

Guinea-Bissau: Staff-Monitored Program

This paper on the staff-monitored program for Guinea-Bissau was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with the member country. It is based on the information available at the time it was completed on March 19, 2005. The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of Guinea-Bissau or the Executive Board of the IMF.

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GUINEA-BISSAU

Staff-Monitored Program—April-December 2005

Prepared by the African Department
(In consultation with other departments)

Approved by Menachem Katz and Michael Hadjimichael

June 29, 2005

- **The discussions on a Staff-Monitored Program (SMP) for 2005 were held in Bissau during March 5-19, 2005.** The staff team comprised Mr. Snoek (Head), Mr. Fontaine, Ms. Yackovlev, and Ms. Mendez (all AFR). Mr. Doré, Resident Representative stationed in Dakar, and Mr. Rutayisire, Alternate Executive Director, participated in the discussions. The team cooperated closely with overlapping missions of the European Union (EU), and the West African Economic and Monetary Union (WAEMU).
- **The mission met with the Prime Minister,** the Ministers for Finance, Economy, and Public Administration, the Chief of Staff of the Armed Forces, the Deputy-Governor and the National Director of the Central Bank of West African States (BCEAO), and other senior government officials, and representatives of the donor community.
- **The Executive Board concluded the 2004 Article IV consultation with Guinea-Bissau on November 19, 2004, at which time it also discussed the Ex Post Assessment of Performance Under IMF-Supported Programs (EPA).** Directors noted that the key challenges for the authorities were to restore fiscal discipline, rebuild public administration, and improve the investment climate. Most Directors agreed that the next step in the Fund's engagement could be emergency post-conflict assistance (EPCA) as part of a concerted international effort.
- **In the attached Letter of Intent (Attachment I) the authorities of Guinea-Bissau request that the staff monitor their economic program for 2005 as described in the accompanying Memorandum on Economic and Financial Policies (MEFP).** Key elements of the program are laying the basis for improving the fiscal situation, promoting growth through rehabilitation of the infrastructure and removing excessive regulation, and improving governance. The SMP would provide a framework for the authorities' policies and assist in building a track record toward an eventual EPCA-supported arrangement.

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EXECUTIVE SUMMARY

- **The political situation in Guinea-Bissau remains fragile.** The first round of presidential elections took place on June 19, 2005. A second round run-off will be held by mid-July.
- **Real GDP growth per capita was negative the last few years and there has been little new investment, limiting growth potential in the near future.** Under the WAEMU's external and monetary policies, inflation remains low. Most interim debt relief under the Initiative for Heavily Indebted Poor Countries (HIPC Initiative) was stopped after 2001 because of non-performance under the PRGF-arrangement for 2000-03, and the country continues to accumulate external debt arrears.
- **Already serious fiscal problems worsened when wage levels in different government sectors were harmonized in 2004.** Substantial new wage arrears could only be avoided that year because of emergency budget support and at the expense of social and poverty reduction expenditure. The budget for 2005 shows a remaining financing gap of 10 percent of GDP, after expected external arrears of 18 percent of GDP. Following a donor meeting in February 2005, the authorities are confident that this gap can be closed by additional budget support.
- **The SMP, which covers the period April-December 2005, is based on the budget for 2005.** It aims at avoiding new domestic arrears through a cash-rationing system, at improving tax administration and expenditure management, and at laying the basis for main public sector reform programs in the future. Economic policy focuses on rehabilitation of war-damaged infrastructure and on promoting economic growth by eliminating excessive regulation. The program also aims at improving governance.
- **The government is finalizing the PRSP.** It will be complemented by an Action Plan for 2005, prioritizing the immediate policies and rehabilitation needs, and submitted to a donor Round Table conference planned for October/November 2005.
- **The authorities intend to request EPCA as soon as a concerted international assistance effort emerges.** Indications are that such support could be forthcoming in the third quarter of 2005, provided that the presidential elections give adequate assurances that present policies will continue to be implemented. In the interim, the SMP will provide a framework for the authorities' policies and help build up a track record of program implementation, while allowing donors to accelerate preparations for new assistance.
- **The program faces considerable risks from the political situation, the severe fiscal problems, and weak implementation capacity.** Continued support by Guinea-Bissau's international partners in all these areas is crucial for safeguarding the program.

I. INTRODUCTION

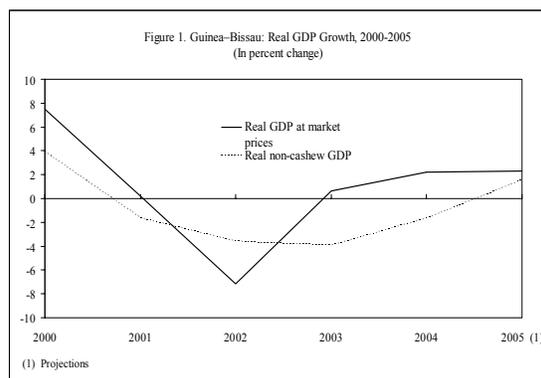
1. **Guinea-Bissau is trying to recover from a long period of political instability.** Following the civil war in 1998-99 and a military coup in September 2003, parliamentary elections were held in March 2004 and a new government began the process of rebuilding the administration and addressing the country's economic problems in May 2004. The political transition period after the coup in 2003 will be completed after presidential elections, the first round of which took place on June 19, 2005.¹
2. **In preparation for possible EPCA, the authorities have requested that the staff monitor their economic program for 2005 (Attachment I).** The outlook for a concerted international assistance effort—a condition for Fund support under EPCA—is positive, but the results of the presidential election process are expected to be crucial in donors' final decisions. In the meantime, the authorities felt that an SMP would provide a framework for their policies and assist in building a track record toward an eventual EPCA-supported arrangement. Moreover, an SMP would allow donors to accelerate preparations for new budget support.
3. **The remaining sections of the report are as follows:** Section II reviews developments after the last Board meeting; Section III outlines policies to be pursued under the SMP; and Section IV contains the staff's appraisal of the program. The Letter of Intent, the MEFP, and the Technical Memorandum of Understanding are provided in Appendix I. Summaries of Guinea-Bissau's relations with the Fund and the World Bank Group are presented in Appendices II and III. Appendix IV discusses the serious weaknesses in Guinea-Bissau's statistical database.

II. RECENT DEVELOPMENTS

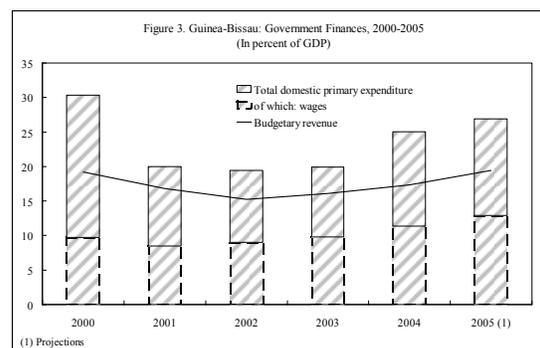
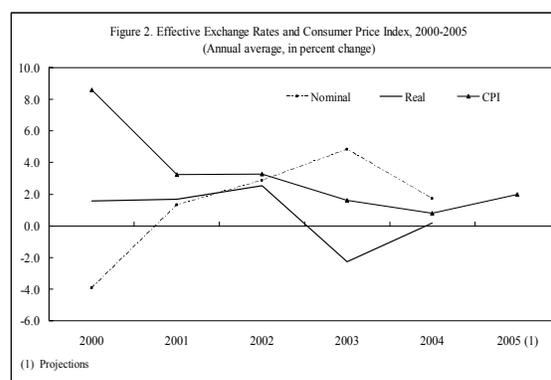
4. **The political situation remains fragile.** Following a mutiny in October 2004, the new military leadership expressed support for the constitution and its neutrality in political affairs. Parliament's unanimous approval of the budget for 2005 also boosted the government's position. However, the candidacy in the elections of former presidents Vieira (deposed at the end of the civil war in 1999) and Yalá (deposed in the coup in 2003) is causing considerable uncertainty and tension. UN and regional organizations continue to intermeditate to promote peace and orderly elections.

¹ A second round run-off is needed between the two candidates with the most votes. Final results of the second round, which should take place by mid-July, will probably not be available until early-August.

5. **Economic performance remained weak in 2004 (Tables 1-4).** Real GDP growth is estimated to have improved from almost nil in 2003 to about 2 percent, on the back of an exceptional cashew nut harvest. Nevertheless, production in other sectors declined further as they continued to be affected by civil war damage, political instability, and a deteriorating infrastructure (Figure 1). Reflecting the monetary policies of the WAEMU, of which Guinea-Bissau is a member since 1997, and against the backdrop of the appreciation of the CFA franc vis-à-vis the U.S. dollar, inflation amounted to about 2 percent (Figure 2).



6. **Despite strong improvements in expenditure management, the fiscal situation worsened further in the second half of 2004 (Table 3).** Central control over expenditure by the Ministry of Finance was restored. However, wage expenditure increased because of the harmonization of the wage scales between the civil, security, and political wings of the government, resulting in a net growth in monthly personnel costs of about 35 percent (3 percent of GDP in annual terms), starting July 2004 (Figure 3). Consequently, and despite emergency budget support equivalent to 8 percent of GDP,² outlays on non-wage expenditure had to be cut back from already low budgeted levels, and, in addition to external arrears, the government accumulated new domestic arrears equivalent to almost 1.5 percent of GDP in 2004.



7. **Indications are that the trends of the second half of 2004 broadly continued in early 2005.** The revenue effort appears to be increasing gradually, reflecting measures to strengthen customs control. Wages were paid through April, financed by an advance on the EU's compensation for fishing rights from

² Almost two-thirds of the assistance was provided by the other member countries of the WAEMU.

June, emergency budget support, and commercial bank loans.³ Other expenditure, however, remains at a very low level. Guinea-Bissau continued to honor external debt service obligations to the IMF, the World Bank, and the AfDB—the latter two provide, respectively, 90 percent and 100 percent interim debt relief under the HIPC Initiative—but most other debt service fell in arrears.

8. **Donors are encouraged by the government's policies.** During a recent meeting in Lisbon to prepare for a possible Round Table donor conference in late 2005, several donors pledged new contributions through the UNDP-managed emergency fund (EEMF) and for the elections. The World Bank is preparing an Economic Management Reform Credit (with a target of US\$10 million) for Board discussion in July 2005 and has requested a considerably higher country allocation under IDA 14. The EU is preparing a new budget support program of €9.2 million for 2005, disbursement of which could start around August. The UN is planning a special fund for security sector reform, for which some donors indicated possible financial contributions.

9. **The government also made progress with structural reform.** The privatization program has been restarted with assistance from the World Bank and, in December 2004, an automatic mechanism for the adjustment of petroleum prices to import costs was reintroduced. In addition, the legal positions of several parastatal enterprises were reestablished and relations with the concerned foreign investors restored. The civil service census (the first step toward a possible civil service reform program) identified 10,914 public servants, excluding the military and para-military; the results are now being used to update the payroll of the Ministry of Finance.

III. DISCUSSIONS ON THE SMP

A. Macroeconomic Framework

10. **The SMP is based on the budget for 2005, the short-term policies in the government program for 2004-08, and the draft-PRSP and its Action Plan for 2005.** In the context of the WAEMU, fiscal policies are key for Guinea-Bissau in regaining macroeconomic stability. While the post-conflict situation and the weak administration render medium-term projections highly uncertain at this time, preliminary projections indicate that a sustainable fiscal situation can reasonably only be achieved over the medium-term; this would require strong efforts to increase tax revenue and to reduce expenditure, the latter through civil service and military reform (Box 1). However, such efforts can only be implemented with donor support under a comprehensive medium-term program, to be discussed during the upcoming Round Table conference. Against this background, the SMP

³ To make up for delays in donor assistance, the authorities borrowed the equivalent of 3 percent of GDP, on a short-term basis, from the local commercial bank in the first quarter of 2005. The loans are expected to be repaid later in the year.

Box 1. Key elements of the medium-term framework for 2004-2008

The medium-term framework illustrates the order of magnitude of required adjustment in the fiscal sector over the medium term. The projections assume that production in non-agricultural sectors will recover gradually and that inflation remains in line with WAEMU targets. Tax administration—especially in customs—will be strengthened, although the revenue to GDP ratio will decline somewhat over the medium-term as important revenue categories, such as the EU compensation for fishing rights, are assumed to remain constant in nominal terms. On the expenditure side, the size of the military and para-military is assumed to be reduced (with donor support, including for pensions and other retrenchment costs) to about pre-war levels, especially by retiring excessive high-level staff. The projections assume further savings from a reduction in the civil service and from removing ineligible beneficiaries from the pension schemes for civil servants and veterans.

	2004 Est.	2005 Budget	2006	2007	2008
			Projections		
	(in percent of GDP)				
Revenue	17.3	19.4	17.6	17.4	17.2
Domestic primary expenditure 1/ <i>Of which: wages and pensions</i>	25.1	26.9	20.9	18.3	17.3
Domestic primary balance	-7.7	-7.5	-3.3	-1.0	0.0
Domestic debt service (scheduled)	-0.5	-0.5	-0.5	-0.4	-0.4
External debt service (scheduled)	-19.1	-24.7	-14.6	-13.6	-11.7
Debt relief 2/	3.2	4.3	4.1	12.3	10.8
Financing need:	-24.2	-28.4	-14.3	-2.8	-1.4
Budget support	8.4	1.4	0.0	0.0	0.0
Domestic financing (incl. arrears)	3.8	-1.3	0.1	0.1	0.0
New external arrears	12.0	18.2	0.0	0.0	0.0
Financing gap (gap = -)	0.0	-10.2	-14.2	-2.7	-1.3
Memorandum items:					
Real GDP growth (in percent)	2.2	2.3	2.6	3.1	3.7
Tax revenue/GDP (in percent)	8.4	9.5	9.7	9.9	10.2
Nontax revenue/GDP	8.9	9.9	7.9	7.5	7.1

Sources: Guinea-Bissau authorities; and Fund staff estimates and projections.

1/ For 2008 includes CFAF 3.5 billion for elections (equivalent to 1.9% of GDP).

2/ Assumes a PRGF arrangement by 2007 and attainment of the HIPC completion point by end-2007.

focuses on (i) stabilizing the fiscal situation by avoiding new domestic arrears while providing a minimum of public services; (ii) promoting renewed economic growth by rebuilding infrastructure and removing excessive regulation; and (iii) promoting political stability through good governance and preparing for military reform. Moreover, the program identifies the urgent need for capacity building and technical assistance, especially in the Ministry of Finance. The macroeconomic framework underlying the program for 2005 assumes real GDP growth and inflation both at about 2 percent.

B. Fiscal Policy

11. **The short-term options for fiscal policy are very limited.** To restore macroeconomic stability, policies should aim at increasing revenue and reducing expenditure with the aim of avoiding further domestic arrears. However, non-discretionary expenditure will increase further in 2005, to almost equal to revenue, reflecting the full-year impact of the wage harmonization and the start of payments of Guinea-Bissau's capital contribution to the financial institutions of the WAEMU (amounting to more than 1 percent of GDP) (MEFP, paragraph 25).⁴ Moreover, as indicated by technical assistance reports in recent years, there are few possibilities to increase revenue in the short run. Under these circumstances, allocations for operating costs and public services have been cut to the core.

12. **The objective of avoiding new domestic arrears will be supported by measures to increase revenue and improve expenditure control, while debt service payments will be limited.** The main elements of these policies are:

- **Expenditure will be limited to available resources under a cash-rationing system, managed by the Treasury Committee (MEFP, paragraph 15).** The latter, which meets twice weekly and has to approve all expenditure commitments, consist of the Ministry of Finance and the national branch of the BCEAO.⁵
- **Tax administration will be further strengthened, especially in customs (MEFP, paragraph 18-20).** In addition to increased coverage, this is the main reason behind the estimated increase in revenue from 17 percent of GDP to 19 percent of GDP in 2005.

⁴ Non-discretionary expenditure is defined as wages, pensions, transfers to parliament, semi-public institutions—mainly for wages—and students, domestic debt service, and external debt service to the IMF, the World Bank and the AfDB.

⁵ The UNDP participates in the meetings of the Committee on behalf of the Emergency Fund and other donors have also been invited with a view to increase transparency in fiscal management.

- **Control over the wage bill will be improved, including through a hiring freeze (MEFP, paragraphs 21-22).** The authorities agree that a reduction in personnel costs is crucial. Substantial savings can only be expected under donor-financed civil service and military reform programs over the medium-term, but the authorities are taking the first steps to prepare for such programs, including censuses of the military and paramilitary.
- **There will be no payments of arrears of previous years,** unless specific donor financing can be found.
- **Expenditure management will be further strengthened,** including by establishing a separate internal control unit in the Ministry of Finance and by strengthening its Department of Budget (MEFP, paragraphs 23-24).
- **External debt service will be limited to those creditors that will provide new assistance,** while the authorities will engage others in a dialogue to seek solutions until the debt problems can be addressed again under the HIPC Initiative (MEFP, paragraph 26).⁶

13. **On the basis of the above policies, the remaining financing gap is estimated at about 10 percent of GDP (€23.6 million).** The budget already received new emergency support through the EEMF (€1.5 million) and for the elections (€3.4 million). New budget support under preparation by the World Bank (€7.4 million) and the EU (€7.2 million)⁷ and from other donors (€1 million), as well as rescheduling of domestic debt to a project account (€0.9 million) and the capital contributions to the WAEMU institutions (€2.1 million), would close the financing gap. Nevertheless, as the bulk of financing is expected in the third quarter of the year, the liquidity situation will remain very tight until then.

C. Governance, Rehabilitation, and Structural Reform

14. **The pace of fiscal reform depends on simultaneous progress in other areas, including in stabilizing the political situation, repairing damage from the war, and improving the investment climate.** The government program for 2004-08 emphasizes the need for good governance and transparency, the lack of which is considered to have been a major cause of political instability and the civil war. Many issues in this area fall outside the Fund's core competencies, but support is being provided by other partners (MEFP, paragraph 29). The UN and regional organizations are providing assistance in building stable political

⁶ The authorities' approved budget assumes additional external debt arrears equivalent to 18 percent of GDP for 2005.

⁷ Of the total EU support of €9.2 million, €2 million had already been included in the 2005 budget.

institutions to strengthen checks and balances, and have started preparations for military reform, which is a crucial element for political stability. With regard to the fiscal sector, in addition to strengthening the budgeting process and expenditure management, the Ministry of Finance will start publishing a monthly report on recent fiscal developments to increase transparency by mid-year.

15. **Improving the outlook for renewed economic growth requires repairing the damage of the civil war and improving the investment climate.** Several donors, including the World Bank, the EU and the AfDB, are providing assistance in this area (MEFP, paragraph 30). Other critical repairs, however—such as of the commercial and fishing ports of Bissau—await donor financing. In the financial sector, the BCEAO has adjusted the minimum capital requirements to the small size of the market in Guinea-Bissau, which is expected to result in new commercial banks during 2005. Building on work under the World Bank's Private Sector Development Project in recent years and in cooperation with private sector representatives, preparations are underway to reform the investment regulations. A draft law, removing most commercial licensing requirements and fees and other excessive regulations, was recently adopted by the Cabinet of Ministers (MEFP, paragraph 31).

D. Capacity Building and Technical Assistance

16. **Areas of concern for the authorities are the serious technical and institutional weaknesses.** Guinea-Bissau's institutions and technical capacity were largely destroyed during the civil war and the ensuing years of political instability. Emphasis should therefore be placed on rebuilding technical capacity as well as on repairing physical structures and equipment. A key element is strengthening the Ministry of Finance and improving macroeconomic statistics. Especially, based on recent technical assistance missions of the World Bank, the Fund and West AFRITAC, there is an urgent need for a substantial number of long-term resident experts (MEFP, paragraph 36).⁸

17. **The recent EPA for Guinea-Bissau also identified the need for improvements in donor coordination.** On the side of the government, technical coordination has been shifted from the Ministry of Foreign Affairs to the Ministry of Economy. During the recent meeting to prepare for the Round Table conference, donors recognized the need for strengthening coordination; the UNDP is following up.

E. Program monitoring

18. **The staff will monitor the program on the basis of the MEFP and quarterly indicative quantitative and structural targets.** The latter have been set for June,

⁸ In April 2005, the government reorganized several ministries. The Ministry of Economy and Finance was divided in two separate ministries, and all responsibilities with regard to the public investment program and macroeconomic statistics were allocated to the Ministry of Economy.

September, and December 2005 (MEFP, paragraph 38 and Tables 3 and 4). Review missions are planned for July and October 2005.

IV. STAFF APPRAISAL

19. **Guinea-Bissau is in a crucial phase on the road toward post-conflict recovery.**

For the first time since 1999, government ownership of stabilization and reform policies is strong. However, the political situation remains fragile and donors have been reluctant so far to provide the substantial assistance needed to help the country break the vicious cycle of poverty and political instability. While the outlook for a new concerted international effort is now positive, the current presidential elections will first have to prove that Guinea-Bissau is able to present a stable political environment and that there is broad support for reform policies. Discussions on an arrangement to be supported under EPCA could start once these conditions are met.

20. **The staff commends the authorities for the progress in addressing the serious economic problems despite the difficult circumstances.** The budget for 2005 signals a return to normal fiscal management, and its unanimous approval by parliament shows realism. The staff also welcomes the authorities' cooperation with local stakeholders in preparing for the required reforms, which is an important element in improving governance and transparency.

21. **The program for 2005 builds on the progress made so far.** Fiscal policies rightly emphasize avoiding new domestic arrears, which is imperative for political stability, implementation of the government's program, and economic recovery. While the new commercial loans have to be seen in that light, the staff urges the authorities to repay them as soon as possible to limit the additional interest burden. Moreover, effective cash-flow management by the Treasury Committee will be critical in avoiding new arrears.

22. **The government's structural reform agenda is ambitious and will have to be managed carefully to ensure that limited technical capacity is not overstretched.** Of particular importance will be the programs for civil service and military reform—which are crucial for attaining fiscal sustainability and for political stability—but which can, however, only be implemented over time with external financial and technical support.

23. **The external debt problem can only be resolved under the HIPC Initiative.** In this regard, the authorities should establish a track-record of economic performance that would allow Fund support under a new PRGF arrangement in the future, which would enable a resumption of HIPC interim assistance. The authorities are encouraged to engage their creditors in a collaborative dialogue with a view to achieving viable solutions in the interim.

24. **There are considerable risks with regard to program implementation.** Most importantly, the political situation could deteriorate following the presidential elections. Moreover, the program can only be implemented with considerable external financial and technical assistance; delays in either will seriously affect implementation capacity. In this

regard, the staff will assist the authorities with updating the cash-flow estimates for the second half of the year (a mission is scheduled for early-July), and continue to assess the political situation, in close collaboration with Guinea-Bissau's other international partners.

25. **The SMP is one of the first steps in a long process toward economic and financial rehabilitation in Guinea-Bissau.** Given the serious conditions and the impressive progress during the last year, the staff believes that the program merits the support of the international community.

Table 1. Guinea-Bissau: Selected Economic and Financial Indicators, 2001–2005

	2001	2002	2003	2004	2005
				Est.	Proj.
(Annual percentage change, unless otherwise indicated)					
National accounts and prices					
Real GDP at market prices	0.2	-7.2	0.6	2.2	2.3
Real GDP per capita 1/	-2.2	-9.4	-1.8	-0.3	-0.2
GDP deflator	-5.1	4.8	-2.9	2.4	3.5
Consumer price index (annual average) 2/	3.3	3.3	1.6	0.8	2.0
Consumer price index (end of period) 2/	-1.9	2.5	0.7	2.2	2.0
External sector					
Exports, f.o.b.(based on U.S. dollar values)	-19.5	7.2	16.2	41.6	16.1
Imports, f.o.b. (based on U.S. dollar values)	10.6	-10.3	0.5	44.0	15.5
Export volume	3.8	-0.6	8.0	25.8	20.0
Import volume	-3.4	-14.5	-8.0	17.1	10.4
Terms of trade (deterioration -)	-18.3	2.7	-1.5	-5.7	-0.6
Real effective exchange rate (depreciation -)	3.0	-1.1	-2.3	-0.4	...
Nominal exchange rate (CFA per U.S. dollar; average)	728.0	697.8	580.1	527.6	...
Government finances					
Domestic revenue (excluding grants) 3/	-16.9	-11.6	3.0	10.9	18.6
Total expenditure	-10.5	-22.8	13.1	8.9	24.7
Current expenditure 3/ 4/	-25.0	-15.1	5.7	13.8	6.6
Capital expenditure 5/	37.0	-36.8	31.0	-0.5	65.1
Money and credit 6/					
Credit to government (net)	-0.7	4.9	-9.1	-6.5	-0.3
Credit to the rest of the economy	-1.2	-5.1	-1.8	-0.4	0.2
Broad money	9.9	24.1	12.5	18.7	4.2
Velocity (GDP/broad money)	2.1	1.6	1.4	1.2	1.2
(In percent of GDP, unless otherwise indicated)					
Investments and savings					
Gross domestic investment	14.4	8.9	11.1	13.0	21.2
<i>Of which: government investment</i>	13.7	8.7	11.0	10.9	18.5
Gross domestic savings	-20.1	-12.5	-2.9	-4.8	-3.4
<i>Of which: government savings</i>	-11.0	-8.9	-10.5	-15.9	-13.5
Gross national savings	-8.0	-1.8	8.9	15.3	10.7
Government finances					
Budgetary revenue 3/	16.8	15.3	16.1	17.3	19.4
Total domestic primary expenditure 3/	21.5	19.4	19.9	25.1	26.9
Domestic primary balance	-4.7	-4.2	-3.9	-7.7	-7.5
Overall balance (commitment basis)					
Including grants	-11.7	-12.0	-14.4	-8.4	-14.3
Excluding grants	-26.2	-18.1	-22.0	-23.1	-28.2
External current account (including official current transfers)	-22.3	-10.7	-2.3	2.2	-10.5
Excluding official current transfers	-31.3	-12.7	-5.6	-6.2	-11.9
Net present value of external debt/exports of goods and nonfactor services (in percent)	824	801	684	453	391
Memorandum items:	(In millions of U.S. dollars, unless otherwise indicated)				
Current account balance (including official current transfers)	-44.4	-21.7	-5.4	6.0	-31.1
Overall balance of payments	-39.2	-10.8	20.1	7.5	-85.1
Nominal GDP at market prices (in billions of CFA francs)	145.9	141.9	138.7	142.6	151.0

Sources: Guinea-Bissau authorities; and staff estimates and projections.

1/ Projections based on population growth of 2.5 percent per year.

2/ There is a break in the series in July 2002, when Guinea-Bissau adopted a new Harmonized CPI Index; the average CPI for 2003 is not available.

3/ In 2004, domestic revenue includes CFAF 2,342 million in payment to Guinea-Bissau soldiers participating in the UN Liberia peace keeping mission. The same amount is recorded in current expenditure under salaries.

4/ In 2004 and 2005, includes CFAF 3.4 billion and CFAF 3.1 billion, respectively, for legislative elections.

5/ In 2003 and 2004, includes expenditure on foreign-financed demobilization and domestic arrears clearance programs.

6/ Change in percent of beginning-of-period stock of broad money.

Table 2. Guinea-Bissau: Central Government Operations, 2001–2005

(In billions of CFA francs)

	2001	2002	2003	2004		2005	
				Est.	Proj.		
Tax revenue and grants	45.6	30.4	32.9	45.7	50.2		
Budgetary revenue	24.5	21.7	22.3	24.7	29.3		
Tax revenue	14.8	11.9	13.4	12.0	14.4		
Nontax revenue 1/	9.7	9.8	8.9	12.7	14.9		
Grants	21.1	8.7	10.6	21.0	20.9		
Budget support	8.3	1.9	1.1	12.0	2.1		
Project grants 2/	12.9	6.8	9.5	9.0	18.8		
Total expenditure	60.6	46.7	52.9	57.6	71.9		
Current expenditure	38.9	33.0	34.9	39.8	42.4		
Wages and salaries 1/	11.0	10.5	13.6	16.2	19.5		
Goods and services	5.2	7.7	3.9	4.5	5.7		
Transfers	7.2	7.4	5.1	5.0	6.4		
Other current expenditures 2/	1.8	0.7	4.5	7.7	4.6		
Scheduled internal interest	0.6	0.4	0.5	0.4	0.4		
Scheduled external interest	11.6	6.1	7.3	6.0	5.9		
Capital expenditure	21.6	13.7	17.9	17.8	29.5		
Public investments 3/	20.0	12.4	15.7	15.6	29.5		
Domestically financed 4/	2.5	0.7	0.5	2.4	4.5		
Foreign financed	17.5	11.7	15.2	13.2	24.9		
Demobilization expenditure (PDRRI)	1.7	1.0	2.3	2.3	0.0		
Overall balance, incl. grants (commitment basis)	-14.9	-16.4	-20.0	-11.9	-21.7		
Overall balance, excl. grants (commitment basis)	-36.1	-25.1	-30.6	-32.9	-42.5		
New external interest arrears	2.8	5.9	4.9	3.9	0.0		
New domestic arrears	5.6	9.4	15.8	2.0	0.0		
Float, errors and omissions	-8.4	-1.9	0.2	0.0	0.0		
Overall balance, including grants (cash basis)	-14.9	-3.0	0.9	-6.0	-21.7		
Financing	14.9	3.0	-0.9	6.0	21.7		
Domestic financing	-1.1	-1.9	-8.6	-8.6	-2.5		
Bank financing	-3.0	3.2	-4.7	-1.2	-2.6		
Nonbank financing, incl. arrears	1.9	-5.1	-3.9	-7.4	0.1		
Foreign financing	16.0	4.9	7.6	14.6	-18.6		
Drawings	4.6	4.9	8.0	15.2	4.7		
Balance of payments loans	0.0	0.0	2.3	7.6	0.0		
Project loans	4.6	4.9	5.7	7.6	4.7		
Amortization	-17.4	-18.6	-16.8	-18.3	-29.9		
Change in arrears	2.8	11.3	11.8	13.1	0.0		
Debt relief	26.0	7.2	4.7	4.5	6.6		
Financing gap (+ = financing needs)	0.0	0.0	0.0	0.0	42.8		

Sources: Guinea-Bissau authorities; and staff estimates and projections.

Table 2. Guinea-Bissau: Central Government Operations, 2001–2005 (Concluded)

(In percent of GDP)

	2001	2002	2003	2004	2005
				Est.	Proj.
Tax revenue and grants	31.3	21.4	23.7	32.1	33.2
Budgetary revenue	16.8	15.3	16.1	17.3	19.4
Tax revenue	10.1	8.4	9.7	8.4	9.5
Nontax revenue 1/	6.7	6.9	6.4	8.9	9.9
Grants	14.5	6.1	7.6	14.7	13.8
Budget support	5.7	1.3	0.8	8.4	1.4
Project grants 2/	8.8	4.8	6.8	6.3	12.4
Total expenditure	41.5	32.9	38.1	40.4	47.6
Current expenditure	26.7	23.3	25.2	27.9	28.1
Wages and salaries 1/	7.5	7.4	9.8	11.3	12.9
Scheduled internal interest	0.4	0.3	0.3	0.2	0.3
Scheduled external interest	8.0	4.3	5.3	4.2	3.9
Capital expenditure	14.8	9.6	12.9	12.5	19.5
Public investments 3/	13.7	8.7	11.3	10.9	19.5
Domestically financed 4/	1.7	0.5	0.3	1.7	3.0
Foreign financed	12.0	8.2	11.0	9.3	16.5
Demobilization expenditure (PDRRI)	1.2	0.7	1.6	1.6	0.0
Overall balance, incl. grants (commitment basis)	-10.2	-11.5	-14.4	-8.4	-14.3
Overall balance, excl. grants (commitment basis)	-24.7	-17.7	-22.0	-23.1	-28.2
Overall balance, including grants (cash basis)	-10.2	-2.1	0.7	-4.2	-14.3
Financing	10.2	2.1	-0.7	4.2	14.3
Domestic financing	-0.7	-1.3	-6.2	-6.0	-1.7
Foreign financing	11.0	3.4	5.5	10.2	-12.3
Debt relief	17.8	5.1	3.4	3.2	4.3
Financing gap (+ = financing needs)	0.0	0.0	0.0	0.0	28.3
Memorandum items:					
Domestic primary balance 5/	-3.2	-4.2	-3.9	-7.7	-7.5

Sources: Guinea-Bissau authorities; and staff estimates and projections.

1/ In 2004, domestic revenue includes an amount of CFAF 2,342 million representing payment to Guinea-Bissau soldiers for services toward the peace keeping mission in Liberia. The same is recorded in current expenditure under salaries.

2/ In 2004, includes an amount of CFAF 3.4 billion in donor funding for legislative elections.

3/ In 2005 includes an increase of CFAF 8.8 billion in transportation infrastructure investment (mainly Sao Vicente bridge and street rehabilitation), as well as a CFAF 2.8 billion increase in institutional support and technical assistance. These are equivalent to 5.8 and 1.9 percentage points of 2005 GDP, respectively.

4/ In 2005, includes capital contributions to the WAEMU financial institutions (BCEAO and AMOA). The amount scheduled for this year is CFAF 2.1 billion.

5/ Defined as revenue (excluding grants) minus domestic interest, current and capital expenditure, excluding foreign financed expenditures and external interest payments.

Table 3. Guinea-Bissau: Monetary Survey, 2001–2005
(In billions of CFA Francs)

	2001	2002	2003	2004	2005
				Est.	Proj.
Net foreign assets	31.5	48.3	80.8	106.3	114.2
Central bank	37.2	51.2	74.8	100.3	106.6
Deposit money banks	-5.7	-3.0	6.0	5.9	6.3
Assets	2.8	5.5	6.0	6.5	6.8
Liabilities	-8.5	-8.4	0.0	-0.5	-0.6
Net domestic assets	38.8	39.0	17.3	10.2	7.2
Net domestic credit	19.8	23.0	17.8	11.0	8.5
Net claims on government	19.8	23.0	15.1	8.7	6.1
Net claims on central government 1/	15.4	18.8	15.1	8.7	6.1
Central bank	15.4	18.8	16.0	10.5	7.8
Claims	20.3	20.2	17.9	15.1	12.5
Advances to treasury	14.2	14.3	12.0	9.4	7.4
Statutory limit	2.5	2.8	2.6	2.1	1.7
Use of Fund credit	11.7	11.4	9.5	7.4	5.7
Consolidated loans	6.1	5.9	5.8	5.7	5.0
Deposits	-3.7	-0.5	-1.9	-4.6	-4.6
Deposit money banks	-1.1	-0.9	-0.8	-1.7	-1.7
Claims	0.0	0.3	0.5	0.0	0.0
Deposits	-1.1	-1.2	-1.3	-1.7	-1.7
Credit to the economy	4.4	4.2	2.7	2.3	2.4
Other items (net)	19.0	16.0	-0.4	-0.7	-1.2
Liabilities	70.3	87.3	98.2	116.5	121.4
Broad money	70.3	87.3	98.2	116.5	121.4
Local currency	70.3	87.3	98.2	116.5	121.4
Currency in circulation	53.1	71.1	88.5	105.6	109.9
Demand deposits and quasi money	17.3	16.1	9.7	10.9	11.5
Demand deposits	16.3	14.6	8.3	10.3	10.8
Quasi money	0.8	1.3	0.6	0.6	0.6
Other deposits	0.2	0.2	0.8	0.1	0.1
(Annual change as percent of beginning-of-period money stock, unless otherwise indicated)					
Net foreign assets	4.7	23.8	37.3	25.9	6.8
Net domestic assets	5.1	0.3	-24.8	-7.2	-2.6
Domestic credit	-0.8	4.5	-6.0	-6.9	-2.1
Credit to the government	-0.7	4.9	-9.1	-6.5	-2.3
Credit to the economy (in percent)	-1.2	-5.1	-1.8	-0.4	0.1
Other items (net)	5.9	-4.3	-18.8	-0.3	-0.4
Broad money	9.9	24.1	12.5	18.7	4.2
Velocity (GDP/M2)	2.1	1.6	1.4	1.2	1.2

Sources: Central Bank of West African States (BCEAO); and staff estimates and projections.

1/ Includes non-budgetary project accounts

Table 4. Guinea-Bissau: Balance of Payments, 2001-2005

	2001	2002	2003	2004	2005
				Est.	Proj.
	(In billions of CFA Francs)				
Goods and services	-49.9	-30.4	-19.5	-25.4	-37.1
Goods	-20.8	-11.8	-5.0	-7.3	-15.0
Exports, f.o.b.	36.4	37.4	36.1	46.5	51.9
<i>Of which: cashew nuts</i>	34.3	33.1	32.4	41.7	46.4
Imports, f.o.b.	-57.2	-49.2	-41.1	-53.8	-67.0
Services (net)	-29.1	-18.6	-14.5	-18.1	-22.1
Credit	5.3	5.1	5.0	7.8	5.4
Debit	-34.5	-23.7	-19.5	-25.9	-27.5
Income	-11.6	-6.1	-6.0	-3.9	-3.0
Current transfers (net)	29.2	21.3	22.3	32.5	24.3
Official 1/ 2/	20.4	11.4	12.1	21.0	11.9
<i>Of which: balance of payments support grants</i>	1.0	0.0	1.1	12.0	2.1
<i>fishing license fees</i>	7.5	8.5	7.5	9.0	9.8
Private	8.8	9.9	10.2	11.5	12.4
Current account					
Including official transfers	-32.4	-15.2	-3.2	3.2	-15.8
Excluding official transfers 3/	-45.3	-18.1	-7.8	-8.8	-17.9
Capital and financial balance	3.5	15.8	-2.0	11.1	-27.4
Capital account (including transfers)	9.0	27.3	9.4	10.4	19.9
Financial account	-5.5	-11.5	-11.4	0.7	-47.2
Official medium- and long-term disbursements	3.4	3.4	8.0	15.2	4.7
Balance of payments support	0.0	0.0	2.3	7.6	0.0
Projects	3.4	3.4	5.7	7.6	4.7
Scheduled amortization	-17.4	-18.6	-16.7	-18.3	-29.9
Commercial banks' net foreign assets	3.5	3.0	1.1	-0.1	0.4
Private capital; other sectors' NFA	5.0	0.6	-3.8	3.9	-22.4
Errors and omissions	0.9	-11.1	7.2	-10.3	0.0
Overall balance	-28.0	-10.5	2.1	4.0	-43.2
Financing	28.0	10.5	-2.1	-4.0	43.2
Net foreign assets (increase -)	-3.7	-14.0	-23.6	-25.5	-6.2
<i>Of which: net IMF credit</i>	0.0	-1.1	-2.8	-2.9	-1.6
Purchases and loans	0.0	0.0	0.0	0.0	0.0
Repayments	0.0	-1.1	-2.8	-2.9	-1.6
Debt relief	26.0	7.2	4.7	4.5	6.6
Change in debt-service arrears (decrease -)	5.6	17.2	16.8	17.1	0.0
Financing gap (+)	0.0	0.0	0.0	0.0	42.8
	(In units indicated)				
Memorandum items:					
Export volume growth (in percent)	3.8	-0.6	8.0	25.8	20.0
Import volume growth (in percent)	-3.4	-14.5	-8.0	17.1	10.4
Scheduled debt service					
In percent of exports and service credits	72.8	65.3	65.6	50.1	66.3
In percent of total government revenues	95.7	128.2	120.8	109.9	129.7
Current account balance (in percent of GDP)					
Including official transfers	-22.2	-10.7	-2.3	2.2	-10.5
Excluding official transfers	-31.0	-12.8	-5.6	-6.2	-11.9

Sources: BCEAO; and Fund staff estimates and projections.

1/ Including food aid and technical assistance to projects

2/ In 2004, includes CFAP 2,342 million for remuneration to Guinea-Bissau soldiers for participation in the UN peace keeping mission in Liberia.

3/ Does not exclude fishing licenses.

Bissau, June 29, 2005

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
Washington D.C. 20431
U.S.A.

Dear Mr. de Rato:

1. Guinea-Bissau is trying to overcome the effects of a long period of political instability. Following a civil war in 1998-99 and continuing political instability thereafter, the economy stagnated and the fiscal situation deteriorated, with mounting internal and external arrears. After a coup in 2003 and parliamentary elections in 2004, a new government was nominated in May 2004. The first round of Presidential elections—which constitute the end of the transition period after the coup in 2003—took place on June 19, 2005, and a second round is expected by mid-July.

2. The first priority of our government is to rebuild the administrative capacity of the State, which had virtually collapsed by mid-2003, and to enforce adherence to regulations and laws. The government program for 2004-08, which was approved by parliament in July 2004, also focuses on improving the political situation, including through emphasizing good governance and transparency in government affairs, and on addressing the fiscal and economic problems with the aim of reducing wide-spread poverty in the country. We are working closely with our domestic and external partners to complete the National Poverty Reduction Strategy Paper as soon as possible.

3. The government of Guinea-Bissau has prepared an economic and financial program for 2005 that reflects these policies. In its meeting on Guinea-Bissau on November 19, 2004, the Executive Board of the IMF concluded that the next step in Fund engagement could be emergency post-conflict assistance (EPCA), provided that such assistance was part of a concerted international effort. Based on the progress we have made thus far, we are confident that such a concerted effort will emerge later this year, and we intend to request the start of discussions on a program that can be supported by the Fund under EPCA as soon as possible. Until that time, we request that the staff of the Fund monitor our economic program, which is expected to help us in implementing our policies and in building a track record toward post-conflict assistance.

4. The details of the program for 2005 are included in the attached Memorandum on Economic and Financial Policies (MEFP), which was approved by the Cabinet of Ministers. The government believes that the policies and measures set forth in the MEFP are adequate for achieving the objectives of the program, but we will take any further measures that may become appropriate for that purpose. In such cases, as well as before implementing policies that could adversely affect the program, we will consult the Fund.

5. To assist the Fund in assessing progress with implementing the program, we will provide the required information on a regular basis, as detailed in the attached Technical Memorandum of Understanding. Moreover, we invite the staff of the Fund to review performance under the program quarterly, on the basis of the quantitative and structural indicators (Tables 3 and 4 of the MEFP), as well as on the overall implementation of the program.

Sincerely yours,

/s/

João Fadia
Minister of Finance

Attachments:

- Memorandum on Economic and Financial Policies
- Technical Memorandum of Understanding

MEMORANDUM ON ECONOMIC AND FINANCIAL POLICIES FOR 2005

Bissau, June 29, 2005

I. INTRODUCTION

1. **Guinea-Bissau has taken the first steps toward addressing the major political and economic problems of recent years.** Initial efforts to overcome the damage of a civil war in 1998-99 failed as political instability continued, ultimately resulting in a coup in September 2003. Based on the proposals for an international partnership agreement by the ECOSOC Ad Hoc Advisory Group for Guinea-Bissau, a transition government started implementing an emergency economic management plan for 2004. Following elections in March 2004, the new government built on this plan by formulating a program for 2004-08 that focuses on promoting political stability, rebuilding a rules-based administration, addressing the severe financial problems and reviving economic activity. This program was approved by parliament in July 2004.
2. **The government is determined to address the deep-seated political and economic problems.** It will take much time and effort to resolve them and Guinea-Bissau will need financial and technical assistance to accomplish this in a manner consistent with social stability. We are confident that the ongoing presidential elections will show broad support for political stability and reform policies, and we are hopeful that this will pave the way for new external assistance. In the meantime, we intend to continue making progress in the most urgent areas, within our serious financial and technical constraints. This memorandum provides an overview of the planned policies and measures during 2005.

II. BACKGROUND

3. **Despite considerable development potential, Guinea-Bissau remains one of the poorest countries in the world.** Climate and soil provide excellent conditions for rain-fed agriculture and the territorial waters are among the richest for fishing in West Africa. However, per capita GDP, which has declined by about 25 percent since the early 1990s, is estimated at only about US\$200 and Guinea-Bissau ranks among the lowest ten countries on the human development index. More than two-thirds of the population of approximately 1.3 million is living below the poverty line. After independence in 1974, economic policy initially was based on the central-planning model. Reform toward more market-oriented policies started in the mid-1980s and we moved to a multi-party democracy in the early-1990s. However, political and social tensions persisted, reflecting serious governance problems and a sense of exclusion by a large part of the population. This situation culminated in an armed conflict in 1998-99, centered on the capital Bissau, that caused several thousands deaths, displaced most of the city's population and caused wide-spread damage to its infrastructure, and led to the emigration of many of the higher-educated.
4. **Following elections, a new government came to power by early 2000, but political and economic stability proved elusive.** Divisive and erratic policies led to further political tensions and, combined with weak institutions and low technical capacity, to

increased fiscal problems. Under these circumstances, the post-conflict effort, supported by our development partners, came to a halt. By the time of the coup in September 2003, the government administration and public services had virtually collapsed, most public servants had remained unpaid for more than ten months, and economic activity was falling after an initial post-war rebound.

III. RECENT PROGRESS

5. **Despite difficult conditions, progress has been made on the political and financial fronts recently.** The persistent political fragility was apparent in the tensions immediately after the parliamentary elections in March 2004 and in the military mutiny in October. However, since then, support for the democratic system has increased, culminating in the unanimous approval by parliament of the budget for 2005 in February of this year. Moreover, the new military leadership has pledged allegiance to the constitution and its neutrality in political affairs, and reduced internal tensions by reincorporating senior officers from different military factions of the civil war. Nevertheless, it will take time and effort to build stable democratic institutions.
6. **Rules-based government has been largely restored and a start has been made with addressing the fiscal and economic problems.** Most importantly, fiscal control has been reestablished, including by centralizing the authorization for expenditure commitments in the Ministry of Finance and closing all government bank accounts outside the central bank (BCEAO). The preparation of a regular budget for 2005, with technical assistance financed by the UNDP and the EU, was an important step towards normalizing fiscal management. With considerable financial support from the other member countries of the WAEMU (CFAF 7 billion) and donors (CFAF 5 billion), public sector wages for 2004 were paid, albeit with delays. Moreover, long-standing tensions with the unions and the military, resulting from wage differentials and unsustainable wage increases accorded by the previous government, were resolved by harmonizing the salary scales across the public sector starting July 2004.
7. **Despite the progress, the economic situation remains very difficult.** The country's small industrial base was virtually destroyed in the war and other enterprises remain severely undercapitalized because of confiscations and looting during the conflict. Moreover, the infrastructure has further deteriorated and central electricity production has virtually ceased; under the uncertain political situation, new private investment has been minimal in recent years. After a decline of about 1 percent in 2003, the economy rebounded to some extent in 2004, when real GDP grew at an estimated rate of slightly more than 2 percent. Reflecting the monetary and exchange rate policies of the WAEMU, and low domestic demand, inflation remained low in recent years, amounting to less than 1 percent, on average, in 2004.
8. **The fiscal situation is also very problematic.** The combination of low economic activity and weak technical capacity in tax administration has undermined revenue. The expenditure needs to allow a basic operation of the government exceed our resources by far, also reflecting the high claim (almost 70 percent) on revenue of wage payments. Moreover, most interim debt relief under the Initiative for Heavily Indebted Poor Countries (HIPC

Initiative)—except from the World Bank and the African Development Bank (AfDB)—stopped after 2001 because of nonperformance under the program supported under the IMF’s Poverty Reduction and Growth Facility (PRGF) for 2000-03. Consequently, non-wage expenditure, including to the social sectors, had to be cut further to far below minimum needs in 2004. Despite this, and emergency budget support amounting to 8 percent of GDP, the budget incurred new domestic arrears of more than 1 percent of GDP, while most external debt service also remained unpaid.

IV. OBJECTIVES AND POLICIES FOR 2005

9. **The structural nature and severity of Guinea-Bissau’s problems implies that they can only be solved over the medium term and with donor assistance.** We are in the process of finalizing the National Poverty Reduction Strategy Paper (DENARP), which will become the basis of the medium-term economic and social policies. The government intends to seek donor assistance in implementing these policies at a Round Table conference—the first since 2000—which is, in cooperation with the UNDP, tentatively planned for the latter part of 2005.

10. **The policies for 2005 aim at laying the basis for addressing the main economic and fiscal problems.** They draw on the government program for 2004-08 and the draft DENARP and its Action Plan for 2005. The main objectives are to rebuild the administrative capacity of the government and to prepare the ground for improving the economic situation. Within these broad objectives, the program for 2005 focuses on improving the fiscal situation and on strengthening technical capacity in preparing and implementing macroeconomic policies.

11. **Political stability is of overarching importance for attaining the objectives of the program.** Important elements will be the end of the transition period following the ongoing presidential elections and security sector reform, discussions on which have started. These efforts will be supported by good governance and transparency in government affairs, in cooperation with, and assistance from, our international partners.

12. **The macroeconomic framework for 2005 assumes that real GDP will grow by about 2 percent, close to the population growth rate.** Initial reports indicate limited damage from the locust invasion early this year. However, as stated above, it will take time for economic activity to pick up, and higher growth is expected to come only gradually. Reflecting the monetary and exchange rate policies of the WAEMU, inflation is estimated to remain at about 2 percent in 2005.

Fiscal policies

13. **The budget shows an overall financing gap of CFAF 43 billion (28 percent of GDP) for this year.** Revenue is projected to increase as a percentage of GDP, reflecting an improvement in tax revenue from strengthening customs controls (especially on petroleum products and rice). The expenditure estimates remain based on the minimum needs for a basic operation of the government. However, current expenditure is also estimated to be

considerably higher than the outcome for 2004, when expenditure had to be cut sharply below what was needed. Moreover, domestically-financed capital expenditure is budgeted to increase on behalf of the government's commitment to start contributing to the capital of the financial institutions of the WAEMU. Scheduled external debt service amounts to CFAF 36 billion (24 percent of GDP).

14. **Based on the progress made so far, the outlook for new financing is improving.** During a recent meeting in Lisbon, donors pledged additional emergency budget support of CFAF 1.3 billion, to be disbursed through the UNDP-managed Emergency Economic Management Fund, and several donors announced support to cover the costs of the elections (CFAF 2.3 billion). Moreover, substantial budget support (CFAF 12 billion) is expected from the European Union (EU), the World Bank and other donors in the second half of the year. The government also intends to contact the external creditors to seek solutions for the high external debt payments.

15. **Under the circumstances, short-term fiscal policy will aim at avoiding new domestic arrears over the year.** To this end, the government intends to continue day-to-day fiscal management on the basis of a strict cash rationing system, implemented by the Treasury Committee, limiting new expenditure commitments to available resources. The Treasury Committee will be guided by a cash-flow plan for 2005 (Table 1), based on the budget for 2005. In order to increase transparency and donor confidence, the government has requested the UNDP to continue to participate in the Treasury Committee, which invitation has also been extended to other donors.

16. **While the cash rationing system is expected to enable avoiding new arrears on discretionary expenditure items, temporary arrears on non-discretionary items may arise during the year.** The large share in expenditure of wages and other non-discretionary outlays, and the concentration of revenue in the middle of the year, imply that, without additional financing, new arrears (on a commitment basis) on these expenditure categories may arise during the first part of the year. Clearing such arrears will get the highest priority when new financing is found.

17. **In line with the budget, the government does not anticipate the payment of previous years' arrears in 2005, unless specific external financing for their clearance is obtained.**⁹ The wage and other domestic arrears have caused much hardship during the last few years. The first task is to avoid additional suffering by avoiding new arrears. Donor assistance will be sought for auditing the outstanding amounts, following which additional foreign financing for their clearance will be requested.

Revenue

⁹ Some obligations from 2004 were paid, within the complementary budget period for 2004, in January 2005, reflecting administrative delays caused by the receipt of budget support from the WAEMU in late-December 2004.

18. **The fiscal situation can only improve by increasing revenue and reducing expenditure.** With regard to revenue, recent technical assistance reports from the World Bank and the IMF indicated that, in general, tax rates are not below those in the region and that additional revenue would have to come mainly from better administration, for which there is considerable scope. The main measures are provided in Box 1. The government will also continue its efforts to strengthen control over the payment of customs tariffs, including for petroleum products and rice. The Customs Department will step up regional cooperation, including for the valuation for tax purposes of rice imports; a focal point under the 2004 cooperation agreement with Senegal has been nominated, and the government is seeking donor support for the financing of the necessary equipment.

19. **The government also intends to continue with tax reform.** In the budget for 2005, income tax rates for companies were unified and a minimum tax was introduced for companies that are unable to provide a balance sheet. The government will continue the long-standing policy of reducing export taxes on cashew nuts once tax administration has been strengthened sufficiently to allow the recuperation of the resulting revenue losses through domestic income taxes; in the mean time, cooperation between the Ministries of Finance and Commerce will be strengthened to ensure that the reference price for taxation of such exports closely reflects actual prices. Moreover, the process of simplifying the tax system was started in the budget for 2005 with the elimination of several low-yielding taxes. This policy will be continued in close cooperation with measures to improve the investment climate.

20. **The government is also planning measures to protect and increase revenue from the fishing sector.** Fishing licenses—including the contribution from the EU—accounted for one-third of revenue in 2004. However, surveillance of our territorial waters has been minimal in recent years, leading to considerable illegal fishing and a decline in revenue. During June-September 2004, the Ministry for Fisheries suspended issuing licenses to allow a survey of the stock of shrimp, and, with partners' assistance, it intends to finalize the annual resource management plan for the fishing sector for 2005 shortly. Surveillance was stepped up, which will be further improved after the receipt of two new boats, obtained with EU assistance. Moreover, agreements under which fishing licenses are obtained against payments in kind or for settling government obligations were stopped; the single remaining such agreement terminates by end-2005, and a any new agreement will be based on monetary payment only. Furthermore, all fishing agreements will be harmonized. While it may take time for these measures, which are also supported by the World Bank and the AfDB, to lead to higher revenue, the government expects that they will enable concluding a new agreement with the EU after the expiration of the present protocol in June 2006.

Box 1. Main Measures to Enhance Revenue Administration

In order to strengthen revenue administration, the government intends to:

- Implement, with immediate effect, a stop on all netting out of tax liabilities against government liabilities, and enforce daily channeling of tax receipts (weekly for offices outside Bissau) in the treasury account at the BCEAO.
- Establish a directorate for large enterprises, which will provide a single access point for all taxes of the largest tax payers, by July 2005.
- Complete updating the tax payer master file, by end-2005.
- Request technical assistance with preparing a single tax code, under which low-yielding taxes will be eliminated.
- Continue preparations for the application of the West African Accounting System (SYSCOA), with a view to implement the system on an experimental basis in 2006, and obligatory in 2007.
- Request technical assistance with the computerization of tax payment procedures, starting with the directorate for large enterprises, and with the preparation of a revenue nomenclature and accounting system.
- Limit exemptions for import taxes to those provided under international conventions and existing laws; exemptions will be authorized only by the Minister of Finance.
- Transfer the collection of customs duties and taxes to the Office of Customs in the port of Bissau, by end-June 2005.
- Request technical and financial assistance for upgrading the automated customs system to ASYCUDA++ and for improving customs statistics by restoring the Eurotrace system.
- Strengthen customs controls, including by preparing an updated database with indicative prices, by July 2005.
- Apply a banderole system for alcoholic beverages and cigarettes, and possibly other products, by July 2005.

Expenditure

21. **The key element in reducing expenditure is personnel costs.** At about 70 percent of revenue, the high level of personnel expenditure is the main reason for the serious fiscal problems, and it also leaves little room for social policies and for promoting higher economic growth. During the 1990s, Guinea-Bissau made considerable progress in reducing excessive public sector staffing under a donor-financed retrenchment program. However, the program

was not completed at the time the war erupted. Moreover, hiring policies loosened after the war and total public employees increased from about 17,900 in 1997 to an estimated 21,000 by end-2003. The size of the military increased sharply as a result of the war; about 4,000 military were retrenched under the post-conflict demobilization program (PDRRI), but the number of military and para-military is estimated to have remained considerably above the pre-war level.

22. **The reduction in personnel costs has to be implemented in the context of a comprehensive medium-term public sector reform program.** This reform will be based on a Public Sector Reform Law, which is under preparation; a steering committee, chaired by the Prime Minister and including representatives of the labor unions, employers organizations, civil society, was recently established. Several donors, including the EU, the UNDP and Portugal, have announced support for the program, and additional support will be sought at the time of the Round Table conference. Nevertheless, a number of measures have already been taken, including (i) the imposition of a freeze on new hiring and promotions; (ii) a census of the civil service, the results of which are now being compared with the payroll maintained by the Ministry of Finance; (iii) a census of the para-military for Bissau, which will be extended to the rest of the country once donor-financing is received; (iv) the identification of about 400 employees that have exceeded the mandatory retirement age—these employees will be retired during 2005. During the year, the government also intends to conduct a census of the military—in preparation for a military reform program—and identify the contractual workers, which will be incorporated in the civil service or laid off.

23. **Measures will be taken to further strengthen expenditure management.** First, starting immediately and in cooperation with the BCEAO, the movements in the treasury accounts will be reconciled with the expenditure allocations of the Treasury Committee and authorized commitments by the Budget Department on a daily basis. The government will also ensure that all expenditure commitments, irrespective of their actual payment, will be entered in the accounting system maintained by the Budget Department without delay. In order to follow budget execution, the Ministry of Finance will, within two weeks after the end of each month, prepare a report comparing the budget and actual expenditure by main budget category. The restructuring of the Budget Department will be completed during 2005; the budget for 2006 will be prepared in line with the existing regulations and established timetable.

24. **Moreover, to strengthen its organization, a new institutional law for the Ministry of Finance will be submitted, together with those for the other ministries, to the Council of Ministers during 2005.** In addition to the recent creation of a Research Department, the new law will establish a Directorate-general for Financial Control. This unit will be responsible for internal control, ensuring that all financial operations are conducted in line with the legal provisions before their implementation, and for centralizing accounting data.

Debt

25. **The budget is also burdened by high internal and external debt service obligations.** The main element in domestic debt concerns the commitment, following

Guinea-Bissau's accession to the WAEMU, to contribute to the capital of the BCEAO and the Monetary Agency of West Africa; this debt amounts to CFAF 70 billion (45 percent of GDP), which we are committed to pay over 25 years, starting June 2005.¹⁰ However, at about 10 percent of projected annual revenue for the coming years, these payments would seriously undermine the ability to improve the fiscal situation. Therefore, the government intends to seek assistance from its partners to reduce these payments in 2005; a longer-term solution will be sought at the time of the Round Table conference.

26. **The external debt problem can only be resolved in the context of the HIPC Initiative.** Without debt relief, annual debt service payments amount to more than half of annual revenue. The government intends to continue to cooperate closely with the IMF in order to allow returning to a program that can be supported under the PRGF in the future, which would also allow debt relief under the HIPC Initiative to resume. In the interim, we will undertake every effort to remain current on debt service, especially to those creditors that can provide new assistance. Moreover, we will engage in an early and collaborative dialogue with the other creditors so as to achieve a viable solution to the external debt problem until this can be addressed under the HIPC Initiative. Any new external debt will be on strictly concessional terms, with a grant element of at least 50 percent. The external debt database was destroyed during the civil war; we are in the process of rebuilding the database and strengthening debt management, with technical assistance from Debt Relief International.

27. **The disruptions of the 1998-99 conflict have also led to substantial claims by foreign contractors.** Two claims, related to the port of Bissau and the building of a bridge, amount to a total of € 15.5 million (7 percent of GDP). Discussions with our international partners are underway to seek solutions for these claims that will not affect the budget.

Structural reform

28. **The pace of fiscal reform will depend on simultaneous progress in other areas, including in stabilizing the political situation, repairing damage from the war, and improving the investment climate and promoting growth.** The UN system has taken the lead in providing assistance in promoting political stability, supported by ECOWAS, the CPLP, and other international partners. Key immediate issues are military reform and political institution and capacity building, but also improving good governance and transparency, the lack of which was a major factor behind the civil war.

29. **The government was elected on the basis of a platform emphasizing good governance.** The first step in this direction was the reapplication of rules and regulations in government operations. This will need to be followed by strengthening the political and democratic institutions, including on a local level, and measures to increase the efficiency

¹⁰ This amount may further increase following discussions on capital contributions to the West African Development Bank (BOAD).

and effectiveness of the government administration. With donor assistance, the judiciary system will be strengthened. To improve transparency in public finances, the Ministry of Finance is planning to publish monthly a summary table on fiscal developments, starting before July 2005. More generally, the National Committee for Social Cooperation—which is chaired by the Prime Minister and includes trade unions and employer organizations—was revived, and will meet regularly to discuss economic developments and reform policies.

30. Improving the outlook for economic growth requires repairing the damage from the conflict at the outset. The EU is financing the rehabilitation of roads, while the World Bank is preparing assistance to rehabilitate the electricity company and other infrastructure. The government intends to seek donor assistance with the rehabilitation of the commercial and fishing ports of Bissau and cold-storage facilities, as well as with repairing and re-equipping the many schools that were destroyed during the conflict. Moreover, the donor-financed program to clear arrears from the war-period was only partially implemented, severely restricting the capacity of the private sector to make new investments. The results of the arrears-clearance financed by the World Bank in 2004 are under review. Following this, donor-assistance will be requested for auditing the remaining arrears, after which financing will be sought for their clearance.

31. The rehabilitation efforts will be supported by policies to improve the investment climate. The starting point of these policies is the Action Plan for Simplifying Procedures for Trade and Investment, prepared under the World Bank-financed project for the Rehabilitation and Development of the Private Sector (PRDSP), which is expected to be implemented before July 2005. Important elements of this plan are (i) a review of the Investment Code, which is expected to be completed by end-2005; (ii) elimination of most license (fee) requirements for the industrial and commercial sector, including for imports and exports. Any remaining license requirements, intended solely for statistical purposes, will be limited to a small number of strategic goods and to specific cases involving issues of national health, education and the protection and management of natural resources; license fees will be set at the level of actual processing costs; (iii) identification of remaining constraints for private sector involvement in strategic sectors such as cashew nut production and processing, the fishing sector, and rice and fruit and vegetable production, with a view to eliminate them; and (iv) the simplification of the fiscal system to promote private sector activity. Labor laws will be brought in line with the provisions of the Organization for the Harmonization of Trade Legislation in Africa (OHADA). The government is also seeking financing to assist the private sector in building capacity in cashew nut processing. In all these areas, we intend to cooperate closely with the social partners.

32. The promotion of regional integration is a cornerstone of economic policy. The accession to the WAEMU in 1997 was shortly thereafter followed by the civil war, and Guinea-Bissau made little progress in bringing macroeconomic indicators in line with those of the region. Nevertheless, the government remains committed to the implementation of policies required to meet the objectives under the WAEMU's Convergence, Growth and Solidarity Pact.

33. **Social policies aim at strengthening health and education.** One in five children does not reach the age of five. Moreover, HIV/Aids is a major threat to the future of Guinea-Bissau, where knowledge of this disease and its prevention is minimal. Further, about 70 percent of the population cannot read or write. In the health sector, efforts aim at improving primary health care, and especially at the fight against malaria. The government is also planning to increase HIV/Aids awareness, to improve the training of health-care workers, regulate pharmaceutical activities, and update the diagnosis and treatment database. In education, the main priorities are the rehabilitation of classrooms and teacher training. The government receives support in these areas from the World Bank and other donors.

34. **The government will also continue efforts to strengthen the financial system, which currently consists of one commercial bank.** A first success in this regard has been the recent opening of a branch of the Regional Solidarity Bank (BRS)—which will focus on the financing of micro-projects—and the likely establishment, by end-2005, of two new commercial banks. The Ministry of Finance will support and supervise the development of microfinance, and prudential supervision of the banks will be provided through the BCEAO and the WAEMU's Banking Commission.

V. CAPACITY BUILDING AND TECHNICAL ASSISTANCE

35. **The country's institutions and technical capacity need to be largely rebuilt.** The civil war and its aftermath resulted in a severe weakening of the institutions required for a democracy and a market-based economy, many of which were still being built up before the war. Moreover, many educated and experienced cadre left the civil service and the country. Strengthening is urgently needed to promote political stability, and to provide adequate government services, for which considerable technical assistance will be needed. As a first step, we will request donor assistance for the preparation of a comprehensive country technical assistance plan to identify priority areas.

36. **A key element is to strengthen the Ministry of Finance to improve management of our scarce resources.** Recent missions from the World Bank and the IMF—including by its regional technical assistance center West AFRITAC—identified technical assistance needs in all areas of fiscal management as well as in macroeconomic statistics (Table 2); the highest priority is assistance to the Budget and Customs Departments. Short-term missions are reaching the limits of absorption capacity, and we are especially seeking donor support for assigning long-term resident experts. Such experts will be assigned qualified counterparts, who will be allowed to stay in their function for a sufficient period to allow technical expertise to be transferred. Since buildings and equipment were damaged or destroyed during the civil war, assistance will need to include funds for rehabilitating offices.

37. **It will be important to ensure adequate coordination of the extensive assistance needs, which may require involvement of multiple donors.** A first step in this direction has been the preparation of the Action Plan for 2005, which should become the common framework for donor-assistance, as discussed in the recent meeting with development partners in Lisbon. Moreover, while the Ministry of Foreign Affairs will remain responsible

for overall relations with donors, the government has established a special unit in the Ministry of Finance to coordinate donor assistance.

VI. PROGRAM FINANCING

38. **The domestic transactions of the government are fully financed, but external payment arrears will continue.** Budget support has been received through the EEMF (0.7 percent of GDP) and for the elections (1.5 percent of GDP). Disbursements under new budget support under preparation by the World Bank and the EU (7.2 percent of GDP) and from other donors (0.4 percent of GDP), are expected to start by August 2005. Moreover, the government intends to reschedule part of the debt to the demobilization project (which is, following a payment scheduled for June, adequately financed) (0.4 percent of GDP) and capital contributions to the WAEMU institutions (0.9 percent of GDP). While this would allow avoiding new domestic arrears over the year as a whole, the government expects to incur new external arrears equivalent to 18 percent of GDP in 2005.

VII. PROGRAM MONITORING

39. **The monitoring of progress with implementing the program outlined above will be based on the quantitative and structural indicators provided in Tables 3 and 4.** The quantitative targets are (i) a ceiling on domestic financing of the budget; (ii) a floor on budgetary revenue; (iii) a ceiling on the wage bill; (iv) a ceiling on the domestic primary deficit; (v) a ceiling on new domestic arrears; and (vi) ceilings on public sector short- and long-term nonconcessional external debt. The structural indicators relate to the strengthening of tax administration and collection, and improving transparency in public finance developments. We will provide all necessary data to monitor the program as indicated in the technical memorandum of understanding.

Table 1. Guinea-Bissau--Treasury cash-flow plan 2005
(in millions of CFAF)

	Jan Prov.	Feb Prov.	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Budget Cash-flow 1/
Revenue and grants	1,563	974	1,806	4,696	1,894	3,909	2,710	3,121	2,061	1,454	1,857	2,912	28,957
Revenue	1,229	974	1,417	4,605	1,894	3,909	2,710	1,809	2,061	1,454	1,857	2,912	26,831
Taxes	931	777	800	708	1,277	1,482	1,811	1,198	1,341	901	1,204	1,850	14,280
Non-tax revenue	298	197	617	3,897	617	2,427	899	611	720	553	653	1,062	12,551
Grants	334	0	389	91	0	0	0	1,312	0	0	0	0	2,126
Budget-support grants	334	0	389	91	0	0	0	1,312	0	0	0	0	2,126
Expenditure	2,700	2,562	2,967	3,883	3,072	4,678	3,329	3,054	3,829	3,233	2,942	3,904	40,153
Current expenditure	2,686	2,552	2,766	3,682	2,871	3,780	3,113	2,838	2,917	3,017	2,726	2,992	35,938
Personnel expenditure	1,532	1,602	1,642	1,642	1,642	1,642	1,642	1,642	1,642	1,642	1,642	1,630	19,541
Goods and services	276	316	327	468	468	468	533	533	533	533	533	675	5,665
Transfers	527	302	466	716	466	740	490	490	490	739	490	489	6,379
Other current expenditure	352	332	236	835	285	1,087	198	173	166	89	51	80	3,885
Interest	0	0	95	20	10	117	0	0	85	14	9	118	468
Dom. financed capital exp.	14	10	201	201	201	898	216	216	913	216	216	912	4,215
Of which: Capital contributions BCEAO/AMAO	0	0	0	0	0	697	0	0	697	0	0	697	2,090
Overall balance (commitment basis)	-1,137	-1,588	-1,161	813	-1,178	-769	-619	67	-1,768	-1,779	-1,085	-992	-11,196
Arrears current year	1,625	1,566	-1,375	-1,816	0	0	0	0	0	0	0	0	0
Float and statistical difference	76	-86	11	0	0	0	0	0	0	0	0	0	0
Overall balance (cash basis)	564	-108	-2,526	-1,003	-1,178	-769	-619	67	-1,768	-1,779	-1,085	-992	-11,196
Financing	-564	108	2,525	-29	-22	-278	-198	-3,479	-658	-1,263	-42	-380	-4,279
Domestic financing	-434	233	2,546	0	0	-261	-198	-3,479	-655	-1,200	0	-261	-3,709
Bank financing	1,544	233	2,546	0	0	-261	-198	-3,479	-455	-1,200	0	-261	-1,531
BCEAO	344	233	-454	0	0	-261	-198	-479	-455	0	0	-261	-1,531
Commercial banks	1,200	0	3,000	0	0	0	0	-3,000	0	-1,200	0	0	0
Non-bank financing	-1,978	0	0	0	0	0	0	0	-200	0	0	0	-2,178
External financing	-130	-125	-20	-29	-22	-17	0	0	-2	-63	-42	-120	-570
Financing gap (gap = -)	0	0	0	-1,032	-1,200	-1,047	-817	-3,412	-2,426	-3,042	-1,127	-1,373	-15,475
Additional financing anticipated 2/	0	0	0	1,248	984	1,707	4,884	945	1,641	1,568	1,127	1,373	15,476
Remaining financing gap (gap = -)	0	0	0	216	-216	660	4,067	-2,468	-785	-1,474	0	0	0
Cumulative 3/	0	0	0	216	0	660	4,727	2,259	1,474	0	0	0	0

Source: Ministry of Finance; IMF staff estimates and projections.

1/ Approved budget minus offsetting revenue/financing and expenditure items plus arrears paid in January 2005.

2/ Corresponds to resources expected from the World Bank (US\$10 million), UNDP Emergency Economic Management Fund (€ 1.5 million), European Union (€ 9.2 million) of which € 2 million have already been included in the budget), and other donors (€ 1 million). Moreover, the authorities intend to reschedule part of the debt to the demobilization project account (CFAF 0.6 billion) and the payment for capital contributions to the financial institutions of the WAEMU (CFAF 1.4 billion) pending which these payments would go into arrears. Funding for the elections, provided by multiple donors, is also included and amounts to CFAF 2.3 billion.

3/ Monthly treasury surpluses will be deposited in the treasury account at the BCEAO for use in subsequent months.

Table 2. Technical Assistance Needs of the Ministry of Finance

Department	Area	Long-term	Short-term	(Possible) provider
Cabinet Minister	Macro-fiscal advisor	X 1/		(IMF)
Budget	Budget Advisor	X 2/		UNDP
	Expert expenditure management	X		(EU—July 05?)
	Expert expenditure management	X		(EU—July 05?)
	Accounting system	X		(France)
	Computerization expenditure accounts	X 2/		France/EU
Treasury	Advisor to the Treasurer	X		BCEAO
	Advisor		X	
Tax Department	Expert Tax Code		X (3-6 months)	(Portugal)
	Computerization revenue accounting	X		
	Advisor directorate of large enterprises		X (6 months)	(West AFRITAC)
Customs	Advisor for revising customs statute	X		
	Customs advisor	X		
	Advisor implementing ASYCUDA ++			AfDB
External debt	Debt management		X 3/	DRI
Micro-finance	Advisor		X	(West-AFRITAC)
Conjuncture	Advisor fiscal analysis	X		
Planning	National accounts advisor	X		
	Implementation System National Accounts 1993		X	IMF/AFRISTAT

1/ TA requested and under consideration.

2/ TA in place.

3/ First mission conducted in January 2005.

Table 3: Guinea-Bissau--Quantitative Indicators Staff Monitored Program 2005.
(in CFAF billions) 1/

	End-March	End-June	End-September	End-December
	(prov.)			
Domestic financing of the budget 2/	2.3	2.1	-2.2	-3.7
Domestic primary budget deficit (commitment basis) 2/	4.5	5.6	9.1	12.9
Revenue 3/	3.6	14.0	20.6	26.8
Wage bill 4/	5.0	10.2	15.4	20.5
Accumulation of domestic arrears 5/	1.8	0.0	0.0	0.0
External public debt, maturities <= 1 year	0.0	0.0	0.0	0.0
External non-concessional public debt, maturities > 1 year	0.0	0.0	0.0	0.0

1/ Cumulative from January 1, 2005. The definition of the aggregates is provided in the technical memorandum of understanding.

2/ Ceiling. If the actual amount of external budgetary assistance, falls short of program forecasts, the ceilings will be increased for the full amount of the shortfall. The programmed amounts of external assistance are (on a cumulative basis) CFAF 4.1 billion by end-June 2005, CFAF 12.1 billion by end-September 2005 and CFAF 15.6 billion by end-December 2005.

3/ Floor.

4/ Ceiling. Wage bill includes food for the military and disbursements to parliament.

5/ Ceiling.

Table 4. Guinea Bissau: Structural Indicators Under the
Staff Monitored Program for the
Period April 1, 2005—December 31, 2005

Structural indicators	
Establishment of a large taxpayers unit within the ministry of finance.	End-June 2005
Implement banderole system for alcoholic beverages and cigarettes	End-June 2005
Transfer the collection of customs duties and taxes to the Office of Customs in the port of Bissau	End-June 2005
Complete discussions with all Ministries and other budgetary units on the budget for 2006	End-September 2005
Approval by the Council of Ministers of the Organic Law of the Ministry of Economy and Finance	End-September 2005
Rehabilitation of the taxpayer master file.	End-December 2005
Implementation of the new organizational chart of the Customs Department.	End-December 2005
Implementation of censuses of the military and para-military.	End-December 2005
Reconciliation of changes in the treasury accounts at the BCEAO with expenditure authorized by the treasury committee, and immediate liquidation of such expenditure.	Continuous
Collect full amount of taxes due on (i) imports of petroleum products through the port in Bissau; (ii) rice imports; and (iii) cashew nuts exports.	Continuous

**TECHNICAL MEMORANDUM OF UNDERSTANDING FOR THE STAFF-MONITORED PROGRAM
FOR 2005**

Bissau, June 29, 2005

1. This memorandum describes the definitions of the quantitative and structural indicators for the staff monitored program (SMP) for 2005 (Tables 3 and 4 of the Memorandum on Economic and Financial Policies (MEFP) as agreed between the authorities of Guinea-Bissau and the staff of the IMF. It also specifies the agreed periodicity and deadlines for transmission of data to the staff of the IMF for program monitoring purposes.

I. QUANTITATIVE INDICATORS AND ADJUSTORS

A. Quantitative indicators

2. The quantitative indicators (Table 3 of the MEFP) are the following:
- a. cumulative floors on government revenue;
 - b. cumulative ceilings on the government wage bill;
 - c. cumulative floors on the domestic primary fiscal balance (on a commitment basis);
 - d. cumulative ceilings on new domestic payments arrears of the government;
 - e. cumulative ceilings on the change in net domestic financing of the budget; and
 - f. cumulative ceilings on new nonconcessional external debt contracted or guaranteed by the government.

Quantitative indicators have been set for end-June, end-September, and end-December 2005, and their values are cumulative from January 1, 2005.

Definitions and computation

3. **For the purposes of the SMP, the government is defined as the central government of Guinea-Bissau.** This definition excludes public entities with autonomous legal personality whose own budget is not included in the central government budget.
4. **For the SMP, government revenue includes all tax and non-tax receipts and excludes external grants.** The cash-flow estimates are based on the revenue estimates in the approved budget for 2005, which are adjusted for certain revenue items that are not paid in cash or that are offset by corresponding expenditure or financing items. They concern:

(i) revenue for fishing licenses from the company CONAPEMAC (CFAF 897 million, offset in external debt); and (ii) the revenue from the European Union that is earmarked for the fishing project (CFAF 1,476 million, offset in domestically-financed capital expenditure).

5. **The SMP uses a broad definition for the targeted ceiling on the government wage bill.** The wage bill as understood under the program target includes (i) all staff (permanent and temporary) of the civil service and the military and para-military, and encompasses the budget categories 01.01.00 (gross wages) and 01.02.00 (bonuses and subsidies); (ii) payments for food for the military and para-military (budget category 02.02.04); and (iii) all transfers to the National Assembly (budget category 03.02.01). The quarterly targets are given in Table 1 below.

Table 1. Quarterly Targets for the Broadly Defined Wage Bill, 2005
(Cumulative, in billions of CFAF)

	Mar.	Jun.	Sep.	Dec.
Wages (01.01.00)	4.5	8.9	13.4	17.9
Bonuses and subsidies (01.02.00)	0.1	0.2	0.4	0.5
Food for the military and paramilitary (02.02.04)	0.2	0.5	0.9	1.2
Transfers to Parliament (03.02.01)	0.3	0.5	0.8	1.0
Total wage bill under the SMP target	5.0	10.2	15.4	20.5

Source: Budget 2005.

6. **The domestic primary fiscal balance on a commitment basis is based on the cash-flow estimates provided in Table 1 of the MEFP.** It is calculated as the difference between the revenue defined in paragraph 4 of this TMU and domestic primary expenditure on a commitment basis. The latter consist of current expenditure plus domestically-financed capital expenditure (corrected for the EU-financed expenditure for the fishing project), excluding all interest payments and externally financed capital expenditure. Government commitments include all expenditure for which commitment vouchers have been approved by the Ministry of Finance; automatic expenditure (such as wages and salaries, pensions, utilities, and other expenditure for which payment is centralized); and expenditure by means of offsetting operations. The estimated quarterly domestic primary balances for 2005 are provided in Table 2 below.

Table 2. Estimates of the Quarterly Domestic Primary Balance, 2005
(In billions of CFAF)

	Mar.	Jun.	Sep.	Dec.
Revenue	3.6	14.0	20.6	26.8
Current expenditure	-8.0	-18.3	-27.2	-35.9
Domestically financed capital expen.	-0.2	-1.5	-2.9	-4.2
Minus: interest	0.1	0.2	0.3	0.5
Balance	-4.5	-5.6	-9.1	-12.9

Source: Table 1, MEFP.

7. **New domestic payments arrears of the government are calculated as the difference between payments due on commitments engaged since January 1, 2005 and actual payments made on those commitments.** Government commitments due include all expenditure for which commitment vouchers have been approved by the Ministry of Finance, non-discretionary expenditure (such as wages and salaries, pensions, utilities, and other expenditures for which commitments are automatic and not at the discretion of the government, including domestic debt).

8. **Net domestic financing of the budget is defined based on the cash-flow estimates in Table 1 of the MEFP.** Bank financing consists of the net changes in the balances in the treasury accounts at the BCEAO and at the commercial bank(s)—excluding balances in those accounts that are not freely available for budget financing, such as accounts that are held under double signature arrangements with donors—as well as in the outstanding amounts of loans from the BCEAO and the commercial bank(s). Domestic non-bank financing encompasses changes in debt owed to projects, privatization receipts, and repayments of previous years' arrears, as well as any other domestic financial debt held outside the banking sector, other than arrears, that may arise. Table 3 provides the details.

Table 3. Estimates of Domestic Financing by Quarter, 2005
(In billions of CFAF)

	Mar.	Jun.	Sep.	Dec.
	cumulative change			
Domestic financing	2.3	2.1	-2.2	-3.7
Bank financing	4.3	4.1	0.0	-1.5
BCEAO	0.1	-0.1	-1.2	-1.5
Treasury accounts	0.6	0.6	0.6	0.6
Advances	0.5	0.5	0.0	0.0
Consolidated debt	-0.1	-0.1	-0.2	-0.2
Debt ex-BCN	0.0	0.0	0.0	0.0
Debt ex-BCGB	0.0	0.0	-0.1	-0.1
IMF	-0.8	-1.0	-1.6	-1.7
Commercial bank(s)	4.2	4.2	1.2	0.0
Non-bank financing	-2.0	-2.0	-2.2	-2.2
PDRRI	0.0	0.0	-0.2	-0.8
Privatization receipts	0.0	0.0	0.0	0.6
Arrears/float previous years	-2.0	-2.0	-2.0	-2.0

Source: Table 1, MEFP.

9. **The indicators for external debt are cumulative ceilings on new nonconcessional external debt contracted or guaranteed by the government.** For the purposes of the SMP, the definitions of “debt” and “concessional borrowing” are as follows:

- a. The indicator for external debt applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt, adopted by the Executive Board of the IMF on August 24, 2000 but also to commitments contracted or guaranteed for which value has not been received. For purposes of these guidelines, the term “debt” is understood to mean a current, that is, not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the

primary ones being as follows: (i) loans, that is, advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans, under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers' credits, that is, contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and (iii) leases, that is, arrangements under which property is provided that the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement, excluding those payments that cover the operation, repair, or maintenance of the property. Under the definition of debt set out above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt. For the purposes of monitoring the SMP, arrangements to pay over time obligations arising from judicial awards to external creditors do not constitute nonconcessional external borrowing.

- b. Loan concessionality is assessed on the basis of the commercial interest reference rates (CIRRs) established by the OECD. A loan is said to be on concessional terms if, on the initial date of contraction of the loan, the ratio of the present value of the loan, calculated on the basis of the reference interest rates, to its nominal value is less than 50 percent (that is, a grant element of at least 50 percent). For debts with a maturity exceeding 15 years, the ten-year reference interest rate published by the OECD is used to calculate the grant element. For shorter maturities, the six-month market reference rate is used. Purchases from the IMF are excluded from this limit.

10. **The concept of government for the purposes of the indicators on external debt is broader than the one used for the budget aggregates, including all debt that may ultimately be deemed to be a liability of the state.** In addition to the government as defined in paragraph 3, the definition includes administrative public institutions, public enterprises authorized to contract, guarantee, or accommodate nonconcessional borrowing, scientific and technical public institutions, professional public institutions, industrial and/or commercial public institutions and local governments.

B. Adjusters

11. The following adjusters will be in effect:
- **The floors on revenue will be fully adjusted for advances or delays in the EU's compensation for fishing rights** compared to the assumptions underlying the program. The program assumes payments of CFAF 3.9 billion in April 2005 and CFAF 2.4 billion in June 2005.
 - **The floors on the domestic primary fiscal balance (on a commitment basis) will be adjusted in line with the adjustment in revenue.** Moreover, the floor on the domestic primary deficit will be lowered in case of higher budget support than programmed, for the full amount of the excess. The programs assumes budget support of (cumulative from January 1, 2005) CFAF 0.7 billion by end-March 2005, CFAF 2.1 billion by end-June 2005; CFAF 10.1 billion by end-September 2005, and CFAF 15.4 billion by end-December 2005.

II. PROGRAM MONITORING

12. **To allow monitoring of developments under the program, the Ministry of Finance will regularly report the following information to the staff of the IMF:**
- The monetary survey, the balance sheet of the central bank, and the balance sheet of the commercial banks, (monthly, within six weeks following the end of the month);
 - The net claims on the government held by the banking system, including details on the balances in the treasury accounts freely available for budget financing (the treasury account, the solidarity account, and the special account) (monthly, within ten days of the end of the month);
 - The monthly report of the Treasury Committee, including tables on revenue by tax and expenditure by budget line, and a table, reconciling the revenue and expenditure data with the changes in the treasury accounts (monthly, within ten days after the end of the month);
 - The detailed reports on revenue and expenditure by budget line and a completed summary table on central government operations (TOFE; monthly, two weeks after the end of the month).
 - A table providing the end-of-period stock of domestic arrears accumulated during the program period, by budget category (wages, goods and services, etc.; within four weeks after the end of the month);

- The amount, interest rate and term of new external debt (concessional or not) contracted or guaranteed by the government (within four weeks after the end of the month);
- Disbursements of budget support grants and loans, by donor (within two weeks after the end of the month);
- Indicators to assess overall economic trends, such as the household consumer price index and exports of cashew nuts (when such information becomes available);
- A table with a description of the status of implementation of the structural indicators in Table 5 of the MEFP (within two weeks after the end of the month).

13. **The Ministry of Finance will provide the staff of the IMF with any other information that the Ministry or the staff of the IMF deem necessary for program-monitoring purposes.**

14. **The above data will be provided to the Assistant-Economist at the local office of the IMF in Bissau (Mr. Fonseca) for further transfer to the African Department of the IMF in Washington D.C.**

by all creditors (US\$ Million) ^{1/}	416.00
Of which: IMF assistance (US\$ million)	11.91
(SDR equivalent in millions)	9.20
Completion point date	Floating
II. Disbursement of IMF assistance (SDR Million)	
Assistance disbursed to the member	0.54
Interim assistance	0.54
Completion point balance	--
Additional disbursement of interest income ^{2/}	--
Total disbursements	0.54

^{1/} Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence, these two amounts can not be added.

^{2/} Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

Decision point - point at which the IMF and the World Bank determine whether a country qualifies for assistance under the HIPC Initiative and decide on the amount of assistance to be committed.

Interim assistance - amount disbursed to a country during the period between decision and completion points, up to 20 percent annually and 60 percent in total of the assistance committed at the decision point (or 25 percent and 75 percent, respectively, in exceptional circumstances).

Completion point - point at which a country receives the remaining balance of its assistance committed at the decision point, together with an additional disbursement of interest income as defined in footnote 2 above. The timing of the completion point is linked to the implementation of pre-agreed key structural reforms (i.e., floating completion point).

VIII. Safeguards Assessments:

Under the Fund's safeguards assessment policy, the BCEAO is subject to a full safeguards assessment. An off-site safeguards assessment of the BCEAO was completed on July 25, 2001. The assessment concluded that high risks may exist in the financial reporting framework and recommended an on-site assessment. An on-site safeguards assessment of the BCEAO was completed on March 5, 2002. BCEAO authorities and Fund staff have reached an understanding regarding the implementation of key recommendations related to financial reporting and internal control.

IX. Exchange System and Exchange Rate Arrangement

Guinea-Bissau accepted the obligations of Article VIII, Sections 2, 3, and 4 with effect from January 1, 1997. Guinea-Bissau joined the West African Economic and Monetary Union (WAEMU) in 1997, and the exchange system common to all members of the union is free of restrictions on payments and transfers for current international transactions. Starting on January 1, 1999, the CFA franc has been pegged to the euro at a fixed rate of EUR 1=CFAF 655.95. On May 31, 2005, the rate of the CFA franc in terms of the SDR was CFAF 784.61=SDR 1.

X. Article IV Consultation

Guinea-Bissau is on the standard 12-month consultation cycle. The last Article IV consultation discussions with Guinea-Bissau were held in Bissau during June 19-July 2, 2004. The staff report (IMF Country Report No. 05/69) was discussed by the Executive Board on November 19, 2004. A selected issues paper and a statistical annex (IMF Country Report No. 05/94) were also circulated to the Board.

XI. Technical Assistance

Department	Type of Assistance	Time of Delivery	Purpose
MAE	Expert	March-July 1994	Assisting in banking supervision
	Expert	June, 1994-Jan., 1997	Assisting in monetary policy
	Expert	Jun. – Dec., 1995	Advising on bank accounting
	Expert	Jun. – Sep., 1997	Assisting in transformation of central bank into a branch of Central Bank of West African States (BCEAO)
STA	Staff	March, 1996	Assessing quality of monetary, balance of payments, and government statistics
	Expert	March, 2003	GDDS—Real Sector Statistics
	Expert	May 2003	GDDS—Fiscal Statistics

FAD	Staff	Sep., 1996	Advising on tax administration and tax policy
	Staff	Mar., 1997	Advising on import tariff reform
	Staff Expert Expert Expert	Mar., 1997 Sep., 1997 Oct., 1997–Apr, 1998 Jun., 1998	Design and implementation of general sales tax (GST)
	Expert	Sep., 1997	Strengthening fiscal control
	Expert	Jan.-Mar, 1999 April-Jun., 1999 Jan.-Mar., 2000 Jan., 2001	Tax administration advisor
	Staff	Jul., 1999	Assessing budget management and tax system
	Expert	Feb., 2001 July, 2001	Peripatetic public expenditure management advisor
	Staff	April, 2003	Expenditure management
	WEST AFRITAC	Expert	Nov., 2003
Feb., 2004 May, 2004			Tax Administration
Mar., 2004			Customs Administration
Jun., 2004			Budget preparation and execution

XII. Resident Representative

The post of resident representative was opened in September 1997 and is covered by the Resident Representative in Senegal, Mr. Ousmane Doré.

Guinea-Bissau: Relations with the World Bank Group

1. As of April 15, 2005, IDA had approved 29 credits for Guinea-Bissau. Eight credits had been in the transport and infrastructure sector, three in the energy sector, three for strengthening the country's management capability (Technical Assistance (TA)/Economic Management), two for financing urgently needed imports in support of the government's economic recovery program, one in the agricultural sector, three in the health sector, two in the education sector, one social sector project, three for structural adjustment, one for economic rehabilitation and recovery, one for private sector rehabilitation and development, and one for natural resource management. The total value of these projects amounts to about US\$ 320.4million equivalent, of which US\$283.8 million has been disbursed. As of end-July, 2004, the undisbursed balance was US\$36.6 million.

Structural adjustment credits

2. IDA has approved a total of US\$ 63.4 million for structural adjustment operations. These include two Structural Adjustment Credits (SACs), one supplementary SAC, and one Economic Rehabilitation and Recovery Credit (ERRC). The SACs supported the government's program in the areas of economic liberalization and reform of the public administration and public enterprise sectors, and the ERRC supports peace building following the political unrest, promotes the revival of the economy and encourages the pursuit of reforms. Parallel financing of the SACs came from Switzerland (US\$5.3 million equivalent), the Saudi Fund for development (US\$3.2 million equivalent), the International Fund for Agricultural Development (US\$5.3 million equivalent), the African Development Fund (US\$ 23.3 million equivalent), the Netherlands (US\$7.5 million equivalent), the U.S. Agency for International Development (USAID) (US\$4.5 million), and Japan (US\$2 million equivalent).

Lending program

3. For the fiscal year (FY) 2005, IDA approved an HIV/AIDS project and a Coastal and Biodiversity Management Project. IDA also proposes to support an energy and water project during the FY 2005/06 and provide budgetary support in FY2005/06. The World Bank is assisting the country with the Initiative for the Heavily Indebted Poor Countries (HIPC Initiative). An Interim Strategy (ISN) is being prepared and is planned for approval by end-FY2005.

Nonlending program

The Bank prepared a Public Expenditure Review (PER) in 2003. Bank staff participated, with the IMF, in the development of an Emergency Economic Management Program (EEMP) toward end-2003. A Poverty Assessment is currently being finalized. In FY2006, the Bank will also continue to provide advice on public expenditure management, and carry out a Country Financial Accountability Assessment and Country Procurement Assessment Review (CFAA/ CPAR). The CFAA/CPAR will address the main fiduciary issues and make recommendations.

International Finance Corporation (IFC)

4. The IFC's current portfolio consists of two investments: one in agribusiness (US\$0.25 million), and one in the financial sector (US\$0.28 million) to support a commercial bank (*Banco da Africa*). Both loans have been fully disbursed.

Operations Portfolio (IBRD/IDA and Grants)

Closed Projects 20

IBRD/IDA *

Total Disbursed (Active)	35.32
of which has been repaid	0.00
Total Disbursed (Closed)	248.51
of which has been repaid	26.11
Total Disbursed (Active + Closed)	283.83
of which has been repaid	261.06
Total Undisbursed (Active)	36.63
Total Undisbursed (Closed)	0.00
Total Undisbursed (Active + Closed)	36.63

Active Projects

Project ID	Project Name	Fiscal Year	IDA	Undisb.
P001015	Basic Education	1997	14.3	1.5
P073442	GW-HIV/AIDS Global Mitigation Sup (FY04)	2004	7	6.5
P083453	GW: Coastal & Biodiversity Mgt (IDA)	2005	3	3.2
P035688	National Health Dev. Prog.	1998	15.7	6.5
P001001	Privat Sector Rehab. & Develop. Project	2002	26	18.8
Overall Result			66	36.6

Guinea-Bissau: Statistical Issues

1. Before the 1998-99 civil war, Guinea Bissau's statistical database was comprehensive, but significant weaknesses remained, particularly in the areas of national accounts, the consumer price index (CPI), and the balance of payments. During the war, much of the country's computer equipment was severely damaged, and many key technicians left the country; as a result, data collection was severely impaired, except for trade data and consumer prices. In early 1999, the authorities made a determined effort to reestablish their data capacities and were able to recover most information related to production, government finances, and monetary and balance of payments developments. This recovery was carried out with the assistance of various institutions, including UN agencies and the World Bank, which provided equipment and data.
2. Guinea-Bissau is a participant in the General Data Dissemination System (GDDS). Its GDDS metadata have been posted on the Fund's Dissemination Standards Bulletin Board since November 2001.

Outstanding statistical issues

3. In March 1994, the *International Financial Statistics (IFS)* introduced a country page for Guinea-Bissau. Updates on exchange rates and monetary data are reported in a timely manner. However, external trade and fiscal sector statistics have not been reported to STA for publication in the *IFS* since 1997. Annual national accounts reports have improved, with current price data being reported up to 2002. However, constant price GDP estimates remain seriously out of date.

The authorities' stance on statistical matters

4. The Guinea-Bissau authorities are aware of the shortcomings of the country's database and have been receptive to the staff's recommendations on how to effect improvements. They are also committed to making the basic national statistics, publicly available.

National accounts

5. Inadequate data sources for national accounts statistics remain the major hurdle to improving the country's databases. The GDP aggregate is mostly based on crude assumptions and coefficients derived from the 1986 benchmark-year estimates. The INEC has been seriously affected by the armed conflict, and requires substantial technical assistance to rebuild capacity to compile production statistics. Implementation of the recommendations of the STA/GDDS mission of March 2003 would provide the foundation for rebuilding national accounts to a standard that could allow for adequate analysis of real sector developments in the country.

Consumer prices

6. Since July 2002, an harmonized CPI is compiled, based on the same structure as in other WAEMU countries. However, the price data are collected only for the capital Bissau.

Government finance

7. The most recent annual data in the *Government Finance Statistics Yearbook (GFSY)* are for 1989. Between 2000-02, the authorities made substantial progress in preparing timely reports on monthly and quarterly budget executions. These fiscal data reports were widely circulated to relevant national institutions; however, they have not been prepared since early 2003. Moreover, the quarterly reports are no longer submitted for publication in *IFS*. The March 1996 STA mission suggested adjustments to the fiscal data that would make them suitable for publication in both *IFS* and the *GFSY*. There were, however, setbacks as a result of the armed conflict. To address the main shortcomings, the authorities requested technical assistance from donors. Since 2002, the French government has provided two experts to the Ministry of Economy and Finance (MEF)—one on expenditure (this position is vacant since January 2004) and the other providing IT support. The EU has also financed several experts.

8. In March and April 2003, two Fund missions from Fiscal Affairs Department of the IMF—one in revenue administration and the other in expenditure management—visited Guinea-Bissau to assist the authorities in identifying weaknesses and to make recommendations to overcome shortcomings in their respective areas. A third mission during the same period—in the context of the regional GDDS project—made recommendations on improving fiscal data. Two experts from West AFRITAC visited Bissau in February and March 2004, to begin implementation of the recommendations of the April 2003 mission on revenue administration, the first regarding the setting up of a Unit for monitoring of large enterprises in the Domestic Tax Department of the Ministry of Economy and Finance (MEF), and the latter in the area of customs administration. In November 2003, a mission from the African Department (AFR) of the IMF assisted the authorities with preparing an Emergency Economic Management Plan, an emergency budget, and a treasury cash plan for 2004. Two AFR missions, in January and March 2004, have provided further assistance in implementing, updating and monitoring the cash flow plan.

Monetary accounts

9. Since Guinea-Bissau's entry in the WAEMU on May 1, 1997, the BCEAO assumes responsibility for compiling and reporting to STA monetary data for Guinea-Bissau, as is the practice for other member countries in the Union. Guinea-Bissau has adopted the new accounting and reporting procedures for monetary and financial statistics in accordance with the BCEAO's guidelines. Monthly data on monetary statistics for Guinea Bissau are reported on a regular basis for publication in *IFS*, although with some delays. Data for the monetary authorities and the deposit money banks through May 2004 are published in the September 2004 issue of *IFS*. The accuracy of monetary statistics is affected by large cross-border movements of currency among BCEAO member countries and delays of up to two years in their recording.

10. The monetary and financial statistics mission that visited the headquarters of the BCEAO in May 2001 provided technical assistance in addressing the main shortcomings pertaining to coverage, methodology, and timeliness of monetary statistics. The mission discussed and agreed with the authorities on an action plan for the implementation of the *Monetary and Financial Statistics Manual (MFSM)* and for the introduction of an area-wide page in *IFS* for the WAEMU. The new page was subsequently introduced in the January 2003 issue of *IFS*.

11. Following the recommendations of the 2001 monetary and financial statistics mission, a regional seminar on monetary and financial statistics was organized by the BCEAO in Dakar during April 22-25, 2003. STA staff participated in the seminar. Participants agreed to set up a working group consisting of representatives from the National Agencies and various departments of the BCEAO's headquarters; the working group will follow up on the implementation of the seminar's recommendations to foster implementation of the *MFSM*.

Balance of payments

12. Guinea-Bissau reports trade data to AFR for operational purposes using information from customs. Nevertheless, balance of payments data remain weak, due mostly to substantial nonregistered trade and inconsistencies between data on net foreign assets as reported by the BCEAO and other economic indicators. Data on workers' remittances and official transfers are available and reliable. The authorities have requested technical assistance from the Fund to improve their balance of payments statistics. In August 2004, an AFRISTAT balance of payments expert visited Bissau to assess the priority needs for technical assistance and assist the authorities with the preparation of a work plan for improving compilation of balance of payments and international investment position statistics.

External debt

13. During the civil war, the computer system processing debt data was severely damaged, and no progress was made in rehabilitating it. As a result, debt data have not been compiled since mid-1998. The basis for the current external debt database is the 2000 debt sustainability analysis, which the authorities have used to keep track of the debt situation. However, this is an excel-based database and a more sophisticated system is required to improve day-to-day debt management. Moreover, the Debt Division of the Ministry of Finance faces serious capacity constraints, both technical and material.

Recent technical assistance in statistics

14. In March 2003, an STA/AFRISTAT technical assistance mission visited Guinea-Bissau to assess progress in the implementation of the GDSS project and to identify areas where the Fund, through AFRISTAT, could offer further technical assistance to improve the country's national accounts. The mission proposed a two-faceted approach, recommending a series of short-term and medium-term projects. The short-term proposals include projects to: (i) carry out a general population census (2002); (ii) establish an index of industrial

production; (iii) establish a price index based on the WAEMU harmonized index; and (iv) create an internet site for INEC for data dissemination. For the medium-term, the major recommendation is adoption of the Systems of National Accounts (1993). The mission also made recommendations for technical assistance: for the short term, it recommended assistance to build capacity for implementation of the various projects, while for the medium-term, it recommended assistance in the formation of personnel for the establishment of the SNA 1993, and acquisition of material and IT needs.

Table of Common Indicators Required for Surveillance
(As of June 16, 2005)

	Date of latest observation	Date received	Frequency of Data ⁶	Frequency of Reporting ⁶	Frequency of publication ⁶
Exchange Rates	Current	Current	D	D	None
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	April 2005	June 2005	M	M	None
Reserve/Base Money	April 2004	June 2005	M	M	None
Broad Money	April 2004	June 2005	M	M	None
Central Bank Balance Sheet	April 2004	June 2005	M	M	None
Consolidated Balance Sheet of the Banking System	April 2004	June 2005	M	M	None
Interest Rates ²	April 2005	May 2005	M	M	None
Consumer Price Index	Dec. 2004	Mar. 2005	M	M	None
Revenue, Expenditure, Balance and Composition of Financing ³ – General Government ⁴	No	No	No	No	None
Revenue, Expenditure, Balance and Composition of Financing ³ – Central Government	April 2005	June 2005	M	M	None
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	No	No	No	No	None
External Current Account Balance	Dec. 2004	Mar. 2005	A	A	None
Exports and Imports of Goods and Services	Dec. 2004	Mar. 2005	A	A	None
GDP/GNP	Dec. 2004	Mar. 2005	A	A	None
Gross External Debt	No	No	No	No	None

¹Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

²Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

³Foreign, domestic bank, and domestic nonbank financing.

⁴The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁵Including currency and maturity composition.

⁶Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I); Not Available (NA).