



Country Brief

Available in: [Français](#)

Last updated March 2009

History



Guinea-Bissau has historically been a land of open conflict and ongoing armed confrontations: A fierce guerilla struggle led to late independence (1974) from Portugal, with few structures for effective governance in place. The armed conflict of the years 1998 and 1999, followed by consecutive military coups in the following years, left a substantial part of the economic and social infrastructure in ruins, and contributed to intensifying the already widespread poverty. João Bernardo Vieira, who had seized power in 1980, ruled the country for almost 20 years. He was ousted after an internal conflict 1998/99, and returned as elected President in 2005, when multi-party elections in 2004 and 2005 finally had restored the democratic process in the country. One week after the recent November 2008 legislative elections, an attempt to kill the President in his residence failed. In the night between Feb. 28th and March 1st, 2009, both the Chief Staff of Army and the President of the Republic were killed within hours of each other. An investigation is underway.

Political Context

A democratic drive has begun to take root in recent years, despite some setbacks. Guinea-Bissau has been able to restore civilian rule following the military coup of September 2003. In the past five years, three elections took place and were considered free and fair - the legislative election of November 2008 being the most recent one. The results showed a clear absolute majority for the traditional ruling party, the African Party for Independence of Guinea and Cape-Verde (PAIGC), with 64 out of 100 seats. The new Prime Minister Carlos Gomez Jr., leader of the PAIGC, was inaugurated in January 2009. Following the tragic assassinations of the Army Chief of Staff and the President of the Republic in the night of March 1 to 2, 2009, the population remained calm, and constitutional procedures were respected. The organization of new presidential elections within 60 days was announced immediately. Little more than three weeks after these events, the National Assembly passed both the new Government Program and the budget with a clear majority.

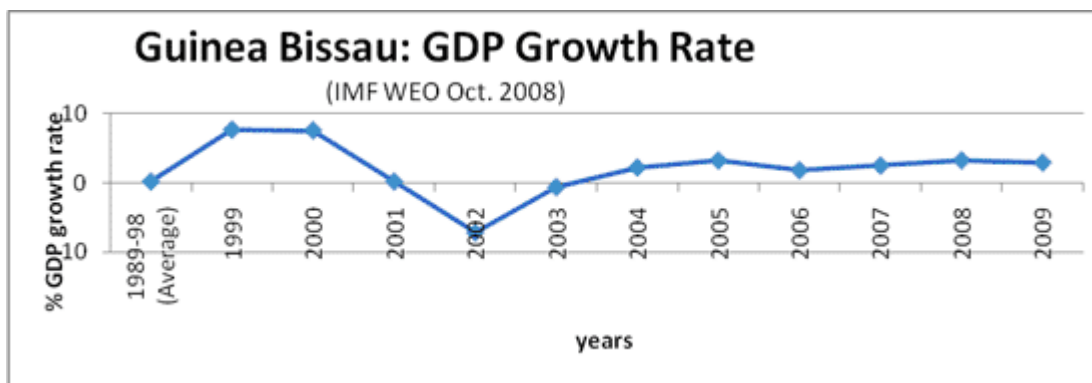
Economy

Guinea-Bissau is one of the poorest countries in the world, ranking 175 out of 177 countries on the United Nations Human Development Index 2007/08. Guinea-Bissau has a population of about 1.6 million, with an economy based primarily on farming and fishing activities, representing about 63 percent of GDP. Agriculture generates 80 percent of livelihoods and 90 percent of exports (primarily through cashew nuts, the main export). The country has poor infrastructure and weak social indicators, and more than two-thirds of the population lives under the poverty line.

The country has the natural resources and the geography to potentially grow at a reasonable rate. It has an abundance of high quality land and favorable rainfall. Its rich mineral deposits, exotic bio-diversity, and fishing and tourism potential could provide diverse sources of income. A rehabilitated port could not only launch its export potential, but serve as an entry point to the sub-region.

Guinea-Bissau's economic performance during the 2000s has been poor and unstable: The country is operating on just over 1 MW of public electricity. Major infrastructure, for example the port, the rural road network, and the agricultural sector are underdeveloped. The mining sector is poorly exploited and inadequately regulated. Weak institutional capacity has constrained public service delivery and the likely achievement of the MDGs. Heavily reliant on donor support, aid flows have been unpredictable. The main sources of government income are agricultural exports (cashew nuts are Guinea-Bissau's main export crop and principal source of revenue), implying high vulnerability to unfavorable weather conditions and cost of agricultural inputs, and donor-funded budget support. Other tax-related sources of income are not of important amounts. The country's fiscal situation has been steadily deteriorating over the years due to a combination of weak revenues and a high wage bill. Continual outstanding arrears for salaries of government employees are currently among the most pressing consequences of this situation. As the country's rule of law institutions have also weakened, Guinea-Bissau has, in recent years, become a transit country for international drug trafficking between Latin America and Europe.

Despite a difficult international environment and continued challenges on the political and macroeconomic policy fronts, economic performance improved somewhat over 2007-08, thanks in part to increased agricultural production - reflecting a return of normal rains and driving commerce and transportation, while the small industrial sector continued to contract with the near collapse of the power company. Real GDP growth in 2009 should slow under the current global economic context, assuming no further major political disturbances. Inflation accelerated to 4½ percent in 2007, and over 10 percent in 2008, driven mainly by the surge in international food and oil prices given the country's heavy reliance on food and fuel imports. As a result also, the external current account deficit (excluding official transfers) widened to about 14 percent of GDP in 2008 from 8½ percent of GDP in 2007.



The country's financial sector has developed since end-2005 with the opening of three additional financial institutions: the Regional Bank of Solidarity (BRS) specialized in microfinance activities; the Bank of Union (BDU); and Ecobank, which provides commercial credit services.

Development Picture/Donor Coordination

The main development partners of Guinea-Bissau are the European Union (EU) together with European bilateral donors, ECOWAS and UEMAO, the African Development Bank, United Nations agencies, the World Bank and the International Monetary Fund (IMF). Important emerging non-traditional donors are China and Angola. A new donor round table to pledge funding contributions for the further stabilization of the country and help the new government realize its ambitious Program, has been announced for 2009.

In early 2008, the government reached agreement with the IMF on a one-year program under the Fund's Emergency Post-Conflict Assistance (EPCA). The program aimed to restore fiscal stability, targeting a reduction in the domestic primary deficit to just above 4 percent of GDP and a strict policy of no new accumulation of domestic arrears. Performance under the EPCA program was satisfactory until mid-year but weakened under the weight of external shocks.

A positive perspective is the recent establishment of the mission in support of Security Sector Reform by the EU Council and the engagement of the UN Peace Building Commission in Guinea-Bissau.

World Bank Group's Role

As of March 2009, IDA had approved 28 projects for Guinea-Bissau, totaling about US\$335 million equivalent. The current IDA Portfolio includes four operations representing total commitments of US\$54 million. These include a Private Sector Rehabilitation Project (US\$26 million); an Emergency Public Service Delivery Project (US\$10 million), a Coastal and Biodiversity Management Project (US\$3 million) and a Multi-Sector Infrastructure Rehabilitation Project (US\$15 million). As of March 31st, 2009, the undisbursed balance was US\$13.2 million. Budget support of altogether USD 12 million is under preparation for 2009, as well as a community driven development (CDD) operation to increase access of the rural population to basic social services.

The World Bank portfolio in Guinea-Bissau also benefits from funding of altogether USD 18.7 million through a number of Trust Funds: In FY09, an Emergency Food Security Project was approved with funding from the Food Price Crisis Response Trust Fund. Additional funding from the EU has been announced. The project supports increased rice production and the rehabilitation of rural feeder roads, and school feeding/food-for-work initiatives, in collaboration with the World Food Program and the Food and Agriculture Organization of the UN. Whereas the Global Environment Facility (GEF) is co-financing the coastal and biodiversity management, the State and Peace Building Fund (SPF) is financing TA for Economic Management, support to the National Health

Development Plan, and participatory rural development (complementing the IDA CDD operation).

Guinea-Bissau continues to benefit from interim debt relief from IDA under the Heavily Indebted Poor Countries (HIPC) Initiative. On January 29, 2008 the Board agreed to a management request to extend HIPC interim debt relief to 50 percent (in NPV terms) of total IDA debt. The extended relief will free up about \$7 million in government resources annually.

In addition to the lending program, the Bank is undertaking significant analytical work. A Social Sector Review (2008) is providing an inventory and analysis of the key challenges in the social sectors. A Public Expenditure Review Update (2007) examined options to improve the fiscal outlook through downsizing the civil service. An Education Country Status Report will inform a planned funding proposal for the Education-for-All/Fast Track Initiative. Finally, a Public Expenditure Management & Financial Accountability Review will help define priorities in economic governance, specifically for future budget support operations. Finally, a Diagnostic Integrated Trade Study will pave the way for strategic decision-making on priorities in future years.

An 18 months World Bank Interim Strategy Note (ISN) is being prepared for Board presentation in June 2009. The interim Strategy will be a short-term strategic document which is transparent and reliable for the Government of Guinea-Bissau, as well as for private sector and civil society stakeholders, outlining the agreed major lines of intervention and defining the World Bank portfolio during a period which is critical for the transition of Guinea-Bissau from most of the features of a fragile state towards a more stable situation.

International Finance Corporation (IFC)

IFC looks forward to reengaging actively in Guinea-Bissau, after an absence for almost 7 years, and would like to support investment climate reforms and agribusiness development, which are both crucial for attracting private sector investment to the country. IFC's strategy for Guinea-Bissau focuses on improving the investment climate, supporting the development of SMEs, and pursuing a proactive involvement in the infrastructure, financial and agribusiness (cashew nut) sectors. Programs are currently on-going to support the cashew-nut sector in terms of technical training, the hotel and tourism industry and the business environment. As of March 31, 2009, IFC has no committed portfolio in Guinea-Bissau.

Multilateral Investment Guarantee Agency (MIGA)

MIGA's portfolio in Guinea-Bissau consists of two projects, sponsored by Senegalese and Malian investors. The investments, in support of the country's infrastructure (telecommunications) and tourism sectors, have a combined gross exposure of \$21.8 million.

World Bank Institute (WBI)

WBI just started activities in Guinea-Bissau in FY08, with a workshop on sustaining natural capital. It is envisaged that WBI will launch more activities during 2009 through inputs and capacity development activities in areas such as leadership and governance (demand-side governance).

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