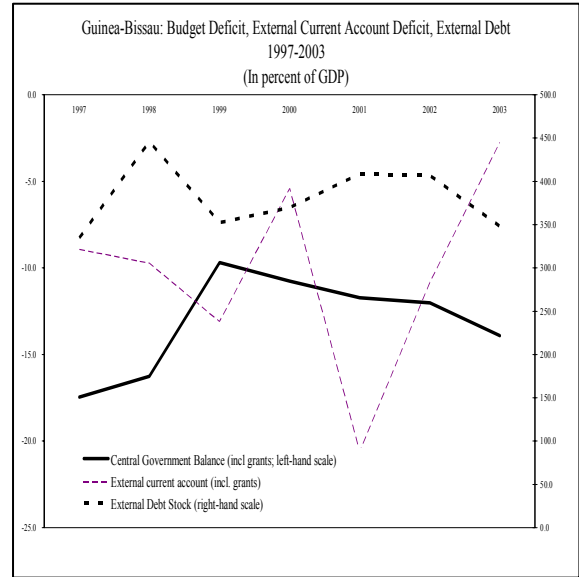
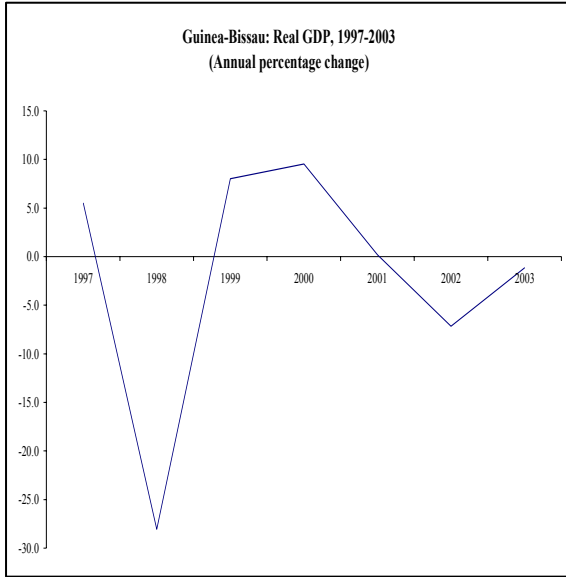
¹ See e.g. Lars Rudebeck, "On Democracy's Sustainability: Transition in Guinea-Bissau," SIDA Studies No. 4, Gothenburg, 2001; Carlos Lopes, "Guinea-Bissau: From Liberation Struggle to Independent Statehood," Boulder, 1987; National Poverty Reduction Strategy (DENARP), draft, Bissau, March 2004.

12. **The EPCA-supported program focused on reintroducing regular budgetary procedures and rehabilitating the Ministry of Economy and Finance with donor-financed material support and technical assistance.** Emphasis was also placed on identifying and clearing domestic arrears from the conflict period with a view to recapitalizing the private sector. In the financial sector, the main commercial bank, whose credit portfolio had seriously weakened because of the conflict, was to be recapitalized, following an audit, in the first half of 2000. The program also included structural reforms, building on the progress that had been made under the ESAF arrangement. Technical assistance in support of the program included strengthening customs administration and the budget and treasury directorates, tax policy, and rebuilding the statistical database, especially with regard to national accounts.

Developments and performance under the program

13. **Progress under the EPCA-supported programs was mixed.** Economic growth exceeded projections, and inflation, which had increased during the conflict, subsided to closer to the WAEMU-area average (Figure 3). Strong efforts to collect tax arrears assisted in raising government revenue to such an extent that the indicative target for the primary current budget balance was being met despite a significant overrun in domestic spending at end-1999. The authorities also made progress in strengthening fiscal management and tax administration. However, the inclusion of all fighters from the conflict in the army swelled the latter's ranks from about 15,000 in 1997 to 26,000 by 1999. Moreover, the authorities agreed to a substantial increase in public sector wages in mid-2000 to reduce the gap with

Figure 3. Guinea-Bissau: Selected Economic Indicators, 1997–2003



Sources: Guinea-Bissau authorities; and Fund staff estimates.

wages prevailing in the other WAEMU countries. Consequently, the wage bill more than doubled between 1997 and 2001—from 20 percent of revenue to 45 percent of revenue—as did other wage-related expenditure, greatly reducing the flexibility of the budget to absorb shocks. Also, the reconstruction of administrative infrastructure and social services was delayed, as donors were unable to launch their programs as rapidly as expected and the technical assistance effort was less than envisaged, also reflecting the difficult living conditions in Bissau.⁵ Moreover, domestic financial services remained hampered by the difficult financial situation of the main commercial bank and there was little progress with structural reforms.

E. The 2000–03 PRGF Arrangement

14. **The EPCA was succeeded by a three-year arrangement under the PRGF on the request of the new government that was elected in early-2000.** The PRGF-supported program was based on an Interim Poverty Reduction Strategy Paper and policies aimed at reorienting public expenditure toward poverty reduction, promoting private sector-led growth through structural reform, and regularizing—under the framework of the HIPC Initiative—relations with external creditors, while maintaining fiscal sustainability.⁶ The two key post-conflict programs included in the program were the demobilization and reinsertion of soldiers—to reduce the burden on the budget—and the regularization of domestic arrears—to recapitalize and revitalize the private sector—which were financed under adjustment loans from the World Bank, the European Union (EU) and bilateral donors. Donors also supported the restoration of critical infrastructure. The program further aimed at improving transparency and governance, including by strengthening fiscal expenditure management, privatization and restructuring of the remaining public enterprises, and strengthening the banking system. It also included wide-ranging plans for institutional development; the timely delivery of significant financial and technical assistance to improve the administrative capacity of the government was deemed to be key to attainment of the program objectives.

15. **Assuming rapid rehabilitation and reform, the macroeconomic framework was based on an acceleration of average annual real GDP growth to about 8–9 percent during 2000–03.** Monetary and external policies were, in the context of the WAEMU, to be determined in a regional setting. The fiscal balance was projected to worsen in 2000 and 2001, mainly owing to the inclusion in the army of all factions from the conflict period (deemed essential for maintaining peace) and reconstruction outlays, but to improve thereafter on the basis of a strong revenue effort. Following interim debt relief under the

⁵ Also, the UNDP security classification prevented technical assistance missions until early 2000.

⁶ Simultaneously with the approval of the PRGF, Guinea-Bissau reached the decision point under the enhanced HIPC Initiative.

HIPC Initiative, external debt service would be reduced to about 2 percent of GDP, compared to about 6 percent of GDP before the conflict.

Developments and performance under the program

16. **The economic program supported under the PRGF arrangement was not implemented and the arrangement expired at end-2003 without the completion of a review.** The main reason for the nonperformance was a lack of commitment at the highest levels of government. Divisive and erratic decisions led to frequent changes in cabinet members and increasing political instability. In addition to the resulting lack of continuity and experience in the government, technical capacity in the Ministry of Economy and Finance, already seriously weakened because of departures of key staff during the conflict, was further eroded by replacing the remaining senior staff with inexperienced officials linked to the new government.

17. **In the deteriorating political environment, the PRGF-supported program quickly went off track.** External conditions were adverse in 2001, as international prices for cashew nuts declined by about 30 percent, resulting in a fall in tax revenue by slightly more than 1 percent of GDP. However, the main reason for the poor performance was the combination of ad hoc political interference in expenditure management and weak technical capacity in fiscal and macroeconomic management. These two factors led to the abandonment of proper expenditure management, which became dominated by political considerations instead of by macroeconomic objectives. Large expenditure outside the normal procedures, amounting to about 10 percent of GDP in 2000, was financed by credit from the banking system and through promissory notes.⁷ These problems continued during the first part of 2001. Moreover, lack of commitment to reform also resulted in delays in foreign financial assistance as most disbursements under the two key post-conflict programs for demobilization and domestic arrears clearance were suspended. The primary fiscal deficit was about 3½ percent of GDP above the adjusted program ceiling by end-June 2001. Efforts to bring the program back on track through a short-term SMP in August-November 2001 failed because of further large extrabudgetary expenditure, and several performance criteria, structural benchmarks, and other performance indicators for end-2001 were not observed.

18. **The situation deteriorated further in 2002 and 2003.** A second SMP, for April-July 2002, failed as ad hoc political decisions—shortly after approving the SMP, the authorities agreed to a sharp increase in wages and a 50 percent decline in the effective tax

⁷ The extrabudgetary expenditure may have been related to securing the region on the northern border with Senegal, which was being infiltrated by participants in an armed rebellion in that country. Nevertheless, it is unclear how much of the funds were indeed used for that purpose.

rate on cashew nut exports—continued to interfere with the program objectives.⁸ Revenue declined and, although expenditure was cut sharply, wage arrears started to emerge when revenue seasonally declined in August 2002. Following the dismissal of parliament and the nomination of a caretaker government in November 2002 and under pressure of possible new elections,⁹ expenditure management deteriorated sharply in 2003. Revenue was diverted to accounts outside the BCEAO—also to avoid sharply higher debt service obligations to the IMF¹⁰ which are, similar to debt obligations to the BCEAO and some ad-hoc short-term debt, automatically deducted by the BCEAO from the government's account—and expenditure authorizations outside the normal procedures increased. As a result, most public sector salaries remained unpaid during the nine months leading up to the coup in September 2003.

19. **Under the circumstances, Guinea-Bissau made no progress with structural reform and capacity building.** In the financial sector, one bank closed in 2001 and the private shareholders decided to liquidate the other. A number of reform programs were prepared, including the National Good Governance Program, the Public Administration Reform Program and a program for public procurement, but none of these were implemented. The Fund and other international partners provided technical assistance to the Ministry of Economy and Finance, but with constant changes in senior staff and little support from the political level, the effort was not very effective.

F. Cooperation With Donors

20. **Fund cooperation with the World Bank on Guinea-Bissau has been very close.** Fund-supported programs moved in tandem with adjustment lending by the Bank, and Fund and Bank staff ensured a proper distribution of emphasis by each institution in line with the different areas of competency. Teams from both institutions cooperated closely on assisting the authorities in preparing the emergency budget for 2004, with Bank staff providing valuable input in the budgets for the health and education ministries.

⁸ In the event, the wage increase was not implemented, which led to strikes and a further decline in the functioning of the government administration.

⁹ Discussions on a new (extended) SMP as a framework for possible renewed donor assistance, that had started in October 2002, were suspended pending the elections and the nomination of a new government.

¹⁰ The amount of financial assistance under the PRGF arrangement was increased by 25 percent of quota, disbursed in the first tranche in December 2000, which the authorities intended to use to facilitate repurchasing the assistance under the 1999–2000 post-conflict assistance. In the event, the authorities did not make the repurchase, and the post-conflict assistance started falling due, as scheduled, at end-2002.

21. **Coordination among the larger donor group active in Guinea-Bissau could have been better.** Coordination in implementing the two key post-conflict programs was good until different institutional speeds recently complicated cooperation between the World Bank and the EU on the arrears clearance program. The main deficiency, however, is that the development partners lack arrangements for preparing regular common assessments and joint approaches in between Round Table conferences. This has been evident in the failure to prepare a broad technical assistance needs assessment after the conflict, which was judged to be critical by Fund-staff for attaining the targets of the PRGF-supported program. The lack of donor coordination in recent years is partly caused by the relocation of several embassies to Senegal after the conflict. A positive effort toward strengthening coordination has been the nomination, by the United Nations Economic and Social Council, of an Ad Hoc Advisory Group for Guinea-Bissau in 2002, although this group will only play a temporary role.

22. **Furthermore, Guinea-Bissau has gradually lost the special donor relationships that contributed much to the high level of assistance during the 1990s.** In reaction to continuing weak implementation and governance concerns, Sweden withdrew after the conflict in 1998–99. The Netherlands decided to end its special relationship with Guinea-Bissau just before the coup in September 2003. While these and other bilateral donors continue smaller project assistance, the only remaining large contributors are the multilateral institutions and the EU.

III. LESSONS LEARNED AND CHALLENGES AHEAD

A. Lessons From Experience Under Fund-Supported Programs

23. **Fund-supported programs with Guinea-Bissau were effective when there was sufficient government commitment.** The ESAF-supported program was successful because it was supported on both the technical and political levels. The fiscal reform, focusing on reducing dependence on trade taxes and shifting the tax burden to domestic taxes, was effective. Structural reform progressed slower than anticipated, but nevertheless constantly moved forward and by the end of the arrangement most of the main public sector enterprises had been privatized or liquidated. Technical assistance was effective in this period.

24. **The considerable donor assistance during the period under the ESAF arrangement safeguarded social sector spending under the serious expenditure constraints, but contributed to increasing external debt.** Guinea-Bissau is one of the most indebted HIPC's, with a net present value-of-debt to exports ratio of more than 1,000 at end-1999, despite a large share of concessional debt. The debt problem originated in large inefficient public investments in the 1970s and 1980s. However, while Guinea-Bissau made repayments during the 1990s, this was offset by considerable new debt. Consequently, the debt stock stabilized at around US\$850 million during the period 1993–2003, continuing the debt overhang and unsustainable debt service obligations. Thus, while the excessive debt is since being addressed under the HIPC Initiative, the possible serious impact of large amounts of concessional debt should be taken into account when providing new assistance to Guinea-Bissau.

25. **On balance, Guinea-Bissau's membership of the WAEMU has been positive.** It provided the long-elusive exchange rate stability and low inflation. Nevertheless, membership also entailed considerable costs, some of which (for example the capital subscription to the BCEAO and other financial institutions of the Union, amounting to almost 30 percent of GDP) are yet to be paid. These costs were recognized under the ESAF-supported program, but a discussion on their financing at that time might have been helpful in finding a solution at an early stage.

26. **The conflict of 1998–99 shows the limits to what multilateral and bilateral development assistance can accomplish without simultaneous progress in domestic political and social conditions.** Despite the introduction of a multi-party political system in the 1990s, the country failed to broaden actual involvement of the population in the decision-making process, and accountability of the government and the administration remained weak. The resulting weak political and financial governance led to the conflict in 1998–99, that set the country back many years. The failure of the post-conflict strategy was the result of the same dysfunctional political system, with continuing power struggles inside the political elite getting priority over proper economic management.

27. **Since building effective political systems is outside the Fund's terms of reference, the lesson that can be drawn is that lasting success of Fund-supported programs with Guinea-Bissau requires broader international involvement.** At the time of the ESAF arrangement, serious risks were evident in areas outside the Fund's competence, and a broader international effort than the usual economic development partners should have included organizations with competencies in building political institutions and capacity. This could have been supported by the Fund, with more emphasis on fiscal transparency and governance, the lack of which was an important element behind the social tensions that led to the 1998–99 conflict; this was recognized (but not addressed by the authorities) in the PRGF-supported program.¹¹

28. **The programs under the emergency post-conflict assistance may have been too accommodating to policies that were proposed by the authorities as required for political stability.** Especially allowing, under the second EPCA-supported program, the insertion of all combatants in the army in 1999 and the large wage increase in 2000 while demobilization and measures to reduce the civil service had yet to be implemented, proved premature. When sharp increases in revenue in 1999 and 2000 turned out to be temporary in later years, and demobilization and reduction in the civil service were delayed, the much higher wage bill had reduced the flexibility of the budget to absorb such shocks, contributing

¹¹ The guidance note on the Fund's role in governance issues dates from the end of the ESAF arrangement in 1997; this may explain why Fund programs on Guinea-Bissau did not emphasize governance issues and the associated risks at that time, despite growing concerns among donors (see e.g., "Development Cooperation between Guinea-Bissau and Sweden," SIDA evaluation 97/23, Stockholm, 1997).

to the serious fiscal problems later on. Moreover, the programs supported under the EPCA could have focused less on structural reform, for which the country was not ready at that time.

29. **With hindsight, the Fund took too much of a risk with the early approval of the PRGF arrangement in 2000.** Preliminary indications pointed toward low ownership by the new government and continued political instability, and weak technical capacity. Under these circumstances, Guinea-Bissau met none of the preconditions for a PRGF arrangement—ownership and capacity to implement strong macroeconomic and reform policies—in 2000. The Fund took the decision to go ahead with the arrangement so that it would be able to move the country to the decision point under the HIPC Initiative, and to much needed additional debt relief, including in the context of more general efforts to provide HIPC debt relief to as many countries as possible by end-2000. The consequence of this approach was that, when the country proved unable to provide adequate performance, the entire post-conflict strategy began to unravel as interim debt relief by the Fund and Paris Club creditors, and donor assistance for the two key post-conflict programs, automatically stopped.

30. **Guinea-Bissau has made much progress with structural reform since the mid-1980s but the agenda remains unfinished.** Most major state-owned enterprises had been privatized or liquidated by the end of the ESAF-supported program in early 1998. Nevertheless, economic development remains constrained by many rules and regulations from the colonial and centrally-planned periods, whereas an adjustment to the regulatory environment of the WAEMU is necessary. Moreover, the judiciary system remains very weak and will have to be strengthened in the context of an overall effort to improve governance.

B. What Could Have Been Done Differently?

31. **While higher-than-normal risks were present in Guinea-Bissau, Fund support for the country's economic program was well justified in the early 1990s.** In spite of weak performance under a previous SAF arrangement, Guinea-Bissau had nevertheless made considerable progress in moving from a centrally-planned to a market-oriented economy. Moreover, the country had expressed an interest in regional integration, (with the associated increase in discipline in economic policy making) and the reform of the political system toward a multiparty democracy was encouraging.

32. **With hindsight, the main deficiency of the ESAF-supported program has been the lack of emphasis on good governance and transparency.** While donor concerns were evident in the early 1990s, the annual programs did not include performance criteria or benchmarks in this area, and technical assistance in the fiscal sector focused on tax policy and not on expenditure management, which was the source of the underlying problems. The adoption of the guidelines on the Fund's involvement in governance issues in 1997 might have promoted closer Fund involvement in this area in a successor arrangement, discussions on which were suspended, however, when the conflict started.

33. **With this background in mind, the approval of the PRGF-arrangement at end-2000 was premature.** Although this allowed Guinea-Bissau to benefit from debt relief under the HIPC Initiative, early warning signs pointed to a lack of commitment on economic policies as well as potential recurring political and governance problems. Moreover, as the staff pointed out in the relevant paper for the Board, there were significant “political, economic, and implementation risks.”¹² Under these circumstances, continuation of post-conflict assistance would have been preferable until the outlook with regard to government commitment, implementation capacity, and the results of post-conflict programs would have become clearer.

34. **The design of the ESAF-supported program during the 1990s was generally adequate, but some improvements could have been made.** The authorities’ abolition of the bank-by-bank credit ceilings in the 1994 program was proved premature as there were no appropriate alternative measures in place. Furthermore, conditionality under the Fund-supported programs could have been stronger with regard to the key structural reform measure in the program—the overhaul of the investment code and the general legal and regulatory environment—which was delayed beyond the period covered by the arrangement, hampering diversification of the economy.

35. **With regard to the EPCA and the PRGF arrangement, more attention should have been given to technical assistance and capacity building.** The staff report for the 2000 Article IV consultation and the PRGF arrangement mentioned that “the timely delivery [of technical and financial assistance from donors] will be key to ensuring progress and any delays could compromise attainment of program objectives.” However, the program should have addressed this concern with more specific actions aimed at strengthening the weak implementation capacity through technical assistance.

36. **Some elements of the Fund’s involvement in Guinea-Bissau could have been improved, but the main cause of the ultimate failure of the Fund-supported programs lies with the authorities.** First, the moves toward better macroeconomic management under the ESAF-arrangement and better political management through democratization in the 1990s were not complemented by progress in improving governance, thus laying the basis for the conflict in 1998-99. Second, the new government after the conflict showed little ownership for the PRGF-supported program or for macroeconomic management in general. Reflecting a long history of governance and implementation problems, the international donor community has largely turned away from Guinea-Bissau, and it will take a very strong and sustained effort for the country, especially in improving political and financial governance, to restore the special aid relationships that will be necessary to rebuild the country and to reduce the wide-spread poverty in an acceptable timeframe.

¹² (www.imf.org, December 1, 2000).

C. Challenges Ahead

37. **In mid-2004, Guinea-Bissau is poorer than when it started its adjustment effort in 1993.** Per capita real GDP is estimated to be about 25 percent lower in 2003 than in 1993. The economy remains vulnerable to external shocks as cashew nuts account for about 95 percent of exports and remain virtually the only source of cash income in the rural areas, and export taxes on cashew nuts and fees from fishing licenses account for about half of government revenue. Burdened by low revenue and high wage- and wage-related expenditure, the fiscal situation remains unsustainable. Moreover, in addition to already very high external debt, domestic debt—mainly in the form of arrears—has increased sharply in recent years. The structural reform agenda is unfinished, and the financial system consists of only one commercial bank operating out of one branch in the capital Bissau. At end-2000, a UN report concluded that “three years after the end of the conflict, its underlying causes remain unresolved and the country is again “in a situation of severe political, economic and social crisis” with “many risks in all sectors for greater destabilization.”¹³ Many of its conclusions remain valid today.

38. **Recent political developments provide a window of opportunity for resuming stabilization and reform policies.** In this regard, the relatively smooth transition from the coup in September 2003 to an elected government, that campaigned on a broad agenda for reform, in May 2004, is encouraging. Nevertheless, **the main challenge for the country remains to build an accountable and representative political system**, without which progress in economic development will remain at risk from political and social instability.

39. **With regard to the economy, the challenge for the new government is to repair the remaining damage from the conflict, restore fiscal sustainability and basic social services, and reduce wide-spread poverty.** Most urgent repairs concern water and electricity supply in Bissau, which remain haphazard. Restoring fiscal sustainability—which may take several years—will not only require a considerable improvement in the revenue effort and strong expenditure restraints, but also rebuilding fiscal management capacity. On poverty reduction policies, **the main challenge for the authorities is to revitalize and develop the private sector** as the main engine for renewed growth. The PRSP could play an important role in obtaining broad consensus on the directions and priorities of the policies; **the challenge in this area is to ensure that the final PRSP is based on a broad-based domestic consultation process** with a view to promoting a sense of participation and ownership in setting the direction of poverty reduction policies.

40. **Finally, an important challenge for Guinea-Bissau is restoring good relations with donors.** As mentioned above, after three decades of a largely failed development effort

¹³ “Guinea-Bissau: Ensuring Development Gains and Preventing the Slide Back into Crisis,” Regional Bureau for Africa and the Bureau for Crisis Prevention and Recovery, UNDP, New York, November 2002.

and persistent political and governance problems, donors have sharply reduced assistance to Guinea-Bissau. Nevertheless, the country will not be able to address its serious problems in a reasonable timeframe without a strong and well-coordinated international financial and technical assistance effort. **In this regard, it will be a challenge to both the authorities and donors to find a framework within which effective assistance can resume as quickly as possible.**

IV. FUTURE ROLE OF THE IMF AND DONOR COLLABORATION

41. **The future role of the Fund in Guinea-Bissau depends first and foremost on the country's willingness to commit to comprehensive medium-term policies aimed at addressing its serious economic problems.** Evidence of strong commitment to macroeconomic stabilization and poverty reduction policies would be, firstly, the completion of a comprehensive PRSP, based on a broad domestic consultation process, and measures aimed at improving fiscal governance and transparency.

42. **Provided there is commitment, Guinea-Bissau's fiscal problems and the serious institutional and technical weaknesses in all areas of the Fund's core competencies would warrant (prolonged) Fund engagement.** Such assistance should emphasize capacity building and strengthening governance in the fiscal area. Moreover, the Fund could be of assistance in rebuilding macroeconomic statistics and in developing the financial sector, including microfinance. West AFRITAC would be expected to play an important role in this area.

43. **In addition to a strong technical assistance effort, Guinea-Bissau is also in need of financial support to restore basic government services and allow the country to meet its external obligations.** The most appropriate instrument for financial support from the Fund would be a PRGF arrangement, which would also facilitate reaching the HIPC completion point in due course. However, Guinea-Bissau has not been able to address the problems from the conflict in 1998-99 and remains a post-conflict country, with several impaired institutional and administrative capacity. Based on past experience, the Fund should not rush into a PRGF arrangement without ensuring that the country is able to politically and technically implement the strong macroeconomic and reform policies required for such an arrangement.

44. **Under the present circumstances, the options for closer Fund-engagement with Guinea-Bissau would be an extended staff-monitored program (SMP) or new EPCA.** An extended SMP (of 1–2 years) would provide a framework for macroeconomic and reform policies and allow the country to build a track record toward a PRGF arrangement. It would also allow the donors to make their own assessment on the effectiveness of their assistance, while emphasizing that the Fund cannot play a key role in international assistance to a post-conflict country like Guinea-Bissau.

45. **Despite the advantages of an SMP, the staff recommends that the Fund provide further EPCA, in line with the Board's recent discussion on the Fund's involvement in**

low-income countries.¹⁴ First, the staff considers that the conflict did not end in 2000 as originally assumed, but only after the coup in September 2003 and the relatively smooth transition to an elected government by May 2004. While it has to be assumed that it will take some time before the political situation fully stabilizes and that risks remain, the outlook is much better than at any time in the recent past. There is a wide-spread feeling in Guinea-Bissau that a renewed conflict has to be avoided at all cost, while political power has shifted to a much more experienced and technically capable political group, which won the elections on the basis of a strong reform platform. Second, administrative and technical capacity remain impaired, and the balance of payments need is reflected in the high external debt service obligations. In addition to assistance provided under an SMP, a financial program would enhance the catalytic role in obtaining new donor support and alleviate the heavy burden of debt service to the Fund—which is the only creditor that is fully paid despite the serious financial situation and rising domestic arrears—until it can be addressed again under the HIPC Initiative. To minimize the risks and ensure close monitoring of commitment and progress, the disbursement of EPCA should be phased over several steps during a two-year period. The authorities would be encouraged to gradually strengthen policies, in line with the emerging poverty reduction strategy, in preparation for a possible PRGF arrangement and renewed HIPC interim debt relief, possibly by 2007.

46. **New post-conflict assistance for Guinea-Bissau needs to be made the joint responsibility of a broad coalition of Guinea-Bissau’s international partners.** The breadth of the issues requires multiple competencies. Most importantly, the international effort should include assistance in the political area, aimed at strengthening institutions but also at closely monitoring developments to ensure that the authorities are engaged in dialogue with the international development partners at an early stage in case of reemerging governance issues.

¹⁴ (www.imf.org., April 7, 2004)

Table 1: Guinea-Bissau—Arrangements with the IMF, 1984–2003

Arrangement	Period	Amount Approved	Remarks
First credit tranche purchase	August 27, 1984	SDR1.875 million	
Structural Adjustment Facility	October 14, 1987– October 13, 1990	SDR 5.25 million	2nd annual arrangement delayed; no 3 rd annual arrangement.
Enhanced Structural Adjustment Facility	January 18, 1995– July 24, 1998	SDR 10.5 million	Arrangement increased by SDR 1.05 million (10 percent of quota) with 3 rd annual arrangement.
Emergency post-conflict assistance	September 14, 1999	SDR 2.13 million	
Emergency post-conflict assistance	January 7, 2000	SDR 1.42 million	
Poverty Reduction and Growth Facility	December 15, 2000– December 14, 2003	SDR 14.2 million	PRGF expired without completion of a review.

Source: International Monetary Fund.

Table 2: Guinea-Bissau--Key Economic Indicators, 1983-2003

	1980-1992 (annual average)	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Real sector (annual percentage change)												
Real GDP	2.5	2.7	3.2	4.4	4.6	6.5	-28.2	7.6	7.5	0.2	-7.2	0.6
Real GDP per capita	0.4	0.0	1.1	2.3	2.5	4.4	-29.6	5.0	4.9	-2.2	-9.4	-1.8
Inflation						16.7	7.9	-7.9	16.7	-1.9	2.5	0.7
Fiscal sector (in percent of GDP):												
Revenue	14.5	10.4	12.4	12.7	12.5	14.7	5.4	17.3	19.2	16.8	15.3	15.6
Current primary expenditure	20.2	13.1	14.5	15.3	15.8	39.2	18.1	30.5	38.4	34.6	28.6	32.4
Current primary balance	-3.2	2.0	3.3	4.0	3.4	5.3	-6.6	3.1	-17.0	-3.0	-3.7	-4.2
Overall fiscal deficit (including grants)	-7.5	-12.7	-6.1	-2.1	-12.2	-17.5	-16.3	-9.7	-10.8	-11.7	-12.0	-13.9
Monetary sector (percent change)												
Net foreign assets	-116.8	-1441.2	182.1	243.7	-24.0	142.9	-7.5	-11.4	39.0	4.7	23.8	38.7
Net domestic assets	56.7	47.3	40.1	-7.2	46.7	-41.1	7.7	16.3	28.6	5.1	0.3	-25.0
Broad Money	-2.8	27.3	58.1	46.9	51.0	101.8	0.2	4.9	67.7	9.9	24.1	13.6
External sector:												
Exports (in millions of US\$)	17.2	21.0	38.8	29.6	28.5	48.5	25.9	51.2	62.1	50.0	53.6	62.2
Imports (in millions of US\$)	84.5	77.5	80.9	89.2	86.1	73.1	51.1	65.6	71.0	78.5	70.5	70.8
Current account balance (after grants; in percent of GDP)	-37.1	-16.5	-10.8	-31.4	-12.0	-8.9	-9.7	-13.1	-5.4	-20.6	-10.8	-2.8
External debt (in millions of US\$)	839.9	834.0	973.4	944.6	1149.0	896.0	852.9	1043.3	808.2	818.4	945.1	898.6
External debt (in percent of GDP)	370.2	352.0	413.1	372.0	425.1	333.6	414.7	464.8	375.1	408.4	464.8	375.9

Source: IMF, World Economic Outlook Database.

Table 3: Guinea-Bissau: Selected Economic and Financial Indicators, 1992-2003

	Staff Monitored Program			Extended Structural Adjustment Facility			Post Conflict Facility I/			Poverty Reduction and Growth Facility								
	1992	1994		1996		1997	1998	1999		2000		2001	2002		2003			
	Actual	Program	Actual	Program	Actual	Program	Actual	Program	Actual	Program	Actual	Program	Actual	Program	Actual			
Real GDP	2.8	3.0	2.7	2.6	3.2	4.4	4.6	4.1	6.5	-28.2	7.5	7.6	7.6	7.5	0.2	-7.2	8.6	0.6
Consumer price index (average)	69.6	47.3	48.1	17.2	15.2	45.4	50.7	10.0	49.1	8.0	6.0	-2.1	3.0	8.6	3.3	3.3	3.0	-3.5
Broad money	110.9	18.5	27.3	21.4	58.1	46.9	51.0	16.0	101.8	0.2	6.9	4.9	14.1	67.7	9.9	24.1	...	13.6
	(Annual percentage change)																	
Budgetary revenue	12.1	14.1	10.4	14.2	12.4	12.7	12.5	15.7	14.7	5.4	11.7	17.3	14.0	19.2	16.8	15.3	16.5	15.6
Current expenditure	16.3	13.1	14.1	14.5	15.3	15.3	15.8	20.4	14.7	18.8	20.3	20.5	20.1	33.8	28.2	23.8	19.5	24.5
Current primary balance	0.6	6.2	2.0	5.5	3.3	4.0	3.4	6.4	5.3	-6.6	-1.9	3.1	-0.9	-17.0	-3.0	-3.7	1.1	-4.2
Overall fiscal balance (commitment basis)																		
(Including official grants)	-22.0	-6.5	-12.7	-6.4	-6.1	-2.1	-12.2	-4.3	-16.3	-16.3	-20.9	-9.7	-19.7	-10.8	-11.7	-12.0	-9.0	-13.9
(Excluding official grants)	-38.1	-19.5	-29.3	-22.3	-4.6	-17.7	-18.1	-14.6	-19.5	-19.5	-27.3	-14.0	-19.9	-24.9	-26.2	-18.1	-20.4	-21.6
External current account balance																		
(Including official transfers)	-30.8	-14.2	-10.3	-10.0	-10.3	-16.1	-16.5	-10.8	-8.5	-13.2	-31.4	-12.0	-24.6	-13.2	-22.7	-12.4	-18.9	-2.8
(Excluding official transfers)	-48.5	-28.70	-28.4	-27.9	-16.2	-23.6	-27.4	-18.5	-22.5	-20.4	-38.4	-22.3	-33.5	-28.4	-34.0	-23.9	-24.7	-6.7
External public debt 2/	338.5	240.95	314.7	331.0	378.2	372.0	352.0	309.1	413.1	414.7	...	425.1	...	333.6	316.0	464.8	...	375.9
	(In percent of exports of goods and nonfactor services)																	
Scheduled external debt service 3/	258.1	194.2	110.8	124.1	144.8	144.8	165.3	52.6	57.7	106.9	64.5	60.9	40.4	43.5	72.8	46.3	37.4	47.5

Sources: IMF staff reports (1993-2003); staff and Guinea-Bissau authorities estimates (2003).

1/ 1999 based on program values at the time of the first request for post conflict assistance (September 1999); 2000 based on program values at the time of the second request for post conflict assistance (January 2000).

2/ 1993-98, before application of traditional debt relief; 1999, after application of traditional debt relief (67% NPV reduction of eligible debt, including eligible arrears); 2000-2003, takes into account enhanced HIPC interim debt relief.

3/ In 1997 Guinea-Bissau concluded rescheduling agreements with several bilateral creditors, including Russia, Saudi Arabia, and Kuwait.

Table 4. Guinea-Bissau—Main Sectoral Policies and Measures Under Fund-Supported Programs, 1993–98

Sector	Main policy objectives	Implementation
Fiscal	<p>Fiscal policies aimed at improving the primary surplus with a view to avoid further external debt service arrears. Following some revenue increasing measures in the SMP 1993–94, revenue policies focused on tax reform—reducing reliance on external taxes and increasing efficiency of domestic taxes—and improvements in tax administration.</p> <p>Expenditure measures aimed at reducing inefficient capital expenditure and the wage bill.</p>	<p>After some delays in the SMP for 1993, some tax rates were increased in 1994. During 1995-98, tax reform was prepared and implemented with positive results; the ESAF target for revenue at end-1997 was missed by just ½ percent of GDP.</p> <p>Capital expenditure was reduced and the selection process strengthened with World Bank assistance.</p> <p>Government staffing levels were reduced from about 19,500 in 1992 to 17,500 by mid-1977.</p>
Monetary	<p>Monetary policy aimed at containing the expansion in the money supply in line with the inflation target while shifting to more market-based monetary policy instruments.</p> <p>Financial sector reform targeted improving the health of the banking system by strengthening bank supervision.</p>	<p>Elimination of credit ceilings in 1994 led to rapid expansion in credit. Thereafter, central bank control increased somewhat by using high reserve requirements, but large external inflows were a main reason for continuing high inflation. Inflation was only brought under control after Guinea-Bissau joined the WAEMU in 1997</p> <p>Under the ESAF program, progress was made in both areas. However, the conflict led to the closure of the only two commercial banks (a new bank was established in 2000).</p>
External	<p>Policies aimed at removing exchange and trade distortions and restrictions</p>	<p>Policies succeeded in largely unifying the official and parallel market rates at an early stage. Guinea-Bissau accepted Art. VIII status in the Fund in 1997.</p>

Table 4. Guinea-Bissau—Main Sectoral Policies and Measures Under Fund-Supported Programs, 1993–98 (concluded)

Sector	Main policy objectives	Implementation
Structural reforms	Structural reforms focused on privatizing the public enterprise sector and on improving the regulatory environment for business and investment and the legal system. Sectoral policies aimed at diversifying agricultural production and at strengthening the energy sector.	Progress with privatization has been good and most of the 37 public enterprises had been privatized or liquidated by end-1997, with some smaller ones remaining. Regulatory reform in the energy sector progressed and the petroleum sector was liberalized. However, there was little progress in improving the financial situation and reliability of production of the electricity and water company. Guinea-Bissau made little progress in improving the regulatory environment for business and with improving the legal system. Cashew production continued to rapidly advance and continues to be the main export product and diversification was not reached.

Source: IMF, Staff Reports 1993–2002

Table 5. Guinea-Bissau--Compliance with Quantitative Program Targets under the ESAF, EPFA and PRGF, 1993-2003.

	1994	1995		1996	1997	1999	2000 (EPFA-Jun.)	2000 (PRGF-)	2001
		ESAF	SM						
A. Quantitative performance criteria and benchmarks									
Budgetary revenue	...	NM	...	M	...	M	...	...	...
Total government expenditure and net lending	...	M	...	...	...	...	...	...	...
Change in /stock of domestic payments	...	NM	M	M	...	...	...	...	...
Ceiling on change in net domestic assets of the Central Bank	...	...	...	M	W	NM	...	NM	M
Ceiling on banking system net claims on the government	NM	NM	M	M	...	...	...	...	...
Ceiling on (change in) net domestic assets of the banking system	...	NM	...	M	...	...	...	...	...
Ceiling on government expenditure on wages and salaries	...	...	...	M	...	...	...	...	...
Ceiling on change in reserve money	...	...	...	M	...	...	...	...	...
Primary current budget balance	...	...	...	...	...	...	...	NM	NM
Minimum increase in net foreign assets of the Central Bank	NM	NM	M	M	...	...	...	...	...
Nonaccumulation of external payments arrears	...	...	...	...	W	...	NM	M	NM
Change in / stock of medium- and long-term external payments arrears	NM	NM	NM	M	...	...	...	...	...
Change in / stock of short-term external payments arrears	NM	NM	NM	M	...	M	NM	...	...
New external borrowing on nonconcessional terms	M	M	M	M	...	M	M	M	M
B.									
Minimum budget revenue	NM	NM	M	M	...	...	...	...	...
Minimum tax revenue	...	...	...	...	NM	...	...	...	...
Current primary expenditure	...	...	...	...	NM	NM	M	...	...
Current primary surplus/balance	...	...	...	...	NM	M	M	...	...
Ceiling on government expenditure on wages and salaries	...	...	...	M	...	...	...	...	...
Total government expenditure and net lending	M	M	M	NR	NR	...	...	...	...
Ceiling on (change in) net domestic assets of the banking system	...	...	...	M	NM	...	...	...	...
Ceiling on (changes in) net domestic assets of the Central Bank	...	...	...	...	...	...	...	...	...
Ceiling on change in reserve money	...	...	...	M	...	...	...	...	...
Reduction of domestic	...	...	...	...	...	...	...	...	...
Payment of current debt service obligations	...	...	...	...	...	NM	...	...	...
Payment of a minimum amount on external debt arrears	...	...	...	...	...	M	...	...	...
Minimum number of armed forces demobilized	...	...	...	...	...	...	...	M	NM
Ceiling on the wage bill	...	...	...	...	...	...	...	NM	NM

Source: IMF, Staff Reports 1993-
I/ M= met; NM = not met; W = waiver granted. Performance criteria are in

Table 6. Guinea-Bissau—Performance Against Structural Program Conditions Under the ESAF, EPCA and PRGF-Supported Programs

Program	Condition	Progress^{1/}	Type^{2/}
ESAF 1995–98			
1994	Increase in port charge on imports of rice to 20 percent	M	B
	Put up for tender CICER, Rodofluvial and SOCOTRAM	NM	B
	Retrenchment of 500 civil servants	M	B
	Termination of minimum shipment requirements for exporters of agricultural commodities	M	B
1995 (ESAF)	Agree with the World Bank on selection criteria and implementation procedures for public investment projects	NM	B
	Liquidate DICOL, GUINAVE, and SILO DIATA	NM	B
	Put up for tender CICER and RODOFLUVIAL	NM	B
	Retrenchment of 500 civil servants	M	B
1995 (SMP)	Agree with the World Bank on selection criteria and implementation procedures for public investment projects	M	...
	Liquidate DICOL, GUINAVE, and SILO DIATA	M	...
	Put up for tender CICER and RODOFLUVIAL	M	...
1996	Reduce customs clearance time for imported merchandise	M	PA
	Require security deposits for merchandise in transit	M	PA
	Levy fees on merchandise not cleared through customs after 15 days	M	PA
	Reduce tax on cashew nuts exports from 13 percent to 12½ percent	M	PA
	Communicate results of civil service census to the staff	M	PA
	Pay initial tranche of overdue debt service	M	PA
	Process payroll based on results of civil service census	M	PC
	Request negotiations with Algeria to terminate its bilateral payments agreement with Guinea-Bissau by year-end	M	B
	Redeploy 50 percent of teachers performing administrative work	M	B

Table 6. Guinea-Bissau—Performance Against Structural Program Conditions Under the ESAF, EPCA and PRGF-Supported Programs (continued)

Program	Condition	Progress ^{1/}	Type ^{2/}
	Retrench 3½ percent of the civil service (estimated 500 staff)	NM	B
	Put up for tender or liquidate Ceramica de Bafata (ceramics) and TAGB (airline)	NM	B
	Start compiling a consumer price index based on a reduced list of commodities and on the 1993/94 household survey	NM	B
	Implement the first phase of the UNCTAD debt management and financial analysis system (DMFAS) with technical assistance from UNCTAD	NM	B
	Record in the budget all revenue collected by customs and the expenditure counterpart of any amounts retained by customs on accounts of performance incentives	M	B
	Prepare consolidated table of commercial bank accounts identifying separately the revaluation account as required under the plan of accounts	M	B
	Redefine and reclassify net credit to the government to include all treasury accounts, including ministries and autonomous funds	M	B
	Issue degree enforcing compliance with existing legislation requiring previous authorization by the Directorate-General of Public Accounting (DGCP) for all government expenditure	M	PA
	Authorize the utility company to revise its tariff structure	M	PA
1997	Implementation of new customs tariff	W	PC
	Enactment of general sales tax	W	PC
	Completion of liquidation of DICOL and Guinegaz	M	PC
	Introduction of flexible petroleum price adjustment mechanisms	W	PC
	Completion of audit of commercial banks	M	B
	Voluntary departure of 500 civil servants during 1997	M	B
	Establishment of system of prior expenditure authorization in all ministries	M	B
	Completion of the census of the personnel of the Ministry of defense and the Interior	M	B
EPCA 1999	Restoration of normal ex ante control procedures for expenditure commitments by the Minister of Finance		PA

Table 6. Guinea-Bissau—Performance Against Structural Program Conditions Under the ESAF, EPCA and PRGF-Supported Programs (concluded)

Program	Condition	Progress ^{1/}	Type ^{2/}
	Restoration of normal customs control procedures for clearance of merchandise		PA
	Resumed collection of IGV from major taxpayers		PA
	Preparation of a survey of the government's arrears on wages, pensions, and procurement of goods and services during the conflict period		PA
	Adoption of an action plan and timetable for the preparation of a troop demobilization plan, with assistance from the World Bank.		PA
	The adoption of an action plan for the recapitalization of the BIGB	NM	B
	The government's adoption of a draft law on electricity	M	B
	The transfer of electricity and water management to a private company	NM	B
EPCA (2000)	Pursue, with World Bank assistance, the policy of deregulation of the telecommunications sector and the port of Bissau		B
	Government to divest from the hotel sector		B
	Complete sale of several public enterprises		B
	Promulgate the decree defining the institutional framework for the demobilization and reinsertion program of ex-combatants	M	B
PRGF (2000-03) 2001	Name provisional administrator for the BIGB	M	PA
	Endorsement of the 2001 budget by the Cabinet of Ministers	M	PA
	Adoption by the Cabinet of Ministers of an action plan on the BIGB	NM	PC
	Harmonization with common external tariff under the WAEMU	M	B
	Adoption of decree for the reform of the procurement system	M	B
	Implementation of a fully operational procurement system in five ministries	NM	B
	No accumulation of new domestic payment arrears (continuous)	NM	B

^{1/} M = met; NM = not met; W = waiver.

^{2/} PA = prior action; PC = performance criterion; B = benchmark.