

**AFRICAN DEVELOPMENT BANK
AFRICAN DEVELOPMENT FUND**



**GUINEA-BISSAU
RESULTS-BASED COUNTRY STRATEGY PAPER
2005-2009**

**COUNTRY OPERATIONS DEPARTMENT
CENTRAL REGION
November 2005**

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CURRENCY EQUIVALENTS**(May 2005)**

Currency unit	=	CFA Franc
UA 1	=	USD 1.51678
UA 1	=	€1.17063
UA 1	=	CFA F 767.883
US\$ 1	=	CFA F 506.259
EURO 1	=	CFA F 655.957

WEIGHTS AND MEASURES**Metric System****FISCAL YEAR**

1 January – 31 December

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ACRONYMS AND ABBREVIATIONS

ACBF	=	African Capacity Building Foundation
ADB	=	African Development Bank
ADF	=	African Development Fund
AFRISTAT	=	Sub-Saharan Africa Economic and Statistics Observatory
AFRITAC	=	African Technical Assistance Centre
ASYCUDA	=	Automatic System for Customs Data
CET	=	Common External Tariff
CFAA	=	Country Financial Assessment and Accountability
CILSS	=	Permanent Inter-State Committee for Drought Control in the Sahel
CISD	=	Committee for Establishing and Monitoring the DENARP
CPA	=	Country Policies Assessment
CPAR	=	Country Procurement Assessment Review
CPSC	=	Community of Portuguese Speaking Countries
CSO	=	Civil Society Organization
CSP	=	Country Strategy Paper
DENARP	=	Poverty Reduction Strategy Paper (PRSP)
EAGB	=	Guinea-Bissau Water and Electricity Company
ECOSOC	=	United Nations Economic and Social Council
ECOWAS	=	Economic Community of West African States
EEMP	=	Emergency Economic Management Plan
EFA	=	“Education For All” Action Plan
ERRL	=	Economic Rehabilitation and Recovery Loan
ESS		Economic and Sector Studies
FAO	=	Food and Agriculture Organization
GDP	=	Gross Domestic Product
HIPC	=	Heavily Indebted Poor Countries
IDB	=	Islamic Development Bank
IEC	=	Information, Education, Communication
IFAD	=	International Fund for Agricultural Development
IMF	=	International Monetary Fund
MDG	=	Millennium Development Goals
MEF	=	Ministry of Economic and Finance
MICS	=	Multiple Indicators Cluster Survey
NGO	=	Non-Governmental Organization
NPT	=	National Tuberculosis-Control Programme
OHADA	=	Organization for the Harmonization of Business Laws
OMVG	=	Organization for the Development of the Gambia River Basin
ONUGBIS	=	United Nations Organization for Promotion of Peace in Guinea-Bissau
PNLS	=	National AIDS-Control Plan
PRGF	=	Poverty Reduction and Growth Facility
PRSP	=	Poverty Reduction Strategy Paper
RBCSP	=	Results-Based Country Strategic Paper
SAP	=	Structural Adjustment Programme
SYSCOA	=	Accounting System adopted by Member Countries of the Union
TPIP		Three-year Public Investment Programme
TOFE	=	Government Flow of Funds Table
UA	=	Unit of Account
UNDP	=	United Nations Development Programme
UNO	=	United Nations Organization

WAEMU = West African Economic and Monetary Union
WFP = World Food Programme

EXECUTIVE SUMMARY

1. This Results-Based Country Strategy Paper (RBCSP) prepared for the Bank operations programming cycle aims to define a new reference framework for Bank operations for the 2005-2009 period, based on the key development priorities of Guinea-Bissau. This framework also takes into account the interventions of the country's major development partners by strengthening the complementarity of actions as well as coordination of their implementation. Finally, it aims at defining programme and project pillars consistently with the areas of focus retained and for which results and poverty-impact indicators would be easy to quantify and update. However, institutional constraints and the weaknesses in the country's statistical apparatus have made the preparation of a RBCSP difficult.

2. Guinea-Bissau, a poor Portuguese-speaking West African country, has in recent years been characterized by a series of political and military conflicts, which have caused the destruction of over 80% of the country's economic infrastructure. In May and June 2005, fresh Presidential elections were satisfactorily conducted, despite a certain degree of internal discord, culminating in the proclamation by the Supreme Court of the victory of the candidate Joao Beranardo Nino Viera over his rival Malam Bacai Sanha. The presidential investiture ceremony took place on 1 October and the new President dismissed the government constituted following the legislative elections of May 2004, and, by the presidential decree of 2 November 2005, appointed a new Prime Minister to constitute a government of national consensus.

3. **On the macroeconomic and financial plane, the 2001-2003 period** showed a negative trend in real GDP and a decline in GDP per capita by 2.6%, 9.1% and 3.5% respectively for those three years. From 2004, there has been positive real GDP per capita growth, with the resumption of relations with the Bretton Woods institutions and other development partners, as well as a record production of about 93,000 metric tonnes of cashew nuts in 2004 compared with 75,000 tonnes on average during the preceding three years. The performance in terms of tax receipts is encouraging but remains overall inadequate, since the level of fiscal pressure is still low, at 8% of GDP, far short of 17% average recorded in the West African Economic and Monetary Union (WAEMU) countries. Regarding public expenditure, the major problem is the proportion of salaries in recurrent expenditure, which has increased over the years, from 27% in 2001 to 46% in 2005. The problem of public debt sustainability also poses a major development challenge to Guinea-Bissau, making it urgent for the country to attain the HIPC Initiative completion point. In addition, the persistent rise in petroleum prices and their recording an unsustainable level raises a major risk of macroeconomic imbalance, if the public authorities do not implement appropriate fiscal policies backed by adequate external assistance.

4. **With regard to the economic and social situation,** there was substantial disruption resulting from the country's great political and institutional instability. The civil service is characterized by the weak human resource capacity and inefficient assignment of responsibilities which represented major constraints on the proper functioning of the administration and institutions. An analysis of the governance problem in Guinea-Bissau shows the urgency of implementing the reforms indispensable for the restoration of democracy, transparency and good public finance management as well as fighting corruption, however the political will noted on the part of the national authorities does not appear to suffice. Education is a key sector in poverty reduction, but in spite of the numerous efforts made, its performance remains limited, due to the inadequacy of functional school infrastructure and the dearth of qualified human resources. Health is also one of the main sectors in the poverty reduction effort. Despite efforts made over the past decade, health indicators remain weak and the reforms started by the State to establish an operational health system and improve these indicators were disrupted by the political and military crises, with the result that health coverage remains low.

5. In the productive sector, it was not possible to conduct economic recovery and growth promotion, which are determinative factors in the fight against poverty, for lack of prior restoration of basic economic infrastructure-- such as electricity, transport and telecommunications networks-- and of investor confidence. Also, the country's dependence on cashew nuts makes the economy vulnerable. Other issues are cash crop diversification and the need to promote production, including that of food crops and to ensure food security for the country. The low levels of economic growth recorded in recent years and the limited private sector development have led to substantial unemployment, mainly affecting the youth.

6 In order to take up these challenges, the Government, following the 2004 legislative elections, prepared a draft Poverty Reduction Strategy Paper (PRSP) in August 2004. Based on the observations of the IMF, the World Bank and the ADB, the final version of the PRSP, the 2006 Plan of Action and the 2006-2008 Three-year public Investment Programme are being adopted by the Government. These documents will be submitted to the Board of Directors of the World Bank and the IMF to obtain a Joint Staff Advisory Note for implementation of the development strategy before the donor round table scheduled for 2006. The four strategic axes of the PRSP are: (i) the acceleration of growth; (ii) increasing and improving access to basic social services and to socio-economic infrastructure; (iii) improving the living conditions of vulnerable groups in order to reduce disparity among social groups and promote social equity; and lastly (iv) improving institutional and governance capacities.

7 The Bank Group's intervention strategy within the framework of the 2002-2004 CSP chose as areas of focus the rehabilitation of socio-economic infrastructure, with special emphasis on education, vocational training and capacity building. In light of the interventions of the major partners of Guinea-Bissau and their areas of focus and discussions with the authorities during the seminar on the RBCSP, a number of lessons could be drawn. Guinea-Bissau is still in need of substantial external support in: (i) strengthening governance through the acceleration of the civil service reform and the strengthening of institutional, economic and financial management capacities; (ii) continued rehabilitation of socio-economic infrastructure by strengthening education, health and social structures and introducing appropriate financing policies for the social sector; (iii) economic growth starting with the agriculture and rural sector, in order to increase food security and combat poverty in a sustainable manner.

8. Lessons from the Bank's interventions during 2002-2004 have revealed weak performances in the rehabilitation of socio-economic infrastructure due to delays in the commencement of approved projects during this programming cycle, namely the Education Project III and the Economic Management Capacity Building Project. Also, social projects approved in the previous CSPs, and which commenced late or were affected by the country's low absorptive capacity, will remain active during the period of the current RBCSP. These are the "Health Development Support Programme" and the "Post-Conflict Rehabilitation" project. For these different reasons, the Bank did not deem it useful to focus its actions on the social sector with new projects during the 2005-2009 RBCSP period, despite the importance of this sector for a post-conflict country like Guinea-Bissau. It gave priority to the building of national economic management capacities to improve the implementation rates of ongoing social and post-conflict rehabilitation projects. To mark a turning point in the country's development process and make a special contribution to the fight against poverty, the Bank, has defined two areas of focus in line with PRSP priorities and the Government's programme for the 2004-2008 period,. These are: (i) good governance in order to increase the effectiveness of development policies and programmes for poverty reduction; and (ii) promotion of agricultural and rural sector growth. In order to increase the impact of development actions in the priority areas and improve the mechanisms for monitoring and evaluation of public policy in the medium term, the Bank has chosen to provide gradual support to the building of the

country's institutional, human and statistics capacities

9. The selection of the areas of concentration has been determined through consultation with the authorities based on their priority needs and in function of the areas of focus of other development partners. The first pillar of the RBCSP, "Enhancement of Good Governance", refers to the fourth priority pillar of the PRSP, namely "Governance Improvement" and has been perceived by all external partners as an important condition for the development of the country. Initiatives are underway to update the diagnosis of the public service, formulate a country governance profile and consider the establishment of the Ecole Nationale d'Administration publique (School of Administration). The second pillar of the RBCSP, "Promotion of Agriculture and Rural Sector Growth", refers to the first priority pillar of the PRSP, which is "Creation of Conditions for Fast and Accelerated Growth", and mainly to its "Agricultural Sector Growth" component. This second pillar is relevant in that the Bank intends to operate in the poorest parts of the country (north and east) where the food security situation is precarious and the poverty indicators the most alarming. The Bank thus intends to be selective and to concentrate its resources on a limited number of sectors in which its impact could be visible and crucial for poverty reduction.

10. Under ADF X (2005-2007) Guinea-Bissau received an allocation in function of its performance, as determined from the 2004 Country Performance Assessment (CPA). This exercise made it possible to also base the allocations for the first two years of ADF XI (2008-2009), corresponding to the RCSCP period, on the country's overall performance during the preceding cycle. The ADF X country allocation will finance pillar 2 concerning agriculture and rural sector growth while ADF IX (200-2010), covering the RBCSP for 2008-2009, will finance the activities of pillar 1 concerning Good Governance.

11. In order to improve the Bank's portfolio, the number of review and supervision missions will be increased. Training seminars will be organized to enhance the expertise of project managers and national authorities in the areas of procurement and disbursement. The Bank will continue to provide assistance within the framework of interim debt reduction under the enhanced HIPC Initiative. It will also support the updating of the PRSP, the initial version of which should be revised after 2008.

12. The Boards are requested to approve the strategy proposed by the RBCSP as well as the activity programme for the 2005-2007 period, based on an allocation not exceeding UA 5.8 million in the form of grants under ADF IX..

I. INTRODUCTION

1.1 Guinea-Bissau's 2005-2009 Results-Based Country Strategy Paper (RBCSP) follows on the 2002-2004 Country Strategy Paper (CSP), which was updated in November 2004. The initial RBCSP and its update had two major objectives: (i) the rehabilitation of economic and social infrastructure with particular emphasis on education and health; and (ii) institutional capacity building. In their discussions, the Boards noted: (i) the deterioration of the economic situation; (ii) the governance problems attributable to crises and institutional malfunctioning (iii) the high incidence of poverty which affects some 65% of the population; and (iv) the difficulty in implementing the Bank's project portfolio. The Boards had urged the authorities of the country to: (i) finalize the Poverty Reduction Strategy Paper (PRSP) so as to wage an all-out war on poverty; and (ii) resume the structural reforms so as to attract the external partners again.

1.2 Projects approved during the period and corresponding to these areas of focus are the Education Project III for UA 3.65 million and the Economic Management Capacity-Building Project for UA 1.35 million. Both are under implementation and have fallen behind schedule as a result of the years of the politico-military crisis experienced by the country and the weak institutional capacity of its civil service.

1.3 The authorities prepared the draft RBCSP in 2004 with the intention of having the Council of Ministers adopt the final version as well as the plan of Action of 2006 and the 2005-2008 Three-year Public Investment Programme prior to the donor round table scheduled for 2006. Before then, the final version of the PRSP will be submitted to the Boards of the World Bank and IMF as a basis for preparation of a Joint Staff Advisory Note for implementation of the development strategy. Based on this finalized version, the Results-based CSP aims to define a new reference framework for Bank operations in the 2005-2009 period.

1.4 The present document has been prepared despite the structural constraints in the conduct of such an exercise concerning Guinea-Bissau. These weaknesses are observed in the PRSP in terms of analysis of the causes of poverty, the limited statistical machinery and the reliability of basic data such as social indicators to establish and monitor poverty indicators. To these are added the shortcomings of the public administration, with poorly qualified human resources, and the inexistence of public policy monitoring/evaluation mechanisms. Aware of these difficulties, the authorities have undertaken to gradually implement the necessary reforms to meet the challenges to the country's economic and social management capacity. In this context, the country team was nevertheless able to prepare a CSP for the Bank concerning the 2005-2009 period, though limited by the insufficient indicators. To remedy the institutional constraints and the weakness of the statistical apparatus, the Bank has chosen to progressively support the country's institutional, human and statistical capacity building in order to strengthen policy monitoring and evaluation mechanisms in the medium term and the quality of the RBCSP through the Economic Management Capacity-Building Project financed by the Bank.

Box 1: Key Features of the Country

Guinea-Bissau is a Portuguese-speaking country situated on the African west coast, between latitudes 12° and 16° north and longitudes 20° and 45° west. It covers a land area of 36,125 km², with a population estimated in 2002 at about 1,300,000 inhabitants. The capital city Bissau has a population of about 300,000 inhabitants. It is bordered on the North by Senegal, on the East and Southeast by the Republic of Guinea and at the West by the Atlantic Ocean. According to the United Nations Human Development Report (2004), the country is ranked 172nd over 177 countries in the world, in terms of poverty. A poverty profile analysis conducted in 2002 reveals that 64.7% of the population lives below the poverty line which is US\$ 2 /day and that 21% of Bissau-Guineans are considered extremely poor with a daily income less than US\$ 1. From the social point of view, Guinea-Bissau is characterised by a literacy rate of about 58% while 72.5% of women were illiterate in 2003. That translates the challenge and particularly the country's difficulty in attaining the MDGs by 2015 such as « Education for All ». The health coverage is extremely low, with 5.7 doctors and 114.5 nurses for one hundred thousand inhabitants in 2003. Life expectancy at birth is 45 years and the infant mortality rate is estimated at 118.1/1000 for 2003, with the average in sub-Saharan Africa at 80.6/1000. Approximately 59% of the population has access to drinkable water. These indicators reflect the country's difficult social situation still far away from the Millennium development Goals (MDGs) set for 2015, especially with regard to « Universal Education for All ». However, regarding gender equality, the prospects seem more optimistic, according to UNDP's 2004 report on attainment of the MDGs, because of the policies implemented by the public authorities in favour of the education of girls and the advancement of woman.

With a per capita GDP of US\$ 180, Guinea-Bissau is a country for which agriculture is the main economic activity. The agricultural sector contributes about 52% to GDP, more than 90% of exports and employs about 80% of the active population. The country has significant forestry resources with close to 2 million hectares of forest land and wood reserves estimated at about 48.3 millions m³. Thanks to the preparation of the National Desertification-Control Action Plan and its implementation, the MDGs pursued in the framework of policies in favour of environmental protection could be attained. With regards to « sustainable development », the objectives will be more difficult to attain as a result of the problems encountered, particularly with regard to the implementation of

II. COUNTRY CONTEXT

2.1 *Political Context*

2.1.1 These past years, Guinea-Bissau has been characterized by instability and politico-military conflicts. The 1998-1999 armed conflicts in particular, led to the destruction of 80% the country's economic infrastructure. Following the Abuja Peace Agreement on 1 November 1998 and the adoption of a new constitution on 7 July 1999, the democratic process restarted with the organization of fresh presidential elections in January 2000. Frequent military intervention in the operation of democratically established institutions continued to destabilize the country, culminating in the September 2003 coup d'état. Since then, with the support of the International Community, the transition governments have been charged with restoring constitutional order through the establishment of civil regimes and the successful organization of legislative elections in May 2004 and presidential elections in May and June 2005. These resulted in the victory of the former President, Joao Bernardo Nino Viera over the candidate of the party in power (PAIGC), Malam Bacai Sanha, and the investiture took place on 1 October 2005. On 2 November 2005 a new Prime Minister was appointed by presidential decree, in order to form a national consensus government, following the President of the Republic dismissal of the government that had emerged from the May 2004 legislative elections. The changes at the executive level result from the divergence between the elected President and his ex Prime Minister as well as the modifications in the power relationships in parliament, where the PAIGC (party of the losing presidential candidate) no longer forms the majority. .

2.1.2 Confronted with the problems caused by the role and incursions of the army in the political arena and also the need to guarantee a stable democratic regime, the authorities have drawn up a Plan of action for the reform of the army in preparation for the 2006 donor round table meeting. This will basically entail the reform of the army high command and definition of its new roles and improve living conditions in barracks. The smooth conduct of the Presidential elections in June and July 2005 should be seen as a positive signal of the will of political parties and the army to work together for peace and national development.

2.2 *Macroeconomic and Structural Context Issues*

2.2.1 Macroeconomic Context: The macroeconomic and financial situation was adversely affected by the country's political instability and institutional weaknesses caused by the 1998-1999 politico-military conflicts. From 2001-2003, average real GDP growth was negative and per capita GDP was -2.6%, -9.8% and -3.5% for 2001, 2002 and 2003, respectively. This poor performance is partly due to the low gross investment level during the 2000-2003 period, averaging 11% of GDP. Since end-2003, the transitional Government and subsequently the present Government have implemented an emergency economic management programme (EEMP) during 2004 with the support of the Bretton-Woods institutions, and there has been a gradual positive reversal of economic trends with a record production of cashew nuts. Owing to the favorable conditions in agriculture and exceptional exports (93 000 tonnes of cashew nuts in 2004 compared to 75 000 tonnes on average during the last three years) as well as the effects of the implementation of the EEMP, real GDP grew by 2.2% in 2004 and is projected to grow by 2.3% in 2005.

2.2.2 Public finance performance in the past years has also been impacted negatively by the politico-military instability as well as the country's GDP trend. The basic primary fiscal balance stood at - 3.7% of GDP for 2002, - 4.2% for 2003 and -5% for 2004. The overall balance (commitment basis excluding grants) recorded 18.1% of GDP for 2002, -23.4% for 2003 and - 23.2% of GDP for 2004. The structural weakness of fiscal revenue relative to the public expenditure trend caused these deficits to widen further.. From 2004, there has been an improvement in fiscal revenue however performance remained grossly insufficient because the tax ratio is still low at 8% of GDP, far from the WAEMU average of 17%. The main problem for public expenditure is the proportion of salaries, which has increased from 27% in 2001 to 46% in 2005. The balances of State financial operations (excluding grants) have deteriorated in 2005, recording 28.5% of GDP, compared to 23.2% for 2004. Based on the positive outcome of the Lisbon donor mini-summit of February 2005, budgetary aid pledged by the European Union and the World Bank has been mobilized, to cover 2005 budget financial requirements.

2.2.3 An analysis of the external sector also shows the structural distortions of Guinea-Bissau's economy and its vulnerability because of its dependence on cashew nuts and fishing, its main exports. For the period 2000 - 2003, the main products exported have been cashew nuts, timber and seafood such as shrimps. The destinations of the country's major exports are Asia with more than 80%, followed by industrial countries, whose share dropped to less than 10% whereas Africa's share is marginal and does not exceed 2.5%. Imports are made up mainly of foodstuff representing between 25% and 30% of total imports. They originate mainly from industrial countries particularly Portugal (45%), followed by Asia (26%) and Africa, especially Senegal, with a growing share of (20%). An analysis of the current account balance (excluding official transfers) shows a structural deficit, as a percentage of GDP, of about - 11.9% and -13.7 and -20.1 for 2003, 2004 and 2005, respectively. The trend shows a deterioration, with the balance dropping from -6. 6% in 2004 to -7.5% in 2005. This is mainly due to major increases in goods imports and decrease of current public transfers.

2.2.4 The monetary situation during 2000-2004 was characterized by a 16% annual average increase in the money supply, with an increase of over 4% projected for 2005. This growth results from a significant increase in net foreign assets of the Central Bank by an average of

39% yearly over the period and the albeit erratic movement of domestic credit, which declined by an annual average of 13%. This increase could be explained by the export income from cashew nuts but especially by the external project-financing or that received in the form of budget support under the EEMP. With regard to domestic credit, Central Bank advances to the Public Treasury have been declining, except in 2002, while credits to the economy, which have been regressing since 2001, appear to be on the increase, starting from 2005. Despite the bottlenecks in the supply of goods and services and their impact on prices, the limited recourse to monetary financing of the public deficit has mitigated the price hikes. The annual average inflation rates have been 3.3%, 1.6% and 0.8% respectively for 2002, 20003 and 2004, respectively, showing a trend of compliance with the 3% required by the WAEMU convergence criteria. .

2.2.5 The problem of public debt sustainability is one of the major development challenges confronting Guinea-Bissau. External debt, in net present value, stood at 1,092.5% of exports of non-factor goods and services for 2003 and in 2004 this rate was estimated at 881.3%. The low level of fiscal revenue makes the servicing of external and domestic debt difficult. As the country attained the decision point for the HIPC initiative in December 2000, the Bank at end-1999 approved debt relief of US\$ 50.84 million in net present value (NPV).. This relief mechanism enabled the country to honor its commitment for external debt servicing for the 2002–2003 period and it benefited from disbursements on projects financed by the Bank. Considering the persistent liquidity problems encountered by the country and the delay in attaining the completion point, an extension of this mechanism has been accorded for the 2004–2005 period. Following the settlement at end November of the external arrears that had put the country under sanctions since 1 August 2005, disbursements in the country’s favor resumed.

2.2.6 External public debt sustainability will be a crucial aspect from 1 January 2006, the date on which the extension of the interim debt alleviation mechanism under the HIPC Initiative ends. From that date, the government will then have to assume its full debt service burden, if no steps are taken to extend the relief currently provided to the country. It appears urgent that the national authorities sensitize their development partners so as to help them find sustainable solution to its problem, rather accumulate fresh arrears and fall under sanctions again., Indeed, if the conditions for another extension of the relief mechanisms are met, the Bank will approve a second extension of debt relief in order to enable the countries service their external debt owed to ADF during 2006. However, since the country is unable to attain the HIPC completion point before the end of 2007, the problem of external debt sustainability will arise from 2006. According to IMF simulations, continued macroeconomic reform and relief to the tune of 13 Million USD from 2006 are indispensable to bring the debt service ratio over exports below 27% by 2009. The internal debt level is also a source of concern, being estimated at the end of 2003 at about 63 billion CFAF, with arrears making up 82%. The authorities envisage an audit on this aspect in the near future, so as to update the end-2004 data and chart a clear settlement strategy. To that end, financial support will be sought from sub-regional but also international partners.

2.2.7 **Impact of rising oil prices** The persistently rise in oil prices in recent years, culminating at approximately 60 USD per barrel in 2005, has adversely affected the country, which is entirely dependent on petroleum product exports imports. Given the limited price elasticity relating to the demand for these imports, the level of importation will be maintained, thus aggravating in 2005 and 2006 the instability relating to the balance of payments, public finance and prices, with teh attendant decline in GDP growth rates. In 2002-2003, oil accounted

for over 80% of energy consumption which in turn made up 12% of GDP. Considering this reliance, the mounting petroleum prices are expected to have a destabilizing effect on foreign accounts, lowering the level of reserves and worsening the balance of current transactions and terms of trade. For 2005 and 2006, these effects are estimated for 2005 at 0.67% and 0.64% of GDP in terms of contributions to the decline in the current trade balance. Concerning trade terms a decline by about 3 percentage points is estimated in comparison to 2004. Concerning public finance the ineffective fiscal and customs services do not allow the State to benefit from the increasing value of oil product imports driven by price factors, and obtain fiscal for increased fiscal revenue. The result, given the poorly controlled fiscal aspects and the higher public expenditure mirroring the price trends, is a decline in the primary balance of the State budget. Pump prices rose in October 2005 by between 20 and 30% giving rise to an increasing urban and food crop transportation. A price distortion could globally hurt the economy, competitiveness and economic growth and affect several vulnerable segments. BCEAO will be required to adopt an adequate monetary policy in the face of the WAEMU zone instability and while the public authorities devote particular attention to the implementation of an appropriate fiscal and social policy so as to contain the adverse effects of the oil price rise on the economic and social rehabilitation programme and comply with the objectives relating to the 3% 5 price index recommended within the framework of WAEMU.

2.2.8 Structural Reforms: The implementation of structural reforms has been interrupted by severe political and institutional instability. Nevertheless, the authorities have shown commitment to pursue the indispensable reforms aimed at stabilizing public finances, promoting a modern administration, private sector development and a more dynamic national financial system.

2.2.9 Concerning public finance, certain measures have been taken in the framework of the EEMP, such as the reassessment of the workforce of the central government during the period from October 2003 to March 2004, the setting up of a liquidity monitoring committee at the Ministry of Finance and Economic Affairs (MEF) and the single Treasury principle. The government has also taken measures to improve customs control on petroleum products and rice, improve the SYDONIA system and update product value to ensure better control of customs duties and exemptions. Regarding duties and taxes, a Large Enterprises Directorate was set up with IMF assistance within the taxes and contributions General Directorate at the end of the second quarter of 2005, so as to increase State fiscal receipts. . The government is further making efforts to improve transparency in the issuance of fishing licenses to enhance government fiscal revenue through the renegotiation of existing fishing licenses and implementation of new standard fishing agreements applicable to all operators. In addition to this, an emergency economic management fund financed by the donors has been created and is under the coordination of the UNDP Bissau office. Thanks to this arrangement and the support of bilateral donors, numerous technical assistance missions have facilitated satisfactory preparation of the 2004 and 2005 budgets and training of officers in budget preparation, preparation of GFOT and public expenditure control..

2.2.10 In the Civil Service, the low human resource capacity and inefficiency in the assignment of responsibilities are major constraints to the efficient running of the administration and government institutions. The government has shown commitment in the appointment and promotion of civil servants according to merit, competence and profile, irrespective of political affiliations. In addition, starting October 2003, specific measures pertaining to the control and management of staffing levels as well as the civil service wages have been taken with the aim

of achieving, in the medium-term, the 35% government-revenue target in accordance with the WAEMU convergence criteria. The Civil Service Ministry launched a Civil Service reform project and requested that all ministries concerned discuss the issues and submit new organic texts on their respective departments which would be subsequently harmonized with a view to adoption of new organic laws. A recent mission of team of consultants financed by the European Union visited the countries to support civil service reform. The Bank is kept informed of these initiatives and plans to coordinate its activities in the sector with those of its development partners..

2.2.11 Concerning the private sector and financial system, there are several obstacles. Privatization programmers initiated in the framework of the development and rehabilitation of the private sector in 2002 (US\$ 31 million) financed by the World Bank involved continued privatizing of public enterprises. About 17 public enterprises were slated for privatization or restructuring. While 17 enterprises were earmarked for privatization or restructuring in 2002, the process somewhat stagnated at the end-2004, and concerned enterprises such as the International Bank of Guinea-Bissau, the Hotel 24 September, Bissau Hotel, and Guinea-Bissau Water and Electricity Company (EAGB). As the first semester of 2005 ended, only Bissau Hotel had been privatized.

2.2.12 The main thrusts of private sector revival are rehabilitation for a healthy financial sector and economic infrastructure, State disengagement and promotion of private investment and settlement of internal areas. An internal arrears clearance programme was set up in 2003, with World Bank and European Union financing. Following the closing of the major banks such as Banco Tota y Açores and Banque Internationale de Guinée-Bissau in 2002, the financial system, is gradually being renewed with the opening of banks such as Banque de l'union and Banque régionale de solidarité in 2005. Other banks like Ecobank Senegal and CBAO which have already received authorization to set up will be opening in the near future. With the modernization of the financial system, there is expected to be easier access to credit and security of the banking operations needed for development of economic activities.

2.3 *Sector Context Issues*

2.3.1 The main sectors playing key roles in the national economy and which will be analyzed are: the agriculture and rural sector, promotion of agro-processing SME-SMI and tourism, and, lastly the infrastructure and public utility sector. Overall, the lack of clear sector policies and cost recovery policies, the difficulties in privatization of certain sector services and poor management of public corporations such as EAGB have complicated electricity and water supply in Bissau and in urban centers, deteriorated the roads system and hampered private sector development and the well-being of the population.

2.3.2 **Agricultural and rural sector.** Agriculture is the main economic activity and contributes more than 52% to GDP, employs 80% of the active population and represents over 90% of exports. Exports consist mainly of cashew nuts and fisheries products. The constraints of the agricultural sector are numerous: (i) the declining trend of rainfall; (ii) unfavorable evolution of food production, particularly rice cultivation, due to the degradation of mangrove rice cultivation systems and the development of a barter system between cashew nut producers and operators exchanging imported rice for cashew nuts; (iii) inaccessibility of cultivation zones and the lack of transportation; (iv) very limited institutional capacity for programme implementation; (v) inadequate organization of producers and modernization of the sector,

which limits the entrepreneurial capacity and negotiation skills; (vi) the lack of specialized institutions in the area of agricultural credit; (vii) rudimentary technological level of farmers and the difficult access to production factors (improved seedlings, agricultural equipment, fertilizers, etc); and (viii) weakness of networks for marketing and processing of agricultural produce. These constraints lead to increase economic and food dependence on cashew nuts and the worsening of food shortage. Considering that poverty is concentrated mainly in the rural areas, the authorities are striving to meet the challenge through growth and diversification of agricultural production towards food security and export of processed products, guaranteeing monetary income for farmers and fighting poverty.

2.3.3 Fisheries Sub-sector: The fishing potential is about 300,000 tons per annum, mainly exploited by foreign fishing vessels which are issued fishing licenses indiscriminately, without any real control and without a sustainable resource-management policy. Artisanal fisheries represent a potential landing capacity of 20,000 tons, with species of low commercial value. The main constraints of the fishing sub-sector are (i) lack of an appropriate strategy and sector development policy (ii) inadequate means for maritime surveillance, (iii) lack of infrastructure (landing harbor, cold rooms); (iv) low tax revenue obtained from the sector; and (v) inadequate human resources. Yet this sector could be developed, it has potential for creating employment and income for the poor in the rural communities and large coastal urban centers. The Government intends to take necessary actions to enhance transparency in the issuance of fishing licenses as well as the sector's productivity and profitability.

2.3.4 Industry, Trade, Tourism and Handicraft Sectors: Guinea-Bissau is a country with unexploited natural potential such as various tourist attractions and agricultural produce processing possibilities. Despite these assets, an analysis of the trade, industrial, tourism and handicraft sectors reveals great difficulties in the processing of goods of the primary and secondary sector, the promotion of services and their marketing through a dynamic private sector. These problems are linked to inadequate and poorly maintained public utilities (electricity, water and telecommunications) and to road and sea transport infrastructure which is among the most expensive in the sub-region, as well as an institutional framework that is hardly attractive to investors. Furthermore, these sectors lack a financial system capable of supporting the development of nascent SME-SMIs. The Government intends to boost the services and processing sector through a policy to attract foreign private investment by reviewing the investments code and the modernizing the domestic banking system and generally by reducing factor costs.

2.3.5 Infrastructure and Public Utilities Sector: **As regards electricity, barely 30% of the population of Bissau is connected to the electricity network while in the other cities the figure is around 37%. The country's electrification rate is about 12%, the lowest in the sub-region, with the cost of electricity services at least five times higher than in Senegal. The situation of the energy sector is therefore characterized by inadequacy both in terms of quantity and quality, due to the obsolete nature of production plants, differences in production equipment and total dependence on hydrocarbons. In addition, the deterioration of the electricity transmission and distribution network translates into huge losses of electrical energy. These technical problems stemming from lax management have brought about the structural management deficiencies in the sector. The current rise in oil prices further aggravates the situation in the sector where thermal energy is the main source of the country's electricity, especially in the capital, Bissau.**

2.3.6 In the area of water and sanitation, village water programmes undertaken within the last three decades have made it possible to cover 70% of the water requirements of the villages. Yet in Bissau as in any other sub-urban centers, about 36% of the population has a

potable drinking water supply. With regards to sanitation, especially in urban areas, the situation has worsened due to lack of sanitary installations for about half of the population, obsolete or inexistent sewerage and storm water drainage networks, the inexistence of a functioning septic tank drainage system, the inexistence of working flushing system or an system for evacuation of household waste water into drainage or gutters. The sector is paralyzed by lack of legislation to define the rights and obligations of users and the State and which in particular governs the principle of cost recovery of public services (tax on water and sewerage).

2.3.7 Transport: The transport infrastructure comprises a road network of 2,755 km, a deep sea port and the international airport of Bissau. These facilities are inadequate, unsuitable and unevenly distributed on the national territory. Guinea-Bissau continues to be landlocked and traveling the country is difficult. There are numerous waterways and tributaries in the western side of the country and they raise so many natural obstacles to the development of transportation links. Whereas the geographical situation of Guinea-Bissau is conducive to the development of the maritime and fluvial transportation, the country faces numerous constraints such as: silting up of the port of Bissau, insufficient beaoning and inefficient and outdated means of handling all of which make the port rather ineffective. The road network, for its part, has in the last two decades, undergone deep structural deterioration, leading to increases the increase by more than 40% of the price of products, sold on the market.

2.4 *Priority Crosscutting Issues*

2.4.1 **Governance**: Weaknesses in the area of good governance are recognized by all the parties, including the Government, which prepared in 2003 a national good governance programme whose implementation is still far from satisfactory. A Country Governance Profile (CGP) financed by a Portuguese trust fund will be launched by the Bank in 2006. That will make it possible to orient the activities to be implemented consistently with the priorities of the PRSP and the Government's Good Governance programme. Some measures have nevertheless been or are being implemented by the public authorities.

2.4.2 As regards the political situation, following the satisfactory organization of free and transparent elections (parliamentary elections in May 2004, presidential elections in 2005), the government intends to pursue efforts to improve dialogue between the executive, judicial and legislative authorities with the support of the development partners. The Government, though favoring a policy of de-concentration of the public service and political decentralization took very concrete actions to bring the citizens closer to their local government. Concerning the public service, two diagnoses were conducted by the Netherlands and the European Union in 2002 and 2003 respectively. Pending a clear strategy for implementation of the public service reform, the public service staff count has been carried out and the organic texts of the different ministries are being reviewed. These initiatives were taken without any of the fundamental questions-- such as those concerning the new missions to be entrusted to the public administration, the size, the appropriate policy for recruitment of staff and their adaptation to the job profiles, the salary policy and the motivation, as well as health insurance and pension systems-- being treated and satisfactory answers being proposed. The authorities requested the Bank's technical assistance to update the diagnostic studies and support the finalization of the strategy for implementation and partner consultation. The Bank will conduct this activity with the assistance of the Portuguese

cooperation system in early 2006.

2.4.3 At the level of financial governance, there are numerous examples of weak capacity of economic and financial administration, justifying the frequent recourse, in recent years to technical assistance for economic management provided mainly by AFRITAC, AFRISTAT the IMF, UNDP and the European Union. The different specialized bodies entrusted with the control of Government finance (General Finance Inspectors, Auditors and Government Inspectors) are few and not always of the right caliber. The parliamentary control exercised in approving finance Acts and audited budget accounts is compromised by inadequate training of parliamentarians and senior officers of the Ministry of Finance in budget formulation and management as well as the preparation of management accounts by the Treasury. Though having adopted harmonized public finance management policies within WAEMU, the country is disadvantaged by its belonging to the Portuguese-speaking area and its lack of the technical capacities for the application of the harmonized policies in the area of the public procurement, of evaluation of the country's financial accounts; review of State public expenditure and of fraud control. The economic management capacity building project approved by the Bank to support the public service in strategic planning, public investment programming and statistic will help to resolve some of the problems raised.

2.4.4 In the area of legal and judicial governance, the country also endures numerous institutional shortcomings and human capacity shortcomings. The Audit Office was reestablished in 2003 and the elections of the President and the Vice President of the Supreme Court also took place in February 2004. Although these constitute positive acts in restoring the rule of law, the instances of political interference in judicial and legal decisions are not isolated and the sector is marked by numerous material and human constraints that impede the fulfillment of its mission. The anti-corruption drive is not yet translated into concrete action, despite the will evidenced and the good intentions of the authorities.

2.4.5 Overall, the analysis of the issue of governance shows the urgent need to implement the necessary reforms for the restoration/consolidation of democracy, the transparency and the sound management of the public finances as well as the effective fight against corruption. It is indispensable to go beyond the adoption of texts and laws and the creation of institutional structures in favor of governance. It is henceforth a question of enforcing the texts and as the case may be, punishing the offenders in accordance with the laws in force. A policy of appropriate dialogue with the authorities with a view to backing the political will in favour of the reforms seems therefore necessary to this end.

2.4.6 **Labour Market:** Despite the lack of reliable official statistical data, the labour market is characterized by a high youth unemployment rate. Despite the country's signing of the Convention on the Rights of the Child, a lot of violations are observed and many children, especially girls, below the legal age for employment, are used in domestic chores or as farm hands. The population aged 15 years and over is 54.6% of the total in Guinea-Bissau, with 59.1% in Bissau according to data from the simple survey organized by the National Statistics Institute in 2002. The labour force participation rate of people in this age bracket is 61.7% at national level and only 52.4% in Bissau. The rate of unemployment is estimated at 12.4% at national level and 19.3% in Bissau. An analysis of employment by economic activity shows that at the national level 63.5% of people employed and aged 15 years or more are in the agricultural sector and only 8.5% of them are in Bissau. In contrast, 6.1% are in the public service countrywide with 21.5% in Bissau. The lack of employment opportunities

in the private sector, due to its small size and its lack of dynamism, coupled with an overstaffed public service, poorly paid and inefficient, should translate into a more worrisome employment situation than the survey results show.

2.4.7 In the absence of updated laws on the regulation of the labour market, the present Government intends to undertake the following actions: i) modernization of the labour administration, and in particular review of the Labour Act and its related regulations to ensure greater flexibility for the private sector. ii) Harmonization of the national labour code with OHADA laws, iii) promotion of a new employment and vocational training policy with the support of Brazilian technical assistance and the establishment of a new social welfare system.

2.4.8 **Regional Integration:** Guinea-Bissau is committed to the regional integration process within the Economic Community of West African States (ECOWAS) since 1975 and WAEMU since 1997. She is also a member of the Community of Portuguese Speaking Countries (CPSC), NEPAD, the Gambia River Basin Development Organization and the Interstate Committee for Drought Control in the Sahel (CILSS). Since the signing of the WAEMU treaty, Guinea-Bissau has undertaken to adopt several measures for the effective implementation of laws adopted by the various organs of the Union on the monetary, institutional and economic fronts. These actions are to be supplemented by others within the framework of the Organization for harmonization of Business Laws in Africa (OHADA) and NEPAD. Within the framework of the country's commitments to WAEMU, the monetary component was dealt with support from the BCEAO but regarding the institutional and economic components very little has been done outside the Common External Tariff (CET) adopted since 2001. Several of the country's treaties, laws and directives have not been fully harmonized with the WAEMU arrangements. The major causes of many delays are the institutional weaknesses and linguistic barriers. Nevertheless, the Government intends to continue the reforms required in the areas of the customs code, harmonized price indices, fiscal laws, the WAEMU accounting system (SYSCOA) and harmonization of the legal and statistical framework of public finance to get closer to standards of the Union.

2.4.9 **Population:** In 2003, the population was estimated at 1.3 million inhabitants with a demographic growth rate of 3%, life expectancy of 45.5 years and a population density of 35 inhabitants per km², while the growth rate of urban population was estimated at 4%. On 7 March 2005, the outgoing Government approved a new population policy but has neither adopted a policy to check the rural-urban drift nor a town planning policy. The problem of internal migration flows linked to the politico-military crisis is difficult to handle, but there is an on-going programme of demobilization, disarmament and re-orientation of ex-combatants which is supported by the Bank within the framework of post-conflict rehabilitation. There is the problem of increasing lack of sanitation, the unavailability of decent dwelling and the pressure on social infrastructure (schools, health centers), which the authorities have difficulty in managing. These social phenomena contribute to increasing delinquency and insecurity in the cities. Even though only a little more than a quarter of the population live in the autonomous area of the capital city and that close to 75% of the country's active population work in the agricultural sector, the degradation of the quality of life in urban centers increased rapidly. The causes are initially low accommodation capacities, water and electricity supply and sanitation, which could not respond to the growing needs of the urban population. These different factors have contributed to the deterioration of the social indicators and the environment. It should be mentioned that population statistics available are just approximate projections, being based on the outdated general population census data which dates back to 1993–1994. In spite of the urgent need for a new general population census, the authorities are finding it difficult to mobilize the necessary funding.

2.4.10 Gender Issues: Gender disparities are significant in the country and notably in the education sector and increase significantly with the level of education. It is at the educational level that the women encounter the most difficulty, because parents often tend to enroll boys in schools to the detriment of girls, who are assigned to domestic activities. In the public service, women represent only 25% of the staff and generally occupy only subordinate positions. Even though the proportion of women in the National Assembly and in the Government is on the increase, it remains low because it represents only 10% of these privileged groups. In the agricultural sector, women account for more than 81% of agricultural activities, notably for food production. Successive governments have taken a certain number of measures meant to encourage the integration of the woman in the Bissau-Guinean society. Indeed these relate to the various policies and strategies in favor of women in development since the participation of the authorities at the Beijing World Summit on Women in 1995, the setting up of the "Women and development" network in order to coordinate the "Women and Development" Master Plan; and the creation in 2000 of the Institute for the Woman and the Child (IMC). Likewise, a national "Education For All" (EPT) Plan of Action has been adopted and it aims at sensitizing the communities on the problem of girls' education considering the reluctance of some parents to send them to school. The Government is taking steps to formulate and gradually put in place an action plan for the Family in line with the recommendations of the Regional Action Plan for the Family adopted in Cotonou. In spite of all these initiatives, an analysis of the MDGs shows that prospects for 2015 are somewhat bleak because of the present policies that are still inadequate in terms of volume and impact.

2.4.11 HIV-AIDS and Communicable Diseases: In 2001 the prevalence rate of HIV1 and HIV 2 among women aged 15 to 24 years was estimated at 4% and, 2.7%, respectively, according to the National AIDS Control Plan (NPFA). Guinea-Bissau is one of the rare countries where the two types of virus coexist. The rate of utilization of the different contraceptive methods was estimated at 7%. According to the NPFA, 100 000 people will be affected by HIV 1 in 2008 if appropriate prevention policies are not adopted. Confronted with this scourge, the main actions undertaken by the Government are the large-scale sensitization of vulnerable people by the different means of Information-Education-Communication (IEC) available. The Government's actions also aim at the adoption of legislation regulating the activity of sex workers accompanied by a rational distribution of condoms as well as strengthening the capacity of the community radios in national languages, and finally strengthening the capacity of NGOs in the area of sensitization and counseling. The absence of recent surveys prevents the assessment of the impact of these actions on the sexual behavior of the population and the transmission of HIV-AIDS.

2.4.12 Data from the National Health Information System (NHIS) reveal that malaria is the cause of 50% of consultations and that 90% of the cases are due to the Plasmodium Falciparum strain. Malaria prevalence dropped from 17.1% in 1999 to 15.9% in 2002.. The incidence of tuberculosis is increasing due to the HIV-AIDS phenomenon and the abandoning of the tuberculosis patient treatment programme following the destruction of the pneumonia-phtisiology referral hospital. Indeed the number of cases recorded nearly tripled between 1987 and 1995 with a prevalence estimated at 470/100 000 inhabitants. In 2002 the National Tuberculosis Control Program (NPFT) recorded 1,566 cases of tuberculosis but according to specialists this number is an underestimation considering the poor quality of the surveys. To more significantly reduce deaths caused by malaria, the Government intends to

pursue, with the assistance of its partners, large scale use of treated mosquito nets, involvement of NGOs and Grassroots Associations through grassroots sanitation campaigns and sensitization and increasing health facilities in the communities especially at the rural level. As for tuberculosis, in addition to IEC-type sensitization action, the government intends to pursue the vaccination and the tracking of the disease in schools and workplaces and strengthening referral centers for the tuberculosis patients.

2.4.13 Situation of the Environment: In 1998, Guinea-Bissau had 2 million ha of forests, i.e. 5.5% of the national territory. Unfortunately, this forest, of a wide diversity, is going through rapid destruction. 1996 estimates show an annual reduction of 80 000 ha/year or 625 000 m³/annum due to human actions and fire. Slashing and burning, linked with a high population density (36 inhabitants/km²), shifting cultivation and the intensification of the cashew nut cultivation, transhumance and saline intrusion are the main factors of this deforestation. Conscious of these risks of deforestation, the national authorities adopted several years ago, and various measures aimed at the sustainable management of natural resources. These are the main Forest Law and the Law on Hunting both adopted in the middle of the 1990s, the ratification of the Convention on the bio-diversity in 1995 resulting from the 1992 United Nations Conference on the Environment and Development, held in Rio de Janeiro. Various other measures have been adopted including the national strategy and the action plan for the conservation of the bio-diversity, prepared in 2002, and the preparation of a National Desertification Control Action Plan in 2004; these centre on the adoption of a natural resource management plan, and sensitization of communities on the exploitation of natural resources and the quest for alternative measures to the pressure put on natural resources. Besides the problem of mobilization of the financial resources required for the implementation of such a plan, the difficulty that the environmental issues pose is not so much the adoption of policies, strategies and action plans but especially the capacity of the authorities to effectively implement them.

2.4.14 Participation: The culture of participation and social dialogue in the definition and implementation of public policies have long been lacking in the country. Following successive politico-military crises, the Government has been gradually adopting new approaches for consultations on the management of public affairs. Civil Society Organizations (CSO) have been consulted in the choice of the policies, as was the case at the time of the preparation of the PRSP and notably in the social sector. The NGO platform has been consulted on the study on the causes of poverty, the definition of priority development objectives as well as the strategies and actions to fight poverty. It is also in this regard that the Bank's mission team responsible for preparing the RBCSP received the support of the authorities for a participatory approach and expanded consultation with the population in the identification and selection of the areas of focus of its future strategy of cooperation with the country. Likewise, follow-up mechanisms have been discussed as well as the choice of result and impact indicators.

2.4.15 With the support of development partners and notably the UNDP, the Government intends to make operational, the consultation mechanism to reinforce political dialogue, promote peace and national solidarity between Civil Society Organizations (CSO), the State and the private sector through a periodic and participatory debate under the chairmanship of the Prime Minister. The Government further intends to define a legal framework to facilitate the coverage of health and education services by the local communities and to reinforce the technical and operational capacities of the National Youth Council (NYC) and the network of Youth Associations (RENAJ) for responsible participation of youth in the development

process. Owing to the disruption caused by the presidential elections, it has not yet been possible to put such mechanisms in place. The participatory approach to management will continue being strengthened, thanks to the de-concentration and decentralization policy that the present Government intends to implement in the coming years.

2.5 Poverty and Social Context Issues

Box 2: Characteristics of Poverty

It is estimated that 64.7% of the total population live in poverty, of which 21% in extreme poverty. The distribution of the poor is very unequal because Bissau harbours 20.6% of poverty and accounts for 51.6% of peoples living on less than \$2 a day among its population. Extreme poverty hits 9.3% of the people of Bissau compared with 24.8% in the rest of the country. An analysis of the share of each administrative region in poverty shows that Oio, the region in which the Banks intends to intervene through its rural sector rehabilitation project, is the most affected region because 79.6% of the people live on less than \$2 a day and its contribution to poverty at the national level is 18%. The situation of the other regions is as follows: Bafata (72.4%), Quinara/Tombali (69.1%), Gabu (65.8%), Cacheu (63.8%), Biombo/Bolama (62.6%) and Bissau (51.6%). The average spread between the poverty threshold of \$2 a day (estimated at CFA F 216 000 per annum) and the income of the poor is CFA F 84 032. This average spread rises to CFA F 27 688 for a poverty threshold of 1\$ a day (estimated at CFA F 108 000 per annum). The whole thing reflects significantly deep levels of poverty.

2.5.1 The UNDP 2004 Human Development Report ranks Guinea-Bissau at 172nd on the Human Development Index, which makes it one of the poorest countries in the world. The poverty phenomenon is the consequence of the poor performance of the economic and social policies applied in the wake of an independence acquired after 11 years of war with huge social consequences including the departure of many senior officers from the country who have not been replaced.

2.5.2 Guinea-Bissau is characterized by a high unemployment rate in spite of the hardly reliable statistical surveys, salary payment arrears in the public service and a significant exclusion of the youth from the economic life. They make up two-thirds of the unemployed population of Guinea-Bissau, and are confronted with problems relating to the lack of professional qualification, sexually transmittable diseases, HIV-AIDS, crimes, drugs and prostitution. Besides this social group, as a post-war country, Guinea-Bissau generated 28 000 ex-combatants with all sorts of profiles who should be demobilized and reintegrated into active life along with disabled war and mine victims. To address this, the Government has put in place specific social policies for these target groups for their gradual redeployment and reintegration into economic life.

2.5.3 Government faces numerous difficult social situations affecting the youth, the ex-combatants, the paupers, the women and children, due to unemployment, the lack of professional qualifications and gender imbalances. In the absence of master documents for social policy, social action plans and qualified human resources, the Ministry of Social Solidarity and Poverty reduction accomplishes its mission with difficulty. Consequently, assistance measures to the vulnerable groups, policies to reduce gender imbalance and promotion of social equity remain globally insufficient and their impact on poverty is limited.

2.5.4 Education is an essential sector in the problem of poverty reduction but in spite of the considerable efforts deployed, the performance of the sector still remains low due to the inadequacy of functional school infrastructure as well as shortage of qualified human resources. Thus, only 30% of the children enrolled successfully complete primary education cycle. Overall, for 2003, the adult illiteracy rate was about 58% and 72.5% for women. There

are still many challenges in making up for the cumulative delays in the area of primary education.

2.5.5 Health also constitutes one of the critical sectors in the problem of poverty reduction in Guinea-Bissau. Despite efforts made a decade ago, health indicators remained weak. The reforms started by the State since 1993 to modernize the country's health system and to improve the health indicators have been disrupted by the politico-military crises that the country underwent. The health coverage is extremely low, at 5.7 doctors and 114.5 nurses for one hundred thousand inhabitants in 2003. Infant mortality is estimated at 118.1 per thousand in 2003 when the average for sub-Saharan Africa is 80.6 per one thousand. Malaria remains the leading cause of death and the biggest public health problem and represents the most frequent cause of morbidity and mortality of children under 5 years and over 50% of causes for consultation. There has been an upsurge of major pandemics and the spread of HIV-AIDS, in particular among the youth.

2.5.6 Land tenure is governed by the Land Act enacted in 1998, but the land statute, which is closely related to the structure of the rural communities in the country, is a factor of poverty. In this regard, there are several political systems such as: the horizontal political system (the case of the Balantes), the vertical political system, the most widespread case, (the Peulhs and Mandingos) and the semi-vertical political system (case of the Mandjaks and Pepeis). It is seen that the land tenure issue in Guinea-Bissau, notably according to the vertical and semi-vertical political systems, is a source of inequality and poverty, since the land is managed by a minority of families.

2.5.7 Confronted with all these problems, the Bank supports the Government in the social sector through socio-economic rehabilitation projects and strengthening of education and health systems. Thanks to that and to the assistance of other partners, progress was made in the areas of gender, the environment and to a lesser extent, education. For all the others¹, especially on the institutional, human and sensitization fronts, there are still a lot of reforms to be undertaken to reverse the pessimistic trends. Without tough economic and social policy actions, and considerable assistance, it can hardly hope to attain the Millennium Development Goals (MDG) by 2015.

2.6 *Medium-Term Economic Outlook and External Environment*

Constraints

2.6.1 The main constraints to economic and social development in Guinea-Bissau are the endogenous shocks including the socio-political instability, which contributed to the aggravation of poverty. The poor political and economic governance that followed post-conflict periods has had perverse effects on the mobilization of foreign assistance, and contributed to the complete disorganization of the productive system and economic administration. Likewise, the strong intervention of political authorities and the armed forces in the economic life as well as distortions in resource allocation have been significant obstacles to the valorization of the economic growth potential. An analysis of the external

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The eight (8) Millennium Development Goals are: reduce extreme poverty and hunger, ensure primary education for all by 2015, promote gender equality and autonomy for women, reduce infant mortality for children below the age of five, improve maternal health, Fight against HIV/AIDS, malaria and other diseases, ensure a sustainable environment, establish a global partnership for development

sector also shows the structural distortions of the economy and its vulnerability due to its external dependency on cashew nut and fisheries and petroleum products.

2.6.2 On the social front, the condition of the population, characterized by limited access to social services such as education, health, water and basic sanitation has worsened. At national level, about 35% of households do not have toilets and they use awkward pit latrines which constitute a great danger to public health and only a small proportion of the population is connected to the public drinking water system. The overall health situation of workers is affected and productivity in the public service as in the private sector is declining. The country's post-crisis situation has created many social cases including about 28,000 registered former rebel fighters for whom Government was compelled to provide a demobilization, redeployment and professional re-integration programme. The external partners' support to this programme notwithstanding, the assistance to these vulnerable groups remains insufficient.

2.6.3 At the political level, the main problem is the absence of the culture of dialogue between political parties, the Government and civil society organizations as well as the army's exclusion from active political life after its historic role in the attainment of national independence. The real issue is the difficult living conditions in the barracks.

2.6.4 At the macroeconomic level, the public finance's structural deficit and external and domestic debt sustainability are the major challenges. Efforts undertaken for fiscal revenue collection are inadequate to cover incompressible recurrent expenditure such as salaries and leave a positive balance in the short term. External debt sustainability continues to be a bottleneck for the country because its ability to honour current external debt service is still weak.

2.6.5 At the level of structural reforms, jump-starting economic activity and promoting growth as major factors to fight against poverty, cannot be undertaken without prior restoration of basic economic infrastructure such as energy, the transport network and telecommunications and investor confidence. In addition, the country's dependence on cashew nut makes the economy vulnerable to erratic fluctuations in the price of this product, thus raising the issue of diversification of cash crops and the need to promote food crops to guarantee food security for the country. The low level levels of economic growth recorded between 1999 and 2002 and the limited development of the private sector have led to significant unemployment affecting mainly the youth. The challenges are even greater when it comes to public service reform. This is characterized by its low competence, its problems of overstaffing, staff with little qualification and without motivation, working in an inappropriate organizational framework and with inadequate resources.

Outlook

2.6.6 These numerous constraints notwithstanding, the country indeed has good prospects in agriculture, fisheries and tourism. Within the framework of the PRSP and its 2004-2008 programme, the Government has set out a medium term framework of priorities comprising a series of actions in the economic, political and social areas and which are consistent with NEPAD, WAEMU, regional programme, the MDG and commitments with the ad hoc committee of the United Nations Economic and Social Council (ECOSOC) in the area of budget transparency and political and social stability.

2.6.7 Guinea-Bissau's future in the medium term is dependent on challenges emanating both from the country's post-conflict situation and structural dislocation. In particular this is about consolidating peace through the reestablishment of social and political discourse, the non-interference of the military in the political management of the country and finally the promotion of good governance practices. In particular the political will for a profound reform of the public service and particularly public finance as well as a better functioning of the judiciary and prisons services would guarantee the restoration of the country's credibility and enduring re-engagement with development partners..

2.6.8 Concerning the economic and financial situation, the country has natural potential in agriculture, fisheries and tourism. The Government has finalized the PRSP comprising several sector strategies as well as plans of action for their implementation., To create the conditions for sustainable growth, in addition to supporting national political stability, there is need to create a stable macroeconomic framework, to set up an ambitious economic infrastructure policy (energy, water, telecommunications, roads and port) as well as build human capacity building in the public administration. The Government intends to support activities likely to boost economic growth, such as promotion of agro-processing SME-SMI, agricultural diversification to include cotton, coffee and the development of food crops, the diversification of the non-agricultural sector to artisanal fisheries, domestic trade in agricultural surpluses and finding markets in the context of regional integration. Lastly, actions to combat poverty should centre on micro-finance, basic education for all, health for all, and an adequate social policy for the benefit of vulnerable groups and in favour of gender and equity. The measures envisaged by the Government are as follows:

2.6.9 In the productive sector, GDP growth of about 3.3% is forecast for 2006 and 2007, followed by 4% in the 2008-2009 period. Factors underlying this growth are the diversification of cash crop production and fisheries, the promotion of food crops, the processing of primary commodities thanks to the development of SME-SMI and the development of tourism and handicrafts. The infrastructure sector will play a decisive role in economic growth with the implementation of PRSP programmes following resumption of cooperation with the country's major economic and financial partners.

2.6.10 In public finance, fiscal revenue is expected to increase by 37% or on average by about 6.5% per annum during the 2004-2009 period. Fiscal revenue will rise from 8% of GDP for 2005 to 9.6% in 2009. This progress will be through reforms such as the establishment of the Directorate of Large Enterprises, the introduction of VAT, the decline in the general level of taxation and its simplification, the expansion of the fiscal base and the fight against smuggling. On the expenditure side, the concern is to contain the volume of public expenditure, reduce the weight of wages in recurrent expenditure by undertaking a census of soldiers and the para-military as well as the computerization of the civil service payroll. In addition, the Government intends to better enforce procedures for procurement and improve control of services provided and supplies delivered. The primary budget deficit should be re-absorbed steadily moving from -4.7% of GDP in 2005 to -0.1% in 2009. Regarding overall balances (on commitment basis excluding grants) they will remain in a deficit position though showing a clear improvement, from -28.5% of GDP to -18.3% of GDP for the same period. As for balance of payments, the current account deficit (including official transfers) will remain significant, with a trend towards decline from -12.8 of GDP for 2005 to -8.4% for 2009. With regard to debt, considering its still heavy burden, the

Government hopes to benefit from the extension of the interim debt relief mechanism under the HIPC to enable it to reduce its financial burden. At the end of 2005, this relief will reach USD 16.78 million in net present value terms compared with USD 50.83 million programmed for the total relief debt relief, giving a total of 33%.

2.6.11 Concerning social aspects and attainment of the MDG, the Government intends to combat poverty through the implementation of policies defined concerning the social sector through better public expenditure management and appropriate targeting of pro-poor measures. The authorities will pursue the MDG through efficient implementation of the projects approved for the education, health and social sectors.. They hope to reduce under-five mortality by two-thirds before 2015, improve maternal health to reduce the maternal mortality rate by $\frac{3}{4}$ by 2015 and control HIV-AIDS, malaria and other diseases. On the education front, failing a guarantee of primary education for all children before 2015, the Government as a first step intends to make up for lost time by increasing the net enrolment rate to the equivalent of at least 7.6% on average per annum. Based on the country's post-conflict specificity, the redeployment-reintegration programme will be pursued over the next few years, for complete professional reintegration of ex-combatants through vocational training activities and access to micro-credit.

2.6.12 Overall, the major external partner's predisposition to assist the country, on condition that political stability and good governance practices are reinforced, is an advantage. During the 2006 round table, the authorities plan to submit a master plan concerning the technical assistance required for the public administrations. This will also provide the opportunity to seek the funds required for the implementation of and projects identified in the PRSP and which are estimated at about US\$ 428 million for 2005-2007, with approximately 85% yet to be mobilized. The government will seek partners' support to finance the external debt installments, including those payable to the Bank, during the transitional phase leading up to the attainment of the completion point towards the end of 2007, all going well.

2.7 *Private Sector Business Climate and Issues*

2.7.1 The private sector is experiencing several constraints on its development the most important of which are hardly conducive business environment owing to socio-political uncertainties, the limited availability of socio-economic infrastructure such as energy, water, telecommunications and road, maritime and air transportation at competitive costs and an unreliable financial system. Added to that are institutional impediments (legal and regulatory) to business development. All these contribute to reducing the competitiveness of any private sector economic activity. At the level of institutions and regulatory laws, the Government undertook a number of actions to boost the sector. An Action Plan for the 2004-2005 period has been prepared for: (i) the formulation of a trade, industrial, tourism and handicrafts policy in close consultation with the private sector, sub-regional and international institutions; (ii) the supervision of the principle of regulating different sub-sectors in partnership with similar regulatory institutions; and (iii) the promotion of a conducive environment for investments in line with OHADA and WAEMU laws. Though the implementation of this Action Plan seems to have been delayed the Government intends, given the confidence gained on account of the smooth conduct of the presidential elections, to review commercial and industrial legislation in line with the OHADA Uniform Acts and prepare a strategic framework for enhancing and processing local products, review the investment code, limit administrative barriers for business, speed up the preparation of customs code implementation texts aligned with those

of WAEMU, establish a single window,. In this regard, it is envisaged that an Industrial Zone Processing and Promotion Agency (APROZI) will be established with support of several private and public partners. The accelerated privatization of public enterprises, based on the formulation of an indicative framework for foreign investment, would encourage private international or regional investment in order to make up for the lack of national capital for agro-processing (cashew nuts, mangoes, etc). In the tourism area, it is envisaged to adopt a tourism sector strategic development plan, a tourism master plan as well as an investment code for the sector, including institutional capacity building of socio-professional organizations of the sector and promotion of strategic partnerships.

III. NATIONAL DEVELOPMENT PROGRAMME AND MEDIUM-TERM PROSPECTS

3.1 *Key Elements of the Government Development Programme*

3.1.1 The Government formed following the May 2004 legislative elections prepared several policy and strategy documents as part of the finalization of the PRSP. These concern the good governance policy, the infrastructure policy, the technical assistance requirements master plan and the national programme for the public investment in the agricultural sector. The National Poverty Reduction Strategy outlined in the PRSP, as well as sector policies related to it, set the objectives and resources to be mobilized to attain them. The Government has adopted four strategic thrusts for the country's economical and social development. These are: (i) the acceleration of growth; (ii) increasing and improving access to basic social services and socio-economic infrastructure; (iii) the improvement of the living conditions of vulnerable groups in view of bridging the gap between social groups and the promotion of social equity and finally and (iv) improving institutional capacity and governance.

3.1.2 **The first thrust proposes to accelerate economic growth** through: (i) the promotion of macro-economical stability; (ii) the promotion of the private sector; (iii) the promotion of micro-finance and support to small and medium enterprises; (iv) the promotion of the growth of the agricultural sector; (v) Diversification of non-agricultural growth sources; (vi) rational management of resources, preservation of natural capital and improvement of living conditions; (vii) development of production support-infrastructure; and (viii) the development of tourism.

3.1.3 **The second thrust focuses on the development and improvement of access to basic social services and socio-economic infrastructure** such as rural roads and access to the markets, as well as adding value to the natural resources potentials and improving living conditions through: (i) education and training; (ii) health and nutrition; and (iii) the development of basic service infrastructure. Concerning education, the primary objectives outlined by the PRSP are: (i) improving access and success in the provision of free and compulsory primary education for all children up to the year 2015, with special emphasis on the girl-child and children from impoverished backgrounds; (ii) improving of the quality of educational delivery; (iii) elimination of gender imbalances in primary and secondary education and achievement of gender equality up to 2015; (iv) developing nursery education; and (v) improving on the 50% proportion of adult literacy levels especially for women as well as ensuring equitable access of adults to basic and continuous education programmes.

3.1.4 **The third thrust proposes to improve the living conditions of vulnerable groups**, by bridging the gap between the different social groups and the promotion of social

equity through (i) providing support to vulnerable groups (women, children, youth, peasantry, the elderly and war-handicapped); (ii) promotion of gender and gender equality. The government intends to improve living conditions for vulnerable groups through appropriate and specific interventions (development of a Social Action Fund, stronger adherence to the Convention for the protection of the Rights of the Child, facilities for the socio-economic integration of handicapped persons, etc.), which take into account the crosscutting issues of gender and equity.

3.1.5 The fourth thrust focuses on the promotion of institutional development based on good governance and the participation of all actors in the fight against poverty through: (i) the improvement of institutional and governance capacity; (ii) modernization of the civil service and capacity building; (iii) improvement of economic and public resources management; (iv) strengthening of the rule of law and the judicial apparatus; (v) support to decentralization; and (vi) promotion of economic and social dialogue with the civic society. More specifically, as concerns the modernization of the civil service the government intends to (i) build capacity to assure an efficient civil service; (ii) redefine and adapt the role of the public service by adapting its role to the accomplishment of the public service entrusted to it; (iii) reduce the role of the State by significantly increasing the role of private initiative in new and sustainable job creation; and (iv) providing the legal framework for decentralization and mobilization of human, material and financial resources in favour of local development.

3.1.6 Regional Economic Integration, as a process for accelerating economic growth and for the fight against poverty, remains a priority for the authorities in the implementation of their development strategy. The country is a member of several regional organizations. As previously mentioned, the Government intends to take advantage of the economic space provided by WAEMU to enhance the efficacy of its public service and ensure convergence of the economic policy with that of other member countries, increase market outlets for the agricultural and agro-industrial production and implement infrastructure and regional interconnection projects within the framework of NEPAD and OMVG. The politico-military conflicts the country experienced in the past years have shown the decisive role played by ECOWAS and CPSC in conflict-resolution in conjunction with the ECOSOC *Ad Hoc* Consultative Group on Guinea-Bissau and the Security Council Working Group for the prevention and resolution of conflicts in Africa. Regarding the economic aspects in the context of NEPAD, the Boke-Quebo multinational road project is envisaged in order to link Guinea Bissau with its neighbors and for the purposes of the OMVG, to launch multinational electricity production and integrated rural development projects. .

3.2 Evaluation of Progress in Programme Implementation

3.2.1 The authorities' programme, as stipulated in the PRSP, is too recent to allow for an evaluation of the progress made. In terms of feasibility and reality, the programme is somewhat ambitious considering the human and financial resources available and that could be mobilized by the country. It seems very unlikely that the objectives will be achieved within a five-year period. The incidence of poverty (see Box 3) and the rate of extreme poverty will not improve from the first years of implementation of the PRSP programme. The positive impact of policies implemented by the authorities will be very visible only by the year 2010. In a situation of serious financial crisis and in the absence of the negotiation of a formal programme concerning an IMF/PRGF, the Government formed following the May 2004 legislatures was able to mobilize little external financing to implement its programme and was compelled to give priority to salary payments to the detriment of the functioning of

services, public investment and debt reimbursement. With the assistance provided during the transition phase in the form of projects and budgetary support, the government was however enabled to undertake several measures to minimize the worsening of poverty in the country. These actions focused on the effective implementation of Government's programme through the EEMP by: (i) the gradual return of budgetary discipline and transparency; (ii) the implementation of fiscal revenue enhancement reforms; (iii) the commencement of the public service reform economic management capacity building; and (iv) institutional reforms promoting the liberalization and development of the private sector. Added to that, are some economic and social projects in the area of infrastructure rehabilitation, sensitization campaigns on MDGs, vaccination programmes, HIV/AIDS and conflict prevention as well as the establishment of a global partnership for development.

Box 3: Key Elements of the Government Programme in light of MDGs and Expected Outcomes

Priority objectives and performance indicators	Baseline		Prospects		
	Date	Value	2007	2010	2015
Poverty reduction					
Number of poor people (in thousands)	2002	764.672	871.5	881.8	899.3
Poverty incidence	2002	64.7	63	60	58.1
Extreme poverty rate	2002	20.8	20.2	19	18.7
Gini index	2002	0.36	0.37	0.35	0.32
Accelerate economic growth					
Real GDP annual growth rate	2002	-7.2	4	6.5	7
Per capita GDP annual growth rate	2002	-9.8	1.6	2.9	3.2
Rate of investment (in % of GDP)	2002	10.4	21	22	20
Maintain economic stability					
Rate of inflation (in %)	2002	3.3	3	3	3
Primary budget balance (in % of GDP)	2002	-4.2	4.8	5.7	4.9
Current account deficit, excl. Grants (in % of GDP)	2002	-18.7	-13.7	-12.7	
Debt/GDP ratio (in %)	2002	405.4	383.7		
Improve general level of education					
Gross primary enrolment rate (%)	2002	62	83	89	98
Gross enrolment rate for girls (%)	2002	49.8			
Proportion of children completing secondary education (%)	2002	44			
Pupil/teacher ratio in basic education	2002	36			
Adult illiteracy rate	2002	58.9			
Expenditure on education in percent of GDP	2002	2.2			
Improve overall health situation					
Life expectancy (years)	2002	45	46	48	51
Fertility synthetic index	2002	6.8	6.6	6.4	6.1
Infant mortality rate (%)	2002	130	124	73	48
Infant-juvenile mortality rate (per 1,000)	2002	215	205	120	80
Maternal mortality rate (100 000)	2002	700		588	525
HIV prevalence rate (%)	2002	4	4	3.5	2.5
Rate of health coverage					
Rate of malnutrition (weight by age of children under 5 years)	2002	27	23	18	15
Increase access to clean water					
Rate of access to clean water	2002	54			
Price of M3 of water (in USD)	2002				
Increase income and improve living conditions in rural areas					
Rate of rural poverty					
Rate of extreme rural poverty	2002	69.7	71.1	67.7	62.1
Gini index in rural areas	2002	24.8	25.4	24.3	22.7
Growth rate of rural GDP	2002	0.33	0.365	0.350	0.310
	2002	-0.08	6.4		

Source: NPRSP-August 2004 and country-team estimates

3.2.2 Concerning the PRSP monitoring-evaluation mechanism, shortcomings were observed not only with regard to the statistics body but also at the level of the institutional steering mechanism. Aware of these shortcomings, the Government requested the Bank's support in the framework of the economic management capacity building project, for setting up a poverty monitoring Observatory as well as the setting up of a more effective arrangement for monitoring poverty reduction policies. This project, which will be implemented in 2005, should meet the expectations of the authorities and all the development partners. With support from UNICEF, a database called "DEVINFO" has been put in place and which is being set up at the Ministry of Planning and it should enable the monitoring of a list of socio-economic indicators required for monitoring poverty. The difficulty lies in the technical and financial capacity of the statistics organ to guarantee the production and updating of these data at short notice before the effects of the support provided by the Bank or other partners are effective. With regard to statistical strengthening of the INEC, several problems arise but setting up of the ongoing institutional framework for statistical production with support of the Portuguese cooperation and the establishment of the National Statistics Council should create the conditions for greater efficiency of foreign technical assistance in the sector.

The projections of the priority objectives and the performance indicators for 2007-2015 shown in box 3 are those of the government and will not necessarily be identical to those in the tables in the annex obtained from IMF data.

3.3 Partnership Framework

Box 4: Donor Interventions by Sector		
Priority areas	Donors currently intervening	Observations
Governance Preparation of Government budget Fiscal revenue Public expenditure management and nomenclatures Forecast TOFE and treasury plan Public accounting Justice, fight against corruption Civil service reform	Leader: IMF/Afritac for public finance, European Union for public administration, UNDP for the rule of law, World Bank for structural reforms Others: French Cooperation, WAEMU, Portugal Cooperation, ADB, IDB, ACBF, Brazil	In addition to the European Union, public service reform in the framework of good governance is of interest mainly to ACBF, Portugal, French Cooperation, ADB and UNDP. Coordination of activities in this sector should be done quickly by the authorities. The partners operating in this sector are interested in coordinating their actions, however the mechanisms have yet to be defined.
Productive sector Agriculture, forestry, livestock, fisheries, trade, industry, tourism, handicraft	Leader: World Bank for private sector, ADB/FAO for agriculture and fisheries. Others: FENU/UNDP, WFP, EU (EDF), China, IFAD, Switzerland (Swissaid), Holland (SNV), AFD, Spanish Cooperation, Saudi Fund, Japan (JICA), UNICEF, IDB, Portugal	The fight against hunger and food production mainly involves FAO, IFAD, the Kuwaiti Fund, and WFP. The Bank and IFAD are complements in the rehabilitation of the agricultural sector especially in food security
Social sector and solidarity Education, Health, social solidarity	Leader: United Nations system specialized agencies (WHO, UNICEF, UNDP, WFP, FNUAP) Others: World Bank, ADB, France, Portugal, Brazil, Netherlands, China	The requirements are significant but coordination of interventions remains weak. Several complements exist between the World Bank, ADB, the UN system and bilateral donors but coordination with numerous NGOs intervening in the sector is imperative
Infrastructure and public equipment (water, sanitation, transport, energy)	Leader: EU/EDF for the roads, World Bank for energy and urban sanitation Others: ADF, Spanish Cooperation, Saudi Fund, Japan (JICA), UNICEF, ADB, IDB, BADEA	The three major partners intervening in this sector are ADB, the World Bank and the European Union for which road transport is a focus area. Other priority needs in urban areas will be covered by the world Bank.
Political stability and internal security	Leader: UNOGBIS, EOWAS, UNDP, ECOSOC Others: EU, CPSC, Brazil, Portugal, France, WAEMU	UNOGBIS and ECOWAS for political coordination and the financial partners are mainly the European Union, UNDP and bilateral donors

Source: Table prepared from data gathered

3.3.1 The table shows several partners intervening in Guinea-Bissau, but an analysis of the Bank's activities shows that during recent years complementarity was developed mainly with the IMF, the World Bank, the United Nations agencies and bilateral donors such as France and Portugal. Judging from recent intervention, the World Bank and European Union are increasingly involved in economic infrastructure (roads and public utilities) aimed at private sector revival, while the Bank is more active in the rural and post-conflict rehabilitation sectors. With regard to governance, the European Union has already had an analysis conducted in the sector and has the resources for public service reform, and there is a desire for coordination of action shaping up among the partners, including the Bank. It is noted that owing to the conflict, the United States and Sweden have closed their representations in Bissau while Japan, Germany and the Netherlands have their representations in Dakar covering Guinea-Bissau.

3.3.2 The satisfactory management of the Emergency Economic Management Fund (EEMF) under the responsibility of the UNDP has clearly illustrated that international aid coordination in the country is possible and that the Paris Declaration resolutions relating to alignment and harmonization of development aid are starting to be applied. In fact, with the participation of representatives of development partners in the Treasury Committee, the country's financing requirements are better understood and the authorities' recourse to the EEMF to finance their priority social or technical assistance needs is based on the country's priorities, the directives of partners and the availability of funds. This successful experiment will be continued with an enlargement of the participation in the Treasury Committee of the Ministry of Finance to one representative of the European Union in addition to that of the UNDP.

3.3.3 The Bank provides support to the Government in project aid coordination through the economic management capacity building project. The setting up of a programmes and projects monitoring system and the establishment of a data base constitute an important stage in the strengthening of the public service to ensure development projects and programmes coordination in the country. This instrument should strengthen national capacity to implement the PRSP and create a useful framework for dialogue with all partners for the preparation of cooperation programmes.

3.4 *Challenges and Risks*

3.4.1 The country is confronted with major challenges. ***The first*** concern is ensuring the medium-term political and social stability of the country. The risk of politico-social instability remains, given the fragile context of the election of the current President of the Republic, the precarious social conditions prevailing in the country and particularly in the military barracks, and the slow introduction of operational mechanisms for consultation, dialogue and conflict prevention. ***The second challenge*** concerns institutional and human capacity building which is a fundamental requirement for implementation of the PRSP and the post-conflict assistance programmes, given the current weaknesses of the public administration. If the weaknesses in the PRSP monitoring/evaluation mechanism, in turn linked with the deficiencies of the national statistics machinery, are not corrected and if the government's master plan for technical assistance fails to mobilize the financing needed to build the public administration capacities, it will be difficult to ensure satisfactory PRSP implementation. Lastly, ***the third challenge*** relates to the sustainability of the country's debt which depends on the success of the current staff-monitored programme and the subsequent

implementation of the post-conflict programme with IMF. The successful outcome of this programme along with the implementation of the economic programme backed by a PRGF will largely determine the period of delays in attainment of the HIPC Initiative completion point which is crucial to resolving the issue of debt sustainability. If the limited viability of the medium-term economic framework, characterized by structural imbalance and major financial requirement persist, and external aid mobilization and coordination remains inadequate in relation to the programme needs (USD 428 million for 2005-2007, with 365 million to be mobilized), the country will not reach the HIPC completion point at-end 2007 and will not benefit from debt alleviation under the Initiative. Lastly, the country's dependency on a limited number of export products, such as cashew nuts and petroleum products, raises unpredictable risks for the country's macroeconomic stability.

IV. BANK GROUP COUNTRY ASSISTANCE STRATEGY

4.1 Country Situation and Strategic Selectivity

4.1.1 The political, economic and social context is characterized by: (i) the efforts to ensure socio-political stability following the successful organization of presidential elections in June 2005; (ii) the successful implementation of the staff-monitored programme negotiated with the IMF; and (iii) the organization of a Donors' Roundtable in October 2005 to mobilize the financing required for the Government's programme.

4.1.2 A number of lessons can be learnt from the interventions of Guinea-Bissau's major partners and their areas of focus, as well as from the discussions held with the authorities during the RBCSP seminar in February and June 2005. Guinea-Bissau still needs substantial external support to (ii) continue rehabilitation of socio-economic infrastructure by strengthening education, health and social institutions and putting in place appropriate social sector financing policies; (i) strengthen governance through accelerated public service reform, build institutional as well as economic and financial management capacity; and (iii) resume economic growth; starting with the agriculture sector, in order to increase food security and fight against poverty in a sustainable manner.

4.1.3 The Bank recognizes Guinea's post conflict situation in selecting its areas of focus. Thus, with regard to post-conflict infrastructure rehabilitation, the various Bank projects approved under previous CSPs such as the post-conflict rehabilitation project, the road infrastructure rehabilitation project and the national health development programme are starting up or underway, but with rather unsatisfactory disbursement ratios. Two new projects approved under ADF IX, the Education III Project and the Economic Management capacity building project, will start up in early 2006 and seek to contribute to the economic and social rehabilitation efforts. The Bank intends to take all necessary steps to ensure smooth implementation of these operations, notably by organizing a portfolio review in 2006. Though it recognizes the intervention for rehabilitation of economic infrastructure such as electricity and transport as a fundamental priority, the Bank for reasons of selectivity, does not envisage any new intervention in these sectors; rather it plans to accelerate the implementation of the existing projects. In addition, the European Union and the World Bank under their respective areas of focus are already planning intervention in this sector. The Bank's support for promotion of economic governance will be through public administration

reforms (review of regulatory and incentive framework) as well as strengthening the country's legal and judicial framework..

4.1.4 For these different reasons, and in order to make a special contribution to the fight against poverty, the Bank has chosen two areas of focus that are compatible with the PRSP priorities and the Government's programme over the 2004-2008 period. These are:

- Strengthening Good Governance to increase efficiency of development policies and programmes for poverty reduction;
- Promotion of agricultural and rural sector growth to improve food security and the economic and social condition of the rural population.

4.1.5 These choices have been determined taking into account the measures underway for post-conflict rehabilitation and in the context of consultation with the authorities based on the PRSP development priorities, particularly pillars 1 and 4 of the operational strategies and programmes of action. These pillars have been selected in close cooperation with the other development partners. With regard to governance, the public service reform is a fundamental priority recognized by all partners, and the Bank seeks to work in this sector in collaboration with partners that already have cooperation links, such as the European Union. The other partners interested in public Service reform are IMF, UNDP, the World Bank, IBD, WAEMU and bilateral parties such as Portugal and France. With regard to food security and improving the economic and social situation of the rural populations, the Bank intends to respond to the need stressed by the authorities with regard to poverty reduction in favor of the rural populations in the deprived areas of the country, specifically the northern and eastern parts. The agriculture and rural sector rehabilitation project for the Oio, Gabu, Bafata, Cacheu and Biombo regions which are poorest of the country, will involve rehabilitation of the irrigated farmland and rural infrastructure as well as support to agricultural production and the promotion of livestock breeding. The Bank intends to capitalize on the outputs of its rural development institutional support project which has just been completed, and continue its coordination with other partners, such as IFAD and the Kuwaiti Fund. The intervention in this sector also meets the concern for balanced development of the country and IFAD operations will be conducted in the southern part with the same production objectives justifying the intervention of the Bank and the Kuwaiti Fund in the north and east of the country. The expected outputs are an increase in rice production and marketing, the development of market gardening and the breeding of small-animals. In the area of rural development, the project will repair 100 km of feeder roads, rehabilitate 15 rice storage depots, and build marketing platforms for horticultural products in the regional markets.

4.2 *Portfolio Management and Lessons Drawn from Previous CSPs*

4.2.1 The table below describes the operations of the Bank Group in Guinea-Bissau. The rate of disbursement rate of the active portfolio, which is only 40 %, needs to be improved. According to the conclusions of the 2003 portfolio review, the start-up of Bank operations in the country has always been considerably delayed. Aside from the armed conflicts, the sanctions for debt arrears and the absence of programmes with the IMF, the institutional and communication problems have in particular impeded the commencement of certain projects,

many delays in project implementation were on account of institutional weaknesses leading, in some cases, to the cancellation of some projects. The package allocated in 2002-2004 shows that two projects have absorbed the whole allocation of UA 5 million. These are the Education Project III (UA 3.65 million for ADF) and the Economic Management Capacity Building Project (UA 1.35 million). However, none of these projects started before end -2004, and they are expected to commence in 2005 or early 2006 at the latest. For 2005, there are 8 active projects, for a total commitment of UA 41.3 million. The active portfolio disbursement rate which was 40% at the time of the 2003 portfolio review, fell to 25.6%. This is due to the lack of disbursements on new projects approved, such as Education III and Economic Management Capacity Building Project..

Table 1: Summary of Bank Operations as at 6 October 2005

Commencement of Operations: 1976					
Number of Operations: 38 Projects: 30 Studies: 5 Non-Project: 2 Emergency Assistance: 1					
Sources of Finance	Gross Commitments	Cancellations	Net Commitments	Disbursements	Rate of Disbursement
ADF	11.01	0.98	10.03	10.03	100.00%
ADF/TAF	164.84	15.68	149.16	118.089	79.16%
NTF	6.11	-	6.11	2.58	42.22%
Total	181.96	16.66	165.30	130.69	79.06%

4.2.2 Within the framework of previous CSPs, actions were undertaken to increase the capacity of economic and financial administrations in the area of bidding and procurement of goods and services. In the area of institutional capacity building, some concrete actions were implemented with the reorganization of the Ministry of Agriculture under the Rural Development Support Project financed by the Bank. At the social level, the post-conflict rehabilitation project has also facilitated the demobilization and reintegration of some former soldiers (about 600) as a supplement to the Disarmament, Demobilization and Reintegration Project supported by the World Bank.

4.2.3 In order to improve portfolio performance, the Bank has increased the frequency of supervision missions, and has received at its headquarters, several national project managers as part of technical missions. In addition, pursuant to the decision taken by the Bank's Board of Directors in October 2002, the National Programme Office (NPO) has been operational since the second quarter of 2004. Other members of the Office are being recruited with Bank and UNDP assistance. The presence of this Office should: facilitate communication between project managers and the various Departments of the Bank and reinforce the national managers' familiarity with Bank rules of procedure.

4.2.4 Overall, the impact of Bank projects on poverty reduction cannot only be assessed indirectly through result indicators of completed or on-going projects. While the projects have generally attained their objectives, as per the results, their impact on poverty remains mitigated and difficult to quantify. Some of the projects have fallen far behind schedule and in light of the MDG indicator trends, their impact on poverty is considered insufficient, justifying further efforts on the part of the Bank .

4.3 *CSP Results Framework*

The preparation of the RBCSP has made it possible to ensure consistency between the MDGs, the objectives pursued by the authorities as stated in the PRSP and those of the Bank's RBCSP, allowing complementarity with the actions of other development partners. Based on the seminars organized and discussions with the authorities and partners, it has been possible to ensure consistency in the matrix below, regarding the thematic outcomes adopted through strategic pillars of the Bank's operations the 2005-2009 period.

Table 2: Thematic Results Matrix

MDG/Long-Term Strategic Objectives	Short-term CSP Outputs				Bank priorities and performance	
	Sector Issues	Products and Outputs	Intermediate Indicators	Strategies/Actions	Bank and Partners' Interventions	Bank Performance Measurement
1. Improve Governance	11 Civil service reform to increase productivity and efficiency of services	111 Updating and harmonization of the institutional structure and laws of the civil service implemented in 2007 112 Retirement, pension system and career plans defined and implemented in 2009 113 Professional redeployment and reintegration of excess staff in 2009	Restructuring plan of Ministries (organic law and regulations) adopted in 2007 New draft retirement system and prepared and career plans adopted in 2007 30% of excess staff have benefited from a social plan and from professional redeployment training in 2007 45% of professional training needs and requests for scholarship for refresher courses are met in 2008	Audit and Action Plans of the institutional structure of the Civil Service and the restructuring of services Staff regulations reform Professional redeployment and reintegration programme Audit of positions and staff professional training plan Establishment of "ENA" and preparation of specialized training programmes, and recruitment of teaching staff in partnership with similar foreign institutions	Implementation of Action Plans and coordination among donors operating in the sector Implementation of the Technical Assistance Master Plan prepared with support from the IMF for the economic and financial sector, and coordination among donors operating in the sector	Sector economic studies, audits and preliminary diagnoses and coordination mainly with the European Union, UNDP, France, Portuguese Cooperation, ACBF and Brazil who intervene in this sector Coordination of activities with the IMF, AFRITAC, World Bank, AFRISTAT
	12 Civil service management capacity building	121 100% of recruitment and professional recycling plan implemented in 2009 122 25% of new specialized civil service officials are trained at ENA and deployed to positions corresponding to the job descriptions in 2009	Completion of portfolio reviews	Preparation of Country Governance Profile	Preparation of Country Governance Profile and implementation of SAP-Governance with institutional support for carrying out reforms	Portfolio reviews Coordination with UNDP, IMF, World Bank, Portuguese Cooperation, French Cooperation, European Union
	13. Economic and structural reforms (justice and legal, transparency, decentralization, participation and fight against corruption)	131 Judiciary and legal system renovated and anti-corruption laws approved and disseminated in 2009 132 Decentralization Act implemented as from 2009	10% annual increase in number of magistrates and related corps recruited from 2007 to 2009 Reducing by half the judgment time and the time spent in preventive custody by accused persons as from 2008 Discussion and approval of Decentralization Bill by Cabinet	Audit and Action Plans for the judiciary and prison systems Preparation of anti-corruption Bill Action Plans of decentralization, sensitization and training	Establish link with civil service reform	Studies on constraints and advantages of decentralization

			in 2007			
MDG/Long-term Strategic Objectives	Short-term CSP Outputs				Bank priorities and performance	
	Sector Issues	Products and Outputs	Intermediate Indicators	Strategies/Actions	Bank and Partners' Interventions	Bank Performance Measurement
2. Reduce extreme poverty and hunger	2.1 growth of agricultural production to ensure food security	2.1.1. 30% and 80% increase in rice production (3500t in 2009) and vegetable production (1500t in 2009) respectively in 2009, generating income through marketing 15% decline in 2009 in population suffering from food insecurity, which currently stands at 35%	50% of the irrigation and market gardening land is rehabilitated, and 50% and 150% increase in rice and vegetable output respectively in 2007;	Irrigated farmlands and market gardens, rice cultivation and market gardening, small livestock breeding, marketing and storage	Implementation of the agricultural and rural sector rehabilitation project and coordination with other partners operating in the sector, including IFAD in the southern region of the country and the Kuwaiti Development Fund (National Rice Development Project)	Sectoral economic studies and coordination with IFAD, FAO Portfolio review
	2.2 Access to economic and social infrastructure	Stockbreeding Master Plan implemented. 30 km of roads are rehabilitated in 2009 105 storage depots are constructed Setting up information systems concerning the market 2.3.1 20% increase in the number of children educated at primary level between 2005-2009	50% of storage depots constructed in 2007 50 km of feeder roads rehabilitated in 2007 Completion of portfolio reviews Equipment for producer support services and farmer organization.	Construction of feeder roads, engineering structures, village water supply facilities and agricultural produce storage capacity and micro credit operations		

4.4 *CSP Pillars and Areas of Focus*

4.4.1 The ADF X country allocation (UA 5.8 million) will be entirely devoted to the second area of concentration concerning promotion of the agriculture and rural sector through the Agriculture and Rural Sector Rehabilitation Project (PRESAR). The ADF XI country allocation, for its part, will finance the first area of focus concerning good governance (capacity building and reforms) from 2008. In the area of governance, the Bank's intervention will be in two stages. A first stage will involve economic sector studies (ESS) in conjunction with the other development partners in 2006. These will be the Country Governance Profile and the updates of diagnostic studies of public service reforms conducted by the Netherlands and the European Union respectively in 2002 and 2003. In a second stage it will, through the studies conducted, focus on governance reforms through a governance SAP into which will be integrated an institutional support project to support the implementation of measures for modernization of the public service during the ADF XI period. This project will also have a component for studies aimed at establishing a National School of Administration. During 2006, the Bank further intends to accelerate the implementation of the Economic management capacity building project and Education III which fell behind schedule, in order to develop complementarity with projected measures for public administration reform.

4.4.2 **First area of focus: strengthening good governance to increase efficiency of economic policies and development programmes for poverty reduction.** The Bank's operational policy in the area of governance covers four areas, namely, accountability, transparency, the fight against corruption, judicial and legal system reform and participation. For Guinea-Bissau, the Bank will provide support in each of these areas through the three priority operations areas identified in light of the country's needs. These are: human capacity building through training activities and quality education, strengthening of institutional capacities through the reorganizing of structures, updating and harmonization of organic texts and laws and lastly, support to reforms in consultation with the IMF and other donors.

4.4.3. Concerning governance reforms, notably relating to *accountability and transparency*, the Bank intends to use the results of the governance profile study to clarify its action. However, in the immediate future, it plans to already support the strengthening of their legislative and regulatory framework through its preparation, implementation and related budgetary control and, with regard to transparent procurement procedures, through training and technical assistance as part of the reforms negotiated with IMF. In addition to that, the Bank plans to aid de-concentration and decentralization of the public service by supporting the decentralization process and adopting the law on decentralization. For the other governance components, namely: (i) *the fight against corruption*; (ii) *the reform of the judicial and legal system*; and (iii) *participation*, the Bank intends to support the Government in implementing the economic and structural reforms, which will be negotiated with the IMF and other development partners. Its action will mainly concern training, review of legislative texts and improving working conditions of legal and judicial staff. The other aspects of the public administration reforms that the Bank plans to support relate to the size of the public service, organizational aspects of State agencies, review of the staff regulations and career management.

4.4.4 The problem of structural weakness of the human resources raises the fundamental issue of basic training for public service officials and particularly for those in the economic and financial sectors. There is a great need to establish or strengthen a solid modern training system to build a corps of professionals capable of assuming responsibilities within a modern public service. As part of the implementation of the integrated SAP/Governance institutional support project, the Bank plans to contribute to the modernization and efficacy of the public administration by supporting the reform

measures defined under the Governance/SAP. Specifically, the project seeks to i) support the application of new texts governing the public service and the organic texts of the structures of the new public administration through technical assistance, training and adoption of integrated staff management systems; and (ii) support for the financing of studies for the establishment of the National School of Administration, so that, with the assistance of other partners, the internal system for training government employees which will cover the basic functions of a modern public administration, namely public management, taxes, customs, treasury, justice and local administration.

4.4.5 Second area of focus: Promotion of growth of the agriculture and rural sector to guarantee food security and improve the social and economic condition of the rural population.

In the PRSP, the effective fight against poverty presupposes accelerated economic growth through the promotion of the agricultural sector and food security. The rural sector is the most important in terms of contribution to GDP (50%) and employment in the domestic economy (85%) and it represents more than 90% of the country's exports. An increase in labour-intensive agricultural activity in the rural area has a strong incidence on poverty through the creation of jobs, income distribution and food security. In its letter of agricultural development policy and its Action Plan, the Government has set itself four priority objectives: (i) to guarantee food security; to increase and diversify agricultural exports; (iii) to ensure rational management and the conservation of agro-sylvo-pastoral resources; and (v) to improve the living conditions of the rural population.

4.4.6 To support the Government's objectives in the rural sector, the Bank intends to implement an agricultural and rural sector rehabilitation project with the objective of increasing agricultural production, particularly rice cultivation and market gardening, and to increase the incomes of the populations in the Northern and Eastern regions of the country. The Post –conflict Rehabilitation Project, by facilitating social insertion of some ex-combatants, and the Project for Institutional Support to the Ministry of Agriculture, by more effectively focusing on project management, calling for a new dimension of bank activities geared towards increased production and integrated rural development to back all the economic and social rehabilitation efforts. By giving impetus to rural sector production, which is the primary source of national GDP growth and creation of jobs in the country, the Bank intends to ensure continuity of its post-conflict rehabilitation and social reintegration measures. It will seek improvement of the social well-being of the rural population by implementing highly labor-intensive work with the support of WPF under its “food for Work” programme, involving rehabilitation of rural tracks (30 km) and access roads (50 km), construction of cereal banks and storage areas (10) and also training and supervision of 100 producer associations and bodies, which should be 50% made up of women's groups. Micro –finance structures will also be evaluated and support given to viable bodies operating in the area.

4.4.7 In terms of outputs, owing to the agricultural and rural sector rehabilitation, rice production is expected to increase by 30% and the market gardening by 80% in 2009. These rates are expected to increase even further in 2001 at the end of project. The choice of the project area is justified by the population targeted, namely the rural families (600,000) comprising the most vulnerable and the poorest segments, and in which women's activities are preponderant. This project mainly takes into account the FIDA–financed Project for Rural Rehabilitation and Community Development in the southern region of the country, and aims at balanced development by intervention in the county's north and east, to revive food crop farming and promote the rural and social dimension. To attain these objectives, the project hinges on 3 components, namely rehabilitation of irrigation and rural infrastructure, support to agricultural production and livestock

promotion and lastly, support to marketing. The country allocations under ADF X, amounting to UA 5.8 million, will be entirely devoted to the PRESAR project and thus target the second pillar defined by the Bank with respect to the CSP for Guinea Bissau. As a result of the reorganization of the organization of the Ministry of Agriculture entailed by the Project for Institutional Support to Rural Development (PAIDR) financed by the Bank, the implementation of the PRESAR is expected to be accelerated during the ADF V period.

Table 3: Results-Based CSP Framework

Long-term Results/Higher level expected from country	Expected Results from CSP	Products and Outputs	Link between CSP and PRSP Priorities
Pillar 1: Strengthening good governance to enhance effectiveness of economic policies and development programmes for poverty reduction			
<p>(i) The overall staff strength of the public service (incl. soldiers) will drop from 20/1000 inhabitants in 2004 to 10/1000 inhabitants in 2010.</p> <p>(ii) The payroll represents 35% of fiscal revenue in 2010</p> <p>(iii) Decentralization of the civil service effective as from 2009.</p> <p>(iv) Investment rate increases from 8.7% in 2002 to 22% in 2010</p> <p>(v) Basic primary budget balance (in % of GDP) rises from -6.6% in 2002 to 5.7% in 2010</p>	<p>1. Public service modernized and more efficient.</p> <p>2. Public service officials trained and made professional.</p> <p>3. Judicial and legal setup is operational and not corrupt.</p> <p>4. De-concentration /decentralization of the public service implemented.</p>	<p>1. Institutional structures and organic texts updated and harmonized in 2008</p> <p>2. Human resource management and salary and pension policy adapted to the economy's capacity as from 2009</p> <p>3. 100% of the recruitment plan and professional training defined in line with job descriptions is implemented as from 2009</p> <p>4. 25% of new specialized public service officials are trained at ENA and placed in positions corresponding to their job descriptions in 2009</p> <p>5. Judicial and legal system renovated and anti-corruption bills approved and disseminated in 2008</p> <p>6. Decentralisation Act implemented as from 2009</p>	<p>See focus area 4 of PRSP: Improving governance – Modernization of public service. NPRP (French version) page 34</p> <p>Improving economic management NPRP page 35</p> <p>Supporting decentralization – NPRP page 35</p>
Pillar 2: Promoting growth of the agricultural and rural sector to ensure food security and improve the economic and social conditions of the rural population.			
<p>(i) Rate of weight deficiency among children below 5 reduces by 25% in 2009 compared to 2000;</p> <p>(ii) Poverty incidence drops from 64.7% in 2002 to 63.2% in 2009</p> <p>(iii) Agricultural GDP growth rate increases from -0.1% in 2002 to 6.4% in 2007</p> <p>(iv) 15% decline in population suffering from food insecurity in 2009, from the current rate of 35%</p>	<p>1. Food security of the rural population in the North and East regions is improved</p> <p>2. The economic and social condition of the rural population in the North and East regions is improved</p>	<p>1. 30% increase in rice production (3500t in 2009) and by 80% (1500t in 2009) for vegetable production in the North and East regions of the country, particularly in Oio considered as the poorest region in the country</p> <p>2. 30 km of feeder roads are constructed/rehabilitated in 2009</p> <p>3. 10 storage depots and grain banks are constructed in 2009</p> <p>4. 100 producer groups and associations, including at least 50% of women, structured and formed in 2009</p> <p>5. Construction of 50 km of access tracks by 2009 (product marketing and processing)</p>	<p>See Focus area 1 PRSP: Ensure food security NPRP page 24 Accompanying measures (improvement of the living conditions of rural population) NPRP (page 25)</p> <p>See Focus area 2 PRSP: Increase and improve access to social services and basic infrastructure NPRP (page 29)</p> <p>Focus area 3 PRSP: Improve the living conditions of vulnerable groups (page 33)</p>

Box 5: Consultations on Bank Group Strategy

The country-team mission visited Bissau from 26 January to 13 February 2005 for the preparation of the RBCSP using largely participatory involving the Government, donors, NGOs and CSOs. Different questionnaires were distributed to all sectors for gathering available information on the analytical front, policies, strategies and poverty reduction impact of projects implemented during the last years. A seminar opened to all segments of the country's CSO society, about 80 people, was conducted and it enabled to collect the views of participants on the proposals on the Bank's focus areas for the 2005-2009 period. These were determined after analysis of the Bank's portfolio, previous actions undertaken, discussions with the authorities and major development partners. Participants were distributed in five working groups namely: governance, productive sector, social sector, public equipments and infrastructure sector and finally political stability and internal security sector. The seminar enabled to discuss the sectoral technical previously distributed and to respond to three questions such as: (i) comment on the proposed areas of focus of the Bank's operations over 2005-2009 period; (ii) identify and define programmes or project axis addressing sectoral priority objectives and the fight against poverty in the framework of these focus areas; and (iii) select one or several indicators of poverty reduction impact that could quantify progress made.

Thanks to information gathered as well as the conclusions/recommendations of the seminar, it was possible to collect the views of the authorities on the Bank's focus areas and to exchange it with partners. Thanks to this procedure the following two pillars were adopted: (i) strengthening good governance to enhance the efficiency of economic policy and development programmes for poverty reduction; (ii) promotion of the growth of the agricultural and rural sector to guarantee food security and improve the social and economic condition of the

4.5 *Regional Dimensions of Bank Group Assistance*

The World Bank contributes to the promotion of Guinea-Bissau's economic cooperation and regional integration. The Government has also made the political and economic choice to participate in several sub-regional organizations such as ECOWAS, WAEMU, OMVG, and CILSS. Various actions are ongoing for the ratification of several bills, thus confirming the political will of the authorities. In order to contribute to Guinea-Bissau's efforts, various kinds of support are provided by the sub-regional organizations. One could cite the support of WAEMU for the translation of the harmonized Acts in French and training in specialist public finance skills. In the framework of its support to the objectives of the New Partnership for Africa's Development (NEPAD), the Bank supports many multinational projects, namely, a multinational project for electricity generation as well as an integrated rural development project within the OMVG. It has also just funded the Boke-Quebo multinational road study, which aims at linking Guinea-Bissau with its neighbours.

4.6 *Bank Group Assistance: Allocation of Resources on Performance Grounds –Performance Criteria and Non-Lending Activities*

4.6.1 The total allocation earmarked for the implementation of the 2005-2009 RBCSP will consist of resources allocated under ADF X (2005-2007) as well as part of the ADF XI (2008-2010) resources. Under ADF X, the annual Country Performance Assessment (CPA), UA 5.8 million for the 2005-2007 period.

Public Sector

4.6.2 Thus, the Bank intends to implement the Agricultural and Rural Sector Rehabilitation Project in 2005.. The allocations for the first two years of ADF XI covered by the 2005-2009 RBCSP will also be based on the country's overall performance and the Bank therefore intends to target public service reform in partnership with other donors. It envisages public administration reform in partnership with other donors, as well as institutional capacity building of the public service through SAP/governance programme.

4.6.3 Under ADF X, and ADF XI, the Bank will pay special attention to monitoring the weaknesses identified in the assessment of Guinea Bissau's performance. These weaknesses concern: (i) civil service reform; (ii) low economic and financial management capacities; (iii) restoration of the rule of law and combating corruption; and (iv) establishment of an environment conducive to private sector development. Using criteria with measurable indicators, the Bank will develop a useful framework to determine whether reforms to correct the policy and institutional weaknesses identified during EPIP rating have been implemented. This will determine whether or not the annual allocation for the country should be increased. Based on the results obtained by the country for the CPIA rating and dialogue with the country on the weaknesses identified:

4.6.4 *Civil service reform*, the Bank will pay special attention to the pursuance of reform initiated by the Government and in particular the conduct of institutional audit, updating of the organic texts, and adoption of new institutional structures as well as a new salary policy.

4.6.5 *Economic management capacity building*, the Bank aims at institutional capacity building of the civil service through the Economic Capacity Building Project being launched and to be supported by the SAP/Governance Programme. Special attention will be paid to strengthening capacities for statistics preparation and updating of poverty indicators, as well as the programming and monitoring of public investments.

4.6.6 *As regards the restoration of the rule of law and fight against corruption*, the Bank will ensure the implementation of the government's good governance programme, and in particular the strengthening of the judicial system and the fight against corruption.

4.6.7 *With respect to private sector development*, the Bank will pay special attention to the implementation of structural reforms such as: (i) the ongoing privatization of public enterprises with World Bank assistance; (ii) implementation of the action plan to adapt the institutional and regulatory environment to business; (iii) institutional capacity building for socio-professional organizations such as the Chamber of Commerce, Industry and Handicraft.

Table No.4: Reference Framework for Measuring Performance

<i>Areas</i>	<i>Policies</i>	<i>Objectives achieved in 2007</i>	<i>Objectives achieved in 2009</i>
<i>Economic management</i>	<i>1. Economic management capacity building</i>	<i>11. Software for monitoring programmes and projects launched and related provided 12. Statistics law adopted 13. INEC strengthened with equipment and human resources</i>	<i>11. INEC performance enhanced through production and publication of poverty monitoring indicators and their regular update 12. PRSP revised and coherence established between the public investment budgets, the three-year PIP and the priority action programmes selected</i>
	<i>2. Post-conflict Assistance Programme with the IMF</i>	<i>21. Post-conflict Programme implemented successfully not later than 2007 22. Programme with IMF supported by a RPGF finalized at end of 2007</i>	<i>21. Programme negotiated with the IMF and implemented satisfactorily</i>
<i>Management of the public sector and institutions</i>	<i>1. Civil service reform</i>	<i>11. Civil service audit conducted 12. Civil service restructuring plan adopted</i>	<i>11. Restructuring of civil service done 12. Professional training plan for civil servants implemented</i>
	<i>2. Restoration of the rule of law</i>	<i>2.1 Increase in number of judicial and legal officers and officers of similar rank (see Thematic Results Matrix)</i>	<i>2.1 Judicial and legal systems renovated</i>
	<i>3. Fight against corruption</i>	<i>31 Anti-corruption prepared</i>	<i>31 Anti-corruption laws approved and disseminated</i>
<i>Structural reforms</i>	<i>1. Private sector development</i>	<i>11. Institutional measures and regulatory measures conducive to business adopted (Investment Code revised, introduction of incentives for foreign investment, Customs Code harmonized with UEMOA)</i>	<i>11 Public enterprises privatization programme supported by the World Bank implemented</i>

Private Sector

4.6.8 The Bank does not yet envisage financing private sector window projects in Bissau. It however devotes particular attention to the long-term private sector development prospects. As indicated in paragraph 4.6.7, the implementation of structural reforms as well as mitigation of constraints relating to the environment and are preconditions for Bank support in this sector. The authorities requested Bank intervention for cashew nut processing, however, the contacts made are still at the preliminary stages. The Bank plans to devote further attention to this sector, once the aforementioned private sector promotion efforts have shown satisfactory progress.

Bank Group Assistance: Non-lending Activities

4.6.9 The Bank is aware of the important need to build the country's institutional capacity. Implementation of the activities under Pillar 1 relating to governance will require economic sector studies, namely the Country Good Governance Profile to be conducted 2006, the updating of the existing diagnostic studies concerning public administration reform. .

4.6.10 To improve the Bank's portfolio, a coordinator of the National Programme Office is working within the UNDP in Bissau, and supervision and portfolio review missions will be increased. Seminars and training courses will be organized to enhance the skills of project managers and national authorities in procurement and disbursements. The Bank will continue to provide assistance in the form of interim debt relief under the enhanced HIPC Initiative. It will provide support for the updating of the PRSP whose first version is expected to be revised in 2008.

4.7 *Partnership and Harmonization*

The Bank's operations in Guinea-Bissau are carried out in partnership with other donors and with Government coordination. However, there are many weaknesses within the public service in the area of public aid coordination. The country is still far from application of the Rome 2003 resolutions concerning harmonization of development aid and the Paris 2005 statement on development aid effectiveness. It is in this light that the Bank, in response to the Government's request, intends to provide support through the economic management capacity building project, so as to ensure better aid coordination. In addition to these efforts, the UNDP in its role as coordinator of activities of the United Nations system tries to ensure harmonization of activities within the United Nations system and create an active partnership framework with the other development agencies, including the Bank. If continued, this policy of fungible resources channeled through the EEMF should resolve the problem of harmonization of donor procedures.

V. **RESULTS-BASED MONITORING AND EVALUATION**

5.1 *Monitoring of CSP Outcomes and Bank Group Performance*

5.1.1 Bank Group performance and results will be monitored through three types of criteria: (i) good governance-related indicators, especially relating to economic management and public administration; (ii) structural reform related indicators; and (iii) indicators linked with Bank portfolio performance, as well as with the RBCSP thematic results framework. Through portfolio review and supervision missions, the Bank will assess the impact of actions implemented in the two areas of focus. The intermediate indicators defined within the thematic results matrix will be closely monitored.

5.1.2 At the national level, these indicators will be verified regularly and the PRSP Monitoring Unit (CISD) will be responsible for preparing the related indicator reports. In addition to the CISD, the Bank's National Programme Office in Bissau will play an active role in the monitoring and early warning required for the proper implementation of active portfolio projects during the RBCSP cycle. However, the Bank recognizes the difficulties posed by the national statistical system and its related human resources problems. The Economic Management Capacity Building Project in Guinea-Bissau will be used to create the best conditions for monitoring the indicators adopted in the thematic results matrix. The programme of activities of INEC will be prepared taking into account these objectives and the lifespan of the project, the Bank will see to capacity building in order to ensure sustainability of the monitoring of poverty indicators by the national statistics body.

5.2 *Risk Management*

Guinea Bissau belongs to the group of countries classified in the lower quintile, and its performance assessed in the Policy and Institutions Evaluation (PIE) exercise undertaken by the Bank in 2004 was poor. There are two types of risks, namely country risk and the risk related to Bank Group performance. Regarding country risk, the major aspects are internal political and social stability, and the institutional and human capacity, particularly in the area of statistics required to conduct economic and structural reforms. The political and financial support of the United Nations system and all other partners for strengthening democracy and restoring good governance could reduce the risks. However the issue of reforming the army remains a cause for concern and the international community should support the country in its efforts to implement the

fundamental and priority reforms in this sector to ensure that the army does not disrupt the country's political life again. As to the risk related to the Bank Group's portfolio, it essentially involves the country's debt repayment capacity and the lack of knowledge of the Bank's procedures. Teaching manuals in the Portuguese language are being published, and will serve as aids for the seminars organized by the Bank on procurement procedures, project management, as well as disbursement and audit procedures. An increase in training activities and supervision missions should help to limit this risk.

5.3 *Country Dialogue Issues*

The Bank will continue to dialogue with the authorities in the following areas: (i) portfolio management; (ii) the monitoring/evaluation of the PRSP; and (iii) good governance and political stability. With regard to portfolio management, the Bank will continue to dialogue with the authorities in order to reduce the time it takes for Bank operations to become effective and ensure better understanding of the Bank's rules of procedure. Concerning PRSP monitoring, efforts will be made to assess how the Bank's activities impact on poverty reduction objectives and, in particular, the eight fundamental Millennium Development Goals. The impact of the different projects ongoing in the country should be analyzed carefully using the indicators adopted for that purpose, and the Bank will help to produce and update them. The structural weaknesses of the national statistics system will also be discussed with the authorities. On the issue of good governance, the Bank, using the fiduciary fund provided by Portugal, will launch Guinea-Bissau's Good Governance Profile. This exercise will lay the basis for launching the SAP/governance programme planned for 2008 and which targets the Guinea Bissau public administration.. With respect to political stability, the Bank will seek information on developments regarding the implementation of the army reforms, which are crucial for the country's political stability.

VI. CONCLUSIONS AND RECOMMENDATIONS

Conclusions

6.1 After much upheaval over the past few years, Guinea Bissau is resolutely returning to the path of development. In this regard, it expects adequate support from the international community to implement the structural reforms described in the PRSP which are aimed at poverty reduction and the welfare of the population. The HDI, which in 2004 ranked the country at 172 out of 177, is an indicator of the huge challenges confronting the country; hence the need for assistance from the international community.

6.2 The Bank's strategy for the 2005-2009 period as defined in the RBCSP will consist in boosting economic activity and modernizing the civil service. With the promotion of agriculture and rural sector growth, the Bank hopes to contribute to reducing extreme poverty and countering hunger in the country, for example in Oio, which is one of the poorest regions of the country. Through governance reforms, the country will build up a renewed civil service with motivated officials who can implement the reforms contained in the RBCSP as well as those negotiated with the IMF. These activities, coupled with those underway in the country, will provide some solutions to the challenges of a post-conflict country, provided no political and military crisis disrupts this momentum again.

Recommendations

6.3 The Boards are requested to approve the strategy proposed by the RBCSP as well as the activity programme for the 2005-2007 period based on an allocation not exceeding UA 5.8 million in the form of grants under ADF X.

ANNEXES

Long name	Status of	Date approved	Date Sign.	Last date for disbursement	Effectiveness date	Last disbursement date	Crcy	Approved amount	Amount cancelled	Undisbursed amount	Disbursed amount	Net commitment	Disbursement rate
POWER STATION ELECTRIFICATION OF 7 URBAN CENTRES	COMP	05/30/1979	06/29/1981	06/30/1996	11/10/1981	11/14/1995	UAC	3,960,524.00	9,060.80	0.00	3,951,463.20	3,951,463.20	100.00
	COMP	06/26/1987	07/09/1987	12/31/1998	03/23/1990	04/17/1998	UAC	4,789,470.00	30,230.94	0.00	4,759,239.06	4,759,239.06	100.00
Total Public Equipment								19,875,779			18,731,681.16	19,178,863.46	97.66
SUPPLIES.- EQUIP.OF TECHNICAL SCHOOL	COMP	08/24/1976	08/26/1976	12/31/1983	12/21/1979	08/06/1987	UAC	3,684,208.00	37,238.80	0.00	3,646,969.20	3,646,969.20	100.00
POST-CONFLICT REHABILITATION PROGRAMME	OnGo	07/12/2001	09/21/2001	12/31/2005	06/20/2002	11/23/2004	UAC	5,000,000.00	0.00	2,295,123.78	2,704,876.22	5,000,000.00	54.10
POST-CONFLICT REHABILITATION PROGRAMME	OnGo	07/12/2001	09/21/2001	12/31/2005	06/20/2002	10/18/2004	UAC	850,000.00	0.00	71,780.00	778,220.00	850,000.00	91.55
EDUCATION II	COMP	10/20/1983	03/23/1984	06/30/1994	11/14/1986	08/07/1990	UAC	543,421.00	0.03	0.00	543,420.97	543,420.97	100.00
								10,592,098.00					
EDUCATION II	COMP	09/18/1989	09/19/1989	06/30/2001	02/04/1991	08/23/2001	UAC	0	1,097,935.90	0.00	9,494,162.10	9,494,162.10	100.00
EDUCATION III	APVD	07/02/2003					UAC	3,650,000.00	0.00	0.00	0.00	3,650,000.00	0.00
EDUCATION III	APVD	07/02/2003					UAC	3,510,000.00	0.00	0.00	0.00	3,510,000.00	0.00
EDUCATION (D)-(SUPPLEMENTARY)	COMP	08/24/1984	12/06/1984	12/31/1996	07/08/1987	02/28/1996	UAC	2,763,156.00	0.02	0.00	2,763,155.98	2,763,155.98	100.00
HEALTH AND POPULATION SECTOR STUDY	ABAN	08/31/1993	10/21/1993	12/31/1996	06/06/1996	06/06/1996	UAC	921,052.00	810,548.70	0.00	110,503.30	110,503.30	100.00
HEALTH DEVELOPMENT SUPPORT PROGRAMME	OnGo	11/19/1997	02/11/1998	12/31/2005		11/25/2004	UAC	10,000,000.00	0.00	9,305,210.00	694,790.00	10,000,000.00	6.94
REHABIL. SIMAO MENDES NATIONAL HOSPITAL	COMP	06/26/1987	07/09/1987	12/31/1996	01/17/1989	09/01/1995	UAC	5,369,733.00	4,675,083.36	0.00	694,649.64	694,649.64	100.00
TRAINING - HEALTH SERVICES MANAGEMENT	TERM	03/18/1982	07/03/1984	12/31/1996	11/03/1983	02/12/1997	UAC	7,368,416.00	3,813,139.52	0.00	3,555,276.48	3,555,276.48	100.00
Total Social Sector								54,252,084.00			27,690,900.11	43,818,137.69	63.19
STRUCRTURAL ADJUSTMENT PROJECT	COMP	06/17/1987	07/09/1987	06/30/1994	08/24/1987	11/11/1988	UAC	9,210,520.00	0.00	0.00	9,210,520.00	9,210,520.00	100.00
STRUCRTURAL ADJUSTMENT PROGRAMME	COMP	08/22/1989	09/19/1989	12/31/1998	03/15/1990	06/27/1991	UAC	13,815,780.00	0	207,584.65	13,608,195.35	13,608,195.35	100.00
SUPPORT TO MINISTRY OF PLANNING	OnGo	08/22/1989	09/19/1989	06/30/2004	07/08/1992	02/12/1998	UAC	1,971,051.00	1,239,011.27	0.00	732,039.73	732,039.73	100.00
INSTITUTIONAL SUPPORT TO MINISTRY OF PLANNING	OnGo	08/22/1989	09/19/1989	06/30/2004	05/07/1991	10/05/2004	UAC	3,803,945.00	1,622,273.64	0.00	2,181,671.36	2,181,671.36	100.00
ECONOMIC MANAGEMENT CAPACITY BUILDING PROJECT	APVD	02/03/05					UAC	1,350,000.00	0.00	1,350,000.00	0.00	1,350,000.00	0.00

Long name	Status of	Date approved	Date Sign.	Last date for disbursement	Effectiveness date	Last disbursement date	Crcy	Approved amount	Amount cancelled	Undisbursed amount	Disbursed amount	Net commitment	Disbursement rate
Total Multi-sector								30,151,296.00			25,732,426.44	27,082,426.44	95.01

Annex 2: Diagnostic Analysis of 2004 MDG Achievements

Goals/Targets	Achievement of Goal			State of Favourable Environment		
	Likely (1)	Potential (2)	Unlikely	Strong	Good	Weak
Extreme poverty Reduce by half the proportion of people living below the national poverty line		X				x
HIV/AIDS Halt and reverse the spread of HIV/AIDS		X				x
Hunger Reduce by half the proportion of people suffering from food insecurity		X				x
Drinking water Reduce by half the proportion of people without access to drinking water		X				x
Universal primary education Complete universal primary education	x					x
Gender equality Eliminate gender disparity in the different levels of education		X			x	
Maternal mortality Reduce maternal mortality ratio by three quarters		X				
Child mortality Reduce by two thirds the mortality rate among children under five		X				x
Environment Integrate the principles of sustainable development into country policies		X			x	
Sustainable development Reduce environmental resource losses		X				x

Source: CCA: United Nations System -Guinea-Bissau. First report on the Millennium Development Goals in Guinea-Bissau

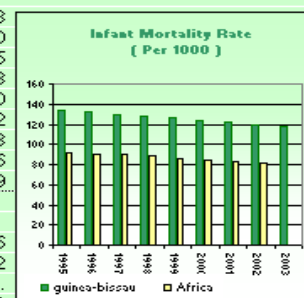
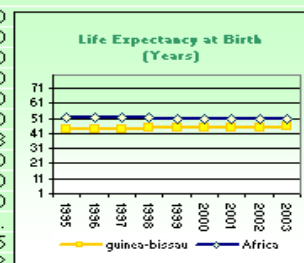
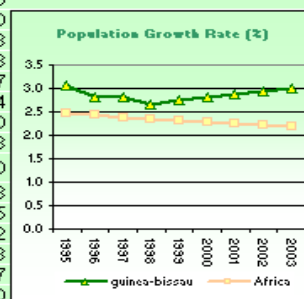
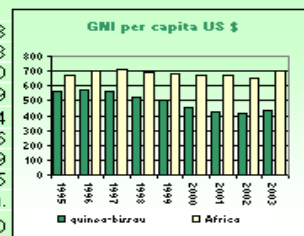
(1) Likely: Goal could be achieved by pursuing efforts already undertaken

(2) Potential: Goal could be achieved provided vigorous reforms are undertaken and the political and institutional climate improves.

Annex 3: Socioeconomic Indicators

Guinea Bissau COMPARATIVE SOCIO-ECONOMIC INDICATORS

	Year	Guinea Bissau	Africa	Developing Countries	Developed Countries
Basic Indicators					
Area ('000 Km ²)		36	30 061	80 976	54 658
Total Population (millions)	2003	1.5	849.5	5,024.6	1,200.3
Urban Population (% of Total)	2003	21.8	39.2	43.1	78.0
Population Density (per Km ²)	2003	41.3	28.3	60.6	22.9
GNI per Capita (US \$)	2003	430	704	1 154	26 214
Labor Force Participation - Total (%)	2003	43.1	43.3	45.6	54.6
Labor Force Participation - Female (%)	2003	40.9	41.0	39.7	44.9
Gender - Related Development Index Value	2002	0.329	0.476	0.655	0.905
Human Develop. Index (Rank among 174 countries)	2002	172	n.a.	n.a.	n.a.
Popul. Living Below \$ 1 a Day (% of Population)	1991	88.2	46.7	23.0	20.0
Demographic Indicators					
Population Growth Rate - Total (%)	2003	3.0	2.2	1.7	0.6
Population Growth Rate - Urban (%)	2003	4.0	3.8	2.9	0.5
Population < 15 years (%)	2003	48.8	42.0	32.4	18.0
Population >= 65 years (%)	2003	3.2	3.3	5.1	14.3
Dependency Ratio (%)	2003	101.2	86.1	61.1	48.3
Sex Ratio (per 100 female)	2003	97.5	99.0	103.3	94.7
Female Population 15-49 years (% of total populati	2003	22.0	24.0	26.9	25.4
Life Expectancy at Birth - Total (years)	2003	45.5	50.7	62.0	78.0
Life Expectancy at Birth - Female (years)	2003	47.1	51.7	66.3	79.3
Crude Birth Rate (per 1,000)	2003	49.4	37.0	24.0	12.0
Crude Death Rate (per 1,000)	2003	19.3	15.2	8.4	10.3
Infant Mortality Rate (per 1,000)	2003	118.1	80.6	60.9	7.5
Child Mortality Rate (per 1,000)	2003	206.4	133.3	79.8	10.2
Maternal Mortality Rate (per 100,000)	1992	910	661	440	13
Total Fertility Rate (per woman)	2003	7.0	4.9	2.8	1.7
Women Using Contraception (%)	1990-99	...	40.0	59.0	74.0
Health & Nutrition Indicators					
Physicians (per 100,000 people)	1996	16.4	57.6	78.0	287.0
Nurses (per 100,000 people)	1995	109.4	105.8	98.0	782.0
Births attended by Trained Health Personnel (%)	1998	25.0	44.0	56.0	99.0
Access to Safe Water (% of Population)	2002	59.0	64.4	78.0	100.0
Access to Health Services (% of Population)	1988	80.0	61.7	80.0	100.0
Access to Sanitation (% of Population)	2000	47.0	42.6	52.0	100.0
Percent. of Adults (aged 15-49) Living with HIV/AIDS	2001	2.9	6.4	1.3	0.3
Incidence of Tuberculosis (per 100,000)	2000	106.2	109.7	144.0	11.0
Child Immunization Against Tuberculosis (%)	2003	84.0	81.0	82.0	93.0
Child Immunization Against Measles (%)	2003	61.0	71.7	73.0	90.0
Underweight Children (% of children under 5 years)	1996	23.0	25.9	31.0	...
Daily Calorie Supply per Capita	2002	2 024	2 444	2 675	3 285
Public Expenditure on Health (as % of GDP)	1994	1.1	3.3	1.8	6.3
Education Indicators					
Gross Enrolment Ratio (%)					
Primary School - Total	2000	82.7	88.7	91.0	102.3
Primary School - Female	2000	66.3	80.3	105.0	102.0
Secondary School - Total	2001	20.0	42.9	88.0	99.5
Secondary School - Female	2000	14.0	41.3	45.8	100.8
Primary School Female Teaching Staff (% of Total)	1987	21.6	46.3	51.0	82.0
Adult Illiteracy Rate - Total (%)	2003	57.8	36.9	26.6	1.2
Adult Illiteracy Rate - Male (%)	2002	43.5	28.4	19.0	0.8
Adult Illiteracy Rate - Female (%)	2003	72.5	45.2	34.2	1.6
Percentage of GDP Spent on Education	1998	1.7	5.7	3.9	5.9
Environmental Indicators					
Land Use (Arable Land as % of Total Land Area)	2003	10.7	6.2	9.9	11.6
Annual Rate of Deforestation (%)	1995	0.4	0.7	0.4	-0.2
Annual Rate of Reforestation (%)	1981-90	...	10.9	...	...
Per Capita CO2 Emissions (metric tons)	1997	0.2	1.2	1.9	12.3



Source : Compiled by the Statistics Division from ADB databases; UNAIDS; World Bank Live Database and United Nations Population Division.
Notes: n.a. Not Applicable; ... Data Not Available.

Annex 4: Key Economic and Financial Indicators 2000-2005

	2000	2001	2002	2003	Est.		Projections			
					2004	2005	2006	2007	2008	2009
(Annual percentage change, unless otherwise indicated)										
National accounts and prices										
Real GDP at market prices	7.5	0.2	-7.2	-0.6	2.2	2.3	3.3	3.5	3.8	4.1
Real GDP per capita 1/	4.9	-2.6	-9.8	-3.5	-0.3	-0.2	1.3	1.4	1.7	1.7
GDP deflator	3.2	-5.4	4.6	-2.8	1.7	3.4	3.0	3.0	3.0	3.0
Consumer price index (annual average) 2/	8.6	3.3	3.3	1.6	0.8	2.0	2.0	2.0	2.0	2.0
Consumer price index (end of period) 2/	16.7	-1.9	2.5	0.7	2.2	2.0	2.0	2.0	2.0	2.0
External sector										
Exports, f.o.b.(based on U.S. dollar values)	21.3	-19.6	7.3	16.2	41.6	12.2	7.1	7.1	7.2	7.2
Imports, f.o.b. (based on U.S. dollar values)	8.3	10.3	-9.8	0.2	44.0	25.0	10.6	9.9	9.1	8.8
Export volume	25.6	3.8	-0.6	8.0	15.2	20.0	5.1	5.1	5.1	5.1
Import volume	35.7	-3.5	-14.3	-7.9	33.2	10.4	10.0	8.9	7.8	7.5
Terms of trade (deterioration -)	-0.1	-18.3	2.4	-1.3	-3.9	0.0	1.3	1.0	0.7	0.7
Real effective exchange rate (depreciation -)	6.3	1.7	2.5	-2.3	0.6	..	..	..	..	..
Nominal exchange rate (CFA per U.S. dollar; average)	712.0	732.4	694.6	580.1	527.6	..	..	..	..	..
Government finances										
Domestic revenue (excluding grants) 3/	23.4	-16.9	-11.6	-3.8	17.8	19.0	9.9	9.2	8.8	7.9
Total expenditure	56.3	-7.3	-24.5	11.5	8.9	25.3	-1.3	5.2	3.6	5.6
Current expenditure 3/ 4/	82.6	-20.7	-18.0	3.6	13.7	7.5	-5.9	4.1	1.1	4.4
Capital expenditure 5/	6.1	37.0	-36.8	31.0	-0.5	65.1	7.0	7.1	7.5	7.5
Money and credit 6/										
Credit to government (net)	17.8	-0.7	4.9	-4.2	-5.5	-3.1	-1.5	-1.2	-0.6	-0.5
Credit to the rest of the economy	-62.2	-0.1	-0.3	-1.8	-0.4	0.1	7.0	7.1	7.5	7.5
Broad money	67.7	9.6	24.1	12.5	18.7	4.2	7.0	7.1	7.5	7.5
Velocity (GDP/broad money)	2.4	2.1	1.6	1.4	1.2	1.2	1.2	1.2	1.2	1.2
(In percent of GDP, unless otherwise indicated)										
Investments and savings										
Gross domestic investment	11.3	15.5	10.4	14.5	14.6	21.2	15.1	15.2	15.3	15.4
Of which: government investment	10.0	14.8	9.6	13.1	12.5	18.5	13.4	13.4	13.4	13.4
Gross domestic savings	-8.5	-18.8	-11.1	0.4	-3.2	-3.4	-4.1	-4.9	-5.3	-5.6
Of which: government savings	-14.9	-16.6	-12.1	-14.1	-15.2	-15.0	-7.5	-6.9	-5.5	-4.9
Gross national savings	5.6	-6.6	-0.3	11.7	15.3	8.6	8.2	7.8	7.7	7.6
Government finances										
Budgetary revenue	19.2	16.8	15.3	15.2	17.2	19.3	18.2	18.0	17.8	17.8
Current expenditure	33.2	28.2	23.8	25.5	27.9	28.3	23.0	20.4	20.1	18.0
Current primary balance	-17.0	-3.0	-3.7	-4.2	-5.0	-4.7	-2.2	-0.9	-1.5	-0.1
Overall balance (commitment basis)										
Including grants	-10.8	-11.7	-12.0	-15.6	-8.5	-14.6	-10.8	-8.3	-8.1	-5.9
Excluding grants	-24.9	-26.2	-18.1	-23.4	-23.2	-28.5	-23.3	-20.7	-20.5	-18.3
External current account										
Excluding official current transfers	-0.5	-22.1	-10.7	-2.8	0.7	-12.8	-9.9	-8.7	-9.7	-8.4
Overall balance	-17.0	-36.3	-18.7	-11.9	-13.7	-20.1	-15.3	-13.7	-14.2	-12.7
Overall balance	9.6	-19.1	-7.6	1.7	4.5	-30.5	-21.7	-19.1	-17.6	-13.8
Net present value of external debt/exports of goods and nonfactor services (in percent)	934.0	824.0	813.6	730.3	453.6	404.6	757.0	685.6	621.9	565.8
(In millions of U.S. dollars, unless otherwise specified)										
Memorandum items:										
Current account balance (including official current transfers)	-12.1	-44.1	-21.8	-6.7	1.9	-36.1	-28.6	-26.7	-31.7	-29.2
Overall balance of payments	20.6	-38.0	-15.6	4.1	12.3	-86.2	-62.8	-58.6	-57.2	-47.8
Nominal GDP at market prices (in billions of CFA francs)	153.4	145.9	141.9	137.1	142.6	151.0	164.4	176.1	189.2	203.3
Sources: Guinea-Bissau authorities; and staff estimates and projections.										
1/ Projections based on population growth of 2.5 percent per year										
2/ There is a break in the series in July 2002, when Guinea-Bissau adopted a new Harmonized CPI Index										
3/ In 2004, domestic revenue includes CFAF 2,342 million in payment to Guinea-Bissau soldiers in UN Liberia mission The same amount is recorded in current expenditure under salaries										
4/ In 2004 and 2005, includes an amount of CFAF 3.4 billion and CFAF 3.1 billion, respectively, for legislative elections.										
5/ In 2003 and 2004, includes expenditure on foreign-financed demobilization and domestic arrears clearance programs										
6/ Change in percent of beginning-of-period stock of broad money.										

Annex 5: Central Government Operations 2000-2009
(In CFAF billion)

	2000	2001	2002	2003	Prov	Proj.				
					2004	2005	2006	2007	2008	2009
						Budget				
Tax revenue and grants	51.1	45.6	30.4	31.4	45.5	50.1	48.1	50.5	53.2	56.7
Budgetary revenue	29.5	24.5	21.7	20.8	24.6	29.2	28.7	29.9	31.5	33.6
Tax revenue	17.5	14.8	11.9	11.9	11.8	14.3	15.4	16.6	17.9	19.6
Nontax revenue	12.0	9.7	9.8	8.9	12.7	14.9	13.3	13.4	13.5	14.0
Grants	21.6	21.1	8.7	10.6	21.0	20.9	19.4	20.5	21.7	23.1
Food aid and budgetary support	12.6	8.3	1.9	1.1	12.0	2.1	0.0	0.0	0.0	0.0
Project grants	9.1	12.9	6.8	9.5	9.0	18.8	19.4	20.5	21.7	23.1
Total expenditure	67.7	62.8	47.4	52.9	57.6	72.2	66.7	66.8	70.9	71.6
Current expenditure	51.9	41.1	33.7	35.0	39.7	42.7	37.6	36.2	38.7	37.6
Wages and salaries	10.5	11.0	10.5	13.6	16.2	19.5	18.5	17.6	16.7	15.9
Goods and services	10.9	7.4	7.7	3.9	4.5	5.7	5.7	5.8	5.9	6.0
Transfers, other current expenditures	5.3	7.2	7.4	5.1	5.0	6.4	6.3	6.3	6.4	6.4
Other current expenditures	3.9	3.3	0.7	0.5	4.7	5.0	1.3	1.4	5.1	4.9
Scheduled external interest	8.8	11.6	6.1	7.3	6.0	6.2	5.2	4.7	4.3	3.9
Scheduled internal interest	0.0	0.6	0.8	0.5	0.4	0.4	0.4	0.4	0.4	0.4
Capital expenditure	15.8	21.6	13.7	17.9	18.0	29.5	29.1	30.6	32.2	34.0
Public investments	15.3	20.0	12.7	15.7	15.6	29.5	29.1	30.6	32.2	34.0
Domestically financed	3.5	2.5	0.7	0.5	2.4	4.5	4.5	4.6	4.7	4.8
Foreign financed	11.8	17.5	12.0	15.2	15.5	24.9	24.6	26.0	27.5	29.2
Demobilization expenditure (PDRRI)	0.5	1.7	1.0	2.3	2.3	0.0	0.0	0.0	0.0	0.0
Overall balance, incl. grants (commitment basis)	-16.5	-17.1	-17.1	-21.4	-12.1	-22.1	-18.6	-16.3	-17.7	-14.9
Overall balance, excl. grants (commitment basis)	-38.2	-38.3	-25.7	-32.0	-33.0	-43.0	-38.0	-36.8	-39.5	-38.0
Changes in external interest arrears	-122.6	2.8	2.8	4.3	3.3	0.0	0.0	0.0	0.0	0.0
Changes in domestic arrears	0.0	1.9	5.3	17.7	3.9	0.0	0.0	0.0	0.0	0.0
Float, errors and omissions	-0.2	-2.8	2.5	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance, including grants (cash basis)	-137.2	-15.3	-6.5	0.8	-4.8	-22.1	-18.6	-16.3	-17.7	-14.9
Financing	137.3	15.3	6.5	-0.8	-4.8	22.1	18.6	16.3	17.7	14.9
Domestic financing	5.0	-0.7	-0.3	-8.5	-3.9	-2.6	-1.3	-1.0	-0.3	-0.4
Bank financing	4.4	-3.9	3.2	-4.6	-7.8	-2.6	-1.3	-1.0	-0.3	-0.4
Nonbank financing, incl. arrears	0.6	3.1	-3.5	-3.9	3.9	0.0	0.0	0.0	0.0	0.0
Foreign financing	-2.3	16.0	6.7	7.7	12.6	-19.9	-6.9	-6.6	8.1	8.3
Drawings	10.2	4.6	4.9	8.0	15.2	4.7	4.9	5.2	5.5	5.8
Balance of payments loans	7.4	1.7	1.0	2.3	7.6	0.0	0.0	0.0	0.0	0.0
Project loans	2.7	2.9	3.9	5.7	7.6	4.7	4.9	5.2	5.5	5.8
Amortization (scheduled)	-12.5	-17.4	-19.7	-16.8	-18.3	-31.5	-18.9	-19.5	-18.2	-16.2
Change in arrears	0.0	2.8	14.4	11.8	11.2	0.0	0.0	0.0	0.0	0.0
Debt relief	134.6	26.0	7.1	4.7	4.5	6.9	7.1	7.7	20.9	18.6
Financing gap (+ = financing needs)	0.0	0.0	0.0	0.0	0.0	44.6	26.8	24.0	9.9	7.0
Memorandum items:										
Current primary balance	-13.6	-4.4	-5.1	-6.4	-8.7	-7.3	-3.7	-1.6	-2.9	-0.1
Domestic balance	-17.5	-7.4	-6.0	-6.4	-5.4	-11.8	-8.2	-6.2	-4.6	-4.9
nominal GDP (billions of CFAF)	153.4	145.9	141.9	138.7	145.6	153.7	164.4	176.1	189.2	203.3
Sources: Guinea-Bissau authorities, and staff estimates and projections.										

Annex 7: Monetary Survey 2000-2005

	2000	2001	2002	2003	2004	2005
					Est	Proj
(In billions of CFA francs)						
Net foreign assets	28.5	31.5	48.3	80.8	106.3	112.8
Central bank	33.6	37.2	51.2	74.8	100.3	106.6
Deposit money banks	-5.1	-5.7	-3.0	6.0	5.9	6.3
Assets	6.0	2.8	5.5	6.0	6.5	6.8
Liabilities	-11.0	-8.5	-8.4	0.0	-0.5	-0.6
Net domestic assets	35.5	38.8	39.0	17.3	10.2	8.5
Net domestic credit	20.3	19.8	23.0	17.8	12.0	8.5
Net claims on government	20.3	19.8	23.0	15.1	9.7	6.1
Net claims on central government	15.8	15.4	18.8	15.1	9.7	6.1
Central bank	15.8	15.4	18.8	16.0	10.5	7.9
Claims	20.4	20.3	20.2	17.9	15.1	12.5
Advances to treasury	14.2	14.2	14.3	12.0	9.5	7.4
Statutory limit	2.5	2.5	2.8	2.6	2.1	1.7
Use of Fund credit	11.7	11.7	11.4	9.5	7.4	5.7
Consolidated loans	6.2	6.1	5.9	5.8	5.6	5.0
Deposits	-3.6	-3.7	-0.5	-1.9	-4.6	-4.6
Deposit money banks	-0.9	-1.1	-0.9	-0.8	-0.7	-1.7
Claims	0.0	0.0	0.3	0.5	1.0	0.0
Deposits	-0.9	-1.1	-1.2	-1.3	-1.7	-1.7
Credit to the economy	4.5	4.4	4.2	2.7	2.3	2.4
Other items (net)	15.2	19.0	16.0	-0.5	-1.7	0.1
Liabilities	64.0	70.3	87.3	98.2	116.5	121.4
Broad money	64.0	70.3	87.3	98.2	116.5	121.4
Local currency	64.0	70.3	87.3	98.2	116.5	121.4
Currency in circulation	44.2	53.1	71.1	88.5	105.6	109.9
Demand deposits and quasi money	19.8	17.3	16.1	9.7	10.9	11.5
Demand deposits	18.6	16.3	14.6	8.3	10.3	10.8
Quasi money	0.9	0.8	1.3	0.6	0.6	0.6
Other deposits	0.3	0.2	0.2	0.8	0.1	0.1
(In percent of beginning-of-period money stock, unless otherwise indicated)						
Net foreign assets	39.0	4.7	23.8	38.7	25.9	5.6
Net domestic assets	28.6	5.1	0.3	-25.0	-7.2	-1.5
Domestic credit	-1.5	-0.8	4.5	-6.0	-5.9	-3.0
Credit to the government	17.8	-0.7	4.9	-4.2	-5.5	-3.1
Credit to the economy (in percent)	-62.2	-1.2	-5.1	-37.0	-0.4	0.1
Other items (net)	30.1	5.9	-4.3	-19.0	-1.3	1.5
Broad money	67.7	9.9	24.1	13.6	18.7	4.2
Velocity (GDP/M2)	2.4	2.1	1.6	1.4	1.2	1.2
Sources: Central Bank of West African States (BCEAO); and IMF staff estimates and projections.						

Annex 8: Balance of Payments 2000-2009

	2000	2001	2002	Est. 2003	2004	2005	Proj.		2008	2009
							2006	2007		
(In billion of FCFA)										
Balance of Goods and services	-22.5	-50.0	-30.4	-19.4	-25.4	-37.1	-27.1	-27.5	-31.0	-30.3
Exports of goods and services, f.o.b.	48.6	41.9	42.3	41.1	54.3	57.3	64.4	70.2	76.4	83.2
<i>Of which</i> : cashew nuts	42.5	34.5	32.9	32.3	41.0	46.4	52.1	56.8	61.7	67.3
Imports of goods and services, f.o.b.	-71.1	-92.0	-72.7	-60.5	-79.7	-94.5	-91.5	-97.7	-107.4	-113.5
Net Income	-8.8	-11.6	-6.1	-7.3	-6.0	-6.2	-5.2	-4.7	-4.3	-3.9
Current transfers (net)	30.5	29.4	21.3	22.8	32.5	24.3	16.8	17.8	18.2	18.6
Official	25.3	20.6	11.4	12.6	21.0	11.9	9.6	9.7	9.7	10.1
Private	5.1	8.8	9.9	10.2	11.5	12.4	7.2	8.1	8.5	8.5
Current account excluding official transfers	-0.8 -26.1	-32.3 -52.9	-15.2 -26.6	-3.9 -16.5	1.0 -20.0	-19.0 -30.9	-15.5 -25.1	-14.4 -24.1	-17.1 -26.8	-15.7 -25.8
Capital and financial balance	-6.5	-0.4	17.7	13.3	8.2	-26.3	-18.5	-17.2	-13.7	-10.0
Capital account	16.6	9.1	27.2	9.4	10.4	19.9	20.6	21.8	23.1	24.5
Public capital transfers	9.1	12.9	6.8	9.5	9.0	18.8	19.5	20.5	21.8	23.1
Other items capital account	7.6	-3.8	20.4	0.0	1.4	1.1	1.2	1.2	1.3	1.4
Financial account	-23.1	-9.5	-9.5	3.9	-2.2	-46.2	-39.1	-39.0	-36.8	-34.5
Official medium- and long-term disbursements	2.7	4.6	4.9	8.0	15.2	4.7	7.7	8.0	13.5	5.8
of which: IMF	0.0	0.0	0.0	0.0	0.0	0.0	2.8	2.8	8.0	2.4
Scheduled amortization	-12.7	-17.9	-20.8	-19.6	-21.1	-31.5	-18.9	-19.5	-23.8	-16.2
of which: IMF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.6	0.0
Other items financial account	-13.1	3.8	6.4	15.6	3.7	-19.3	-27.8	-27.5	-26.5	-24.1
Errors and omissions	21.9	4.9	-13.3	-7.1	-2.7	0.0	0.0	0.0	0.0	0.0
Overall balance	14.7	-27.8	-10.8	2.4	6.5	-45.3	-33.9	-31.7	-30.8	-25.7
Financing	-14.7	27.8	10.8	-2.4	-6.5	45.3	33.9	31.7	30.8	25.7
Change in NFA of Central bank (- = increase)	-22.8	-3.7	-14.0	-23.6	-25.5	-6.2	0.0	0.0	0.0	0.0
Debt Relief	130.7	25.9	7.7	5.1	4.5	6.9	7.1	7.7	20.9	18.6
Change in debt-service arrears (decrease -)	-122.6	5.6	17.2	16.1	14.5	0.0	0.0	0.0	0.0	0.0
Financing gap (+)	0.0	0.0	0.0	0.0	0.0	44.6	26.8	24.0	9.9	7.0
(In percent of GDP)										
Memorandum items:										
Export of goods and services	31.7	28.8	29.8	30.0	38.1	38.5	41.1	42.4	43.6	44.7
Import of goods and services	46.3	63.0	51.2	44.1	55.9	63.5	58.4	59.0	61.3	61.0
Current account	-0.5	-22.1	-10.7	-2.8	0.7	-12.8	-9.9	-8.7	-9.7	-8.4
excluding official transfers	-17.0	-36.3	-18.7	-11.9	-13.7	-20.1	-15.3	-13.7	-14.2	-12.7
Overall balance	9.6	-19.1	-7.6	1.7	4.5	-30.5	-21.7	-19.1	-17.6	-13.8
Financing gap	0.0	0.0	0.0	0.0	0.0	30.0	17.1	14.5	5.7	3.8

Sources: BCEAO, and Fund staff estimates and projections.

Annex 9: External Financing Requirements and Sources
(In Billions of CFAF)

	Actual/Est.	Projections			
	2005	2006	2007	2008	2009
A. External Financing Requirements	-68.6	-44	-43.6	-50.6	-42- 25.8
Current account (excl. official transfers)	-30.9	-25.1	-24.1	-26.8	
Loan amortization scheduled	-31.5	-18.9	-19.5	-23.8	-16.2
Increase in official reserves	-6.2	0	0	0	0
Payment of arrears					
B. Total Identified Financing	17.1	10.1	11.9	19.8	16.4
Official capital / projects	18.8	19.5	20.5	21.8	23.1
Grants/ Adjustment loans	4.7	7.7	8	13.5	5.8
Official transfers	11.9	9.6	9.7	9.7	10.1
Others	-18.3	-26.7	-26.3	-25.2	-22.6
C. Financing Gap (A-B)	-51.5	-33.9	-31.7	-30.8	-25.6
D. Debt Rescheduling and Cancellation	6.9	7.1	7.7	20.9	18.6
E. Residual Financing Gap (C-D)	-44.6	-26.8	-24	-9.9	-7

Source : FMI (Provisional Data)

Annex 10: Country Strategy Framework Matrix 2005-2009

Country Challenges	Gov't Programme (NDP/PRSP)	Bank Group Strategy	Bank Group Operations		Other Bilateral/Multilateral Strategies	Reference Point		
			Recent and On-going	Proposed		MDG	Ultimate objectives of RBCSP1	Implementation of Programme Strategy until 2009
Pillar 1: Strengthening good governance to enhance effectiveness of economic policies and development programmes for poverty reduction								
<p>Modernization & efficiency of civil service</p> <p>Economic management capacity building</p> <p>Modernization and transparency of judicial and legal systems</p>	<p><u>Focus Area 4 of PRSP</u></p> <p>Improve institutional an governance capacities</p> <p>Of which:</p> <p>1- Modernization of the civil service and capacity building</p> <p>2- Strengthening of rule of law and judicial apparatus</p> <p>3- Support for decentralization</p>	<p>Modernize civil service and build its management capacity</p>	<p>Support for economic management capacity building</p>	<p>Support for civil service reform and professional training of civil servants (Audit and Action Plans of institutions and job descriptions)</p>	<p>European Union, UNDP, France, Portugal, World Bank, ACBF, Brazil and IMF are taking part in the civil service reform</p>		<p>Civil service modernized and more efficient</p> <p>Civil servants more skilled and motivated</p> <p>Rule of law effective</p>	<p>New institutional structures of the civil service are adopted</p> <p>Professional redeployment and reintegration of excess staff</p> <p>Staff refresher courses and training provided</p>

Annex 10: Country Strategy Framework Matrix 2005-2009 (Cont'd)

Country Challenges	Gov't Programme (NDP/PRSP)	Bank Group Strategy	Bank Group Operations		Other Bilateral/multilateral Strategies	Reference Point		
			Recent and Ongoing	Proposed		MDG	Ultimate Objectives of RBCSP1	Implementation of Programme Strategy until 2009
Pillar 2: Promoting growth of the agricultural and rural sector to ensure food security and improve the economic and social conditions of the rural population								
<p>Growth of agricultural production for food security</p> <p>Improve economic and social infrastructure</p> <p>Increase access to basic social services (education, health and social)</p>	<p><u>Focus area of the ORSP</u> Ensure food security</p> <p><u>Focus area 2 of the PRSP</u> Increase and improve access to social services and basic infrastructure</p> <p><u>Focus area 3 of the PRSP</u> Improve living conditions of vulnerable groups</p>	<p>Increase food production, income and social services in the rural areas</p> <p>Support for fisheries sector and enhancement of artisanal fisheries</p> <p>Post-conflict rehabilitation of socio-economic infrastructure</p>	<p>Institutional support for rural development</p> <p>Support for fisheries sector and enhancement of artisanal fisheries</p> <p>Post-conflict rehabilitation of socio-economic infrastructure</p>	<p>Development of hydro-agricultural lands and market gardens</p> <p>Construction of feeder roads, engineering structures, village water systems and produce storage</p>	<p>IFA, FAO and the Kuwaiti Fund are the major partners in this sector</p>	<p>Objective 1 Reduce extreme poverty and hunger</p>	<p>Improve food security and living conditions of the rural population</p>	<p>30% increase in rice production and 80% in market gardening yields in the north and east of the country.</p> <p>30 km of Feeder roads constructed/rehabilitated by 2009</p> <p>10 storage facilities and cereal banks constructed in 2009</p> <p>100 bodies and associations, including at least 50% women's groups</p> <p>Construction of 50 km of access roads in 2009. (Product marketing and processing</p>