

**AFRICAN DEVELOPMENT BANK
AFRICAN DEVELOPMENT FUND**



REPUBLIC OF GUINEA-BISSAU

**EXTENSION TO 2010 OF THE 2005-2009 COUNTRY
STRATEGY PAPER**

**REGIONAL DEPARTMENT WEST II
ORWB**

JANUARY 2010

CURRENCY EQUIVALENTS

(December 2009)

Currency Unit = CFA Franc (CFAF)

UA 1 = CFAF 703.061

UA 1 = USD 1.610

UA 1 = Euro 1.072

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ACRONYMS AND ABBREVIATIONS

ADB	African Development Bank
ADF	African Development Fund
BCEAO	Central Bank of West African States
BSCF	Government-TFP Budget Support Consultative Framework
CFAF	Franc of the African Financial Community
DENARP	PRSP: Poverty Reduction Strategy Paper
ECOWAS	Economic Community of West African States
ENA	National School of Administration
EPCA	Emergency Post-Conflict Assistance
EU	European Union
FDS	Defence and Security Forces
HIPCI	Heavily Indebted Poor Countries Initiative
IFIs	International Financial Institutions
IMF	International Monetary Fund
MDO	Millennium Development Goals
MYAP	Multi-Year Action Plan
NPV	Net Present Value
PAIGC	African Party for the Independence of Guinea and Cape Verde
PASP	Fisheries Support Project
PIP	Public Investment Programme
PRESAR	Agricultural and Rural Sector Rehabilitation Project
RBCSP	Results-based Country Strategy
SIGFIP	Integrated Public Financial Management System
SNFO	ADB Senegal Regional Office
TFP	Technical and Financial Partners
UA	Unit of Account
UNDP	United Nations Development Programme
UNO	United Nations Organisation
WAEMU	West African Economic and Monetary Union
WB	World Bank
WFP	World Food Programme
WHO	World Health Organisation

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I. INTRODUCTION

1.1. This Note aims to inform the Boards of recent developments in Guinea-Bissau, prompting the Government to extend to 2010 the National Strategy Paper (the 2005-2008 DENARP). It also seeks to inform the Boards of the implementation of the CSP in 2009 and to request its extension to 2010 in order to align it with the DENARP timeline, on the one hand, and on the other, to allow the preparation of an urgent, exceptional, budget support operation.

1.2. The Boards will recall that during the discussions on the 2005-2009 Country Strategy Paper (CSP) Mid-Term Review and request for access to the Fragile States Facility (FSF) on 7 January 2009, one of the objectives was to support the Government in reaching the HIPC Initiative (HIPCI) completion point anticipated for end 2010. They thus commended the efforts and progress made by Guinea-Bissau in a fragile post-conflict context, with a view to consolidating political stability through the organization of legislative elections on 16 November 2008, and initiating reforms, especially in the area of public financial management.

1.3. The Boards noted the high incidence of poverty (67%) and the unsatisfactory implementation, at end 2007, of the CSP results framework, due mainly to institutional instability, weak capacity, financial difficulties, recurrent sanctions and delays in project implementation. The Boards urged the Government to accelerate the pace of the reforms and strengthen aid coordination.

1.4. Since the 2005-2009 Mid-Term Review, the Bank implemented targeted technical assistance support in 2009 (budget preparation and expenditure execution, sector planning, and project and programme monitoring), and the Administrative Capacity Support Project (ENA, and technical assistance to strengthen the fiduciary and expenditure framework). To that end, the Bank has supported financial governance and strengthened collaboration and dialogue with the other technical and financial partners (TFP), in particular the IMF, the World Bank, the European Union (EU), the West African Economic and Monetary Union (WAEMU) and France.

1.5. Following the introduction, Section 2 presents the major recent developments. Section 3 reviews the implementation of the DENARP. The Bank's strategy for 2010 is summarised in Section 4, while Section 5 wraps up the conclusions and recommendations.

II. MAJOR RECENT DEVELOPMENTS

2.1. **Political Situation.** In 2009, the Presidential elections were held in a fairly calm atmosphere where the principal candidates had signed a pact to recognise the results. This took place despite the assassinations a few hours apart of the Army Chief of Staff, the President of the Republic and two Members of Parliament a few days before the Presidential election of July/August 2009. One of the MPs was a candidate in the Presidential elections. The elections were won by the PAIGC (historical party), which had also previously won the legislative elections in November 2008 with 67 MPs out of 100. The elected candidate, Malam Bacai Sana, was sworn in as President of the Republic on 8 September 2009.

2.2. The new President intends to strengthen national institutions and establish the necessary authority to consolidate the socio-economic and security reforms (defence and security forces) and those of the Administration through three main thrusts: national reconciliation, security sector reform, deepening of reforms (economic/public management and modernization of central government), and acceleration of the transition from macro-economic stabilisation towards growth and development. At the same time as insisting on internal efforts, he also underscores the pressing need for partner support in these key areas, without which success would be difficult to achieve. Both the President and the Prime Minister are from the same party. This harmony at the top is a reason to hope that the long-awaited and essential political and institutional stability that is vital for the pursuit of the ongoing reforms will be achieved, provided that the usual clannish rivalries do not resurface within the party. The sustainability of this harmony at the top and the stability of civilian power are necessary conditions for implementing the security sector reform - a major challenge for the country.

2.3. **Macro-economic Situation.** 2009 was marked by a difficult economic environment - the global economic crisis. It should be underscored that, even though the social and development costs were high in terms of crowding out resources for social and development projects, the country did, however, contain the deterioration of the macro-economic aggregates. Growth slowed down slightly to 3% compared to 3.3% in 2008, as did inflation (1.6% compared to 10.4% in 2008). The main growth sources were the increase, due to high rainfall, of agricultural production¹, and the construction industry. For its part, inflation decelerated both as a result of falling import prices (oil products) and the easing of domestic prices, backed by high rainfall. With regard to government finance, total revenue excluding grants exceeded forecasts by 2.4% of GDP (14% of GDP compared to 16.4% actually achieved). However, since the Government was only able to mobilise 50% of the pledged budget support, it had to sharply curb expenditure to maintain the 2009 primary balance at the 2008 level² at the expense of a significant accumulation of domestic arrears (4% of GDP, and CFAF 7 billion in outstanding obligations).

2.4. With regard to the external accounts, the trade deficit widened (-24% of GDP in 2009 compared to -15% of GDP in 2008) owing to an increase in imports (+18.3%) and fall in export revenue (-8.3%), since the 30% drop in cashew nut prices could not be offset by an increase in the quantities exported (+21.8%). The current account balance has also deteriorated (-18.9% in 2009 compared to -10% in 2008). In 2009, external debt remained unsustainable. Indeed, at end 2008, the overhang was USD 1040 million, including USD 383 million in arrears, and the NPV of external debt represented 316% of GDP and 1061% of exports. Since reaching the decision point in 2009, the country has not yet reached the completion point (expected at end 2010).

2.5. **Structural Reforms.** In 2009, the main structural measures concerned public finance management and the security sector. For the budget reforms, the Government finalized in 2009 the transposition into Guinea Bissau's internal legal framework of the WAEMU Directives relating to the harmonisation of the legal framework for public finance, namely, the organic law on budget laws, the general rules on public accounting and the classification of documents supporting expenditure. Furthermore, operationalisation of the Integrated Public Financial Management System (SIGFIP) has gradually contributed to the

¹ / Mainly cashew nuts: +22%.

² / -8.3% of GDP forecast for 2009, but -5.9% actual and -5.9% of GDP in 2008.

introduction of automated operations and has significantly improved the production of quarterly expenditure execution data. The SIGFIP was used to prepare the 2010 Budget and essential measures such as centralisation of revenue at the Treasury and the opening of a single account at the Treasury, have been implemented. In addition, these reforms carried out within the WAEMU framework contribute to the harmonisation and convergence of the budgetary policies of the member States.

2.6. With regard to the security sector reform, the Government has initiated the ex-combatants' demobilisation process mainly with EU support. Indeed, in keeping with the biometric survey of soldiers in 2008, the authorities have finalised the survey of ex-combatants. The 30 demobilised high-ranking officers are awaiting training in Nigeria and in Brazil, with a view to their socio-economic re-insertion.

2.7. One of the significant advances in budget reforms was the establishment of a Consultative Framework between the Government and partners providing budget aid (BSCF)^{1/}, of which the Bank has been a member since 26 January 2010. This body holds quarterly discussions on budget execution. Three meetings, chaired by the Minister of Finance, were held in 2009.

III. RESULTS OF DENARP IMPLEMENTATION AND GOVERNMENT'S STRATEGY FOR 2010.

3.1. **Results of and lessons from the 2005-2008 DENARP.** As a reminder, the first version of the DENARP dates from 2004. There were two successive revisions in 2005 and 2006 to enhance its consistency with the Multi-Year Action Plan and 2006-2008 PIP and to take into account the necessary security sector reform. The Round Table on its financing scheduled for end 2005 was finally only held in November 2006. This resulted in the implementation of the strategy and steering instruments over the 2007-2009 period instead of 2006-2008. The four main thrusts of the DENARP were to: (i) strengthen governance, modernise the public administration and ensure macro-economic stability; (ii) promote economic growth and job creation; (iii) increase access to social services and basic infrastructure; and (iv) improve the living conditions of vulnerable groups.

3.2. In 2009, the Government assessed the implementation of the 2005-2008 DENARP. Overall, the results were satisfactory. However, growth did not reach the planned 5% annual average, and the Medium-Term Programme with the IMF, which was essential to reach the HIPC completion point, was not concluded; nor were the expected results achieved with respect to the objectives of increasing access to social services and basic socio-economic infrastructure and improving the living conditions of the most vulnerable segments of the population. The main reasons for this were political and institutional instability, capacity weaknesses and lack of resources.

3.3. Despite these shortcomings, the report recognises that significant progress has been made since 2007 in budget reforms (refer to paragraphs 2.6 & 2.7), under the Macro-economic Stabilisation Programme coordinated by IMF and backed by the partners granting budget support (EU, WB, France, Spain, Portugal, WAEMU). This progress has resulted in the updating of the organic framework for public finance management and operationalisation of SIGFIP. It has also enabled the Government to consolidate its commitment and deepen its

^{1/} UNDP is an observer.

reforms and, consequently, its relations with the partners (shared diagnostic studies, discussions on the preparation of Action Plans for budget reforms and the security sector, justice, etc.).

3.4. The report retains a number of lessons to develop in the preparation of the Government's future strategy. The first is to temper in future a certain optimism which prevailed in the working assumptions and translated into too many, poorly ranked priorities, and inaccurate or not easily measurable indicators. Second, in addition to insufficient taking into account of the Multi-Year Action Plans (MYAP) and the Public Investment Plan (PIP) in budget preparation, the unpredictability of aid linked to the fragility of the political and institutional environment should be taken into consideration for the period of the future strategy. This calls for concluding a programme supported by the international community. Finally, the same is true of the weak absorptive capacity, unsatisfactory aid ownership and coordination, as well as difficulties in the operationalisation of the DENARP monitoring and evaluation mechanism.

3.5. Government's Strategy for 2010. Given the unsatisfactory implementation results of the DENARP, and the lessons, the Government has decided for 2010 to: (i) pursue implementation of the same thrusts as the DENARP and revise the key indicators of the monitoring/evaluation framework as part of the ongoing revision of the MYAP and PIP; and, (ii) from early 2010 prepare studies with partner support to sustain the next strategy to be implemented over the 2011-2015 period coinciding with the cut-off date for achieving the MDGs. The authorities wish to focus reflection on the following four pillars: (i) strengthen the rule of law and democratic institutions; (ii) restructure and improve public financial management; (iii) promote sustainable economic development; and (iv) enhance quality service delivery in the social sectors. It should be emphasised that the Bank's Targeted Technical Assistance Support implemented during 2009 in cooperation with UNDP, also aims to support the Authorities in preparing DENARP II.

3.6. From an operations standpoint, the Government will have to maintain its ultimate objective of reaching the completion point by end 2010. To that end, it plans to: (i) pursue stabilisation of the political and institutional environment through political dialogue, reform of the security sector and civil service reforms (with special attention to the wage bill); (ii) strengthen macro-economic management, by concluding a Medium-Term Programme with the IMF(2010-2012) to be approved in March 2010 by the IMF's Executive Board, of which at least six months' satisfactory implementation is a pre-requisite for reaching the HIPCI completion point; and (iii) focus on deepening the already initiated budget reforms.

3.7. To support these orientations (based on a 3.6% expected growth rate in 2010 and a residual financing gap of CFAF 4.2 billion, having taken into account the expected CFAF 20 billion in budget support), the 2010 budget has the following quantitative objectives: (i) own revenue of CFAF 42.3 billion (up by 8.1 billion), i.e. 19.1% of GDP (16.4% of GDP in 2009). This increase would undoubtedly come from the expected progress in the continuing rationalisation of tax collection and administration, but especially from the ending of tax exemptions on certain products such as rice, flour, sugar and construction materials; and (ii) expenditure up by 8.1 billion to CFAF 98.8 billion (43.5% of GDP in 2009, compared to 42.5% in 2008). This increase should mainly benefit education, health, agriculture, and the implementation of infrastructure projects (central government counterpart contribution and guarantees).

3.8. Challenges for implementing the Government's strategy in 2010. Three challenges will have to be taken up by the Government and its TFPs regarding the implementation of the strategy. These are the maintenance of political stability, an undertaking to deepen the budget and civil service reforms, and the predictability of its partners' resources, all of which will contribute to the reaching of the HIPCI completion point by end 2010:

Table 1
Key Challenges for Implementing the Government's Strategy in 2010

Maintain and strengthen political stability.	<i>Political stability depends on how political dialogue is conducted.</i> Regarding this point, the high level of participation in the elections (legislative and Presidential) is a positive factor. Furthermore, the President has prioritised national reconciliation and peace. <i>It also depends on the Government's and partners' capacity to make rapid strides in the reform of the Defence and Security Forces (DFS),</i> which interfere recurrently in political life. Begun in 2006, it made real progress in 2008 with the provision of resources. The pace slowed down in 2009 for two main reasons: the focussing of energy and resources on the organization of the Presidential elections and weak resource mobilisation. Of the planned USD 183.3 million, only USD 62.3 million was mobilized. <i>Finally, it depends on the social climate</i> through the regular payment of salaries. It should be emphasised that the Government made progress in this respect during the 2009 budget execution. Whereas every year at least 5 to 7 months' salary arrears were carried over to the following budget year, there were no salary arrears in 2009 and the 7 months salary arrears in 2008 were reduced to 3 months in 2008.
Maintain commitment to reforms	The President and Prime Minister have undertaken before Parliament and the partners, to make this a priority since it constitutes a pre-requisite for reaching the completion point. However, given the financial difficulties arising from the significant requirements in all these areas, the partners' institutional and budget support is critical for the successful implementation of the programme. If the budget support is provided within the deadlines, this will facilitate the Government's implementation of its strategy.

IV. THE BANK'S STRATEGY FOR 2010

4.1. **Assessment of the Government's strategic directions.** The Government's strategy of pursuing implementation of the DENARP thrusts in 2010 and focusing mainly on political dialogue, the reform of the defence and security forces as well as on budget reforms, is realistic. On the one hand, it takes into account the poor results of DENARP implementation, the objectives of which were overambitious given the structural capacity weaknesses and the unpredictability of aid linked to the relative political and institutional instability. On the other hand, it capitalises on the significant achievements (organisation of the legislative and Presidential elections considered credible, effective start-up of reforms of the security sector and substantial initiation of budget reforms) and the commitment of partners to sustain it, including with budget support (World Bank, UE, WAEMU, Portugal, France, and Spain), thus allowing the country to reach the completion point by end 2010.

4.2. This strategy supports the Government's intention, perceptible in dialogue, to speed up the transition from macro-economic stabilisation towards structural bases for growth and development. In that respect, 2010 is pivotal to this transition. Indeed, the 2010 Budget, unlike those of other years, is a good reflection of the desire to move from macro-economic stabilisation to economic development, through the priority given to increased funding of agriculture and

infrastructure, as through the priority attached to the sector and structural studies which will sustain DENARP II (2011-2015). This is all the more necessary since 2010 should end with the reaching of the HIPCI completion point, which requires the support of the TFPs, including the Bank, to minimise any slippage which could undermine this crucial objective.

4.3. Implementation of the 2005-2009 RBCSP since the Mid-Term Review. On 7 January 2009, the Boards approved the RBCSP Mid-Term Review and access to the resources of the Fragile States Facility (FSF). The amount of ADF-II resources over the 2008-2010 period stands at UA 21.86 million in 2009, i.e. UA 11.86 million based on the 2009 performance assessment (CPIA), plus an additional UA 10 million from the FSF. The two pillars retained are: (i) the strengthening of good governance; and (ii) the promotion of agricultural and rural sector growth as well as access to basic socio-economic infrastructure.

4.4. With regard to its implementation, all the operations planned except for the Bubacatio Road Project (refer to Annex 2) were approved and launched during 2009. The Bubacatio project has been postponed for lack of resources (UA 5 million were scheduled compared to the minimum 20 million required) and because the engineering designs have to be revised. It should be emphasised that there has been a significant strengthening of policy dialogue, in particular concerning public finance reforms. This has been carried out in coordination with other partners, enabling the Bank to better understand the situation and identify budget preparation and execution difficulties. The CSP completion report will subsequently assess all the outcomes achieved.

4.5. **Strategic and Operational Directions for 2010.** Since the operations were only launched in 2009, it is proposed that the strategy approved in 2009 be extended to 2010, and that the stronger focus on the country (increased dialogue and operational missions, as well as SNFO support) be pursued. Operational Proposals: under the governance pillar, and on an ADF and FSF undrawn balance of 6 million³ (2 ADF, and 4 FSF), it is proposed that an exceptional emergency budget support operation be retained with a view to strengthening dialogue with the Bank and enhancing the achievements made in respect of budget reform since 2007. This operation draws on the achievements in the area of enhanced dialogue with the TFPs and implementation of the Bank's institutional support operations in coordination with the other partners (targeted support, PARCA, and the Economic Management Capacity Building Project - PRCGE). It is also proposed to maintain the monitoring/evaluation framework, with a slightly resized results framework. As part of the targeted support-backed dialogue, in particular, the sector planning component and the Study Fund, the Bank will contribute in 2010 to the preparation of the Government's 2011-2015 DENARP and will simultaneously initiate the preparation of its new RBCSP from 2011.

4.6. **Relevance of Budget Support in Guinea-Bissau's current context.** Two factors determined the relevance of implementing this operation, namely: (i) the urgency of acting in the country's current context; and (ii) the compliance of such an operation with the Bank's operational policy and guidelines for Fragile States.

4.7. ***The urgency of acting in 2010 remains.*** As a reminder, at the 2009 Annual Meetings in Dakar, Guinea Bissau argued that it had been affected by the global economic crisis, especially in terms of budget execution (including finalisation of the budget), and sought the Bank's urgent intervention (disbursement desired by end 2009) to that end.

³ This amount could rise or fall, for the ADF 2 million is subject to the 2009 performance assessment.

Buoyed by the lead taken by the Bank in Africa in coordinating the operational response to the crisis, Management gave its agreement in principle for an emergency budget support. There was consensus that this support should accompany an emergency budget reform plan, subject to the satisfactory review of the IMF mission in September 2009 and the prospects of an amendment in early 2010 to the Medium-Term Programme backed by the IMF and the other partners - a necessary condition for reaching the completion point by end 2010.

4.8. The IMF mission was, in fact, fielded after mid-November 2009 and the emergency plan approved after mid-November 2009. With these two conditions met, it must be emphasized that the urgency of acting remains. While, as mentioned above, the Government has succeeded in limiting the damage in terms of macro-economic management, the cost for development is very high. Given that 50% of budget support pledges have not materialised, the Government has had to make cuts in the operating budgets of the Ministries and investments on targeted budget supports. It has mostly allocated its resources to mobilising more revenue and maintaining the quantitative objectives of the emergency programme with the IMF. There is a risk of the government losing momentum at a critical time when the progress made has paved the way for the advent of a Medium-Term Programme backed by the partners. This year (2010) is indeed critical, with the prospect of the signing of a Medium-Term Programme with IMF backed by the other TFPs. The Programme will incorporate the development goals of the social and real sectors, going beyond just macro-economic stabilisation.

4.9. As a result of the delay in budget support and despite the Government's efforts, domestic arrears have accumulated, especially those owed to local banks which are penalised twice: the central government has been unable to honour the arrears due; and they have not been able to have proper access to BCEAO refinancing and repo operations on the WAEMU market to contain the crisis because the central government has also defaulted on its securities held by banks. This situation is a threat to the economy unless the Government relaxes the constraint on the banks, and a threat for budget execution by crowding out resources. It is especially difficult since, according to the country's budget cycle, revenue, in liaison with activities, only starts to rise from the third quarter, whereas the budget support operations scheduled for year-end were used to offset the arrears. As such, the Government will have to negotiate and conclude a new Medium-Term Programme in the first quarter to be able to effectively reach the completion point end 2010.

4.10. **Compliance with the policies and guidelines relating to budget support operations in fragile States.** The Bank's support is in compliance with the three documents governing budget supports in fragile States, namely: (i) Strategy for Enhanced Engagement in Fragile States; (ii) Operational Guidelines of the Fragile States Facility (FSF); and (iii) the Operational Plan for Enhanced Engagement of the Bank in Fragile States. The box below summarises them.

Box 1

- *Strategy for Enhanced Engagement in Fragile State (ADF/BD/WP/2008/10, paragraph 3.22): ‘...the Bank will, in particular, provide support for programs of economic and structural reforms, including budget support where conditions are appropriate.....’.*
- *Operational Guidelines of the Fragile States Facility (ADF/BD/WP/2008/60/Corr.1, paragraph 4.5): ‘... The Bank can, however, provide a closely monitored budget support operation to post-conflict/transitional countries with governments committed to reforms, but which have a weak or declining revenue base, and where rapid response from the international community is judged as crucial in maintaining the momentum for undertaking reforms and reviving the delivery of essential public services. Such operations shall be fully justified and approved by the Boards of Directors in the country programming document and in the appraisal report of the operation. The operations must also be provided in a partnership arrangement and should have: (i) Appropriate safeguards and controls aimed at minimizing fiduciary risks in the beneficiary country; and (ii) Clear performance indicators for assessing and monitoring progress over the implementation cycle ...’.*
- *Operational Plan for the Bank’s Enhanced Commitment in the Fragile States (ADF/BD/WP/2008/83, Annex 2): ... A waiver may be granted relating to the pre-requisites for budget support operations in fragile states, except for the following: the country must have a credible peace agreement; the country must have a national development plan, with a consensus with the TFPs on the priorities; the country must have a credible capacity building programme.... The safeguards to be put in place for such operations are as follows: justification of such an operation shall also be made in the strategy paper and in the appraisal report and include safeguards aimed at mitigating the risks of fragility; the audit of the operation shall be carried out by an audit firm; technical assistance provided by the Bank including through Pillar 3 shall be set up to support the operation, as well as capacity building; the Bank shall ensure coordination with the other partners; and the indicators of the reform programme supported shall be closely monitored by the Bank.*

4.11. The box shows that, while in cases of emergency budget support is the appropriate instrument to ease budgetary constraints, it is not, however, without risks in fragile States requiring mitigative measures. First, there is the political risk: organisation of elections, initiation of the FDS reform and support of mandated partners (ECOWAS, WAEMU, EU, France, Spain, Portugal and Brazil) for this process constitute mitigative factors. Then, for commitment of the Authorities to pursue the budget reforms, the Government has provided the related evidence in its Letter of Development Policy (Annex 4); in addition, the dialogue on the next steps towards the signing of a formal programme with the IMF as well as quarterly budget discussion meetings with the partners are likely to mitigate the risks.

4.12. With regard to fiduciary risks, it should be noted that the World Bank, EU, Portugal, Spain and France are already granting budget supports to Guinea-Bissau based on three principles: (i) assess to what extent confidence has been established with the authorities in the preparation of adequate budget and fiduciary frameworks ;(ii) support the construction/consolidation of the system, in particular by rapidly providing the necessary human and material resources to adequately support implementation of the budget and fiduciary frameworks : and (iii) rely on coordination with partners.

4.13. These principles are highly consistent with the Bank’s policies and principles. The dialogue and actions carried out by the Bank as well as the progress made by the country in implementing reforms since 2007 contribute to enhanced public financial management. Joint dialogue and actions have intensified between the Government and its partners around reforms aimed at establishing adequate frameworks for budgetary and fiduciary preparation, execution and control. The Bank has, therefore, participated in the study on the Public Expenditure Management and Accountability Review (PEMFAR), which enabled the Government to define as part of a Medium-Term Economic Reform Action Plan, a priority action plan which will be the foundation for the proposed emergency budget support, and discussion on a Medium-Term Programme with the IMF.

4.14. Such a budget support would, moreover, be in keeping with an environment conducive to the Bank's institutional supports aimed at specifically strengthening budget preparation, aid coordination, public investment and budget and fiduciary control and execution. This concerns the Economic Management Capacity Building Project (PRCGE) for UA 1.3 million which will be completed in 2010 and whose training component has just begun. It concerns targeted support (technical assistance) co-financed with UNDP for 4.6 million US dollars which started up in September 2009 (sector planning, budget preparation, aid coordination and PRSP monitoring and evaluation). Finally, it concerns the Administrative Capacity Building Support Project-PARCA for UA 7.8 million (establishment of ENA, with budget and financial management training; and technical assistance for the budget, treasury, taxes and control of public finances) which was launched in December 2009 and will be operational during the first quarter of 2010.

4.15. Finally, the Bank which joined the partners' consultative framework (BSCF) in January 2010, is focusing, in particular, on dialogue and coordination with the other partners.⁴ Thus, as part of the envisaged budget support operation, a preliminary dialogue was initiated with the other partners so that, if the principle is accepted, the Bank may, alongside the World Bank, provide the resources during the first quarter, the slack period of the budget cycle, but a critical time for the negotiations of a Medium-Term Programme with the IMF/⁵. Alongside the other TFPs, the Bank proposes to support Guinea Bissau in 2010 to release new resources in a context of greater efficacy of the country from the political, economic and social context.

V. CONCLUSIONS AND RECOMMENDATIONS

5.1. **Conclusions.** Due to lack of progress in implementing its own strategy, the Government has decided to renew it in 2010 and prepare the next strategy (2011-2015 DENARP II) during the same year. On that basis, it is proposed that the Bank extend its 2005-2009 RBCSP to 2010 and that it contribute in that context to easing the constraints facing the Government through an exceptional budget support operation. The Bank's assistance will thus enable the Government to satisfactorily execute its 2010 budget, conclude a Medium-Term Programme with the IMF and reach the HIPCI completion point planned for end 2010.

5.2. **Recommendations.** The Boards are invited to approve the extension to 2010 of the strategy approved in January 2009 as well as the principle of the proposed exceptional budget support.

⁴ /Mainly with the IMF, the EU, the WB and UNDP.

⁵ /Pending the intervention of the EU, France and Spain which provided budget support at end 2009 within the framework of their procedures after the first quarter 2010.

Guinea-Bissau, RBCSP Results Framework at End 2010

Long-Term Strategic Objectives					
MDG Results Obtained by Guinea-Bissau	CSP Outcomes and Outputs that the Bank Plans to Impact	Intermediate Indicators for CSP Outputs	Progress in Attaining Results Indicators		Interventions/Products for Achieving Results
			Status of the Indicator for Base Year 2009 (calibrated)	Status of Indicator for 2010	
PILLAR I : Strengthen Good Governance to Enhance the Effectiveness of Government Development Policies and Programmes					
	Reformed and more effective public administration	Ministries' restructuring plan (organic texts and laws)	0 Ministries' Restructuring Plan (organic texts and laws) adopted and implemented	1 Ministries Restructuring Plan (organic texts and laws) adopted and implemented	Dialogue + Public Administration Reform Support Project+ Technical Assistance under Window 3 of the FSF.
	Public administration officials professionalised	National School of Public Administration established Proportion of new officials trained at the School of Administration are assigned posts matching the position profiles	0 National School of Public Administration established 0% of new officials trained at the school	1 National School of Public Administration established 10% of new officials trained are assigned to positions that match the position profiles	
	DENARP monitoring/evaluation institutional framework revised and operational	Priority Action Plan for each priority sector prepared Preliminary central MTEF operational and used for budget preparation and execution Preliminary sector MTEF for 3 priority sectors used for budget preparation and execution RBCSP monitoring/evaluation framework only slightly operational	0 Priority Action Plan operational for each priority sector prepared 0 Central MTEF operational and used for the preparation of budget execution 0 Sector MTEF operational and used for the preparation of budget execution. PRSP monitoring-evaluation framework only slightly operational	1 Priority Action Plan operational for each priority sector prepared 1 preliminary central MTEF used for budget preparation and execution 1 preliminary sector MTEF per priority sector used for budget preparation and execution (health+education+agriculture) 1 PRSP monitoring/evaluation framework slightly operational	
PILLAR II : Promote Growth in the Agricultural and Rural Sector and Access to Basic Socio-economic Infrastructure					
	Food security of rural dwellers in the North and East Regions improved	Percentage of irrigation (1250 ha) and market garden (100 ha) schemes rehabilitated. 30% increase in rice production (3500t) 80%(1500t) increase in market garden production	0% of irrigation and market garden schemes rehabilitated. 7% increase in rice production X% increase in market garden production	50% of irrigation (1250 ha) and market garden (100 ha) schemes rehabilitated. 30% increase in rice production (3500t) 80% increase (1500t) in market garden production	PRESAR Project
	Improved situation of, and access to, social and economic infrastructure.	Number of storage warehouses built Number of rural roads rehabilitated Number of km of rural access roads rehabilitated (produce marketing) Number of producer groups and associations, with 50% for women, structured and trained Degree of rehabilitation and equipment of the Simao Mendes Hospital Degree of implementation of infrastructure in the Project's 3 target areas. Continuing training arrangements for teachers are operational	0 storage warehouses built 0 Km of rural roads rehabilitated 0 Km of rural access roads rehabilitated (produce marketing) 0 producer groups and associations, with 50% for women, structured and trained 50% of the Simao Mendes Hospital rehabilitated and equipped 0 new classrooms, 0 annex buildings in the most underprivileged areas and 0 CFPI. 0 school directors trained	10 storage warehouses built 100 km of rural roads rehabilitated 200 km of rural access roads rehabilitated (produce marketing) 100 producer groups, with 50% for women, structured and trained 60% of the Simao Mendes Hospital Rehabilitated and equipped 100 new classrooms, 50 annex buildings in the most underprivileged areas and 2 CFPI. 200 school directors trained	PRESAR Project PRESAR Project Health Project II Education Project III

Guinea-Bissau: 2008-2010 (in UA million) – ADF XI: UA 21.86 M

Operations	2008	2009	2010	Total
<i>Approved</i>				
Not included in Allocation				
Interim HIPC Debt Relief	17.48**			17.48
Targeted Fragile States Facility (FSF)		2.00		2.00
Cholera Emergency Aid (grant)		0.33		0.33
ADF XI Allocation+FSF (Pillar I)				
Fisheries Support Project (PASP supplementary grant)	2.00			2.00
Health Project II (supplementary grant)		6.00		6.00
Administrative Capacity Building Support Project (PARCA)		7.86		7.86
<i>Scheduled</i>				
Budget Support (response to the financial crisis)			6.00	6.00
TOTAL Allocation ADF XI+FSF	2.00	13.86	6*	21.86

* This amount comprises UA 2 million from ADF and UA 4 million from the FSF. It could rise or fall since the UA 2 million from ADF is subject to the 2009 performance assessment (CPIA), for determining the 2010 allocations.

**US dollars

Key Macro-economic Indicators

Table 1. Guinea-Bissau: Selected Economic and Financial Indicators, 2008–12

	2008	2009	2010	2011	2012
		Est.		Proj.	
(Annual percentage change, unless otherwise indicated)					
National accounts and prices					
Real GDP at market prices	3.3	2.6	3.1	3.7	4.3
Real GDP per capita	1.1	0.3	0.2	0.8	1.3
GDP deflator	8.8	1.3	3.0	1.9	2.0
Consumer price index (annual average)	10.4	-1.2	2.5	2.5	2.5
External sector					
Exports, f.o.b. (based on US\$ values)	61.7	-14.5	13.6	7.6	5.6
Imports, f.o.b. (based on US\$ values)	49.4	10.3	4.1	7.6	7.1
Export volume	21.4	21.8	2.0	5.0	5.3
Import volume	14.2	33.1	-1.5	6.1	5.7
Terms of trade (deterioration = -)	2.3	-12.7	5.6	1.1	-1.0
Real effective exchange rate (depreciation = -)	7.1	-1.3	1.4	1.2	0.9
Nominal exchange rate (CFAF per US\$; average)	478.6	445.7	477.6	465.6	467.8
Government finances					
Domestic revenue (excluding grants)	30.2	1.3	23.2	3.6	5.9
Total expenditure	8.6	13.8	8.9	3.6	2.5
Current primary expenditure	3.7	1.3	12.8	-0.7	4.1
Capital expenditure ⁴	12.0	43.4	7.0	10.2	7.8
Money and credit ¹					
Credit to government (net)	5.5	-8.8	...	...	...
Credit to the rest of the economy	3.0	2.6	...	...	...
Broad money	20.7	8.5	...	...	...
Velocity (GDP/broad money)	2.5	2.4	...	...	...
(Percent of GDP, unless otherwise indicated)					
Investments and savings					
Gross investment	24.8	43.7	25.0	25.9	25.9
<i>Of which: government investment</i>	12.0	31.7	13.2	13.6	13.5
Gross domestic savings	-8.1	8.8	-1.0	2.5	0.0
<i>Of which: government savings</i>	-21.7	-21.4	-15.8	-12.8	-11.7
Gross national savings	8.7	24.9	10.7	17.0	13.4
Government finances					
Budgetary revenue	16.8	16.4	19.1	18.7	18.6
Total domestic primary expenditure	22.7	22.4	26.0	25.5	25.3
Domestic primary balance	-5.9	-5.9	-7.0	-6.8	-6.7
Overall balance (commitment basis)					
Including grants	-7.0	-1.0	-2.8	-2.7	-2.5
Excluding grants	-21.9	-26.0	-24.5	-24.0	-22.6
External current account (including official current transfers)	1.8	-7.4	-4.3	-5.1	-4.7
Excluding official transfers	-10.0	-18.9	-15.7	-15.6	-15.1
Excluding official transfers (other than fishing licenses)	-6.1	-17.5	-12.9	-13.7	-13.3
Net present value of external debt/exports of goods and nonfactor services (percent) ³	348.4	381.9	122.6	124.0	126.6
Nominal stock of external debt, including arrears ²	243.7	226.8	208.3	60.4	55.4
<i>Memorandum items (US\$ millions, unless otherwise indicated)</i>					
Current account balance (including official current transfers)	8.5	-33.3	-21.0	-26.1	-25.2
Overall balance of payments	-16.9	-24.9	-23.1	-703.8	-6.2
Nominal GDP at market prices (CFAF billions)	205.6	213.6	226.8	239.8	255.0
Nominal stock of external arrears, end of period ²	382.8	402.1	92.8	92.8	92.8

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

¹ Change in percent of beginning-of-period stock of broad money.

² Values in 2010 and thereafter reflect assumed impact of HIPC debt relief.

³ NPV is as in the July 2009 DSA.

⁴ Project grants in 2009 includes new public investments externally financed such as the new government offices complex and two hospitals.



Letter of Development Policy

REPUBLIC OF GUINEA-BISSAU
MINISTRY OF ECONOMY, PLANNING AND REGIONAL INTEGRATION
OFFICE OF THE MINISTER

THE MINISTER

Bissau, 14 December 2009

Subject: Request for UA 6 million Financing

Mr. President,

I am hereby requesting from the African Development Bank (ADB) a grant in an amount of six (6) million UA to support the implementation of reforms on the one hand, and to help to mitigate the persisting effects of the global economic and financial crisis on our economy, on the other.

You will recall that, at the Bank's 2009 Annual Meetings in May 2009 in Dakar, Senegal, we obtained your Institution's agreement in principle for this grant, with a view to disbursement before the end of the year, subject to fulfilment of two key conditions of the preparation process, no later than September. These were the adoption by the Government of an Emergency Public Finance Plan, and positive conclusions of the IMF mission on the macro-economic situation and reforms.

I am pleased to inform you that the Government adopted the Emergency Public Finance Plan on 19 November 2009 and that the conclusions of the IMF technical mission, in which several partners, including the ADB, participated, from 5 to 18 November 2009, mentioned the significant progress aimed at restructuring the macro-economic framework. Such performances were achieved by the Government despite a difficult financial situation marked by a fall of about 30% in the price of cashew nuts, our country's main crop, and by the fact that 50% of the pledged budget supports was not provided.

I fully understand that your Institution was unable to disburse the pledged resources before year end because of the late concretization of the above-mentioned triggering factors.

However, since this has now happened, I wish to ask your Institution to take all the appropriate measures to ensure that steps are taken to enable us to benefit from these resources at a time when we most urgently need them to speed up the reforms, especially during the first quarter of 2010.

In this respect, I have attached the Letter of Development Policy describing in greater detail the progress made with regard to macro-economic management and the implementation of reforms as well as the 2010 programme for which we are seeking ADB support.

I thank you for the constant and growing support that the African Development Bank increasingly provides to our country.

Please accept, Mr. President, the assurances of my highest consideration.

(signed)
Helena NOSOLINI EMBALO
Minister and ADB Governor
For Guinea-Bissau

Mr. Donald KABERUKA
President of the African Development Bank
Tunis - TUNISIA

cc:

- José Mário V AZ, Minister of Finance and ADB Alternate Governor for Guinea-Bissau

Atch: Government's Letter of Development Policy relating to the Reform Support Programme.



REPUBLIC OF GUINEA BISSAU

Bissau, 18 December 2009

Ref No. _____/GOGB/2009

To:
Mr. Donald KABERUKA
President of the African Development
Bank (ADB)
Tunis – Republic of TUNISIA

Subject: LETTER OF DEVELOPMENT POLICY
ECONOMIC REFORM AND GOVERNANCE SUPPORT PROGRAMME
(PAREG)

Mr. President,

1. We have the honour to submit to you this Letter of Development Policy with a view to seeking the African Development Bank's (ADB) support in the form of a grant to finance the Economic Reform and Governance Support Programme (PAREG). The goal of this programme is to create the conditions for sustainable economic growth through improved macro-economic management. More specifically, it aims to strengthen transparency and rigour in budget preparation and speed up the modernisation of budget execution.
2. This letter, which reviews the economic and social situation in Guinea-Bissau in 2009 and presents the outlook for 2010, sets out the policies and programmes the Authorities intend to implement under the National Poverty Reduction Strategy Paper.

I. The Political and Economic Context

3. Guinea-Bissau's economic tables and social portrait were seriously marked by the political/military conflict that broke out in June 1998 and continued until May 1999, and immediately followed Guinea-Bissau's joining of WAEMU in 1997. This conflict undermined the efforts initiated in the early 90s to address the deep macro-economic imbalances and weaknesses in public financial management which characterise the economy of Guinea-Bissau. Its socio-economic impact was considerable: a falling growth rate as a result of political instability (a significant decline in per capita GDP); and broad segments of the population living below the poverty threshold. Guinea-Bissau was, therefore, ranked as the 175th country out of 177, on the Human Development Index.
- - -
4. The Government of Guinea-Bissau has encountered considerable obstacles in restoring the situation and rehabilitating the economic fabric. Thus, in recent years, and in particular since 2008, economic growth has resumed moderately thanks to the restoration of the economic fundamentals against a backdrop of the Emergency Post-Conflict Programme and credible general elections with legislatives at end 2008 and the Presidential election in 2009. Despite the permanent state of political instability, this represents one of the strongest hopes for consolidation of structural reforms and improvement of the social conditions of our country

5. It is in this context, marked by the fragility of the necessary tools and consensus to exit the crisis, that the new Government took office in January 2009 and resolutely undertook to pursue the implementation of reforms aimed at stabilising the macro-economic framework, consolidating the foundations of growth and improving access to basic social services in accordance with the DENARP. The PAREG is a continuation of the support the ADB Group has given Guinea-Bissau towards strengthening public finance management and promoting good governance. In this respect, it is also worth recalling that the Administrative Capacity Building Support Project and the Targeted Support are specifically aimed at the areas of central government financial policy (strengthening of budget execution and control procedures, improvement of the public investment programming system, etc.).

II. Implementation Status of Reforms

6. In early 2008, the Government of Guinea-Bissau concluded a formal agreement with the IMF concerning an annual Post-Conflict Emergency Assistance (EPCA)-supported programme. The main objective of this programme, renewed in 2009, is to restore the economic situation and reform central government finances.

Recent Economic and Financial Developments

7. The efforts to restore the economic situation were wiped out by the global financial and economic crisis and the political environment which impacted negatively on the overall economic situation in 2009. The 30% fall in international prices of cashew nuts, our country's main export product, the drop in migrant remittances and uncertainties regarding the business climate have led to a slow-down of economic growth and strong pressure on the internal and external balances. The GDP growth rate stood at 2.9% in 2009, slightly below the forecast rate of 3%, compared to 3.3% in 2008. This growth is mainly driven by the cashew nut sector, which recorded a good harvest and an increase in the volume of exports, and by the recovery of the building and public works sector. By end 2009, deflation had begun (average inflation rate of -1.6%) compared to a 10.4% inflation rate in 2008 related to falling import prices.

8. The public finance restructuring reforms resulted in efforts to broaden the tax base and control all recurrent expenditure. This central government policy led to more efficient recovery of public revenue and the maintenance of expenditure within the forecast limits. Total revenue excluding grants improved to 25.8 billion in 2009, i.e. 135.8% of forecasts and 98.3% of the 2008 level. However, the efficient maintenance of fiscal revenue was insufficient to offset the poor mobilisation of budget support (50% of the pledged and programmed amounts), compelling the Government to tighten the quantitative indicators related to the evolution of public spending. This rigorous management made it possible to narrow the primary deficit from 8.5% of GDP in 2008 to 6% of GDP in 2009. This situation also limited the central government's capacity to effect non-wage spending.

Reform Programme

9. With regard to structural reforms, the Government has, in close collaboration with the technical and financial partners, pursued the implementation of measures to modernise Public Administration and, more especially, to improve public finance management. In that respect, the transposition into Guinea-Bissau's legal framework of the WAEMU Directives on the harmonisation of the public finance legal framework is effective, thereby laying the foundation for the gradual introduction of good financial governance. These include the legal texts on the organic law on budget laws, the general public accounting rules and the classification for documents supporting expenditure.

10. The Government has made efforts to improve revenue collection. It has initiated the strengthening of controls on exemptions, the strengthening of customs controls through the Bank's support and the Sydonia++ software has already been procured (inspection of external trade flows at Bissau port, installation of Sydonia ++ software, etc.).
11. Regarding the central government budget classification, the resumption of work on budget codification in SIGFIP – GB (a software package covering the major public financial management functions) has facilitated the automation of budget operations, strengthened the application of budgetary principles and methods (specialisation of credit, the budget authorisation process, budget transparency and sincerity etc.) and improved the publication of accounting and financial tables on budget execution (production of detailed monthly statistics on the administrative phase of expenditure). With regard to administrative reform, the ongoing biometric survey of civil servants nearing completion and the establishment of a single database for the management of civil service personnel will have a budget impact of the utmost importance for the years ahead. Finally, the centralisation of all revenue at the Public Treasury and its consideration in the budget as well as the institutionalisation of a single Treasury account have also constituted significant progress in the rationalisation of public finance management. All these reforms have contributed to a large extent to the gradual normalisation of the budgetary situation and the achievement of the fiscal performance in 2009.
12. With regard to the business climate, the adoption of the OHADA Acts, the establishment of a Commercial Court, the new investment code as well as the Law on Public-Private Partnership are factors that will boost economic growth and create jobs. This component on the competitiveness and development of the private sector will foster the development of the agricultural and fisheries potential, vector of stronger growth and guarantee of food security. In that context, your Institution's major contribution must be emphasised in the implementation of the Government's accelerated growth strategy with the Fishing Port Construction Project and the Agriculture Project.
13. The security sector reform has also made some progress with the biometric survey, identification of sources to reduce the wage bill paid to soldiers and the effectiveness of technical assistance of the specialised structures of the United Nations and the European Union.

III. Outlook for 2010

Macro-economic Data

14. The Government's post-crisis programme for 2010 depends both on the progress made in 2008 and 2009 and on the Government's overall commitment to promote national reconciliation, restore security and revive the economy. The Government reiterates its determination to place good governance in the management of public resources at the centre of its economic programme. It will resolutely combat corruption and fraud at all levels by strengthening the rule of law and restoring an economic and regulatory environment conducive to economic activity.

15. With the prospect of a favourable evolution of the international economy and the anticipated expansion of cashew nut production, the expected real GDP growth rate for 2010 is 3.5% and about 4% beyond. Inflation will remain contained, related to the moderate increase in the prices of imported products. With regard to public finances, the objective is to increase fiscal revenue by 2.7 percentage points of GDP (elimination of tax exemptions on rice, wheat flour, sugar and construction materials) and maintain primary expenditure within the limits of available resources with an increase of 4% of GDP to reflect the scheduled increases in the social sectors.

Priority Action Plan

16. To do so, the Government, in consultation with its development partners, the ADB, the World Bank and the European Union, has initiated a Public Expenditure Management and Financial Accountability Review (PEMFAR). The preliminary results have proposed urgent and medium-term measures. In the short term, the Government has, on the basis of the public finance medium-term action plan, prepared an emergency priority action plan. The measures of the short-term plan concern, among others, the improvement of budget execution and the strengthening of the control system, budget preparation and public procurement. This emergency action plan was adopted by the Council of Ministers on 19 November 2009 and the Government has undertaken to implement it. The medium-term action plan will be validated following the validation workshop of the PEMFAR report before end 2009.
17. Budget management and the accounting systems will be fully utilised to control and monitor budget execution, and to issue quarterly reports on budget execution. In order to achieve that objective, the existing budget execution procedures will be strengthened and strictly complied with, and the use of cash advances reduced.
18. The Government intends to reach the HIPC Initiative completion point during 2010. To attain that objective, the Government undertakes to satisfactorily implement the Emergency Post-Conflict Programme and to take the necessary measures to obtain approval for IMF technical assistance supported by an ECF (Extended Credit Facility) in March 2010.

Monitoring and Evaluation of the Plan

19. Coordination of the implementation of the Budget Reform Action Plan will be carried out by an Inter-ministerial Committee chaired by the Minister of Finance, the composition of which will be determined by Ministerial decree in consultation with the departments involved in the reforms.

20. We hope that these directions taken and commitments made by the Government will greatly invigorate financial cooperation with the African Development Bank (ADB) and all the multilateral and bilateral partners. We remain convinced that the PAREG budget support grant for 2010 will contribute to the satisfactory implementation of priority actions to consolidate the policies for financial stabilisation and strong economic growth, the basis for a significant reduction in poverty.

Please accept, Mr. President, the assurances of our highest consideration

(signed)

Helena Nosolini EMBALO

**Minister of Economy, Planning
and Regional Integration**

(signed)

José Mário V AZ

Minister of Finance