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INTERNATIONAL MONETARY FUND
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Executive Board Attendance

S. Fischer, Acting Chairman

Executive Directors

A. Barro-Chambrier

Alternate Executive Directors

M.F. Melhem, Temporary

J. Nelmes, Temporary

M.J. Fernández, Temporary

S. Sharipova, Temporary

C.-P. Schollmeier, Temporary

M. Pérez, Temporary

J.N. Santos, Temporary

I. Steinbuka, Temporary

Peh K.H., Temporary

N. Jadhav, Temporary

A. Jacoby, Temporary

S.P. Donovan, Temporary

E. Jourcin, Temporary

T. Hadded, Temporary

P.A. Akatu, Temporary

E.O. Kornitch, Temporary

B. Kelmanson, Temporary

H. Mori, Temporary

A.F. Al-Faris

M.S. Hililan, Temporary

Zhang F.

E. Azoulay, Temporary

K. Harada, Temporary

A. Mountford, Acting Secretary

S.T. Djumena, Assistant

Guinea-Bissau—1999 Article IV Consultation; and Purchase Transaction—Emergency Post-Conflict Assistance

Staff representatives: Sacerdoti, AFR; Muñiz, PDR

Also Present

IBRD: M.A. Ayub, Africa Regional Office; P.F. Gomes, Alternate Executive Director. African Department: E. Hernández-Catá, Associate Director; S. Brunschwig, C.A. François, P.J. Lazar, E. Sacerdoti, A. Tahari. External Relations Department: L.Mboto Fouda. Legal Department: N.S. Kyriakos-Saad. Monetary and Exchange Affairs Department: C. Durand. Policy Development and Review Department: I. Kapur. Secretary's Department: B.A. Sarr. Treasurer's Department: C.A. Hatch. Office of the Managing Director: D.A. Citrin, J.A.P. Clément. Advisors to Executive Directors: A.R. Ismael. Assistants to Executive Directors: T.-M. Kudiwu, A.N. Maciá.

1. GUINEA-BISSAU—1999 ARTICLE IV CONSULTATION; AND PURCHASE TRANSACTION—EMERGENCY POST-CONFLICT ASSISTANCE

The Executive Directors considered the staff report for the 1999 Article IV consultation with Guinea-Bissau and Guinea-Bissau's request for emergency post-conflict assistance equivalent to SDR 2.13 million (EBS/99/163, 8/23/99; Cor. 1, 9/13/99; and Sup. 1, 9/8/99). They also had before them a statistical annex on Guinea-Bissau (SM/99/213, 8/23/99).

Mr. Barro-Chambrier made the following statement:

Since the last Board meeting on Guinea-Bissau in April 1998, the country has experienced severe social disruptions, as domestic armed conflict broke out in June 1998, resulting in considerable losses in terms of human life, destruction of infrastructure and prolonged economic stoppage. In November 1998, a peace agreement was signed between the conflicting parties and a national unity government was formed. A new cabinet took office in February 1999 with the priority tasks of rehabilitating the infrastructure, bringing social harmony and resuming the economic and financial adjustment process. The authorities have moved quickly in these areas, and have shown their strong determination to re-establish a fully functional government, and to address critical political and social issues. Legislative and presidential elections have been set for November 1999, government offices and schools have been reopened, and refugees encouraged to return to the country. The airport was reopened and the most urgent repairs were undertaken with foreign assistance.

In order to further strengthen their reconstruction efforts and to better coordinate external assistance, the authorities prepared a document for emergency assistance that was presented to donors at a Roundtable conference in Geneva in May 1999. On the basis of the strength of the program presented by the authorities and the commitment shown to address key post-conflict issues and to create an appropriate climate conducive to social harmony, donors gave their support to the program and made strong pledges for financial and technical assistance. In the same context, the authorities are requesting Fund assistance under the Post-conflict Assistance Program. This assistance should complement those being received from the international community, and should enable Guinea-Bissau to put in place the basic requirements necessary to resume their financial and structural reform programs under the ESAF.

It should be noted that prior to the armed conflict, Guinea-Bissau had implemented a three-year economic program supported by the Fund's Enhanced Structural Adjustment Facility (ESAF) in a satisfactory manner and significant progress was made in reducing financial imbalances, improving budget management, restructuring the banking system and in the privatization

of the public enterprises. The progress achieved enabled Guinea-Bissau to join the WAEMU in 1997, and at the end of the program, a new three-year program under the ESAF was negotiated for the period 1998–2001. Moreover, on the basis of the debt sustainability analysis prepared with the assistance of the staff of the Fund and the World Bank, it was recognized that Guinea-Bissau was eligible to the HIPC Initiative, and that, subject to continued satisfactory performance, the decision point could be reached soon following the approval of a new three-year ESAF. However, this program could not be implemented, because of the crisis that occurred in June 1998, and which had a very serious adverse impact on the economy.

As a result of the conflict, real GDP growth is estimated to have declined by 28 percent in 1998, affecting not only agricultural production, but other economic activities as well. The fiscal situation deteriorated, with the overall fiscal deficit, excluding grants, widening to 20 percent of GDP in 1998. The conflict resulted in the buildup of both domestic and external government payments arrears. In the external sector, despite a major shortfall in export earnings, as cashew nut exports fell by almost half from 1997, the external current account deficit, excluding grants, declined from 23 percent of GDP in 1997 to 19 percent in 1998, mainly due to the halt in commercial imports in the period of June–November 1998.

Since the signing of the peace agreement in November 1998, the transitional national government of unity that took office in February 1999, has taken steps to stabilize the political and the economical environment. In this connection, and as mentioned above, an emergency plan was prepared, and was well received by donors at the Roundtable in Geneva in early May 1999. The plan aimed at restoring private sector activity, returning displaced persons to their homes, rebuilding residential areas and infrastructure, rehabilitating the social sectors, demobilizing troops, and organizing elections. In the meantime, and despite limited resources, the authorities adopted measures to reconstitute a functioning civil service and prepared a budget to serve as framework for the emergency program. The government recognizes that the economic reconstruction and recovery efforts require a stable macroeconomic framework, as well as transparency and good governance particularly in public finance. The 1999 Budget was prepared in that context and has been submitted to the National Assembly. It tries to maintain full control over expenditure and to observe the budgetary procedures introduced in 1997, with Fund assistance.

Since March 1999, the government has restored the basic administrative services, including the reintroduction of regular budgetary procedures, and rehabilitation of the customs and tax offices. A major effort is underway to clear arrears. By end-July 1999, the government was current on its wages and pension payments for the first six months of the year. Strict control over expenditure is being maintained, and efforts to centralize all

revenues in the Treasury are being pursued. The government with World Bank assistance is also taking steps to restore the computerized systems for customs data and is strengthening customs administration.

The government of Guinea-Bissau is fully committed to resume its medium-term adjustment program, and with the assistance of the staff, has prepared a macroeconomic and structural program for 1999 that is consistent with the objectives of the PFP for 1997–2000. In support of this program, and in view of the determined efforts already shown in the rehabilitation of the economy, the authorities are requesting Fund assistance under the emergency post-conflict assistance program in an amount equivalent to 25 percent of quota.

The program assumes a significant rebound in exports and an increase in public and private investments. Imports are also expected to increase, and real GDP is projected to increase by about 7 percent, with the resumption of economic activity. While the government is addressing pressing social and humanitarian needs, it is also placing priority on strengthening the fiscal position. In this regard, the authorities are taking steps to rehabilitate customs and tax departments and to strengthen administrative controls. Thus, on the revenue side, total revenue collection is expected to increase by 11.7 percent of GDP in 1999, owing mainly to revenue resulting from increased cashew nut exports, customs duties, consumption taxes on beverages and petroleum products and the generalized sales tax (IGV). As regards outlays, the primary current budget expenditure is set at 13.5 percent of GDP, in view of the need to meet public utility consumption, education and health sector needs.

Regarding external debt service, the authorities have settled in April 1999 the payment arrears to the World Bank; in July they have paid part of their arrears to the African Development Bank. They are determined to settle during 1999 all their current obligations toward multilateral creditors.

In the monetary sector, monetary policy will aim at strengthening the Union's external reserves and limiting inflation to levels in line with the Euro area. An audit of the Banco Internacional de Guinea-Bissau (BIGB) by the regional banking commission will be conducted shortly. The authorities are also committed to reduce their participation in the banking system.

On structural reforms, efforts will be concentrated in the areas of the civil service and the armed forces, where the objective is a gradual reduction of staff. Regarding public enterprise restructuring and privatization, priority is given to the restructuring of the energy and water company, EAGB; and for the rehabilitation of power stations, studies will be initiated in the coming months. As regards the telecommunications sector and the port of Bissau, the authorities, with external assistance, will initiate studies to transfer their

management to a private operator under concession arrangements. The authorities intend to complete the privatization of GUINAVE (ship repair) and SOCOTRAM (timber) in the next few months and to initiate procedures to privatize the fishing public enterprise.

A major objective of the program is the demobilization and rehabilitation of troops. A military commission has conducted a census of mobilized personnel, in order to reduce rapidly the overall number in the armed forces. A systematic action plan for demobilization is under discussion with the World Bank.

Under the program, the authorities have also requested technical assistance from the Fund and other multilateral organizations and bilateral donors to assist them to rehabilitate and improve the functioning of key areas of the economy.

In conclusion, the authorities are committed to the implementation of the program, in order to restore confidence in Guinea-Bissau's economy. To demonstrate their commitment, they have already implemented, under difficult circumstances, all the prior actions set in the Memorandum of Economic and Financial Policies. They are firmly committed to achieving the objectives set in the emergency program, so as to normalize the macroeconomic environment. They are appreciative of the assistance provided by the international community in general, and of the Fund, in particular during this difficult period. They would also like to thank management and the staff for the invaluable advice they have provided to them. It is also their expectation that the international community will continue to support their ongoing efforts toward the re-establishment of macroeconomic stability.

Mr. Mori made the following statement:

Guinea-Bissau's economy was severely affected by the armed conflict as pointed out in the staff report and the Memorandum of Economic and Financial Policies (MEFP). In this difficult period, financial and technical assistance is essential to support the authorities' efforts in their reconstruction and rehabilitation program. We support the proposed decision as current adverse conditions make Guinea-Bissau eligible for Emergency Post-Conflict Assistance. We wish to commend the staff for the support provided to the authorities by assisting them in the elaboration of the economic program in a very difficult context.

The efforts required to repair the severe damage to the economy and to the urban and administrative infrastructure caused by the conflict will be immense. The program proposed in the MEFP is comprehensive for the objective to re-establish economic normality and to continue further in the

economic and financial adjustment process followed prior to the outbreak of the conflict. Indeed, substantial progress was achieved in the period 1995–98 in terms of GDP growth, inflation, reduction of financial imbalances, and structural reforms.

The success of the program will depend primarily on the authorities' commitment to the implementation of the necessary measures with the same determination demonstrated since the end of the conflict when all the prior actions were implemented. We agree with the staff that the full support of the donors' community will also be essential especially for immediate reconstruction needs, ensuring adequate resources for priority investment, and helping to cope with the heavy debt burden. Guinea-Bissau's already very poor social conditions call for a rapid rehabilitation and reconstruction process.

The authorities should be commended for their strong efforts in difficult circumstances, and even with very limited initial external assistance, to restart basic services, reestablish the administrative machinery, and restore discipline in public finances. In the first stage of the process, it is essential to restore social services disrupted during the conflict period which includes rapid rehabilitation of schools, health centers, and the return of personnel.

We share the view that the economic reconstruction and recovery efforts require a stable macroeconomic framework with close monitoring of government finances especially of budgeted expenditure procedures. In this regard, corrective actions will be necessary to address the sharp fiscal deterioration observed after the conflict. Fiscal policy needs to be conducted to identify priorities, maintain strict control over expenditure, and continue to reallocate resources towards key social sectors. We are pleased to note that measures have been taken to contain rigorously all lower-priority outlays.

Another challenge is to reestablish a climate conducive to the full development of private sector activity. In this respect, the structural reform program needs to be resumed by completing the privatization of public enterprises and strengthening the banking sector. Privatization is essential to attracting needed investment and boosting the prospects in a number of productive sectors.

We concur with Mr. Barro-Chambrier on the importance of restructuring the civil service and the armed forces. Measures for a gradual reduction of staff to increase efficiency and improve remuneration are welcome. On the troop demobilization program, as well as the social and rehabilitation plan, assistance from the World Bank and other donors will be necessary.

One positive aspect is that the key sector of the economy was preserved as the cashew plantations sustained only limited damage. This will allow a substantive contribution for the economic adjustment as cashew nut output is the main export crop, and export taxes on cashew nuts continue to remain an important source of revenue. We are encouraged by the rapid pickup in exports in 1999, owing to a favorable cashew crops.

We wish the authorities every success in their difficult challenge to implement the reconstruction and rehabilitation program.

Mr. Morais made the following statement:

The staff report paints a picture of major economic destruction and social dislocation that have setback the notable progress made by Guinea-Bissau in recent years, especially during 1995–1997, to strengthen growth and reduce inflation from the high double-digit levels. While inflation continued on its downward course through the period of the armed conflict—a notable achievement under the circumstances—the country faces major urgent challenges in arresting the already troubling intensification of macroeconomic imbalances, as evidenced by the deterioration in the fiscal position of the government and the country's external accounts, and this, against the backdrop of the heavy external debt burden. The task involved would be difficult enough for Guinea-Bissau in the best of circumstances, but with the extensive disruption and damage to the government's administrative capacity, including the system of revenue collection, the country's need for financial and technical assistance is urgent and large. We are encouraged that some of this assistance is already being provided and more pledged.

The Guinea-Bissau authorities have taken a number of important steps, with donor assistance, toward addressing the immediate situation and thus set the stage for the follow-up effort that is urgently needed. Important in this respect are the moves to address the immediate humanitarian and social needs and restore basic services, and the provision of timely support to agriculture through the distribution of seed for planting. We are also encouraged by the successful outcome of the roundtable conference held in May.

Looking ahead, the authorities appear to have articulated in their program for 1999, the major priorities for moving Guinea-Bissau through the rehabilitation and rebuilding stages and on to the full resumption of the process of reform within the framework of a Fund supported program. In this regard, we welcome the clearly set out plan for reactivating the government's budget and revenue services and the measures proposed for reviving the private sector. The planned demobilization poses quite a challenge and clearly needs careful handling as the authorities recognize, but early progress in addressing the fiscal situation depends on quick action on this matter. The authorities have

also given due emphasis to the political process, in particular, the elections which are coming up in November. Success in this area will help to create a conducive atmosphere for progress in other areas.

It seems clear that the overall success of the 1999 program hinges on the fiscal program and the prompt delivery of the external assistance envisaged. I note in this regard, that the authorities have undertaken major commitments regarding the payment of back wages and pensions, where the intention of the authorities was to become current by the end of July, and the settlement of domestic arrears to the private sector amounting to 3 percent of GDP. These payments are expected to provide the flows to rekindle activity in the private sector. We would like staff comments on the progress in these areas. Also substantial payments are due in respect of arrears on external debt in addition to payments made in April. In this connection, we would appreciate staff's comments on the prospects for external assistance in the period up to the end of the year.

Finally, we concur with staff that Guinea-Bissau has made a major effort since the end of the recent conflict to restore essential public services as well as discipline in government's public finances. In view of this, and the effort envisaged under the program that has been drawn up for the rest of 1999, we strongly support Guinea-Bissau's request for Emergency Post-Conflict Assistance. The need for technical assistance is considerable and we fully support the authorities' request as reflected in paragraph 30 of the staff paper, for assistance from the Fund in strengthening budget procedures and insuring the full implementation of the IGV. This is also the time for the broader international community to redouble its support for the country's efforts aimed at meeting the challenge of reconstruction and other priority public investment, coping with the heavy debt burden and addressing pressing social needs.

Mr. Jourcin made the following statement:

The case of Guinea-Bissau is an additional example of how damaging and costly conflicts in Africa have been over the last years. Indeed, the conflict occurred at a time that this country was succeeding in the implementation of an ESAF-supported program and was improving its integration in the West African Economic and Monetary Union. After a long period of mixed performance, Guinea-Bissau was finally able to put in place the necessary conditions for sustained economic growth and development. Unfortunately, the country's situation displays a very different picture today, than before the eruption of the conflict.

In this regard, the staff report provides disappointing and worrisome information on the sharp deterioration in macroeconomic performance and the

severe damages to the economy, the widespread destruction of infrastructure, and the weakening of administrative capacity and also social disruption and displacements of populations. One must be aware that it will probably take four or five years of strong economic growth to offset the reduction in GDP growth endured in only one year. It should also be kept in mind that conflicts are not natural catastrophes.

The authorities' determination in tackling the most urgent problems under these difficult circumstances are commendable, as well as their efforts to pave the way for a new ESAF-supported program in 2000. In this context, the troop demobilization proposal is a crucial issue for the country's stability and reconstruction prospects.

Overall, we fully share the staff's view on the other key priorities for the period ahead, in particular reestablishing the climate conducive to private sector activity, restoring administrative services, starting domestic arrears repayment, and strengthening the banking system. It is clear that this first difficult phase of focusing on meeting immediate needs calls for technical assistance and financial assistance from international community.

Under a new ESAF arrangement, Guinea-Bissau will have to be able to implement a more ambitious program, notably in the structural area. At this stage, this appears to be very challenging. With these remarks, I approve the proposed decision concerning the emergency post-conflict assistance for Guinea-Bissau, which meets the conditions to be eligible for such IMF assistance.

Mr. Santos made the following statement:

Let me begin by expressing our support for the request for emergency post-conflict assistance. Not only is Guinea-Bissau clearly eligible for such assistance, but we also feel reassured by the authorities' urgency in building a track record of program implementation and willingness to move to an ESAF-supported program as soon as possible. If performance in the following months is positive and an agreement is reached on a follow-up ESAF-supported program, then Guinea-Bissau could soon reach the decision point under the HIPC. Although we attach a strong importance to the sustainability of policy performance as a requirement for HIPC eligibility, we think that Guinea-Bissau should not be unduly penalized by the economic deterioration during the past year. Instead, it should be granted credit for its past track record. Here, it is worth noting that this country was on the verge of reaching the decision point when the fighting broke out.

On the policy side, we would emphasize the urgency to reduce external and domestic macroimbalances to levels that are financeable and consistent

with the financial discipline of the monetary area. In particular, it is necessary to improve budgetary procedures and revenue collection, which are major conditions to avoid the build up of domestic payments arrears, end the culture of nonpayment and improve financial transparency.

A sound fiscal policy should also be instrumental to allow inflation to converge to levels prevailing in the CFA franc area. In our view the current inflation rate is still too high and may not even fully reflect the stance of financial policies, as inflation may have been artificially repressed by the accumulation of domestic arrears. In our view, a reduction in inflation is particularly important to prevent any further appreciation of the real effective exchange rate and loss in competitiveness.

Ms. Fernández made the following statement:

At the outset, I would like to encourage the authorities to dedicate their best knowledge to get ahead with the consolidation of peace in the country, and their determination to reconstruct a society that has suffered dramatically the consequences of last year's armed domestic conflict.

It has been most unfortunate that after having initiated in 1995 the path towards the achievement of a more sustainable economic growth, through the implementation of a three-year economic program of adjustment and reform, supported by an ESAF arrangement, a tragic civil war had come to wipe out the first gains that had already been attained in terms of economic growth, price stability, financial adjustment and structural reform. Regrettably, in the aftermath of the armed conflict, Guinea-Bissau faces a macroeconomic situation characterized by a sharp downfall in economic activity; large fiscal and external imbalances; and a most weakened financial sector. In addition, social indicators that were already poor have deteriorated significantly.

Against this background, I am encouraged to note that the authorities have reacted expeditiously in designing a comprehensive program to start the reconstruction and rehabilitation process; the return of displaced people; the unification and demobilization of the armed forces; and the reactivation of social services.

I am glad to note that the authorities realize that the recovery process will depend on their efforts to establish a sound macroeconomic framework capable to create the conditions that the private sector will require to reinstate economic activity, particularly, when they have just suffered significant losses due to the conflict. In this respect, the authorities intention to restore domestic order, law enforcement and internal and external trade as soon as possible, is certainly crucial.

Based on the emergency program presented by the authorities and, as stated in the staff report, the broad support it has already received from the donors' community, and being that the country is in a position that meets the conditions to use the Fund's Emergency Post-Conflict Assistance, I support the proposed decision to approve the authorities' request to make use of the mentioned facility.

The authorities' program for 1999, if correctly implemented, is sufficiently comprehensive to set up the basis for adjustment and reform. Thus, I would just like to urge the authorities to carry out the key priorities defined in the program, decisively, and in a timely manner; notably: (i) the reintroduction of regular budgetary procedures, the implementation of the demobilization plan and the reactivation of customs and domestic taxation as crucial steps to address the fiscal position; (ii) the repayment of domestic and external arrears; (iii) the strengthening of the banking system; (iv) the resumption of the privatization process; and (v) the rehabilitation of social services.

With these remarks I wish the authorities well.

Mr. Jacoby made the following statement:

It is depressing to see how badly Guinea-Bissau's efforts to restructure its economy have been affected by the civil conflict. Widespread destruction of basic infrastructure and a severely damaged industrial sector caused a dramatic drop in GDP growth in 1998. The prospects for economic growth prospects and social development have suffered a tremendous setback.

There is no doubt that Guinea-Bissau's present circumstances make it eligible for the Fund's emergency post-conflict assistance: all the criteria have obviously been met. The emergency program in particular, which identifies a comprehensive set of key priorities, is sufficient proof that the authorities possess adequate planning and administrative capacity. For these reasons, I fully support the Guinea-Bissau's request for emergency assistance.

The disbursement of these resources is all the more desirable because implementation of the reconstruction plan is certain to speed the finalization of a new ESAF-supported program. In this connection, let me stress the importance of holding general elections before the end of the year so as to regain the confidence of the international community. A full commitment to democratic stability and social peace are indeed the key ingredients for attracting international investors and restoring growth prospects.

Let me end by saying that I am certain that the authorities will implement the post-war reconstruction program successfully, which should in turn make it possible to finalize a new ESAF-supported program. In this

connection, I also welcome the staff's suggestion to finalize the ESAF-supported program at the moment Guinea-Bissau reaches the decision point under the HIPC Initiative.

Mr. Donovan made the following statement:

I would associate myself with previous speakers on the distressing consequences for Guinea-Bissau of the recent conflict. We are pleased to see that since the formation of a new government, steps have been taken to begin the post-conflict process of recovery. Efforts have been made to restore basic services and government administration, and the authorities are working to establish an economic program that can be supported by the international community. In these circumstances we can agree to the request for emergency post-conflict assistance.

We do find it regrettable that this emergency assistance would be provided on non-concessional terms, given Guinea-Bissau's level of poverty and indebtedness. We understand that this results from constraints in the current framework in the Fund's ability to respond to emergency situations, something which the Board may wish to consider further. In the meantime, we hope that Guinea-Bissau can take the necessary steps to establish a strong program which can benefit from an ESAF arrangement in the near future, which would allow a refinancing of the more expensive GRA resources.

A crucial step in moving forward will be addressing the fiscal imbalance. We concur with staff on the importance of restoring in full the tax system, including the IGV sales tax, that ceased to function during the conflict. We would note that restoration of the earlier system is just a first step. Even prior to the conflict, revenues represented only about half of expenditures, pointing to the need for significant new measures to improve revenue collection. In this regard, the reestablishment of an improved customs administration, given past problems in this area, deserves particular attention. We welcome the commitment of the authorities to demobilization as a key element in improving expenditure management.

Strengthened revenue performance and expenditure management is particularly important if Guinea-Bissau is to reallocate resources to social sector spending, and avoid the accumulation of new external arrears.

On another important aspect of the public expenditure process: We believe that a key component of an effective public expenditure system that seeks to minimize unproductive expenditures is an effective auditing process. We would encourage the authorities, with assistance from Fund staff, and in keeping with overall Fund objectives of sound macroeconomic management, transparency, governance, and reduction of unproductive expenditures, to

institute an annual audit of military expenditures in the context of a sound overall budgetary process.

We look forward to reinvigorating progress on privatization of public enterprises, and in general improving the environment for private sector activity. In this light steps to repay domestic arrears will be key. We are pleased to see that the 1999 program contains room to start paying domestic arrears, and that the goal is to complete repayment in 2000.

Another area where reform will have to be reinvigorated is strengthening of the banking system through implementation of regional prudential standards and reduction of the government's stake in commercial banks. We are pleased to see that the government plans to divest itself of participation in the largest bank.

Mr. Melhem made the following statement:

Guinea-Bissau is facing daunting challenges. The authorities have to address the weak administrative and institutional structure as well as rebuild infrastructure and productive capacity. In addition, the authorities are faced with a refugee problem, increased poverty, and heavy debt burden.

Against this background, rebuilding the economy and restoring private sector confidence requires strong and sustained efforts. In this regard, I am encouraged by the authorities' actions and support their request for post-conflict emergency assistance. Such assistance will provide much needed resources and send a signal of the Fund's commitment to help restore Guinea-Bissau's economy.

I am in broad agreement with the program's priorities set in the staff paper and will limit myself to a few comments.

First, it is essential that the planned elections go on smoothly and on schedule so as to restore investors' confidence.

Second, success in restoring Guinea-Bissau's economy requires the support of the international community. In this regard, it is crucial for Guinea-Bissau to regularize its arrears with all its external creditors.

Finally, I hope that Guinea-Bissau can move to an ESAF-supported program at an early date.

With these remarks, I wish the authorities success.

The staff representative from the African Department confirmed that the authorities had informed the staff that they were current on the payment of wages and pensions for 1999. They had caught up with the delay of the first months of 1999. Concerning payment of domestic arrears accumulated in the second half of 1998 for which an initial inventory had been taken, the staff understood that the authorities expected increased external assistance in the coming months that would enable them to start making payments. Disbursements by the World Bank and the European Union were expected to take place in November. The World Bank would be an important component of external assistance and the European Union was finalizing a program of disbursement, in addition to disbursements by some bilateral donors in the last quarter of 1999. The staff felt that there were good prospects for external assistance, as indicated in the staff report.

The representative indicated that the authorities had an ambitious program of investment to be undertaken in the context of a three-year emergency program, where the staff would be in close contact to assess the pace of disbursements.

Mr. Barro-Chambrier made the following concluding remarks:

I would first wish to thank my colleagues for their comments and suggestions regarding the economy of Guinea-Bissau. I can assure you that I will convey your concerns and recommendations to my Guinea-Bissau authorities and I am sure that they will take them into consideration. This would constitute guidance to help them achieve their program objectives.

It is very important in the case of Guinea-Bissau to address the political and social issues. I want to reiterate the authorities' firm commitment to address the difficult task that they are facing, namely the rehabilitation of infrastructure, the restoration of the social harmony, the demobilization of troops, the organization of the elections, and resumption of the economic and financial adjustment process. It is clear that they are facing a complex situation with limited resources.

However, as was stressed during the discussion, the authorities have begun to reestablish a functional government, and address political and social issues. Although encouraging improvement is being made in this area, the economic and financial situation remains fragile as administrative capacity remains limited and the country needs to restore infrastructure after the considerable damage caused by the armed conflict in mid-1998. New equipment is needed, particularly for the airport tax and customs office, the hospital and schools. Therefore, it is going to be critical to receive financial and technical assistance from the international community.

I believe that at this stage it is important to show a certain degree of flexibility to enable Guinea-Bissau to address the economic constraints that will enable the country to resume its growth potential. The authorities understand

that the more rapidly these obstacles are addressed, the best this will be for Guinea-Bissau. It is also clear that the ESAF is a more adaptive instrument to help create the environment conducive to social harmony that will be indispensable to secure population support and to help resume in a lasting manner the economic and financial adjustment process. They also look forward to the benefits of the HIPC, and thus mobilize the needed resources in the social sector that will help reestablish social harmony.

I would really like to thank my colleagues for their support, and the staff for their contribution to help my authorities during this difficult period.

The Acting Chairman made the following summing up:

Executive Directors agreed with the thrust of the staff appraisal. They regretted that the 1998–99 conflict had inflicted grave suffering on the civilian population and caused severe damage to the economy and infrastructure. Directors were encouraged by the steps taken by the government to redress the damage caused by the conflict, in particular the restoration of basic services and the rehabilitation of the administrative structures. They expressed the hope that the institutional situation would consolidate rapidly, and that the scheduled elections would be held in an orderly manner in order to give confidence to the international community and help establish an environment conducive to economic development.

Directors welcomed the fact that the large 1999 cashew crop was having beneficial effects on overall economic activity, exports, income generation, and budget revenue collection.

Directors supported the efforts undertaken by the authorities to restore the tax system and reintroduce rigorous budget procedures. It was important that the efforts to improve governance that had begun in recent years be further reinforced, inter alia, through adequate control procedures on expenditures and centralization of all government revenues in the Treasury. On the tax side, Directors considered it essential to fully restore the collection of the recently introduced generalized sales tax, and to adequately strengthen tax and customs administration, with appropriate external technical assistance.

Directors stressed the need to make rapid progress in reducing the size of the armed forces, which had swelled during the conflict. In this context, Directors urged the authorities to work closely with the World Bank to design an effective demobilization scheme. They emphasized the critical importance of reducing military spending so as to provide room for much needed budgetary allocation for high priority social spending.

Directors emphasized that the repayment of domestic arrears was important to provide the needed support to the private sector, which had suffered serious losses during the conflict. They therefore urged the authorities to complete rapidly the inventory of such arrears and to formulate an appropriate plan for repayment. Directors noted that the authorities were giving appropriate priority to strengthening the banking sector, which needed to be recapitalized in view of the high level of non-performing loans.

Directors agreed that satisfactory performance under the 1999 program and the establishment of a strong foundation for further reforms in the areas of public finance, civil service, and public enterprise restructuring could pave the way for the negotiation of a new arrangement under the ESAF and the reaching of the decision point under the HIPC Initiative; this was essential in order to reduce the extremely high external debt burden, and to lay the basis for sustained growth over the medium term.

It is expected that the next Article IV consultation with Guinea-Bissau will be held on the standard 12-month cycle.

The Executive Board took the following decision:

1. The government of Guinea-Bissau has requested a purchase in an amount equivalent to SDR 2.13 million (15 percent of quota) under the Fund's emergency post-conflict assistance.
2. The Fund notes the intentions of the government of Guinea-Bissau as stated in the Memorandum of Economic and Financial Policies, dated August 13, 1999 (EBS/99/163, Appendix I, Attachment), and approves the purchase in accordance with the request. (EBS/99/163, 8/23/99)

Decision No. 12055-(99/103), adopted
September 14, 1999

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/99/102 (9/13/99) and EBM/99/103 (9/14/99).

2. RULES AND REGULATIONS AMENDED SINCE 1998 ANNUAL MEETING

The Executive Board approves the letter to the Chairman of the Board of Governors submitting for review by the Governors the texts of the amendments to the Rules and Regulations adopted since the 1998 Annual Meeting and the proposed resolution for the Board of Governors, as set forth in EBD/99/106 (9/3/99).

Adopted September 13, 1999

3. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors and by Advisors to Executive Directors as set forth in EBAM/99/127 (9/10/99) is approved.

APPROVAL: April 12, 2001

SHAIENDRA J. ANJARIA
Secretary