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**Statement by Mr. Barro Chambrier on Guinea-Bissau
Executive Board Meeting 00/125
December 15, 2000**

Introduction

When the Board discussed the preliminary document on enhanced HIPC Initiative for Guinea-Bissau last November, it agreed that the country had met the eligibility criteria for assistance under the Initiative and stressed the need to continue the adjustment efforts. The staff have prepared a comprehensive set of papers for today's discussion, which present the authorities' I-PRSP, their request for a three-year arrangement under the PRGF and the request for the decision point under the enhanced HIPC Initiative, as well as the staff report on the 2000 Article IV consultation. These papers provide a clear overview of the economic and financial situation in Guinea-Bissau and make a good case for Guinea-Bissau's request. My authorities are in general agreement with staff analysis and recommendations.

Guinea-Bissau implemented sound macroeconomic and structural policies under ESAF and Bank- supported programs during 1995-98. Unfortunately, the reform efforts were halted by the civil war that erupted in June 1998. The war inflicted severe damage to the economic and basic social infrastructure, aggravating the already weak social conditions.

As a post-conflict case, Guinea-Bissau faces considerable challenges of reconstruction, administrative reorganization, and adjustment to the regional integration's requirements. Since the end of the armed conflict in May 1999, decisive actions have been taken under the emergency post-conflict assistance supported by the Fund and the IDA's Economic Rehabilitation and Recovery Credit (ERRC) program. As a result, Guinea-Bissau made important progress on the political and economic fronts. On the political side, there has been significant progress towards political stability. Following elections deemed as free and fair, a new administration took office in February 2000, which has demonstrated strong commitment to continued reforms. On the economic front, progress was made in restoring macroeconomic stability, rebuilding the administrative capacity, and undertaking reconstruction activities. However, despite these progress, the country's situation will remain fragile, until the completion of the demobilization process, and substantial progress toward fostering social cohesion is made.

The country is therefore at a turning point and assistance from the international community will be needed to help lay the basis for a lasting peace and poverty reduction. As shown in the DSA, the country faces an unsustainable external debt, which is a major constraint to development. Resources freed through assistance under the HIPC Initiative would help Guinea-Bissau to increase pro-poor spending and improve the social indicators.

My authorities are determined to take the necessary steps to restore and maintain macroeconomic stability and to create an environment conducive to the promotion of sustained economic growth and economic diversification. The policies envisaged to achieve these objectives are well described in the I-PRSP, and in the authorities' Memorandum of economic and financial policies. To support their reform efforts, the authorities are requesting Fund assistance under a three-year PRGF arrangement. On the basis of the continued satisfactory economic performance under the emergency post-conflict assistance and their commitment to economic reform, my authorities hope that the international community will continue to support their adjustment efforts. In this connection, they are hopeful that the Board will approve their request for Fund support for a three-year PRGF arrangement and will favorably consider the confirmation of the decision point to be reached in 2000.

Background and Economic performance

While Guinea-Bissau made important progress in the areas of macroeconomic stabilization and structural reforms under the World Bank and Fund-supported programs in 1995-98, the armed conflict that erupted in June 1998 inflicted severe suffering on the population, caused important damage to the economy and infrastructure, and led to a deterioration of the country's economic and financial situation. Real GDP per capita declined significantly, and conditions in the social sectors deteriorated, worsening further social indicators.

Following the end of the conflict, the authorities took important measures that helped economic recovery and contributed to restoring political stability, with the help of the post-conflict assistance provided by the international community, including the Fund. Real GDP growth recovered in 1999, reaching some 8 percent, reflecting the reconstruction activity and a good cashew crop; the consumer price index declined, the economy's external competitiveness improved. In the fiscal area, the overall fiscal deficit was reduced by some 6 percentage points of GDP, reflecting strengthened revenue mobilization and improved expenditure management. On the structural front, and especially in the area of tax policy, the authorities resumed the implementation of the comprehensive reforms enacted prior to the conflict. Also, they made progress in the area of convergence towards the WAEMU common external tariff. They finalized the review of public expenditure procedures and took measures to strengthen budget execution. In addition, a comprehensive reform aimed at improving public sector procurement procedures was designed and is in the process of being implemented.

Economic prospects have improved in 2000, and real GDP growth is projected to reach almost 9 percent. In addition, due to tighter fiscal policy in recent months, inflation has been reduced considerably and is expected to be contained at 10 percent. The pick up in inflation in the first quarter of 2000 reflected rapid monetary expansion that followed a temporary deterioration of the fiscal situation related to large repayments of domestic arrears. Overall, performance under the Fund's emergency post-conflict assistance was satisfactory, as evidenced by the attainment of most of the objectives for December 1999-June 2000. Notable progress was made in reconstruction and rehabilitation of the economy and

important actions were taken aimed at resettling the displaced persons. In structural area, a new fishing law was adopted, a draft law on electricity was submitted to parliament, and the decree establishing the institutional framework for the demobilization work was promulgated. The government also initiated reforms in the banking and energy sectors, as well as in the area of privatization. However, despite progress made in recent months under the emergency program, domestic and external payments arrears continued to be accumulated, owing mainly to the difficult fiscal situation.

Medium-Term and Policies for 2001

My authorities are aware that much remains to be done to put the country on a sustainable high economic growth path and to reduce poverty. In this context, in collaboration with the World Bank and Fund staff, they have put in place a comprehensive program of economic and structural reforms to be implemented over the medium term. The authorities have underlined the importance of consolidating peace to achieve economic objectives of the program. This is very important for restoring investors' confidence and for freeing fiscal resources for social programs. In this context, they have undertaken the process of demobilization and reinsertion of the armed forces, ex-combatants, and police. They are thankful for the assistance of the international community in this process. My authorities also recognize the important link between macroeconomic policies and poverty alleviation. The issue of poverty will be tackled within the overall framework of the PRSP. However, support from the international community, through adequate technical assistance and additional resources will be critical to the achievement of the program's objectives.

Regarding the economic program for 2000-2001, the objectives of growth and inflation are ambitious, but the authorities are confident that they are achievable. The authorities are committed to the pursuit of a prudent fiscal policy. In particular, they are determined to constrain expenditures, particularly in non-priority areas and to further strengthen revenue collection, so as to provide adequate resources for the social sectors. It is also my authorities' intention to take all necessary steps to improve governance and set up appropriate mechanisms to ensure an efficient and transparent use of public resources. My authorities are committed to the reorientation of budgetary resources towards poverty reduction, notably through a strict control of the wage bill in 2001. They also plan to settle domestic arrears in a gradual manner. On the structural front, further efforts will be made to deepen structural reforms, mainly in the banking and energy sectors, and to speed up the privatization program.

Debt sustainability analysis and HIPC Initiative

The updated DSA shows that Guinea-Bissau will continue to face an unsustainable debt burden, even after using traditional debt relief mechanisms. The external assistance that can be expected after reaching the decision point under the enhanced HIPC Initiative will be key to enable the authorities to alleviate budgetary constraints and to strengthen the poverty reduction efforts by providing sufficient resources to the social and basic infrastructure

sectors. Also, my authorities are making every efforts to solve the problem of external arrears and to normalize relations with external creditors. In this regard, they have intensified contacts with multilateral creditors to find solutions to clear payments arrears.

The Interim PRSP

With a per capita GDP of US\$185 in 1999, Guinea-Bissau remains one of the poorest countries in world, with 88 percent of the population living below the poverty line. Guinea-Bissau has one of the weakest social indicators in Sub-Saharan Africa, ranking 169 out of 174 countries on the UNDP Human Development Index.

The preparation of the I-PRSP has benefited from the contributions of the Government departments, the People's National Assembly, civil society including NGOs, labor unions, religious associations, and other civil associations, drawing on the country's established consultation tradition. Under the I-PRSP framework, the authorities have put emphasis on the need to increase access to essential social goods and to implement programs aimed at mitigating poverty. They are committed to delivering on a number of key areas: education, health (including HIV/AIDS), water sanitation, transparency and good governance, and the completion of demobilization, reinsertion, and reintegration. Focus is placed also on the reduction of the gender gap in various areas. On the use of resources, my authorities are committed to improving efficiency, transparency and accountability of public expenditure management. Already, the authorities have mobilized donor support to improve their capacity in the areas of budget execution, treasury management, public procurement, and the audit function (including the auditing of military expenditures). In their efforts to reduce military expenditures, the authorities have launched the Demobilization program and they expect external support for conducting audits of the 1997-99 budgets (including the military component). Actions to improve the monitoring of expenditures also are being taken, with technical assistance from the Fund. As regards the full PRSP, that is expected to be completed by end-2001, a steering committee will be established to assure its successful preparation, and the statistical database on poverty will be improved. These reforms constitute the basis for the conditions for the floating completion point. The authorities are confident that the targets set in Box 4 of EBS/00/247 will be attained, which will enable them to reach the completion point as early as possible.

Conclusion

Despite the armed conflict that halted the reform efforts made since 1995, my authorities have spared no efforts to address the key post-conflict issues facing the country, namely reconstruction, demobilization, reinsertion, de-mining, resettlement of displaced persons, and security. Economic management has improved markedly, demonstrating the authorities' strong commitment to reforms. The international support was instrumental in this process. Continued support from the international community for the authorities' reform efforts will be critical to the achievement of the objective and the efforts to promote durable peace and development. Board's approval of the PRGF program, and the confirmation of the decision point will be a crucial contribution to these endeavors.