



MINISTRY FOR FOREIGN AFFAIRS

EVALUATION OF
SWEDISH DEVELOPMENT
CO-OPERATION
WITH GUINEA-BISSAU

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FOREWORD

On the basis of a government report on forms of management and co-operation in overseas aid (SOU 1993:1) the Swedish Parliament approved a proposal to carry out country profiles and country studies as an essential tool for the management of aid to individual countries.

Examinations of the overall management of the bilateral aid programmes, in terms of results or the effectiveness of programmes in each country, have seldom been carried out in Sweden. The recipient country is an appropriate level at which to address the question of results because it is the level where bilateral funding allocations are made by the Swedish Parliament, where the strategy for results can be determined, where goals are set and where bilateral agreements are signed for programmes and projects. A country specific strategy would enable Swedish development co-operation agencies to focus on specific and measurable results, country by country.

The Secretariat for Analysis of Swedish Development Assistance (SASDA) has commissioned a number of country-case-studies in order to analyse the results achieved by Swedish aid, taking into account other donors' experience. The objectives are to analyse the effect and effectiveness of Swedish aid in the sense of appropriateness to the objectives set for aid, to analyse its cost-effectiveness, to make recommendations to improve its effectiveness and efficiency in development co-operation in the future, and to make proposals for the methodology to be employed in analysing and following up the effectiveness and efficiency of aid in country studies.

In this report, Professor Peter Svedberg, Institute for International Economic Studies, University of Stockholm, together with Research Assistants Björn Ekman and Anders Olofgård, analyses Swedish development co-operation with Guinea-Bissau for the period 1974-1994.

The opinions and conclusions of the authors of the report are their own.

Stockholm, May 1994.

Ingemar Mundebo
Chairman

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PART I

INTRODUCTION

Chapter 1. SCOPE OF STUDY

1.1. Purpose

The purpose of this study is to examine the extent to which Swedish aid to Guinea-Bissau has been effective in attaining its objectives. The overall objective of Swedish development assistance is to contribute to increased "standards of living of the poor" in the recipient countries. This broad objective has been split into five sub-objectives, out of which two, economic growth and "social development", have been explicitly emphasized in the support to Guinea-Bissau (in the recent Swedish Government bills). The other sub-objectives are: to promote economic and political independence; to contribute to fostering of a democratic political system; and help protect the environment.

The prime focus in this report is on the effectiveness of Swedish aid in meeting the objectives of overall growth and social development at the macro level. However, performance at the project (micro) level is considered as well; i.e. to assess the efficiency with which the aid is handled at various stages by the Swedish aid agencies, mainly The Swedish International Development Authority (SIDA). On the basis of these analyses, we provide a number of recommendations for future Swedish development co-operation with Guinea-Bissau.

There are a few clarifications of position that have to be made at the outset. First, we consider economic growth as the prime objective variable for aid in this report. One reason is that this objective is given priority by the Swedish Government. Another reason is that we find it impossible to think that aid can promote long-term social development in Guinea-Bissau in the absence of sustainable growth. That is, substantial improvements in areas like education and health can only be accomplished through increased effective investments in these sectors. These investments, if they are not to be aid-financed for ever, must come from domestic resource mobilization in a self-sustained growth process.¹ The present level of real per capita income is simply too low to allow enough resources to be diverted from other activities into the social sectors.

Second and related, in assessing the impact of aid on growth, our contention is that the concept of "contribute" is essential. Our starting point is that foreign aid is not intended to, and should not, substitute for development based on the mobilization of domestic resources. In other words, aid should be a complement to domestic resource mobilization in the recipient country, not a replacement. This notion is in line with the

¹ This is not to say that education and health care have "social" dimensions only. New growth theory clearly emphasizes the role of education (human capital formation) and health care as important productivity increasing factors in the growth process.

basic concept of "development assistance" and is also contained in one of the sub-objectives for Swedish aid, namely that aid should promote "economic and political independence". One important facet of this objective is that the recipient country, at some point, should become able to achieve growth without foreign finance in the form of official aid grants and highly concessional loans. That aid should help the mobilization of domestic resources may seem rather obvious, but as we will see, this has not happened in the case of Guinea-Bissau; it even seems that aid in some respects has been counter-productive in this dimension. (That the Swedish Government has already suspected this is probably the reason why this study was initiated and also why new aid commitments to Guinea-Bissau in the past two years were cut down substantially.)

Third, in assessing the impact of aid on growth, we make a distinction between the macro- and microeconomic effects. The *macroeconomic* effects of aid on growth are indirect (there are no direct links at the macro level between aid and growth). These indirect effects occur when aid affects the macroeconomic variables that determine growth (such as domestic savings, investment, human capital formation) in the recipient country. The *microeconomic* effects of aid on growth comprise the *direct* contributions of particular aid projects to domestic production and real income. Compared to most earlier assessments of the effectiveness of aid (e.g. Cassen et al. 1987, Riddell 1987 and ODI 1993), we will put a stronger focus on the macroeconomic, indirect impact of aid on growth. We will also analyse in more detail the connection between the macroeconomic performance of the recipient country and the success or failure of the individual projects/programmes at the micro level.

Finally, in assessing the indirect effects of aid on macroeconomic variables in Guinea-Bissau, such as the government tax revenue collection effort, its public expenditure policy, the domestic private savings propensity, the real exchange rate, etc., it must be emphasized that it is not possible to separate the effects of Swedish aid and other foreign aid. The macroeconomic effects are the result of the totality of foreign aid, not its particular components and donor origin. As will be demonstrated, it is nevertheless through the macroeconomic effects that aid, Swedish and other, has the decisive impact on long-term growth and social development in the recipient countries. The macroeconomic impact is also crucial for the success or failure of individual aid projects at the micro level.

1.2. Plan of Study

The study is divided into four sections, where chapters 1 and 2 comprise the introductory part (I). Chapter two presents the basic statistics on aid to Guinea-Bissau over the past 20 years. Both Swedish and other foreign aid are described in quantitative dimensions (sector allocation, time trends, grants/loans, bi- vs. multilateral, etc.), without any reference to effects of any kind. Part II of the study (chapters 3 to 5) deals with the indirect impact of aid on the macroeconomic variables that determine growth and social development in the recipient country. Part III (chapters 6 and 7) contains an evaluation of Swedish project/programme aid to Guinea-Bissau. Part IV, finally, closes the report with a summary of the main findings and recommendations for future Swedish development co-operation with Guinea-Bissau (chapter 8).

1.3. Methodologies

The methodology used to assess the *macroeconomic* impact of aid to Guinea-Bissau on growth and social development comprises a three-stage analysis. In order to understand how aid affects growth in developing countries, we first have to identify the main sources of, or preconditions for, growth in such countries. Chapter 3 thus presents a summary of what modern economic growth theory and empirical testing have found to be the basic necessary preconditions for growth in developing countries. There are, of course, many specific factors that affect growth in any particular country, but recently a relatively wide consensus has emerged on what are the absolutely minimum necessary preconditions for sustainable economic growth. These preconditions are not sufficient for the achievement of growth, but they are necessary. Extensive recent empirical research suggests that in their absence not a single country has achieved significant growth.

The second step in the macroeconomic analysis is taken in chapter 4, where the necessary "input" requirements for growth in Guinea-Bissau are assessed and recent changes are identified. This chapter also contains an analysis of the "output" of the development process, i.e. the actual performance of the Guinean economy in terms of growth and social development in various dimensions.

The third step is chapter 5, which ends the macroeconomic part of the study; here the effects of overall foreign aid on growth in Guinea-Bissau, through the various "growth determinants", are studied. We attempt to answer the question how total foreign aid has affected both the potential for growth (the "necessary preconditions") and the social performance of the country. A less thorough assessment of the impact of aid on the other Swedish aid objectives is also presented.

In part III of the study, the focus is shifted to the microeconomic effects of Swedish aid to Guinea-Bissau, i.e. the direct contributions to growth and other objectives of the particular projects/programmes Sweden have financed. In chapter 6, we have summarized the main conclusions reached by a large number of previous evaluations of the effectiveness of Swedish aid projects in Guinea-Bissau. It should be noted that we have not undertaken any project evaluations ourselves; this was not included in the terms of reference. The principal method used in this chapter is thus an analysis of earlier evaluation results. We have, however, also interviewed a large number of people who have been involved in the various projects (see Appendix 3).

In chapter 7, we present our analysis of why so many Swedish projects seem to have failed and why so few have been (reasonably) successful in Guinea-Bissau. The chapter contains three main sections. In the first section, we set up what we think are the necessary requirements for the "administrative procedures" at various stages if projects should stand a chance of becoming economically viable. Subsequently the actual procedures used by SIDA (the main Swedish aid agency operating in Guinea-Bissau)² and the Swedish Ministry for Foreign Affairs (MFA) are compared to the procedures we find warranted. We assess how the Swedish projects in Guinea-Bissau have been initiated, whether and how *ex ante* project feasibility studies have been carried out, how projects are managed and evaluated and whether the information from evaluations and current monitoring is followed up with reforms.

The second section in chapter 7 is an assessment of the impact on project effectiveness and efficiency of the economic and administrative environment in which they are to function in Guinea-Bissau. That is, in this section we try to link the macroeconomic analysis of aid in Part II to the project analysis at the micro level presented in Part III. The last section looks at certain features of Swedish aid management in general that we find to have been important for co-operation with Guinea-Bissau.

The basis for the analysis in chapter 7 is the entire pile of official documents concerning Swedish aid to Guinea-Bissau over the years that we found in the archives at SIDA and the MFA in Stockholm, and also at the Swedish Embassy in Bissau. Important sources of information have been correspondence (memoranda and letters) between the agencies concerned, the development co-operation office in Bissau and the MFA in Sweden. Suggestions for agreements, negotiating instructions and formal agreements between the two countries have been analysed. Government development

² SIDA is by far the largest Swedish bilateral development agency involved in Guinea-Bissau and will thus be in the focus of this report. Other agencies with a minor presence in Guinea-Bissau are the Swedish Agency for Research Co-operation with Developing Countries (SAREC), The Swedish Agency for International Technological and Economic Co-operation (BITTS), SwedeCorp and a couple of non-governmental organizations.

plans of Guinea-Bissau have been compared with actual priorities in allocations of own resources. Formal requests by the Government of Guinea-Bissau for development assistance have been examined in terms of detail and methodology.

1.4. Main Limitations

The most serious limitation for our work has been the scant availability, and the poor quality, of economic data for Guinea-Bissau³. This has to some extent determined the choice of methodology in our study. In assessing the impact of foreign aid on the macroeconomic variables that determine growth in recipient countries, econometric models have been used in recent years (see White 1994). These models have been used to quantify with greater exactitude how *marginal* amounts of aid affect variables like recipient government tax revenue effort, the allocation of public resources between sectors, and choice between public investment and public consumption (all variables that may affect growth). A necessary precondition for such econometric studies is the availability of data for at least 15 to 20 years. These are not available in Guinea-Bissau; time series data seldom go further back than to 1986 or 1987. We therefore have to use other means of statistical analysis, but fairly firm conclusions can nevertheless be reached.

A related limitation is that the available statistics cover the formal part of the economy only. There are "estimates" of the size of the informal sector which vary between 60 and 80 percent of the total economy, but these are not derived with quantitative methods. We have reason to believe that they are far too high (see section 4.5). Nevertheless, the effects of foreign aid on a relatively large part of the economy can thus not be analysed. Furthermore, the data for the formal sector, covering the 1987-1992 period in most instances, are crude and unreliable. This is evident not least from the fact that when there are data for one and the same variable from different sources, e.g. different international organizations and the Guinean Government, they usually match very poorly. All the shortcomings related to data unavailability and unreliability have to be borne in mind when interpreting the quantitative assessments in this report. We cannot point out all weaknesses every time; that would require too much tedious repetition.

Again, but well worth emphasizing, there is no technique that can be used to separate the impact of Swedish aid from that of total foreign aid at the macro level in Guinea-Bissau (or elsewhere). The analysis in the macroeconomic sections is therefore based on the presumption that the impact of Swedish aid on the variables we look at is

³ The data have been somewhat improved during the last years. Guinea-Bissau has since March 1994 been "awarded" with a country table in the IMF publication *International Financial Statistics*; as of 1993, Guinea-Bissau is also included in the end tables in the *World Development Report* from the IBRD.

not significantly different from that of other aid. On the odd occasions when a separation is possible, or when there is reason to assume *a priori* that Swedish aid has a different impact, we will of course highlight this.

The effectiveness of Swedish aid separately is thus mainly considered at the project level (in Part III). However, Swedish aid to Guinea-Bissau comprises a wide variety of activities with different (sub-) objectives that are more or less quantifiable (if at all clear). This variety of activities and (sub-)objectives complicates the assessment of the effectiveness of Swedish aid. The dominant kind of aid for many years has been project aid; that is, financial and technical assistance to specific investments in the production of goods and services (e.g. health and education). In principle, such aid can be evaluated by traditional cost-benefit or cost-efficiency methods. On the other hand, there is programme aid, meaning that a sum of cash is made available for the entire economy or for a particular sector. Usually it is difficult to disentangle the impact of Swedish aid from that of other factors affecting the performance of this particular sector. In still other instances, e.g. balance of payments support, the immediate purpose may be to alleviate an import shortage crisis, coupled with a long-term objective that growth should thereby be enhanced. The effect of this type of aid on the immediate purpose may well be assessable, while the long-term impact is much more difficult to quantify.

Chapter 2. FOREIGN AID TO GUINEA-BISSAU IN FIGURES

2.1. Introduction

This chapter contains a presentation of the data on total development assistance to Guinea-Bissau. Section 2.2 shows total foreign aid to Guinea-Bissau both in aggregated form and divided into a selection of categories: bilateral and multilateral; grants and loans and project aid by donor and sector. Total foreign aid in relation to a number of economic variables is also presented and compared with those of other countries. In this section, Swedish aid is only presented in relation to overall multilateral and bilateral aid.

In section 2.3, a more detailed account of Swedish development assistance to Guinea-Bissau is presented. Statistical data from SIDA annual reports are used and the disbursements are compared with commitments and divided into sectors and over time. The disbursements from other Swedish donor agencies are also reported. (A more detailed coverage and analysis of the individual projects is conducted in chapter 6.)

The Guinean debt situation is assessed in section 2.4, where the total debt stock is related to a selection of key economic variables. The contracted debt servicing ratio is compared with actual servicing. Section 2.5 summarises and concludes the chapter.

2.2. Total Foreign Aid to Guinea-Bissau

2.2.1. Total Bilateral and Multilateral Aid

Depending on choice of data source, different numbers on how much aid has actually been disbursed to Guinea-Bissau are obtained. National data from the Guinean balance of payments show constantly lower figures on aid inflows than international sources obtaining their information directly from the donors (as much as 27 percent lower during the period 1987-1990). The two main international sources of foreign aid disbursements are OECD/DAC's annual report *Development Co-operation* and the World Bank's *World Debt Tables*. Even though both sources get their information about aid disbursements from the donors, their figures vary significantly. Which source one should consider the most reliable is not evident, but according to both donor-agency personnel and representatives of the Guinean administration, it is clear that significant aid inflows are not recorded in the balance of payments. A further default of national statistics is that reasonably reliable data are only available since 1987. A survey among donors conducted by the UNDP suggests that the aid inflows in 1990 were significantly lower than those reported in international statistics, indicating that the latter data might be exaggerated. Nevertheless, we have chosen to use the statistics from OECD/DAC. Disaggregated data on total aid by donor countries and agencies are, unfortunately, not available for the entire 1974-1993 period. From 1980 a more

disaggregated presentation is found in the DAC yearbooks. The data for 1974 to 1979 are therefore presented separately in Table 2.1.

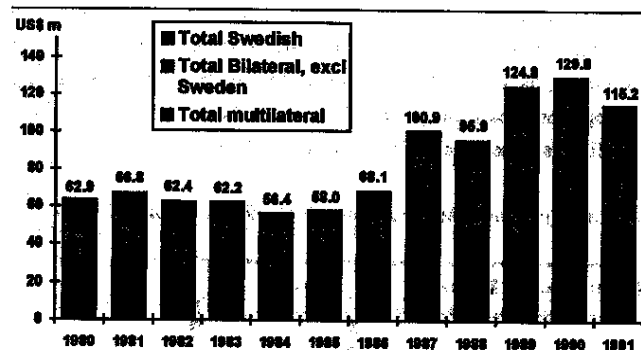
Table 2.1: Total Aid to Guinea-Bissau, 1974-1979, Current US\$ Million.

	1974	1975	1976	1977	1978	1979
Total Foreign Aid	4	19	22	38	53	57

Source: OECD/DAC *Development Co-operation*, various issues.

Over the years 1980 to 1991, total aid divided into total multilateral and bilateral aid, separating out total Swedish aid, is presented in Figure 2.1. Total aid is shown on top of each stack. The share of Swedish aid in total bilateral aid varies between 13 and 35 percent.

Figure 2.1: Total Aid to Guinea-Bissau, 1980-1991, Current US\$ Million.



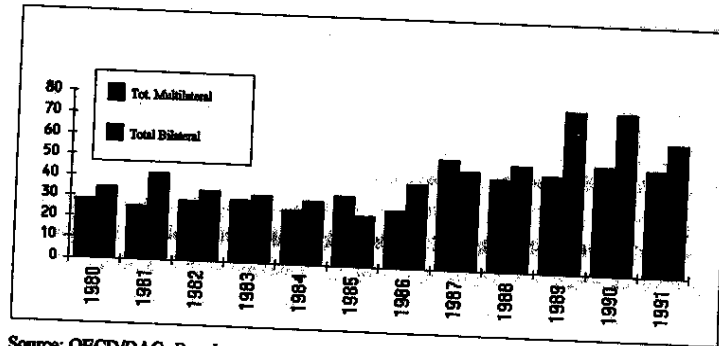
Source: OECD/DAC, *Development Co-operation*, various issues.

According to national sources the total overseas development assistance (ODA) in 1992 and 1993 amounted to about US\$80 million and 69 million, respectively (of which Sweden contributed approximately US\$12 and 13 million).¹ Adding these figures to the figures from previous years from OECD/DAC gives a total amount of aid disbursements for the years 1974 to 1993 of around US\$1.4 billion in current prices. A rough estimate would bring this

¹ Source: Guinea-Bissau Central Bank, Balance of Payments, SIDA statistics and authors' own calculations.

sum to about US\$2 billion in real 1993 prices, which would mean US\$2000 per person. This sum is quite substantial, considering that GDP per capita is around US\$200.

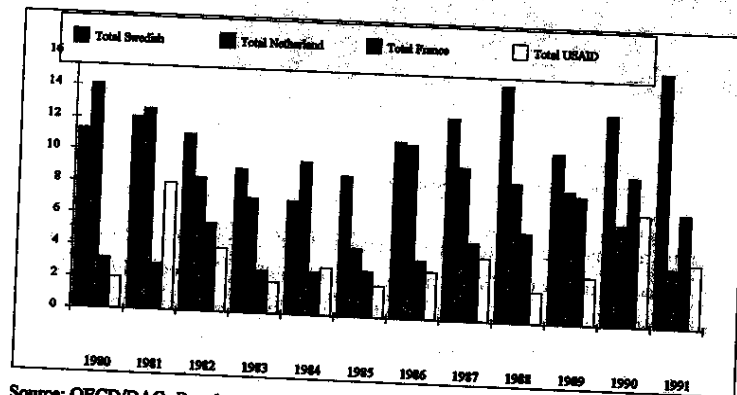
Figure 2.2: Total Bilateral and Multilateral Aid, 1980-1991, Current US\$ Million.



Source: OECD/DAC, *Development Co-operation*, various issues.

Total development assistance divided into bilateral and multilateral aid is presented in Figure 2.2. Guinea-Bissau receives most of its aid from bilateral donor agencies, of which Sweden, the Netherlands, France, the United States, Portugal, Taiwan (lately) and Italy are the largest. The African Development Bank/Fund (ADB/ADF) and the World Bank International Development Association (IDA) are the largest of the multilaterals (Figure 2.3).

Figure 2.3: Total Bilateral Aid by Selected Major Donors, 1980-1991, Current US\$ Million.



Source: OECD/DAC, *Development Co-operation*, various issues.

As can be seen Swedish aid was exceptionally high by comparison in the years 1988 to 1991. The Netherlands have reduce their aid in the last few years while French and US aid is increasing.

2.2.2. Total Foreign Aid to Guinea-Bissau in International Comparison

Table 2.2 presents the ODA in relation to a number of economic variables and compares Guinea-Bissau with selected countries. Guinea-Bissau receives an extraordinarily high level of ODA in relation to some key economic variables (only Mozambique and Cape Verde are at similar levels). Guinea-Bissau is one of the most aid dense economies in the world.

Table 2.2: ODA, Total and Selected Ratios, 1990, Current US\$ Million.

	ODA		ODA as percent of:			
	Total	Per Capita	GDP	Gross Investment	Export	Import
Guinea-Bissau	118	122	68	189	620	168
Cape Verde	79	214	28	67	1320	65
Guinea	274	48	12	67	65	48
Mozambique	923	59	77	—	569	103
Gambia	94	109	48	—	229	43
Haiti	176	27	7	58	171	47
Bangladesh	2081	18	11	92	123	61
SSA ¹ Average	14 810	32	6	33	39	39

Sources: UNDP 1992 and UNCTAD 1992. 1) SSA = Sub-Saharan Africa.

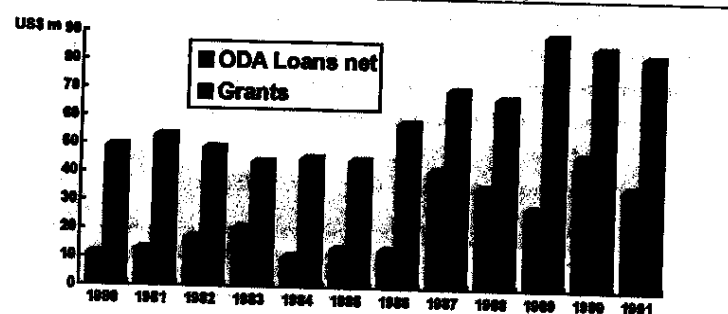
The level of ODA per capita is also very high in Guinea-Bissau compared to other countries, exceeded only by Cape Verde. The high level of aid to Guinea-Bissau is also evident if we look at ODA in relation to investment, export and import. The ratios for Guinea-Bissau are unparalleled in this respect (with the exception of the Cape Verde aid export ratio). All aid ratios show Guinea-Bissau to be substantially more aid dependent than the average Sub-Saharan African (SSA) country.

2.2.3. Loans and Grants

In Figure 2.4, total ODA is divided into loans and grants. The largest part of total ODA is grants, loans from various multilateral donor agencies are mostly concessional. Both loans and

grants increased in 1987 at the time of the first Structural Adjustment Programme (SAP) and the ratio of grants to loans has decreased over the period.

Figure 2.4: Total Loans and Grants, 1980-1991, Current US\$ Million.



Source: OECD/DAC Development Co-operation, various issues.

2.2.4. Project Aid

Over the years 1986 to 1993, project aid constituted between 61 percent and 81 percent of all official transfers (grants). Out of the project aid, technical assistance (TA) made up between 23 percent and 42 percent (Guinea-Bissau Central Bank, Balance of Payments). Over 20 different bilateral and multilateral donor agencies finance the Public Investment Programme (PIP), which can be seen as the capital budget of Guinea-Bissau. In 1992/1993 the donors financed some 120 different projects, down from 230 in 1986. The distribution of total project aid by economic activity for 1993 is given in Table 2.4. (In the statistical appendix 1, Table A.8, the same presentation is given for the period 1987 to 1993).

Public Work continues to receive most of the aid disbursements. These funds are largely for the construction and rehabilitation of physical infrastructure, e.g. roads and bridges. Much of this assistance is funded by loans from ADB/ADF. Since Sweden reduced its aid to the industry sector in 1988/1989, relatively little aid goes to this part of the economy. Table A.5 in the appendix presents the public investments for the years 1987 to 1993 and since these are, as we will see in coming chapters, largely aid funded, it gives a general view of where total project aid has been directed during this period.

Table 2.3: Total Project Aid by Major Donor, 1993, Current US\$ Million and Percent.

Donor	Grants	Percent	Loans	Percent	Total	Percent
African Development Bank	1	3	16	54	17	27
World Bank/IDA	1	3	9	29	9	15
European Community	7	22	--	--	7	12
SIDA	7	22	--	--	7	12
UN System	6	20	--	--	6	10
Kuwait Fund	--	--	3	10	3	5
Netherlands	2	7	--	--	2	4
Other	7	23	2	3	9	15
Total	33	100	29	100	62	100

Source: Guinea-Bissau Ministry of Finance, PIP, February 1993. Figures do not add up exactly due to rounding off. N.B. figures are projections.

Table 2.4: Total Project Aid Divided by Sector, 1993, Percent.

Sector	Percent
Public Works	34
Agriculture and Rural Development	20
Health	12
Education	8
Energy	6
Economic and Administration Management	5
Water and Sanitation	4
Transport	3
Fishing	2
Industry	1
Other	5
Total	100

Source: Guinea-Bissau Ministry of Finance, PIP, 1993.

2.3. Swedish Aid to Guinea-Bissau

Sweden has given development assistance to Guinea-Bissau since 1969. Prior to independence in 1974, import goods such as foodstuffs, teaching materials, cloth and medical supplies to a total value of SEK 22, 34 or 54 million were financed.² The goods were sold in the so-called Armazens do Povo (People's stores) set up by the Partido Africano da Independencia da Guine e Cabo Verde (PAIGC) in liberated areas during the war for independence. In fiscal year 1975/1976 Guinea-Bissau became a Programme country with a country frame of SEK 40 million largely for the importation of goods similar to those traded before independence. Successively, larger shares of investment and capital goods were introduced. From 1987 more policy-based programme support has been given and the emphasis has gradually changed from direct production support to institutional strengthening and general competence-building assistance. SIDA is by far the largest Swedish donor agency, followed by SwedeCorp since 1991, and SAREC. A number of non-governmental organizations are involved in development work in Guinea-Bissau: Save the Children, the Africa Groups (now terminated) and two minor associations. The details of each agency's projects and programmes are presented in chapter 6.

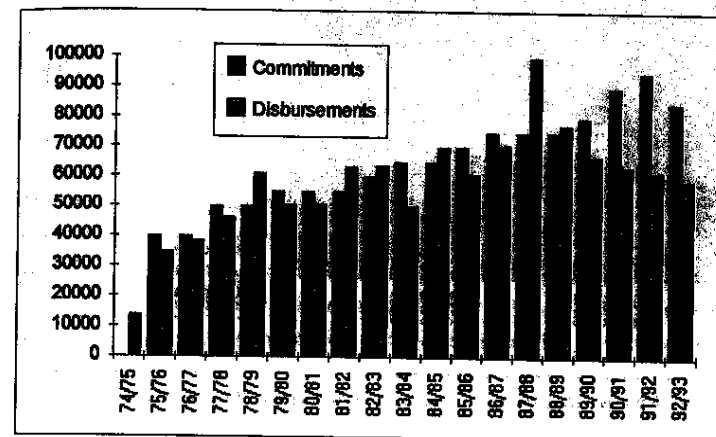
2.3.1. Total Commitments and Disbursements

Total SIDA aid to Guinea-Bissau over the entire 1974-1993 period is shown in figure 2.5. The figure reveals an increasing trend in commitments up to fiscal year 1992/1993. The increase in disbursements has been slower, signifying a gradual accumulation of carry-overs, especially towards the end of the period. In 1993/1994, commitments were lowered, to SEK 45 million and in the Swedish budget proposal for 1994/95, only SEK 10 million is provided.

As of fiscal year 1992/1993, a total of about SEK 2.2 billion in real 1993 prices has been disbursed since 1974/1975, out of which SIDA accounts for about 2.1 billion. As commitments have exceeded disbursements, the accumulated carry-overs were about SEK 100 million in 1993. Out of this around SEK 40 million is programme support suspended in 1991 as a result of donor (including Sweden) dissatisfaction with the performance of the Guinean Government's implementation of the ongoing Structural Adjustment Programme.

² The figures quoted in the official documents vary.

Figure 2.5: SIDA Aid; Disbursements and Commitments within Country Frame, 1974-1993, Current SEK Thousand.



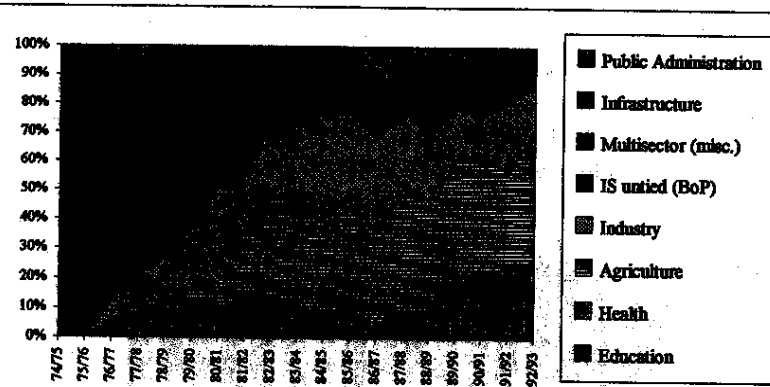
Source: *Bistånd i siffror och Diagram*, SIDA, various issues.

2.3.2. Swedish Aid by Sector and Channel, Public vs Private

The sectoral distribution of Swedish aid to Guinea-Bissau is shown in Figure 2.6. Apart from non-sector import support, three sectors have dominated: infrastructure, industry and agriculture. Other sectors are public administration, health and education. Multi-sector aid contains, among other things, funds for a personnel and consultancy fund. Within each of the sectors major changes have occurred in the sense that less project-directed aid and more general competence and institutional strengthening assistance have been given in more recent years. Agriculture is today the largest recipient sector followed by education and industry. The proportional distribution of Swedish sectoral support over the entire 1974-1993 period is as follows: agriculture (28 percent); industry (21); import support (18); infrastructure (11); multi-sector (8); education (7); health (4) and public administration (3).

Table 2.5 shows disbursements from other Swedish public donor agencies and bodies. Substantial amounts of balance of payment supports have been disbursed by the Swedish Ministry of Foreign Affairs (MFA) up to 89/90. The drastic reduction and eventual termination of all programme aid in 1991 is notable. SAREC is mainly involved with a research laboratory and SwedeCorp has taken over the industrial programme from SIDA. Some ten Guinean residents have participated in international courses organised by BITS.

Figure 2.6: Swedish Foreign Aid by Sector 1974-1993.



Source: SIDA, *Bistånd i Siffror och Diagram*, 1993. Note: IS = Import Support, BoP = Balance of Payment.

Table 2.5: Disbursements by Other Agencies, 1988-1993, Current SEK Million and 1993 Prices.

Agency	1988/1989	1989/1990	1990/1991	1991/1992	1992/1993
BITS	0	0	0	0	0
Sarec	0	1	1	2	2
SwedeCorp	—	—	—	—	15
MFA: BoP-support	20	20	1	0	0
Total Sweden (93 prices)	132	120	97	84	89

Source: SIDA, *Bistånd i Siffror och Diagram*, 1993. Note: Total Sweden is in 1993 prices.

Almost all aid has traditionally been channelled through the public sector in Guinea-Bissau. This is also true for Swedish aid: all project aid to all sectors is channelled through the public sector. The import support, on the other hand, is largely received by private importers. Martin (1993) shows the distribution among purchasers of the Swedish import support during the years 1987-1991. Of a total of approximately SEK 13 million, almost 10 million (73 percent) were purchased by 18 large traders and farmers. Goods for SEK 2 million were bought by unknown or not specified purchasers and 1.3 million were purchased by the publicly owned retailer, Armazens do Povo. We can presume that the unknown or not specified purchasers are private agents; that is, the total amount channelled through the private sector is

approximately SEK 12 million (90 percent). A comparison with the total Swedish disbursements to Guinea-Bissau during the same years, SEK 491 million, shows that the aid channelled through the private sector was 2.4 percent of total disbursements.

2.3.3. Swedish Aid by Macroeconomic Function

Total Swedish aid may also be divided according to its main three macroeconomic function:

- 1) Expenses on technical assistance, SIDA personnel and administration.
- 2) Resource transfers.
- 3) Debt relief.

The first category, hence, consists of foreign experts working on contract, SIDA personnel working at the Development Cooperation Office (DCO) and administrative expenses. The second category contains transfers of money, imports of goods (both through projects and programme aid) local costs and credits. In the case of Guinea-Bissau no debt relief has been given during the four years studied and the disaggregation is therefore restricted to two classes.³ The division of Swedish aid between TA and Resource Transfers is given in Table 2.9. The reporting system has only been operating since 1989 so the time series are limited to four fiscal years, 1989/1990 to 1992/1993.⁴

In Table 2.7, the distribution of the aid by "macroeconomic functions" at the sector level is presented. The five main sectors for Swedish support during the period (agriculture, education, industry, artisanal fishery, health) and programme support have been considered.

Table 2.6: Total Swedish Aid by Macroeconomic Function, Current SEK Million.

	1989/1990	1990/1991	1991/1992	1992/1993	Total
TA ¹ , personnel and administration	43	27	21	25	123
Resource transfers	22	49	46	35	152

Source: SIDA, EA-system and *Bistånd i siffror och diagram*, 1993. 1) TA = Technical Assistance.

³ This classification excludes revenues, account 3, financial revenues/costs and extraordinary revenues/costs, account 8, and internal revenues/costs, account 9. The expenses under accounts 4,5,6 and 7, however, contain the bulk of the expenses. Another exclusion is the Personnel and Consultancy fund since the actual use of this money is too unclear to classify.

⁴ The classification is based on SIDA's chart of account. As expenses on technical assistants (TA) are account 5 considered, with the exception of account 5343, "goods", and as expenses on personnel and administration are accounts 4 and 6 considered. Included in this class is also all expenses on services to employees. As resource transfers are expenses under account 7 considered as well as balance of payment support from the MFA and the above mentioned account 5343.

Table 2.7: Swedish Aid by Macroeconomic Function at the Sector Level, Current SEK Million.

Sector		1989/1990	1990/1991	1991/1992	1992/1993	Total
Agriculture	TA ¹ , personnel and adm	23	12	11	14	59
	Resource transfers	0 ²⁾	10	7	10	27
Education	TA, personnel and adm	4	3	3	4	13
	Resource transfers	6	7	6	7	26
Industry	TA, personnel and adm	6	6	2	6	20
	Resource transfers	5	2	13	2	22
Fishery	TA, personnel and adm	4	3	2	3	11
	Resource transfers	3	2	2	3	9
Health	TA, personnel and adm	3	0	1	1	5
	Resource transfers	1	1	-	-	2
Programme Support	TA, personnel and adm	0	1	1	0	1
	Resource transfers	6	28	18	13	65

1) TA = Technical Assistance.

2) In fiscal year 1989/1990 almost all expenses in the agriculture sector were defined to account 5. We do not know the explanation, but assume that it is simply an accounting error.
- means that no disbursements in this category have been made, 0 means that less than half a million SEK has been disbursed.

2.4. Debt Situation

At the time of independence in 1974, the country's debt was negligible. It has increased steadily ever since and, especially in the last few years, the increase has been very rapid. It is not possible to obtain a totally reliable and non-contradictory picture of the different debt indicators. This is especially so for the figures on the actual debt service ratio, i.e. the share of the debt service obligations the country actually honours. A debt strategy and an inventory of the structure of the total debt have been worked out only very recently. Nonetheless, it is safe to say that Guinea-Bissau has a very difficult debt situation by any standard. Table 2.8 shows the conventional indicators of the Guinean debt situation. Only six years after independence, in 1980, the outstanding debt exceeded Gross National Product (GNP). After a further four years (in 1984) the external debt was almost 10 times the value of exports, and the theoretical debt service ratio was around 30 percent. Today the total debt has increased to about US\$714 million (Martin 1993) and the theoretical debt service ratio to about 300 percent. The loans are predominantly concessional and roughly equally divided between bilateral and multilateral.

Table 2.8: Debt Situation, 1980-1993, Selected Years, Current US\$ Million.

Indicator	1980	1984	1988	1990	1993
Total Debt Stock (TDS)	134	243	455	593	714
TDS/GNP (percent)	128	176	301	321	325
TDS/Exports (percent)	na	950	2600	3000	2800
Theoretic Debt Service Ratio (percent)	na	28	41	45	300
Actual Debt Service Ratio (percent)	na	na	na	na	6

Source: IBRD, *World Debt Tables*, 1991-1992, Martin, Bissau, Nov. 1993.

The current situation is also discussed in an International Monetary Fund (IMF) *aide-memoire* and the following slightly different figures are presented: external debt is almost 250 percent of GNP; the stock of arrears is 68 percent of GNP and the theoretical debt service ratio is 162 percent (percent of goods and non-factor services exports) before debt rescheduling (IMF 1993). In 1994 this ratio is projected to come down to 17 percent after debt rescheduling. As can be seen, the two sources used in this report (Martin/IMF) are not wholly consistent. They do, however, both testify to the seriousness of the Guinean debt situation.⁵ The actual debt service ratio, i.e. the amount actually paid in interest or principal, is, of course, considerably lower. For example, in the years 1989-1991, the country paid US\$20, 16 and 11 million, respectively. In 1992 no debt service was recorded and in 1993 only about US\$1.9 million were paid. This would bring actual debt service ratio down to 6 percent only. The recently initiated debt inventory, which is partly SIDA-financed, points to a number of measures which ought to be taken: writing off all bilateral debt; buying back all commercial debt and refinancing of multilateral debt service.

2.5. Summary and Conclusions

This chapter has presented the total foreign development assistance to Guinea-Bissau as reported in international and national statistical sources. We found that some US\$2 billion in real 1993 prices have been allocated to the country since independence in 1974. Most of this money has come in the form of grants both as project aid and as programme assistance. The total amount of foreign aid in relation to some key economic variables is very high in international comparison, exceeded only by Mozambique and the small island of Cape Verde. The level of foreign aid has been considerably higher than the average for Africa. A large

⁵ The serious debt situation in Guinea-Bissau is well acknowledged within SIDA (SIDA 1992)

number of both bilateral and multilateral donors have been involved in the development co-operation as well as several non-governmental organizations.

The share of Swedish aid in total bilateral aid has varied over the years. However, Sweden has for most of the 1974-1993 period been among the top three largest donors to the country. The sectors most targeted by Swedish aid have been infrastructure, industry and agriculture. Some 60 percent of total Swedish assistance has been directed to these sectors. Other recipient sectors have been health, education and public administration. Prior to 1991, accumulations of carry-overs have occurred practically every year (this can be seen as an indication of limited absorption capacity of the economy; cf chapter 5). The structure of Swedish development assistance has gone through considerable changes since first started in the mid-1970s. Initially much import support was disbursed subsequently giving way to more capital investment in most of the sectors.

The serious Guinean debt situation was also shown in this chapter. It was concluded that, although it is difficult to establish the exact amount of actual debt servicing, the country is experiencing a situation which would require measures that go well beyond current practices when addressing the issue of debt forgiveness and rescheduling.

PART II

AID EFFECTIVENESS IN A MACROECONOMIC PERSPECTIVE

Chapter 3. NECESSARY CONDITIONS FOR GROWTH IN DEVELOPING COUNTRIES

3.1. Introduction

The officially stated primary objective of Swedish aid is to promote overall economic growth and social development in the recipient countries. Foreign aid can contribute to growth both directly and indirectly. Aid can enhance growth directly by being invested in projects that yield a positive social net real return. The effectiveness of Swedish aid to Guinea-Bissau at the micro (project) level is analysed in part III of this report. In this part (II) we focus on the effects at the macro level.

Empirical analysis of a *direct* link between aid and growth has been shown to be fruitless and beset with methodological deficiencies (White 1992 and 1994). The focus of foreign aid research in the economic field has therefore shifted towards assessments of the *indirect* impact of aid on variables that are supposed to produce economic growth (such as savings and investments). The indirect impact of aid on growth can work through two main channels at the macro level. One is through the "market". For instance, aid can affect the (investment) behaviour of private agents in the recipient country by altering relative prices. One such example, which we will return to in chapter 5, is that aid affects the domestic relative price-ratio between the traded and the non-traded goods sectors, i.e. the real exchange rate. This will alter the relative profitability of investments (old and new) in the two sectors. If the growth potential differs as between the two sectors, overall growth might be affected. Aid can also influence the behaviour of private (and public) economic agents by contributing to the buildup of infrastructure (in a broad sense) and breaking other "bottle-necks" in the recipient country. An example is a road that facilitates transportation and opens up market possibilities for peasants, who may respond by increased investment in agriculture.

The other "macro" channel through which aid can affect growth in the recipient country is by influencing the behaviour of its government. Decisions by the recipient government on how much tax revenue it should collect, how much of public expenditure should go to consumption and investment respectively, what exchange rate and trade policies should be pursued, and many other things, are likely to be related to the amount of foreign aid it receives (and in what form it receives it). All these decisions will affect the growth of the economy, either in a positive or a negative way, which we cannot tell without detailed analysis of the types of policies that are actually pursued in the particular country and how they are related to aid.

The analysis of the indirect, macroeconomic effects of foreign aid - Swedish and other - on growth in recipient countries, particularly Guinea-Bissau, will be

conducted in three steps. The first step, to be pursued in (this) chapter 3, is to provide a summary of the minimum necessary preconditions for growth in (aid-receiving) developing countries. The basis for this analysis is the so called New Growth Theory and a variety of empirical tests of this strand of theory. In chapter 4, we take a closer look at the extent to which the necessary preconditions for growth prevail in Guinea-Bissau and whether there have been any notable changes recently. In addition to this analysis of the "input" requirements for growth in Guinea-Bissau, we analyse the actual outcome in terms of per capita growth and "social" developments in various dimensions. In chapter 5, which ends the macroeconomic part of the report, we provide an analysis of the linkages between aid and the state of, and change in, the necessary preconditions for growth in Guinea-Bissau.

It may seem a little beyond the immediate scope of this report to analyse (in this chapter) the determinants of growth in developing countries in general. We think, however, that if we do not have a clear understanding of what the basic necessary requirements for growth are - in Guinea-Bissau and elsewhere - there is no possibility for us to be able to trace the macroeconomic impact of aid on the growth process; we simply have to identify the mechanisms through which the indirect impact of aid on growth takes place.

Before we commence the analysis of "growth determinants", there are a few general points that have to be emphasised. Economic growth, the stated ultimate objective for Swedish foreign aid, also has "qualitative" aspects which we will consider.

First, growth which is fully or predominantly financed by foreign aid is most likely not sustainable in the long term and does not promote the economic and political independence of the recipient country, one of the other long-term objectives of Swedish foreign aid. In this perspective, in order for aid to be effective it is not enough that the resources transferred through foreign aid are used effectively, thus contributing to growth directly. In the somewhat longer term, aid has to contribute to the mobilization and allocation of domestic resources in the recipient economy in ways that enhance growth indirectly. Aid can accomplish this through its impact on the macroeconomic structure and functioning of the recipient economy, including the behaviour of its government.

Second, the distributional aspects of aggregate growth have to be considered. This is also an explicitly stated objective for Swedish aid: it should benefit the poorest sectors of the population in the recipient economies (which could happen either directly or through significant "trickle down"). More lately, the objective that development should bring benefits to women as well as men has been emphasised.

Third, the "external effects" of growth have to be considered. That is, growth has to be achieved without high costs in the form of depletion and degradation of

national renewable primary resources which are not included in the conventional national accounts from which growth statistics are derived. This is the essence of the new environmental objective for Swedish aid. The other main "external effect" that has to be considered relates to the political situation in recipient countries. Growth should be achieved within a political and economic framework which does not suppress basic political and human rights but rather improve these rights (the "democracy" objective for foreign aid).

3.2. Growth Determinants in Developing Countries

Investment in physical capital was long considered to be the driving force behind economic growth. In fact, in the first classical growth models by Harrod and Domar (1957) in the 1940s, capital investment was the only determinant of growth. The first neoclassical growth model (by Solow 1956) was a little more sophisticated in that capital depreciation, labour supply and decreasing marginal returns on capital were introduced in the analysis. Moreover, the early models were set in a closed economy framework which did not allow for trade and other international transactions between countries. In these early growth models, economic policy could thus only affect the growth process through one variable: the physical capital investment ratio in the economy. The investment ratio, in turn, could be affected through domestic savings and/or the mobilization of foreign savings (investments) in the form of foreign private investment, commercial loans or aid.

It is not a serious overstatement to claim that the early growth models have had a strong impact on the aid policies of most donor and recipient countries, at least up to fairly recently. The focus has been, and still is to a considerable extent, on financing physical capital investments in infrastructure, agriculture and industry. Billions after billions of aid money have been invested in these types of activities during the past 30 years in the African countries. The growth that was expected to follow more or less automatically has not materialized, signifying that high investment alone is not sufficient for growth. During the past few years, a "new growth theory" and new empirical insights have come forward which can help us understand why there has not been any sustained growth in so many poor countries, especially in SSA, during the past three decades.

The new growth theory cannot be associated with one distinct model; it comprises a whole class of models which emphasize different aspects of the growth process. They all retain the presumption that investment in physical capital is necessary for growth, but add several other factors that were not explicitly considered in the early growth models. While the early aggregate, one-sector growth models had nothing to say about the allocation of resources between sectors, the efficiency of

investment, the capacity utilization of the resources invested, or the determinants of technological efficiency and progress, the new models have these variables in focus.

The main contribution in many new models is that technological progress is explained endogenously, not given from heaven as in the early models. The determinants of endogenous technological progress differ as between models, but most focus on investments in human capital, learning-by-doing and research and development investments; some others focus on imitation and innovation related to foreign trade and foreign investment (see Grossman and Helpman 1990; 1991).

Another salient feature of many of the new models is that they comprise more than one sector in the economy which allows for factor allocation between sectors to influence growth. (This rather intuitive result took a long time to be derived from a formal model; in most economic models, factor allocation affects the level of production only, not its rate of growth.) Many of the new models are also open economy models in which trade and foreign investment influence growth through economies of scale and technology transfers. In some of the new models, there is also a government sector that provides certain inputs to the private sector and, thus, affects growth in this sector. It could be collective goods or simply an institutional and legal framework that ensures property rights and other fundamentals needed for private markets to function properly.¹

The main insight to be gained from new growth theory, and the new empirical findings that have emerged from various tests of the theory, is that growth is a very complex phenomenon. A multitude of factors that can promote growth as well as detrimental to it have been identified. However, although growth theory has advanced considerably since the mid-1980s, we still lack a complete model that incorporates all, or even most, important features of the individual models. (Most growth models are technically highly complex even though they are confined to a few specific aspects.) There is thus no complete growth model that can be used to trace all effects of foreign aid on the growth process, through affecting the many factors that determine overall growth. What we have is a number of partial models which look at one of a few links at a time between aid and factors found important for growth (e.g. the domestic saving ratio, the exchange rate and subsequent resource allocation, etc.).

The development of a large set of new growth models in recent years has triggered a renewed interest in empirical investigations of growth determinants. The empirical studies that have emerged do not find strong and robust correlations between all (or even most of) the "theoretical" growth determinants and the actual growth

¹ The first main contributions to the New Growth Theory were: Romer (1986; 1990); Lucas (1988; 1993) and Helpman (1989). A useful recent textbook is Barro and Sala-i-Martin (1994) and a good review of the literature is contained in Sala-i-Martin (1990).

performance of different countries. They do, however, find strong and robust correlations between a few of these "growth determinants" and actual growth.²

It would thus be presumptuous to claim that the recent theoretical contributions and the new empirical evidence have enabled us to understand the growth process fully. There is certainly no complete menu of policy advice that we can give to governments in developing countries and say "follow these policies and rapid growth will be guaranteed". That is, we do not know what are the sufficient conditions for rapid growth. What new growth theory and evidence have taught us is far less than that. What has emerged is a rather widely accepted view of what constitutes the minimum necessary preconditions for significant growth. That is, without the fulfilment of these preconditions, little or no growth can be expected. These "negative" insights, to be discussed under five different headings, will form the basis for most of the subsequent analysis in this chapter.

3.2.1. Domestic Savings and Investments

In the "old" growth models, domestic investment in physical capital (assumed to be equal to domestic saving) was the only growth determinant; in the "new" growth models, investment in physical capital is only one of many factors determining growth. It is thus only a necessary precondition for growth, i.e. without a relatively high level of investment in physical capital, little growth is bound to follow. The East Asian Miracle countries all have an investment ratio between 0.30 and 0.40. High investment ratios are not a sufficient condition for growth, of course, as experience from many countries shows. A number of countries have investment ratios around 0.30 while still growing very slowly or not at all, signifying that other "growth determinants" are lacking (cf. below). However, there is a clear and robust correlation between the level of investment and growth rates across all developing countries, once other influences on growth have been controlled for.

Poor vs. Less Poor Countries. A further robust result in the new empirical growth literature is that developing countries have an advantage in "being poor" in a growth perspective. Several studies show their growth rates to be significantly higher than those of rich countries once all other factors affecting growth are controlled for, verifying the so called conditional convergence, or catch-up, hypothesis. It has not been possible to say to what extent this depends on higher marginal returns on physical capital in initially low capital-intensive economies (as in the Solow model), or on the

² The most well known studies are: Barro (1991); Brander (1992); Dollar (1992); Dowrick (1992); Edwards (1992); Esterley and Levine (1993); and Levine and Renelt (1992). Also see: Bergstrand (1991); Collier and Gunning (1992); Dornbusch (1992); Ghose and Kharas (1993) and Sheehey (1992).

fact that technologically "backward" economies have an advantage in that they can apply existing technology without running the cost of developing new technology.

Private vs. Public Investment. While most empirical studies only have total investment as a "growth determinant", a few make a distinction between private and public investment. Here the results are not so clear, but some of the studies show private investment to be the crucial determinant (Kahn and Reinholt 1990; Greene and Villanueva 1991). Other investigations also report on the interrelationship between private and public investment. That is, they test for the alternative hypotheses that public investment "crowds in" or "crowds out" private investment. There is no general result emerging from these tests. In some countries, public investment (e.g. in infrastructure) stimulates private investment; in other countries the main tendency is that public investment takes place at the expense of private.

Foreign vs. Domestic Savings. Practically none of the recent empirical growth studies have considered whether the source of the domestic investment is foreign (aid, loans, etc.) or domestic savings. It is quite clear, however, that the highest growth achievers' investment is financed predominantly by domestic savings and that most no-growth countries' (including most in SSA) investments are foreign financed, mainly through aid grants and concessional loans. In between are about half the developing countries which have achieved some growth during recent decades. For these countries, there is no clear difference in relative growth rates related to the source of the investments.

Necessary? The claim that investment in physical capital is a necessary condition for growth may seem rather strong and has to be qualified somewhat. In the short term, an economy can grow without positive net investment. This can happen, for instance, if resources are severely misallocated between sectors at the outset and a reallocation takes place. During the transition phase, domestic production and real income may increase (if costs associated with reallocation are low). However, once the reallocation of existing resources is completed, the "growth" will cease in the absence of positive net investment. Similarly, if there is significant under-utilization of the existing capital stock at one point in time, short-term "growth" may be accomplished if utilization is increased, but once full capacity is reached, new investments are required to achieve further growth.

One can also think that growth can be achieved with a constant capital stock (zero net investment) if there is recurrent disembodied technological progress (as in the Solow model at steady state). As is clear from new growth theory, however, it is difficult to envisage a steady stream of new technological insights which enhance productivity of existing resources year-by-year without any investment in the creation or application of new technology (which does not come from heaven as in the Solow

model). Finally, short-term growth with a constant and fully utilized capital stock can be achieved by adding other factors to the production process. For instance, if there is idle labour in the economy and this labour is included in the production process (capital shallowing) production may increase, but once all labour is used, growth will cease unless - again - new investments are undertaken in the capital stock.

In conclusion, theoretical considerations suggest that some growth in the short term may be possible without positive net investment, but for long-term sustainable growth it is a necessary precondition. This is also evident from the empirical literature; no country has achieved growth over several years without a positive and significant rate of investment in physical capital.

3.2.2. Investments in Human Capital

In most growth models from before the mid-1980s, the only factor of production besides physical capital was "labour". Labour was conceived of as a homogeneous factor, i.e. all labour was assumed to be of the same quality, in essence raw muscle-power. One of the cornerstones of new growth theory is the emphasis on the quality of labour, or more precisely, skills. The way these skills are formed (formal education, learning by doing, etc.) is also a central issue.

Several new empirical studies have found that investments in "human capital" is crucial for long-term sustained economic growth, whether measured by school enrolment, literacy or some other proxies for the skill level of the population. There is less clear evidence on what kind of human capital is the most conducive to growth and what are the most efficient ways of producing this capital. Primary school enrolment is perhaps the "human capital" proxy that has proven most powerful in explaining growth (IBRD *World Development Report* 1993). This does not, however, mean that other types of education and learning are not essential. It is probably the total "human capital" that is important, and not so much its specific components.

The role of human capital in the growth process has until rather recently been severely underestimated. One reason is that it has been difficult to measure this "capital stock". New measures have come forward, however, and they suggest that in developed high-income countries the "human" capital stock is several times larger than the stock of physical capital. That is, as estimated by modern growth accounting (e.g. Hulten 1992), the share of incomes that accrues to the "skill" factor in the economies of the rich world is much larger than the traditional "physical" capital share and also the share going to unskilled labour. It is also suggested by new empirical work that the largest difference between developed and underdeveloped countries is not in the physical capital intensity of their economies, but in the skill level (the human capital) of their labour forces (see Jorgenson and Fraumoni 1993 and references therein). These

new results are hardly surprising once the data are there, but the full implications of "human capital" for the growth process in developing countries have yet to gain wide recognition, especially in aid-cum-growth analyses and - even more so - in the actual pursuit of aid policy.

It should seem non-controversial today to claim that a high level of investment in both physical and human capital is necessary for growth. In fact, the physical capital investment ratio (to GDP) and the human capital proxies are the only variables that are positively and robustly correlated to growth across developing countries. More than 50 other perceived "growth determinants" have been tested for and all turn out non-significant or non-robust in various tests (see Levine and Renelt 1992; Esterly and Levine 1993). This is, of course, not to say that investments in physical and human capital are the only important determinants of growth. Moreover, the causal relationship between investment and growth is not completely clear; many studies show causality (not surprisingly) in both directions. That is, investment is necessary to promote growth, but growth may also stimulate new investment. Whatever the relative strength of the two ways causality run, it is clear that in the absence of investment in physical and human capital no long-term growth will take place.

The correlations between growth and investment in physical and human capital are far from perfect, signifying that the latter are only necessary for growth, not sufficient. In addition, there are "quality aspects" that have to be considered. Not so few countries have investment ratios above 0.25, but still no or very low growth. Likewise, many developing countries have no growth despite high levels of public spending on education, which can either be due to poor quality of education and/or to the fact that other important growth determinants are lacking. The quality aspects, as well as the fact that some countries have low investment and others high, are endogenous variables that have to be explained. The new growth theory and many empirical tests suggest that two fundamental factors explain the level of investments and its efficiency: the macroeconomic policy and the trade regime of the country.

3.2.3. Macroeconomic Policy and Stability

Most developing countries rely at least to some extent on private agents for savings and investment in the economy. For private agents actually to undertake long-term investment, the government must give them incentives to do so. That is, the government has to ensure an economic macro-environment where private investors can expect a return on their investment which covers costs and, when applicable, also leaves a profit that is higher than that from alternative uses, e.g. savings and/or investment abroad (capital flight). If not, private agents will not invest in the domestic economy. What then, are the necessary preconditions for government policy that will

stimulate indigenous private investment? First of all, private agents must face prices that make investment profitable. If the government controls prices of, say, agricultural commodities, and these are set very low, there will be little or no incentive for investments in this sector.

However, the role of governments in development goes far beyond "getting prices right". It has to ensure that private investors have reason to expect that they can appropriate at least some of the returns to their investments. If they fear that their property rights in the resources invested are not guaranteed by the government, private agents are likely to invest only in short-term and "foot-loose" activities, if at all in the domestic economy. Similarly, if private agents face very high taxation of their profits, investment will be discouraged.

For private investments to come forth there also has to be reasonable balance and stability in the government macroeconomic policies. If not, private agents will find it difficult to make *ex ante* calculations about the profitability of potential investments. Large budget and balance of payments deficits will induce a high degree of uncertainty in private investment decisions. Excessive budget (and balance of payments; cf below) deficits send signals to private agents that changes are pending; that taxes may be raised or expenditure lowered (e.g. subsidies cut) which affects the returns on private investment. Moreover, high and unstable budget deficits usually lead to high and variable inflation and to significant and unpredictable changes in *relative* prices, which induce even more uncertainty in private investment decisions.³

In the empirical literature, very few attempts have been made to test econometric models of private investment determinants in developing countries. One major reason is that data on private investment, separate from total investment, are only available for a few countries and the reliability of these data leaves much to be desired. By and large, however, these tests have largely confirmed the above propositions on the role of government policy for stimulating private investment.

Most of the necessary macroeconomic preconditions for private-investment induced growth may seem rather self-evident. However, substantial Swedish and other aid has been given for more than 20 years to a large number of countries (not the least in Africa) where practically none of the necessary macroeconomic preconditions for private savings and investments have been present - and where no growth has been achieved. Many of these countries have followed some variant of a "socialist development" strategy, with heavy reliance on public long-term investment to foster growth and where the state has been the main owner and operator of enterprises.

³ See, for instance, Rodrik (1990; 1991; 1992).

Savings and investment in non-market economies pose special problems. In the initial stage of "socialist development", the resources for financing public investment have to come from one of two sources. One is taxing the private sector directly, or indirectly through administrative pricing (e.g. marketing boards) and/or through money expansion and inflation. The alternative is to rely on foreign savings (often aid). Neither is compatible with sustainable and self-reliant growth, recent empirical evidence and experience suggest.

Where taxation of the private sector (usually agriculture) is the initial source of finance of public investment, increases in public revenue collection and, thus, public investment are difficult to accomplish. If the tax rates on private activities are raised constantly, the tax base is prone to decline as factors move out of this sector (e.g. into subsistence farming). Government revenue collection can be increased concurrently only if the (private) tax base is growing, but here another contradiction sets in. Almost by definition, in state-run economies, there is discrimination against the private sector in many ways. Private agents are confined to small sectors of the economy, which means that the private tax base automatically becomes small. Moreover, in state-run economies there is usually little incentive for private agents to expand production even in the sectors they are permitted to operate in, signifying a stagnant or declining private tax base. Rapid expansion of public investment, based on taxation of a small private sector, has thus not been a feasible strategy for predominantly state-run developing countries.

The alternative to reliance on taxation of a small private sector in many developing countries with a "planned economy" development strategy has been to depend on foreign aid for the financing of government revenue and investment (as well as consumption in many cases). Many "socialist" developing countries have followed such an investment strategy up to fairly recently. However, with the dismantling of the Soviet Union and the communist regimes in Eastern Europe, this source of external finance has ceased.

The only sustainable planned economy development is one where the public economic sectors generate their own surplus which can finance real investment in the long term. The prerequisite for this is, of course, that public investments yield a substantial real return, i.e. that investments are productive. This requires an efficient government planning organization, effective state monitoring and management capacity and responsive and flexible institutions that allow quick policy alterations when initial plans prove wrong, or when external conditions change. The former Soviet Union and other European socialist countries failed to achieve either of these requirements for sustainable growth, even though they had very high levels of investment and a highly educated labour force. Today few seem to believe that poor

resource-scarce developing countries should be able to achieve what the Soviet Union failed to do. Almost all governments in the countries formerly trying a state-run development strategy have now changed course (the only exceptions being North Korea and Cuba) towards a more liberal, market-oriented development strategy, at least at the rhetorical level, but most also in practice, although reforms have been slow, hesitant and selective.

The conclusion is thus that the basic problem of achieving sustainable and self-reliant growth is now practically the same in all developing countries: they have to rely to a large extent on mobilizing domestic private initiative and investment. This means that governments have to assume their proper role as providers of incentives for the private sectors, as discussed in the earlier parts of this sub-section.

3.2.4. Trade Regime, Export Growth and External Balance

While the recent empirical growth literature finds the macroeconomic policies of governments to be the crucial determinants of the level of investment in developing countries, the trade regime is the most important factor determining the efficiency of investments. The trade regime comprises three main components. The first is the foreign exchange rate policy. The second is the choice of mechanism to allocate foreign exchange in the country. The third is trade policy proper, i.e. the structure and level of protection of traded goods sectors (export and import-substitution sectors) through tariffs, quotas and taxes.

During most of the post-war era, almost all developing countries in Africa (and elsewhere) have chosen an inward-oriented trade regime. The non-traded good sectors have been favoured through overvalued real exchange rates that have tilted relative prices - and thus investment incentives - against the traded good sectors. This applies to both the export sectors and the import-competing sectors. (Note that the definition of the real exchange rate is the ratio of traded good prices to non-traded good prices.) Within the traded good sector, the import-competing industries' disadvantage resulting from an overvalued real exchange rate has been nullified through often prohibitive tariff and import quotas. (The import-substituting sector comprises mainly manufacturing industries and food production which competes with imported food.) The net outcome has been heavy discrimination against the export sector, where producer prices have been depressed by the real exchange rate overvaluation, the favouring of the import-substitution industries and, to the extent that main exports are made up of agricultural products, high taxation (either directly through export taxes or indirectly through underpricing by state marketing boards).

The trade regime chosen by most African countries is well described by the above. It is thus little surprise that the SSA countries' real export earnings have fallen

drastically since 1970 and especially, between 1980 and the present. This is mainly due to a decline in volume of exports, but the volume effect on export earnings has been aggravated by a drastic deterioration of the terms of trade for most primary products exported by the African countries (Svedberg 1991; 1993).

The discrimination against the export sector in most developing countries has hampered both the level of investment and the efficiency of investment according to much of new growth theory and evidence. It is widely held today that it is the export sectors, especially in light manufacturing, that have the highest growth potential in developing countries. For small developing countries, there are usually few constraints on the demand side (outside textile and clothing) for exports, while in import-substituting industries, the size of the (often very small) domestic market is a severe limitation. This makes it possible to exploit economies of scale in export industries while it is not in import-competing industries. Moreover, the competitive climate in export sectors tends to encourage efficiency and innovation, while in highly protected import-competing industries no such incentives are present. There are also studies showing that the savings propensity is often higher in the export sector than in other sectors.

When we look at the empirical evidence we cannot unambiguously say that countries pursuing a more "liberal" trade regime have higher growth than countries with more protection. (There are tremendous difficulties with constructing measures of the degree of "liberality" of trade regimes that can be used to rank countries.) There is, however, a relatively robust and significant correlation between certain measures of "outward-oriented" trade regimes and economic growth across samples of some 110 developing countries and also across the SSA countries (Ghura and Grennes 1993). Moreover, it is indisputable that the countries with the highest growth rates (mainly in East Asia) have all pursued an export promotion trade policy, although some have retained rather strict import controls (e.g. Japan, Korea and Taiwan). It is also clear that the countries which have discriminated against the export sector the most severely (most countries in SSA) have little or no growth. That the correlation between "outward orientation" and growth for all developing countries is not stronger is explained by the fact that the growth performance of the countries "in between", i.e. with varying degrees of moderate protection and export discrimination, growth is not systematically related to the trade regime (as imperfectly measured).

3.2.5. Good Governance

In the preceding sub-sections, we have discussed necessary conditions for growth in developing countries at two levels. The first was that investment in physical and human capital must be relatively high. The second was the macroeconomic and trade-policy

requirements needed to ensure, not only high, but also efficient investment. We can thus tentatively describe "good governance" - the third level - as the pursuit of macroeconomic and trade policies that favour high and effective investments which produce growth. However, good governance includes many other aspects, most of which are very difficult to capture in quantitative and measurable terms.

It nevertheless seems that "good governance" is perhaps the most important factor in explaining growth. Gone are the times when some economists could argue that to "get prices right" is sufficient for achieving growth. (Gone are also, hopefully, the days when "radical" economists claimed that growth can be achieved with total disregard of economic fundamentals.) If nothing else, it takes good government to define what the right prices are (especially in non-traded good sectors) and to get them right.

In the present context, however, we maintain that the minimum definition of a good government is that it follows a policy that ensures, first, reasonable internal and external macroeconomic balance and stability, and, second, a trade regime that does not discriminate against exports. That is what we find to be the minimum requirements for efficient investments to emerge and, thus, growth.

What does it take for a government to pursue good governance? First, the government must have growth as its overriding economic objective. This almost all governments claim that they have. However, judged by their "revealed preferences"; that is, their actual behaviour and policy, it is often clear that the growth objective is mainly rhetorical. The true overriding government objective, which governs actual policy, may be any of the following: (i) to enrich itself and/or to use government funds to ensure that it stays in power; (ii) to maximize current consumption for all or parts of the population at the expense of the savings and investments that would be required to achieve growth; (iii) to maximize the inflow of foreign aid, to be used for any of the above objectives (or even growth).

Until fairly recently, the predominant view of developing country government objectives in the development literature, as well as in the aid policy dialogue, was a very naive one. It was basically taken for granted that governments sincerely had the welfare of their populations as the prime objective for their actions and that growth, benefiting all, was the means to achieve this. That was what governments said and it was by and large accepted at face value. Today, when we are less naive, we are more inclined to look at what governments do rather than listen to what they say. The discrepancy is often profound (Kreuger 1990).

However, it takes more to achieve good governance, in the minimum definition used here, than to place growth as the overriding policy objective. A second prerequisite is that the government has an insight into how growth is achieved. With

hindsight we can easily say that few governments in Africa and many other places had that insight (to the extent that growth actually has been their objective). Most governments have chosen state involvement in most spheres of the economy and export discrimination as the two main components in their "development" strategy. None of the more than 40 countries in SSA (with the exception of diamond-rich Botswana) have been able to achieve sustainable growth over a long period of time (although a few countries had high growth for a limited period in the 1970s, i.e. Kenya, Côte d'Ivoire and Cameroon). In fact, for SSA as a whole, per capita real incomes today are not higher than they were at the time of independence.

That a government has growth as its overall objective and knows what macroeconomic and trade policies are required to achieve growth is not enough for good governance. A third requirement is that it can actually pursue these policies. This requires it to be able to control the economy and to have the political support, credibility and legitimacy needed to pursue these policies while remaining in power. It is highly doubtful if most governments in Africa as of today have enough control and support to be able to conduct a growth-enhancing economic policy. Most of them have inherited, or created themselves, an economic structure (based on state involvement and export discrimination) which (see Faini et al 1991 and IBRD 1994) is the opposite of what is growth-enhancing. The slow or negligible progress in the "structural adjustment programmes" that most of them are currently struggling with is also a clear indication of the difficulties today's governments face in trying to pursue growth-promoting policies, even in the cases where it seems that this is really what they want.

3.3. Summary and Conclusions

In this chapter we have analysed what recent growth theory and empirical findings suggest are the basic minimum requirements for growth in developing (aid-receiving) countries. We have concluded that without efficient and reasonably large investments in physical and human capital, no sustainable growth can take place, although, of course, such investments are not sufficient to ensure growth. We further concluded that for effective investments to be feasible, there has to be reasonable balance and stability, both internally and externally (budget and balance of payments, respectively). In the next chapter we shall investigate to what extent the "necessary" preconditions for growth are at hand in Guinea-Bissau and also take a look at the actual growth performance and social development in various dimensions.

Chapter 4. ECONOMIC GROWTH AND SOCIAL DEVELOPMENT: EVIDENCE FROM GUINEA-BISSAU

4.1. Introduction

In chapter 3 we examined some necessary preconditions for sustainable and self-reliant economic growth and social development. It was concluded that a country needs high domestic saving and investment in physical capital combined with effective human capital formation. Moreover, the government should strive for a stable macroeconomic setting and an outward-oriented trade regime. All this is very much dependent upon the government's ability and willingness to pursue growth-enhancing policies and to do it in an open and transparent way, i.e. good governance is crucial for the realization of economic growth.

In this chapter the objective is to assess the status of the necessary preconditions for economic growth in Guinea-Bissau. It starts, in section 4.2, with an analysis of the primary growth determinants identified above: domestic saving and investment in physical capital and human capital formation. The macroeconomic policy and internal balance and stability are assessed in section 4.3. In section 4.4 we discuss the Guinean trade regime, external balance and export performance. After this analysis of the preconditions for economic growth, we assess, the actual Guinean growth performance over the years 1987 to 1993, for which data are available and reasonably reliable, in section 4.5.

In section 4.6, progress in social development indicators is analysed. A brief discussion of income distribution is included in this section, but since hardly any data exist, rather little can be said. The issue of good governance is addressed in the following section along with a discussion of the main economic reforms recently undertaken by the Guinean administration. Section 4.8 closes the chapter with a summary and conclusions.

Most of the statistical material has been obtained from international sources such as World Tables, World Development Report, Human Development Report, OECD/DAC, World Debt Tables, various IMF publications and UNCTAD Handbooks. National data have been compiled from the Central Bank, the Ministry of Finance and the Planning Secretariat in Bissau. Aide-mémoires, economic reports and memoranda containing economic and social data have also been utilized. However, due to the poor data availability and quality, all statistical information presented here should be interpreted with caution. Whenever possible, the figures have been checked in order to ensure accuracy. Despite this effort, there are, most likely, grave errors in the data.

4.2. Growth Determinants in Guinea-Bissau

4.2.1. Domestic Savings and Investment

Throughout the period studied, total domestic savings have been negative (Table 4.1). In the 1987-1992 period, gross domestic saving has averaged -10 percent of GDP. During the same period, public savings averaged -4 percent. A further indication of the low public saving rate is that government tax revenues as a percentage of GDP have not increased since 1987 (see Statistical Appendix Table A.7). There are no direct data on private saving. However, two tentative estimates of the extent of private savings can be obtained. First, high private consumption, exceeding GDP (Table A.6 in the Statistical Appendix), suggests that private saving is also very small or even negative. Second, the 1993 *Public Expenditure Review* states that the government's share of total GDP is around 50 percent, which would indicate a negative private saving ratio of about 16 percent of GDP.

Table 4.1: Gross Domestic Saving and Gross Domestic Investment, Selected Years, Percent of GDP.

	1973	1980	1985	1992
Gross Domestic Saving	-14	-6	-11	-22
Gross Domestic Investment	21	30	32	26

Source: IBRD and IMF *aide-mémoire*, 1993.

Despite negative domestic savings, Guinea-Bissau had high investment ratios throughout the period 1974 to 1992. This has almost exclusively been possible through the inflows of foreign savings, i.e. development aid, predominantly channelled through the public sector. Table A.8 in the Appendix shows total gross domestic investment for the years 1987 to 1993 and the respective shares of public and private investment. The bulk of investments are public while formal private investments make up some 5 percent of GDP only. The sectoral distribution of public investment for the years 1987 to 1993 can be seen in the Statistical Appendix Table A.9. The relatively high physical capital-investment/GDP ratios, between 0.25 and 0.35, are well at par with the high-performing economies in South East Asia and between 1½ and 2 times as high as in most other African countries. However, as pointed out above, most investments in Guinea-Bissau are public as opposed to private and they are not domestically financed

since the Guinean gross domestic savings rates have been strongly negative for all years for which data are available.

4.2.2. Human Capital Formation

According to extensive empirical evidence, among the necessary factors for long-term economic and social development is a country's ability to achieve a high level of investment in education, especially in primary education. When analysing the Guinean education system it should be remembered that the starting-point for the country was very difficult in general and the circumstances in the education sector in particular left the country with one of the worst education systems in all of Africa. By the mid-1980s, the situation had improved slightly, but was still deemed to be exceptionally deficient (de Vylder 1987). Based on various international and domestic sources, this section will try to assess the current situation. Table 4.2 presents some input and output indicators of human capital formation for Guinea-Bissau and compares them with a selection of other countries.

Table 4.2: Human Capital Indicators in International Comparison, 1991.

	Guinea -Bissau	Cape Verde	Guinea	Haiti	Bangladesh	Average SSA
Human Capital Indicators						
Education Exp/Government Current Exp. (percent)	14	7	22	20	11	18
Primary Pupil-Teacher Ratio	25	33	40	35	63	41
Primary School Enrolment (percent)	45	95	47	44	63	47
Budget allocated to specific education level (percent) ¹	71 ²	n.a.	93	n.a.	n.a.	93 ³
Completing Primary Level (percent)	8	45	48	32	46	63
Secondary School Enrolment	7	50	9	19	17	17
Adult Literacy Rate (percent)	37	-	24	53	35	51

Source: UNDP, *Human Development Report*, 1993.

1) Excludes general administration expenditures. 2) Lowest among 22 SSA countries. 3) Median among 22 SSA countries.

Table 4.2 indicates that there does not seem to be a lack of teachers in Guinea-Bissau, as the country ranks highest in this respect. However, this measure does not capture the quality of the teachers. To the extent that Guinean teachers are less qualified than the teachers in the other countries in the table (which has been suggested by some Swedish experts in the education sector) this should be kept in mind when interpreting the figures. Public educational expenditure in relation to GDP is not exceptionally low. The Guinean primary school enrolment ratio is at par with the rest of SSA. However, the completion rate is only 8 percent. The Guinean drop-out rate is, in fact, one of the highest in the world. This is reflected in the low secondary school enrolment ratio. The comparatively low share of total expenditure allocated to specific educational levels is an indication of the ineffectiveness of the Guinean educational sector as more resources are put into general administration and wage costs than in most other African countries.

The differences between male and female school attendance are shown in Table 4.3. Guinea-Bissau is still far behind the rest of SSA in this respect. The *World Development Report* (1993) suggests that total secondary school enrolment ratio was lower in 1990 than 20 years earlier (not shown in the table). For females, the reduction has been even larger than for the total. Female secondary school attendance, in relation to boys, has declined since the time of independence. The fact that only half as many girls as boys attend school reduces the ability of women to participate in and contribute to improvements in development enhancing processes. Apart from the skewed male-female ratio, there is also an unfavourable urban bias in educational availability as the numbers of schools and teachers are lower per head of population in the rural areas.

Table 4.3: Educational Gender Differences, Females/100 Males.

		Guinea-Bissau	Sub-Saharan Africa
Primary School	1970	43	60
	1990	56	76
Ratio	1990/1970	1.3	1.3
Secondary School	1970	62	40
	1990	53	67
Ratio	1990/1970	0.9	1.7

Source: The IBRD, *World Development Report*, 1993.

Note: Figures for 1970 should be treated with caution.

The main difficulties in the education sector are, according to both Guinean and foreign observers, of both an institutional and an economic nature. Whereas the financial problems have been resolved to some extent, the institutional impediments are mostly not remedied (Hermele 1994). The most prominent of these seem to be the questions of a generally accepted school language and a national education plan. These shortcomings of the education system have led to a situation where parents do not see the relevance of letting their children attend school. Improving the present system in order to meet the demands from the children and their parents pose the biggest challenge for the future education system.

Given the high relative importance of human capital formation for long-term self-sustained economic growth and development, the Guinean "qualitative" performance in this area is alarming. It should also be recalled that looking at these indicators tells us nothing about the cognitive skills and development of the students. For that we need results of general tests on basic skills, i.e. reading, writing and calculating. Tests of this kind are, unfortunately, not available. Nonetheless, judging by what has been presented above, the main conclusion is that not much human capital formation has been achieved during the past 20 years. Several other reports and documents assessing the Guinean education sector, e.g. country reports, semi-annual reports and expenditure reviews, confirm the statistical picture presented above. This is not to say that there are fewer highly educated people in the country today than there were 20 years ago. According to several observers, there are considerably more trained people now. Although it is difficult to show, because the basic data are deficient, it seems as the achievement of basic skills among large segments of the population is not much better than it was at the time of independence in 1974.

4.3. Macroeconomic Policy, Internal Balance and Stability

In this section we look at the overall macroeconomic policy pursued by the Guinean Government. The 20 years from 1974 to the present have been divided into three sub-periods (1974-1983, 1983-1986 and 1987-1994) as the Guinean administration markedly changed its economic strategy during each of these periods. Specifically, an effort will be made to assess the Government's ability to achieve overall economic balance and stability. This relates to the earlier discussion in section 4.2.1, which looked at domestic savings and investment, in that a stable macroeconomic environment is recognized as an important determinant for (private) economic agents' saving and investment decisions. Variables to be investigated in this chapter are the Government's budget deficit and its financing, monetary policies and the related topics of inflation and real interest rates.

4.3.1. Macroeconomic Policy

From the time of independence to around 1983, the Guinean Government pursued what several reports term "a vague and badly planned socialist economy" (de Vylder 1987). The "strategy" involved heavy state intervention and control of international and large parts of domestic trade and commerce. The Government owned most of the enterprises, particularly within the industry sector, while the agricultural part of the economy was largely outside direct government control. Prices of practically all goods were controlled by the Government, which also allocated funds and resources administratively. The post-independence economic development showed, not surprisingly, dismal results. Large price distortions, a protective trade policy and unproductive investments in state industries meant that the economy ended up with vast imbalances. There were chronic internal (and external) deficits, accelerating inflation, an overvalued currency and extensive parallel markets.

Because of the severe structural and economic imbalances, an Economic Recovery Programme was introduced in 1983. The programme, which was planned to cover the period 1983 to 1986, included negotiations with the IMF and the World Bank. It was recognized that the agricultural sector was the foundation of the economy and that the internal terms of trade had to be shifted in favour of the farmers in order to increase production. Price distortions were to be reduced, the currency was devalued weekly and taxes were raised. However, the recovery programme was not implemented with enough determination, according to several status reports from donors, and the imbalances in the economy grew even worse in 1986.

Because of the difficulties in the economy and the need for debt rescheduling, a Structural Adjustment Programme (SAP) was initiated in 1987 with the support of the International Development Association (IDA) and Special African Facility Credits. The first phase of adjustment lasted through 1988 and focused on broad macroeconomic policies, the restructuring of the public investment programme, deregulation of agricultural prices, simplification of tariffs and customs procedures and liberalization of trade. The objectives of the programme were to reach economic stability, to transform the Government's role to provision of social services and basic infrastructure and to restore the financial relationships with trading partners and creditors (Aguilar and Zejan 1991; 1992 and Galli 1989).

The second phase of the adjustments was planned to cover the period 1989 to 1991, but due to failures on the part of the Government to implement the programme, it was not terminated until 1993. The objectives of this part of the programme were to move towards a flexible and market-determined exchange rate, maintain fiscal and monetary discipline, achieve positive real interest rates, liberalize prices, eliminate

preferential tax and tariff treatments, reduce export taxes on cashew nuts, improve public expenditure planning and procedures and promote public sector reform. The most important successes of the adjustment programme are the price liberalizations, the exchange rate adjustments and, as of last year, a reduction in the rate of inflation with subsequent positive real interest rates. Furthermore, Guinea-Bissau has markedly reduced overall government intervention, especially in the marketing of its major food crop, rice, since the mid-1980s (IBRD 1994).

After two phases of structural adjustment programmes over the period since 1987, the Guinean economy has gone through a substantial structural transformation; from a semi-planned economy with administrative resource allocation mechanisms to a more market-oriented economy. At the same time, however, the overall macroeconomic management has been weak. In the following sections we will look at two indicators of the Guinean economic performance, the internal balance and macroeconomic stability.

4.3.2. Internal Balance

The fiscal accounts of the Guinean government for the years 1987 to 1993 are presented in Table 4.4. Expressed as a percentage of GDP, tax revenue, of which a large part is made up of tariffs and duties on international trade, has not increased over the period studied. Foreign aid, therefore, continues to constitute the largest revenue source for the Government. Apart from the temporary revenue increases accruing from privatizations of state-run enterprises in 1992/1993 (not shown), the largest increase on the revenue side has been obtained from fishing licences.

On the expenditure side, the interest payments on public debt have increased and are now the largest single current expenditure item. Wages are the second largest expenditure item and the Government has fallen behind with these payments, creating serious problems for large parts of the economy. The primary balance (total revenue excluding grants minus current expenditure) for 1993 is estimated to leave a surplus of about 39 billion Guinean Pesos (1.7 percent of GNP) compared to the projected 151 billion Guinean Pesos (6.2 percent). The projection for 1994 is a primary balance of about 3.5 percent of GNP. This would allow for payment of the scheduled interest principal payments to the multilateral creditors. The primary balance, including interest payments, is negative for most of the period, indicating the severe recurrent-cost constraint facing the Government. The global deficit (total revenue excluding grants minus total expenditure) for 1993 is estimated at about 27 percent of GNP, compared to a target of 19 percent. For 1994 the target has been set at about 20 percent of GNP in the IMF shadow programme adopted by the Government.

Table 4.4: Fiscal accounts 1987-1993, Percent of GDP.

	1987	1988	1989	1990	1991	1992	1993 ¹
Total Revenue	41	42	41	38	29	25	27
- Tax Revenue	8	8	4	8	7	4	7
- External Transfer (grants)	28	28	29	19	16	14	13
Total Expenditure	49	52	54	45	50	46	34
- Current Expenditure	18	17	20	16	20	15	13
- Capital Expenditure	29	32	33	22	24	26	21
Primary Balance (excl. interest)	1	2	2	7	1	0	6
Primary Balance (incl. interest)	-4	-3	-8	3	-6	-4	2
Global Deficit (excl. grants)	-35	-38	-42	-26	-35	-35	-19

Source: Guinea-Bissau Ministry of Finance, 1993.

1) Projection.

4.3.3. Macroeconomic Stability

Inflation in Guinea-Bissau is estimated by a consumer price index (CPI) consisting of three goods only: food (rice), beverages and tobacco, based on a household survey of limited size. The relevance of this index can be questioned on several grounds. First, it only covers Bissau, the capital, leaving out the majority of the population. Second, the consumption basket is, most likely, not very representative as it is based on a rather limited basket of goods. An improvement of the CPI is currently under way which should make for improved estimates.

Table 4.5: Average Annual Inflation, 1986-1993, Percent.

	1986	1987	1988	1989	1990	1991	1992	1993 ¹
Inflation	50	87	60	80	33	58	70	32

Source: Ministry of Finance, November 1993 and Aguilar and Stenman, 1993.

1) As of September 1993.

Inflation has been high in Guinea-Bissau throughout the 1986-1993 period. It has also varied substantially within years (not shown in the table). A perpetual surge in inflation occurs around mid-year and is followed by a moderate and, in certain years, even deflationary period. The variability of the inflation rate is largely the result of

seasonal patterns in agricultural production and in international trade transactions. For 1993 inflation is projected to be around 32 percent per year (end-of-period based) or 48 percent average. The aim for 1994 is to keep inflation at the same level (IMF 1994).

Money supply (liquid assets or M2) increased by about 40 percent (projected at 18 percent) in 1993 compared to a considerable increase in 1992 of about 111 percent in nominal terms. However, in real terms domestic credits actually decreased by about 25 percent during 1992 and continued to fall in 1993 (Aguilar and Stenman 1993 and IMF 1994). The explanation for this is that the nominal increase of liquidity in the economy only fuelled inflation. Due to the high level of inflation throughout most of the period, Guinean real interest rates have been negative, partly explaining the low private domestic saving ratios estimated in section 4.2.1. As of mid-1993, real interest rates became positive as a result of raised nominal interest rates and lower inflation.

The main conclusion of this section is that over much of the time since independence, Guinean economic policy has been characterized by heavy state intervention and regulation of large parts of the economy. As the socialist strategy of development proved futile in practice, the Government, in 1983, began to deregulate and liberalize the economy. However, the changes were, according to some observers, "more words than action", so in 1987, as the internal imbalances and overall instability had become even worse, the government adopted a structural adjustment programme endorsed by the World Bank and the IMF. The implementation of the programme has not been without problems. In 1989 and for much of the period 1991-1992 the programme was practically derailed. As a direct effect of the Government's economic policy, the budget deficits have been persistent and inflation large and highly fluctuating. According to recent IMF, World Bank and other economic reports, 1993 saw several improvements in fiscal and monetary policy, signifying that a less unstable macroeconomic situation is now at hand.

4.4. Trade Regime, External Balance and Export Growth

4.4.1. Trade Regime

A further important growth determinant identified in extensive empirical analysis is the trade regime. Our assessment of the Guinean trade regime involves an analysis of three components: the exchange rate policy; the allocation mechanism for foreign exchange; and the level of trade protection. As in most other parts of this chapter, a division is made between the times before and after 1986/1987. Prior to the 1987 adoption of the SAP, the development strategy and trade policy of Guinea-Bissau was import substitution, that is, the use of tariffs and quotas to protect the domestic industry

sector from international competition. This has also been the policy of many high-performing economies in East Asia, but in stark contrast to most other developing countries, and certainly to Guinea-Bissau, these fast-growing nations have all abandoned the import substitution model since long and opted for a strong export orientation.

In assessing the Guinean trade policy we start with the exchange rate policy. Guinea-Bissau had, for extensive periods of time, an overvalued official exchange rate. A fixed and, subsequently, a (too slowly) crawling peg was used. Given the high inflation, this policy resulted in a severely overvalued real exchange rate. de Vylder (1987) estimates the parallel rate to have been three times the official rate during 1980 to 1986, indicating an overvaluation of 200 percent. The IBRD (1994) reports a parallel market exchange rate premium of 60 percent for the same period. In 1991, this gap had been reduced to around 50 percent and due to a series of devaluations during the adjustment periods, the gap has been within the 5 percent limit since December 1992. An ambition to close the gap completely has been expressed by the Guinean Government. This is an important step towards creating more favourable incentives for improved export performance and it seems that with the exchange rate policy the Guinean authorities have reached the best results among the SAP objectives. However, although Guinea-Bissau now has an adjusted nominal exchange rate that is in line with the parallel market exchange rate, the country's real equilibrium exchange rate is still substantially appreciated by the large inflow of foreign capital. We will leave this issue to chapter 5, where the effects of development assistance on the growth determinants are dealt with.

There is no market-based foreign exchange allocation system in Guinea-Bissau (IBRD *aide-mémoire* 1994). Foreign currency is allocated administratively to a relatively small number of traders. Likewise, exporters are forced to surrender 50 percent of their foreign exchange earnings to the Central Bank at the official rate. Since the official rate has differed quite substantially from the free market rate this has in effect been an implicit tax on exports.¹

The third component of the trade regime is the structure of protection, i.e. export and import taxes, tariffs and custom fees. Generally, exports are subject to a number of taxes: a customs fee (5 percent); a rural rental income tax (0.5-2 percent); a marketing fee and the cashew tax. Although explicit export taxation has been reduced substantially since 1987, it still constitutes a clear disincentive to exports, particularly for cashew nuts (the single largest export good). As late as 1991, overall export taxes on cashew nuts were in excess of 35 percent. Subsequently they were reduced and a further reduction from 18 to 13 percent has been called for (IMFb 1994). Institutional

¹ Estimated at around 27 percent in the years 1987 to 1991.

factors are also at work in the sense that customs handling has been detrimental to international trade and a customs reform (see below) has been initiated, which will hopefully make for improved handling of traded goods.

There are a number of taxes and fees on imports: one basic tariff, 11 additional taxes and three taxes applying to specific goods. A reduction of the tariff level has taken place, but the structure still displays many inconsistencies as similar products are being taxed at different rates. Moreover, the consumption tax on many imports is lower than the corresponding rate on domestic products. Rice is the only commonly traded good that is exempt from all customs duties and charges. The Guinean Government has also been reluctant to increase the tariff on rice from 11 to 15 percent in an initial stage, and subsequently to 20 percent, despite demands from creditors and donors. The import tax structure is still littered with exemptions despite the fact that they were abolished by decree in 1989. These exemptions are of an *ad hoc* nature and control of them is inadequate. Exemptions granted to individuals have increased significantly in the last few years.

The assessment of the three components characterizing the trade regime, exchange rate policy, the foreign exchange allocation system and trade protection have all been found to be unfavourable to the export performance of the country during most of the period studied. Recent improvements have been made concerning the exchange rate, but as we shall see in chapter 5, problems still remain. A customs reform has been initiated by the Government, aimed at reducing taxes and tariffs and simplifying handling. A market-based foreign exchange allocation system has been discussed by the Government and donors, but progress in this area is yet to be seen.

4.4.2. External Balance

The Guinean balance of payments (BoP) is presented in Table 4.6. The Guinean current account continue to be negative, largely due to the considerable trade deficit. The service balance deficit is mostly explained by interest payments on medium- and long-term loans. Disbursements in the capital account are predominantly concessional loans for both programme and project purposes. The global deficit has grown, from -7 percent to around -26 percent of GDP over the period studied. It should not exceed 23 percent of GDP in 1994 according to the agreement between the Guinean Government and the IMF/World Bank (IMFa 1994). The table also shows the limited effect on imports of the postponement of BoP and import support since 1991.² Continued high levels of imports can be seen even though BoP support went down considerably or was terminated completely. Instead, short-term capital borrowing and arrears increased, allowing for a short-term compensation of postponed programme aid. The

² Due to donor dissatisfaction with the implementation of the SAP.

fact that Guinea-Bissau is experiencing a current account deficit is, in itself, not an issue to be overly concerned with. In fact it is part of the structural adjustment strategy. The concern is the long-term development of the deficit.

Table 4.6: Guinean Balance of Payments, 1986-1993, Selected Period Averages, Current US\$ Million.

	1986/1987	1988/1989	1990/1991	1992/1993
Current Account	-18	-34	-31	-52
Trade Balance	-35	-49	-48	-59
- Exports, fob	13	15	20	21
- Imports, fob	-48	-64	-67	-79
Services Balance	-25	-37	-23	-28
Unilateral Transfers	43	52	40	36
- Official Transfers (grants)	44	51	42	35
- Balance of Payment Aid	12	13	6	7
- Project Aid	29	35	31	29
Capital Account	14	14	10	4
Disbursements (loans)	25	35	34	39
- Balance of Payments Support	9	18	13	5
- Project Support	16	17	21	29
Amortizations	-11	-22	-25	-26
Global Deficit (excl. arrears)	-7	-23	-30	-26

Source: Guinea-Bissau Central Bank, 1993; Aguilar and Stenman, 1993.

In Table 4.7, the trade balance for the period 1983-1993 is presented. The figures before 1987 should be interpreted with caution. They testify, however, to the unfavourable progress of the large trade gap, which is not closing over time. Of additional concern is the fact that over the next few years the situation is not expected to be reversed. In 1998, exports are estimated at about 35 percent of GNP and imports at around 86 percent (IMFa 1994).

Table 4.7: *Guinean Trade Balance, 1983-1993, Current US\$ Million.*

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993 ¹
Exports	9	17	12	10	15	16	14	19	20	6	34
Imports	58	60	60	51	45	59	69	68	67	83	76
Deficit	-49	-43	-48	-41	-30	-43	-55	-49	-47	-77	-42

Source: Carneiro and Abreu 1989; Guinea-Bissau Central Bank 1993.

1) Projection.

The continued large trade deficit is, among other things, the result of the importation of significant amounts of rice. In 1992 some 76 000 tonnes of rice were imported, worth around US\$20 million. It was estimated that approximately 75 000 tonnes will have been brought in by the end of 1993 (Central Bank, November 1993). For the period 1987 to 1993, rice made up around 14 percent of total imports which is equivalent to around 85 percent of total export earnings for the same period (Ministry of Finance 1993). The IMFa (1994) reports rice as making up about one fifth of total imports for the period 1989-1993.

4.4.3 Export Growth.

As can be seen from table 4.7 above, exports increased somewhat in 1987 and gradually levelled off at around US\$20 million per year. The exceptional figures for exports in 1992 and 1993 are due to delayed exports in the former year, resulting in much of that year's cashew harvest being exported in 1993. Although short-term variations in export earnings have occurred due both to exogenous changes in terms of trade (see below and Statistical Appendix) and to internal difficulties in cashew marketing, exports as share of total GDP have not increased during the period 1986/1987-1992/1993. The share of exports in GDP is around 15 percent in these years according to the most reliable international and domestic sources (see Table A.6 in Statistical Appendix). Moreover, non-traditional exports have not increased significantly during the same period (IMFa 1994). This is an indication of poor international competitiveness. Looking at the structure of the Guinean export sector we find that exports are dominated by one product, cashew nuts (see Tables A.10 and A.11 in Statistical Appendix 1). International cashew nut prices vary and appear to experience a cyclical pattern over time. From 1980 to 1990 there has been no reduction in the dollar price of cashew nuts according to the most detailed study of the Guinean cashew market (KSU 1990). The price of cashews has, however, varied

considerably over the same period. Furthermore, all cashew exports go to India which makes Guinea-Bissau exports vulnerable in terms of both product and market.

Since 1986, the Guinean terms of trade have fallen by about 25 percent (Table 4.8) according to IMF estimates, and are expected to continue to fall over the next four years (Table 4.8). However, Table A.11 in the Statistical Appendix gives some other estimates of the change in terms of trade for different time periods and they vary considerably. The World Bank finds the terms of trade to have improved by 38 percent between 1987 and 1991. Our overall impression is, however, that they have fallen somewhat since the mid-1980s, but not by as much as 25 percent. But even if they have deteriorated by 25 percent, which may sound alarming, the negative impact on the overall economy is still relatively small. Average export earnings over the 1990s have been around US\$20 million. A deterioration of the terms of trade by 25 percent implies that they would have been around US\$25 million had this not happened; that is, Guinea-Bissau lost US\$5 million. This is not a trivial sum, but compared to the annual inflow of total foreign aid, at about US\$ 120 million, it is 4 percent only.

Table 4.8: *Terms of Trade (Annual Percentage Change).*

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Terms of Trade	-0.9	-13.0	5.2	-13.6	-7.2	-0.1	2.2	4.3	-4.3	-10.5

Source: IMF 1990 and 1993.

Note: Figures for 1993 and 1994 are projections.

What has been said so far about Guinean international trade applies only to official exports and imports. There is also substantial informal border trade (smuggling) in the region. By definition it is difficult to estimate its extent, but according to one source, around one-third of all imported rice is re-exported to the neighbouring countries where the local rice price has been higher than in Guinea-Bissau. This would imply an additional US\$5 million in "export earnings". One study of the informal sector also mentions petrol and various alcoholic beverages that are re-exported to Senegal and Guiné (Crowley 1993). Much of the border trade transactions are either barter trade or financed by CFA francs, making this currency comparatively important in the Guinean economy, especially in rural areas near international borders. The devaluation of the CFA franc in January 1994 does not seem to have affected the Guinean peso. One possible explanation is that the border traders both buy and sell with the franc, thus not influencing the peso. The rice re-exports should, however, be affected by the franc devaluation: since rice is purchased in US dollars it has now

become relatively more expensive in the neighbouring countries. A reduction in rice re-export would, therefore, be expected.

In summary, despite recent efforts to rectify the situation, the Guinean trade regime has been predominantly inward-oriented, resulting in little export growth. Three determinants for export growth have been analysed in this section: the exchange rate policy; the foreign exchange allocation mechanism; and the taxes and tariffs on international trade. All were found to have been unfavourable to the export sector (the exchange rate is further analysed in chapter 5).

4.5. Actual GDP Growth Performance

Since 1974, Guinea-Bissau has changed from a moderately planned economy to a more market-oriented economy. The previous sections examined the progress and situation of a number of necessary requirements for economic growth in Guinea-Bissau in recent years. It was found that the domestic saving ratio has been negative throughout the period studied, leaving physical capital investment to be financed almost exclusively by foreign savings (aid). Little human capital formation can be detected and poor export performance has prevailed largely due to an unfavourable trade regime. There have been large internal and external imbalances also during the adjustment period, with high inflation and negative real interest rates as a result.

This section contains an assessment of the actual performance of the Guinean economy as measured in the change in real GDP over the period studied. Since unilateral transfers, i.e. foreign aid, are included in gross national *income* our primary interest is the growth in the per capita gross domestic *product* (GDP). Estimates of GDP can be obtained either by type of expenditure or by industrial origin (tables A.4 and A.6 in the Statistical Appendix). But, before showing the figures on growth performance, they must be qualified regarding coverage and reliability.

Estimating the growth rate of a developing country economy is a difficult task even under "normal" conditions. It is even more so in the case of Guinea-Bissau. Data availability and reliability are often poor and contradictory. A further inadequacy of the data is that they only capture the formal part of the total economy. Some donor-agency representatives claim that the size of the informal sector is between 60 and 80 percent of the total economy. However, we have not seen any quantitative estimates that produce figures of this magnitude, and we do not know what the figures are based on³. Furthermore, not only is the size of the informal sector unclear, but the concept of the informal sector also seems to be rather confused. The informal sector can be the part of the economy that is not incorporated in the official GDP estimates. Alternatively,

³ The two studies (Correia Sá 1994 and Crowley 1993) of the informal sector that we have come across have no quantitative data whatsoever on the possible size of the informal sector.

the concept can be defined as the part of the economy that is outside the control of the state in the sense that the production is not taxed. In a study of the informal sector in Guinea-Bissau (Correia Sá 1994), no figures on the size of the informal sector are presented, but estimates of how much of the informal sector is actually *incorporated* in GDP are given. Hence, it is not necessarily so that activities referred to as informal are excluded from the GDP, and hence not incorporated in the statistics presented in this report.

The most important example of what is often referred to as part of the informal sector, but which is actually incorporated in the estimates of GDP, is subsistence farming. Since 1988, a yearly survey of traditional agriculture production has been carried out (Guinea-Bissau, Ministry of Agriculture, 1993). This survey estimates the actual output from the fields, including subsistence production/consumption, and the production is incorporated in the GDP estimates. The informal sector, in the sense that it is not incorporated in GDP, is thus mainly made up of border trade and some small-scale, village manufacturing and handicraft. We find it completely implausible that these activities are 1.5 to 4 times the size of the rest of the economy. We are inclined to think that, because of the small value added in border trade, small-scale manufacturing and handicraft, the part of the "informal" sector that is excluded from GDP coverage cannot be more than 10-20 percent of official GDP. Nevertheless, a significant part of the Guinean economy is not included in the official statistics. The effects of foreign aid on this part of the economy can thus not be analysed at any length in this study.

Overall output for the years 1975 to 1979 has been estimated to have increased by about 3 percent annually, which would be slightly above the population growth rate (de Vylder 1987).⁴ This increase was explained by a large increase in the service sector, notably public administration (agricultural output was estimated to be lower in 1979 than in 1975). For the years 1980 to 1986, the World Bank estimates the growth in GDP to be, on average, about 2 percent annually, which would be just above the estimated population growth rate of 1.8 percent per year during the same period. Three different international sources report annual average growth rates for the 1980s. *Human Development Report* (1993) reports a GNP average annual growth rate of 3.7 percent. This is equal to that of the *World Development Report* (1993) for the period 1980-91, but different from that of UNCTAD (1992), which reports a growth rate of 4 percent over the same period. The two development reports have different *per capita* estimates for the 1980s; the latter suggests 1.1 percent annual average,

⁴ *Global Coalition for Africa*, 1992, however, reports a population growth rate of 5.3% (!) for the years 1974-1980, a figure not to be trusted.

while the former reports 1.7 percent.⁵ Our contention is that the estimates of real GDP per capita growth rates for Guinea-Bissau are not particularly reliable. They do, however, give an indication as to the direction in which things are going. The statistical data become more reliable from 1986⁶. Using domestic data based on IMF/World Bank estimates, Table 4.9 presents the annual change in real GDP both in absolute and in per capita terms, over the period 1987-1993. For this period, the average growth rate is 1.7 percent, but in the last four years, it is 0.5 percent only. It thus seems that Guinea-Bissau has only managed to accomplish acceptable growth during the three year period 1987-1989, just after the SAP was launched. In 1993 real GDP growth is expected to be around 3 percent (IMFa 1994), but with an increasing population growth rate in excess of 2 percent, little real income growth per capita is achieved. GDP per capita and year is estimated at around US\$ 200 in recent years, as conventionally measured using official exchange rates for conversion. Controlled for international price differences (purchasing power parity), per capita income in 1990 was approximately US\$ 841 (UNDP *Human Development Report* 1993).

Table 4.9: Annual Change in GDP, 1987-1993, Percent.

	1987	1988	1989	1990	1991	1992	1993 ¹	Average
Real GDP	5.6	6.9	4.5	3.3	3.0	2.8	3.0	4.2
Real GDP/Capita	3.5	4.3	2.0	0.8	0.5	0.3	0.5	1.7

Source: Guinea-Bissau Ministry of Finance, 1993.

1) Projection.

Looking at the different sectors of the Guinean economy (see Statistical Appendix Table A.4), further indications of the dismal development of the Guinean economy are revealed. Very little structural transformation has taken place in the sense that the country's potentially most important sectors have augmented their share of the total economy. On the contrary, the growing sectors are not agriculture, fishing and forestry, by most considered the "engine" sectors of the economy, or industry, but quick turnover activities such as services and construction (there has also been a surge in informal trade according to people we have talked to). We do not know the exact

⁵ See Appendix Table A.5.

⁶ The national accounting methodology was changed in 1986, with the result that figures before and after this year are not comparable.

composition of these sectors, but, especially the service sector, is probably to a significant extent dependent on the demand from aid-related activities.

It has been estimated that during the 1980s the value of industrial output halved. The state-run industries have with few exceptions been resource-intensive failures, running at 15-20 percent of capacity (de Vylder 1987, p. 17).⁷ Industrial output continued to fall over the period 1987-1993 by approximately 11 percent in real terms (Guinea-Bissau Ministry of Finance 1993).

Agriculture is the country's most important sector. FAO (1992, Table 10) reports no increase in per capita agricultural output between 1982 and 1992. There have been year-to-year fluctuations, but the "trend" is absolutely flat. The most recent assessment of food standards in Guinea-Bissau shows that agricultural per capita production decreased substantially from 1961-1963 to 1971-1973 and has maintained that level since (FAO/ESN 1994). It should be noted, though, that collection of agricultural statistical data in Guinea-Bissau hardly existed before the mid-1980s.⁸

Several tables and sources used in this chapter and the previous have shown the rate of investment in physical capital in Guinea-Bissau to be around 30 percent of GDP. This is a comparatively high figure, matching investment rates in many high-performing Asian economies and well above the average SSA investment rate. However, these high investment rates have not been followed by high increases in production output, as we have seen. This implies that the so-called incremental capital output ratio (ICOR) in Guinea-Bissau is very high, around 8-10, compared to ratios of between 3 and 4 in most fast-growing economies. A high capital output ratio is a strong indicator of ineffective investments in physical capital. Several possible explanations for the high ICOR in Guinea-Bissau have been suggested. First, non-realization of economies of scale in infrastructural projects can be observed as many aid projects construct their own energy supply, communications and technical support. Second, the low level of capacity utilization reduces the potential output effects of the investments. Third, the inefficient administration and overall organization further impede the ability to take all investments into efficient use. The ineffective investment in Guinea-Bissau is exceptional in a global perspective, even though the situation is similar in some other countries in SSA.

Investigations that use cross-section data to estimate the influence of a number of variables on economic growth, have found significant and negative coefficients on a dummy variable for African (and in some cases Latin American) countries (see Barro 1991, Easterly-Levine 1993 and Conway and Greene 1993). The dummy variables

⁷ No significant increase in average capacity utilization has been reported for more recent years.

⁸ According to one foreign expert, agricultural output increases of 5 percent were regularly reported because it was deemed politically desirable.

show growth performance to be poorer in the African countries than elsewhere, once all other "growth determinants" are controlled for. An answer to what this significant dummy variable actually reflects is yet to be found. A simple explanation would be "historical and cultural" reasons, but the finding can also be due to methodological difficulties with measuring various proxy variables. Easterly and Levine (1993) state that "we should not take refuge in unobservables", and "there are other interesting hypothesis that are more deserving of exploration than phantom 'cultural' factors". One example they mention is that a good measure of restrictions on direct foreign investments could be a key variable. Another interesting variable, we think, is the share of investments that are financed by foreign aid. The Sub-Saharan African countries receive by far the largest amounts of foreign aid relative to GDP. It is only possible to speculate at this stage, but the massive inflows of foreign aid, invested in low-yielding projects, may partly explain the above mentioned results. This question has not been addressed in the empirical literature, but deserves future attention in our opinion.

The significant and negative dummy variable also raises the questions of what growth rate should be judged as satisfactory for African countries. It has been argued, based on the articles cited above, that one cannot expect African countries to attain growth rates comparable to those in Asian economies. It should be recalled though, that some African countries have attained very high growth rates during shorter periods (Botswana; Togo and Cote d'Ivoire in the 1960s; Gabon and Cameroon in the 1970s) and growth rates vary across African countries.

When comparing the economic performance of Guinea-Bissau with other SSA countries, yet another factor should be noted. In many other African countries, political instability or outright civil war, have played important roles in explaining the meagre economic results. Controlling for the "growth determinants" capital, labour and exports, the direct effect of being a politically unstable country in SSA is estimated as a 1.1 percentage point reduction in the annual growth of GDP (Fosu 1991, 1992). Guinea-Bissau has been a comparatively very stable country in this respect over the studied period.

In summary, annual change in GDP has been assessed for the period 1987-1993, during which data can be regarded as comparably reliable. Although different statistical sources claim somewhat different outcomes for these years, the overall conclusion is that real per capita income growth in Guinea-Bissau has slowed down considerably during the period and is barely positive for the 1990-1993 period. The sectoral distribution of GDP indicates that the growing sectors are services and construction (probably also trade in the informal sector) and that agriculture and industry have reduced their respective shares of the total economy. The main conclusion that the Guinean real economic growth over the past 7 to 8 years has not

only been small, especially in relation to the high investment ratio; it has also been largely unsustainable, in the sense that the growing sectors are largely dependent on the demand from aid related activities. Output in agriculture, fishing, forestry or export-oriented industries, on the other hand, have not increased.

4.6. Social Development and Income Distribution

In the above section we looked at the economic performance of Guinea-Bissau. In this section, we will discuss the human and social aspects of development. Starting with an analysis of the "input indicators" we continue by looking at the outcome of the investments in the social sectors. As the education sector was discussed in section 4.2.2 above, the emphasis in this section will be on demographic and health indicators. A brief discussion of the size distribution of income is presented in subsection 4.6.2.

4.6.1. Social Development Indicators

Tables 4.10 and 4.11 show Guinea-Bissau in selected international comparison for a number of human and social development indicators; both the current situation and development over time. Looking first at Table 4.10 and indicators of Population Access to Services, we find that Guinea-Bissau ranks comparatively well. Access to health services and medical personnel per head are among the best in this comparison. However, when looking at the output indicators in the bottom half of the table, we find that the outcome performance is bad indeed. Guinea-Bissau has unparalleled high infant and under-5 mortality rates and Guinean life expectancy at birth is exceptionally low (partly explained by the former indicators). Compared with the rest of SSA, Guinea-Bissau has considerably worse indicators in this area.

Table 4.11 shows progress in social development for the 30 year period 1960-1990. Note that all data from before the mid-1980s should be treated with particular caution. Among other things, the table indicates that improvements in access to safe water have been accomplished in the last few years. The table also testifies to the slow progress of the rest of the variables in comparison to the other countries. The high initial Guinean under-5-mortality rate seems to have been particularly difficult to bring down.⁹ The data on nutritional standard are incomplete, but the partial studies undertaken show that malnutrition is common and there is no indication of improvements during the last 10 years. An estimate by UNICEF in 1989 show that almost half of the children had a birth-weight of less than 2500g (FAO/ESN 1994). This figure is alarming considering that the average for SSA is 15 percent only (UNDP

⁹ It is noticeable that no recent estimates have been made of the under-5 mortality rate in Guinea-Bissau; the figures for recent years probably are based on "extrapolations" from other countries (see UN 1992).

Table 4.10: Social Development Indicators: Guinea-Bissau in Selected International Comparison, Average 1988-1990.

	Guinea-Bissau	Cap Verde	Guinea	Haiti	Bangladesh	Average SSA
1. Population Access to Services						
a. Health Services (percent)	80	—	32	73	45	48
b. Doctor/Population(1000)	8	6	46	7	7	23
c. Nurse/Population (1000)	1	1	5	2	9	3
d. Births Attended by Health Personnel (percent)	27	30	25	40	5	35
2. Demographic Indicators						
a. Life Expectancy at Birth (years)	43	67	44	56	52	52
b. Infant Mortality Rate (‰)	146	41	140	92	114	106
c. Under-5 Mortality Rate (‰)	246	56	237	130	180	175
d. Crude Death Rate (‰)	22	8	21	36	15	15

Source: UNDP, *Human Development Report 1992*, end tables: 2, 5, 11, 14 and 22.

Human Development Report 1992, end table 11). In many respects Guinea-Bissau is today where the rest of SSA was 30 years ago while at the same time having one of the fastest increasing population growth rates in the world.¹⁰

Table 4.13 shows some differences between men and women for a selection of social indicators. The high under-5 mortality rates for both males and females in Guinea-Bissau are in line with those of the other countries, with Bangladesh as an exception. The 1991/1970 ratios show that Guinea-Bissau has not managed to improve the life expectancy rate for either males or females as much as the other countries. On the contrary, the country has, in this respect, fallen behind even more. It should be noted, however, that the statistical data from Guinea-Bissau (and the other countries as well) are poor, which means that any comparison should be seen as a mere indication of the state of affairs and not definite proof.

¹⁰ See Asby et al. (1984) and Smedman et al. (1987) for analyses of the reasons for the exceptionally poor nutrition standards of small children in Guinea-Bissau.

Table 4.11: Trends in Social Development Indicators: Guinea-Bissau in Selected International Comparison.

		Guinea-Bissau	Cap Verde	Guinea	Haiti	Bangladesh	Average SSA
1. Demographic Indicators							
a. Life Expectancy at Birth (years)	1960	34	52	34	42	40	40
	1990	43	67	44	56	52	52
	Ratio	1.3	1.3	1.3	1.3	1.3	1.3
	1990/1960						
b. USMR (‰)	1960	336	164	336	270	262	284
	1990	246	56	237	130	180	175
	Ratio	0.7	0.3	0.7	0.5	0.7	0.6
	1990/1960						
c. Fertility Rate	1960	5.1	—	7.0	6.3	6.6	6.5
	1990	5.8	5.4	7.0	4.9	5.3	6.5
	Ratio	1.1	—	1.0	0.8	0.8	1.0
	1990/1960						
d. Population Growth Rate (percent)	1960-1990	1.9	2.1	2.0	1.8	2.7	2.8
	Ratio 1985-1990/1955-1960	2.6*	0.9	1.4	1.2	1.1	1.3
2. Access-to-Services Indicators							
a. Safe Water (percent)	1975-1980	10	40	14	12	—	27
	1987-1989	25	71	32	41	—	40
	Ratio 1987-1989/1975-1980	2.5	1.8	2.3	3.3	—	1.5

Source: UNDP *Human Development Report 1992* and 1993, end tables 4, 13 and 22 and FAO 1992, table 9.

Note: * Second highest in the world.

Table 4.12: Gender Differences for Selected Demographic Variables.

	Guinea-Bissau	Guinea	Haiti	Bangladesh	Average SSA
Under-5 Mortality Rate (%)					
Female 1991	236	215	145	136	167
Male 1991	262	239	164	130	186
Female/Male Ratio	0.9	0.9	0.9	1.1	0.9
Life Expectancy at Birth (years)					
Female 1970	36	37	49	44	45
1991	39	44	56	52	52
Ratio 1991/1970	1.1	1.2	1.1	1.2	1.2
Male 1970	35	35	46	46	42
1991	38	44	53	53	49
Ratio 1991/1970	1.1	1.3	1.2	1.2	1.2

Source: The IBRD, *World Development Report*, 1993.

4.6.2. Income Distribution

No study of the distribution of wealth and incomes has been undertaken in Guinea-Bissau, but some tentative observations can nevertheless be made. With a per capita income of around US\$ 200, the general opinion is that incomes have, up to the adjustments in 1987, been distributed comparatively evenly. However, there was a clear bias in the income distribution in favour of the urban part of the population during the period of the overvalued exchange rate (1974-1992). The capital Bissau was particularly favoured. While the unprotected import-substitution and export sectors suffered under this regime, the traders and the urban (Bissau) sector were, in effect, subsidized. A change in income distribution has probably taken place since the introduction of structural adjustments, especially through the devaluations of the exchange rate, and this change has most likely worked in a favourable direction for the rural population. The setting up of rural markets has led to improved incentives for the rural population to produce for sale and incorporated the farmers more in the money economy. On the other hand, real producer prices for agricultural export products have declined by 52 percent over the 1981/1983 and 1989/1991 period according to the IBRD (1994, table a18). Seen over the entire 1981-1991 period, this indicates that

there has been a substantive shift in the income distribution to the detriment of the predominantly poor in the rural sector.

4.7. Good Governance and Current Reforms

As discussed in chapter two, the concept of "Good governance" embraces a great number of aspects (IBRD 1992), most of which are difficult to quantify. To put the Guinean governance in perspective, one has to go back to the time of independence. During the war and after independence in 1974, the PAIGC's policy was to develop through "self-reliance and people's participation". Like many other African countries at the time, Guinea-Bissau opted to become a socialist country and the development strategy was a planned economy and state-run enterprises.

At the Third Party Congress of the PAIGC, in 1977, a development strategy was formulated. The priority sector was agriculture, complemented with industry. In 1983, the First National Development Plan (1983-1986) defined agriculture, animal husbandry, forestry, fishing and mining as the priority sectors. These should be supported by commerce and transport (sectors of support) and education and health (sectors of national construction). The main objective of the plan was to increase production, mainly in agriculture, in order to achieve balance between consumption and production. The final goal was autonomous development which was forecast to be accomplished *within 12 years*, i.e. by 1995. This may have been the official development strategy, but the actual economic policy pursued by the Government tells a different story.

Guinean macroeconomic policies and the trade regime were analysed in sections 4.3 and 4.4. It was concluded that the fiscal and monetary policies pursued by the Government have led to a highly unfavourable and unstable economic environment for private agents. Likewise, the trade strategy was largely inward-oriented, leading to suppressed export growth. The power to direct international funds to own priorities does not seem to have existed in Guinea-Bissau. As stated in a memo from the SIDA mission in Bissau, "In short: the awareness of what needs to be done exists, but the political will is weak and missing in many respects" (SIDA DCO Memo, 28 July 1992). Perhaps the most significant sign of the Guinean Government's inability to pursue good governmental management is the chronic and repeated deviations from agreed development strategies. Agriculture was officially seen as the driving force in the economy, but disproportionate amounts of resources were devoted to the industry sector. The slow pace at which the institutional reforms are going is yet another indication of the weak commitment with which the Guinean Government implements its development strategies. Implementation of other aspects of the two structural adjustment programmes has been far from smooth and the Guinean Government's

sincerity regarding its development objectives has been questioned by donor representatives. A number of reports and documents describe the Guinean Government's problem as not one of insufficient (technical) ability, but one of political determination to carry through its policies and reforms. As claimed in a 1992 document: "It is hence not a question of lack of knowledge and understanding (of the difficulties) - possibly of deficient political will" (SIDA DCO Memo, 5 May 1992).

However, beside the incomplete economic reforms there has been political liberalization. The President accepted the introduction of a multi-party system in 1990. Reforms have been made, such as a new constitution, abolition of "the leading role" of the single party, the approval of other political parties than the PAIGC, a free press and the guarantee of freedom of expression. As to democratisation and the state of basic human rights, the Guinean Government has not excelled. Several reports speak of violations of human rights and the slow move towards democratization was clearly illustrated in the third or fourth postponement in February 1994 of the country's first multi-party election.

A number of further reforms are needed to strengthen the institutional framework in Guinea-Bissau. A tax reform is currently being undertaken with the objective of broadening the tax base and increasing the efficiency of tax collection. The customs reform subsequently under way is also important for the Government to strengthen its revenue side and to facilitate the promotion of exports in the economy. Yet another important aim is to reduce the number of tax and customs exemptions currently given to traders. Two further reforms presently going on are the civil service reform and the privatization of public enterprises. The former aims at reducing the number of public employees by some 2000, thus reducing current public expenditures. The ongoing privatization process is important in that it relieves the Government from a number of financially burdensome enterprises and allows it to concentrate its efforts and performances on providing social services and guaranteeing the legal system. Analysis of the progress of these reforms shows mixed results (IBRD *Aide-mémoire* 1993) and it seems that the post-election government needs to pay additional attention to these issues.

4.8. Summary and Conclusion

While the difficult starting point for Guinea-Bissau has to be acknowledged, it is evident that some 20 years of political independence have not resulted in the outcomes hoped for in 1974. Tentative explanations for the meagre results have been presented in this chapter. We saw negative domestic saving ratios throughout the period, signifying that investment has not been financed by domestic resources. When it comes to human capital formation, few improvements have materialised. It is evident that the

education sector, despite large investment (by donors; see chapter 5), continues to be in a miserable condition and huge efforts are clearly needed on behalf of the Guinean Government in order to accomplish improvements.

The trade regime has provided unfavourable incentives for the export sector through an overvalued exchange rate and high export taxes. Guinean exports as part of GDP have not increased during the period. Furthermore, the Guinean export base is very weak and if the development of the terms of trade is to be negative the coming years (as predicted by the IMF), the future seem bleak for increased foreign exchange earnings based on domestic efforts. The Guinean economy continues to show large internal and external imbalances. Extensive pressure on the Guinean current budget has resulted in high and volatile inflation rates and negative real interest rates when the Government has opted for central bank financing of the budget deficit. This has created a highly unstable and uncertain economic environment for private agents resulting in negligible private investments.

The importation of rice at low world market prices is mainly a means for the authorities to keep a politically sensitive population in Bissau content (rice being the single most important consumer good in the country). This also explains the Government's reluctance to increase the import tax on rice. However, it is evident that this policy also causes substantial imbalances in the Guinean economy. It deteriorates the current account, reduces the potential for government revenues, depletes foreign exchange-resources, and has detrimental effects on domestic rice production.

Guinean Government overall socio-economic management must be characterised by "bad" rather than "good" governance, at least up to rather recently. Lack of accountability and commitment to pursue development objectives have been profound. Slow democratization and violations of basic human rights are also part of the picture, although the extent of these violations cannot be ascertained.

Guinea-Bissau may today be at a turning point, however, after having finished its second SAP with some success. As of the end of 1993, considerable improvements have been achieved according to IMF and World Bank assessments. They point out that monetary policies have been rectified and that "a comparably stable situation is at hand". There are, however, still huge imbalances and structural issues which need to be addressed. The size of the public sector is still unsustainable. The budget deficit persists, mainly due to a weak revenue raising capacity. Other problems are the inability to narrow the trade gap and the extremely high debt burden which calls for exceptional measures. While the country remains highly dependent on the continued influx of concessional loans and grants even beyond the foreseeable future, our conclusion is that the Guinean economy has not lacked a sufficient level of investment in physical and human capital formation. Rather, a much larger effort and responsibility

must be put on the country's own human and physical resources as opposed to external, as well as the quality of investments.

Although the Guinean Government has committed itself to domestic resource mobilisation, actual performance speaks a different language. The Government's revealed preferences suggest that much of the efforts have instead been geared towards maximising current consumption, especially private, at the expense of domestic saving and investment in both physical and human capital. The actual, as opposed to rhetoric, objective of the Guinean Government has not been "self-reliance and people's participation", but rather the maximisation of the inflow of development aid. Since 1987, when this contention was stated in the SIDA country report (de Vylder, p 12), we find that the Government of Guinea-Bissau has not significantly managed to change that impression. The effects of this policy will be further explored in chapter 5 below.

Chapter 5. MACROECONOMIC EFFECTS OF FOREIGN AID TO GUINEA-BISSAU

5.1. Introduction

In this chapter the macroeconomic effects of development assistance to Guinea-Bissau are analysed. The analysis covers the contribution of aid to economic growth through the effects on the growth determinants identified in chapter 3, the effects on social development and, more briefly, the effects on the other Swedish aid objectives. We emphasize once more that due to the lack of sufficiently long and reliable time series data we have not been able to undertake quantitative econometric analysis. Hence, *causality* cannot be firmly established, i.e. we cannot say definitely that the inflow of development assistance has affected the different variables in a specific direction with a particular magnitude. The analysis is therefore based on simpler indicative study of the limited data that exist and embarks from the theories that have emerged about the impact of aid on growth determinants. It should once again be stressed that, generally, the impact of Swedish aid cannot be distinguished from that of all other aid at the macro level.

Section 5.2 analyses the effects of aid on the primary determinants of economic growth outlined in chapter 3: investment in physical capital and human capital formation. In section 5.3, the impact of aid on macroeconomic policy and stability is assessed. The following section, 5.4, analyses aid and the trade regime, export performance and the Dutch Disease effect of aid. (At the end of this chapter, there is a technical appendix with a more thorough analysis of the "Dutch Disease" effect in Guinea-Bissau.) In section 5.5 the contribution of aid to social development, such as health, income distribution and gender aspects is assessed. The contribution of foreign aid to the achievement of other Swedish aid objectives, economic and political independence, democracy and a sustainable environment, is analysed in section 5.6. The impact of aid on the Guinean Government's overall policy is assessed in section 5.7. The chapter ends in section 5.8 with a summary and conclusions.

5.2. Effects of Aid on Primary Growth Determinants

5.2.1. Aid and Domestic Savings and Investments

A necessary requirement for sustainable and self-reliant growth is investments in physical capital and sufficient domestic savings to finance the investments. This section assesses the impact of foreign aid on domestic savings and investments in Guinea-Bissau. Whenever possible a distinction will be made between the impact of aid on public and private savings and investments.

Section 4.2.1 showed that the domestic savings ratio in Guinea-Bissau has been negative for all years examined. This could only have been possible through inflows of foreign savings, in this case, aid.¹ Even though no "before and after aid" description of the saving rate in Guinea-Bissau can be established, it is obvious that aid has made consumption rates above 100 percent of GDP and, consequently, negative saving rates, possible. We cannot say, however, that in the absence of foreign aid, domestic savings would be positive. We can only say that without aid it would not have been possible to have negative savings for any longer period of time.

Positive public savings require that total revenue exceeds total current expenditure in the government budget. Foreign development assistance can influence public savings both from the expenditure and from the revenue side, directly and indirectly. Effects from aid that increase domestic public expenditure or reduce public revenue will therefore influence public savings negatively. On the expenditure side, the combined effects of the large number of resource- and staff-demanding development projects, and the requirement from the donors that the recipient shall pay wages and other recurrent costs associated with the projects, have put upward pressure on Guinean public expenditure. The inability to collect counterpart funds has further accentuated this problem. On the other hand, some indirect effects from policy conditions following the SAP have worked in the other direction. For instance, the civil service reform has as one of its main objectives to reduce the Guinean Government's expenditure in the long term through a reduction of the number of public employees.

The impact of development assistance on the recipient government's revenue raising efforts, and consequently the public savings potential, is captured in the theory of aggregate fungibility (White 1993). It is conceivable that the recipient government's revenue raising effort is reduced if the government can rely on continuous inflows of foreign savings rather than taxing its own economy. Section 4.2.1 revealed that the Guinean tax revenue as part of GDP is very small and has remained more or less unchanged since 1987. The slow pace at which the reforms in tax collection and customs duty are moving is a further indication of the limited revenue raising efforts on the part of the Guinean Government. The absence of reliable and sufficiently long time series inhibit us from undertaking quantitative assessments of the relationship between aid and public revenue. This means that we cannot say that foreign aid has reduced Guinean taxes by a definite amount and thereby, contributes to the negative public savings. Consequently, we cannot say that the government tax collection effort would have been greater in the absence of aid (or with considerably less aid). What we can

¹ The alternative explanation is that the country finances negative saving rates by disinvesting i.e. uses up its capital stock.

conclude is that in order to maintain a high level of public investment, the Guinean Government has not needed to increase taxation. With a foreign (aid) financial investment ratio of 0.30, one of the highest in the world, there is simply no incentive to raise it further by increased domestic taxation. What we can also unambiguously conclude is that in the absence of aid, negative public savings would not have been possible year after year.

The impact of aid on private saving is difficult to determine. The main reason is that no data on private saving exist. However, the *direct* effects of aid, positive or negative, on private saving are probably small since practically all aid is directed towards the public sector. On the other hand, the *indirect* effects are, most likely, quite substantial in that aid influences inflation and real interest rates which are important determinants for private saving. (These effects are further analysed in section 5.3. below).

As shown in chapter 4, the total investment ratio in Guinea-Bissau has been high, varying between 20 and 40 percent of GDP since independence, despite the negative saving ratio over the same period. The bulk of total investment is public investment. Of these investments, gathered in the Public Investment Programme (PIP), 100 percent are externally financed, through grants and concessional loans². According to the accounts, internal financing in 1993 was US\$1.7 million, which is equal to 2.7 percent, out of a total of US\$ 64 million.³ However, these US\$1.7 million come from counterpart funds, collected from the sale of imported goods received within import support programmes. Hence, foreign aid actually finances, directly or indirectly, all public investments.⁴

The reorientation of economic policy connected with the structural adjustment programme means that more focus is placed on the private sector, but the intentions have not showed up in actual investments yet. Private investments in the formal sector have been 13 percent of total investments on average during the period 1987 to 1993, but significantly less over the last couple of years (see Statistical Appendix Table

² There have been very little direct commercial foreign investments in Guinea-Bissau.

³ Comparing Swedish programmes with those of other donors, indicates that Sweden does not seem to have smaller or larger shares of internal financing in its projects or programmes. The variation is however very large over time and across sectors.

⁴ A related question is the one of *inter-category fungibility* (Ekman and Metell 1993 and Pack and Pack 1990). If aid is given to a specific sector, say education, and actual expenditure in that sector is raised by an amount less than the funds made available by the aid disbursement, then there is *inter-category fungibility*. The option for *inter-category fungibility* is quite small, though, in Guinea-Bissau. The extremely low level of domestic financing results in very limited scope for any substitution of funds. *Inter-category fungibility* is therefore probably not an issue to be overly concerned with in Guinea-Bissau. Sector targeted aid money most likely do reach their sectors without substantial adverse sectoral allocation effects on own resources.

A.8). Foreign aid has probably had some positive effects on private investments in the informal sector, particularly in agriculture (see section 5.5.3).

The links between aid-financed public investments and private investments have to be considered as well. In theory, aid-funded public investments can "crowd in" as well as "crowd out" private investments. Crowding in can occur in two different ways. One is through the demand generated by aid-financed activities and the "aid industry" as such for domestically produced goods and services. This increase in demand may lead to higher private investments. Foreign aid has most likely affected the allocation of private investments in that much of these are in aid related activities, such as hotels and restaurants and other services which to a very large extent rely on donor agency personnel, consultants and aid-financed projects. The relative prices change in favour of aid-related goods and services, leading to a resource movement effect of both manpower (especially skilled) and financial resources. Since foreign aid is not supposed to go on for ever, there is a risk that these private investments are not sustainable, and might even have negative effects on the development of non-aid related business in that the best educated personnel and the entrepreneurial talents are locked up in unsustainable activities (with little contribution to the other growth determinants, such as human capacity development and export performance).

The other way in which aid may affect private investment is through improvements in infrastructure such as roads, ferries and telecommunications which cut costs for some private agents. Roads have been built, ferries supplied and telecommunications improved, but, crowding in means that total private investments increase. In chapter 4, we pointed out that data in this area are both scarce and unreliable, but they indicate that total private investment has decreased, rather than increased, over the period 1987 to 1993 (Guinean Ministry of Finance 1993). We conclude therefore that foreign aid has not led to any significant and sustainable crowding in of private investment in physical capital.

Crowding out takes place when domestic financial resources which would otherwise have been invested in the private sector are absorbed by aid-funded projects. The monetary accounts for 1990-1993 show no indications of a crowding out of private credits. The figures for 1990, 1991, 1992 and April 1993 show that private-sector credits vary between 76 percent and 103 percent of total credits in the economy.⁵ It should be emphasised, however, that these are short-term credits mainly for trade and commerce, not for long-term investments.

⁵ The Government was actually a net creditor to the Central Bank in December 1991 (Aguilar and Stenman 1993).

5.2.2. Aid and Human Capital Formation

A second necessary requirement for growth is effective investments in human capital formation. Development aid can support the education sector in different ways. First, aid may contribute to human capital formation through the supply of goods, such as school buildings, books, benches, paper and pencils, i.e., aid can supply the "hardware" for the education sector. Another way is through technical assistance in different fields, for instance, foreign experts in teacher training, curriculum development and/or other school reforms. What foreign aid donors cannot do, however, is to take the decisions necessary for a functioning sector.

Hardware investments in education in Guinea-Bissau are almost exclusively financed by foreign aid, either directly as education project aid or through counterpart payments raised through import support programmes. As revealed in the previous chapter, the indicators on the "input side" of the sector are relatively good for sub-Saharan African standards. Many reports testify to the success of (not least Swedish) aid in supplying school benches, books and other teaching material. However, such investments are not enough; they also have to be efficiently used. An indication of the inability of foreign aid to address the crucial issues in this sector is the primary-school drop-out rate which remains extremely high by any standard.

Considering the poor "output" indicators (see chapter 4), foreign aid-financed investments seem to have had limited success in contributing to the development of the education sector, despite great efforts and amounts of financial support in different forms. The primary bottle-neck seems to be the weak performance of the Ministry of Education. The donors have recently started to address this problem through more emphasis on institutional support and human resource development. A number of technical assistants from many different donors work within the Ministry and related institutions. This has not been without problems. At times, there has been conflicts between the different donors regarding the sector's future strategy, which has further weakened the Ministry and hampered the already slow decision process. According to many people we talked to in Bissau, the problem is not only lack of knowledge, but also an inability to take decisions and implement agreed reforms. The inability of the donors to co-operate has worsened the situation.

The conclusion is that the main requirement for effective aid to the education sector is credible conditions on policy reforms by the Ministry of Education. Donors have lately set conditions regarding reforms and policy changes, but little has happened. It seems that the credibility of the conditions of the donors is too weak actually to influence the Ministry. The support will do little good unless those responsible at the Ministry are ready to take decisions and implement reforms.

5.3. Aid and Macroeconomic Policy and Stability

In chapter 4 we concluded that the overall macroeconomic policy has gone through a notable change since the implementation of the SAP in 1987. The country has developed from a centrally planned to a more market-based economy where price liberalization, exchange rate depreciation and privatization of state enterprises have been the most important reforms.

In this section the effects of aid on Guinean macroeconomic policy and stability are analysed. Foreign aid can influence the recipient government's economic policy in two main ways. First, the aid can be implicitly supportive of the economic policy of the receiving government, and, second, the donors can attach certain demands for policy changes by the government and make continued support conditional upon these changes. Both these mechanisms will be assessed in this section. While the overall macroeconomic policy of the Guinean Government has changed, substantial structural imbalances still remain. These imbalances were also discussed in chapter 4 and we concluded that large global budget deficits, due to excessive spending and limited revenue, and high inflation with negative real interest rates prevailed. The mechanisms for the effects of aid in this respect will also be assessed in this section.

5.3.1. Aid and the Macroeconomic Policy

When addressing the effects of foreign aid on macroeconomic policy, a clear distinction has to be made between the periods before and after the implementation of the SAP in 1987. Up to this year, the donors had comparatively few conditions attached to their assistance. Instead, the ever-increasing foreign aid commitments indicate that the donors in effect acquiesced in the Guinean economic strategy. The continuous inflow of foreign aid has enabled the Guinean Government to conduct a largely growth unfriendly macroeconomic policy and, hence, postponed the necessary structural adjustments and policy changes that were to come. Eventually, as the economic difficulties grew, the demands from the donors to the Guinean Government to correct the problems increased. Or, as expressed in a SIDA memorandum: "The donors, led by the World Bank, have during the last years put firmer conditions on the Guinean government, especially concerning the economic policy" (SIDA DCO, 30 July 1992).

Since the signing of the SAP in 1987, Guinea-Bissau has received considerable amounts of policy-based programme support (grants and concessional loans) under the condition that the adjustments and liberalizations were to be implemented and continued. To the extent that donors have influenced the Government to undertake structural adjustment and opt for a market oriented economic strategy, foreign aid has had a positive effect on the economic policy of Guinea-Bissau. However, two issues

should be emphasised. First, the economic changes came comparatively late in Guinea-Bissau, although it must have been obvious to any one involved in development co-operation in the country in the first half of the 1980s that fundamental structural adjustments were needed.⁶ Second, the implementation of the programme has not been without problems. In fact, in the early 1990s, Guinea-Bissau ranked among the very lowest in a comparison across countries in the Special Programme for Africa (SPA) when it came to the implementation of the adjustment program. In 1991, the programme was found to be severely off track which, in combination with the Guinean Government's inability to collect counterpart funds, led to the postponement of further disbursements of programme aid. While this was a drastic step, the donors continued to exert strong pressure on the Guinean economic policy for further liberalization and structural adjustment.

5.3.2. Aid and the Internal Balance

The impact of foreign aid on the internal balance has to be assessed in the light of two factors. First, the Guinean Government faces a strong recurrent cost constraint which severely limits its ability to meet the running costs of projects and programmes (see Table 4.4 in the previous chapter). Second, many, if not all, major donors are highly reluctant to pay wages, maintenance and other recurrent costs connected with their programmes. The combined effects of these two aspects and the substantial amount of aid-funded projects result in a situation where foreign aid exerts strong fiscal pressures which in turn further add to the already strong inflationary tendencies in the economy. In the 1993 Public Expenditure Review, the limited Guinean ability to meet running expenses for ongoing and planned projects is highlighted and it is concluded that the solution must be a reduction of development assistance.

An analysis of the level and structure of overall expenditure shows that government expenditure accounts for around 50 percent of the total economy (IBRD aide-mémoire 1993). Current and capital expenditures are roughly equal in size and "wages and salaries" absorb around 40 percent of current expenditure. The situation is thus that a substantial part of the Guinean economy consists of recurrent expenditure of which a large part is wages to staff employed by aid-financed development projects.⁷ One effect of this is that, despite the large share of current expenditure allocated to the wage bill, pay policy for civil servants is inappropriate and insufficient to retain and motivate competent staff.

⁶ As many reports and memos from the time testify, there was a fairly widespread understanding that the Guinean economic policy was not sustainable.

⁷ It is not possible to identify exactly how many Guineans are involved, directly or indirectly, in aid-related projects.

During the adjustment years, particularly since the early 1990s, the strong pressure on the recurrent budget has, to some extent, been eased in that the number of engagements in the public investment programme has been reduced, leaving fewer projects to be co-financed by the Guinean budget. However, at the same time, major government expenditure reductions have been demanded by the World Bank and the IMF, creating a situation where the bilateral donors, to some extent, are "forced" to meet also the running costs of programmes. Our analysis of the investment programme suggests that this has been, and very much still is, the case, as it contains a considerable amount of current expenditure along with actual capital investments. In fact, "domestic" financing of the public investment programme has gradually declined from eight percent in 1987 to around three percent in last year's programme, indicating continued and worsened recurrent cost constraints for the Guinean Government.

One additional aspect to be assessed with respect to the effects of aid on economic stability is the incorporation of development assistance in the central budget, i.e. the transparency of the budget process is crucial for economic policy-making and, hence, stability. In Guinea-Bissau far from all aid has been recorded in the government central budget. The reason is that the Ministry of Finance does not receive complete information on how much aid is actually disbursed by the donors. Moreover, if the line ministries arrange own projects with the donors (which has been common), without prior notice to the central authorities, this may lead to a situation where the investments are made but the running costs are not planned for, resulting in higher current expenditure for the government. Several reports have testified to the urgent need for an estimation mechanism for sectoral current expenditure (among others, the PERs in 1989 and 1993, respectively). Some observers have noted that a few of the line ministries behave like independent private enterprises financed by aid and that there is urgent need for "deprivatization" of the Guinean Government.

Foreign aid can affect the government revenues both directly and indirectly. As pointed out in section 4.3.2, foreign grants are the Guinean Government's largest revenue item, averaging 60 percent of total revenues in the period 1987 to 1993. Indirectly, donors may influence the recipient government to increase its revenue by calling for reforms aiming at broadening the tax base. This has been the case in Guinea-Bissau (as discussed in section 4.7). However, as the effects of both the tax reform and the customs reform have dragged on, the degree of success of these revenue raising efforts cannot be evaluated yet. Given the large share of aid in both the current and the capital budget, together with a "pragmatic" attitude among donors, incentives for the Government to increase its own revenues in the budget have been lacking. This is a case of the so-called soft budget constraint.

The main conclusion of this section is that foreign aid, especially since the starting of the SAP in 1987, has influenced the macroeconomic policy of the Guinean Government in different ways. Conditions, explicit or other, attached to development programme assistance have made the government take measures in relieving the economy from a number of structural "bottle-necks". However, we have also seen that large amounts of project aid have put pressure on the Guinean recurrent budget by raising current expenditure to levels beyond the Government's ability to meet these costs from its own funds. Several mechanisms for this were identified. The sheer number of projects has put pressure on the recurrent budget, thus increasing the internal imbalances. Furthermore, deficient planning, control and implementation of the budget, where not all aid is incorporated, raise current expenditure and consequently increase fiscal imbalances. The most alarming finding is that while one of the main purposes with aid is to contribute to the mobilization of domestic resources for development, the initially low Guinean share of total investments has been cut in half since 1987.

5.4. Aid and Trade Regime, Export Performance and Dutch Disease

5.4.1. Aid and the Trade Regime

The impact of aid on the trade regime has been both direct and indirect. From the beginning of independence, foreign aid has supported the policy of import substitution, including quotas and high taxes on manufactured imports and most exports. However, even after the partial trade reforms since 1987, the large inflows of aid have made substantial imports possible in spite of trade barriers. Inflows of aid reduce the need for foreign exchange from other sources, and reduce the incentives for the government to promote export. Foreign aid has thereby indirectly made it possible to maintain the protectionist, inward-oriented, trade policy. This also holds for the policy of a fixed nominal exchange rate (later crawling but not enough to avoid overvaluation) in spite of high inflation rates up to 1992. The overvaluation of the real exchange rate that emerged would have reduced imports significantly, through the detrimental impact on export earnings (and thereby lack of foreign exchange), were it not for foreign aid. However, since the adoption of the SAP in 1987, donors have put pressure on the Guinean Government to liberalize trade. Import and export taxes have been lowered and the *nominal* official exchange rate is now almost in line with the parallel rate, i.e. the overvaluation of the currency is eliminated. However, as pointed out by de Vylder (1994), the message from the Bretton Woods institutions is double: "if you promise to promote exports, we will give you additional flows of foreign exchange which make it less necessary for you to promote exports".

5.4.2. Aid and Export Performance

The impact of aid on the export performance has mainly been indirect. Some attempts have been made to influence the export sector directly (through projects in forestry and fishery for instance) towards less dependence on cashew nuts, or before that peanuts, but progress has been very slow. The cashew nut sector has not been influenced directly by foreign aid, except for the demands from the donors for reductions in export taxes. It therefore seems that the *direct* effects of foreign aid, excluding the policy conditionalities, on both export structure and volume have been very limited.

5.4.3. Aid and the Dutch Disease

The principal *indirect* effect of aid on the traded goods sector is through an appreciation of the *equilibrium* real exchange rate. In short, capital inflows generate an increase in the price of non-tradables *relative* to the price of tradables (by definition a real exchange rate appreciation).⁸ This leads to a fall in production in the tradable goods sectors (export and import competing sectors), and resources, as well as future investments, move to the non-tradable sector. The detrimental effect on exports suggested by this theory may damage the possibilities for a sustainable development. (The theoretical implications, elaborated in the so called "Dutch Disease theory", as well as previous empirical research, are more thoroughly analysed in the Technical Appendix after this chapter.)

The theory distinguishes between two effects: a spending effect and a subsequent resource movement effect. The *spending effect* occurs when the increase in income generated by the aid inflow is partly spent on non-tradables and partly on tradables. The increased demand will lead to higher prices of non-tradables, which are in limited supply, while the prices of tradables remain unchanged (it is assumed that the prices of tradables are determined on the world market and that they are not affected by the increase in demand from a single "small" country). That is, the real exchange rate is appreciated. The *resource movement effect* is caused by the shift in relative prices (following the spending effect), and hence profitability, between the two sectors. The relative increase in prices in the non-traded sector make production and investments in this sector relatively more profitable. Resources, both physical capital and manpower, will therefore move out of the traded sector and into the non-traded sector.

⁸ Tradable goods and services are those which are traded on the international market while non-tradable goods and services are traded domestically only and lack competition from imported goods and services. The division is not always clearcut; goods which are tradables in one country can be non-tradables (due to the structure of the domestic market) in another country. However, construction and hair-cuts are generally examples of non-tradables, while cars and oil are examples of tradables.

The appreciation of the equilibrium real exchange rate can be estimated in terms of both marginal changes and levels. The first approach is to assess whether a marginal increase in foreign aid leads to a marginal appreciation of the equilibrium real exchange rate. This is conventionally done by regression analysis. A formal econometric analysis requires time series data for a considerable amount of variables, covering at least 15 to 20 years. As mentioned before, no such statistics exist in Guinea-Bissau. We are therefore forced to use a more simple analysis on the basis of data from 1988 to 1993. For this period we have a trade-partner weighted index of the *nominal* efficient exchange rate. Setting this index at 100 for 1988, the year after the nominal devaluation of the Peso by 65 percent and the beginning of a more liberal foreign exchange policy, we find a substantial appreciation of the peso in *real* terms up to 1993. The index for the nominal (trade-weighted) exchange rate stood at 341 in 1993. The CPI and GDP-deflator indexes for Guinea-Bissau were above 900 in 1993 (base year being 1988), reflecting an inflation rate above 50 percent per year.⁹ Inflation in Guinea-Bissau's main trading partners' economies has been substantially lower. The figure varies depending on what index is used, but none of the conceivable indicators (see Appendix Table A15 and A16) show the inflation index in 1993 to exceed 165 (1988 = 100).

A rough calculation of the changes in the real equilibrium effective exchange rate of the Guinean peso, based on these data, thus suggest that there has been a substantial appreciation, by more than 300 percent between 1988 and 1993. It is notable that we have used the trade-weighted nominal exchange rate for the Guinean peso in the calculations. This is the theoretically and empirically correct index to use when deriving the real exchange rate development. In some other calculations of real exchange rates for the Guinean peso that we have come across, the estimations are based on the peso/dollar nominal exchange rate. These estimations typically show the peso to have maintained its real value in terms of dollars over the 1988-1993 period. This may be the case, but it is an observation of little relevance since the US is not a trading partner; less than 2 percent of imports into Guinea-Bissau originate in the US and practically no exports goes there (for a further discussion, see appendix 5A).¹⁰ That there has been a substantial real appreciation of the peso against the currencies of its trading partners seems to be non-disputable, even though the data on inflation in Guinea-Bissau are not as reliable as one would wish.¹¹

⁹ A major weakness is that the Guinean price index only consists of three types of goods (rice, beer and tobacco) and is based on a very limited household survey in Bissau.

¹⁰ How much of Guinean imports and exports met are dollar-denominated we do not know.

¹¹ To our knowledge, the only study that addresses the issue of Dutch Disease in Guinea-Bissau prior to this report, is Martin (1993). He briefly touches the subject (one paragraph on p.20) and concludes that there exists no evidence that a Dutch Disease effect has followed the increase in inflows of aid linked to the SAP. Martin's conclusion is based on a claim that the "current exchange rate is not

So far we have only discussed *changes* in the real exchange rate of the peso over the 1988-1993 period. It may well be that the peso in 1988, our point of departure, was already appreciated considerably due to the massive aid received in previous years. That is, in 1993 (and 1994), the accumulative appreciation of the peso may exceed considerably the estimate we have derived for the 1988-1993 period. In principle, one could estimate the total aid-induced appreciation of the peso by comparing the national price level in Guinea-Bissau with that in "similar" countries which have received considerably less aid. In reality, there are two problems. One is that the data needed to derive estimates of the price level in Guinea-Bissau are not there. Summers and Heston (1988, 1991) provide a table for Guinea-Bissau, but most entries are blank, including the ones on "international" price levels for the 1980s. A second problem is that it is practically impossible to find countries which would provide an appropriate norm of comparison. Most other countries at the lowest income level also receive considerable amounts of foreign aid and/or have a significantly overvalued exchange rate.

The next question is what has caused the real appreciation. Even though there are no data for a period long enough to conduct formal econometric testing, the answer is unambiguous: foreign aid. There is simply no alternative explanation. There is no other inflow (supply) of foreign exchange from abroad and domestic supply (from the export sector) is far too small to have a substantial impact.

According to the Dutch Disease theory, the expected effect of a massive inflow of foreign aid is a decline in relative prices of tradables. In the case of Guinea-Bissau, these are mainly made up of agricultural products, such as cashew nuts (export) and rice (import substitute). In a recent IBRD report (1994), the percentage change in the real producer price of export crops between 1981-1983 and 1989-1991 is estimated. Among 27 SSA countries, Guinea-Bissau has the second worst development, with a fall in real producer prices by 52 percent. The impact of the producer price decline is shown by the fact that the difference in average annual agricultural growth rate between 1981-1986 and 1987-1991 was -5 percent (also the second worst development in the sample). The inflows of foreign aid almost doubled in current US dollars (from 64 to 123 million) from 1981-1983 to 1989-1991. This does not prove that there is a causal link between foreign aid and producer prices, but it shows that an

overvalued". It is not clear what the expression "overvaluation" is referring to. If it is merely the gap between the parallel rate and the official rate, this is irrelevant to the issue of Dutch Disease, as explained in the technical appendix. He further states that the competitiveness in the non-traditional export sector has increased. However, this is not confirmed by any data source. On the contrary, the 1994 IMF report concludes that: "To date, there has been little progress in promoting significant increases in non-cashew exports".

increase in foreign aid was accompanied in time by a decrease in real producer prices for export crops.

The development of the real producer prices depends, in addition to the real exchange rate, on the terms of trade and the taxation of export and import crops. In section 4.4.3, we showed that different estimates of the change in the Guinean terms of trade varies considerably. Most sources suggest that a deterioration has taken place, but even a positive development has been suggested (see the Statistical Appendix). We can thus not say how much of the deterioration in real producer prices is due to a worsening of the terms of trade, but there is nothing that indicates that it should exceed 25 percent. That is, deterioration of the terms of trade cannot explain more than half, and probably less, of the fall in producer prices. No figures are reported for explicit taxation in the period 1981-1983. During the first ten years of independence, farm gate prices of agricultural products were set very low by the Government. We conclude, hence, that there is no reason to assume that explicit taxation has increased from this period to the 1989-1991 period. The export tax on cashew nuts declined from 85 percent to 35 percent over the 1980s.

Guinea-Bissau has received substantial amounts of aid for 20 years (altogether about US\$2 billion). Yet another way to get a rough indication of the extent to which this foreign aid has inflated the real exchange rate is to "simulate" what would happen if all aid were to be terminated as of today. Annual imports exceed exports by a factor of 3 (US\$60 million vs. 20 million) and the difference is paid for by foreign aid. Suppose that all foreign aid were withdrawn and that there are no other external means by which the trade gap can be financed. The trade gap would then not be sustainable and a real depreciation of the peso would have to be made in order to close it.

Considering the trade structure of the Guinean economy there is reason to believe that the depreciation needed to accomplish this would be substantial. Exports, mainly cashew nuts and some other agricultural products, are inelastic in supply in the short and medium terms. A real depreciation, with higher domestic real producer prices for exporters as a consequence, would thus not lead to any substantial increase in export volume in the short term. Almost all the adjustment required to close the trade gap would thus have to come from the import side. That is, the real depreciation, and thus the real domestic price increase of imported goods, would have to be large enough for import demand to fall by two thirds. Further, imports are predominantly made through aid-financed projects, but they also to a significant extent consist of rice. Since rice is the basic staple food in the economy, and thus has a rather low demand elasticity, the real price increase, i.e. devaluation, has to be considerable if demand for rice is to be reduced by a significant amount.

A real devaluation of the peso of the size implied, would probably lead to a collapse of the entire Guinean economy. A significant increase of the real price of the main staple food (for which there are few readily available domestic substitutes in the short term) would most likely cause immediate riots and a complete political upheaval in Bissau as well as the rest of the country. As things are, the Government of Guinea-Bissau has refused to raise the import tariff on rice from 11 to 20 percent, which is what many donors want them to do, which would lead to a price increase of about 10 percent, referring to the "political" impossibility of such a move. An increase in the price of rice by 10 percent is nothing in comparison with the increase that would be required, through a devaluation, to close the trade gap in the absence of foreign aid.

This counter-factual reasoning may seem "unrealistic" and has definitely no direct policy implication. It shows, however, two important things. First, the aid inflow to Guinea-Bissau has raised the equilibrium real exchange rate to a level which is much higher than it would be in the absence of aid. This has enabled the importation of rice and other consumption goods at very low domestic prices which has encouraged consumption. The other side of the coin is that the inflated equilibrium real exchange rate has discouraged production in the tradable sectors. Exporters, as well as some producers of import substitutes (in non-highly protected sectors), especially domestic rice producers, have been given very poor price incentives to raise production and productivity. The domestic producers of cashew nuts and the main producers of import substitutes, the rice producers, make up the bulk of the agricultural sector, which employs about 80 percent of the total population. The largest part of the Guinean economy has thus been discriminated against by the (side) effects of massive inflows of foreign aid on the equilibrium real exchange rate. The effect has been to tilt relative prices in the Guinean economy in favour of non-tradables, i.e. sectors which according to most recent theory and evidence have a much lower growth potential in the long term than the traded goods sector. As we saw in the previous chapter it is also the non-traded goods sector (mainly construction, services and transportation) that have shown some growth in the 1987-1993 period.

A resource movement effect, largely caused by the direct demand from the "aid industry" as such, is evident in the Guinean economy (de Vylder 1992). First, there is fierce competition between the donor agencies over skilled manpower. The effect is that domestic consultants, in aid-related activities in the non-traded sector, are paid extra high salaries (topping-up). According to several people we have talked to, it is not unusual for domestic consultants to be paid salaries of US\$15 000 a year, compared to a salary of US\$200 a year for public officials. This makes it very difficult for other employers, in both the public and the private sectors, to make a bid for these people since they lack the financial resources to match the salaries paid by the donors.

Second, prices in restaurants and hotels in Guinea-Bissau are not much lower than in the western world. Considering that Guinea-Bissau had a per capita income of US\$212 in 1992, it is probably safe to say that foreign aid money fuels these prices. The same is true for rents on apartments and houses. These tilted relative prices make investments in aid-related services, such as restaurants, hotels and construction (non-traded goods and services) relatively more profitable. The scarce amount of domestic private capital will therefore to a large extent be invested in these activities. Foreign aid thereby crowds out the non-aid related sectors of the economy, through a resource movement effect on both skilled manpower and domestic private capital, and thereby also the export sector. The mechanisms discussed above have been recognized and acknowledged by several bilateral donors. The SIDA mission in Bissau recognizes this to be a serious problem: "One of the main obstacles for development (in Guinea-Bissau) is paradoxically posed by the aid. It distorts ...the use of limited financial and human resources" (SIDA DCO Memo 15 January 1991).

However, it should be stressed that the impediments to a functioning export sector in Guinea-Bissau are many. To mitigate the detrimental effect of the inflows of foreign aid on the exchange rate is one important step, but many others remain. The severely imperfect market structure must be improved so that positive price signals actually reach the producers through increased farm gate prices, and do not just result in increased profits for a couple of traders. The inadequate physical infrastructure, poor education standards and resulting lack of educated manpower are also important determinants.

5.5. Aid and Income Distribution, Social Development and the Informal Sector

5.5.1. Aid and Income Distribution

In section 4.6.2., income distribution in Guinea-Bissau was discussed. The urban bias observed is to a considerable extent a reflection of the concentration of aid-related activities to Bissau. This concerns both services from aid projects, direct work opportunities at the donor agencies and the ministries dealing with foreign aid and different kinds of services to foreign personnel. Another example of effects from foreign aid that actually increase the inequality of income distribution is related to Swedish import support. An evaluation undertaken in 1993 (Martin) showed that the gains from the Swedish import support had fallen disproportionately in the hands of a few traders, financial institutions and large farmers. Whether this is true for other import support we do not know.

The most serious adverse impact on income distribution, however, is through the appreciation of the equilibrium real exchange rate. As in the case of overvaluation, an appreciation of the equilibrium real exchange rate lowers the prices of tradable products which harms producers of export and (unprotected) import-competing goods. Since almost all export products, and main unprotected import competing products such as rice, come from the agriculture sector, this effect will further disadvantage the rural population on behalf of the mostly urban population engaged in the non-tradable sector (especially those engaged in aid-related activities). If the estimates provided by the World Bank, showing real producer prices in the export-oriented agricultural sectors to have declined by 52 percent over the 1980s are reasonably correct, this implies a parallel decline in agricultural incomes. Since little volume growth have taken place, this must mean a drastic shift in income distribution, away from the poor in the rural sector, towards urban, less poor people, in the non-traded good sectors. The objective of foreign aid is to increase the standard of living of the poorest, and most of the poorest live in the rural areas. The urban bias, through the effects discussed above, must therefore be regarded as a serious negative consequence of foreign aid to Guinea-Bissau.

5.5.2. Aid and Social Development

The investments undertaken in the (formal part of the) education sector, as described in section 5.2.2, are in principle all financed through foreign aid. The "input" figures, i.e. expenditure on education as part of total government expenditure and pupils per teacher for instance, are quite good by African standards. However, these figures are not matched by the "output" figures. The drop-out rates are among the highest in the world and secondary school enrolment is, consequently, very low. The investments in health care that have taken place are, as in the case of education, financed by foreign aid. Some 12 percent (US\$7,6 million) of the 1993 PIP, which is financed exclusively through project aid and counterpart funds collected from import support, are devoted to investments in the health sector. As in the education sector, progress on the input side has been achieved, but demographic ("output") indicators are still very poor. This indicates that the sector is suffering from problems similar to those in the education sector. People we have talked to refer to the sector as overcrowded with donors, causing problems of co-ordination and an inability on the part of the Ministry of Health to come up with a national health policy.

Many donors have recently been focusing on gender issues within their development programmes. SIDA's Country Gender Analysis from 1992 presents a list of "Women's development projects", containing 14 projects (1 SIDA project and 1 Save the Children project) and another on "Projects with a women component",

containing 52 projects (3 SIDA projects). A positive impact on women from aid is through the liberalization of the economy supported by the SAP. The liberalization has caused an influx of consumption goods desirable for women, imported mainly through foreign exchange supplied by import-support aid. This development has the effect that women are given incentives to undertake more productive roles, in contrast to reproductive, in order to get hold of cash income. In a longer perspective this might make the women less dependent on their husbands (Stenström-Larsson and Kihlman 1992).

5.5.3. Aid and the Informal Sector

A significant part of the Guinean economy is not incorporated in the official GDP statistics. Hence, it is possible that there has been some growth in the Guinean economy - and thus in the incomes of the mainly poor people engaged in informal production - that is not visible in the official statistics. As mentioned before, some people we have talked to have the impression that the informal sector (or rather the parts of the informal sector that are not seen in the statistics) has expanded significantly since 1987. The most common explanations for the surge in informal sector activities are the liberalization of the economy and the inflows of import support following the SAP. The abolishing of the public monopoly on internal trade and the publicly determined prices on most products have led to an upsurge in rural markets. The increased supply of consumer goods, largely financed by import support, have increased the incentives for peasants to produce and trade their agricultural surplus. The inflows of import support have probably had a positive impact on growth in informal trade. In the sense that donors have applied pressure for economic reforms, aid has also had a positive impact through economic liberalization. Project aid has probably been less important for the informal sector. Some effects have been brought up by people engaged in different projects. For instance, improved communications due to aid-financed infrastructure projects have made the growth of rural markets easier, and some projects have created a demand for (often informal) small-scale manufacturing and handicrafts. Unfortunately, we have not been able to assess this phenomenon quantitatively.

5.6. Aid and Other Swedish Aid Objectives

5.6.1. Aid and Political and Economic Independence

One of the main objectives at the early stage of Swedish aid to Guinea-Bissau was to secure economic and political independence. In the sense that the country is now independent from the former colonial power, Portugal, aid might have contributed to

this. However, a profound aid dependency has been established instead. Measures of the magnitude of aid dependency are numerous. In section 2.2.2 we presented total foreign aid in relation to the standard economic "key indicators" used in this context. The figures showed that Guinea-Bissau is one of the countries receiving most aid in the world, both per capita and in relation to GDP, gross investment, export and import.

Two other indicators of aid dependence are the trade and the savings deficits. The important issue is not so much the gaps in themselves, but whether they are closing or not over time (White 1993). Of course, the whole idea with aid is to permit savings and trade deficits, but after some time these gaps have to narrow for development to be sustainable, that is, not forever dependent on foreign aid. How long this time-frame should be is, of course, difficult to determine. What can be said, however, is that demand for imports increases with development, so increased exports will be necessary even to maintain the size of the gap. As was shown in section 4.4., the value of exports in Guinea-Bissau has increased very little since 1987 and the trade deficit shows no sign of decreasing over time, rather the opposite. This indicates that Guinea-Bissau has so far not managed to increase the domestic foreign exchange raising capacity by any significant amount. The country remains heavily dependent on foreign aid to maintain external balance. Moreover a significant share of the investments have to be financed by domestic saving, in order for development to be sustainable. As shown in chapter 4, domestic savings have been negative for all the years for which we have data and there is no indication that domestic savings are increasing, i.e. the savings gap is maintained. This is a further indication of the fact that Guinea-Bissau is highly aid-dependent.

A fourth indicator showing the vulnerability of the economy is the debt situation. With a theoretical debt service ratio of 300 percent Guinea-Bissau is heavily reliant on foreign finance to service its debt. Since the economy is too weak to get any medium or long term commercial loans, the dependency on donor agencies (who are also the creditors of the existing loans) for soft loans is complete. This dependency will pertain until the debt problem is resolved. The Swedish Government has written off all their loans and is not part of this heavy constraint on the economy.

Aid dependency is also evident at a non-economic level. Large and continuous inflows of foreign aid have created "a way of living" for a large part of the Guinean administration. The financing of the public administration relies heavily on foreign aid and officials are preoccupied most of their time with activities related to different aid agencies. This seems to have drawn attention away from the development of domestic resources. It is probably easier for the Guinean Government to get more finance from some foreign aid agency than to create incentives for domestic resource mobilization. A belief that massive inflows of foreign aid are not only necessary for development, but

also sufficient, seems to have developed. The phenomenon is expressed in a memorandum from the Swedish embassy: "The (Swedish) embassy must conclude that the foreign aid to Guinea-Bissau of all countries and organisations, including Sweden, so far seems to have resulted in making the Guinean economy more passive rather than dynamic" (DCO Memo, 28 July 1992).

5.6.2. Aid and Democracy and Human Rights

Along with the liberalization of the economy there has been political liberalisation. A process towards a multi-party system and democratic elections was declared by the President, João Bernardo Vieira, in 1990. New parties have evolved, the trade union has been declared independent from the leading party, PAIGC, a law concerning freedom of speech and freedom of the press has been passed and a National Electoral Commission has been set up. The road towards an election has not been without bumps, however. The co-ordinator of the opposition has been jailed (and the President has officially declared that it can happen again) and the elections, scheduled for March 27, 1994, have been postponed until June 5. We have not seen any report concerning the role of donors in the decision to approve of other political parties and a multi-party election, but according to people we have talked to, the decision was based neither on external pressure from the donor countries nor on aid from any domestic opposition. UNDP co-ordinates the donors' financial support to the election process and has received support from Sweden, among others. To assess the effectiveness or efficiency of this support is, of course, not possible yet.

Following the development towards democracy, the human rights situation has improved during recent years. For instance, human rights were included in, and the death penalty excluded from, the constitution in February 1993. In practice a number of deficiencies remain. Laws are not always followed by the administration, arbitrary arrests of opposition politicians (especially in the countryside) are common, and so is torture (SIDA, Semi annual report 26 May 1993). According to people we have talked to, donor agencies, especially SIDA and USAID, have contributed to improving the human rights situation, both through lobbying and some financial support (Sweden supported the Guinean league for human rights with SEK 350 000 in 1993). However, we have not encountered a more thorough analysis of the role of donors in this respect.

5.6.3. Aid and the Environment

As far as we have seen, the environmental situation in Guinea-Bissau seems to be relatively good. There are problem in some areas, though. One is that the salinity of the coastal agricultural fields has increased, due to reduced rainfall, a shorter rainy season

(according to peasants we talked to) and lack of resources to finance additional investment in walls that keep sea water out. There are also problems with soil degradation, but they are not as serious as in many other African countries (for instance Burkina Faso and Kenya). Because of the relatively favourable environmental situation, the issue has not been so much in focus in the donors' support. However, with the revival of environmental concerns in recent years, the donors have paid more attention to the question (The Economist 1993). According to the head of the IBRD mission, the Bank is looking for support from the other donors to decide on a common environmental policy. The Bank has also prepared an environmental project, which is waiting for the upcoming elections.

Another important issue is property rights. According to people we talked to in Bissau, lumber fees for timber are practically nonexistent. At least, they do not by any means match the costs for replanting new trees, or the longer-term costs of soil erosion and following reductions in agricultural output. Lumber fees need to be increased so that costs for replanting are covered, or the property rights redefined so that the companies engaged in logging get incentives to replant themselves.

5.7. Aid and Good Governance

In this chapter we have discussed the effects of foreign aid on the fundamental determinants of sustainable growth: domestic savings and investments, human capital formation, the trade regime and the macroeconomic policy. Since a large part of "good governance" is entailed in the Government's ability and willingness to pursue a stable macroeconomic policy and to create the right incentives for private investments, this section will analyse the cohesion between Guinean development policy and the development objectives of the donors, especially the Swedish ones. When assessing the coherence of actual measures taken by the Guinean government with the Swedish overall development objectives, it is important to make a distinction between the rhetorical proclamations made in official documents and announcements and the actual priorities and implementations of the Guinean Government traceable in its budgets.

A general observation, made by several representatives of the Swedish-Guinean development co-operation process, is that the actual development strategy of Guinea-Bissau seems to have been to attract as much foreign aid as feasible, irrespective of the possibilities to assimilate the funds or projects into the economy. Thus, in a 1992 memo, it is stated that "The (Guinean) Government does in principle what it deems necessary to continue to receive aid" (DCO Memo, 30 July 1992). Line ministries have negotiated with donors over the heads of the ministries responsible for donor negotiations and macroeconomic and development planning. Many donors have encouraged the situation and presented and forced through projects that are not

compatible with Guinea-Bissau's priorities, but in line with their own interests. It appears that Sweden traditionally has not been guided by own interests, but the massive support to the industrial sector throughout the 1980s (Swedish assistance accounted for more than 75 percent of the total support to the industrial sector) has not been in line with the overall focus on agricultural development and social sectors in the country. Furthermore, as most of this support was directed towards state-owned enterprises, the Swedish support has augmented the share of government involvement in the Guinean economy in stark contrast to the notion of good governance.

Throughout the years 1974 to 1991, donors, including Sweden, have not in any credible way opposed the strategy of maximising aid disbursements as a substitute for own domestic development efforts. Regardless of the failures and the seeming unwillingness of the Guinean Government to address important issues, e.g. to carry through reforms, present credible development policies and rectify macroeconomic imbalances, aid has continued to be disbursed at high and increasing rates. Furthermore, initially little attention was given to the importance of short-term macroeconomic stability. This inadequacy was redressed in the late 1980s, with the implementation of the SAPs and concurrently more concern was given to the fundamental conditions for self-sustaining growth and development, e.g. increased institutional strength and competence building.

An important aspect today is that there seems to exist a discrepancy between the Swedish development agencies and the Guinean Government as to the Government's efforts to raise domestic resources in order to promote growth. Several representatives of Swedish agencies have expressed distrust in the Guinean Government's devotion to a self-generated development process. SIDA's own conditions for effective development aid to the country in the long run has been, and continues to be, for the Guinean Government to come up with a "development strategy and to incorporate all aid in the budget" (SIDA *Enkel anslagsframställan 1994/1995*, 1993 p 37). We agree, but more important is the need to emphasize the significance of sound macroeconomic policy for increased aid effectiveness. We see very little of this in the SIDA policy papers.

Our conclusion is that there seems to have been some sort of tacit agreement between the Guinean Government and the Swedish Government and concerned agencies as to both the development objectives and instruments, although they differed in theory and practice. Exactly what caused the actual implementation to differ from the rhetoric objective is, of course, difficult to establish, since it involves counterfactual analysis. It seems, however, that aid definitely played a crucial part in the process of allowing the Government to pursue unrealistic "bad governance" much longer than would have been the case without the aid inflow.

5.8. Summary and Conclusions

This chapter has assessed the impact of foreign aid to Guinea-Bissau at the macroeconomic level. It is not possible to distinguish the impact of Swedish aid from that of all other aid at the macro level, so the conclusions drawn in this chapter concern the effects of total foreign aid. The major part of the chapter has dealt with the impact on the growth determinants identified in chapter 3, but the contributions to social development and other Swedish aid objectives have also been analysed. Needless to say, foreign aid has had a profound impact on the Guinean economy in many, if not all, aspects. Our contention is that most of the indirect macroeconomic effects of aid have stifled rather than improved the growth potential of the Guinean economy. Despite large inflows of foreign aid and, as a consequence, substantial investment rates, the economy has not experienced any significant growth. Given the explicit growth objective for Swedish aid to Guinea-Bissau, this is clearly unsatisfactory.

The reasons for the absence of results are, of course, many. An identification of the exact relationship between aid and the growth determinants as well as the social indicators is not possible, but we have pointed to a number of tentative explanations. It is clear that the inflows of aid have made negative saving rates possible in the Guinean economy. The domestically financed investments are therefore very few. The low tax revenues and weak tax base indicate that the aid inflows have reduced the revenue raising effort of the Guinean government, so-called aggregate fungibility. Since there have been no channels for directing foreign aid to the private sector, no direct positive effects have been possible to trace in this sector. The small part of private investments in the economy also indicates that the crowding-in effect from public, foreign-aid funded investments has been meagre.

The effects on human capital formation seem to have been restricted to the input side. The primary school drop-out rates are extremely high and the quality of education is very low, in spite of significant financial and human support. The change in strategy within the Swedish support, which amounts to a significant share of the total, towards institutional support and human capacity creation seems more in line with the actual problems, but credible conditions in the sense of reforms within the Ministry of Education are necessary.

As to the effects on the trade regime, foreign aid has previously, directly and indirectly, supported the protective regime, but since the adoption of the SAP, the importance of liberalization of trade has been emphasized. Negative effects on export performance have mainly worked indirectly, through the real exchange rate. Most important, foreign aid has appreciated the equilibrium real exchange rate, creating a "Dutch Disease". The appreciation has hampered the development of the export sector

as well as the unprotected import competing sector (mainly rice). The large aid inflows have thereby increased aid dependency and reduced the possibilities to finance necessary imports through domestic foreign exchange earnings in the long run. Finally, aid has also made it possible to maintain a severely overvalued real exchange rate for many years, up to 1991, in fact.

Another conclusion is that the small Guinean economy does not have the absorption capacity at the macro level to use the massive inflows of foreign aid for productive and sustainable activities, and furthermore, domestic resources have been replaced by foreign aid. The weak growth rates, in spite of high investment figures financed through foreign aid, indicate a very high ICOR, which also applies to the social sectors where relatively favourable input figures are far from matched by "output" results, indicating low levels of efficiency in most of the aid-financed projects.

We have also concluded that Guinea-Bissau continues to be highly aid dependent by all standards. Continuing large internal and external gaps, which do not seem to narrow, are at hand. Large deficits can be expected to be the most profound characteristic of the Guinean economy for a long time. Another clear indicator of aid dependency is the huge external debt. The magnitude of the debt is such that it cannot in any way be solved solely by Guinea-Bissau.

As to social development, it is clear that foreign aid has increased the income inequality especially between the city and the countryside. This is partly due to a concentration of aid-financed activities, but also the appreciating effect on the equilibrium real exchange rate. Farm gate prices for rural producers cashew nuts and of rice have fallen, while the urban population can consume cheap imported rice. The health sector was found to show satisfactory figures on the input side, but not on the output side. The support to the sector seems to suffer under the same problem as the education support, with a weak ministry and an inability to address the actual bottlenecks. The women's situation has not been possible to assess in any detail but is increasingly considered by the donors according to a Swedish study.

5A. TECHNICAL APPENDIX

DEVELOPMENT ASSISTANCE AND THE REAL EXCHANGE RATE: THE DUTCH DISEASE, THEORY AND EVIDENCE

5A.1. Concepts in the Dutch Disease Theory

The so called "Dutch Disease" theory was originally developed as a description of what happens to an economy which suddenly finds and develop a natural resource that significantly increases export earnings. The theory has also been used to describe the effects of an increase in the terms of trade or, which is the case in this report, the effects of a significant inflow of foreign aid¹. The principal effect is that the inflows of foreign exchange from the "booming" sector (in the case of Holland natural gas, in Guinea-Bissau foreign aid) increase the supply of foreign exchange in the economy and, thus, appreciate the real equilibrium exchange rate. That is, the relative price of tradables to non-tradables goes down. This will cause a resource movement away from the tradable, the export and import competing, sectors into the non-tradable good sectors. Domestic foreign exchange earnings will decline, an effect adverse to much of the objective of foreign aid. Thus the denotation of the phenomenon as a disease. Below is a somewhat more technical, although still very much simplified, presentation of the theoretical reasoning behind the Dutch disease effect of aid.

The real exchange rate (RER) is defined as the ratio between the price of tradables and the price of non-tradables:

$$\text{RER} = \frac{\text{Price of tradeables}}{\text{Price of non - tradables}} \equiv \frac{\text{NER} * P_w}{P_d}$$

where NER is the nominal exchange rate expressed as the ratio of the domestic currency to the foreign (e.g. pesos/dollar). P_d is the price (index) of non-tradables and P_w is the price (index) of tradable goods (which small countries cannot influence by definition). If the relative price of non-tradables increases, the real exchange rate will appreciate (RER will decline). If the nominal exchange rate increases, i.e. the price in domestic currency of dollars goes up, while the domestic and foreign price ratio is unaltered, the real exchange rate will depreciate (goes up in numerical value)².

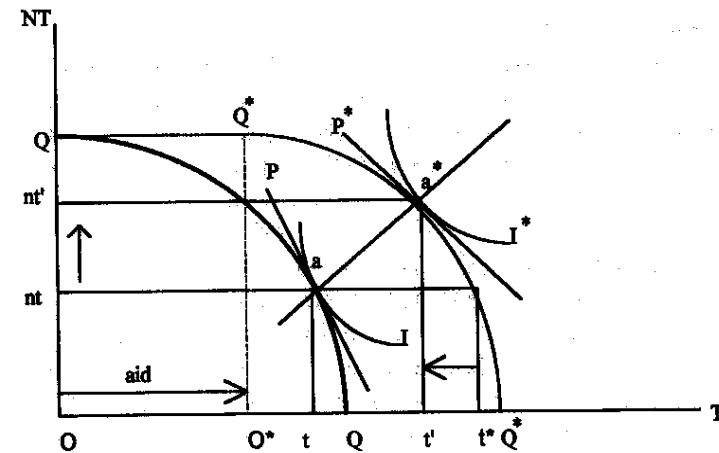
¹ See for instance Michaely, 1981, van Wijnbergen 1985, 1986 and Corden 1984.

² It should be noted that sometimes the RER is defined the other way around; that is, as the price ratio of non-tradables to tradables, but what definition that is used is immaterial as long as a change in the numerical value of RER is labelled correctly (appreciation and depreciation, respectively).

5A.2. The Dutch Disease Effect in a Simple Real Model

In analyses of the Dutch Disease and aid within the framework of pure trade theory, the definition in use of the real exchange rate is the price of tradables relative to non-tradables (in pure trade theory there is no money prices or exchange rates, only relative prices). The effect of an aid inflow on the relative price between tradables and non-tradables in a "real" comparative static model is depicted in Figure A.1. On the horizontal axis we have the production of tradables (T); on the vertical, non-tradables (NT), i.e. both export and import competing goods. The production as well as consumption possibility frontier is given by the curve QQ. Let us assume an initial equilibrium without foreign aid. Consumer preferences decide where on the production possibility frontier the economy will be. Given that consumer preferences correspond to the indifference curve I, production will be at point a; an amount of non-tradables corresponding to nt will be produced and an amount of tradables corresponding to t .

Figure 5A.1: Dutch Disease Effect of Aid in a Real Model.



Assume now that the country receives aid and that the aid is obtained in the form of tradable goods. The inflows of foreign savings will increase the income of the economy. This can be represented in the figure by a rightward shift of the consumption possibility frontier, to Q^*Q^* . The inflow of foreign aid does not increase the production possibilities in the short run, and the production possibility frontier will therefore remain at its previous level. The consumption possibility set will move to the

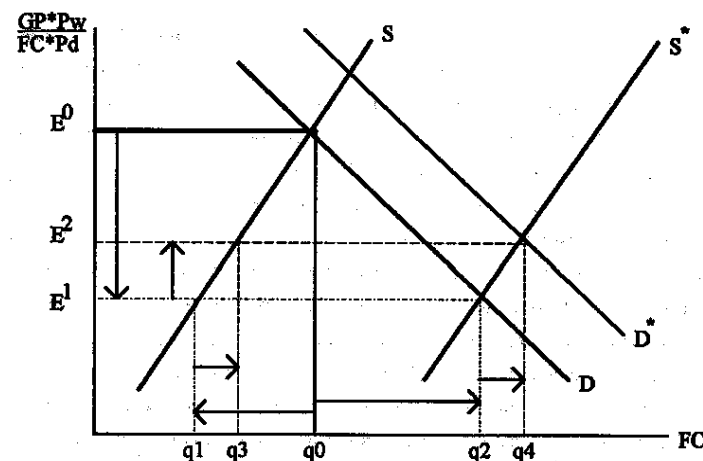
right in Figure 5A.1, and be bounded by the curve QQ^*Q^* . The increase in income will increase demand for both tradables and non-tradables (assuming that the marginal propensity to consume both tradables and non-tradables is above zero). To satisfy the increased demand for non-tradables, a shift in the domestic production, away from tradables and into non-tradables, will be required. That is, factors of production will move into the non-tradable sector. The reallocation will be accomplished through a shift in relative prices. The increase in demand will cause the price of non-tradables to increase. However, assuming that the price of tradables is set on the world market as the country is too small to change the world market prices alone, the price on tradables will be unchanged. The inflows of foreign aid have hence increased the *relative* price of non-tradables to tradables, i.e. appreciated the real exchange rate. In the figure, the relative increase in the price of non-tradables is depicted by the shift of the price line from pp to p^*p^* (the consumption possibility frontier is unambiguously flatter at a^* than at a).

In the new equilibrium, the domestic *production* of tradables have declined by the difference between t^* and t' , while consumption of tradables have increased from t to t' , out of which OO^* is supplied by foreign aid. Domestic production and consumption of non-tradables have increased from nt to nt' . Thus, consumption of both tradables and non-tradables have increased and welfare has improved (as the indifference curve I^* is unambiguously higher than I). However, domestic production of tradables has declined, both in absolute and relative (to non-tradables) terms. This is what in a long-term, dynamic perspective is called a "disease" (to be elaborated in section 5A.4 below).

5A.3. The Dutch Disease Effect in a Foreign Exchange Market Model

In the above pure trade theory model, the RER was defined as the relative price of tradables and non-tradables. This definition of the real exchange rate cannot be used for empirical tests because no separate data exist on the price of tradables and non-tradables, respectively. However, alternatively, one can analyse the Dutch disease phenomenon through the market for foreign exchange, as is done in the macro literature (Edwards 1989) and also in the empirical literature aimed at estimating Dutch Disease effects. When testing the theory empirically, another definition is used, viz. the ratio between the consumer price index in the trading partner economies and the domestic consumer price index multiplied by the nominal exchange rate (the right-hand side in the formula above). Using this definition, the effect of aid on the RER can be analysed with the help of a diagram showing the foreign exchange market in the aid-receiving country (Figure 5A.2).

Figure 5A.2: The Dutch Disease Effect of Aid in a Model of the Foreign Exchange Market.



On the vertical axis we have the real exchange rate, i.e. the nominal price of foreign exchange, multiplied with the ratio of foreign to domestic price indices (for the time being we assume that the latter price ratio is constant). On the horizontal axis we have the quantity of foreign currency (FC) demanded and supplied. For simplicity, we assume that there are only two set of agents in the economy that trade with foreign exchange. First, there are the exporters, who sell their products for foreign currency in the world market and supply it on the domestic foreign exchange market so as to obtain the domestic currency. The supply of foreign currency will be positively sloped as the higher the numerical value of the exchange rate, the more in terms of the domestic currency accrues to the exporters for a given amount of the exported good sold at a given price in terms of foreign currency. That is, we assume that the supply of the exportable good is elastic in terms of the domestic real price of the product. In the short term, this elasticity is likely to be rather low in countries where agricultural products dominate exports (such as in Guinea-Bissau). Secondly, we have importers who demand foreign currency to pay for foreign goods in the world market. The demand curve for foreign exchange is downward sloping as the lower the numerical value of the (real) exchange rate, the cheaper in domestic prices will imported goods be, and the more imported goods will be demanded and, thus, the more foreign currency. It is further assumed that the price of tradables in the world market and domestic taxes/transfers are not altered throughout the analysis (in this section).

Let us start with a situation where the foreign exchange market is in equilibrium and there is no foreign aid. The (real) exchange rate at which the market is in equilibrium (i.e. supply equals demand) is at E^0 in Figure 5A.2. The amount of FC traded is q^0 . Assume now that this country receives a substantial amount of foreign currency as a gift from an aid donor and that this foreign currency is supplied on the domestic foreign exchange market (e.g. so called balance of payment support). Two effects set in. First, the supply of foreign exchange shifts from S to S^* . If the market is allowed to find a new equilibrium, the supply effect will induce the RER to fall, i.e. appreciate, to E^1 in the figure. The second effect is that the aid will increase incomes, which will shift the demand for imports and, thus, foreign currency outwards, from D to D^* in the figure. The income effect of the aid inflow on the exchange rate will be in the other direction, i.e. towards depreciation, through increased demand. Considering both the supply and the demand effects, the new equilibrium exchange rate will be E^2 .

In the case depicted in Figure 5A.2, the net effect of the aid is to appreciate the real exchange rate (a move from E^0 to E^2). Can we be sure that the supply effect dominates the demand effect and that RER is appreciated on a net basis? The answer is a qualified yes. As long as we do not include other complications (cf. below), the supply effect will dominate when the income elasticity of demand for both non-tradables and tradables is strictly positive, which is a plausible assumption. That is, if the additional income that is accruing to the country through aid increases the demand for both type of goods, the supply effect is dominating. Of course, if demand preferences are highly tilted towards traded goods, the net effect on RER will be small and, vice versa, if the income elasticity for non-traded goods is comparatively high, the effect on RER will be large. (The same result is easily seen in the real model presented in Figure 5A.1.)

It is important to understand that the *appreciation* discussed above is not equivalent to an *overvaluation* of the real exchange rate. The Dutch Disease effect take place through an appreciation of the *equilibrium* real exchange rate. The definition of the equilibrium real exchange rate is that it maintains external balance in the long run (Edwards 1989). Without inflows of foreign savings, the equilibrium real exchange rate is the one that maintains balance in the current account. With inflows of foreign savings, foreign aid for instance, imports can exceed exports. The equilibrium real exchange rate is in this case the one that maintains balance in the current account including net long term capital inflows (sometimes called basic external balance). The imports can thereby be increased with maintained export earnings (or maintained with decreased export earnings), i.e. there is a capital import, which is generally needed in the beginning of development. Hence, given the inflows of foreign aid, the Dutch

Disease effect does not generate an external imbalance and do not require restrictions on imports.

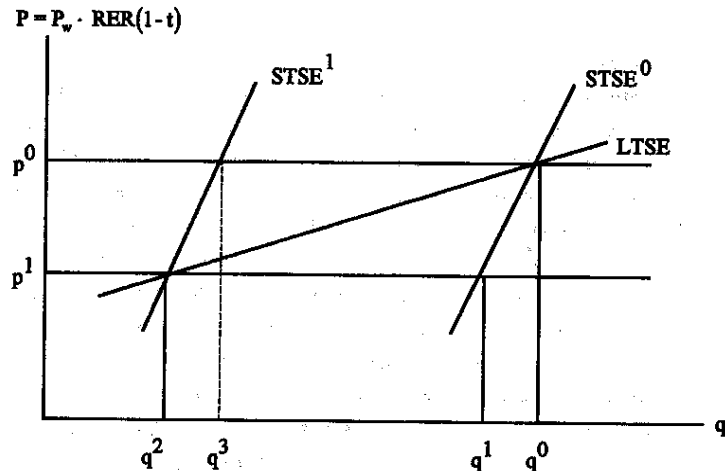
5A.4. The "Disease"

While the hitherto analysis has been confined to simple comparative statics, the "disease" aspect of the appreciating effect of foreign aid on the equilibrium exchange rate is based on dynamic reasoning (a formal model of the effects of aid via RER on growth in a dynamic context has yet not been produced). In a static perspective, there is no problem with the appreciating effect of aid on RER (besides the effect on income distribution; cf. below). The static effect of the aid is an enhancement of real incomes and welfare. Through the appreciated RER, the producer surplus in the export and import competing sectors will decline, but the increase of producer surplus in the non-traded sector as well as the increased consumer surpluses in all sectors will outweigh this and the net result is a static gain in welfare (as indicated by the move from indifference curve I to the curve I^* in Figure 5A.1 above). There will, of course, be a shift in income distribution, away from the factors used intensively in the contracting tradable-good sectors, to factors that are used intensively in the expanding non-traded sectors. But apart from the possibly adverse effect on income distribution, there is external balance, factors are fully employed and welfare has improved. What then is the problem/disease? What is wrong with having relatively more of the domestic factors of production in the non-tradable sectors and having higher incomes?

The disease reasoning is focused on long term dynamic growth effects. The two main concerns are (i) that the growth potential in the traded goods sectors is higher than in the non-traded goods sectors and (ii) while aid stimulates an allocation of domestic resources to the non-traded sectors, and also give incentives for investments in the non-traded sectors, there are high adjustment costs associated with a reallocation of resources back to the traded goods sectors when - in the longer term - aid is terminated. That is, aid tends to favour an inward oriented trade regime in the short and medium terms that becomes an obstacle to growth and development in the longer term. Part of the argument is that reallocation of resources between sectors takes time and is costly. This means that supply elasticities in the various sectors are much lower in the short (1-5 years) than in the long-term (10 to 20 years).

The point can be illustrated in Figure 5A.3, which depicts supply and demand in the export sector. On the vertical axis, we have real producer price received by the exporters. This price is equal to the (foreign exchange-denominated) price of the product that prevails in the world market (P_w), multiplied with the real exchange rate (RER) and a multiple that allows for the domestic tax on the export good ($1-t$), where

Figure 5A.3. Effects on Export Supply of an Appreciation of RER.



t is the relative tax rate. The short term supply of exports is given by the $STSE^0$ curve in the figure. The more elastic long-term export supply curve is denoted $LTSE$.

Assume that the economy is initially in short- as well as long-term equilibrium with q_0 of exports at the domestic export price P^0 . Consider now the effects of an appreciation of the real equilibrium exchange rate, induced by an inflow of foreign exchange in the form of aid (as analysed in Figure 5A.2 above). This will lower the real price in domestic currency of export products, from P^0 to P^1 in Figure 5A.3. Given the low supply elasticity in the short term, exports will drop from q^0 to q^1 only. However, if the new lower domestic price is maintained for a long period and the long term supply elasticity is substantially higher, additional resources will move out of the export sector (into the now relatively more profitable non-tradable sector). While the contraction of the export sector is limited to q^0 - q^1 in the short term, the long term decline will be larger (q^0 - q^2). Moreover, when aid is terminated at some point, and the exchange rate depreciates, pushing up real export producer prices again, the supply effect will be limited in the short term (from q^2 to q^3). Only in the long term will export supply be restored (at q^0).

5A.5 Theoretical Limitations of the Static Models

What the proponents of the Dutch Disease effect are concerned with cannot be properly illustrated by the various comparative static models described in previous

subsections. Basically, however, the concern is, first, that the move of resources out of the tradable sector in the wake of aid, and the reallocation back the day aid is terminated (lowered) will induce high adjustment costs of various types (capital destruction, temporary unemployment, macroeconomic instability, etc). Second, the concern is that there are greater "externalities" in the tradable good sectors that are lost during the time when the tradable sectors are contracted. That is, the learning-by-doing potential, economies of scale, efficiency enhancing productivity increases, competition etc. are more favourable in the traded goods sectors than in the non-tradable ones, as strongly emphasised in the new growth theories focusing on long term dynamic determinants of growth.

The theory of foreign-aid induced Dutch Disease involves a number of simplifications. First of all, the model is static and ignores the possibility that aid induces growth in the economy, and thereby also the supply of goods. Furthermore, foreign aid may also have positive effects on the competitiveness of the export sector through investments in infrastructure and, in the somewhat longer run, investments in education. If the aid is not all consumed, but invested in new production activities, also the supply side will be affected. If the aid is invested in export-oriented activities, the foreign-exchange supply function (in Figure 5A.2) will shift further outwards. The aid may also induce changes in the price level in the recipient country (i.e. the rate of inflation). As discussed previously, over a long period with massive aid, almost every variable in the recipient economy will be affected -- including the variable we have called the "necessary pre-conditions" for growth. Seen over a 20 years period, one can thus not use theoretical arguments only to claim that aid has appreciated the real exchange rate. This all depends on how aid affects growth in the various sectors and, also on how the demand structure is affected through the impact of aid on the level and distribution of income. Whether or not the real exchange equilibrium in Guinea-Bissau today is appreciated is an empirical question that can be tackled in a number of ways (see below).

5A.6 Empirical Evidence on Aid Induced Dutch Disease in Guinea-Bissau.

The way the impact of aid on the real (equilibrium) exchange rate in the empirical literature has been estimated is to set up an equation for the determinants -- including aid -- of the real exchange rate (Edwards 1989), which is tested econometrically on time series data. Such exercises can provide evidence on the effects of *marginal* changes in aid inflows on marginal changes on the exchange rate, net of influences of all the other determining variables. However, this type of exercises (see below) requires that there are time-series data available for at least 15-20 years in all relevant dimensions. As said before, this is not the case in Guinea-Bissau. Our empirical

assessment of the empirical evidence thus has to take other routes. The subsequent analysis is subdivided under three headings: (1) a priori reasons; (2) direct evidence on changes in the real exchange rate for the short period 1988-1993; (3) indirect evidence relative price changes and on resource movement effects.

(1) A Priori Reasons.

As far as we know, only three econometrical tests of the extent to which the inflows of foreign aid appreciate the real exchange rate have been undertaken (van Wijnbergen 1985, White & Wignaraja 1992 and Olausson & Olofsgård 1993). These are complemented by other empirical analysis (Younger 1992 and Falk 1992) and tests of the impact of all capital flows, i.e. also other forms of foreign savings (Edwards 1989, Wood 1988 and Cattani, Cavallo & Khan 1987). These studies have been undertaken in countries (for instance Sri Lanka and Ghana) where the inflows of foreign aid are by no means as large (in relation to GNP) as is the case in Guinea-Bissau. Nevertheless, the appreciating effect from foreign aid, alternatively all foreign savings, is confirmed in almost all tests.

There is also empirical research on the second link in the theory, the influence of the real exchange rate on the export performance (for instance Dollar 1992, Edwards 1992 and Ghura-Grennes 1993). The focus in this literature is on the effects from a misaligned, i.e. overvalued, RER rather than an appreciated equilibrium RER. However, the theoretical reasoning is the same in both cases: an appreciation of the RER will have a negative effect on export performance irrespective of whether it is an appreciation of the equilibrium real exchange rate or an overvaluation. The empirical tests use different kinds of measures for RER misalignment, but the results confirm that real exchange rate misalignment has a significant negative effect on the export performance. Ghurra and Grennes (1993) use all three definitions of RER misalignment that are applied in the literature: model determination, purchasing power parity differences and the black market premium. They get a negative and highly significant correlation between RER misalignment and total exports to GDP for all three definitions. Since inflows of aid into other countries have led to an appreciation of the exchange rate, we find it implausible that this has not happened in Guinea-Bissau where inflows of aid have been considerably larger.

(2) Direct Evidence on Exchange Rate Movements

Direct evidence on exchange rate changes is limited to the short period 1988-1993, and these data are beset by several flaws. First, since no proper data exist before 1987, we can only say in what direction the real exchange rate has moved since then. We cannot say anything about the *level* of the real exchange rate that prevailed at the end

of 1988 after the 60 percent nominal devaluation earlier that year. In appendix tables 15 and 16, we have presented various time series data from for the years 1988-1993 which can help us get an indication of how the equilibrium RER has moved over this period. The nominal exchange rate(s) have depreciated considerably. On line (1) and (2) we have the Guinea Peso against the US dollar, at the end of period and year average, respectively. By these definitions of the nominal exchange rate, the Guinea peso dollar exchange rate index went from 100 to 841 and 908, respectively, between 1988 and 1993. On line (3) we have the peso/SDR nominal exchange rate, which shows a similar depreciation of the peso.

In calculations of the *real* equilibrium exchange rate for Guinea-Bissau, neither of these the above nominal exchange rates is appropriate, however. The reason is that Guinea Bissau's trade is heavily concentrated to a few countries. About half of all imports come from Portugal and Holland; 75 percent from the European countries. Only 1 per cent is from the US (IMF 1994b, table 20) On the export side, India is the main market (for cashew nuts). Since practically nothing of Guinea Bissau's trade is with the US, the nominal peso/US\$ exchange rate has little practical meaning.

On line 4 in Appendix Table A.15 we have the trade-weighted nominal equilibrium exchange rate. This peso rate has depreciated much less than against the SDR or the US\$ exchange rates; in fact, by less than half between 1988 and 1993; it only moved from 100 (in 1988) to 341 in 1993. The trade-weighted nominal rate is, of course, the only relevant one to use in estimations of the real exchange rate. The main problem in this endeavour is to find price (inflation) indices that are relevant and accurate.

Turning first to Guinea-Bissau, there are only two proxies for the rate of inflation, the consumer price index and the GDP deflator. Neither is totally relevant, nor reliable. The CPI (row 5 in Appendix table A.15) includes only three products: food, tobacco and beverages and covers the capital city only (Bissau). (The quality of the GDP deflator is not known to us, but most likely it is as shaky as the CPI). Both suggest that the nominal price level in Guinea Bissau has increased almost by a factor of 10 between 1988 and 1993 (reflecting an annual inflation rate above 50 percent.).

Finally, there is the question of what "deflator" proxy for inflation in trading partner countries that one should choose. Unfortunately, no price index has been calculated for Guinea-Bissau's actual trading partners weighted by each country's actual share of Guinea-Bissau's imports in the various years. (These shares have fluctuated markedly.) The best proxies we have found are the weighted CPIs and EUPI for the "industrialized" countries which account for 85 percent of imports into Guinea-Bissau. We have also presented the same indices for Portugal and Holland, the

two single most important exporters to Guinea-Bissau during the period (lines 7 and 8).

We find that the nominal depreciation of the peso against the trade-weighted partner currencies has been less than half the inflation rate (same if we use the Guinea-Bissau GDP deflator). It is also evident that it does not matter much which of the proxies for "foreign" prices we use in the calculations; they have only increased modestly during this period — compared to inflation in Guinea-Bissau. The unambiguous conclusion is: *the trade weighted real equilibrium exchange rate for the Guinea-Bissau peso has appreciated considerably, almost by 300 percent, over the 1988 to 1993 period.*

The relation to the inflow of aid is not possible to quantify in an exact manner; the number of observations is far too small to permit econometric testing. There is a weak year-to-year correlation between changes in the estimated ERER and changes in the inflow of total aid, but this has little meaning. The relevant question seems to be: are there any other means by which the real exchange rate could have appreciated. When two-thirds of imports are paid for by foreign aid, and there is no other financial capital inflow than aid, it is impossible to find any alternative explanation for the appreciation. It simply must have been caused by the massive aid inflows.³

(3) Indirect Evidence

An appreciation of the real exchange rate is tantamount to an increase in the price of non-tradables relative to tradables. Indirect evidence on real exchange rate appreciation of the peso over the past decade can thus be obtained by looking at changes in the real prices producers in the tradable sectors receive. The prices of main tradables have not kept up with the inflation rate, as one would expect in the absence of a real appreciation (for given terms of trade and domestic taxation; cf. below). The IBRD has estimated the real price of the main export goods, i.e. the agricultural products, to have declined by more than half (52 percent) between 1981/83 and 1989/91. This happened despite the facts that: (i) the export tax on cashew nuts was lowered from 80 per cent in 1987 to 25 per cent in 1991 and (ii) the world market price for cashew nuts has shown no clear trend (in current dollars). We can thus not find that factors other than the real exchange rate appreciation lie behind the sharp decline in domestic real product prices for exports in the Guinean economy.

Considering the negative real price developments for the main agricultural products, one would expect a decline in production and a movement of factors of production out of these sectors. Production does not seem to have declined, however.

³ That there is no strong correlation between annual changes in aid and ERER is probably due to the fact that there has been large year-to-year variations in the Guinea-Bissau inflation rate, which are explained by many other factors than aid.

Total agricultural production has increased, roughly at a par with population growth (FAO 1993). Rice production has also increased in line with population growth over the 1980-1993 period.⁴ The production of cashew nuts expanded considerably in connection with the nominal devaluation of the peso in 1987. For the years 1989 to 1993, production has remained stagnant, however.

The fact that production of total and main agricultural products has not declined, but increased at par with population growth, while producer real prices have fallen substantially, may seem contradictory. This may not be the case. First, we have to recall that there is always both a substitution and an income effect of a price change. In the case of Guinea-Bissau, the substitution effect of a price decline in agricultural must be rather small. Considering the structure of the economy and its overall slow growth, there is simply no other sector into which basically illiterate agricultural labour can move in response to lower agricultural prices. There is no industry sector to absorb this labour and the public sector has little use of unskilled labour. There is simply no alternative employment for any significant part of the agricultural population, accounting for some 80 per cent of the total.

The income effect of a price decline, on the other hand, is likely to be strong. Declining real producer prices means lower incomes for the producers and the only way to try to compensate for this is to increase volume (production) by working harder.⁵ The Dutch Disease concern is not so much that there will be a strong static reallocation of *existing* resources from the tradable to the non-tradable sectors in the wake of aid-induced real exchange rate appreciation. The main concern is that investment incentives are lowered in the tradable good sectors.

5A.7. The "Cure" for the Dutch Disease

The negative effect of aid on the export performance through the appreciation of the equilibrium real exchange rate can be counteracted. One way is, of course, through decreased inflows of foreign aid. This would reduce the demand for, and thereby the prices of, non-tradables directly. Production and investment would thereby tend to move back to the tradable sector. A second way is through hindering the inflows of foreign aid to actually increase incomes. This would be achieved if the foreign aid was directed to debt repayments, for instance.

Instead of counteracting the increase in income, efforts can be directed towards decreasing the detrimental impact on the traded sector. This can be achieved in two

⁴ It is noticeable, though, that over the long term, Guinea-Bissau has switched from being a net exporter of rice to be a net importer. In the 1950s Guinea-Bissau exported some 40 000 metric tons per year. Now, annual import is 70 000 metric tons.

⁵ That production increases have not compensated for more than the population growth rate still means that income per capita in the agricultural sector must have declined more or less in proportion to the declining real prices.

ways. First, the explicit trade protection mechanism may be utilized, i.e. to increase taxes on imports and/or reduce taxes (or increase subsidies) on exports. The profitability will increase in the tradable sectors, and thereby production. The second way is through an active nominal exchange rate policy, that is, through using the implicit trade protection instrument. Since Dutch Disease leads to an appreciation of the *equilibrium* RER, devaluations have to be of such magnitude that the actual RER becomes undervalued. Through nominal devaluations, the producers in the tradable sector will increase their profits, and human and financial resources will hence move back into the sector. Except for the change in relative prices, in favour of production of exports and import competing goods, this would also lead to the building up of foreign exchange reserves, which can be used for debt repayments.

PART III

SWEDISH AID EFFECTIVENESS IN A MICROECONOMIC PERSPECTIVE

Chapter 6. SWEDISH PROJECTS AND PROGRAMMES

6.1. Introduction

In the previous chapter the effects of aid in a macroeconomic perspective were analysed. The necessary prerequisites for economic growth and development were identified and the position and progress of these in Guinea-Bissau were investigated. It was concluded that few sectors of the Guinean economy have been unaffected by foreign aid. In some cases, aid has not favoured the progress of the growth determinants and it has been detrimental to the advancement of others. However, no distinction can be made between the effects of Swedish aid and that of all other foreign aid at the macro level. Overall, it is difficult to find any areas where the indirect, macroeconomic impact of aid on economic performance has been positive. Only in the most recent years, aid may have contributed to raising the growth potential of the Guinean economy, through the increased demand from donors, including Sweden, for economic reforms. Somewhat ironically, these reforms aim at restructuring an economy that aid was highly conducive in building up in earlier periods.

In this chapter we will look at the direct contribution of projects and programmes financed by Swedish aid to economic output and other objectives. This will allow for a more specific analysis of the effects and results of the Swedish contributions. On the basis of previous evaluations of the projects, the achievement of the objectives and the cost efficiency of the largest SIDA projects will be considered. We have not made our own project evaluations. During a one-month stay in Guinea-Bissau, the authors had the opportunity to take a brief look at some of the projects, and this will, of course, have some bearing on our work. It should be stressed that many of the evaluations we have studied were carried out many years ago and therefore, no formal analysis of the present situation in every project is possible. This fact is partly because we have not undertaken our own evaluations, but it also reflects the fact that the objective of this report is to evaluate effectiveness over the whole 20 years of co-operation. The long time perspective is, therefore, deliberate, but it should be kept in mind that the descriptions are not always accurate for the present co-operation in the different sectors. The analysis of the main SIDA projects are carried out in section 6.2. In section 6.3 the performance of other Swedish donors is briefly described. To put the results of the Swedish project aid in perspective, the experiences of some other bilateral and multilateral donors are discussed in section 6.4. Section 6.5 summarizes and concludes the chapter.

6.2. Main SIDA Projects and Programmes

This section describes the main Swedish projects and summarizes the conclusions drawn from previous evaluations. The sectors considered are agriculture, education, industry, health, artisanal fishery, telecommunications and programme support.

6.2.1. Agriculture

SIDA's main engagement in the agriculture sector is an Integrated Rural Development Programme. The programme, from now on referred to as PDRI, started with an agreement in 1979. The location is in the north-west, zone 1, which covers approximately one third of the country's surface. The population in the area is approximately 300 000. In economic terms it has been the single most important Swedish engagement in Guinea-Bissau for the last ten years. Total disbursements until 1992/1993 were SEK 182 million in current prices.

The project aims at general socio-economic development. The overall objective is to improve "the standard of living" in the district and the target group is the rural poor. The time perspective is long-term and the active participation of the target group is given great importance. Since 1990 the project has gone through a major restructuring process. The concept of integrated rural development has been partly abandoned and the focus is now on increased agricultural production. The number of sub-projects was reduced from 15 to 8 between 1990 and 1993 and the staff was reduced from 1000 in 1991 to 175 in 1993¹. Following the overall liberalization of the economy, some activities have been farmed out to private companies.

The evaluations of the PDRI that have been undertaken do, of course, not reach exactly the same conclusions. However, some opinions seem to be rather general. Estimates of the impact on agricultural production vary from acceptable to small. Problems referred to are lack of incentives for farmers to increase their production, an inefficient marketing system, too high a level of technology and extension workers with insufficient qualifications because of a too theoretical training. Primary health is the only sub-project considered to be more than acceptable. The sub-project, adult education, on the other hand, has suffered from reduced interest from both the Ministry of Education and the participating people, and has now been terminated. Water supply is said to have shown a weak performance, as low as 15 percent of the target one year, and slow fulfilment of objectives. This activity has been significantly improved recently. The work has been turned over to a private firm which has both achieved the objectives set up by the programme and cut the costs.

¹ The programme has at some times included as many as 18 different components.

The most recent evaluation, finished in early 1993, delivers a more far-reaching critique than the previous ones.² "The evaluation team has assessed and evaluated PDRI and found that the present objective, 'to improve the standard of living for the rural population' is too vague, that the ambitions have been high and ended in too many activities of frequently poor value and quality, that the general impact of PDRI has been low to modest, that the cost-effectiveness has been disastrously low, that the management and organisational structure has been autocratic and that the target group has had little influence on PDRI planning and decisions". The low cost-effectiveness is mainly due to the fact that too much of the available resources has been spent on construction, vehicles, machinery and technical assistants (Nilsson et al. 1993).

Our opinion is that the concentration of activities and the cut in personnel which have taken place probably have improved the possibilities of achieving the objectives at reasonable cost. Furthermore, the overall liberalization of the economy, and the subsequent increase in programme support, have increased the supply of incentive goods and led to the growth of new markets in rural areas. The economic incentives for peasants to adopt new techniques in order to increase their yields have therefore increased, and the preconditions for effective aid have improved.

Problems still remain. The organization is too big and the administration too complicated. Total expenses during the first semester of 1993 were SEK 5.6 million. Of these 4.9 million were spent on personnel, transport and recurrent costs (for instance fuel and repairs), i.e. 87 percent. This probably has to do with the unrealistic ambition to cover a zone inhabited by 300 000 people living in 1200 villages. We very much doubt that it is possible to have a significant impact on so many villages. There is a clear risk that the time-consuming work of implementing new agricultural methods in little developed peasant societies is too spread out. The complicated organization also leads to too much time being spent on getting hold of a car or necessary services and goods. "Circumstantial administrative routines for field-work - access to transport, fuel, subsistence allowance, etc. - have obstructed the possibilities for the important work of monitoring the effects of the programme on the development of the country side" (SIDA DCO Memo, 8 April 1993). This severely reduces the efficiency of the staff. Some of the foreign experts estimate their efficient working time to be as low as 30-40 percent.

The contribution of domestic financial resources has to be increased. The domestic contribution comes both from the PIP and from the recurrent budget. We do not have figures on the actual contribution to the project specifically, but in the recurrent budget for 1993, the Ministry for Rural Development and Agriculture only

² In fact it was the only SIDA evaluation undertaken in 1993 that recommended that the project should be terminated (SIDA *Utvärderingsårsbok* 1993).

gets 2.3 percent of the total (approximately 80 percent of the population depend on agriculture for their survival). The "internal" financing (through counterpart payments on import support) in the PIP going to the agriculture sector is 2.1 percent, compared to an average of 2.7 percent for all sectors. As it is now, salaries, whenever paid out, are too low to support a family, forcing personnel to spend working hours and use working equipment on other ways of making a living. Other effects of the low salaries are that competent personnel leave the project and those who remain are unmotivated to do good work. The embassy has recently (March 1994) put pressure on the Guinean Ministry for Agriculture by requiring 5 percent of the total costs to be supplied domestically. That is, the amount of Swedish financing depends on the domestic contribution. In the light of the above, we strongly support this initiative.

6.2.2. Industry

Industrial support was initiated shortly after independence in 1974. Since 1975/1976 Swedish support to the industrial sector has amounted to approximately SEK 265 million. Sweden has been by far the largest donor to the industry sector for many years, exceeding 75 percent of total funding in certain years. Industrial co-operation with Guinea-Bissau was taken over from SIDA by SwedeCorp in mid-1991. Given the large support to the industrial sector, it is notable that not many evaluations have been carried out and no evaluation has been conducted with rigorous cost-benefit analysis. In fact, we can only refer to two evaluations, both conducted by SIDA, during this period.³ Consequently, this section will be based to a large extent on reports and documentation passing between the concerned agencies and the mission in Bissau.

The overall objective of industry support has been to complement the agricultural and fishing sectors in promoting economic development. The means for this has explicitly been the policy of import substitution, i.e. to promote industrialised production for the domestic market by protecting the domestic industry with high import tariffs. The aim has also been to develop a basic industrial environment with the objective of enhancing the output of manufactured goods in the country. In 1987, a gradual adjustment of the support was initiated as more assistance was directed towards general competence building activities. No more direct financial support is consequently given and efforts are now concentrated on establishing an industry credit facility and management training. Accordingly, no more direct financial or other support is given to the companies.

³ "CMV (EP), En utvärdering av fordonsverkstaden i Bissau" 1985, and Bahrke "Socotram och andra industrier i Guinea-Bissau" 1988.

When assessing the results of Swedish industry support in more detail, a distinction is made between the periods before and after 1989/1990. Below is a brief description of each of the projects and companies Swedish aid has been given to.

The General Directorate for Industry (GDI) within the Ministry of Industry and Natural Resources is the main governing body for the state-run companies. Since 1975 GDI has received about SEK 17 million, mainly for personnel expenses. Over the years eight Swedish industrial economists have been engaged within GDI mainly for co-ordinating the Swedish part of the industrial programme. A number of Portuguese economists have also been financed by SIDA. The main purpose of the support has been to develop GDI into a competent agency for industrial policy planning and guidance and control of the state-run corporations. It is also intended that GDI should function as a service unit for the companies. To achieve this goal, units for economic accounting, administrative development and public control have been developed both by means of external expertise and by training of local personnel. The support to GDI has been seen as a strategically important component in the development of industrial capacity in the country. However, the future role of GDI is intended to change in accordance with the new economic policies in the country which partly involve the privatization of the enterprises referred to.

The SIDA support to the Bafata brickyard and tillery was initiated in 1979 and approximately SEK 18 million has been disbursed up to 1989. Both physical investments, costs for Portuguese production management and backstopping have been financed. The factory uses local inputs and simple techniques. Utilization is close to 100 percent and everything produced is sold instantly. However, prices are not set by market forces except for foreign exchange paying clients. Despite minor problems the project is thought to have reasonable expectations of developing into a sound industry with favourable social and economic impacts.

In 1983 SIDA decided to finance technical assistance to the Guinave ship repairing yard in Bissau. A total of SEK 19 million has been paid out. Since 1984 the technical assistance is handled by a Portuguese company, Lisnave. The activities were evaluated in 1988 and the findings were largely of a favourable nature: a positive cash-flow and a doubling of the number of ship repairs. Furthermore, the technical competence of the work-force had increased. The Fundicao foundry is connected to the Guinave shipyard and was rehabilitated in 1981 with SIDA funds. A total of SEK 6 million has been spent as of 1989 including planning, equipment, technical assistance and training. The objective is to produce simple tools, spare parts and inputs for industry using existing scrap-iron as raw material.

A decision to establish a workshop was taken in 1978 and the Guimet mechanical workshop was started in 1983. Since the start in 1979 an amount of SEK

25 million has been disbursed. Three different types of activities can be discerned: (i) Production of tanks and truck additional, (ii) Manufacturing of spare parts, (iii) Agricultural tool production. An evaluation carried out in 1988 showed a number of flaws: low level of production; lack of proper accounting and managerial inadequacy.

Starting in 1982, SIDA supported a small-scale project to develop traditional village handicrafts, the AAPP handicraft project. A total of SEK 4 million has been allocated for the financing of a project manager, import of materials and other inputs. The project was said to function satisfactorily but support was gradually reduced over the period 1990-1991 and is now terminated.

Socotram wood industry company is the largest industry in the country with 500 employees. The company consists of three sawmills, one furniture factory, one inlaid floor factory and one vehicle workshop. SEK 57 million were disbursed in the 1977-1989. A 1988 evaluation recognizes the potential to develop the company into a well functioning private business, but points to a number of problems both in the running of the company (no profit despite timber being practically free of charge and a full liquidity contribution by SIDA) and in the technical assistance which is ineffectively utilized.

The CMV engineering workshop is a repair and maintenance workshop mainly for heavy Volvo and Berleit vehicles. Since 1982 SIDA has financed buildings, equipment, training and running by a total of SEK 40 million. Utilization of capacity has been as low as 55 percent during the last years and the company has done unpaid work equivalent to 22 500 work hours. Several observers have suggested that most work actually carried out at the workshop was not on Volvo and Berleit trucks from Guinea-Bissau, but on Senegalese and Guinea-Conakry registered trucks because it was found to be more lucrative. After 1989 no further support was given.

The only not fully state-owned company on the list, Folbi industrial forestry company, was a joint venture enterprise for the production of sawed woods and plywood. Socotram owned 60 percent of the shares with the remaining 40 percent equally divided between Bohmans Fanerfabrik Development AB and Swedfund. The joint venture agreement was signed in 1981 and the factory was started in 1983. In 1986 it was realised that a restructuring of the company was necessary and that SIDA funds should be allocated to this purpose. Between the years 1986 and 1989 SEK 12 million were disbursed. Swedfund has discontinued its engagement.

Resting on these evaluations and reports we draw the conclusion that much of the Swedish support to this sector has been unsuccessful. In fact, given the high Swedish involvement in this sector, it may even be that it has contributed to the detriment of the Guinean economy: "The industry can in several aspects be said to have been an economic liability for the country rather than an asset" (SIDA 29

September 1989). As not enough attention was paid to the difficult basic conditions for industrialization in Guinea-Bissau, the recipient enterprises, of which the majority were publicly run parastatals, continued to show meagre results.⁴ In the 1987 Country Report, the costs of Swedish support were said to exceed the total turnover of the enterprises. Fulfilment of the (operative) objectives - "getting the companies to produce" - has been meagre and, moreover, costly since technical assistance has been badly utilized (de Vylder 1987). It would seem, then, that industry support up to the early 1990s show low effectiveness combined with low efficiency, i.e. not only were the wrong things done, they were done at a very high cost.

6.2.3. Education

Total Swedish support to the education sector up to the financial year 1992/1993 has been SEK 80 million in current prices. The amount spent on education more than doubled from the year 88/89 to 89/90 and has been kept at that level since. Until 1986 the focus was on commodity aid to primary and adult education. Since then SIDA has taken on greater responsibility and diversified its support into new areas, particularly to the development of institutional capacity through financing of technical assistance (SIDA 12 November 1990). The present objectives are to contribute to an enhanced quality of the primary schools, leading to reduced drop-out rates and in the long run increased school enrolment rates. The target groups are primary school students and staff and, to a lesser extent, secondary school students. The concentration is on support to: (i) the development of a relevant curriculum, (ii) local production and distribution of relevant textbooks and study material to primary school pupils, (iii) the upgrading of teachers in service, and improvement of the quality and relevance of initial teacher education, (iv) the local pedagogical research capacity, (v) and the planning and co-ordination capacity, as well as the decentralization, of the Ministry of Education.

SIDA and the Ministry of Education (in Bissau) performed an evaluation of the impact of Swedish aid to the education sector in 1982. The evaluation team remarks that the effects of the Swedish support on the sectorial objectives were hard to isolate from other relevant determinants, since Swedish support was not directed to certain projects. The method was to describe the development of the sub-sectors which had received Swedish support and compare this to the objectives for the overall development of the sector. The Swedish contribution to the sub-sectors was regarded as fairly successful. This, however, stood in sharp contrast to the achievement of the objectives for the sector as a whole. The quality of the sector was considered as very

⁴ See Table A.2 in Appendix.

low, with for instance a very theoretical curriculum, a dissatisfying level of education of the teachers and one of the highest drop-out rates in Africa. Furthermore, provision of education was very unequal as between genders, the regions and between city and countryside.

In 1990 an evaluation of the support for the years 1988-1990 was performed. The effects from research, construction, training and support to the education reform all fell short of expectations. The evaluation found a low impact on the quality of education. The number of children attending school had not increased and the inequality between sexes and regions persisted.

Three evaluations were undertaken during the first quarter of 1994: one of the overall situation in the education sector; another of the Swedish institutional support; and a third of the Swedish support to the training of teachers and production of school books and material. The overview of the overall situation gives a rather dismal picture (Hermele 1994). The development in the sector is getting further and further away from the primary school objective, "to ensure education for all at year 2000". The financial situation is restrained. The SAP has not lead to increased revenues for the public sector. In order to increase the domestic expenditure on education in the short and medium term, a redistribution within the government budget is thus needed (cuts are recommended in expenditure on defence, foreign affairs, and the President cabinet). The major concern is not the lack of financial resources, however, but rather the use of the existing resources. The present use of resources favours the central administration and investments, on behalf of actual educational activities and the recurrent costs (mainly salaries to the teachers, which is identified, together with the school language, as the most important problem to address). An indication of the inappropriate allocation of resources within the sector is given by the fact that the sector has US\$56 per pupil and year in disposal, but that only US\$16 per pupil and year are used for recurrent expenditure in the primary school (SIDA 2 May 1994). Consequently, the conclusion regarding foreign aid is that it is not recommended to increase the inflows of foreign aid, but rather to improve the utilization of existing funds. Foreign support is not, and cannot be, sufficient for a functioning education sector.

The other two evaluations reinforce the dismal picture of the state of the education sector in Guinea-Bissau. The fields in which Sweden supports the sector, for instance the decentralization of administration, support to teachers, establishing of small libraries and training of teachers, are no exceptions. However, the actual contribution from Swedish aid and the fulfilment of the objectives of Swedish aid are hardly discussed in the evaluations (one exception is the school book editor, where the distribution of the books is referred to as a problem, while the production runs

satisfactory). The evaluations thus give little information about the achievement of objectives and the cost-efficiency of the projects and programmes.

To sum up, Swedish support has in some cases achieved the output objectives, for instance regarding production of school benches and school books. However, the overall unsatisfactory situation in the sector has led to this production not being able, in any significant way, to contribute to the achievement of the sectorial objectives.

6.2.4. Health

Sweden supported the health sector in Guinea-Bissau before independence. After 1974 assistance to this sector has primarily been directed to the setting up of a national health laboratory (LNSP) and, at times, financing of import of drugs. As from 1990, support is given to an institutional co-operation between the LNSP and the Swedish Bacteriological Laboratory (SBL). The health laboratory has gone through a positive transformation: from initially being supplied with too technically advanced equipment it has now found a more suitable level of technology. The laboratory may be regarded as a comparatively successful aid project in Guinea-Bissau. However, it should be remembered that much of its current success is to a large extent due to the fact that not only the capital costs, but also the recurrent costs (including wages) are financed externally. Suggestions for future activities are continued support to the LNSP-SBL co-operation including HIV diagnosis at the LNSP, while it has been decided to level out the support for import of drugs.

The health sector is very aid-dependent. The most severe shortcoming seems to have been the absence of a national health policy. This makes health aid difficult to direct in a proper manner. Because Guinea-Bissau never turns down an aid proposition, the number of donors and large amount of aid have encouraged a fragmented health system, distinguished by a low cost-awareness and the non-appearance of a long-run sectoral development strategy. Due to limited donor co-ordination it has been questioned whether SIDA should engage in the health sector at all. The large number of donors only draws on limited domestic resources and reduces cost-effectiveness. It is argued on the other hand that Swedish support is favourable to the long-run results as it aims to enhance the domestic institutions and the operational and planning competence of the Guinean health sector. The concentration of Swedish support on the national health laboratory partly reflects the fact that SIDA has acknowledged the difficulties resulting from lack of donor co-ordination.

6.2.5. Artisanal Fishery

Sweden has supported artisanal fishery since 1977. The total disbursements in current prices until 1992/1993 were SEK 82 million. Until 1990 the project was focused on

regional support. Purchasing and distribution of fish from the Bijagós archipelago were organized, as well as a selling organization in Bissau. An installation with a cold store and capacity to produce ice and repair machinery and tackle was constructed. There was also a non-commercial part with a fishery school and training and test facilities. Furthermore, a credit system was established in order to give the fishermen a possibility to obtain goods, such as fishing tackles and boat engines.

Since 1990 the support has changed focus and is now concentrated on strengthening of the administrative capacity in PESCARTE, the national artisanal fisheries authority. This was a response to new government policies in the sector. The commercial part of the fishery sector was handed over to private entrepreneurs and PESCARTE focused on development and public control. The present support contains mainly financing of a technical assistant, working at PESCARTE. However, some credits, education and guidance to the fishermen in Bijagós are still in place. The target group has been the fishermen and their families, and since the change of focus, also the staff at PESCARTE. The objectives for Swedish support have been: (i) to contribute to an improvement of the country's food supply, (ii) to contribute to increased incomes among the fishermen, (iii) to contribute to competence development, among the fishermen as well as in PESCARTE, (iv) to contribute to more efficient allocation of resources and more efficient administration within the sector. Support to the sector will be stopped during 1994, according to a SIDA paper, due to PESCARTE's poor adaptability to the market system. However, a small budget for management and policy will remain and be channelled through the personnel and consultancy fund.

Before 1985, four evaluations were carried out. Their main ambitions were to describe the activities and compare them with the plan of operation and to estimate the project's socio-economic impact (SAU, Öståker, 1993). The project suffered from delays at the start. Identified reasons were insufficient local administrative capacity, problems with recruitment of foreign experts and operational disturbances. Further problems at the beginning of the project were deficient accounting and unclear objectives. According to the evaluations, the supply of fish in Bissau has increased as a result of the project, even though the targets set were not achieved. Living conditions in the Bijagós archipelago were also considered to have improved as a result of the project. The supply of fishing tackle and boat engines, improved transportation and storage facilities and the fishing school all have contributed to higher incomes. However, effectiveness has been reduced by the low prices of fish (fuelled by the inflows of fish on to the market caused by the policy of letting the Soviet Union fishing fleet pay in kind for their fishing licences), which has favoured Bissau citizens rather than the fishermen, and the cost-effectiveness was considered as very low.

6.2.6. Telecommunications

Sweden has supported the telecommunication sector in Guinea-Bissau since 1977 to a total of about SEK 80 million. The support started out with the financing of an automatic telephone network serving 6500 subscribers in Bissau and 10 main district communities. After installation, an agreement was made (in 1981) by which Sweden would finance running, maintenance and supply of spare parts - through Ericson - and technical assistance from Swedtel. Prior to this, SIDA's objective was not to get more involved in this sector. Financial support had been looked for from other donors, notably some Arab funds, to no avail.

The Guinean telephone authority had the responsibility of constructing the buildings for the stations. This they did, it was noted in 1981, with remarkable aptitude and speed considering the difficulties experienced with construction in other projects. However, when the installations were to be taken into use it was realized that the Guinean buildings were so poorly constructed that they could not be used without considerable repair work and that the issue of generating power to the system had not been addressed properly. The emergency diesel engines had to be run continuously, something they were not intended for. In November 1988, a new agreement for the sector was made comprising SEK 29 million over a 4.5 year period. SIDA also participated in discussions concerning a new investment programme covering SEK 75 million. This was never implemented, however, since four months after signing the agreement the Government of Guinea-Bissau went "behind SIDA's back" and sold 51 percent of the telecommunication company, at very favourable terms, to the Portuguese company Marconi. Since continued support for the sector would mean direct support to the Portuguese company, the agreement was immediately suspended (March 1989).

6.2.7. Programme Aid

Sweden has given import support to Guinea-Bissau since 1969. Up to 1974, SEK 20 million had been disbursed to PAIGC for the purchase of consumer goods, school materials, medicine and hospital equipment. Table 6.1 shows the figures for import support over the period 1974 to 1993.

Table 6.1: Swedish Import Support, SEK Million, Current Prices.

Agreement period	Amounts (MSEK)	Untied	Tied
1974/1975	14	na	na
1975/1976	38	28	10
1976/1977	35	20	15
1978/1979	50	35	15
1980/1981	20	15	5
1982/1983	25	17	8
1984/1985	10	10	0
1986/1987	14	14	0
1988/1989	6	6	0
1990-1992	17	17	0
1992/1993 ¹	40	40	0
Total	229	162	53

Source: SIDA Memo, 5 October 1987 and *Bistånd i Siffror och Diagram* 1993.

1) Not disbursed, hence total excludes these funds.

During 1978-1982, Import Support (IS) was tied to specific end uses, e.g., ferries for inland public transport and building material for a large construction of residential houses. This was found to be administratively burdensome. Consequently, the IS was concentrated on ministries and groups of goods. Import support to the health sector is treated separately and differently from other IS. The first IS agreement in the health sector, SEK 7 million for essential drugs, vaccines and medical equipment, was signed in 1989 to cover the period 1990-1991. In 1991 it was extended to cover 1992, with a larger amount of SEK 16 million, to replace the cancellation of Italian funding for a similar programme. The Swedish funds are administered by the World Health Organization (WHO), The United Nations Children's Fund (UNICEF) and the government health laboratory, and there is no requirement to pay counterpart funds (Martin 1993).

In 1987 (SIDA-Memo, 5 October 1987) it was concluded that there had been problems with the IS programme. Notably, it was realized that the country had no competence in making international purchases in a business-like manner. Furthermore, the recipient had not been able to develop distribution plans for the goods and to find out in retrospect how the distribution had been done. These difficulties resulted in the

recruitment of a buyer to assist the trade ministry in administrating the IS and to support other ministries with their purchases.

Import support was up to 1987 seen as a vital contribution to the overall goal of aid to Guinea-Bissau, namely, to promote economic growth. When the Government launched its IBRD/IMF-supported structural adjustment programme in 1987, the objective became one of 'being an obvious complement' to the World Bank resource contributions made within the framework of the SAP. As to judgement of overall economic policy, SIDA was to use the conclusions drawn by the two Bretton-Woods institutions, but the final decision regarding their own contributions was to be its own (SIDA Memo, 5 September 1991).

An evaluation of SIDA import support was conducted in 1993 (Martin). The report is generally positive while some problems are brought out. The most difficult problem is the fact that the import support has done little to promote internal trade, leading to a situation in which most of the goods imported by SIDA money go to a handful of traders. Moreover, these traders make a large profit on these goods due to the weak domestic trader market. The report also claims that SIDA has not imposed specific conditions on the collection or utilization of counterpart funds.

Sweden has also supported Guinea-Bissau through balance of payment support and debt settlements. Within the framework of the Paris Club, Guinea-Bissau was granted a Structural Adjustment Facility (SAF) of 1.5 MSDR⁵ in October, 1987. An additional 2.3 MSDR was agreed upon in July 1989. The main Swedish support to the structural adjustment programme in Guinea-Bissau has been within the framework of the Special Programme of Assistance (SPA), worked out in 1987 by the multilateral institutions and a number of donors. The programme was designed with the objective of increasing and co-ordinating import and balance of payment support to a number of very poor countries in Africa. The criterion for a country to be granted SPA assistance was poverty, indebtedness and a structural adjustment programme recognised by the IMF. Guinea-Bissau had no difficulties qualifying in this respect. Balance of payment support and debt relief have been used for the objectives given in Table 6.3.

⁵ SDR = Special Drawing Right.

Table 6.2: Balance of Payments Support and Debt Settlements, SEK Million.

Fiscal Year	Amount	Purpose
1986/1987	12.4	Payment of debt to the Swedish Government
	(7.4)	Folbi credit
	(5.0)	Swedefund loan
1987/1988	0.2	Adj. of part of Guinea-Bissau's debt to Sweden.
	20	SPA 1 (part of SAC ¹ 1): 18 million released; import of goods
1988/1989	20	SPA, 1989 (SIRP ²)
1989/1990	20	SPA, 1990: oil import
1990/1991	1.6	Adjustment of debt to the Swedish Export Credit Guarantee Board (EKN)
1991/1992	10	SIRP support through the World Bank
1993	13	Debt relief through the MFA

Source: REWA, SIDA-Memo, 15 November 1993.

1) Structural Adjustment Credit.

2) Social and Infrastructure Relief Programme.

Table 6.3: Balance of Payments and Debt Relief, SEK Million, 1986-1993.

Item	SEK million
SIRP	30
Debt adjustment to Sweden	14
General import	37
Oil import	20
Debt relief through the MFA	13
Total	114

Source: SIDA Memo 29 March 1994.

6.3. Other Swedish Donor Agencies

6.3.1 Other Public Aid Agencies

BITS' engagement in Guinea-Bissau has been limited. Over the years 1988/1989 a total of ten Guinea-Bissau citizens have taken part in international courses arranged by BITS. The courses are: Telecommunication Management (1 person), Operational Management in Telecommunication (2) and Electric Power Engineering and Management (1) in 1988/1989; Remote Sensing (1), 1989/1990; Applied International Management (1), 1990/1991; Human Rights (1), Coastal and Marine Environmental Pollution Prevention(1), 1991/1992 and Water Management (1) and Development of Cadastral Systems(1) in 1992/1993. BITS' financial contribution has been a total of SEK 650 000. Evaluations of particular courses are done by BITS, however no individual follow up is undertaken.

As of 30 June 1992, a total of SEK 4.2 million has been contributed by SAREC (the Swedish Agency for Research Co-operation with Developing Countries) to various projects. In 1976 SAREC was invited by the Ministry of Health in Bissau to participate in a meeting on national nutrition planning. In 1977, the co-operation was extended to research collaboration in order to map the nutritional situation. Contrary to previous SAREC commissions, the agency itself undertook complete administrative responsibility. The nutrition project is considered as comparatively successful and sustainable. SAREC has also supported the national social science research institute (INEP). Finance goes to publications, exchanges with foreign countries and international conferences, researchers' training and studies. For fiscal years 1990/1991 and 1991/1992 an amount of SEK 500 000 was budgeted per year. SAREC has also contributed to HIV/AIDS research in Guinea-Bissau.

6.3.2. Non-Governmental Organisations (NGOs)

A total of 38 so-called co-operants have worked for the African groups (Afrika gruppernas Rekryterings Organisation, ARO) in Guinea-Bissau over the years 1977 to 1993. They have been engaged in a number of different fields, such as health, education, administration, social work and technical engineering. For the first ten years only one project, a day care centre, was running. Since then a number of projects has been initiated ranging from transportation of equipment for the physically disabled to solar energy for lighting in a health clinic to a textile project. A total of nine projects have been initiated in Guinea-Bissau by co-operants with a total cost of about SEK 890 000.

In a report by Karnerud (1993) an assessment of the results of the projects and ARO's overall work in Guinea-Bissau is given. The most prominent concern seems to

be the lack of explicit objectives in the work of ARO in Guinea-Bissau. This applies to both the work of individual co-operants and the projects. According to Karnerud, ARO's work has also contributed to the uneven distribution of services and aid-financed projects as a substantial part of the work and projects have been located in the capital Bissau. The main reasons for the limited results are thought to be structural problems within Guinea-Bissau, for instance, lack of domestic development policies, lack of monitoring and fringe systems, the lack of management competence at all levels, the general low level of training and formal education and a over-dimensioned public sector in relation to the domestic resources. According to the evaluation, not enough attention has been paid to these aspects when implementing the assistance. As from 1993 ARO has terminated all work in Guinea-Bissau, largely due to lack of results and a concentration of efforts on southern Africa.

Save the Children (Rädda Barnen, RB) has disbursed a total amount of SEK 17 million over the years 1988 to 1992. The initial intention was to build a country programme in Guinea-Bissau based on the United Nations children's convention with support to efforts in health, education and rehabilitation. This has not been achieved and is largely blamed on the difficulties in finding a suitable counterpart. The relatively large share of support to the mother and child-care programme has given RB a "health care organization" profile in Guinea-Bissau. The children's-rights work has been limited to regional co-operation and a small number of other contributions. Future work will be concentrated on children's-rights activities and mother and child-care programmes.

The Varberg Guinea-Bissau Association has supported two day-care centres in Guinea-Bissau. SIDA funds have been disbursed to finance the construction of a day-care centre for about 100 children of employees at the Ministry of Health. The centre was opened in 1991. A total of SEK 1.25 million has been contributed by SIDA over the years 1988 to 1990. Other contributions have been SEK 200 000 and an amount of SEK 225 000 has been raised from the associations own funds during the same period.

Finally, the Bodafors Guinea-Bissau Friendship Association received an amount of SEK 100 000 in 1992 for the purchases of books and fitting of the library at the Mores boarding school.

6.4. Experiences of Other Donor Countries and Agencies

During our stay in Bissau we had the opportunity to talk with representatives of other donor countries and agencies. In this section, the experiences and strategies of some of these donors are briefly presented. To put the generally disappointing Swedish experiences from project aid to Guinea-Bissau in perspective, we would like to

emphasise that the tentative impression from interviews, documents and evaluations from other donors is that they have experienced the same difficulties as Sweden.⁶ (The evaluations presented below cover by no means all the projects supported through the different donors, and their results might therefore not be representative of the effectiveness of overall support.) A general opinion among the representatives we talked to was that weak absorption capacity, and deficient, deviant and unclear development objectives and priorities on the part of the Guinean Government make Guinea-Bissau a difficult country to co-operate with, even by African standards. An equally recurrent theme was poor donor co-operation and co-ordination. Consequently, most of the other donors, like Sweden, have undertaken reorientation's in the strategies and objectives of their aid.

6.4.1. Holland

Holland supported Guinea-Bissau bilaterally from 1978 to 1990. The focus was on infrastructural improvements and the support was channelled through the public sector. Among the activities financed by Dutch foreign aid was a rural development project in the region of Cacheu. It was initiated in 1977 and the main objective was to increase agricultural production in the region. The project was evaluated in 1980 and the evaluators found it to be in most aspects a failure. Holland therefore terminated the support to the project, but the Guinean Government found support from Sweden instead. In spite of the critical Dutch evaluation, the programme continued with more or less the same organization, philosophy and objectives, and is now the major Swedish project (PDRI).

Another example of Dutch foreign aid to Guinea-Bissau is an infrastructure project with the objective of creating a transport system and an organization for distribution of rice within the country. The project started in 1976/1977 in the southern part of the country. Evaluations in 1987 and 1989 showed that the project would not reach the objectives set. The greatest difficulties were getting the rice from the rice paddies to a central point in the south. There has also previously been custom duties on rice even for trade within the country, further reducing the possibilities for an effective project. The project was terminated in 1992.

A settlement upgrading project was introduced 1985. The objective was to improve housing conditions in Bissau. An evaluation in 1990 showed that the project had contributed significantly to housing conditions and that the project could play a crucial part in the country's housing policy. In 1982, Holland together with Canada initiated a project against bush fires. Holland took over the whole project in 1984, and

⁶ For instance, the European Community's experience of support to an integrated rural development programme is very close to that of Sweden.

extended it to incorporate planting of fruit-trees and an extension service. The long-term objective was to reduce and eventually stop environmental pollution in the countryside. The project was evaluated in 1992 and showed positive results. The evaluation team suggested that support to the project should continue.

6.4.2. The European Community (EC)

The major part of the support to Guinea-Bissau from the EC is determined in the Lomé conventions, where an indicative programme stipulates how much national support can be given. Table 6.4 shows the amounts committed, engaged and disbursed at the end of 1992, and the number of projects, programmes or studies in the three current Lomé conventions.

Table 6.4: EC Foreign Aid to Guinea-Bissau, Current Million ECU¹.

	Commitment	Engaged	Disbursed	Projects/programmes/ studies (numbers)
Lomé II (1980)	25	25	19	30
Lomé III (1986)	38	37	18	16
Lomé IV (1991)	42	7	0	9

Source: EC "Development Co-operation with Guinea-Bissau", 1993.

1) ECU = European currency unit.

The indicative programme for Guinea-Bissau connected with Lomé II was signed in 1980. Funding was initially set at ECU 23 million, but was raised in 1983 to ECU 25 million. Rural development, economic and social infrastructure and technological co-operation were defined as priority sectors. The most important project within this programme is a rural development programme in the eastern part of the country. ECU 6.8 million has been committed to the project, of which ECU 5.8 million (86 percent) has been disbursed.

The indicative programme connected with Lomé III was signed in 1986. Rural development and development of food resources were defined as priorities. The rural development programme from Lomé II was followed by another programme in the same district. ECU 23.8 million was committed, of which ECU 8.3 million (35 percent) has been disbursed. The project has had severe problems with both

organization and implementation and was reformulated in 1992 and split into two administratively autonomous parts. The objectives of the project are: (i) encourage the private sector through credit lines, (ii) to support the agricultural production, (iii) to improve rural roads, (iv) education of extension workers.

The indicative national programme with Guinea-Bissau connected with the Lomé IV was signed in 1991. The total commitment was ECU 41.5 million. Road infrastructure and natural and human resources are priority sectors. The major project is to rehabilitate 113 km of road and to construct two bridges. The total amount committed through the Lomé conventions is ECU 104 million of which ECU 37 million (36 percent) has been disbursed. Additional funds are channelled through regional support to West Africa, some projects co-financed with NGOs and food aid. Another important source of Guinean income is a fishing agreement for the period June 1991 to June 1993, by which the EC gives the Guinean Government ECU 13.3 million as compensation for letting EC fish on Guinean territory. (In addition to this agreement, the fishermen have to pay for fishing licences.) According to an EC representative in Bissau the total amount of EC support is incorporated in the Guinean budget. Counterpart funds are collected from balance of payments support, and these are tied to be used in the social sectors.

We have seen two evaluations of projects financed by the EC. The first, undertaken in 1985, concerns a health and agriculture project initiated in 1979. The evaluation considers the project to be successful and recommends expansion. The second, undertaken in 1992, evaluates two import support programmes. They are both considered to have had a significant positive impact, especially through decreasing the deficit in the balance of payments. The collection of counterpart funds was assessed as successful in one of the import programmes but not satisfactory in the other. It should be mentioned again that these two evaluations might not be representative of the total support from EC, and no assessment of the overall effectiveness of the EC support can be given.

6.4.3. UNDP

The United Nations Development Programme (UNDP) started its fourth country programme in Guinea-Bissau in 1993. Past experience, as revealed in interviews with people working for the UNDP, has shown that the lack of donor co-ordination and a national development plan formulated by the Guinean Government themselves led to ineffective use of resources. There has therefore been a shift in the strategy towards what is called a Programme Approach. This strategy is focused on the local capacity to formulate, co-ordinate, implement and evaluate development programmes and strengthening of the negotiating power of the Guinean representatives. Priority sectors

are: (i) support to capacity building in the public sector, (ii) support to the social sectors, (iii) promotion of the private sector, (iv) support to the management of national resources for sustainable growth. The total funding over the five years is US\$ 27.4 million, and the distribution among the priority sectors is shown in Table 6.5.

Table 6.5: UNDP Aid to Guinea-Bissau, Current US\$ Million, 1993-1997.

	Amount	Percentage
Public sector	6	21
Social sectors	4	15
Private sector	3	13
National resources	6	21
Total programmed	19	70
Not programmed reserve	8	30
Total	27	100

Source: UNDP 1993.

Among the public sector programmes is support for a reorganization of key ministries and the establishment of new statutes for public employees, aiming at increasing efficiency in the use of human resources. Another programme will establish a technical assistance programme in the Ministry of Finance, the Ministry of Foreign Affairs and Co-operation and the State Secretary of Planning to reach their short-term objectives.

Social supported is directed to the health sector, education, supply of water and improved housing conditions. The health sector support includes support for co-ordination between regional and central health clinics, support for co-ordination of the fight against AIDS and some financing of drugs. Within the education sector, support is focused on strengthening the Government in the implementation of a school reform and a development plan for the sector. The promotion of the private sector goes through support to: (i) the development of a national employment policy; (ii) co-operative scheme and associations occupied in sustainable economic activities; (iii) small-scale industries and artisans, through increased availability of finance. To improve the management of natural resources support is given to: (i) the elaboration of a master plan for management of the resources; (ii) improving the quality of agricultural statistics; (iii) artisanal fishery; (iv) rural roads in the region of Quinara.

6.5. Summary and Conclusion

On the basis of previous evaluations and an analysis of project documentation, we have in this chapter presented and discussed the results of the major Swedish development projects in Guinea-Bissau. The general conclusion is that many of the evaluations point to a number of difficulties in the accomplishment of the programmes. In the agricultural sector, the integrated Zone 1 project received substantial criticism in the last evaluation for weak performance, low cost-effectiveness and unrealistic objectives. Local participation and influence of the explicit target group, the rural small-scale farmers, were considered to be deficient. The other large sector targeted by Swedish aid, the industrial sector, has seen substantial changes in the last two to three years. After considerable financial and technical support, it was concluded in the late 1980s, after evaluations and reports had criticised the programmes, that the assistance should be redirected and instead emphasize the fundamental preconditions for industrialization in the country.

In the social sectors, we conclude that Swedish aid has made considerable contributions in providing material, construction and also institutional support, especially in the education sector. However, the support has not resulted in significant improvements in the "output" indicators for these sectors, as shown in chapter 4. The evaluations of the artisanal fishery project and the import support programmes also speak of a number of shortcomings. In the former it was concluded that improvements had been achieved but at a very high cost. In the latter it is stated that Swedish import support has contributed to supplying the Guinean consumer market with incentive goods but that the results have largely favoured a small number of large and powerful traders. In the next chapter we will look at some tentative explanations for the poor results presented above.

When reading evaluations and discussing the experiences of development co-operation with representatives of other donors, a similar picture to that of the Swedish aid can be discerned: Low aid absorption capacity, deficient, deviant and unclear development objectives and priorities on the part of the Guinean Government and poor donor co-operation and co-ordination are the recurrent themes.

Chapter 7. CONSIDERATIONS FOR EFFECTIVE PROJECT AID

7.1. Introduction

For foreign aid to be effective it cannot have a detrimental indirect impact on the main growth determinants in the recipient country, such as investment in physical and human capital and export performance. If foreign aid substitutes for, rather than complements, domestic resource mobilization, it will fail to meet its main objectives, to contribute to sustainable economic growth and social development. It is also important, however, that the direct effects of aid, through investments in projects and programmes, contribute directly to these objectives. Whether these direct effects will be positive or not depends on a large number of factors. This chapter will identify some of these factors and, subsequently, investigate to what extent this has been the case in Swedish co-operation with Guinea-Bissau. It should once again be emphasized that the objective of this report is to cover all 20 years of development co-operation, so the analysis is not solely based on the present situation.

The empirical part of this chapter is based on official documents, statistical data and interviews with representatives of both the Swedish and Guinean authorities and other donor agencies. The plan of the chapter is as follows. Section 7.2 covers the necessary requirements for efficient project management that we have identified at different stages of a project, such as project appraisals, project administration, evaluations and follow-up reforms, and assesses to what extent proper methods have been used in the handling of activities in Guinea-Bissau. The requirements for the economic and administrative environment in the recipient country are analysed in section 7.3. Section 7.4 analyses the overall Swedish aid administration and section 7.5 gives a summary and conclusions.

7.2. Project Management

The concept of project management is here divided into four aspects: project appraisals, administration, evaluations, and follow-up reforms.

7.2.1. Project Appraisals

The success or failure of an aid project depends to a large extent on the preparatory work undertaken. The process of judging the feasibility of a project proposal and the planning of its implementation is therefore crucial. If no proper and realistic feasibility study is undertaken, there is a serious risk that the outcome of the project will be far from that expected and/or requirements for support will be greater than planned.

The most important aspect of the preparatory work is to define clear and measurable objectives. Objectives have two purposes, to be guidelines for the activities

and to make possible evaluations of the achievements. The personnel on the projects will be uncertain of what to do, and why to do it, if the objectives are not clearly defined. There is a risk that the activities will thereby be guided by the personnel's own objectives instead of the ones intended by the decision makers. It is also essential that the objectives are quantified. If the objectives are not quantified, a judgement of the success or failure of the project is hard to make. Since decisions on whether the projects shall continue or not depend on their progress, there is obviously a risk that this will reduce both the willingness to stop projects when this would be justified and the pace at which decisions are taken, i.e. the efficiency of change. For quantified objectives to be meaningful, a further requirement is that systems for collection of data are set up on the projects. Another important aspect to consider is the environment in which the projects are to function. This includes an assessment of not only the "need" for an activity, as expressed by the responsible ministry, but also of the demand for the product or service the project in question is to deliver.¹ Equally important is to undertake a thorough assessment of the supply side of the projects; are the necessary inputs (for instance manpower) available and what the costs will be. Especially the need for foreign experts and the costs (not only in salaries but also in housing and services) for these must be appropriately assessed.

As far as we have seen, proper and independent feasibility studies have not been undertaken for most projects in Guinea-Bissau. The demand from the market for the goods or services delivered, in contrast to the demand as expressed by the Government, seems to have been largely neglected. The integrated rural development project (PDRI) and the artisanal fishery project at Bubaque are examples of Swedish projects where the Guinean Government's price and trade policies greatly disfavoured the target groups, and thereby strongly limited the demand for the products and services. In spite of this, huge constructions requiring both domestic finance, infrastructure and human skills were completed. The inability to estimate the demand for the activity properly led to oversized projects with low cost-efficiency.

A recent example is the small-scale industry credit fund set up by SwedeCorp. It may seem to be needed as no long-term credit is available for small companies in Guinea-Bissau, but the actual demand for this kind of credit has not been assessed in the feasibility study. Hence, it is difficult to establish an appropriate level of available funds for disbursement (Duggleby 1993). Furthermore, judging by the country's

¹ It should be recalled that many aid-financed projects are not undertakings that are supposed to deliver goods or services to the private market on commercial terms. Rather, most aid projects provide collective goods (e.g. infrastructure) or public sector services that are provided at no cost, or at a nominal price, to the users. Demand can thus not be assessed in the normal ways through revealed willingness to pay, but has to be estimated by other less reliable methods.

previous credit policy and the legal framework combined with the authorities' inability to act against defaulters, this sort of facility seems to be a risky enterprise.

The effect of the scarcity of human and financial resources seems generally to have been underestimated. The need to take care first of structural bottlenecks in the form of lacking institutions or human competence was not addressed until 1987, when SIDA papers stated that aid should be directed towards promotion of the *conditions* for growth and social development. One effect of this is that the need for foreign personnel seems to have been generally underestimated in the planning process. Already in 1975 negotiation instructions from the Ministry for Foreign Affairs, Department of Development Co-operation, stated that it is important that development co-operation with Guinea-Bissau does not become personnel-intensive (MFA 1975). This has not been avoided, which will be further discussed in the next section.

In a number of evaluations, unclear and unrealistic objectives are pointed out as considerable problems. In an evaluation of the PDRI carried out in 1992, the evaluation team states that the objective "to increase the standard of living for the rural population", was too vague and not operational. An evaluation of the artisanal fishery project carried out in 1985 states that the objectives were not clearly defined at the beginning of the project, that they had changed a lot over time and that there was a weak link between objectives on the one hand and activities on the other. A general feature seems to be that the objectives have changed regularly, especially for support to the fishery and industry sectors (Öståker 1993). Every time the objective is changed, results cannot be expected to show until some years later, which makes continuous follow-up of results more complicated. On the other hand, this can serve as an indication that the activity is continuously examined and that the responsible parts are ready to question and change the prevalent strategy (hopefully towards a more successful one). A more recent example is from the feasibility study of the small-scale industry credit foundation. The objectives, as presented by SwedeCorp, are in our opinion unrealistic, given the many difficulties of operating a credit facility in Guinea-Bissau (see chapter 6).

Plans for how and when to end the Swedish support of technical assistance and finance should be made for most projects at an early stage. In order for aid to be sustainable there has to be an ambition, both from the donor and the recipient, that the project, within a specified time-frame, should be run by the recipient country itself. In the present system there are incentives for both donors and recipients to make projects last. The scarcity of good projects, as well as personal interest, make the donor unwilling to end projects and the recipients engaged in the project have work opportunities and other benefits as long as the project is financed through foreign aid.

The only agency that we could identify that had made plans for when the project should be ready to be handed over to local responsibility was Save the Children.

The projects are applied for by the Guinean Government. These Guinean applications are supposed to reflect the priorities of the recipient, but they also reveal the capacity and the interest on the recipient's part to assess the demand for a project and the financial and human requirements. When discussing Guinean applications for development assistance with representatives of Swedish donor agencies it has been claimed that these are very often non-existent or rather sketchy documents containing very little quantitative, or other, analysis. Instead the wishes of the Guinean Government are usually expressed in regular meetings with representatives of Swedish donor agencies (one problem is that the amount of the country frame for the next agreement has already been known and decided upon by then). This picture is confirmed by the applications we have seen. For the 1975/76 agreement, a Guinean government delegation delivered an application for Swedish support of SEK 30 million consisting of items to be imported to projects in different sectors of the economy. Another SEK 10 million was suggested to be used for an unknown small-scale industry development project. The application was regarded by SIDA as a reflection of the immediate difficulties facing the country (SIDA 1975). No written application prior to the 1976/77 agreement had been received. An oral description of how the proposed SEK 60 million was to be utilized was presented at the visit of SIDA/MFA representatives in March 1976 (SIDA Letter to the Government 1976).

In a two and a half page request from the Government of Guinea-Bissau of October 1977, in relation to the 1978/79 agreement, a "suggestion and justification" for Swedish aid is presented. It is claimed that no extensive explanation of the state of the nation is necessary, and no quantitative assessment of the savings achieved by the investments in telecommunications is needed. Instead the paper stresses how important all the Swedish contributions are and how well they fit into the general development of the country. Specifically, it is appreciated how valuable the Swedish untied aid is (SIDA 1977).

No formal Guinean application for the 1984/85 agreement has been located. In the Letter to the Government of 27 October 1983, SIDA does not mention a Guinean request for support. In the Letter to the Government of 11 November 1985, prior to the 1986/87 agreement, no mention of a Guinean request is included. Nor is an application mentioned in the memo of the Ministry for Foreign Affairs of 20 November 1985. The same applies to the 1988/89, 1990/91 and 1992/93 agreements.

As to the Guinean applications for financial support in relation to the SAP, it has been reported that the Guinean Government turned to Sweden for support when they found the IMF terms to be too hard. The Swedish response was that for

additional support to be available, an agreement with the Bretton Woods institutions would have to be made first. In general, there is no indication of that the Swedish policy towards Guinea-Bissau has been contradicting the conditions accompanying the SAP.

7.2.2. Project Administration

The administration of projects generally involves a number of people, both local personnel, technical assistants and the employees at the Swedish Development Co-operation Office (DCO). It is essential that the division of responsibility between these actors is clearly defined. Otherwise there is the risk that decisions will be delayed, if taken at all, with increased administrative costs as a consequence. A well-defined division of responsibility between the different actors is therefore crucial. Another important requirement for effective project administration is an incentive structure that promotes achievement of the objectives. This calls for a discussion of the incentives of the technical assistants.

Concerning the division of responsibility, the ambition of SIDA is that the recipient country has to take an active responsibility for the realization of projects and programmes (SIDA 1988). It seems that this ambition has seldom been realised in Guinea-Bissau. The SIDA personnel and technical assistants want a functioning project. If the local personnel are considered insufficiently skilled and not reliable there is a risk that they will not be given the responsibility called for. According to de Vylder (1987, pp. 26-27), this was a great problem in Guinea-Bissau in the mid 1980s. Local personnel are replaced by foreign experts to ensure a functioning project, irrespective of the negative consequences through losses in human capacity creation and learning by doing. However, the fault is by no means solely on the donor side. The recipients are often reluctant to take the responsibility. As expressed in a SIDA memo: "This (efforts to hand over responsibility to the recipients) has led to delays and critique from the Guinean side" (SIDA Semi Annual Report 1990). Our impression is that the problem has been reduced, but still remains a serious obstacle for effective Swedish aid. The number of foreign experts supported by Swedish aid has been reduced since the middle of the 1980s, but is still comparatively large, and the number of competent Guineans has increased. The division of responsibility between these foreign experts and their Guinean counterparts often seems to be unclear.

Expenditures on TA and employees at the DCO varied between 30 and 40 percent of total expenditures during fiscal years 1989/90 to 1992/93 (Table 2.6). According to de Vylder (1987), the expenses on personnel in the middle of the 1980s were more than half the country frame. There are numerous consultants working on different projects such as the PDRI, the School Book Editor and the National

Laboratory, and at most ministries where Sweden has or has had projects. The role of these consultants is formally to promote human resource development, but most of the consultants we have talked to usually spend less than half to one third of their time on this. The rest of the time is spent on day-to-day work and arranging practical necessities, e.g. for transportation, equipment or other logistics. The result is twofold. First, the expensive Swedish consultants are used inefficiently. Second, there is a risk that the Guinean counterparts do not take full responsibility when there is a foreign consultant there to hand over work and responsibility to.

The role of the DCO should be one of strategic overview of the projects and long-term analysis of these projects' viability and effectiveness (SIDA 1988, pp. 6 and 14). According to former and present personnel at the DCO, this is often not possible because daily administrative and management work take up most of the time. One reason is that undertakings that are considered by the personnel at the DCO as crucial are not carried out, and in order to get things going, they do it themselves. Another reason is that a lot of time is spent on correspondence and other contacts with the SIDA headquarters and other Swedish authorities. This impression has been supported by many of the people we have talked to.

Another structural problem with the method of having Swedish consultants working for projects and ministries is the incentive for them and their firms to prolong the necessity for their help (in contrast to the objective that the recipients shall be able to run the project themselves within a not so distant future). The consultants are generally part of the process of writing proposals for future support. They have possibilities to influence the work so that their help is demanded also in the future. SIDA should avoid to plan, manage and follow up the projects with their own personnel according to the official policy (SIDA 1988). However, it is still necessary that SIDA has the resources to control and follow-up the work of the consultants since their interests are not always SIDA's. It seems as these resources are lacking in Guinea-Bissau.

7.2.3. Project Monitoring and Evaluation

Another consideration for effective aid is that impartial feedback from the projects, both current monitoring and formal evaluations, is handed over to the right decision makers. This necessitates a well defined and functioning evaluation system. The purposes of evaluations are to increase the knowledge of how to manage foreign aid and to elaborate material for decision making. In order for this to be effective, the evaluations have to fulfil some basic requirements.² Widely accepted methods for evaluating the results, that is, cost-benefit analysis, of the projects should be used

² See "Utvärderingshandbok för SIDA", 1993, pp. 7, 9 for a description of SIDA's own requirements.

where possible. The evaluations should also be carried out by knowledgeable people from outside, ensuring independence and objectiveness.

A full overview of the evaluations of Swedish activities in Guinea-Bissau is beyond the scope of this report, as a more thorough analysis of the quality of evaluations in Guinea-Bissau (as well as other countries) will be performed within SASDA. We will, however, give some tentative remarks on the quality of the evaluations we have studied and how their information is treated. It should be kept in mind that the quality of the evaluations is dependent on both the terms of reference, as expressed by SIDA, and the work of the evaluator. The evaluators do not always follow the terms of reference and the deficiencies in the report might thereby, in some cases, be more or less completely due to the evaluators. On the other hand, the opposite can also be true. Badly specified terms of reference will lead to an unsatisfactory report.

The primary requirement is that evaluations are in fact undertaken. Support to the agriculture, fishery and education sectors has been evaluated a number of times during the years, with what can be considered reasonable frequency. This is not the case for industrial support or import support, however. We have only seen two evaluations of industry support, of which one only covers the repair shop, C.M.V. The other evaluation of industry support (Bahrke 1988) is rather simple and uses no recognized methodology for judging the costs and benefits from the project. As far as we know, import support was not evaluated until 1993, despite the fact that it dates back to 1969, i.e. before independence. It is important also to evaluate the final result when ending projects so that lessons for the future are learned. As far as we can see, this has not been done within SIDA, either in the fishery sector or in the industry or infrastructure (telecommunications) sectors.

Related to project evaluations are the so called Country Reports. The emphasis in these reports are on macroeconomic analysis of long-term development trends within the recipient country and the relation to the Swedish development objectives; that is, the focus is not on particular projects or programmes (SIDA 1989). Only one Country Report (or other report of similar substance) has been undertaken in Guinea-Bissau that discusses the impact of aid on the macroeconomy (de Vylder 1987). Given the large macroeconomic impact of foreign aid, including Swedish, on a number of both institutional and economic variables, this is as a serious and unfortunate neglect.

The recognized methodology for evaluating most kind of projects is Cost Benefit Analysis (CBA) (Carlsson and Donovan 1993). We have not been able to get hold of any evaluation using this method in Guinea-Bissau, but we have seen in one source that a CBA has been undertaken on PDRI. It should be noted that the methodology is not suited for all kind of projects, for instance social sector projects.

However, the industrial projects or the former artisanal fishery project in Bubaque would have been suitable for cost benefit or cost efficiency analysis. The *de facto* evaluations of efficiency are generally very simple, when undertaken at all. Of 16 evaluations examined, only five included an estimation of efficiency (Öståker 1993). The purpose of the estimations that have been undertaken seems to be a point of departure for a discussion rather than an account of actual efficiency. Not even the effectiveness, i.e. the fulfilment of objectives, is always treated in the evaluations. A very recent example is the evaluation of Swedish institutional support to the education sector, conducted in 1994. The evaluation presents a description of the administration of the education sector and the fields for Swedish support (to primary school teachers, creation of small libraries, support to the decentralization process and the central administration). However, the actual contribution of Swedish support, and the achievement of the objectives within the different fields of support, are not assessed. (It should be stressed that these deficiencies have been acknowledged by SIDA's Department of Education and that the evaluator has been asked to provide additional material.)

The evaluations generally suffer from a shortage of quantitative estimates. One major explanation is lack of data, due to the generally very weak production of statistics within the projects. The absence of data indicates that systems for follow-up of results have been deficient. This is shown by the following two statements regarding the PDRI and the Fishery projects: "... the fact that continuous monitoring and evaluation of results have not been a natural part of the activity,..." (PDRI); "Evaluation mechanisms have not been elaborated and implemented earlier in the program which make a quantification of these (economic) effects possible" (the fishery project) (SIDA 19 April 1992). Another explanation is methodological difficulties in estimating the quantitative impact upon vaguely defined ("increased living standard") and regularly changing objectives (Öståker 1993). The production of statistics has improved over the years however, at least within the agricultural sector. This is partly due to Swedish aid, since SIDA supports the statistical department of the Ministry for Agriculture.

It is, finally, of the utmost importance that evaluations are conducted by independent experts. Who is to be called an independent expert is a delicate question. It is not obvious that an evaluator is independent just because he or she has not worked or is not working within the project. Many of the evaluators work for consultancy firms that are dependent on SIDA as an employer for their firms' survival. This may create incentives for the evaluator to adjust the results to what he thinks the employer wants to hear. This problem has been acknowledged within SIDA in the last few years and improvements have been made. The group of evaluators has been

extended and foreign consultants have been employed more frequently (an example is the evaluation of import support to Guinea-Bissau, Martin 1993).

7.2.4. Follow-up Reforms

It is not enough that correct evaluations are undertaken; they and the continuous flow of information from administrators and consultants also have to be considered and the findings followed up by the responsible bodies. First, there has to be a readiness to take decisions and, second, the process from input of information to decision must be quick and efficient. This requires that the available information, from both recurrent monitoring and formal evaluations, is spread "upwards" in the aid-agency administration, all the way up to the Ministry for Foreign Affairs. We have therefore studied SIDA's Letters to the Government and assessed the information they contain in relation to the information revealed in evaluations and internal memos.

When talking to personnel at the donor agencies it seems that there exists a continuous discussion about the objectives and means of co-operation. Our impression is that there generally exists a readiness to take decisions that involve changing the strategy and details of projects. However, there seems to be a reluctance to actually terminate the financing of projects or, especially, to end the support to a sector completely. This is said in spite of the fact that support has been stopped to several projects after the Guinean adoption of the SAP in 1987. For instance, most of the support to the industrial parastatals and the artisanal fishery project at Bubaque was terminated during the late 1980s and early 1990s. However, the change in economic policy following the SAP made continuing support to these public commercial projects impossible. What would have happened without the adoption of the SAP is not possible to know. What is known is that the projects continued up to 1987 and sometimes later in spite of the fact that the Government's price policy greatly disadvantaged the fishermen, and that the infrastructure (legislative as well as physical) and human skills for industrial development were missing. The serious constraints on successful projects in these sectors seem to have been obvious even long before the actual ending of support. Another indication of the reluctance to end projects is the support to education. This was the only support which we have found to be seriously questioned before the 1987 SAP, i.e. in 1984. As a consequence a number of studies of the sector were undertaken. However, a decision was taken in 1986 to continue and even expand Swedish aid to this sector.

It should also be stressed that even if financing of some specific projects within some sectors has been stopped, financial support remains, mainly through technical assistance. This indicates that the concentration called for in last year's Swedish Government budget seems hard to achieve. A tentative explanation for the reluctance

to withdraw from a sector completely could be the interests of the sector departments at SIDA.

The ability to react to information is captured in the concept of *efficiency of change*. According to Forss-Carlsson (1990), this kind of effectiveness is especially important in development co-operation, since the activity is highly complex and turbulent. High effectiveness of change means a willingness to react to information and quickly decide whether a change should be undertaken or not. Since the decision makers generally are responsible for initiating evaluations, the readiness to search for information should be considered as well.

No complete analysis of the efficiency of change has been undertaken, but a couple of examples of delayed or time-consuming decisions can be made. The process of evaluation of the education sector support mentioned above was initiated in 1984. However, a decision was taken as late as 1986, i.e. after two years. When signing a new sector agreement in 1991 it was decided that the co-operation should be overviewed half way through, in 1993. These overviews were delayed, however, and not finished until the spring of 1994. Another example is the artisanal fishery project at Bubaque. It was decided in 1985 that the support should be levelled out in the medium-term. Some parts have been terminated, for instance the commercial part was stopped in 1990, but support still remains today.

Another crucial aspect of the decision process is the *flow of information*. It seems that the descriptions of the state of projects and overall co-operation in internal SIDA memoranda or evaluations do sometimes depart significantly from the descriptions in the Letters to the Government (the formal SIDA proposals for future co-operation). To analyse this further, we have compared the descriptions from these different sources concerning the PDRI at the project level and the overall description of the co-operation at the higher levels. It should be stressed that this conclusion is drawn from an analysis of a limited part of the overall correspondence between the two agencies and that it can by no means be regarded as a general feature. Furthermore, no analysis of informal communication is possible to undertake.

In the 1991 Letter to the Government, no description of the results and achievement of objectives of the PDRI project is included. There is only a very brief presentation of the objectives and the ongoing transformation of the project. Three weeks before the letter, a memoranda from the SIDA mission in Bissau describes the project by stating that "The necessity of a radical restructuring of the programme is evident. Of an annual budget of SEK 22 million, only SEK 150 000 benefits the target group in the form of credits for inputs, except for the advice-service of the extension workers, whose quality is doubtful. One third of the budget goes to technical assistance and the remaining part to keeping the ministry's officials afloat" (SIDA DCO

2 October 1991). The critique from the SIDA representative seems to be shared by some Swedish experts and recent evaluations. Despite positive changes within the programme since 1991, as described in section 6.2.1, a Swedish TA reports to the SIDA mission in April 1993 that the programme has had little effect on the target group and the development of the zone, that the earlier management was very autocratic, that activities have suffered from lack of planning and that circumstantial administrative routines have made follow-up of the actual results difficult (SIDA-DCO 8 April 1993). Moreover, 18 months after the 1991 Letter to the Government, a critical evaluation came that recommended a shut-down of the project (see section 6.2.1).

The Letter of 1987 presents some of the difficulties that had actually confronted some of the projects and the co-operation in general. Thus the Letter claims that "the Swedish aid has not been without problems". It was concluded that some of the work was not firmly based in the overall Guinean social and economic environment. This description should be compared to the 1987 Country report, which describes total foreign aid, including the Swedish, as follows: "In addition to the other problems, should be added the donors' tendency to finance particular projects, scattered in all sectors with no co-ordination with one another, and their attempts to create their own structures outside the domestic structures...The strategy has basically been aimed at making the projects as independent as possible of the Guinean society" (de Vylder 1987).

The weak *absorption capacity* of the Guinean economy has been mentioned frequently throughout the history of co-operation with Guinea-Bissau. The Letter to the Government of 1991 says: "Guinea-Bissau has a low absorption capacity...This makes it difficult to increase the Swedish aid to specific sectors, which in turn leads to difficulties to concentrating the support in the short run". The possibility of decreasing the total amount of aid seems to have been neglected. A possible explanation to this is given in a SIDA memorandum which states that the amount of aid is too large: "...it is an impossible task to explain for a number of members of the Swedish Parliament that one of the poorest countries on earth receives too much foreign aid from SIDA".

One interesting point, describing the arbitrary nature of the development strategy towards Guinea-Bissau, is found in the Letters to the Government of 20 October 1989 and 23 October 1991. Whereas the background descriptions are to a considerable extent similar (in fact, the latter is in large parts identical to the first one), the crucial sentence reads very differently in the two documents. In 1989 it reads: "Against the background of these experiences, the direction of the aid over the next period is largely *unchanged* (own italics)". In the 1991 Letter, the same critical sentence reads "Against the background of these experiences, the assistance should to

a larger degree be focused on competence development and institutional creation". (SIDA 1989 and 1991. Authors' translations.) This represents a considerable change of heart, based on the same analysis, in two years' time. Why was the obvious conclusion drawn in 1991 not formulated already in 1989?

7.3. The Project Environment

To get a well functioning project it is not enough that (i) a comprehensive project appraisal is made, (ii) the project is well administered, (iii) performance is evaluated regularly with appropriate methods and (iv) poor performance is rapidly rectified when detected. The macroeconomic environment also has to correspond to the objectives of the project. The concept of project environment should be understood as all factors except the direct project management that influence the effectiveness of a particular aid project. We have not been able to cover all possible factors, of course, but we intend to highlight some aspects that have been considered in the literature on effectiveness of aid and which we find relevant to the case of Guinea-Bissau.

7.3.1 Trade Regime and Price- and Tax-Policies

For individual development projects to become successful it is important that the trade regime and the price- and tax-policies are conducive to the objectives of the projects. Otherwise there is a risk of failure even if the project is well planned, managed and evaluated.

In Guinea-Bissau price- and tax-policies have strongly disfavoured many activities financed by Swedish aid. The artisanal fishery project of Bubaque is one example. Fishermen were trained and supplied with boats and boat engines, but at the same time the state-governed retail and distribution systems, with politically determined low prices, gave no incentives for the fishermen to increase their catches. This was further accentuated by allowing the Soviet Union fishing fleet to pay their fishing licenses in kind. The market was flooded with cheap fish, leading to lower producer prices for artisanal fishermen.

Another example is the PDRI where the incentives for the peasants to adopt new seeds or agricultural techniques have been stifled because of low farm gate prices. Despite official policy declarations saying that agriculture was a priority sector, the actual policy of the Government, until the adoption of the SAP, was to promote industry and urban activities on behalf of the rural population and agriculture. This was manifested not only in low farm gate prices set by the state purchasing monopoly, but also in customs for internal trade in agricultural products.

The trade regime also strongly disfavoured many of the activities financed by Sweden. Since the main agricultural products, rice and cashew nuts, are either export

goods or low-protected import-competing products, the highly overvalued real exchange rate up to the early 1990s led to reduced prices and thereby lowered the incentives to increase production. The overvaluation also hampered the attempts to diversify the export structure through Swedish industry support. Two examples are the Socotram wood industry and the Folbi industrial forestry company (more detailed information about the projects is given in section 6.2). The detrimental effect on export and import-competing sectors was reinforced by the high taxes on exports, which almost exclusively consist of agricultural products and fish, and the low taxes on imports of competing agricultural products (rice). Incentives for increased production were further reduced by the lack of supply of incentive goods, partly because of high taxes on imports of simple consumer goods, and the absence of a rural marketing system.

The adoption of the SAP has reduced or eliminated many of these disincentives. For instance, the prices of fish and agricultural products are no longer politically determined and taxes on imported consumer goods and exports have been lowered. The improved infrastructure and increased imports of incentive goods have created rural markets where peasants can exchange their surplus for imported goods. Problems remain however. As was explained in chapter 5, we find that the equilibrium real exchange rate has been highly appreciated because of foreign aid. This appreciation has in turn created disincentives for projects with export-promotion or import-substitution objectives. The PDRI and export-oriented industrial projects are, again, examples. Another related problem is the low taxes on imports of rice. It is widely held that an import tax of 20 percent, compared to the prevailing 11 percent, should make domestically produced rice competitive with imported rice. This should increase the incentives to adopt more effective varieties of rice and new technology and thereby increase the effectiveness of agricultural projects, such as PDRI. The high tax rate on exports of cashew nuts is a third remaining problem within the area of trade policy.

7.3.2 Absorption Capacity

Massive inflows of foreign aid demand a lot from the recipient. At the macro level, the administration of the inflows and negotiations with the donors require competent personnel and a capability to organize and plan the investments so that they are used effectively and do not counteract the mobilization of domestic resources. At the project level, the donors generally require that the recipient contribute financial resources for recurrent costs and skilled administrators as well as other personnel.

These requirements can be very burdensome for countries with scarce resources.³ The amounts and modalities by which the aid is administered must therefore be adapted to the specific financial, manpower and institutional conditions pertaining in the country in question.

The financial resources are primarily for recurrent costs, such as salaries, fuel and maintenance. These resources can be obtained through taxation or other domestic revenue, but another important source is the collection of counterpart funds. The human resources are predominantly skilled manpower, necessary for administration and organization as well as more specific skills. The demand for skilled personnel is not limited to projects, but also for the ministries and institutions which are responsible for negotiations and other contacts with the donors. The concept of institutional resources is not independent of the above-mentioned resources, but it should be understood as the legal and financial structure in the economy. The absorption capacity is dependent on the ability of these legal and financial structures to deal with inflows of aid.

The main focus, when deciding the amount and modality of foreign aid, cannot be on the "needs" alone of the recipient country; the *ability*, in several aspects, of the economy to absorb the foreign assistance in an economic and sustainable way also has to be considered. The poor financial resources and human capital endowments of Guinea-Bissau set special constraints on development assistance. Despite the fact that the lack of domestic resources has been known for a long time, this has not been emphasized in the strategy for Swedish support until quite recently. Previously support followed the overall prevailing development assistance strategy, irrespective of the specific conditions affecting the ability of the aid to achieve its aims in the particular country.⁴

The lack of financial resources and the resulting inability of the Guinean Government to cover the recurrent costs with own revenues were discussed in chapter 5. Many people we have talked to consider the Government's inability to pay adequate salaries as a major constraint for an effective public sector. The Public Expenditure Review of 1993 addresses this problem and a number of suggestions are given to alleviate the situation. The two most important, and possibly the most sustainable, of these suggestions are an increase of revenue in the budget and further reductions in the number of aid projects (SIDA 11 August 1993).

³ See Kariström (1991) for a telling account of these problems in Kenya, which receives considerably less aid than Guinea-Bissau in relation to the size of respective economy.

⁴ A World Bank report completed in 1992 stressed the importance of a "country-by-country" focus. The World Bank has responded to the recommendations and an action plan has been elaborated and sent to the Bank's executive board in 1993 (IBRD 1993). The need for a country-by-country focus is not restricted to the World Bank; other donor agencies and countries, including Sweden, should follow the example of the World Bank in this respect.

The lack of absorption capacity also influences the quality of investments. One explanation for the high capital output ratio relates to a contradiction between capacity creation and capacity utilization in an economy with scarce resources. If there are not enough financial resources to pay salaries and maintenance, this will certainly influence the utilization of capital, through non-functioning machines, shortage of fuels and unmotivated employees. In the extreme case, when the loss of capacity utilization exceeds the gain of capacity-building from a new project, the marginal return on new investments in capital is even negative.

Among people we have talked to, it is generally considered that the lack of human skills is one of the main constraints on the functioning of projects as well as overall public administration. The reaction among donors has partly been to finance education, mainly abroad, for people in key positions, but even more commonly to replace Guinean manpower with technical assistants. For Swedish support, this is shown by the significant amounts spent on foreign experts (see section 7.2.2). Furthermore, the shortage of local competence has led to a situation where the few able representatives of the Guinean authorities have been excessively engaged in donor-related activities. The donors compete for these few competent men and women, offering them different forms of topping-up or other types of wage replenishments, seemingly irrespective of the "brain drain" from essential public positions that this may cause. Within Swedish support, topping-up has to a large extent been avoided, but it is used within some projects, for instance the School Book Editor. Another effect of the lack of human skills is the considerable administrative and organizational pressure that has been put on the SIDA mission in Bissau. This, in turn, has led to a situation where the formal responsibility of the personnel at the DCO, strategic overview of the projects and long-term analysis of their viability and effectiveness, have largely been put aside.

Analysing the development co-operation process between the years 1974 and about 1990 shows another important neglect to be crucial, the institutional requirements for economic development. Although it was well recognized that the Guinean institutions were, and still are, very deficient, very little was done before the late 1980s to address this problem or to adapt the amount and modality of aid to the prevailing situation. This neglect has had an adverse effect on the allocation of import support funds. No functioning market-based credit allocation mechanism or system exists in Guinea-Bissau and the funds have consequently been allocated administratively, resulting in arbitrary and political distribution of foreign exchange. Another example is the substantial industry support throughout the 1980s, during a time when the preconditions for industrial development were virtually non-existent. Institutions, such as legislation and functions for promotion, control and monitoring in

the state-owned and -managed enterprises, were missing or grossly insufficient. It is also conceivable that equal attention should be given to the social and cultural conditions in the recipient country when deciding on aid policies and objectives.

7.3.3. Donor Co-ordination

In a small and fragile economy facing many donors with different objectives, methods, policies and conditions, lack of co-ordination among these is likely to be an important source for ineffective development assistance. Regardless of where the responsibility lies for co-ordinating the aid inflows, the absence of co-ordination between donors and between donor and recipient draws heavily on scarce resources.

Lack of co-ordination may cause different donors to run similar projects which instead of being complementary start competing for skilled personnel and financial resources. Another example is when different projects are uncoordinated regarding policies, for instance for rural credits, causing great confusion on the part of the recipients. For a recipient to negotiate simultaneously with several donors for financing of the same project is not unusual and may lead to a situation where resources are not utilized in the most efficient manner. When discussing the issue of donor co-ordination with representatives of the donor community, the ever-repeated response is that the Guinean Government and authorities have no or little interest in altering the present situation. They prefer the existing setting whereby they are free to play off the different donors against each other in order to maximize the aid inflows. In this context, the Swedish policy of leaving the responsibility of co-ordinating the aid in the hands of the recipient seems doubtful. Not only is the Guinean Government unable to co-ordinate the aid in an effective manner, it is most likely unwilling to do so for the reasons mentioned above. Increased donor co-ordination has since long been an issue of discussion among concerned aid practitioners in Guinea-Bissau. Although efforts have been made, e.g. round table conferences, it seems that further measures are necessary.

An example at the sector level is from the education sector. In a memorandum from the SIDA-financed Swedish co-ordinator at the Ministry of Education (Ohlstedt 1992), co-ordination within the sector is described as disastrous. Most of the Guineans counterpart at the Ministry of Education are said to be uninterested in co-ordination. The activities of the UNDP have delayed the education reform by at least three years, and the World Bank show an interest in co-ordination, but has failed to accomplish much so far. Similarly, a closer dialogue between the parties in the industrial sector should be a positive contribution, as the setting up of an industry promotion body, credit facilities and legislative units are not wholly separate affairs. A general feature is that when the aid projects and programmes demand qualified local personnel, donor competition arises. The scarcity of qualified personnel leads to donor agencies trying

to attract these people with high salaries and different types of topping-up and other benefits. More efficient donor co-ordination is necessary to reduce the tilt in relative prices in favour of aid-related activities.

7.4. Overall Swedish Aid Management

To support a resource-scarce and underdeveloped country like Guinea-Bissau has proved demanding for the donors. Some crucial aspects were analysed in section 7.2, but these in turn are influenced by some general features of the management of Swedish foreign aid.

Sweden became one of the largest donors to Guinea-Bissau immediately after independence. This was primarily due to a political interest to show solidarity with the country and the former independence movement, now ruling party, PAIGC. The amount of support may therefore have been an indication of political interest rather than being based on an analysis of the prioritized needs of the country and its absorption capacity. The neglect of analysing the absorption capacity, as well as the indirect effects of aid on macroeconomic variables, such as the real exchange rate, inflation and savings, seems to have prevailed throughout the years. This is probably one explanation why no discussions concerning the amount of aid, until the last two years, have been held. It appears that the system of country frames has led to more or less automatically increased amounts of support every year, irrespective of the actual effects of the aid. We therefore support the recent Swedish decision to terminate the system of predetermined "country frames".

Another feature of Swedish aid management is the lack of sufficient macroeconomic competence within the donor agencies. The macroeconomic implications of supporting a country with such a severely mismanaged economy and shortage of financial and human resources as Guinea-Bissau, have not been fully analysed and understood. In fact, we have encountered only two documents with analyses of some of the macroeconomic effects of aid and neither is very thorough (de Vylder 1987, Martin 1993). The lack of attention given to the issue is shown by the fact that the position as economist at the DCO for many years and until recently has been held by people without formal economic training.⁵ It should be stressed, however, that the importance of macroeconomic competence has been more acknowledged within SIDA during the last couple of years. Both the 1989 and 1991 Letters to the Government stress the need for larger macroeconomic follow-up and consequence analysis both of the SAP and of the effects of Swedish aid.

⁵ This seems to be a common problem within SIDA. In 1988 only a few of some ten appointments as economist on the DCOs were filled by trained economists (SIDA 1988).

Furthermore, an increasing number of economists have been employed and co-operation with universities and institutions outside SIDA has been established. In the case of Guinea-Bissau, this has led to co-operation with the University of Gothenburg, resulting in three studies of the overall macro economy of Guinea-Bissau 1991-1993. These studies (by Aguilar et al. 1991, 1992, 1993) have been appreciated by SIDA, Guinea-Bissau and other donor agencies engaged in the country. However, in our opinion, a serious drawback is that the impact of aid on the macro economy is largely neglected in these studies. As far as we know, this was not in the terms of reference. Total foreign aid corresponds to 60 to 70 percent of the official economy in recent years and as we have shown in chapter 5, it has had great impact on several macroeconomic variables in different ways. To analyse this impact is therefore crucial and it would have been appropriate for SIDA, as well as the Ministry for Foreign Affairs, to have obtained this kind of knowledge at an early stage of the development co-operation.

The importance of competence is not restricted to the field of macroeconomics; a requirement for effective and efficient aid is engaged and competent personnel at all levels of co-operation. Equally important is that the working conditions are such that this competence can be used for analysis of the effectiveness and relevance of the support. Section 7.2.2 pointed to the fact that many of the SIDA personnel we have talked to are of the opinion that long-term analysis of the development co-operation has to be given low priority because of lack of time.⁶ Hence, effective aid requires that both the number of personnel and their competence and education are high enough to ensure accurate analysis and follow-up of the effects of aid. We therefore object to the interpretation of administrative costs as a definition of aid efficiency. It is possible, in our opinion even probable, that somewhat highly selective increased administrative costs in the form of more and well educated economists working with follow-up of the effectiveness and relevance of aid actually lead to improved effectiveness and efficiency.

The administrative costs at the Swedish foreign aid authorities were budgeted at SEK 530 millions in 1994. This is 4.1 percent of the total Swedish foreign aid budget, which is a low figure in international comparisons (Gustafsson 1994). However, this is a minimum definition of administrative costs. The direct project administration in the recipient country is generally farmed out to a consultancy firm, which recruits technical assistants. The costs for these technical assistants are not included in the figure above. As was shown in Table 2.7 more than 50 percent of the

⁶ This seems to be rather general within SIDA. In a questionnaire survey identifying which were the internal factors that limited new insights, a majority of the SIDA-respondents rated "lack of time" as "very important" (Hårstad-Svendsen 1993).

project aid to Guinea-Bissau goes to technical assistance, SIDA-personnel and administration, out of which technical assistance accounts for the most. Most technical assistants do not primarily work with administration although a significant part does. How much of these expenditures that go to administration is not shown in SIDA's accounts. An accurate account of the share of the aid budget that is actually spent on administration is therefore lacking. It is nevertheless clear that total administrative costs for the project aid to Guinea-Bissau is very high. If a few top-level economists were involved in the planning of projects, monitoring their progress and were part of the evaluation process, we think that there would be scope for better functioning projects - with lower administrative cost in the longer term.

The incentive structure within SIDA, largely given by the fixed country frames, emphasizes the importance of disbursing the allotted funds. To end up with reserves is considered a failure that might lead to a reduced country frame in the coming year. Since reduced country frames mean less money for the department and, consequently, less prestige for the head of the DCO, there are incentives to concentrate on the disbursement of aid rather than on results. This is further accentuated by the complicated situation in Guinea-Bissau, with large amounts of aid and lack of domestic resources, which make it hard to find effective and functioning channels to disburse the aid through. We are of the opinion that this has resulted in the focus being directed towards how to disburse the allotted funds, i.e. supply driven disbursements, rather than on results and effects of aid.

All in all, it seems that the interest for Guinea-Bissau from the early days of co-operation has fallen significantly in the responsible departments. The interest and knowledge of the country has therefore in great part been concentrated to a small group of people, with comparatively little attention from the formal decision makers. The lack of interest has certainly influenced the efficiency of change, resulting in rather slow reaction on information from administrators and evaluations. The position of the Ministry for Foreign Affairs is given in a memorandum by the then desk officer: "Outside the Swedish aid clan the country is practically unknown. As a consequence the country, *even in the aid policy context* (own italics), has received a low priority in a very unfortunate way...The Swedish support to Guinea-Bissau has not had any significant political dimensions in Sweden during the last ten years. SIDA has as a consequence in large part conducted the co-operation without significant interference from the Ministry for Foreign Affairs" (MFA 16 April 1993). A further example is a letter from the responsible department at SIDA in Stockholm to the former head of the DCO in Bissau. It is more or less explicitly admitted in the letter that too little interest has been paid to the situation in Guinea-Bissau.

To end this section on a positive note, it has to be emphasized that some important reforms and changes in the aid administration and the development co-operation with Guinea-Bissau have taken place. The elimination of country frames and the increased emphasis on macroeconomic competence are in line with what we think are important. However, further reforms are needed. The systems for appraisals and evaluations need to be reinforced, and recognised methodologies used. This requires that the projects/programmes have quantifiable and well defined objectives and that they produce the necessary statistics in order to assess their effectiveness and efficiency. Clearer mechanisms for how and when to end support must also be implemented. Further, credible conditionality for development-enhancing reforms is necessary in the case of Guinea-Bissau. This regards both macroeconomic and sectorial reforms. Finally, even though we approve of the focus on capacity building, the means for doing this must be analysed more thoroughly. The belief that capacity building should be promoted through supply of technical assistance might not be shared by the recipient. As expressed by the head of the African department of the World Bank: "...most of this technical assistance is imposed, it is not welcome and there is no demand for it really except on the donor side" (Jaycox 1994).

7.5. Summary and Conclusions

This chapter has pointed to a number of aspects which we find to be important when discussing the effectiveness of project aid. Once again it should be stressed that this list of issues is by no mean complete, but contain aspects that are necessary to consider when implementing project aid.

Within project management some general weaknesses have been detected. We have not been able to locate proper and independent project appraisals and several evaluations identify unclear and unrealistic objectives. Project proposals from the Guinean Government generally lack an acceptable analysis of the financial and human requirements. The administration of projects has been foreign personnel-intensive and often with unclear responsibilities. Several Swedish consultants have confirmed that they are inefficiently utilized and that they are spending less than half of their working time on human capacity building (which is what they were sent there for). Moreover, the incentive structure is such that the interest of the consultants and the firms they work for, to get continued job opportunities may discourage the questioning of the overall relevance of the project or programme they are engaged in. The evaluations that have been undertaken have generally not used any recognized methodology. The reaction to information from evaluations and recurrent monitoring has sometimes been slow. One possible explanation is that all information has not always reached the actual decision maker. Furthermore, even though the discussion within SIDA on the means

and strategies for different projects seems to be rather open, there is also a reluctance to actually finish support to a project or sector.

The requirements for domestic financial contributions for recurrent costs have led to heavy constraints on the budget of the recipient country. The lack of absorption capacity also concerns financial and legislative institutions and lack of skilled personnel to administer and organize the inflows of aid. Donor co-ordination is generally considered as essential among the donors, but fruitful methods for co-ordination seem difficult to establish. The Swedish policy of handing over responsibility for co-ordination to the Guineans can be unwise, partly because of the scarce resources of administrative skills and partly because it is doubtful whether they actually have an interest in co-ordinating the aid. The previous economic policy with politically determined prices and high taxes and tariffs on trade created disincentives for many activities supported by Swedish aid. The projects with objectives such as increased agricultural output or fish catches were thereby counteracted by the economic policy. Since the 1987 SAP the policy has changed towards market prices and reduced trade taxes.

Aspects of overall Swedish aid management have also been important for co-operation with Guinea-Bissau. One is the little attention given to the macroeconomic effects of aid and the lack of competence on the subject within the donor agencies. However, the importance of macroeconomic analysis has been more acknowledged within SIDA the last years. Another crucial aspect is that too much attention seems to have been directed towards ways to disburse the agreed funds rather than to the results.

PART IV

**RECOMMENDATIONS FOR FUTURE SWEDISH
DEVELOPMENT CO-OPERATION
WITH GUINEA-BISSAU**

Chapter 8. SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

8.1. Introduction

The objective of this study has been three-fold. The first objective was to clarify the extent to which Swedish aid has been effective in promoting growth and social development in Guinea-Bissau. The second was to assess the administrative and procedural effectiveness of the handling of project/programme aid by the Swedish aid agencies. The third is to give recommendations as to how Swedish development co-operation with Guinea-Bissau can be improved in the future.

The plan of this chapter is as follows. In the next section (8.2), we provide a summary of the methods we have used to assess the effects of Swedish aid on growth and social development in Guinea-Bissau and what conclusions we have reached. In section 8.3, the main findings are reported regarding efficiency in the handling of aid to Guinea-Bissau by SIDA and other Swedish aid agencies. In section 8.4, we provide a series of recommendations as to how Swedish aid to Guinea-Bissau should be reformed so as to improve efficiency. The recommendations are given under five headings: (1) objectives of Swedish aid to Guinea-Bissau, (2) volume of aid, (3) conditionality, (4) sector concentration and priority, and (5) the handling of aid at the donor end. The chapter closes in section 8.5 with some reflections on the time perspective in which reforms and development performance in Guinea-Bissau should be considered.

The most serious limitation for our work has been the scant availability, and the poor quality, of economic data for Guinea-Bissau. This has to some extent determined the choice of methodology in our study. In assessing the impact of foreign aid on the macroeconomic variables that determine growth in recipient countries, econometric models have been used in recent years (see White 1993). These models have been used to quantify with greater exactitude how aid affects variables like recipient government tax revenue effort, its allocation of public resources between sectors, and choice between public investment and public consumption (all variables that may affect growth). A necessary precondition for such econometric studies is the availability of data for at least a 15 to 20 year-period. This is not the case in Guinea-Bissau; time series seldom date back longer than to 1986 or 1987. We therefore had to use other means of statistical analysis.

A related limitation has been that the available statistics cover the formal part of the economy only. There are some observers claiming that the size of the informal sector varies between 60 to 80 percent of the total economy. These

claims are not built on quantitative analysis, however; they are completely *ad hoc* guesses and we find them implausibly high (for reasons discussed in chapter 4). We are convinced that the informal sector, defined as the value added in activities not included in the GDP, does not exceed 20 percent of the total economy. Nevertheless, the effects of foreign aid on a non-negligible part of the Guinea-Bissau economy have not been possible to analyse in any detail. Furthermore, most of the data for the formal sector, covering the 1987-1992 period, are crude and unreliable. This is evident from the fact that when there are data for one and the same variable from different sources, e.g. different international organizations and the Guinea-Bissau Government, they usually match very poorly. This is true for most developing countries, but especially so in Guinea-Bissau. All the data shortcomings have to be born in mind when interpreting the quantitative assessments in this report.

8.2. Aid and Growth in Guinea-Bissau: Summary

In assessing the impact of aid on growth, we have made a distinction between the macro- and microeconomic effects. The macroeconomic effects of aid on growth are indirect (there is no direct link at the macro level between aid and growth). These indirect effects occur when aid affects the macroeconomic variables that determine growth (such as domestic savings, investment, human capital formation) in the recipient country. The macroeconomics of aid were analysed in Part II of the study. The microeconomic effects of aid on growth comprise the direct contributions to domestic production and real income that particular projects can yield by earning a positive net real return on the investment. Swedish aid in a microeconomic perspective was dealt with in Part III.

The methodology we used to assess the macroeconomic impact of aid to Guinea-Bissau on growth and social development comprises a three-stage analysis, conducted in chapters 3 to 5.

Chapter 3. In order to provide a basis for understanding how aid may affect growth in aid-receiving developing countries, we have tried to identify the main sources of, or preconditions for, growth in such countries. This analysis, contained in chapter 3, is basically a summary of what modern economic growth theory and empirical testing have found to be the necessary preconditions for growth in developing countries. There are, of course, many specific factors that affect growth in any particular country, but recently a relatively wide consensus has emerged on what are the minimum necessary preconditions for sustainable economic growth. Extensive recent empirical research suggests that in their absence not a single country has achieved significant growth.

The first necessary precondition for growth is that there is positive and efficient investment in physical capital and, equally important, in human capital. Not only the level of investment is important, however, as the evidence from many developing countries shows. The efficiency of investment also has to be considered. The two main necessary conditions for both high and efficient investment which we stress are: a reasonably stable and balanced macroeconomic situation; and a trade regime that does not discriminate against the tradable good sectors. That is, for investment to take place and yield a real return that shows up in growth, the government in a developing country has to pursue a macroeconomic policy that is stable and balanced enough to give private investors incentive to invest in long-term activities. It must also, through the trade regime it opts for, see to that relative prices in the economy are such that investment is encouraged in tradable good sectors, which have generally been found to have a higher long-term growth potential than non-traded good sectors. These two requirements on policy, which we find necessary for significant and sustained growth, comprise what we see as the minimum requirements for good governance.

Chapter 4. The second step in the macroeconomic analysis was taken in chapter 4, where the necessary requirements for growth in Guinea-Bissau are assessed and recent changes identified. Our findings are very discouraging. The domestic savings ratio is heavily in the negative and there is almost no domestic long-term investment (at least not in the formal part of the economy), either in the public or in the private sector; practically all investments are foreign (aid) investments in the public sector. The education system suffers under great deficiencies and too little human capital is produced. The "output" indicators show one of the highest drop-out rates from primary school in the third world and only some 7 percent of children start secondary school. There is a structural budget deficit; the government's revenue collection effort has been very weak and has not improved over time. Government expenditure is excessive in that public employment is still very large. The annual rate of inflation (although difficult to measure in Guinea-Bissau) is around 50 percent. The external balance is in the red. Imports have exceeded export revenue by a factor of three for a long time and continue to do so. The trade regime of Guinea-Bissau is one of heavy discrimination against the export sectors and some of the (non-protected) import-competing sectors (mainly rice production) through a real exchange rate which has been in short-term, static, equilibrium since 1991, but that is much too high (appreciated by the massive aid inflows; cf. below) in a longer-term, dynamic, perspective. Exports are also discouraged by high taxes. The sectors favoured by

the trade regime are non-tradables in general and the sectors catering for the "aid industry" in particular (which must be the largest in the economy after agriculture).

It should be noted, however, that there have been partial reforms in the Guinean economy since 1987 which may improve growth prospects. The Government has freed most prices and the exchange rate is nowadays by and large market determined (and no longer overvalued in the sense that there is a parallel market, although it is inflated by the aid; cf. below). Some public enterprises have been fully or partly privatized. The macroeconomic policy is now regarded by the IMF and the World Bank as "satisfactory" in some dimensions. However, there are other reforms that are warranted, but where progress is slow or non-existent: tax revenue collection, public employment reduction, customs reform, further privatization of public enterprises, etc.

The poor prospects for growth in Guinea-Bissau, as revealed by the analysis of the "necessary preconditions" are consistent with actual performance. The overall per capita growth of the Guinea-Bissau economy is in the 0.5 - 1.7 percent range depending on what source is consulted and what years we choose to look at. Considering that the investment to GDP ratio is around 0.30 (almost as high as in the East Asian Miracle economies and substantially higher than the average for SSA), it is quite clear that the efficiency of the (aid-financed; cf. below) investments has been low. Moreover, most of the growth has been achieved in construction and services (the non-traded sectors); in the traded goods sectors, growth has been negligible or negative. It is also notable that growth has declined over the 1987-1993 period; in the four most recent years, per capita growth has been around 0.5 percent only. Whether there has been growth in the informal sectors is difficult to tell due to the complete lack of data, but several people with long experience of Guinea-Bissau claim that this is probably the case. In particular, they point to a surge in small-scale commerce in local markets and extensive "border" trade (mainly outward smuggling of rice and imports of simple consumer goods).¹

When it comes to the actual performance of the Guinea-Bissau economy in terms of social development in various dimensions the picture is also gloomy. It is notable that for most social indicators that reflect "inputs", e.g. expenditure on health and education, number of inhabitants per doctor etc., it compares well with other countries in the least developed category. However, when it comes to "output indicators", such as child mortality, the figures for Guinea-Bissau are often

¹ Whether and to what extent informal trade has been effected by the devaluation of the CFA in neighbouring countries is yet too early to tell.

among the worst. This is a strong indication that the quality of investment, not the quantity, is the problem in the social sectors, just as in the economy at large.

Chapter 5. In this chapter, which ends the macroeconomic part of the study, the effects of overall foreign aid on the various "growth determinants" and social indicators in Guinea-Bissau were studied. In analysing the effects of aid on the macroeconomic "growth determinants" in this country (or elsewhere), it must be emphasized that there is no technique that can be used to separate the impact of Swedish aid from that of total foreign aid. The analysis in chapter 5 is therefore based on the presumption that the impact from Swedish aid on the variables we look at is not significantly different from that of other aid. Furthermore, in assessing the impact of aid on growth, our contention has been that the concept "contribute" is essential. Our starting point was that foreign aid is not intended to, and should not, substitute totally for development based on the mobilization of domestic resources. In other words, aid should be a complement to domestic resource mobilization in the recipient country, not a replacement. This notion is in line with the basic concept of "development assistance" and is also contained in one of the sub-objectives for Swedish aid, viz. that aid should promote "economic and political independence". One important facet of this objective is that the recipient country, at some point, should become able to achieve growth without foreign finance in the form of official aid grants and highly concessional loans.

We found Guinea-Bissau to be among the three largest receivers of aid among all third world countries, both in relation to GDP and on a per capita basis (see chapter 2 for details). It is also one of the countries with the largest accumulated foreign debt (relative to GDP) and theoretical debt service burden.

We have also found a connection between the massive inflows of aid and the poor state and performance of the country even though clear-cut causality is difficult to prove (mainly because of lack of data required to undertake econometric testing). The fundamental internal disequilibrium, as manifested by the huge permanent budget deficit, is financed by aid. The large inflow of aid, up to rather recently with no conditions set by the bilateral donors, has covered this deficit and provided little incentive for the Guinean Government to raise its revenue collecting effort. Likewise the many aid projects have induced a demand for recurrent cost coverage by the Government which has inflated public expenditure. This is one factor behind the high (and unstable) inflation which tends to induce uncertainty and discourage private investment.

Our most serious concern regarding the macroeconomic effects of aid on the growth potential of the Guinean economy relates to the impact on the real exchange rate. The real exchange rate has for a few years been in short-term

equilibrium in the sense that the gap between the parallel and the official exchange rate is almost eliminated. The real equilibrium exchange rate, however, has been appreciated by the massive aid inflows which make it possible to import three times as much as would be possible with present export earnings only. According to our estimates, the peso has been appreciated by more than 300 percent against the currencies of Guinea-Bissau's main trading partners over the 1988-1993 period. The very large inflows of foreign aid (relative to the size of the economy) make Guinea-Bissau a clear case of the Dutch Disease. Relative domestic prices have been tilted in favour of production and investment in non-traded sectors and consequently to the disadvantage of production and investment in traded goods sectors. These comprise mainly existing and potential export sectors, but also the (non-protected) rice-producing sector, one of the largest and potentially most important. IBRD (1994) estimates show producer prices for the main export agricultural goods to have declined by more than 50 percent in real terms over the 1980s. Consequently, there has been no growth in these sectors on a per capita basis.

Considering the emphasis on traded goods sectors as the handmaiden of growth in developing countries in the new growth-cum-trade theory, and the highly supportive empirical evidence, we find the impact of massive aid on the real exchange rate to be a serious reduction of the growth potential for the Guinea-Bissau economy. It is imperative that the inward orientation of the economy does not go further; that the trend is reversed towards outward orientation. Once a heavily inward-oriented structure of the economy has been established over a long period of time, there are enormous difficulties and costs involved in transforming it into an outward-oriented one, as shown by the recent experiences of a large number of such countries now trying to change course with the help of various SAP loans (IBRD 1994).

We recognize that one of the purposes of aid is to allow for a domestic trade deficit (as well as a budget deficit). But the purpose is also that the aid should stimulate domestic resource mobilization and enhance growth in traded goods sectors, so that the trade gap can be closed after some time. When this does not happen, as in Guinea-Bissau, the end result is a permanent structural trade deficit and everlasting aid dependence. Most of the foreign aid to Guinea-Bissau has been directed to investment in the non-traded public sectors (education, health, administration) or to the protected traded goods sectors (industry). That the per capita growth rate of the economy is barely above zero despite an aid-financed investment/GDP ratio around 0.30 is an indication in itself that the efficiency of investment in non-competitive sectors is usually low.

Finally, a word on what we can compare the present situation with. There is, unfortunately, no scientific method that can be used to provide a fully satisfactory answer to the question of what norm of comparison is the most appropriate. Empirical economists are conventionally involved in estimating the *marginal* effects on objective variables (such as domestic savings) of *marginal* changes in "exogenous" variables (such as aid). That is, how does a small change in one variable affect the other? At best, they use econometric techniques which make it possible to control for the impact of marginal changes in other exogenous variables on the objective variable, and also to check which causal way a relationship runs. As mentioned earlier, the use of econometric techniques to estimate marginal effects requires that data are available for all the relevant variables for at least a 15-20 year period. Since no such data series exist, we cannot provide a thorough analysis of the marginal effects of one dollar more of aid on the various objective variables of concern.

The more profound question of what are the non-marginal effects of aid on the growth potential and actual growth in Guinea-Bissau one would not be able to answer even if all data relevant for marginal analysis were available. Aid at the levels received by this country cannot conceivably be thought to have "marginal" effects only. Annual aid flows exceeding 50 percent of GDP over the past 20 years must have affected the entire economic, institutional and political system profoundly. To answer the questions in what direction and how much one would have to know what the situation would have been without the foreign aid.² There is simply no economic or other method available that could help us answer questions of this "systemic change" type. It is, of course, possible that in the counter-factual, strictly hypothetical case of no aid whatsoever, the economic situation in Guinea-Bissau would have been even worse than it is today, but how could we know? Another counter-factual situation is one with considerably less aid. It is fully plausible that the actual situation, or at least the growth potential, would have been better in that case. That is, with less aid, the Guinean Government might have been forced to undertake more stern effort to mobilize domestic resources for investment. Again, we do not know.³

In summary, we can only conclude that in spite of the fact that the (foreign aid-financed) investment ratio is almost as high as in the fast-growing economies in

² To obtain this knowledge is as difficult as to say what the economic and political situation in the SSA would have been in the absence of colonialization.

³ In principle, it would be possible to test for the effects of the massive inflows of aid to Guinea-Bissau by comparing the performance of this country to other countries with similar structures which have received much less aid, but there are not enough such countries to make the comparison valid and much of the data needed are not available.

East Asia, very little growth has materialized. We can also establish that domestic savings are highly negative and there is, consequently, no domestic investment that can bring about sustainable growth. We can further conclude that negative domestic saving year after year would not have been possible without the aid. There is no way in which an economy like Guinea-Bissau would have been able to cover negative domestic savings for twenty years through foreign loans on commercial terms. Finally, we can conclude that after this many years of massive foreign aid, the Guinea-Bissau economy is completely dependent on this aid for all investment at least in the formal sectors.

8.3. The Efficiency of Swedish Project Aid: Summary

In part III of the study the focus was shifted to the microeconomic effects of Swedish project aid to Guinea-Bissau, i.e. the direct contributions to growth and other objectives of the particular projects/programmes Sweden has financed.

Chapter 6. It should be noted that we have not undertaken any project evaluations ourselves; this would not have been possible within the scope of this report and new evaluations were not included in the terms of reference. The principal method used in chapter 6 is thus an analysis of earlier evaluations of the effectiveness of Swedish aid projects in Guinea-Bissau. We have also interviewed many people who have been involved in the various projects (see Appendix 3).

The study of the particular Swedish projects at the micro level leads us to conclusions that are consistent with the results from the earlier macroeconomic analysis. Very few of the evaluation reports we have studied find projects to work in an efficient and productive way. Some of the major ongoing projects have been failures (e.g. the main agricultural project, PDRI) and other projects have been terminated largely because objectives were not met (several industry projects). A few projects seem to have been reasonably effective (e.g. the school book production project and the health laboratory). It should be noted, however, that a firm assessment of the various earlier evaluation results and conclusions has not been possible for the simple reason that they are not based on quantitative methods, but rather loose qualitative reporting. The chapter also included a brief assessment of other bilateral and multilateral donor projects and strategies. We found that the deficiencies of the Swedish support were by no means unique.

Chapter 7. In this chapter we presented our analysis of why so many Swedish projects seem to have failed and why so few have been (reasonably) successful in Guinea-Bissau. The analysis was conducted in three sub-sections. First, the requirements we found necessary for effective project handling were listed. These requirements concern *ex ante* project feasibility studies, project

administration, *ex post* evaluations and current monitoring and the follow-up of the recommendations from evaluations and monitoring. The actual handling of the projects were compared to these requirements. The overall conclusion is that the methods used by SIDA are predominantly unsystematic and lax at all stages. Second, the difficult economic and administrative environment in which the projects are to function was described. The key "exogenous" explanations for the poor project performance identified were the economic policy of the Guinean Government, the low absorptive capacity and the lack of donor co-ordination. Third, overall Swedish aid management was analysed; that is, the aspects that are not directly related to project handling. Our recommendations for improvements are presented in section 8.4 below.

8.4. Recommendations

The recommendations in this section are given under five headings: (1) objectives of Swedish aid to Guinea-Bissau, (2) volume of aid, (3) conditionality, (4) sector concentration and priority, and (5) the handling of aid at the donor end.

8.4.1. Objectives of Swedish Aid to Guinea-Bissau

When Swedish aid to Guinea-Bissau was first given in the early 1970s, the objectives were political (to support the independence movement, PAIGC) as well as economic, i.e. to alleviate the then almost complete lack of consumer goods. The political objective seems to have remained for quite some time after independence, but gradually been toned down. The economic objective, explicitly referred to in the Swedish Government proposals, has shifted from enhancing consumption through imports to "growth and social development". The other general objectives for Swedish aid concerning income distribution, economic and political independence, democratization and more recently environment, are only mentioned briefly in the most recent proposal, and not as explicit objectives. We have focused our analysis of the effectiveness of aid to Guinea-Bissau on the "growth and social development" objective, although we have assessed the fulfilment of the other objectives when data are available.

We find, however, that the growth objective is too vaguely defined to make possible a definite conclusion on the effectiveness of (Swedish) aid to the country in this respect. First, the objective that Swedish aid should contribute to growth in the recipient countries is unclear because it is never spelled out how this is to be accomplished (which make fulfilment difficult to evaluate). As we have argued in this report, the impact of Swedish aid on growth can be both indirect or direct. The indirect effects take place at the macro level, i.e. by affecting the behaviour of

private and state agents in the recipient economy through such variables as the real equilibrium exchange rate. In assessing these effects, there is no known possibility to separate the influence of Swedish and other aid, but it is nevertheless these effects of aid that are the most important in the long term if the objective of the aid is to promote self-sustained growth. We have not detected any clear awareness of these indirect effects of aid in Swedish policy documents, either from SIDA or the Swedish MFA. One can interpret this in either of two ways; one is that the effects of aid on macroeconomic variables have not been sufficiently understood, the second is that they are considered of minor importance. Some clarification on this point would be helpful for the future. The direct effect of Swedish aid on growth take place through the projects/programmes, which can be evaluated through cost-benefit analysis and related methods (which has not been done so far; cf. below).

Second, it is not made clear in what time perspective the growth objective should be met. Aid has now been given to Guinea-Bissau for 20 years and very little growth in the economy can be detected. Since this has been known for some time (cf. de Vylder 1987) and aid has continued to flow at unabated rates until last year, the implicit time perspective must have been quite long; or is it simply that inertia on the part of the Swedish Government and SIDA has prevented reaction and demands for policy reform until very recently? We do not know what explanation carries the most weight, but for the future we think that it would be appropriate for the Swedish Government to specify the time dimension of the growth objective in somewhat more detail.

Third, the growth objective as such does not say anything about the intended source of the growth. In Guinea-Bissau we found that the little growth there has been (in total GDP as compared to marginal growth on a per capita basis) is attributable almost exclusively to aid-financed investment. Domestic savings are heavily in the negative and there is hardly any domestic long-term investment, either in the public, or in the private sector. Is it sufficient that particular Swedish-financed aid projects contribute to growth directly (as determined by social cost-benefit analysis when appropriate)? Or should we have the more ambitious (and difficult to assess) objective that our aid should help stimulate the domestic growth potential? That aid should assist in development, not replace domestic resource mobilization, is in a sense contained in the objective that the recipient countries should become "politically and economically independent". We find it important, however, that this question of domestic resource mobilization be addressed in some more detail by the Swedish Government.

Fourth, there is no indication in the Swedish Government's growth objective of how much growth aid should be expected to yield directly through the projects (or indirectly through its impact at the macro level). Is any positive number sufficient? There is some difference between a project yielding a social real return (contribution to growth) of 0.5 percent and 5 percent over its economic lifetime. In the African countries, where population growth is 3-4 percent per year, the rate of return is quite crucial. This difficult question needs to be addressed in formulating objectives for aid in the future; otherwise the growth objective will be empty of content.

Fifth and finally, we find it questionable whether "growth" really has been the objective for Swedish aid to Guinea-Bissau in practice even in fairly recent years. Most of the aid has been handled by SIDA (although substantial balance of payment support has been given by the MFA). SIDA has not made any attempts to analyse the extent to which Swedish aid has actually contributed to growth, either indirectly or directly, or at least we have not found any such study from SIDA. As stated earlier in this report, the indirect effects of Swedish aid are difficult to trace, but we have not seen even an attempt to discuss these effects of aid, Swedish and other, on the macroeconomic variables that determine the growth potential of the economy. That is, although some SIDA documents cover general macroeconomic aspects of the economy, we have not been able to find a single study that takes a thorough and knowledgeable grip on the impact of aid on the real exchange rate, government tax revenue effort, etc.⁴ It seems that SIDA has not acquired the economic competence that is required to conduct investigations of the macroeconomic impact of aid. Equally serious, neither has SIDA undertaken any proper evaluations of the individual projects Sweden has financed, partly due to a neglect of the need to document the data for the projects, which must be done if such evaluations should be feasible. All this we must interpret as a lack of interest in giving priority to the growth objective. Judged by "revealed preferences" it thus seems that the objective for Swedish aid to Guinea-Bissau that has predominated in practice is simply to spend the country frame. (Whether this conclusion carries over to other recipient countries we cannot tell.) It should be noted, however, that

⁴ The recent study by M. Martin (1993) on Macroeconomic Effects of Swedish Import Support may be considered an exception. It treats some of the macroeconomic issues, but in most instances, notably the effects on the real exchange rate, the analysis is rather sketchy. The country study by de Vylder (1987) also contains analyses of the macroeconomic situation in Guinea-Bissau but does not discuss the links to aid in any detail. (The study by de Vylder from 1992, which is not a SIDA document, contains an excellent analysis of the Dutch Disease effects of aid, with main reference to Mozambique, which is a recipient of Swedish aid with many similarities to Guinea-Bissau, not the least in terms of aid dependency.)

other bilateral donors do not seem to have undertaken more thorough analyses of the effectiveness of their aid.

In conclusion, we find it imperative that if aid to Guinea-Bissau should be given in the future and growth is the prime objective, a much more stringent and concurrent evaluation of fulfilment must be undertaken. To have a long list of loose and broad "objectives" for aid which are not properly defined and never assessed we do not find meaningful. We fully understand that it is not possible to set up very definite and exact "growth objectives" and that growth is affected by factors other than aid. A somewhat more precise and stringent clarification of the growth objective nevertheless seem imperative if the effects of aid are to be evaluated.

It should be emphasized, however, that growth is not the only legitimate objective for aid to a poor country like Guinea-Bissau. Aid in the form of import support, used to buy essential goods for direct consumption, or for providing health care, may improve the lot for very poor (usually urban) people. In any case, we find it important that whether the official objective for aid to a particular country is to enhance welfare in the long (growth) or short term (consumption), fulfilment should be checked at regular intervals. Otherwise it is more than likely that other, less warranted, objectives (such as spending the country frame) are allowed to predominate in practical day-to-day aid handling; that aid administration crowds-out aid efficiency and analysis.

3.4.2. Volume of Aid to Guinea-Bissau

We have considered three main alternatives when it comes to the volume of Swedish aid to Guinea-Bissau in the coming years (under the presumption that the growth objective is retained, defined in more detail and taken seriously). The first is to maintain aid at the order of magnitude that prevailed up to 1992, i.e. about SEK 90 million annually. The second is to terminate Swedish aid to Guinea-Bissau. The third is a substantial reduction, but without any predetermined sum mentioned, which is the alternative we find recommendable. In the following we shall provide our arguments for this recommendation.

The first alternative we find impossible to support. From the recent experience from Swedish - and other - aid to the country it is quite evident that there are not enough "good projects" or other uses to absorb this much money. Guinea-Bissau receives aid from many other donors and is one of the three largest aid recipients (related to GDP) in the third world. This is also clear from the large Swedish carryovers that were built up (more than SEK 100 million in mid-1993). We find it well documented that the constraint on growth in the country is not the

quantity of aid, but the quality of the aid and the development policies pursued by its Government.

The second alternative, to quit aid completely, we do not recommend for reasons that are both moral and economic. Sweden has for 20 years - together with other donors - disbursed massive amounts of aid to Guinea-Bissau. This money was given to a regime that up to rather recently followed an impossible "socialist" development strategy: excessive state involvement in the entire economy, "industrialization" through import substitution in an economy of 1 million people with an average income of US\$200, severe discrimination against actual and potential exports through a variety of means, and a total dependence on aid for investment. All the aid was given without any credible complaints from the donors about the basic development strategy followed by the Guinean Government until 1987, when the World Bank entered the scene more decisively.

Sweden had been mildly critical of the development strategy in Guinea-Bissau before 1987, but the credibility of the claims for reform was low as the country frame was high and increasing for many years to come. In some ways, Swedish aid was designed to support the unfortunate development strategy: the "industrialization" that was unsuccessfully attempted in the 1980s was to a very high extent financed by Swedish aid. In fact, Sweden was by far the largest donor in this sector for many years. Moreover, Swedish aid has, unintentionally and indirectly, contributed to creating a situation where the growth potential for the economy today is very low, at least for the near future. The export sector is minimal and comprises one main product (cashew nuts), there are no private savings or investments, and the country has the largest debt burden of all countries on a per capita basis. (The latter problem Sweden has not contributed to directly.)

That there has been very little noticeable development in Guinea-Bissau since independence is not the sole fault of its government. The donors - including Sweden - are also responsible for the failures by supporting an impossible development strategy up to 1987 and, related, because the aid has helped distort - and still does - the structure of the Guinean economy, mainly by providing economic incentives for a strongly inward-oriented trade regime. Since 1987 Sweden has joined forces with the other donors/lenders in putting pressure on the Guinean Government to initiate reforms in some areas that may lead to increased growth potential, even though many reforms are still not implemented and visible results have not materialized yet.

We think that Sweden has to admit its contribution to the failure of the development of Guinea-Bissau. We therefore find it hard to accept that for 20 years we contribute to pouring more money into the country than could be

absorbed in viable uses, which helps destroy the structure of the economy, and when we realize this, we immediately walk out and leave them with all the problems. On this ground we find it unacceptable that Sweden leaves Guinea-Bissau completely as of today. We are of the opinion that the Guinea-Bissau Government should be given a chance to complete the reforms presently under way, but if nothing or little of substance has been accomplished in 3-5 years time, Sweden should definitely withdraw its aid.

The economic argument for not terminating Swedish aid to Guinea-Bissau as of today is based on what we find a rapidly growing awareness that the quality of aid and the absorptive capacity are the problems, not that the quantity of aid is too small (rather its immense size is part of the problem). This relates both to representatives of the Guinea-Bissau Government and administration and the other bilateral donor agencies operating in the country. (During our four-week stay there, we talked to some 30 ministers, heads of government agencies and other donor organizations.) If this awareness can be transformed into new policies (after the Guinean election, whenever it comes) we think that Sweden can set an example by being first among the bilateral donors to focus on effectiveness of aid rather than just paying out money. At the macroeconomic level we can do that by setting up credible conditionality rules for the continuation of aid (section 8.4.3). At the micro level we can do that by designing (fewer) projects which are more thoroughly prepared, more efficiently managed and which fit the economic environment better (sections 8.4.4-5).

8.4.3. Conditions for Continued Swedish Aid

The question of conditionality in development co-operation has two facets: one at the project (micro) level and one at the level of the entire economy (macro). Conditionality at the programme/project level is related to issues such as counterpart funds, payment of local wages, supply of certain inputs and sectorial reforms. We have not been able to investigate in any detail whether and to what extent these conditions have been fulfilled by the Guinea-Bissau Government, as we have not undertaken any new project evaluations ourselves. However, in the few cases that we have looked at (mainly PDRI and the educational sector), it is clear that the conditions have not been met in full or at all. We find it very important that conditions are set for recipient-country participation in all projects, both when it comes to personnel and finance. If the recipient government is not prepared to mobilize at least some of its own resources in a project, this must be a sign that it does not give the project enough priority. The risk of a public-sector

project failing and becoming an isolated "enclave" in the recipient economy is much less, we think, if the Guinean Government is willing to take active part.

We thus recommend that (i) a more detailed investigation be made of how counterpart conditions have been fulfilled in recent years and that (ii) no project aid be given in the future without significant, non-negotiable and committed local participation. We further recommend that (iii) an "exit clause" is attached to each project. That is, all new project contracts should stipulate a date at which Swedish support is to be terminated and the responsibility - financial and managerial - turned over to the recipient. In the absence of such an exit clause, the recipient government is not given enough incentive to mobilize domestic participation in the projects. The exit time should be project-specific, but the time frame should exceed ten years only in exceptional cases (provided that we stay on in Guinea-Bissau; cf. below).

Conditionality rules at the macro level, set up by bilateral donors, is a rather recent development. The World Bank and the IMF have for many years set conditions for macroeconomic reform in countries for them to qualify for SAL and other loans. If Sweden continues to give aid to Guinea-Bissau, which we recommend on a smaller scale than hitherto, we find it absolutely necessary that the conditions regarding macroeconomic policy reform are established and, most important, made credible; that is, if the reforms are not undertaken within the time limit set up, 3 - 5 years, aid is terminated. We also recommend that a decision is taken rather soon, stipulating that the ongoing reforms in Guinea-Bissau will be formally and thoroughly evaluated by Sweden in 3-5 years time, and if results are not satisfactory, our aid is terminated. On the other hand, if reforms are completed and results are accomplished, we think there is reason to continue development co-operation with Guinea-Bissau. Sweden has been there for more than 20 years and has accumulated a fair knowledge of the country, while at the same time it has built up a good (but perhaps too soft) reputation.

We will not go into details as to how the various reforms should be conditioned; that would require a much more in-depth study of the relevant sectors of the Guinea-Bissau economy than we have been able to undertake. We will only point to the broad areas within which we find reform warranted. There is a long list of reforms that most or all donor representatives in Guinea-Bissau seem to agree are necessary and that are demanded by the World Bank and IMF. We basically agree with this list and we do not recommend that Sweden set up its own conditions. Some of the reforms are pending, but others have already been initiated, although progress in important areas has been slow, hesitant and not very far-reaching (see section 4.7).

One reform that we find unavoidable is related to the severe discrimination against the export sectors and the agricultural import-competing sectors (mainly rice producers) through the highly appreciated real exchange rate. As it is now, the Guinea-Bissau economy becomes increasingly inward-oriented while outward orientation and export-led growth has greater potential. We think that a combination of reduced overall aid (a focus on quality rather than quantity), a lowering of the export taxes and a managed real exchange rate depreciation (below the short-term aid-inflated equilibrium rate) would be the best remedy for the problem. On this point we may not be in total agreement with the IMF and/or the World Bank. They favour an increased rice import tax but do not seem to think that the overall flow of aid is too large. In none of the recent documents from the two organizations that we have come across is the impact of the massive aid flow on the real equilibrium exchange rate acknowledged or mentioned as a potential problem. It is possible that liberalization of the foreign exchange market will help rectify the Dutch Disease problem, a reform that the Bretton Wood institutions recommend. We support this reform, but we are not convinced that this would in itself lead to a depreciation of the real exchange rate; this seems to depend on whether other reforms are carried out simultaneously (e.g. the real interest rate policy, which determine the real return to savings/deposits in pesos compared to other currencies).

Other reforms suggested by the IMF and IBRD which have not been carried very far in Guinea-Bissau include an increased government tax revenue effort and public expenditure reductions (mainly on employment in the public sector). We fully agree that reforms must be accomplished in these areas. Still another necessary reform is a public enterprise reform, including the privatization or divestiture of most remaining state-run enterprises. Also imperative is reform of the primary and secondary school system; it cannot be accepted that the drop-out rate from primary school is 70-80 percent and that only some 7 percent of children enter the secondary level. In this sector it is especially important that one looks for explanations for the failures not only on the supply side, but also the demand side (why so many parents and children find it meaningless to attend school).

We understand that many of the reforms are politically difficult to undertake, but they are necessary if the Guinean economy is ever to be able to generate self-sustained growth. In most areas we do not believe that the reforms demanded by the IMF and the Bank are too drastic or that the time dimension is too tight. It is, however, important that conditions are not set unrealistically high and that reforms should be smooth and gradual rather than "big bang". As an example, a raise of the import tax on rice has been a heatedly debated issue in

Guinea-Bissau and in the donor community for years. Donors, concerned with the discrimination against domestic rice producers, have favoured a raise of the import tariff from 11 to about 20 percent in one step.⁵ The Guinean Government, rightly we believe, fears that this would cause riots and upheaval in Bissau and other urban areas and has so far declined. We consider that a gradual increase of the tariff by, say, 2-3 percentage points per year would be better. Food prices would then only increase slowly and less noticeably. Moreover, by raising the import tariff gradually, the increasing rice prices would give domestic producers time to increase production and the net effect on prices at the market place would thereby be less.

The above is only one example where gradual - but firm - reform is to be preferred in Guinea-Bissau. There are others. We believe that big bang reforms would trigger popular unrest and, possibly, riots and civil strife. The one great asset Guinea-Bissau has compared to most other countries in SSA is the absence of overt confrontations along ethnic, class, and religious lines despite a very heterogeneous population. These are assets that are not only valuable in themselves, but also highly conducive to growth in a possible future when the country gets the economic fundamentals in order. Political stability measured in various ways has turned out to be one of the few significant and robust determinants of the level of investment and also growth across developing countries, according to recent empirical tests of new growth theories (see Barro 1991, Levin and Renelt 1992, Edwards 1992, Fosu 1992 and Perotti 1993). Social stability is a good reason for Sweden to remain in Guinea-Bissau if the pending reforms are thoroughly implemented. Moreover, there is no abundance of petty crime, violence and prostitution in Bissau, which is in sharp contrast to most other cities in Africa. In a somewhat longer perspective, this may prove a factor that has a favourable impact on private investment, local as well as foreign.

8.4.4. Sector Concentration and Priority

The reductions of Swedish aid to Guinea-Bissau and the focus on quality, rather than on disbursement of the country frame, that we recommend must go hand in hand with a higher concentration of aid to certain key sectors. We cannot give precise recommendations on what projects/sectors should be given priority; this partly depends on what reforms the Guinea-Bissau Government undertakes during the next few years. It also depends on what other donors do. We will thus only discuss some general directions in which we think Sweden should move.

⁵ This was also the position of the IMF up to 1994; in a recent document, a two-step increase by 5 percentage points each time is recommended.

First of all, however, we would recommend a rather drastic reduction of the balance of payments and import support. (During the two most recent years, Swedish aid in this form has been withheld). It is the massive aid inflows that have pushed up the real exchange rate of the Guinea-Bissau peso to levels that are not consistent with long-term growth. Through its effect on the real exchange rate, import support has the most adverse effect on the tradable good sectors in Guinea-Bissau, the sectors that must be the expanding ones in the future if the country is ever to attain self-sustained growth.

We further recommend that Sweden stays in the agricultural sector, but only on certain conditions. The main Swedish project in this sector, PDRI, has up to now largely been a failure. In recent years drastic reforms of this project have been undertaken in, we believe, the right direction even though much more can probably be done after a more thorough study of the project (which we recommend) than the one undertaken in 1993. However, if there is to be any point to the supply-side activities which are the project's focus now, aimed at raising productivity in the agricultural sector, there has to be reform also on the demand (price) side. That is, if agricultural producers are to be severely discriminated against also in the future by low prices (through the exchange rate and taxes), they will have little incentive to adopt productivity increasing measures. (According to the IBRD (1994, a tab 18), producer prices in the agricultural sector have declined by more than 50 percent over the 1980s.)

Education is also a sector of utmost importance for development. Today, this sector does not function for reasons we have discussed. If the Guinean Government can find solutions to the structural problems in this sector (curriculum, teaching language, etc.), we think that Sweden should maintain its presence. If not, Sweden should withdraw fairly soon but still gradually.

Industry support to Guinea-Bissau, through SIDA, in the 1980s was by and large a failure and it has been almost eliminated in recent years. Instead SwedeCorp is to enter the scene with a credit fund for the promotion of private long-term investment. This project represents a novelty in Swedish co-operation with Guinea-Bissau in three dimensions that may seem appealing: it is directed towards the private sector, it is not on a grant basis and it could fill a completely empty "hole" in the economy, i.e. rectify the complete lack of long-term credit for private agents (at least in the formal sector).

While the need for long-term private investment in industrial activities may seem evident, we are still a little sceptical about the prospects for this project. First, with the present discrimination against all existing and possible export-oriented activities in Guinea-Bissau (again, through the aid-inflated real exchange

rate), demand for the credits can only come from private agents who think of operating in import-substitution sectors catering solely for the local market. Import-substitution industries in exceedingly small countries like Guinea-Bissau (with a total GDP of US\$200 million) are bound to face a market that is far too small to allow for efficient production on anything that resembles a large scale. They need protection to become economically viable for the private investors, but the experience of 40 years of infant-industry protection in other parts of the world tells us that such infants seldom grow up, i.e. become efficient, but rather that perpetual protection is required. One may argue that protection of import-substituting industries in Guinea-Bissau through tariffs is warranted to compensate for the negative influence of the highly aid-inflated real exchange rate, but we think that this is not the best long-term solution. A continued high exchange rate, coupled with protection of new import-substitution industries will mean a further disadvantage for existing and potential export sectors.

We also think it is absolutely necessary for the credit fund to be useful in the long term, that credit are given on strict conventional market criteria only - no soft credits to private agents without collateral. We have to recall that the jurisdiction system in Guinea-Bissau is not such that repayment of loans can be enforced easily. Reform in the jurisdictional area on the part of the Guinea-Bissau Government is contained in a current USAID programme; here, Sweden should join forces with USAID.

Finally, a few remarks on the "sector" that for many seems to be the most interesting for future aid: **institutional and administrative capacity building**. It cannot be denied that there is a glaring need for improvements in the Guinea-Bissau government administration. The question is whether these improvements can be accomplished through direct aid to these very activities. First of all, much of the incompetence that prevails in the public sector (and elsewhere) is a consequence of the poor education system down to the basic level (primary and secondary school). Our impression was that once one goes below the top levels (ministers, secretaries of state and a few others), many public officials' basic qualifications are extremely low (although there are exceptions). It is in these ranks that upgrading is the most pertinent, but we doubt that this can be achieved in the short and medium terms because of these officials' low basic training. The chance that complicated administrative procedures can be taught effectively to people with unduly low basic education is slight.

We also have to recall that aid to capacity building is not a new phenomenon. Sweden has already been engaged in this type of aid in Guinea-Bissau (and elsewhere) and there is a large number of Swedish consultants placed

in various ministries and government agencies in Bissau who have been there for years. In fact, technical assistance, personnel and administration accounted for more than half of total Swedish project aid to Guinea-Bissau over the period 1989 to 1993 (Table 2.6). Technical assistance proper made up the largest share of this. The overall experience is not that this type of aid has been more efficient than other aid. The consultants complain that while their objective is primarily to "build capacity", their actual time is spent mostly in day-to-day work activities that have no bearing on improving the way things are done. There is no guarantee that enlarged and more focused aid to capacity building will work better. (For further discussions of the problems with aid to capacity building in African countries, see Berg 1992 and Jaycox 1992.)

The Swedish aid agencies have failed to produce efficient project aid in many of the traditional aid sectors in Guinea-Bissau: agriculture, industry, and education. The reason is not only ineffective handling of the projects by the donor agencies; much of the failure is due to the impossible economic environment surrounding the projects (although the failure to realize this must be partly blamed on the Swedish donors). There is no *a priori* reason, however, why the Swedish agencies should be more efficient in providing aid to the "capacity" sector than they have to other sectors. There may well be scope for effective Swedish aid to capacity building in selected sectors in the Guinea-Bissau administration, but that would need careful prestudy. If we suddenly redirect a substantial part of the aid to this end, retaining the inadequate pre-project preparations, monitoring, management and evaluation procedures that SIDA has practised for aid to other sectors earlier in the country, there is little chance that aid to "capacity building" will be less inefficient than previous aid to the other sectors. This leads to the reforms we recommend for aid handling by SIDA in Guinea-Bissau.

8.4.5. Project/Programme-Aid Handling by SIDA

Since SIDA has been the only major Swedish aid agency in Guinea-Bissau during the past 20 years, we shall confine our recommendations for reforms to SIDA's handling of project aid. (The balance of payments and import support given by the Swedish MFA do not involve much handling and, besides, we recommend that this type of aid be reduced substantially.) On the basis of our findings in chapters 6 and 7 we will recommend reforms of project handling at five different stages.

First, we have found that when projects were once initiated, no proper and detailed pre-project proposals and project feasibility evaluations were made, either on the donor or on the recipient side. For many projects we have failed to find any written documentation whatsoever on pre-project preparations from the recipient

side. In other instances, the only documentation is a letter "of good intentions", where the great "need" for the particular project is expressed without further ado and where the "benefits" of Swedish aid are praised. In no single instance have we encountered a document where a thorough and realistic quantitative assessment of the project's economic viability is presented either from SIDA or the Guinea-Bissau Government. It may be that SIDA's procedures on this account have improved in the most recent years, or that procedures have been better in other recipient countries, but we have not seen signs of this in Guinea-Bissau documents. In the future, a more stringent and careful assessment of project feasibility in Guinea-Bissau has to be made.

Second, SIDA has to put more effort into monitoring the functioning and administration of the projects, and also how the funds are allocated between various uses within the projects. A glaring example is the main agricultural project in the 1980s, the PDRI. Several consultant reports pointed to inefficiencies and also to the fact that some 85 percent of the funds went to administration and related "internal" activities and very little to the main "external" activities (such as agricultural extension work). This went on until the early 1990s before any notable reaction from SIDA emerged.

Third, and related, aid projects in Guinea-Bissau should not only be monitored more carefully on a regular basis. At certain intervals, the projects must also be thoroughly evaluated. Here we do not go into details, since evaluation practices by SIDA and other Swedish aid agencies are the subject for a special SASDA investigation and report. We only note that the evaluations from SIDA which we have seen are not based on modern scientific methods; most are very loose qualitative assessments with no quantitative results at all. This is not very surprising since most of the projects lack the statistical documentation that is required if proper evaluations are to be possible. SIDA has to take on a responsibility for ensuring that such data are produced within the projects and that thorough quantitative evaluations are made by truly independent investigators.

Fourth, we have the impression that critique of programmes is sometimes filtered or lost on its way up the SIDA hierarchy to the final destination, the Swedish MFA. We have encountered several reports from the field, especially from the agricultural and educational projects/sectors (see section 7.2.4. above), where the situation is described in a manner that can only be interpreted as a "catastrophe" (although sometimes in a roundabout way). In SIDA's Letters to the Swedish Government, this criticism is toned down considerably or altogether ignored. In fact, we are struck by the absence of self-criticism in these SIDA

reports, considering how many projects have failed and even been terminated for lack of progress.

Very tentatively, we have three alternative hypotheses for why critique of, and grave problems with, projects/programmes in Guinea-Bissau have not been accurately reflected in SIDA's reports to the Swedish Government. One is that there are built-in incentives for filtering of critique at one or more intermediate levels within the hierarchy of the aid organization, so that the relevant information never reaches the SIDA leadership. Another possible reason is that the leadership of SIDA fears that information about aid "failures" should reach the media and that popular support for foreign aid - and SIDA - should diminish. The third hypothesis is that various Swedish governments have signalled to SIDA that they are not interested in hearing critique, at least not in official SIDA documents, for the same fear of unfavourable media exposure and public discontent with Swedish aid. If this has been so, we believe that it has been counterproductive in a long-term perspective. If the general public in Sweden is not informed about the true degree of aid failures, there will be less political pressure for reforming aid handling and, subsequently, less efficient aid, to the detriment of the objective that aid is officially aimed at: growth and social development that "improves the living standards of the poor". We thus recommend that the question of how critical information is handled by SIDA should be examined more closely, not only in the case of Guinea-Bissau, in a special report prepared by SASDA or an independent consultant. It may very well be that our observations for Guinea-Bissau are exceptions, but the question is serious enough to merit closer investigation.

Fifth, and finally, we have the impression that there are no mechanisms within SIDA that ensure quick and efficient changes when projects are reported to go astray. This problem is of course related to the one discussed just above. Perhaps the worst example we found is the aid to the education sector (see section 7.2.4 above), which has been reported a failure at least since 1984, but where aid has continued until today. Mechanisms for more swift changes in the volume and direction of the Swedish aid have to be secured in the future.

8.5. Some Final Reflections

8.5.1. Donor Agency Reform: Necessary, not Sufficient

That project aid management by SIDA becomes more efficient at various stages, i.e., project appraisal, administration, monitoring, evaluation and more expedient reform when things are not working well, is at the least a necessary requirement for more successful project aid in Guinea-Bissau. Even with the best of project

management on the part of the Swedish aid agencies, however, some projects are bound to fail. The overall economic environment is not growth-friendly and it will take many years to change this even if coherent reforms are fully implemented soon. We still think that more efficient handling of aid projects, in combination with reforms in Guinea-Bissau (section 8.4.3 above), can accomplish a lot. And if urgently needed reforms are not implemented in a 3 to 5 year period, we find it advisable to terminate Swedish aid to Guinea-Bissau. The resources thus freed can always be redirected to some other country which have more of the necessary preconditions for achieving self-sustained growth and social development within the foreseeable future. We therefore recommend that an independent assessment of the development of the necessary reforms at both the aggregated and the sectorial levels should be undertaken in three to five years. This evaluation shall analyse not only whether the reforms have been carried out, but also whether continued Swedish aid to Guinea-Bissau stand a chance to be effective and reasonably efficient. It may be hoped, however, that the Guinean Government can carry the reforms through and that a growth-friendly climate will be created. In such a scenario, continued (but reformed) Swedish project aid may well be recommended.

A more professional handling of project aid by SIDA at all stages, as discussed above, would probably require a substantial upgrading and expansion of the economist staff at SIDA. If economic growth is to remain the top priority objective for Swedish aid, and SIDA the main executive agency, we find it imperative that the entire mood of thinking within the organization has to be tilted towards more economics. This can only be accomplished by adding more senior, experienced economists with high level of formal education to the staff. As it now is, SIDA staff comprise mainly generalists, often with many years of administrative experience, but there is not even a handful of economists with formal training at the Ph.D. level. This is reflected in almost every SIDA document we have encountered. They contain administrative thinking about how to make (often hopeless) projects work in small details. The overview and the relation between project aid and the macroeconomic growth determinants and the overall economic environment in the recipient country is glaringly lacking. There is a vast international literature on aid and its relation to growth and other objectives in the recipient countries. Very few SIDA documents reflect an awareness of this fact. All this is in stark contrast to the situation in the international organizations dealing with development, especially the World Bank and the IMF, where economic thinking penetrates almost every document. Both these organizations have hundreds of senior economists with formal training above the Ph.D. level and many years of experience; several are leading academic economists.

We do not believe that a few more highly trained economists at top level positions in SIDA would be a guarantee for more efficient aid handling, but a necessary precondition. We, thus, recommend that a medium term (2-3 years) objective should be to have a senior economist above the Ph.D. level in each department of SIDA (or any new organization that may replace SIDA) in influential positions. We have the impression that this recommendation is not at odds with what SIDA itself has come to realize recently. In a recent interview study, many desk officers at SIDA had the opinion that there were no time for analysis and strategic thinking and that this was highly warranted. Moreover, in the Letters to the Government in 1989 and 1991, SIDA has emphasised the need for more macroeconomic analytical competence.

A main constraint on SIDA's possibilities to hire more economists (as well as other specialists) is the decision by the Swedish Parliament not to allow SIDA core staff to expand. The understandable concern is that the aid administration should not be allowed to grow the way unchecked administrations tend to. However, in some quarters there is an obsessive concern with administration costs of project aid; to the extent that "internal efficiency", measured by administration cost in relation to disbursement, is the main or at worst only concern. We have to remember that it is the efficiency of aid in meeting the ultimate objective that should matter: to promote growth and social development.

A dozen or so highly trained economists in top positions in the agency responsible for executing Swedish aid policy may add marginally to "administration costs" in the short term. In the longer perspective, we are convinced, based on what we have experienced in Guinea-Bissau, that a few more senior economists would contribute to lower administrative costs in several ways. First, if some conventional economic analysis had been included in the decisions process that led to the large Swedish support to state-run, import-substituting, industries in Guinea-Bissau during the 1980s, we would probably have avoided this mistake in the first place. Second, we think that if projects that are implemented were to be scrutinized at an early stage by competent economists, fewer problems would subsequently surface; problems that take considerable administrative capacity and costs to rectify.

Third, the present lack of enough economic competence at SIDA has resulted in an extensive use of consultants. While some of the reports by consultants that we have encountered in connection with our work with Guinea-Bissau are of reasonable quality, many are rather amateurish and empty of content. It certainly takes economic competence at SIDA to draw up relevant terms of references, to identify the most suitable consultants, and to understand and act on

the results in the most efficient way. We thus think that with more competent in-house economic capacity, the quantity of external consultants could be reduced considerably and the quality of their work improved. All this would most likely lead to overall lower administration costs, enhance the cost-efficiency of projects and, in the end, improve the final results of our aid. It is not that we think that a few more economists could have a major impact on the effectiveness of Swedish aid, but in combination with the other reforms we have suggested, we believe that they would constitute a small, but crucial, ingredient.

3.5.2. Donor Co-ordination

Even with more efficient Swedish aid-handling and Guinean reforms there is an additional problem which needs to be resolved: the lack of donor co-ordination. This issue was addressed in section 7.3.2. There is a risk that Swedish aid concentration and reforms are of limited use to the development of Guinea-Bissau if the amount of total foreign aid remain large and co-ordination continues to be lacking. We think that the Swedish policy of leaving the responsibility for co-ordination of the financial inflows to the Guinean Government is unrealistic, given its limited administrative capacity as well as the previous record of emphasising aid maximisation. Sweden should instead actively investigate the scope for increased donor co-ordination. For instance, the prospects for co-financing of projects and programmes with other donor countries and agencies should be investigated and applied when possible. Concerning policies towards the Guinean Government, as well as local employees and consultants, Sweden should work for better co-ordination. The prevailing situation of donor competition for educated domestic personnel, and the subsequent topping-up of wages, have to be dealt with simultaneously. The responsibility to co-ordinate this issue should not be left to one agency only, also Sweden can take on more action.

A field in which improved donor co-ordination is of utmost importance is the serious debt situation. The debt problem has been discussed for many years and its adverse effect on the credibility of the economy (important for domestic investments as well as foreign direct investments) is well acknowledged in theory by most donors. For instance, the Bretton Woods institutions consider Guinea-Bissau to be one of two African countries with a multilateral debt of such magnitude that exceptional arrangements are necessary (IBRD 1994, IMF-meeting December 1993). However, the debt burden has continued to increase in recent years and concessional loans have been continuously disbursed (in many cases to projects that do not generate the necessary profit to service loans even on highly concessional terms). The need for immediate action at part of the donor

community is glaring. Sweden has addressed this problem frequently during the last years and we think this should continue and be further emphasized. The problem is by and large outside the direct control of Sweden, but we find it important that great efforts are put on reaching an international agreement with the other donor countries and multilateral organisations on what are the necessary steps.

3.5.3. The Time Perspective

In judging the economic and social performance of Guinea-Bissau and its relation to foreign aid, the choice of time perspective is imperative. There are at least three time perspectives that can be considered.

First, one may take a long-term view and look backwards only, at what has actually been achieved during the 20 years since Guinea-Bissau gained independence in 1974. In this long perspective, development has been a clear failure. Today, the country has a per capita real income of about US\$200. Such a low income today signifies that not much growth can have been achieved over the two past decades (for which we have crude growth data only since 1987). There have been no domestic saving and investment in the formal sectors and exports have been stagnant. Macroeconomic imbalance is persistent and inflation runs high. Aid dependence is among the highest in the world and so is the accumulated debt burden. Social development indicators, such as under-five mortality rates and completion of primary education, are discouraging even in comparison with most other least developed countries.

A second perspective is obtained if we distinguish between developments before and after 1987, when the first serious attempts at economic and political reforms were initiated and the SAP was launched. Before 1987, Guinea-Bissau pursued a development strategy in which the cornerstones were heavy state involvement, regulation at all levels in the economy and an inward-oriented trade regime. As of today, hardly anyone can be surprised that development failed. But the 1987-1993 period has also been far from satisfactory. On the positive side, reforms have been undertaken in important areas, such as domestic price liberalization, partial trade liberalization and a more market-determined exchange rate; some privatization of state-run enterprises and public sector reform have also been accomplished. On the negative side is that the reforms have yet to produce results in terms of growth and social development. Despite an investment ratio of 0.25, per capita growth has been barely positive in the 1990s, and totally aid driven. There are still no significant private long-term investments and domestic savings have remained highly negative. Exports have not increased and trade in

foreign currencies is still regulated. Social indicators in the education and health areas are still highly unfavourable. In short, it is difficult to find signs of actual positive output performance, either in the economic or in the social sectors during the 1987-1993 period.

Only the third, a strict forward-looking perspective gives room for some guarded optimism. As recent experience from other SSA countries (many of which were initially in a less precarious economic situation and started reform earlier) shows, "structural adjustment" takes time and results are meagre in most cases (IBRD 1994). One may thus argue that (partial) reforms in Guinea-Bissau since 1987 are too recent to be expected to result in growth and social development as yet. On the other hand, reforms have been restricted to certain areas, or have been very limited, or are yet to be implemented. Privatization of state enterprises has been slow and half-hearted, the government's tax revenue effort and public expenditure reduction programme still await firm commitment and action, customs reform and freeing of the market for foreign exchange are not yet accomplished. Most serious is probably the discrimination against the traded goods sectors, mainly agricultural exports (cashew nuts) and import substitutes (rice), both directly through the trade policy (high export tax and low import tariff, respectively) and indirectly through the aid-inflated real exchange rate. Without much improved incentives for investment in the traded goods sectors, we find it hard to believe that sustainable growth is possible in Guinea-Bissau.

Considering the facts (i) that structural reform elsewhere in Africa has proved not to yield quick results, (ii) that the reform work in Guinea-Bissau has started rather recently and (iii) that reform is yet to be undertaken in important areas, the time perspective in which we have recommended that the conditions for Swedish aid to be continued have to be fulfilled, 3-5 years, may seem short. We do not think so. First, the conditions we have recommended are not that substantial growth and development should be accomplished within this time-frame, only that the reforms which we think would enhance the preconditions for growth and social development are completed/undertaken. More notable growth and development will probably materialize only with a lag, i.e. some years after most reforms have been completed.

Second, most of the reforms we have recommended have been pending for a number of years and it is not primarily new knowledge about what has to be done that is needed. What is needed is the political will and determination to implement the reforms. Thus, a 3-5 year period should be enough. Third, and most importantly, an extended time-frame will give incentives to postpone reforms that are costly and politically troublesome in the short term, but necessary if the

country is ever to be able to produce sustainable growth in the longer term. We see no point in delaying the reforms that are the only hope we have for sustainable growth and social development to be accomplished in Guinea-Bissau. Without growth we see no possibility of raising the "living standards of the poor" in the country - the ultimate objective for Swedish aid - and the sooner this process starts, the better.

APPENDICES

- 1. Statistical Tables**
- 2. References**
- 3. List of Interviews and Meetings**
- 4. Terms of Reference**
- 5. Acronyms**

Appendix 1: STATISTICAL TABLES

Table A.1: SIDA Disbursements by Sector, 1988/89-1992/93, Current SEK Million and 1993 Prices.

	1988/89	1989/90	1990/91	1991/92	1992/93
Country Frame (C F)					
Agriculture and Fishing	28	29	26	22	30
Health	2	2	4	4	2
Education	4	10	10	9	11
Industry	19	11	8	15	8
Infrastruktur	10	7	0	0	0
Public Administration	9	5	0	0	0
Import Support	3	5	9	5	2
Personnel and Consultancy Fund	2	3	4	6	4
Miscellaneous	0	0	2	1	2
Total CF Disbursements (1993 prices)	100	79	68	65	59
Total CF Commitments (1993 prices)	97	94	96	99	85
Non-Country Frame					
Democracy and HR ¹	0	0	0	0	0
NGOs	3	6	7	6	3
Disaster Relief	0	0	0	0	0
Other C2	1	3	2	1	1
C1 (Food Aid)	0	3	1	0	0
C3 BoP-support	-	1	15	9	9
Total SIDA (1993 prices)	105	94	95	82	73

Source: *Bistånd i Siffror och Diagram*, SIDA, 1993.

1) SEK 10.000 and 170.000 were given to this category in fiscal years 1991/92 and 1992/93.

Table A.2: Operating Results of Selected Enterprises, 1985-88, Current Million Guinean Peso.

		1985	1986	1987	1988
Company	Activity				
Folbi	Woodwork	-91	-61	-39	-46
CMV	Vehicle maintenance	2	6	16	17
Guinave	Navigation	-37	-24	-22	-19
Guimetal	Metalworks	-6	-7	-7	-8
Socotram	Timber	-49	-1	2	2
Bafata	Brickyard	-11	0	6	4

Source: IMF, 1990.

Table A.3: Guinea-Bissau in International Comparison; Various Indicators.

Indicator	Period/ Year	Guinea- Bissau	Guinea	Mozambique	Haiti	Bangladesh	Average SSA
Annual GDP growth (%)	1980-91	2.4	--	--	3.7	2.3	4.0
Annual GDP/c growth (%)	1980-91	1.1	--	-1.1	-2.4	1.9	-1.2
Annual Inflation rate (%)	1970-80	6	--	--	9	21	14
	1980-91	56	--	38	7	9	18
Share of Total	1970	21	--	--	--	9	23
Industry in GDP (%)	1991	12	35	15	--	16	29
Share of Manufactured	1970	21	--	--	--	6	8
Industry in GDP (%)	1991	8	5	--	--	9	--
Growth of Food Prod/cap	1980-91	0.3	-0.5	-3.1	-1.2	-0.6	--
Gross Domestic	1970	30	--	--	11	10	17
Investment/GDP	1991	30	18	42	--	11	16
Gross Domestic	1970	3	--	--	7	7	16
Savings/GDP	1991	-3	14	-10	--	3	14

Source: World Bank, *World Development Report*, 1993.

Table A.4: GDP by Sector, 1987-1993, Selected Period Average Percent.

	1987/88		1990/91		1992/93	
	Current	Real	Current	Real	Current	Real
Agriculture	48	50	45	50	45	51
Industry	8	12	8	10	8	9
Construction	5	3	11	3	11	4
Commerce and Transport	26	23	25	25	25	25
Services	3	2	4	2	4	3
Public Administration	6	9	3	8	3	8
Other	4	1	4	2	4	0
Total	100	100	100	100	100	100

Source: Guinea-Bissau Ministry of Finance, 1993.

Note: Figures do not add due to rounding off. Agriculture contains Fishing and Forestry.

Table A.5: Real Average Annual GNP/Capita Growth, Various Sources, Percent.

Source:	WDR 1993	HDR 1993	GCA 1992
1965-1980	-	-2.7	-
1980-1990	-	1.7	-
1980-1991	1.1	-	-
1990	-	-	-3.4
1991	-	-	-1.3

WDR = World Development Report, HDR = Human Development Report, GCA = Global Coalition for Africa.

Note: - means indicator not reported.

Table A.6: Real Average Annual GDP or GNP Growth, Various Sources, Percent.

Source:	WDR 1993	HDR 1993	AZ 1991	AS 1993	UNCTAD 1992	GCA 1992
1970-80	2.4	-	-	-	2.4	-
1974-80	-	-	-	-	-	0.4
1980-90	-	3.7	-	-	4.0	-
1980-91	3.7	-	-	-	-	-
1981-85	-	-	-	-	-	2.4
1986-89	-	-	-	-	-	5.9
1986-92	-	-	-	4.3	-	-
1987-90	-	-	6.7	-	-	-
1990	-	-	-	-	-	3.0
1991	-	-	-	-	-	3.1

Source: AZ = Aguilar and Zejan, AS = Aguilar and Stenman.

Note: - means indicator not reported.

Table A.7: GDP by Type of Expenditure, 1981-1993, Selected Period Averages, Percent.

	1981/82	1987/88	1992/93
Consumption	102	103	103
- Private	72	91	96
- Public	30	12	7
Investment	29	26	24
Export	10	14	16
Import	42	44	43
(Consumption + Investment)/GDP	1.31	1.29	1.27

Source: Carneiro and Abreu, 1989 and Aguilar and Stenman, 1993.

Table A.8: Government Tax Revenues, Percent of GDP.

	1987	1988	1989	1990	1991	1992	1993
Tax Revenue	9	8	4	8	7	4	7 ¹

Source: Guinea-Bissau Ministry of Finance, November 1993.

(1): Projection.

Table A.9: Gross Domestic Investment (GDI), 1987-93, Percent of GDP.

	1987	1988	1989	1990	1991	1992	1993
GDI	33	34	34	25	27	26	22
- Private	4	9	3	4	4	1	2
- Public	29	25	31	21	23	25	20

Source: Guinea-Bissau Ministry of Finance, November, 1993.

Table A.10: Public Investment by Sector, 1987-93, Percent.

	1989	1990	1991	1992	1993
Agriculture	32	26	30	20	20
Industry	11	4	4	3	1
Social sectors	11	26	15	12	22
Infrastructure	12	11	6	37	38
Other	34	33	45	28	19
Total	100	100	100	100	100

Source: IBRD, Public Expenditure Review, 1993.

Table A.11: Main Trading Partners, 1991, Percent.

Export	Percent	Import	Percent
India	52	Portugal	25
Portugal	20	Australia	18
Spain	5	Thailand	6
France	4	Netherlands	5
Thailand	4	Italy	5
Other	15	Other	41
Total	100	Total	100

Source: EIU, Country Profile, 1993.

Table A.12: Main Commodities Traded, 1991, Percent.

Export	Percent	Import	Percent
Cashew-nuts	63	Consumer goods	33
Frozen fish and shrimps	10	- Rice	17
Timber	10	Fuel and Transport	10
Other	17	Capital goods	35
		Building material	11
		Other	8
Total	100	Total	100

Source: Guinea-Bissau Ministry of Finance, 1993.

Table A.13: Imports of Cereals and Rice, 1985-1992, Thousand Metric Tons (TMT) and US\$ Current.

	1985	1986	1987	1988	1989	1990	1991	1992
Cereals								
TMT	31	22	59	55	64	47	64	82
US\$	6	7	16	17	21	12	17	23
Rice								
TMT	19	16	49	46	50	43	60	76
US\$	4	6	18	16	18	11	16	22

Source: FAO, *Trade Yearbook*, various years.

Table A.14: Terms of Trade Changes, Various Sources, Percent.

	WDR 1993	IMF 1990	GCA 1992	IMF 1994
Terms of Trade	38	-22	-36	-10
Changes	(1987-93)	(1985-88)	(1974-80)	(1989-92)

Table A15: Selected Nominal Exchange Rates and Price Indices, 1987-1993 (1988=100).

	1987	1988	1989	1990	1991	1992	1993
Nominal Exchange Rates							
Peso/US\$ ac	62	100	146	184	364	635	841
Peso/US\$ rf	50	100	163	197	330	625	908
Peso/SDR ¹ aa	66	100	142	194	387	649	859
Peso/Trade Weighted	-	100	129	149	198	287	341
Price Indices							
GUB CPI	62	100	181	240	379	643	958
Ind. Countries CPI	97	100	104	109	114	117	121
Portugese CPI	91	100	113	128	143	155	165
Dutch CPI	99	100	101	104	108	112	-
Ind Countries EUV ²	94	100	100	109	108	111	-
Portuguese EUV	93	100	97	110	109	114	-
Dutch EUV	98	100	100	116	111	114	-

Source: IMF, *International Financial Statistics*, various issues and IMFa 1994.

1) SDR = Special Drawing Rights, 2) EUV = Export Unit Value.

Table A16: Selected Nominal Exchange Rates and Price Indices, 1987-1993, Yearly Percentage Change.

	1987	1988	1989	1990	1991	1992	1993
Nominal Exchange Rates							
Peso/US\$ ae	-	61	46	26	98	74	32
Peso/US\$ rf	-	100	63	21	68	89	45
Peso/SDR aa	-	52	42	37	99	68	32
Peso/Trade Weighted	-	-	29	16	33	45	19
Price Indices							
GUB CPI	-	61	81	33	58	70	49
Ind. Countries CPI	3	3	5	5	4	3	3
Portuguese CPI	9	10	13	13	11	9	7
Dutch CPI	-1	1	1	3	4	4	-
Ind Countries EUV	12	6	0	9	-1	3	-
Portuguese EUV	-	8	-3	13	-1	5	-
Dutch EUV	10	2	0	16	-4	3	-

Source: IMF, *International Financial Statistics*, various issues and IMFa 1994.

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Appendix 3: LIST OF INTERVIEWS AND MEETINGS.

a) In Sweden.

Name	Position	Date
<u>SIDA</u>		
Göran Engstrand	REWA, Head of secretariat	93-10-19
Åsa Palmgren	REWA, Desk officer	93-10-19
Lars Boberg	REWA, Desk officer	93-10-28
Lars Tengroth	REWA, Desk officer	94-03-15
James Donovan	Planning Secretariat, Economist	93-10-07
Hans Persson	Dep. of Education, Desk officer	93-10-19
Tom Abrahamsson	Financial officer	93-10-22
Tullio Zannoni	Planning Secretariat, Statistician	93-10-12
<u>MFA</u>		
Alf Samuelsson	Under-secretary of State	94-04-08
Harry Landau	Desk officer	93-09-29
Per Örneus	Desk officer	93-10-05
Anna Brandt	Chief Economist	93-10-12
<u>SAREC</u>		
Anne Stödberg	Research officer	93-10-08
Johan Holmberg	Director of Programme	93-10-12
<u>SwedeCorn</u>		
Lars Berggren	Deputy Director	93-10-05
Jerker Bennehall	Desk Officer	93-11-05
<u>Stockholm School of Economics</u>		
Magnus Alveusson	Economist	93-09-28
Mario Zejan	Economist	93-09-28
<u>Riksdagens revisorer</u>		
Alan Read	Accountant Director	93-10-20

b) Meetings and Interviews in Guinea-Bissau, 1993-11-01 - 1993-11-29.

Name	Office	Date
<u>Guinean Administration</u>		
Secretary of State Rui Dia de Sousa	Ministry of Finance	93-11-02
Minister Mario Cabral	Ministry of Rural Development and Agriculture	93-11-02
Minister Delfim da Silva	Ministry of Education	93-11-04
Minister Ansumane Mané	Ministry of Industry and Commerce	93-11-04
Secretary of Planning Nelson Dias	Planning Secretariat	93-11-04
		93-11-16
		93-11-23
Sr Paulo Gomes	Planning Secretariat	93-11-10
Sr José Vieira	Ministry of Education	93-11-17
Sr Djassi	Ministry of Fishing	93-11-18
Sr A. Paulo	Ministry of Health	93-11-18
Sr Yissuf Sanhá	Ministry of Finance	93-11-18
Sr J Biai and Sr A Dias	Ministry of Foreign Affairs and Co-operation	93-11-19
Sr Carlos Nhate	Ministry of Industry	93-11-22
Sr Abdou Mané	Ministry of Industry	93-11-23
Sr Adriaõ Spencer	Central Bank	93-11-24
Minister Bernardino Cardoso	Ministry of Foreign Affairs and Co-operation	93-11-27
Sr Wilson Cruz	Ministry of Finance	93-11-26
Sr Carvalho	PDMI	93-11-04
		93-11-13
		93-11-62
Sr Alberto Lopes	National Commission for Elections	93-11-05
<u>SIDA-DCO</u>		
Mr Nils-Olof Malmer	SIDA, DCO	93-11-03
Mr Johan Sundberg	SIDA, DCO	93-11-15
Mrs Lena Rupp	SIDA-DCO	93-11-19

Other Donor Agencies

Mr Hans Dorresteijn	SNV, Netherlands	93-11-09
Mr Yves Tencalla	The World Bank	93-11-03
		93-11-11
		93-11-24
Mr Perez-Arguello	UNDP	93-11-12
Mr Gerardus Gielen	EC	93-11-11
Mr Michel Laguesse	World Food Programme	93-11-19
Mr Robert P. Głofcheski	UNDP	93-11-25
Mr Rothman	IMF-Mission	93-11-26
Mr Michael Lukomsky	USAID, USA	93-11-10

Technical Assistants

Mr Matthew Martin	UNDP	93-11-09
Mr Lennart Schagerlöf	SwedeCorp/Hifab	93-11-11
Mr A C Pinto	Rädda Barnen	93-11-19
Mr Bengt Kjeller	PDRI	93-11-13
		93-11-22
Mr Lars-Olof Eliasson	PESCARTE	93-11-18
Mrs Ann-Charlotte Olstedt	Ministry of Education	93-11-09
Mr Lars Ström	PDRI	93-11-16
Mr Leif Norman	GAPLA	93-11-22

- c) The following economists and officials have contributed comments on an earlier version of chapter 8 in the study, which are gratefully acknowledged.

Name	Position
Jaime Behar	Economist, Institute for Latin-American studies
Jerker Bennehall	Desk officer, SwedeCorp
Arne Bigsten	Professor of development economics, University of Gothenburg
Dag Ehrenpreis	Chief economist, SIDA
Kim Fors	Economist
Bo Jerlström	Swedish Ministry for Foreign Affairs
Eva Juhlin	Economist, University of Gothenburg
Bo Karlström	Economist
Nils-Olof Malmer	Head of DCO, SIDA, Bissau
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Appendix 4: TERMS OF REFERENCE

Review of Swedish development co-operation with Guinea Bissau

1. BACKGROUND

The new government report of forms of management and co-operation in overseas aid (SOU 1993:1) proposes the elaboration of country profiles and country studies as an essential tool for the management of aid to individual countries.

Over the period 1974/75-1991/92, Swedish aid payments to Guinea Bissau have amounted to 1,2 milliard SEK (c. 2 milliard SEK in constant January 1992 prices). Sweden is today the third largest donor. No comprehensive analysis has been made of Swedish aid to Guinea Bissau which takes account of other donors' experience or places emphasis on the results achieved by Swedish aid.

This is the background to SASDA's intention to carry out a review of Swedish aid to Guinea Bissau over the period 1974/75-1991/92.

2. OBJECTIVE

The review will:

- a) analyse the effect and effectiveness in the sense of appropriateness to the objectives set (or 'external' effectiveness) of the aid given;
- b) analyse its cost-effectiveness (or 'internal' efficiency);
- c) make recommendations to improve its effectiveness and efficiency in development co-operation with Guinea Bissau in the future.
- d) make proposals for the methodology to be employed in analysing and following up the effectiveness and efficiency of aid in other country studies.

3. CONTENT

The study should provide answers to the following questions:

- a) What has Sweden supported in Guinea Bissau?
- b) Why has Sweden supported Guinea Bissau in this way?
- c) What results have been achieved?
- d) Is Swedish development co-operation with Guinea Bissau reasonable in relation to the countrys' structure of production, economic policy and political conditions?
- e) Has Swedish aid been cost-effective?
- f) What have other donors done in Guinea Bissau and what do they intend to do in future?
- g) What should Sweden do in the future?

3.1. What has Sweden supported in Guinea Bissau?

The analysis will be based on a comprehensive time-series of Swedish aid to Guinea Bissau, broken down as follows:

- 1) by authority (Ministry of Foreign Affairs, SIDA, BITS, SAREC, Swedecorp);
- 2) by channel (bilateral co-operation, multilateral co-operation, NGOs, companies);
- 3) by final product (sectors: direct production, social sector, services, imports, public-sector management, policy);
- 4) by macroeconomic function (external consultants, local costs, imports, credit, debt operations);

- 5) by final recipient (public sector, private sector).
The analysis will also highlight information about commitments, payments, carry-over of funds and types of grant. It will be supplemented by a short description of the contributions made.

3.2. Why has Sweden supported Guinea Bissau in this way?

The study will examine:

- 1) applications from recipients;
- 2) policy considerations by the responsible authorities and the government;
- 3) discussions between donors and recipients;
- 4) decisions; and
- 5) communication of decisions to the recipients with special emphasis on comments or observations about content and execution.

3.3. What results have been achieved?

This part of the study will analyse, summarise and draw conclusions from:

- 1) evaluations carried out by Sweden;
- 2) evaluations made by other donors;
- 3) evaluations made by Guinea Bissau.

More detailed consideration will also be given to contributions which are of particular importance in Swedish aid to Guinea Bissau. The review will analyse the macroeconomic effects of Swedish aid and the effects of total aid on Guinea Bissau. Analysis will focus on the effects on growth and distribution in general, on selected sectors (of interest for Swedish aid), and on aspects of fungibility or additionality (effects on savings, public expenditure and investment). The 'crowding-out' and 'crowding-in' effects will be examined if possible. The management of aid flows will be analysed with regard to the recipients' economic policy, financial programmes and budgetary process (rates of exchange, equivalent value in local currency and incorporation in the state budget). It assumes that effective aid demands that the recipient takes steps to implement different co-operation programmes and makes the hypothesis that good macroeconomic management of the flow of aid is a condition of effectiveness. Has Sweden applied the concept of conditionality? If so, what requirements does it set? Report and follow up on conditionality.

3.4. Is Swedish development co-operation with Guinea Bissau rational?

The reasonableness of Swedish contribution will be considered with respect to:

- 1) the recipients' resource base and economic strategies as reported in policy documents (development plans and analyses);
- 2) the recipients' priorities as shown by analysis of Guinea Bissau's national budgets (current outlay and investment plans);
- 3) public expenditures review;
- 4) analyses made by the World Bank, IMF and possibly other donors;
- 5) analyses carried out or commissioned by Sweden;
- 6) the democracy objective of the recipients.

3.5. Has Swedish aid been cost-effective?

The review will include a broad analysis of administrative costs per aid project to Guinea Bissau.

3.6. Aid from other donors

Development co-operation with other donors will be covered, analysed by channel, product, macroeconomic function and recipient.

3.7. What should Sweden do in the future?

Working from points 1-5 above, the review will make recommendations for the future orientation of development co-operation. Particular attention should be paid to the recipient country's strategic planning documents for the future, the World Bank's and IMF's future-oriented analyses and estimates of the need for financing.

4. RESPONSIBILITY FOR EXECUTION OF THE REVIEW

The study will be carried out by Peter Svedberg at the Institute for International Economics, University of Stockholm, who will be responsible for planning and for discussions with SASDA. He will also be responsible for recruitment of research assistants to work on the project.

5. TIMETABLE

The study will begin on 15 August 1993 and the final report be presented to SASDA on 31 March 1994. SASDA and Peter Svedberg will agree a date for interim reports as the review proceeds.

6. INTERIM REPORTING

Svedberg will present his final report in English with a summary in Swedish (c. 20 pages) to SASDA on 31 March 1994 at the latest. A preliminary report will be presented during January 1994. The report may be published in a series of SASDA reports by agreement with the author. The final report will be in WordPerfect 5.1 or 5.2 in printed form and on diskette.

Appendix 5: ACRONYMS

ADB	African Development Bank
ADF	African Development Fund
AIDS	Acquired Immune Deficiency Syndrome
ARO	Afrikangruppernas Rekryterings Organisation
BOP	Balance of Payment
BITS	Swedish Agency for International T & E Co-operation
CFA	Communauté Financière Africaine
CPI	Consumer Price Index
DAC	Development Assistance Committee
DCO	Development Co-operation Office (Swedish)
EC	European Community
ECU	European Currency Unit
FAO	Food and Agriculture Organization
FOB	Free on Board
GDI	General Directorate for Industry (Guinean-Bissau)
GDP	Gross Domestic Product
GNP	Gross National Product
IBRD	International Bank for Reconstruction and Development
ICOR	Incremental Capital Output Ratio
IDA	International Development Association
IFS	International Financial Statistics
IMF	International Monetary Fund
INEP	National Institute for Social Research
IS	Import Substitution
LNSP	Guinea-Bissau National Health Laboratory
MFA	Ministry for Foreign Affairs (of Sweden)
NGO	Non-Governmental Organization
ODA	Official Development Association
PAIGC	Partido Africano da Independencia da Guine e Cabo Verde
PDRI	Integrated Rural Development Programme (Guinea-Bissau)
PIP	Public Investment Programme
PPP	Purchasing Power Parity
SAF	Structural Adjustment Facility
SAL	Structural Adjustment Loan
SAP	Structural Adjustment Programme
SAREC	Swedish Agency for Research Co-op. with Developing Countries
SBL	Swedish Bacteriological Laboratory
SDR	Special Drawing Rights
SPA	Special Programme for Africa
SSA	Sub-Saharan Africa
TA	Technical Assistance
UNCTAD	United Nations Conference on Trade and Development
UNICEF	United Nations Children's Fund
UNDP	United Nations Development Programme
USAID	US Agency for International Development

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SASDA PUBLICATIONS

- Report No. 1** Links between Development Assistance and Donor Country Exports - the Case of Sweden; Thomas Andersson, Håkan Hellström, March 1994
- Report No. 2** Is Swedish Aid Rational? A Critical Study of Swedish Aid Policy in the Period 1968 - 1993
Helge Hveem and Desmond McNeill, May 1994
- Report No. 3** Evaluation of Swedish Development Co-operation with Guinea-Bissau; Peter Svedberg, Anders Olofsgård, Björn Ekman
May 1994