

## International Monetary Fund

[Guinea-Bissau](#) and  
the IMF

**Guinea-Bissau:** Letter of Intent, Memorandum of Economic and Financial  
Policies, and Technical Memorandum of Understanding

**Press Release:**

[IMF Executive Board  
Completes First and  
Second Reviews of  
Guinea-Bissau's  
Arrangement Under  
the Extended Credit  
Facility, and  
Approves US\\$6.9  
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## Letter of Intent

Bissau, Guinea-Bissau  
November 8, 2016

Madame Christine Lagarde  
Managing Director  
International Monetary Fund  
Washington, D.C. 20431  
USA

Dear Managing Director,

1. The three-year Extended Credit Facility (ECF) Arrangement, which was approved for Guinea-Bissau by the Executive Board of the International Monetary Fund (IMF) in the amount of SDR 17.04 million on July 10, 2015, is a welcomed support to our medium-term economic program focused at rekindling economic activity and poverty reduction. The recent political crises stoked uncertainty, dulled effective functioning of the government, and threatened to unwind the gains we had made since taking office; the situation has eased and we have put in place a functioning government.
2. The attached Memorandum of Economic and Financial Policies (MEFP) updates the MEFP of June 20, 2015. It summarizes recent economic developments and the implementation of our policies in 2015-16, discusses performance under the ECF-supported program, and outlines our macroeconomic policies and structural measures for 2016-17.
3. As explained in the attached MEFP, all performance criteria (PCs) for end-June 2015 and, after correcting for a bank bailout, also end-December 2015 were met, with a significant revenue over-performance (of 1½ percent of GDP) relative to the end-December target. Nonetheless, the political impasse that witnessed a sequence of changes in governments between August 2015 and June this year, delayed the scheduled program reviews. It also delayed the structural reform agenda, as we were able to implement only four of the nine structural benchmarks as envisaged by end-2015. The government has re-committed to a timely implementation of the delayed measures in accordance with the proposed revised schedule. Therefore, the government requests completion of the first and second reviews of the ECF-supported program, and the disbursement of the associated loans in the amount of SDR 5.11 million and completion of related financing assurances review, a re-phrasing of disbursements and associated reviews, and the modifications to the performance criteria on net domestic bank credit to the central government and external payments arrears to the central government.
4. Economic and financial management in 2015 was challenging, partly due to the political stalemate, although significant gains were made in revenue mobilization. Albeit nascent, the pickup in economic activity following the resumption of constitutional rule in 2014 continued in 2015 and 2016, shoring up cashew nut exports and a strengthening agricultural activity, construction and services. Private sector credit grew marginally in 2015, after a decline in 2014. Our efforts in tax administration yielded significant gains in 2015, but progress in clearing domestic arrears in the context of challenging institutional shortfalls resulted in a higher-than-envisaged spending and primary deficit.



5. Our budget execution upon taking office this year has been tight, in view of the loss in budget support and revenue shortfalls on account of the political impasse. The 2016 budget, which [was submitted to Parliament], therefore appropriately features revenue measures (sale of seized wood and an increase in the sales tax rate on fuel imports) and expenditure adjustment (particularly in the wage bill and goods and services) combined with domestic borrowing. Our projections for 2017 envisage a tightening of the fiscal stance, which will be supported by vigorous revenue mobilization and cautious spending. To attain this, we continue to strengthen tax administration and public financial management procedures at our weekly Treasury committee meetings.

6. The government has declared null and void the 2015 bank bailout that resulted in a loss of development partner budget support and complicated economic management in 2016. With the intention to clean the loan portfolios of two commercial banks saddled with non-performing loans and thereby help revitalize financial intermediation, the government took over these loans from the banks in mid-2015 at their original value, implying a premium and thus a windfall to the banks. In view of the associated fiscal costs, the loss of development partner budget support, and the evident lack of a sufficient legal basis for the operation, we have declared the bailout contracts null and void—a decision for which we are seeking court confirmation after the affected commercial banks’ refusal to undo the bailout. In this connection, we have requested the WAEMU Banking Commission to carry out a thorough on-site inspection of the banking system and to require remedial prudential actions necessary to bring the banks in full compliance with regulations. We will closely follow up on this inspection and implement actions at our disposal to strengthen the banking sector.

7. The government believes that commitments outlined in the attached MEFP are adequate to achieve program objectives. However, it stands ready to take any additional measures that may become necessary for this purpose. To ensure a successful implementation of our economic program, we will keep a close policy dialogue with the IMF and seek technical assistance, as needed. We will consult with the IMF on the adoption of any additional measures and in advance of revisions to policies contained in the attached MEFP, in accordance with IMF policies on such matters. Furthermore, we will continue to provide the IMF with information on progress in implementing policies and reforms under the program.

8. The government authorizes publication of this letter, its attachments, and the related staff report, including placement of these documents on the IMF website in accordance with IMF procedures.

Yours sincerely,

/s/

Henrique Horta dos Santos  
Minister of Economy and Finance  
Guinea-Bissau

Attachments: I. Memorandum of Economic and Financial Policies  
II. Technical Memorandum of Understanding

## Attachment I. Memorandum of Economic and Financial Policies

Bissau, November 8, 2016

### I. Background

**1. The political stalemate in the last quarter of 2015 and early 2016 and its attendant uncertainties threatened to erode the gains that Guinea-Bissau had made in the short period of its return to constitutional rule.** The country has since turned the page following the political stalemate that started with the dismissal of the government in mid-August 2015 and of fifteen PAIGC parliamentarians earlier this year. The security situation has remained calm, and a functional government is now in place under new Prime Minister Baciro Djá. However, intra-PAIGC political tension remains the key risk to stability, but could culminate into an inclusive government of the main political parties, the PAIGC and the PRS. In this context, the current government has reiterated its commitment to the economic and financial program for 2015–18 supported by the International Monetary Fund (IMF) under the Extended Credit Facility (ECF).<sup>1</sup> The program aims to entrench macroeconomic stability and advance structural reforms to support inclusive growth and poverty reduction, and address governance issues.

**2. This Memorandum of Economic and Financial Policies (MEFP) supplements the MEFP of June 20, 2015.** It presents performance relative to the performance criteria and other targets under the three-year ECF-arrangement, and describes economic and financial policies as well as structural reforms for 2016 and 2017.

### II. Economic Developments until End-2015

**3. The economic recovery witnessed in 2014 and 2015 continued into 2016, despite uncertainties stemming from the political impasse.** The pace of the recovery was supported by measures initiated by the government to enhance electricity supply, remove bottlenecks to the pricing and export of cashew nuts (including the suspension of the FUNPI levy), and to shore up mechanization of rice production. Alongside, and prior to the political stalemate, construction activities and services expanded. During the last cashew season, the government increased the domestic reference price of cashew nuts to \$950 per ton, and stepped up border-control to minimize smuggling of the produce. As a result, cashew nut export increased to 198,000 tons in 2016, from 175,000 tons in the previous year, and contributed significantly to domestic revenue mobilization. Reflecting these developments, the economy is estimated to have grown by 4.8 percent in 2015. Average inflation increased to 1½ percent on account of strong aggregate demand, and despite the decline in global oil prices.

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<sup>1</sup> [IMF Country Report No. 15/194. Guinea-Bissau: Request for a Three-Year Arrangement under The Extended Credit Facility—Staff Report.](#)

**4. The external current account balance narrowed significantly because of a sharp improvement in the terms of trade in 2015.** Guinea-Bissau's terms of trade improved by 45 percent, as global fuel and non-fuel prices declined while the price of the country's main export produce, cashew nuts, increased by 16 percent. The benign terms-of-trade development helped a decline in the current account deficit by 2-percentage points of GDP to 1¼ percent of GDP at end-2015. Accordingly, the overall balance of payments posted a significant surplus that helped reserve accumulation.

**5. The banking system has been weighed down by non-performing loans and low financial intermediation.** The government bailout of two banks in 2015 was aimed at removing bad loans from the banks' portfolio and thereby kick-starting lending to the private sector. The government has declared this bailout null and void. Post-bailout, total bank credit grew by 8½ percent between end-December 2015 and end-June 2016 (an annualized rate of 18 percent). At end-June 2016, the ratio of gross non-performing loans (NPLs) to total gross credit stood at 7.5 percent according to banks' balance sheets. This ratio would return to a high level of around 25 percent, if the bailout is not taken into account.

**6. Although development partner support in 2015 helped enhance the fiscal space and capacity building, budget support fell short of expectations.** While the ECF-supported program approved by the Executive Board of the IMF for Guinea-Bissau helped the pace of structural reforms, it also catalyzed assistance from other development partners. For example, the EU restored the financial compensation agreement for fisheries, while the African Development Bank and the World Bank disbursed budget and project supports to the country. Indeed, concerns about political stability and lack of progress in structural reforms—mainly failure to achieve indicative targets necessary for disbursements—reduced the amount of budget support received. Nevertheless, capacity development activities financed by development partners have helped shore up tax administration (EU, IMF and the World Bank), public financial management (IMF) and the business environment (IMF and World Bank).

### III. Program Performance in 2015

**7. All quantitative performance criteria for both end-June 2015 and, after correcting for the bank bailout, end-December 2015 were met (Table 1).** The floor on total domestic tax revenue was exceeded both at end-June and end-December with sizeable margins on account of stronger-than-expected expansion in economic activity and a vigilant tax administration. While the end-June ceiling on net domestic bank credit to the central government was met comfortably after adjusting for excess domestic arrears clearance, the adjusted ceiling for end-December was met after adjusting for shortfalls in budget support (implying a substitution of domestic financing for foreign financing) and after correcting for the bank bailout. New external borrowing on non-concessional terms and short-term external borrowing or guaranteeing were consistent with the respective zero-ceilings under the program. The government honored all external debt service obligations, and continues to seek restructuring and/or outright cancellation of debts currently under discussion with our bilateral creditors.

**8. Tax revenues substantially exceeded expectations, reflecting the several measures initiated during 2015.** The government limited the fuel subsidies to the military, improved tax compliance by large taxpayers, and stepped up custom controls to contain fraud and under-invoicing by importers. Combined with stepped-up vigilance of tax administration and burgeoning economic activity, these measures boosted tax collection to CFAF 31.7 billion at end-June (some 21 percent above the program target) and CFAF 61.9 billion at end-December (10 percent of GDP, and 10 percent above the end-year PC floor).

**9. At the same time, budget execution fell short of expectations and weakened the fiscal stance in 2015.** Non-wage expenditures increased during the year, driven mostly by increases in other current expenditures, pushing current expenditure some 0.9 percent of GDP above the program expectation. On the other hand, capital spending exceeded expectation by 0.8 percent of GDP on account of higher than programmed project grants for public investment. As a result of these developments, the domestic primary deficit exceeded both its mid-year and year-end targets (1.1 percent of GDP at end-2015). However, the increase in expenditure was offset by the outstanding revenue performance, yielding a mildly higher-than-anticipated domestic primary deficit of 1.5 percent of GDP.

**10. Only one of the four indicative quantitative targets earmarked for both end-June and end-December was met at the target dates.** In the government's efforts to clear historical domestic payment arrears and avoid new ones (a program indicative target), and coupled with the lingering problem of non-regularized expenditures (an indicative target), the end-June indicative quantitative target on the domestic primary balance was exceeded (Table 1). At the same time, the indicative floor on poverty-related (social and priority) expenditure totaled CFAF 20.0 billion, some CFAF 7.1 billion above the end-June target reflecting higher-than-program investment in social areas. Performance remained steady through end-December, as only the target on social and priority spending was observed; the ceilings on both non-regularized expenditures and new domestic arrears were exceeded along with the floor on the domestic primary balance.

**11. Of the nine structural benchmarks set for implementation by end-2015, four structural benchmarks under the program were implemented as envisaged, while two were not implemented and three others were either delayed or partially implemented, also owing to the political impasse (Table 4a).** The unmet measures, both of which were earmarked for completion by end-December 2015, relate to the (i) drawing up of a strategic plan for improving infrastructure and working conditions of officials of the domestic tax and customs administration, and (ii) implementation of a small taxpayer regime. The rest of the measures were implemented as follows:

- Implement an intra-trade post in SAFIM to reconcile invoice merchandise data with actual contents of the cargo (observed as envisaged);
- The government prepared a rolling monthly cash-flow projection consistent with the 2015 budget (observed as envisaged);

- The government prepared quarterly reports on execution of the public investment plan (PIP) and external debt commitments, agreements and disbursements as envisaged—both at end-December as envisaged for operations during the first half of 2015 (observed as envisaged); and
- Structural benchmarks that were not met but implemented with delay as of end-December 2015 comprise: (i)—re-installation of the debt management IT system—was completed with a delay at end-October 2015. However, although the system assisted in the analysis of the debt stock and the debt service schedule, the software provider has issued a new version and ceased to support the old; we are seeking to upgrade the software to the new version. (ii) transition to salary payments through the banking system for all public servants. The authorities have extended salary payments through the banking system for all public workers only as of end-October 2015; and (iii) the government implemented, albeit with a delay, an international and comprehensive audit of the Fund for Industrialization of Agricultural Products (FUNPI) in [March] 2016 (SB for September 2015). The result of the audit is expected to be published after parliamentary approval.

## IV. Economic Outlook and Policies for 2016–17

### A. Economic Outlook

**12. The macroeconomic outlook remains favorable, though with downside risks.** The updated macroeconomic framework anticipates real GDP growth to nudge 4½ percent per year in 2016–17, in line with the expected continued strong activity expansion in agriculture, construction, and services, supported by improvements in energy and water supply. Buoyed by favorable terms of trade and a benign cashew reference price increase from \$900 to \$950 per kilogram, cashew nut export has reached 198,000 tons in the 2016 season, and 2017 is expected to be an equally strong year, which should help moderate the current account deficit to 0.3 percent of GDP in 2016 and 1 percent in 2017. The expected expansion in output would benefit from an increase in gross investment to an average around 13 percent of GDP per year during 2016–17, sustained for the most part by the public component. The government plans to continue infrastructure projects, including building high-tension power distribution lines to access power supply from neighboring countries to curtail the chronic shortage of energy, and to expand the country’s road network. Consumer price inflation is expected to average 2.3 percent (below the WAEMU convergence criteria of 3 percent) during the period, as domestic demand improves with increasing incomes. The expansion in economic activity continues to be due mainly to catch-up after the 2012 decline, and hence should not create excessive demand pressure during 2016–17.

**13. The recent nascent recovery of financial intermediation is expected to continue into 2016 on account of a positive outlook for the 2016–17 cashew campaign.** The BCEAO will continue to strengthen banking supervision by strictly enforcing prudential norms and seeking to strengthen these further in collaboration with the WAEMU Banking Commission, particularly in the context of the fallout from the recent voiding of the 2015 bank bailout operation. Required

minimum capital of banks is scheduled to be doubled by mid-2017 to CFAF 10 billion for all banks in the region.

## B. Economic policies

**14. After challenging first nine months of 2016, the program through end-2017 aims to resume sound financial management fostering macroeconomic stability and to enhance medium-term economic growth supporting job creation and poverty reduction.** To attain these objectives, the government will need to reinvigorate sound public financial management and accelerate structural reforms in tax administration and debt management in particular. This should help free up and expand the budgetary resources needed to improve social services and develop basic infrastructure. The government will continue to focus on improving the business environment and promoting policy transparency, good governance and respect for the rule of law, with a view to restoring the confidence of households, private investors, and development partners.

**15. Approval of the government's economic program for 2016, which is consistent with its medium-term development program (2014–18), stalled upon a Supreme Court ruling.** The Supreme Court ruled unconstitutional the parliamentary body that had approved an earlier version in January 2016. The program is the main reference for the country's economic and financial policies in 2016–17, and comprises three levels of intervention:

- (i) a Program of Action for Immediate Impact; (ii) a Contingency Program, and (iii) a Development and Strategic Operational Plan.
- The economic program seeks to: (i) address the most pressing problems affecting various public entities using quick fixes (the program of action for immediate impact); (ii) review a number of contracts, obligations and acts signed by the state or where the state has a stake and which require clarification, including areas such as natural resource extractions (phosphates, bauxite and heavy sands and oil), the energy and water utility (EAGB), telecommunications, FUNPI and autonomous funds (the contingency program); and (iii) changing the country's macroeconomic, social and political framework that adversely affects its human development. The main elements of the country's development and strategic operational plan include development of infrastructure, industrialization, and urbanization.
- The government envisages that the program will (i) support growth through the pursuit of prudent economic policies, while favoring priority social and infrastructure spending to reduce poverty; (ii) improve public financial management and expand the fiscal space through effective tax administration and better expenditure management; and (iii) contribute to modernizing the business environment to encourage private sector development and improve competitiveness.

### Fiscal policies

**16. The political crisis led to significant fiscal challenges in 2016, as the loss of 2.6 percent of GDP of budget support forced substantial expenditure adjustments.** The 2016 budget [which

was submitted to Parliament] (a prior action) incorporates costs related to contingent liability realizations of 1.5 percent of GDP with respect to Guinea Telecom guarantees and 0.8 percent of GDP with respect to EAGB, and resource shrinkage due to the loss of budget support (2.6 percent of GDP) from development partners. Furthermore, in view of lapses in expenditure management and slightly weaker revenue performance in nominal terms, the budget features expenditure reductions in wages, goods and services, and domestically financed investment which helps reduce the impact of the negative fiscal shocks on the overall balance. Notwithstanding these measures the budget implies a higher primary deficit (1.5 percent of GDP) relative to earlier expectations under the program.

**17. Extra revenue is needed in 2016 in view of lapses in expenditure management and loss of budget support.** Domestic revenue excluding one-offs is projected at 12.4 percent of GDP in 2016, slightly lower than the original program (12.5 percent of GDP) and representing a decline relative to 2015 (13.2 percent of GDP). This decline largely reflects difficulties in revenue mobilization that resulted from the ongoing political crisis. Nevertheless, the revenue measures referred to above (including the expedited sales of seized illegal wood (0.9 percent of GDP) and key tax administration measures to encourage tax compliance have helped relieve fiscal space somewhat.

**18. The 2016 budget is fully financed mainly from domestic sources, as external financing pales in comparison to earlier expectations.** In view of this, we envisage a net borrowing from the domestic banks and the regional securities market—a total of 2.3 percent of GDP, to cover the shortfall in budget support. Public financial management continues to be challenging despite progress in the functioning of the Treasury committee which has led to a rise in domestic arrears. To minimize/avoid the accumulation of domestic arrears, and to contain the domestic debt burden, the government stands ready to scale back spending on non-priority items and domestically financed investment in the event of a shortfall in budgeted resources. Furthermore, the government commits to applying extra revenues above the budget in both years to reduce the stock of domestic arrears.

**19. Fiscal policy will be tightened in 2017 to partially adjust for debt accumulation in 2015 and 2016 due to external shocks.** Projections for 2017 envisage tightening of the fiscal stance relative to the program, with a domestic primary surplus projected at 0.1 percent of GDP. This will result from a combination of higher revenues excluding one-offs and a decrease in expenditure relative to the program and to 2016 thus leading to a net accumulation of deposits in 2017 and an NCG of 0.5 percent of GDP (proposed PC) to partially offset the increased borrowing in 2015 and 2016 that resulted from shortfalls in budget support.

### **Measures to Bolster Public Financial Management**

**20. The government will continue to improve public financial management, in particular, by strengthening the functioning of the Treasury committee and incorporating a treasury plan to shore up fiscal discipline.** The weekly Treasury committee meetings will help align expenditures with available resources (re-prioritizing spending, if needed) and monitor compliance with PFM rules along the expenditure chain. In this context, the government will increasingly shun

the use of non-regularized spending (DNTs) and accumulation of arrears to domestic suppliers and contractors (Tables 2 and 3). To this end, it will:

- Create and enforce via ministerial decree a “negative list” detailing expenses and payments which cannot be processed as DNTs;
- Introduce a continuous limit of CFAF 1 billion on the outstanding *stock* and a quarterly limit of 1 percent of current expenditure, as envisaged by the Treasury Plan, on the *flow* of DNTs (to safeguard the budget execution chain and ensure the availability of funding for issued mandates in order to avoid the accumulation of arrears);
- Prepare titles and issue mandates at the beginning of each month for anticipated DNTs paid through the banking system and adjust *resto por pagar*, deducting payments accordingly until the expense is fully paid;
- Task and equip the Treasury committee with the mandate to follow up on DNTs and ensure timely regularization of DNT expenses. Provide information on the use of DNTs to the weekly Treasury committee for expense rationalization and to confirm the regularization status;
- Mandate the use by the Treasury department of the software application in SIGFIP that automatically registers DNT payments with the Budget department thereby facilitating the regularization of DNTs;
- Include a section in the Treasury committee reports where data supply to the Treasury committee is assessed and noncompliance reported, citing nonperformance;
- Continue to prepare and review rolling monthly Treasury cash-flow projection tables consistent with the 2016 budget (SB for July 2015 and monthly thereafter; Table 4a). The government will further ensure that the cash-flow projections and budget execution are informed by the weekly Treasury committee meetings;
- Draw up a list of types of own-source revenues (including 2015 amounts) collected by ministries, departments and government agencies (a proposed SB for December 2016; Table 4b) in preparation for the planned Treasury Single Account. (To this end, the government has requested and received from domestic banks a list of all government related accounts and is cross-referencing this list against account information provided by ministries, departments, and government agencies in order to evaluate voluntary compliance);
- Continue to strengthen Treasury management by improving our accounting procedures through the double-entry system and use of the accounting module of SIGFIP (an integrated system of public finances); and
- Prepare timely quarterly reports on budget execution (a proposed SB for December 2016, and quarterly thereafter; Table 4b). Budget execution will be guided by our expenditure plans, supported by an open and transparent procurement process.
- Prepare quarterly reports on PIP executions.

**21. The government will prioritize measures to strengthen capacity enhancement and to draw up and monitor time-bound actions plans to timely implement TA recommendations.** In this regard, the government will set up a unit, or assign this task to an existing unit, charged with the responsibility of identifying technical assistance needs and helping implement the recommendations from TA missions. The unit will comprise long-term foreign consultants and local experts to work in tandem with public employees in recipient government agencies. It will also help provide training to transfer the knowledge and expertise necessary for effective use of TA recommendations.

### Revenue Measures

**22. Domestic revenue mobilization will continue to gain from measures to expand the tax base and strengthen tax administration.** For 2016 and beyond, the government will ensure the attainment of the revenue target by implementing the following measures:

- Upon completion of outreach, implement new uniform sales invoice beginning with large companies by December 2016, medium taxpayers by March 2017, and finally for the rest of taxpayers by June 2017;
- Introduce a gateway system for communication networks which will facilitate tax control and compliance monitoring in the communication strategy;
- Prepare a draft law for a new small taxpayer regime with technical assistance from the IMF in order to facilitate small taxpayer compliance (December 2017);
- Having compiled a list of 5412 taxpayers and assigned taxpayer identification numbers to 28 percent of these taxpayers, complete 75 percent assignment by December 2016, and completing 100 percent assignment by March 2017;
- Having undertaken a significant change in personnel, replacing ill-equipped and idle workers with new employees hired via a competitive hiring process supported by TA from the IMF, urgently provide appropriate working space for the new tax officers and to accommodate equipment and furniture to be provided through a World Bank project;
- Implement the tax certification clearance as established by law, in all contracts and payments made by the government (December 2016). Implement tax withholding as established by Law 9/2013 for all pensions and additional remuneration including subsidies (December 2016); and; implement as established by Law 3/2015 the offset of credits owed to the state, especially tax arrears, from payments to be made by the state (December 2016);
- Eliminate special clearance procedures without proper entry lodged in ASYCUDA before release, and guarantee to fully automate the reporting operation procedures within the system; and
- Continue to minimize tax exemptions and fine-tune subsidies. In this respect, the government will continue using the exemptions committee to identify and quantify the value of subsidies and tax exemptions, and re-commits to assessing their impacts on the poor, and transparently accounting for them in the budget.

### Borrowing Policies and Debt Management

**23. The government will continue to prioritize grants and concessional financing to safeguard long-term debt sustainability.** We have re-installed debt management IT system that was used to track debt accumulation and debt service obligations to ensure their prompt payment (SB for July 2015; Table 4a) until the recent update by the vendor of the software and our consequent loss of vendor support. We will upgrade the software to the latest version (DEMFAS 6.0) and restore the vendor's support. At the same time, we continue to strengthen communication between the debt management unit and the Treasury, and we are continuously training staff of the debt unit to eliminate capacity shortcomings. Further, the government is in negotiations with its bilateral (Paris Club and non-Paris Club) creditors on debt under discussion for re-structuring or outright cancellation. This includes efforts to formalize agreements with Brazil, Russia, and Angola and to initiate negotiations with UAE, Libya, Pakistan, and Taiwan Province of China. The government remains current on its remaining external debt obligations.

**24. Management of domestic debt will be strengthened along three key fronts to ensure accurate debt accounting and timely servicing.** First, we will re-initiate the inventory all agreements with respect to domestic debt and the commitment to guarantee domestic debt signed by the government in order to include the debts and their repayment schedules in the public debt database. In this connection, the Terms of Reference to audit and validate the 2008–12 domestic arrears are ready; the results of the audit are expected by year-end, after which we will draft a repayment strategy to clear these arrears after netting out any tax liabilities of the beneficiaries. Second, the government will continue to negotiate higher grant element in the contracting of loans from the West African Bank for Development (BOAD). We will also ensure that any such loans are transparently reflected in the annual borrowing plans and budgets. Third, to reduce the financial burden of temporary borrowings, we will finance short-term liquidity needs through the issuance of treasury bills. Should there be a need of financing from commercial banks, all such loans will, as much as possible, be carried out through transparent auctions.

**25. We will continue to strengthen public investment management through frequent reviews and reports on project execution (see ¶[20] above).** To ensure continued prudent borrowing to finance social and infrastructure needs, we will prioritize investment projects carefully to ensure debt sustainability and consistency with our long-term national objectives before their inclusion in the annual borrowing plans. Furthermore, to assess the strength of our fiscal institutions related to public investment management with a view to enhancing the efficiency of public investment, we will request a Public Investment Management Assessment (PIMA) mission from the IMF and take actions in line with its recommendations.

**26. To improve transparency and accountability, the government has already drafted a decree to clarify the debt issuance authority and the procedure for the issuance of government guarantees, on-lending operations, and the assumption of large liabilities outside of the budgetary process.** The final draft of this decree will be submitted for cabinet approval by end-December 2016. The decree will make Guinea-Bissau's debt management practices consistent with the WAEMU debt management regulation (Regulation 09/2007/CM/UEMOA).

## Financial Sector Policies

**27. Recognizing that a healthy and compliant banking system is essential for financial deepening and economic growth, the government urges adoption and implementation of remedial action plans.** To this end, and having declared the bailout contracts with the banks null and void, the government expects the Banking Commission to promptly conduct on-site inspections of the banks to assess the health of the banking system and require those banks currently non-compliant with regulatory norms to prepare time-bound action plans to remedy these violations. We are fully committed to take any necessary steps to ensure that such action plans are implemented.

**28. The government remains committed to strengthening the bankruptcy regulation and improving the business climate.** The government will, with the assistance of development partners, continue efforts aimed at developing the financial markets (including for SMEs), strengthening contract enforcement and improving the business environment for banks. In addition, it will (i) implement OHADA's new uniform action on collective proceedings to expedite the collection of collateral, (ii) strengthen the bankruptcy legislation and (iii) implement measures aimed at ensuring registration of actual prices paid in real estate transactions and avoidance of cash settlements.

### C. Other Structural Reforms

**29. The government remains committed to the security sector reform, but has not been able to move ahead with the demobilization and reintegration of soldiers.** The first group of 500 soldiers was not dealt with as intended within the framework of the program due to continued political instability and lack of financing for the public awareness campaign. The government has created a special pension fund with an estimated cost of US\$82 million to cater to 2500 security personnel expected to be gradually demobilized and reintegrated within a five-year period. To facilitate a broader security sector reform and support the pension fund, the ECOWAS commission has allocated \$63 million and is expected to finalize a revised modality with the government for the reform. The UN peace building fund has also deposited US\$1.1 million into the Pension Fund, while the government has made an initial deposit of \$90,000 into the fund. We will ensure the financing of the awareness campaign, and continue to engage partners to secure additional funding to facilitate the process.

**30. The government will prepare audit plans for all state-owned enterprises (SOEs) and autonomous funds to strengthen oversight and service delivery.** Regarding monitoring of EAGB, we will require a submission of reports detailing its financial flows for the 2015 financial year, the first three quarters of 2016 and subsequently on a monthly basis starting October 2016 (SB for end-December 2016). To shore up EAGB's financial position, the government has authorized a restructuring of the EAGB to become an autonomous entity. Related to this, EAGB accounts and accounting processes have been separated into water and electricity, a regulatory body has been set up with full oversight over the electricity sector, the recently adopted EAGB statutes have been operationalized, a new EAGB Board has been appointed and is meeting monthly, and the relevant

legislation to enable the private sector participation in the market has been revised. The latter will enable private firms to operate and maintain generation assets to ensure reliable power supply, and a management contractor to take responsibility of EAGB operations.

### **Improve Economic Statistics**

**31. The government continues to improve the compilation of statistics with TA from the IMF and other development partners.** To strengthen the use of TA recommendations, the government will set up a unit charged with the responsibility of identifying technical assistance needs and helping implement data-related recommendations (see ¶19). We have instituted regular meetings between the BCEAO, the national cashew authority (ANCA), the Ministry of Agriculture, Ministry of Commerce, and the Bureau of National Statistics (INE) to reconcile official statistics, particularly for cashew nuts production and export statistics for national income accounting purposes and for balance of payments statistics. Furthermore, the government has secured funding to conduct a survey of the agricultural sector, including cashew nuts and other cereal crops, and we are mulling a strategy to enhance cashew productivity and transformation using the results of the FUNPI audit (SB for June 2017). The government, with assistance of its development partners, is conducting an enterprises survey that will help improve the quality of data on economic aggregates. In this regard, the government has designated the Ministry of Agriculture as the legal entity responsible for the dissemination of agricultural data, including data on cashew production. The government will continue to provide Fund staff with the relevant information (as outlined in the attached Technical Memorandum of Understanding (TMU)) for assessing performance under the ECF-supported program.

### **Combat Corruption and Rent Seeking**

**32. The government will build on its current efforts to address corruption and rent seeking.** We will give sufficient autonomy and adequate resources to the Financial Intelligent Unit (CENTIF) to conduct its mandate as well as ensure adequate verification of asset declarations of high-ranking public officials. We will also strengthen and effectively mobilize the Anti-Money Laundering/Combating of the Financing of Terrorism (AML/CFT) framework to assist in detecting, prosecuting, and deterring corruption-related offences and smuggling within the framework of the WAEMU AML/CFT law. To this end, our AML/CFT national strategy plan was approved by the Council of Ministers and submitted to parliament for approval. This strategy plan will bring our framework in line with the 2012 FATF standard. Further, we will enforce the public procurement laws and procedures strictly, and prosecute violators swiftly to deter and root out rent seeking in the public and private sectors. Following an IMF diagnostic TA mission, the government will take appropriate actions to mitigate risk of money laundering in areas identified by the mission.

## **V. Program Monitoring**

**33. The program will remain subject to semi-annual monitoring by the IMF Executive Board based on quantitative performance criteria, indicative targets, and structural benchmarks (Tables 2-4).** Performance criteria for end-December 2016 and end-June 2017 are

being proposed and the modification of the performance criteria on net domestic bank credit to the central government and external payment arrears of the central government, and rephrasing of disbursements and associated reviews is requested. The performance criteria and indicators are defined in the attached Technical Memorandum of Understanding (TMU) along with the relevant adjustors. The third program review will be based on the end-December 2016 performance criteria and is scheduled to be completed on or after April 15, 2017. The fourth program review will be based on end-June 2017 performance criteria and is scheduled to be completed on or after October 15, 2017. The fifth review (the last after a rephrasing of disbursements and reduction in the number of reviews in view of delays in program implementation) will be based on end-December 2017 performance criteria and is scheduled to be completed on or after April 15, 2018. Accordingly, the government undertakes:

- To refrain from accumulating any new domestic arrears (IT) other than those specified in the TMU, and from contracting non-concessional external loans;
- Not to introduce or increase restrictions on payments and transfers related to current international transactions, to enter into any bilateral payment agreements not in conformity with Article VIII of the IMF Articles of Agreement, or to impose or intensify any import restrictions for balance of payments purposes; and
- To adopt any additional financial and structural measures that may become necessary, to ensure the success of its policies, only in consultation with the IMF.

**Table 1. Guinea-Bissau: Quantitative Performance Criteria and Indicative Targets for 2015**

(cumulative from beginning year to end of month indicated; billions of CFAF, unless otherwise indicated)

	Dec. 2014	2015											
		June				Sept. <sup>1</sup>				Dec.			
		Stock	Prog.	Adj. Prog.	Act.	Status	Prog.	Adj. Prog.	Act.	Status	Prog.	Adj. Prog.	Act.
<b>Performance criteria<sup>1</sup></b>													
Total domestic tax revenue (floor)	44.2	26.2	...	31.7	Met	40.7	...	49.7	Met	53.3	...	61.9	Met
Net domestic bank credit to the central government (ceiling)	2.7	8.2	10.2	9.2	Met	7.9	9.1	12.1	Not Met	4.4	11.5	11.5	Met
Ceiling on new nonconcessional external debt (in \$ million) <sup>2</sup>	0.0	0.0	...	0.0	Met	0.0	...	0.0	Met	0.0	...	0.0	Met
Outstanding stock of external debt owed or guaranteed by the central government with maturities of less than one year (ceiling) <sup>2</sup>	0.0	0.0	...	0.0	Met	0.0	...	0.0	Met	0.0	...	0.0	Met
External payment arrears (ceiling) <sup>2</sup>	0.9	0.0	...	0.0	Met	0.0	...	0.0	Met	0.0	...	0.0	Met
<b>Indicative targets</b>													
New domestic arrears (ceiling)	...	0.0	...	0.2	Not Met	0.0	...	3.0	Not Met	0.0	...	1.3	Not Met
Social and priority spending (floor)	21.3	12.9	...	20.0	Met	19.4	...	27.4	Met	25.8	...	36.5	Met
Domestic primary balance (commitment basis, floor)	-19.4	-2.6	...	-2.9	Not Met	-6.0	...	-6.6	Not Met	-6.5	...	-9.3	Not Met
Non regularized expenditures (DNTs, ceiling)	...	0.4	...	4.8	Not Met	0.6	...	0.4	Met	0.8	...	2.7	Not Met
<i>Memorandum items:</i>													
Clearance of domestic payment arrears	...	4.3	...	6.6		6.0	...	7.4		8.10	...	7.4	
External budgetary assistance (US\$ million) <sup>3</sup>	24.0	7.6	...	7.0		15.8	...	7.0		23.6	...	19.5	
ECF disbursements (SDR millions, flow) <sup>4</sup>	10.8	0.0	...	0.0		2.84	...	2.84		2.84	...	0.0	

<sup>1</sup> The performance criteria and indicative targets are defined in the Technical Memorandum of Understanding (TMU); end-September 2015 and end-March 2016 are indicative targets.<sup>2</sup> These apply on a continuous basis.<sup>3</sup> Comprises grants and loans.<sup>4</sup> A disbursement of 20 percent of quota (SDR 2.84 million) is proposed on Board approval of the ECF arrangement in July.

**Table 2. Guinea-Bissau: Proposed Quantitative Performance Criteria and Indicative Targets for 2016**

(cumulative from beginning of calendar year to end of month indicated; billions of CFAF, unless otherwise indicated)

	Dec. 2015	2016					
		Mar. 1/		Jun.	Sept. 1/	Dec.	Proposed PC
		Stock	IT	Prel.	IT	Prel.	
<b>Performance criteria<sup>1</sup></b>							
Total domestic tax revenue (floor)	61.9	15.7	10.4	31.5	31.2	49.6	61.4
Net domestic bank credit to the central government (ceiling)	11.5	0.0	6.4	0.0	19.3	19.8	15.4
Ceiling on new nonconcessional external debt (in \$ million) <sup>2</sup>	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Outstanding stock of external debt owed or guaranteed by the central government with maturities of less than one year (ceiling) <sup>2</sup>	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External payment arrears (ceiling) <sup>2</sup>	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Indicative targets</b>							
New domestic arrears (ceiling)	1.3	0.0	0.0	0.0	4.6	6.6	6.6
Social and priority spending (floor)	36.5	7.7	6.0	21.7	12.9	23.2	31.0
Domestic primary balance (commitment basis, floor)	-9.3	-0.7	-7.1	-1.3	-15.8	-9.4	-11.2
Non regularized expenditures (DNTs, ceiling)	2.7	0.2	2.1	0.4	7.8	1.0	2.0
<i>Memorandum items:</i>							
Clearance of domestic payment arrears	7.4	0.8	3.3	1.8	6.4	5.7	7.0
External budgetary assistance (US\$ million) <sup>3</sup>	19.5	5.9	0.0	9.2	0.0	1.7	1.7
ECF disbursements (SDR millions, flow) <sup>4</sup>	0.0	0.0	0.0	2.3	0.0	0.0	5.1
Concessional loans (US\$ million) <sup>5</sup>	21.1	6.1	1.8	12.3	5.4	5.4	12.5

<sup>1</sup> The performance criteria and indicative targets are defined in the Technical Memorandum of Understanding (TMU). Targets for end-March, end-June, and end-September are indicative, while those for end-December are proposed performance criteria.

<sup>2</sup> These apply on a continuous basis.

<sup>3</sup> Comprises grants and loans.

<sup>4</sup> Reflects proposed new disbursement schedule.

<sup>5</sup> These comprise project loans with grant elements exceeding or equal to 35 percent.

**Table 3: Guinea-Bissau: Proposed Quantitative Performance Criteria and Indicative Targets for 2017**

(cumulative from beginning of calendar year to end of month indicated; billions of CFAF, unless otherwise indicated)

	Dec. 2016 Proj.	2017			
		Mar. 1/ Proj.	Jun. Proposed PC	Sept. 1/ Proj.	Dec. 1/ Proj.
<b>Performance criteria<sup>1</sup></b>					
Total domestic tax revenue (floor)	61.4	16.3	32.6	48.9	65.2
Net domestic bank credit to the central government (ceiling)	15.4	8.0	7.2	0.0	-3.7
Ceiling on new nonconcessional external debt (in \$ million) <sup>2</sup>	0.0	0.0	0.0	0.0	0.0
Outstanding stock of external debt owed or guaranteed by the central government with maturities of less than one year (ceiling) <sup>2</sup>	0.0	0.0	0.0	0.0	0.0
External payment arrears (ceiling) <sup>2</sup>	0.0	0.0	0.0	0.0	0.0
<b>Indicative targets</b>					
New domestic arrears (ceiling)	6.6	0.0	0.0	0.0	0.0
Social and priority spending (floor)	31.0	7.7	21.7	23.2	31.0
Domestic primary balance (commitment basis, floor)	-11.2	-6.4	-5.8	-1.0	2.3
Non regularized expenditures (DNTs, ceiling)	2.0	0.2	0.4	0.7	0.9
<i>Memorandum items:</i>					
Clearance of domestic payment arrears	7.0	0.4	0.4	0.8	2.6
External budgetary assistance (US\$ million) <sup>3</sup>	1.7	0.0	0.0	5.5	5.5
ECF disbursements (SDR millions, flow) <sup>4</sup>	5.1	0.0	3.0	0.0	3.0
Concessional loans (US\$ million) <sup>5</sup>	12.5	4.6	9.3	13.9	18.6

<sup>1</sup> The performance criteria and indicative targets are defined in the Technical Memorandum of Understanding (TMU). Targets for end-March, end-September, and end-December 2017 are indicative, while those for end-June are proposed performance criteria.

<sup>2</sup> These apply on a continuous basis.

<sup>3</sup> Comprises grants and loans.

<sup>4</sup> Reflects proposed new disbursement schedule.

<sup>5</sup> These comprise project loans with grant elements exceeding or equal to 35 percent.

**Table 4a. Guinea-Bissau: Structural Benchmarks under the ECF Program, 2015–16**

<b>Measures</b>	<b>Timing</b>	<b>Macro Rationale</b>	<b>Status</b>
<b>Revenue Mobilization</b>			
Implement an intra-trade post in SAFIM to reconcile invoice merchandise data with actual contents of the cargo.	Sept. 2015	Strengthen revenue collection.	Met.
Draw up a strategic plan for improving infrastructure and working conditions of officials of the domestic tax and customs administration.	Dec. 2015	Strengthen revenue collection.	Not met. An existing plan is being re-drafted.
Implement a new small taxpayer regime by the introduction of universal NIF (tax payer identification number)	Dec. 2015	To improve voluntary compliance and raise tax revenue.	Not met.
<b>Expenditure management</b>			
Prepare a monthly rolling Treasury cash flow projection table consistent with the 2015 budget.	July 2015 for August 2015 and monthly thereafter	Enhance expenditure management.	Met.
Transition to the payment of the salaries, wages, and allowances of all public servants (including the security service) through the banking system.	Sept. 2015	Reduce handling of cash by the Treasury and strengthen public financial management.	Not met. Implemented in October 2015.
Prepare a quarterly report on PIP execution.	Dec. 2015 for Sept. 2015 Report, quarterly thereafter	Enhance PIP execution and monitoring.	Met.
<b>Debt management</b>			
Reinstall and operationalize debt management IT system.	July 2015	Enhance debt management capacity and borrowing policies.	Not met. Implemented with delay.
Prepare a quarterly report on external debt commitments, agreements and disbursements.	Dec. 2015 for Jun. 2015 Report, quarterly thereafter	Enhance debt management capacity and transparency in external debt commitments.	Met.
<b>Business Environment</b>			
Complete an international and comprehensive audit of the fund for industrialization of agricultural products (FUNPI)	Sept. 2015	To improve cashew nuts production and trade.	Not met. Audit report presented to Finance minister in April 2016.
Prepare an audit plan for all State-owned Enterprises and autonomous funds.	Mar. 2016	To improve service delivery by, and financial sustainability of, public enterprises.	Not met and rescheduled.
Design a strategy to promote cashew production and transformation based on results of the FUNPI audit.	June 2016	Reduce transaction costs.	Not met and rescheduled.

**Table 4b. Guinea-Bissau: Proposed Structural Benchmarks under the ECF Program, 2016–17**

<b>Measures</b>	<b>Timing</b>	<b>Macro Rationale</b>	<b>Status</b>
Submission of 2016 budget to Parliament	Prior action for combined first and second program reviews	Proper fiscal management	Under preparation
<b>Revenue Mobilization</b>			
Prepare a draft law, with technical assistance from the IMF, for a new small taxpayer regime that is simple and transparent, protects the revenue base, lowers compliance costs, and ensures global participation.	Dec. 2017	To improve tax administration and compliance.	New benchmark
<b>Expenditure management</b>			
Prepare a monthly rolling Treasury cash flow projection table consistent with the 2017 budget.	December 2016 for January 2017, and monthly thereafter	Enhance expenditure management.	Continuation of earlier measure.
Prepare timely quarterly reports on ministry-level budget execution with details along economic classification of expenses.	Dec. 2016, and quarterly thereafter	Enhance budget execution and monitoring.	New benchmark.
As a precursor to the planned Treasury Single Account, draw up a list (including 2015 amounts) of own-source revenues collected by ministries, departments and government agencies.	Dec. 2016	Strengthen public financial management	New benchmark
<b>Debt management</b>			
Prepare a quarterly report on external debt commitments, agreements and disbursements.	Dec. 2016 for Sept. 2016 Report, and quarterly thereafter.	Enhance debt management capacity and transparency in external debt commitments.	Continuation of earlier measure.
Council of Ministers to issue a decree to clarify the debt issuance authority and the procedure for the issuance of government guarantees, on-lending operations, and large liabilities.	Dec. 2016	Bring Guinea-Bissau's debt management policy in line with the WAEMU Regulation.	New benchmark
<b>Business Environment</b>			
Prepare an audit plan for all State-owned Enterprises and autonomous funds.	Nov. 2016	To improve service delivery by, and financial sustainability of, public enterprises.	Not met and rescheduled.
EAGB will submit reports detailing its financial flows for the 2015 financial year, the first three quarters of 2016 and on a monthly basis starting from October 2016.	December 2016	To instill transparency in EAGB operations and financial position.	New Benchmark
Complete, with assistance of the WAEMU Banking Commission, an assessment of the two banks affected by the bailout, and articulate an action plan to bring these banks into compliance with prudential norms.	April 15, 2017	To strengthen the health of the banking system.	New benchmark
Design a strategy to promote cashew production and transformation based on results of the FUNPI audit.	June 2017	Reduce transaction costs.	Not met and rescheduled.

## Attachment II. Technical Memorandum of Understanding<sup>1</sup>

Bissau, Guinea-Bissau, November 8, 2016

### INTRODUCTION

1. This memorandum sets out the understandings between the Bissau-Guinean authorities and the International Monetary Fund (IMF) regarding the definitions of the quantitative performance criteria (PCs) and structural benchmarks (SBs) for the program supported by the Extended Credit Facility (ECF) arrangement, as well as the related reporting requirements. Unless otherwise specified, all quantitative PCs and indicative targets will be evaluated in terms of cumulative flows from the beginning of the period, as specified in Table 1 of the Memorandum of Economic and Financial Policies (MEFP).
2. **Program exchange rates.**<sup>2</sup> For the purpose of the program, foreign currency denominated values for 2015 will be converted into local currency (CFA francs) using a program exchange rate of CFA 532.3/US\$ and cross rates as of end December 2014.

### QUANTITATIVE PERFORMANCE CRITERIA

#### A. Floor on Total Domestic Tax Revenue

3. **Definition.** Tax revenue is defined to include direct and indirect taxes as presented in the central government financial operations table, as well as programmed recovery of tax arrears.
4. **Adjustment clauses.** The floor on the total domestic tax revenue will be adjusted downwards (upwards) by the amount of any shortfall (excess) in programmed recovery of tax arrears.

#### B. Net Domestic Bank Credit to the Central Government (NCG)

5. **Definition.** NCG refers to the net banking system's claims on the central Government as calculated by the Treasury Department. It is defined as follows:
  - a. the net position of the Government with the national BCEAO, including: treasury bills and bonds; less (a) central Government deposits (excluding project-related deposits) at the BCEAO;
  - b. the net position of the Government with commercial banks, including: (a) treasury bills; (b) treasury bearer bonds; and (c) loan and advances of commercial banks to the central

<sup>1</sup> This proposed TMU supersedes the June 2015 version, and introduces modifications (indicated in *italics*) to better clarify and tighten the monitoring and assessment of program performance.

<sup>2</sup> The source of the cross exchange rates is International Financial Statistics.

Government; less central Government deposits (excluding project-related deposits) in commercial banks; and

- c. *Any domestic loan guarantees issued by the government will be included in the net position of the government as defined in a. and b. above.*

**6. Adjustment clauses.** The ceiling on changes in NCG will be adjusted (a) upwards (downwards) by up to the CFA value of the shortfall (excess) in external program grants and loans, including IMF drawings—the upward adjustment will be capped at the equivalent of CFA 10 billion; and (b) downwards (upwards) by the excess (shortfall) in the CFA value of any programmed privatization receipts. In addition, central government deposits at the BCEAO and the commercial banks will be adjusted downwards by any clearance of domestic arrears (*excluding any arrears accumulated during the program period, 2015-18*) in excess of program; (c) downwards by the excess in CFAF value of corporate tax revenue that results from the bank bailout, in light of the court injunction freezing transactions associated with the bank bailout; and (d) upwards by the amount of the bank bailout (CFAF 34.2 billion), if NCG includes the bailout and the pending court case is not completed by the time of the third review.

**7. Data source.** The data source for the above will be the monetary survey (*Position Nette du Gouvernement (PNG)*) table, submitted monthly to the IMF staff by the BCEAO.

**8. Definition of Central Government.** Central government is defined for the purposes of this memorandum to comprise the central administration of the Republic of Guinea-Bissau and does not include any local administration, the central bank nor any other public or government-owned entity with autonomous legal personality not included in the government flow-of-funds table (TOFE).

### C. New Non-Concessional External Debt Contracted or Guaranteed by the Central Government with an Original Maturity of One Year or More

**9. Definition.** Those are defined as all forms of new debt with original maturity of one year or more contracted or guaranteed by the central government. For this purpose, new non-concessional external debt will exclude normal trade credit for imports and debt denominated in CFA franc, but will include domestically held foreign exchange (non-CFA franc) debts. This PC applies not only to debt as defined in the Guidelines on Public Debt Conditionality in Fund Arrangements attached to Decision No. 15688-(14/107), adopted December 5, 2014, point 8, but also to commitments contracted or guaranteed for which value has not been received. Excluded from this PC are disbursements from the IMF and those debts subject to rescheduling or for which verbal agreement has been reached. This PC will apply on a continuous basis.

**10. Reporting requirement.** The government will report any new external borrowing and its terms to Fund staff as soon as external debt is contracted or guaranteed by the government, but no later than within two weeks of such external debt being contracted or guaranteed.

## D. External Short-Term Debt Contracted or Guaranteed by Central Government

**11. Definition.** External short-term debt is defined as external debt stock with a maturity of less than one year contracted or guaranteed by central government. Debt is defined in Annex I of this TMU. For this purpose, short-term debt will exclude normal trade credit for imports and debt denominated in CFA franc, but will include domestically held foreign exchange (non-CFA franc) debts. For the purposes of this PC, central government is as defined in paragraph 8 above. This PC will apply on a continuous basis.

## E. External Payment Arrears of the Central Government

**12. Definition.** For the purposes of this performance criterion, external payment arrears, based on the currency test, are debt service payments that have not been paid on due dates (taking into account the contractual grace periods, if any) *and that have remained unpaid 30 days after the due dates. Arrears not to be considered arrears for the performance criteria, or "non-program" arrears, are defined as: (i) arrears accumulated on the service of an external debt for which there is a request for rescheduling or restructuring; and/or (ii) the amounts subject to litigation which are not considered as arrears for the performance criteria. They are defined as "non-program" arrears.*

# QUANTITATIVE INDICATIVE TARGETS

## A. New Domestic Arrears of Central Government

**13. Definition.** The ceiling on domestic arrears are defined as accounts payable (rest-a-payer) accumulated during the year, and still unpaid by one month after the quarter for wages and salaries (including pensions), and three months for goods, services and transfers.

## B. Social and Priority Poverty-Related Expenditures

**14. Definition.** Social and Priority Poverty-related expenditures are defined to include spending on health, education, and the gender ministry (Table 3).

## C. Domestic Primary Balance (Commitment Basis)

**15. The domestic primary fiscal deficit on a commitment basis** is calculated as the difference between government revenue and domestic primary expenditure on commitment basis. Government revenue includes all tax and nontax receipts and excludes external grants. Domestic primary expenditure consists of current expenditure plus domestically financed capital expenditure, excluding all interest payments. 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.

## D. Non-Regularized Expenditure (DNTs)

**16. Definition.** Any treasury outlay not properly accounted for by the National Budget Directorate and/or not included in the budget.

## PROGRAM MONITORING

**17.** The third program review will be based on end-December 2016 performance criteria and is scheduled to be completed on or after April 15, 2017. The fourth program review will be based on end-June 2017 performance criteria and is scheduled to be completed on or after October 15, 2017. The fifth review (the last after a rephrasing of disbursements and reduction in the number of reviews in view of delays in program implementation) will be based on end-December 2017 performance criteria and is scheduled to be completed on or after April 15, 2018. The Bissau-Guinean authorities shall recommend policy responses, inform the IMF monthly about the progress of the program, and transmit supporting information necessary for the evaluation of QPCs and benchmarks in electronic format as indicated in the attached summary table to IMF staff (Table 1).

**18. To properly monitor key macroeconomic variables, including performance indicators under the ECF, coordinate technical assistance and monitor progress in implementation of reforms, the government will staff its reform unit and provide it with the necessary means.**

This reform unit periodically reports to the Minister of Finance progress in achieving agreed performance indicators and development objectives. It will also keep updated lists of all its partners, prioritize technical assistance and agree with partners on the division of labor in technical assistance. Finally, it will ensure the information sharing, including TA reports, with partners involved in the same area in order to avoid conflicting and overlapping advice.

**Table 1. Guinea-Bissau: Summary of Reporting Requirements**

<b>Information</b>	<b>Frequency</b>	<b>Reporting Deadline</b>	<b>Responsible</b>
<b>Fiscal Sector</b>			
Central Government budget and outrun	Monthly	30 days after the end of the month	Budget Directorate
Grants	Monthly	30 days after the end of the month	Budget Directorate
Budgetary grants	Monthly	30 days after the end of the month	Budget Directorate
Project grants	Monthly	30 days after the end of the month	Budget Directorate
Change in the stock of domestic arrears	Monthly	30 days after the end of the month	Budget Directorate
Unpaid claims	Monthly	30 days after the end of the month	Budget Directorate
Interest arrears	Monthly	30 days after the end of the month	Budget Directorate
Proceeds from bonds issued in the regional WAEMU market	Monthly	30 days after the end of the month	Budget Directorate
<b>Real and External Sector</b>			
Updates on annual National Accounts by sector	Annually	Within 6 weeks of availability	CSO/MOEF <sup>1</sup>
Balance of Payments data	Annually	Within 6 weeks of availability	CSO/MOEF
Details of exports breakdown	Quarterly	30 days after the end of the quarter	CSO/MOEF
Details of imports breakdown	Quarterly	30 days after the end of the quarter	CSO/MOEF
CPI	Monthly	30 days after the end of the month	CSO/MOEF
<b>Debt</b>			
External and domestic debt and guaranteed debt by creditor	Monthly	30 days after the end of the month	DMU <sup>2</sup>
Disbursements	Monthly	30 days after the end of the month	DMU
Amortization	Monthly	30 days after the end of the month	DMU
Interest payments	Monthly	30 days after the end of the month	DMU
Stock of external debt	Monthly	30 days after the end of the month	DMU
Stock of domestic debt	Monthly	30 days after the end of the month	DMU
Arrears on interest and principal	Monthly	30 days after the end of the month	DMU
Exceptional domestic financing	Monthly	30 days after the end of the month	DMU
Copies of any new loan agreements	As occurring		DMU
1/ Central Statistics Office / Ministry of Economy and Finance.			
2/ Debt Management Unit of the Ministry of Economy and Finance.			