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Conflict, Livelihoods, and Poverty in Guinea-Bissau

A Brief Overview

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Conflict and political instability have considerably weakened Guinea-Bissau's productive infrastructure during the past three decades. This situation has contributed to an increase in the degree of vulnerability of the population, especially in rural areas. As growth has been weak, poverty levels have remained high. This book provides a collection of papers on conflict, livelihoods, and poverty in Guinea-Bissau based on both a nationally representative 2002 household survey and a small-scale survey with both quantitative and qualitative components implemented in 2004. After a brief review of political developments since independence, this overview summarizes the report's main findings in the areas of conflict, growth and poverty, institutions and social networks, the characteristics of the poor and determinants of poverty, the population's means of livelihood, and, finally, cashew production and taxation.

This book is about the social and economic impacts of conflict in Guinea-Bissau. There has been a substantial body of research in recent years on conflict, growth, and poverty; however, relatively little has been written on Guinea-Bissau, in large part because good data sources on the country have been lacking. Today, the availability of new household survey data makes it possible to conduct a meaningful analysis of the impact of conflict on Guinea-Bissau, with a focus on the poor, tensions that still remain, and several key reforms that could improve the future of its citizens.

Before discussing the specific case of Guinea-Bissau, it is worth emphasizing that many of the broad lessons provided in the literature on conflicts apply to the specific case of Guinea-Bissau. According to Rodrick (1999), conflicts are important to understanding why economic growth is inconsistent and why the growth of so many countries has collapsed since the mid-1970s. The countries that experienced the sharpest drops in growth

after 1975 were those with divided societies (as measured by indicators of inequality and ethnic fragmentation) and with weak institutions of conflict management (as measured by indicators such as the quality of governmental institutions, rule of law, democratic rights, and social safety nets). These findings were also confirmed by Alesina and others (1996), who concluded that growth is significantly lower than normal in countries and time periods with a high propensity for government collapse. Studies also point to spillover effects of regional conflicts on the economic performance of countries (Sambanis 2003). Conflicts in neighboring countries also heighten the risk that the country itself will fall into civil war (Collier and others 2003),¹ a fact that is well known in West Africa.

It is often argued that the risks of conflicts are explained primarily by economic factors (such as initial income, dependence on commodity exports, and the economic growth of the preceding period), but they are also dependent on non-economic factors (such as social fragmentation). Recent research has established that inefficient institutions lead to inefficient policies, which can, in turn, cause conflicts. According to Acemoglu (2006), economic institutions determine the framework for policymaking, placing heavy constraints on policy. Groups with political power, or the elite, often choose policies that transfer resources from the rest of the society to themselves, which leads institutions to be inefficient from the point of view of society at large. Resource transfers can be obtained in a variety of ways, such as through revenue extraction, factor price manipulation, and political consolidation.²

Linking institutional inefficiency to conflict, Yartey (2004) found that, based on a cross-country analysis, weak institutions and low economic growth are major causes of conflicts in Sub-Saharan Africa. Along the same lines, Ghura and Mercereau (2004) provided empirical evidence that the propensity for political instability and conflict in the Central African Republic has been increased by low tax revenues and deteriorations in trade. In contrast, Campos and others (1999)—in a study on the Middle East and North Africa over the period 1970–90—suggested that domestic political instability can have positive effects on investment by forcing governments to adopt more efficient policies. However, external political instability tends to reduce domestic political instability and thus makes policies more inefficient.

In the specific case of Guinea-Bissau, conflict and political instability have weakened the country's productive infrastructure during the past three decades, and this has led to an increase in the vulnerability of the population, especially in rural areas. As growth has been weak, poverty levels have remained high. In this context, the objective of this book is to provide an analysis of the links between conflict, livelihood, and poverty using recent household survey data (the nationally representative 2002 household survey as well as a small-scale survey with both quantitative and qualitative components implemented in 2004). After a brief review of political developments since independence, this chapter summarizes the main findings of the chapters that deal with conflict, growth and poverty, institutions and social networks, the characteristics of the poor and determinants of poverty, citizens' means of livelihood, and finally, cashew production and taxation. Several areas for future research are highlighted in the conclusion.

1. The subject is further covered by Gudmundsson (2004), Elbadawi and Sambanis (2000), Fosu (2001), Collier (1999), Collier and Hoeffler (2002), and Easterly and Levine (1997). See also Sachs and Warner (1997) on growth in Africa.

2. See also Acemoglu (2002, 2003, 2006a, 2006b).

Conflict and Political Instability in Guinea-Bissau

Following a decade-long freedom war with Portugal, Guinea-Bissau became independent in 1974, though the country remained plagued by political instability and conflicts. The government of the first president, Luis Cabral, was overthrown in a bloodless coup led by the prime minister and former armed forces commander João Bernardo “Nino” Vieira in 1980. Several coup attempts against the Vieira government followed in 1983, 1985, and 1993. In 1994, the country’s first multiparty legislative and presidential elections were held. President Vieira of the ruling Party for the Independence of Guinea-Bissau and Cape-Verde (PAIGC) was re-elected with a slight margin over Kumba Yala of the Party of Social Restoration (PRS). However, an army uprising against the Vieira government in June 1998 triggered a bloody civil war that displaced over 300,000 members of the civilian population. Failed governance, breakdown of the rule of law, and limited accountability and transparency of public sector management were among the causes of the 1998 conflict, which lasted nearly a year.

By June 1999 the situation, although still fragile, improved steadily. A Government of National Union was put in place and charged with the tasks of preparing the National Reconciliation and Rehabilitation Program and organizing elections. Free and fair parliamentary elections were held on November 28, 1999, and the presidential runoff vote took place on January 16, 2000. Opposition parties scored a landslide victory in both elections. Kumba Yala of the PRS was elected president, and took office on February 17, 2000. Shortly after, a broad coalition cabinet, including members of various parties represented in the national assembly, was appointed.

Following the elections, parliament approved a new constitution in April 2001, but it was neither vetoed nor promulgated by the president. The resulting ambiguity undermined the rule of law, and a prolonged friction developed between the executive and legislative branches of the government over the choice of the new cabinet chief. As a result, the country operated without an effective government for several weeks, and the announcement of yet another failed coup attempt in mid-April 2001 demonstrated once again the fragility of the political and democratic processes. The prevailing political instability, which affected all institutions, prevented an economic recovery and postconflict reconstruction.

In December 2001, the government allegedly thwarted a coup attempt by army officers. Between December 2001 and December 2002, President Yala carried out two cabinet reshuffles, dissolved the parliament, and called for legislative elections, which were repeatedly postponed. In the ensuing discontent among the population, the army was able to seize power in a bloodless coup in September 2003. President Yala then announced his voluntary resignation and was placed under house arrest. The military, led by the chief of defense, Gen. Verissimo Seabra,³ quickly restored power to civilian control, and a civilian caretaker government was appointed with the objective of restoring the rule of law and reasserting control over public finances. In this climate, a businessman, Henrique Rosa, was sworn in as interim president, with the support of almost all political parties as well as the civil society. By the end of 2003, with the support of the international community, the newly appointed government prepared an Emergency Economic Management Plan (EEMP) and a budget for 2004. Legislative elections were held in March 2004 and an

3. General Seabra was killed along with other officers during a mutiny on October 6, 2004.

orderly transition to a government elected on the basis of a broad reform platform took place in May 2004. The transition government, led by the leader of the Partido Africano para la Independência da Guiné-Bissau (PAIGC), Carlos Gomes Júnior was appointed with the objective of ensuring the functioning of public administration and preparing presidential elections by mid-2005.

Despite the difficult economic situation, the government drafted a Poverty Reduction Strategy Paper and significantly improved budgetary discipline during the second half of 2004. The government also endorsed a reform program, with the agreement of the international community; prepared the 2005 budget; and successfully organized a free, fair, and transparent presidential election. This election was won by the independent candidate and former president, Vieira.⁴ The successful elections put an end to the postconflict transition that began after the civil war and brought a return to constitutional and democratic rule in Guinea-Bissau following years of political instability and administrative chaos. At the end of October 2005, President Vieira dismissed the PAIGC government of Prime Minister Gomes Júnior. In early November, Vieira swore in a five-party coalition government led by PAIGC dissident Aristides Gomes. The PAIGC continues to claim the legitimacy of the new cabinet although several parliamentarians are believed to have defected from its ranks. In early 2006, the supreme court of the country validated the nomination of the new prime minister, and the national assembly approved the government's program. These developments provided a window of opportunity for scaling up reforms and economic reconstruction.

Conflict, Livelihoods, and Poverty: Contributions in this Volume

This publication seeks to provide an integrated poverty and social analysis of postconflict Guinea-Bissau. The rationale for going beyond a traditional quantitative analysis of poverty is the conviction that understanding social and political processes is essential to induce and support the changes needed for poverty alleviation, equitable growth, and good governance.

The publication consists of six chapters. Following this brief introduction, the second chapter measures the impact of the conflict on per capita GDP in Guinea-Bissau. It is worth emphasizing that the country performed in a satisfactory manner before the 1987–98 conflict. Following a decade of state-controlled economic policy, authorities embarked on a comprehensive reform program in 1987, and agreed upon a three-year enhanced structural adjustment facility arrangement with the International Monetary Fund (IMF) in 1995. Broad liberalization of the economy contributed to a reduction in macroeconomic imbalances. Between 1996 and 1997, the public sector primary surplus increased from 3 to 5 percent, and the external current account deficit (excluding official transfers) decreased from 18 to 14 percent. Inflation decreased from a record 50 percent at the end of 1997 to

4. The first-round poll had seven candidates, including three former presidents: Malam Bacai Sanhá of the PAIGC, independent candidate João Bernardo “Nino” Vieira, and Kumba Yala of the PRS. The second-round poll included Sanhá and Vieira. The latter was declared the winner in the second round, with 52 percent of the votes and a strong backing from Yala's supporters. Eight teams of international observers, including an 80-strong mission from the European Union (EU), issued a joint statement saying the first- and second-round polls were “free, fair, and transparent.”

8 percent in early 1998, owing to restrained public sector demand and stability regained by becoming a member of the West African Economic and Monetary Union. Domestic production, particularly in agriculture, accelerated with average real GDP growth reaching more than 5 percent from 1987 to 1997.

Many of these gains vanished with the 1998 conflict. The disruption of the economy was significant as real GDP contracted by about 28 percent in 1998 because of a sharp decline of production activities in all sectors. The conflict also adversely affected the country's fiscal and balance of payments positions. The external current account deficit (excluding official transfers) remained high at nearly 16 percent of GDP and the current primary budget balance, moved from a surplus of about 5 percent of GDP in 1997 to a deficit of about 7 percent of GDP in 1998. As a result, domestic and external debt service arrears piled up to reach nearly 15 percent of the GDP. After the war, the real annual GDP grew by nearly 8 percent from 1999 to 2000, but macroeconomic performance deteriorated again from 2001 to 2004.

In Chapter 2, the impact of the conflict on GDP per capita, and on poverty, is assessed using a technique to identify and correct outliers in a time series that was applied previously in an assessment of conflicts' impact on GDP per capita in Rwanda (and, later, a number of Sub-Saharan African countries) by Lopez and Wodon (2005). The estimates suggest that GDP per capita would be roughly 42 to 43 percent higher today if the conflict had not occurred. In turn, assuming that the conflict has had no impact on inequality (good data does not exist on the potential impact on inequality), the authors find that about one-third of the population now in poverty can be said to be poor because of the conflict.

In Chapter 3, the focus shifts to popular perceptions of general well-being and institutions. In Guinea-Bissau, boundaries between the public and private sectors are often poorly defined. The financial accountability system remains weak, and the disclosure of information on public accounts is limited. This has contributed to the erosion of public confidence in the government and, thus, citizens' willingness to pay taxes or support government policies. As a result, indicators on the rule of law, government effectiveness, and the overall risk rating of the International Country Risk Guide for Guinea-Bissau are among the lowest in Sub-Saharan Africa.

The weak governance situation dates back to the colonial era, when the state promoted a limited government presence in rural areas. Traditional authorities, therefore, played a leading institutional role in local communities under colonial rule, and the postindependence state largely inherited the weak institutional legacy of the colonial era. Traditional authorities, particularly in rural areas, continued to wield power in rural communities, either by dominating the state-sanctioned village committees or by sidelining them. In the end, the village committee system gradually became defunct, leaving the state with little presence at the village level. At the same time, social and political leaders established strong paternalistic relationships with their constituencies without building broader coalitions or strengthening the legitimacy of existing state institutions. In recent years, the limited progress that has been made in social service delivery, notably in education and health, are largely due to the active role played by civil society organizations and the support of the international community.

Citizens' lack of confidence in many institutions is confirmed by data analysis in Chapter 3. The authors provide recent survey results that give insights into popular opinions

about, among other issues, changes in well-being over time, trust in various institutions, sources of conflict at the local level, and ways of dealing with conflict. There is a clear perception among the population that there has been a reduction in well-being as a result of the conflict, as well as a lack of improvement in the conditions of the poor, who are highly vulnerable to the effects of conflict. The data also suggest a lack of improvement in perception regarding postconflict security. Local conflicts often emerge because of the competition for scarce productive resources, but poorer households deal with these conflicts in a different way than wealthier households. Importantly, public perceptions of different institutions indicate that local schools and health posts are the most trustworthy institutions. In contrast, the populace has little trust in national institutions such as the army, the police, the judicial system, and the central government. Nongovernmental organizations (NGOs) and other civil society or community-based organizations often supplement the weak presence of the government in rural areas.

Chapter 4 estimates the share of the population in poverty in 2002, predicts how it may have evolved since then, and assesses the level of growth required to reduce poverty in the future. Within the general population, the estimated poverty and extreme poverty head counts are 65.7 percent and 21.6 percent, respectively. Findings from the small-scale survey, completed in 2005, suggest that most households believe that their living situation has worsened not only compared to the preconflict period, but also in years since. This is confirmed by simulations of changes in poverty after 2002 as related to growth in GDP per capita. These simulations suggest that the number of those in poverty may have increased from 65.7 percent in early 2002 to 72.3 percent by the end of 2005. This means that it will be difficult to reach the first target of the Millennium Development Goals. For example, if the economy were to grow at 4 percent per year, it would take 11 years to achieve a cumulative growth rate of 25 percent, which would, in turn, reduce the share of the population in poverty from the estimated level of 72.3 percent in 2005 only to 58.8 percent by 2020. The chapter also provides a brief poverty profile and an analysis of the determinants of poverty using the nationally representative survey of 2002. Geographic location, demographic structure (both household size and headship), employment (both in terms of sector and type), education, and migration all have potentially large effects on the consumption level and thereby the poverty of households. For example, the incidence of poverty among household heads with tertiary education is less than half of that for heads with no level of education. Poverty incidence is also higher among households with heads working in agriculture, compared to government and private sector workers.

The fifth chapter analyzes modes of livelihood among Guinea-Bissau's population. The country is poor and highly dependent on agriculture and extractive activities such as fishing. Yet, beyond such general statements, it is useful to describe in qualitative terms the main activities that take place both in rural areas at the regional level, and in urban areas through mostly informal employment (as already discussed in Lourenço-Lindell, 2002). This is done on the basis of fieldwork conducted in the country in early 2005. In addition, the chapter provides a brief quantitative, empirical analysis of the main income sources of households, and a more detailed analysis of two key sectors of the economy that could form the basis of a growth strategy: cashew nuts and fishing.

In addition, Chapter 5 suggests that most urban families essentially live off of activities in the informal sector. For urban men, casual work is increasingly the main activity and

livelihood strategy. This represents a serious cause of vulnerability as formal wage opportunities become limited. As for women, they have historically played an important role in small trading, domestic work, dressmaking, weaving, the extraction of cashew juice and wine, and so on. During periods of harvests, some people, especially younger women and youth, seasonally migrate to rural areas to offer their labor to farmers, particularly cashew producers. In rural areas, subsistence agriculture represents the main livelihood strategy. Rice remains the most widely grown staple crop, but cashews have played an increasingly important role, providing an important source of income for many households. The livelihood strategies of the rural poor tend to differ across regions and are also influenced by the social characteristics of households and individual household members (such as ethnicity, family structure, sex, religion, age, and so on). For example, agriculture and cattle are the main livelihood means in the northern and eastern regions and in part of the south (rice), while fishing is common in the south and the islands.

The sixth and last chapter provides a review of the cashew sector in Guinea-Bissau, as well as estimates of the likely impact of changes in farm-gate prices and export taxes on poverty among cashew producers and in the country as a whole. Relatively high transaction costs represent an implicit tax on cashew producers. Reducing these costs would likely increase the farm-gate price for cashew producers, and therefore improve the consumption of goods and services. The available evidence suggests that a 15 percent increase in farm-gate prices for cashew nuts could result in an increase in consumption of 9.5 percent for the extreme poor, and 3.3 percent for the poor. In contrast, an increase of about 10 percent in the export tax on unprocessed cashew nuts potentially could generate (with full pass-through to farmers) a reduction in the farm-gate price of close to 15 percent, assuming that farmers get 70 percent of the export price. The chapter also notes that over the last three decades, the production of rice has decreased significantly in favor of cashews. This situation may, under some circumstances, represent a threat to food security. For the rural sector to ensure food security and create new jobs, policymakers would need to adopt a coherent agrarian development strategy in the context of the Poverty Reduction Strategy, which would aim to rehabilitate and encourage rice production while promoting the processing of raw cashews into exportable cashew kernels in order to generate more added value in the cashew sector.

Next Steps

The analysis presented in this volume is only a beginning, as several key policy areas have not been dealt with that warrant specific attention. Of special importance is the need for Guinea-Bissau's authorities to restore fiscal sustainability through public sector reform. This need is partly because of recent conflicts and the resulting increase in the size of the security forces, but also because the public wage bill has become excessive following recent increases, leading to large budget deficits and the scarcity of resources that should be allocated to poverty reduction. There is a serious need to bring the public sector wage bill, excluding education and health care, to a sustainable level, and to reform the security sector. Apart from freeing resources for attacking poverty, preliminary evidence suggests that a reduction in the wage bill could also be good for growth. Indeed, if real government consumption (namely wage spending) were reduced by 2 percent (5 percent in nominal terms

corresponding to 1 percentage point of the GDP) annually over 2006–08, the estimates suggest that real GDP could increase by about 1.6 and 2.9 percentage points in 2007 and 2008, respectively, compared to baseline growth targets for the same years.

Public sector downsizing will, however, not be sufficient for achieving medium-term fiscal sustainability. The government will need to pursue sound expenditure management and improve the efficiency of revenue collection by reinforcing and sustaining the ongoing reforms in key departments of the ministries of finance and fisheries to achieve a current surplus. There is also a need to address the size of the pension system and the ethnic composition of the armed forces over the medium- and long-term. The sustainability of Guinea-Bissau's external debt also remains a concern, as medium-term debt sustainability will depend on continued fiscal adjustment and support from the international community. Finally, persistent internal political tensions, the weak institutional and governance capacity of the state, and the vulnerability of cashew nuts to external price fluctuations represent ongoing challenges.

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