

Guinea-Bissau: First Review Under the Three-Year Arrangement Under the Extended Credit Facility and Financing Assurances Review—Staff Report; Staff Statement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Guinea-Bissau

In the context of the first review under the three-year arrangement under the extended credit facility and financing assurances review, the following documents have been released and are included in this package:

- The staff report for the First Review Under the Three-Year Arrangement Under the Extended Credit Facility and Financing Assurances Review, prepared by a staff team of the IMF, following discussions that ended on September 29, 2010, with the officials of Guinea-Bissau on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on November 23, 2010. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- A staff statement of December 7, 2010, updating information on recent developments.
- A Press Release summarizing the views of the Executive Board as expressed during its December 13, 2010, discussion of the staff report that completed the request and review.
- A statement by the Executive Director for Guinea-Bissau.

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

GUINEA-BISSAU

**First Review Under the Three-Year Arrangement Under the Extended Credit Facility
and Financing Assurances Review**

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

Approved by Roger Nord and Thomas Dorsey

November 24, 2010

Executive Summary

Background: On May 7, 2010, the Executive Board approved a three-year (2010–13) arrangement under the ECF for Guinea-Bissau in an amount equivalent to SDR 22.365 million (157.5 percent of quota) with an initial disbursement of SDR 7.881 million, including SDR 5.325 million (37.5 percent of quota) for early 2008–09 EPCA repurchase. A second disbursement of SDR 2.414 million will become available upon completion of the first review.

Political situation: Program implementation has taken place against the background of the April 1 military incident, when a group of soldiers arrested the chief of staff of the armed forces and briefly detained the prime minister. Since then, the political situation has been stable. Spillovers to the functioning of the civilian government have been limited, and the government ministries and parliament have been operating normally.

Economic developments: Higher prices for the predominant export (cashews) and stable remittances helped sustain incomes and alleviated fiscal and balance of payments pressures. GDP is expected to grow by 3.5 percent in 2010. A continued recovery in the global economy and a rebound in cashew production should contribute to a pickup in growth to 4.3 percent in 2011.

Program review: Performance under the ECF-supported program has been satisfactory: All performance criteria and structural benchmarks under the program through June were met, and the staff recommends completion of the review.

The economic program: The government adjusted its fiscal plans for 2010 because of an expected shortfall in budget support this year. The 2011 budget is realistic, consistent with the economic objectives under the ECF and available financing. Economic reforms seek to strengthen revenue collection, improve public financial management, and reinforce debt management.

Risks: continue to relate to political instability, vulnerability to external shocks, and the possibility of sudden shortfalls in donor support.

HIPC completion point: Board consideration is scheduled along with the first review of the ECF-supported program.

Discussions: A team comprising Mr. Drummond (head), Mr. Daal, Mr. Peña (all AFR), Mr. Jewell (SPR), and Mr. Fonseca (local economist) conducted discussions in Bissau during September 16–29, 2010. The staff worked closely with an overlapping technical assistance (TA) mission from the Fund's Fiscal Affairs Department (FAD) and a team from the World Bank.

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ACRONYMS

AfDB	African Development Bank
BCEAO	Central Bank of West African States
ECF	Extended Credit Facility
EPCA	Emergency Postconflict Assistance
EU	European Union
HIPC	Highly Indebted Poor Countries
MDG	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
MEFP	Memorandum of Economic and Financial Policies
PC	performance criterion
PEMFAR	Public Expenditure Management and Financial Accountability Review
PFM	public financial management
PRGF	Poverty Reduction and Growth Facility
PRS	poverty reduction strategy
PRSP	Poverty Reduction Strategy Paper
REER	real effective exchange rate
SIGFIP	Integrated Public Finance Management System
TMU	Technical Memorandum of Understandings
VAT	value-added tax
WAEMU	West African Economic and Monetary Union
WEO	World Economic Outlook
WB	World Bank

I. ECONOMIC RESILIENCE AMID CHALLENGING POLITICAL CIRCUMSTANCES

1. **The political situation was volatile in the first half of 2010** owing to the April 1 military incident, when a group of soldiers arrested the chief of staff of the armed forces and briefly detained the prime minister. Since then, the political situation has been stable. However, the former chief of staff of the armed forces and other officers arrested on April 1 are still detained, and development partners have asked the government to release or legally prosecute the detainees, with significant implications for budget support. Spillovers to the functioning of the civilian government have been limited, and the government ministries and parliament are operating normally.

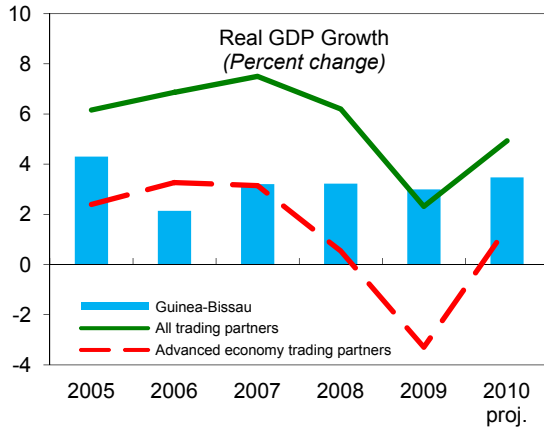
2. **Macroeconomic performance benefitted from a rebound in the price of cashew and improved liquidity in the banking system.**

- *Economic growth has been resilient.* Strong terms-of-trade gains more than offset a weather-related decline in the cashew harvest. Construction activity, in particular in the energy sector and infrastructure, has been buoyant despite a delay in the government investment program. Overall, growth is expected to accelerate slightly to 3.5 percent in 2010, up from 3.0 percent in 2009 (Figure 1, Table 1), broadly in line with growth in the WAEMU region (Figure 2).
- *Private sector credit accelerated* (Table 2). The government's arrears clearance early in 2010 helped improve liquidity in domestic commercial banks.
- *Inflation is expected to be within the WAEMU target of 3 percent for the region.* Inflation rose during the year driven by rising import prices for fuel and a weaker euro. However, monthly prices have stabilized, and with the expected WEO decline in the price of food imports, annual average inflation is projected at 2.5 percent for the year.
- *The external current account deficit, excluding official transfers, is expected to narrow moderately this year.* While exports benefited from higher cashew prices, the income effect was moderated by a slight decline in the volume of cashew exports. With imports growing moderately, and net remittances stable, the external current account deficit (excluding official transfers) is expected to narrow, albeit less than envisaged under the program, to about 9¼ percent of GDP (Table 3).

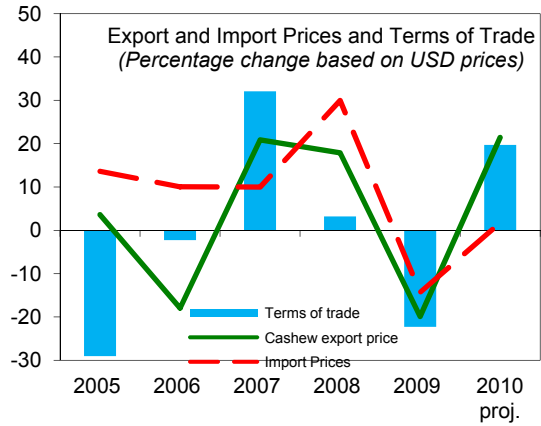
3. **The government had to adjust to a shortfall in budget support and uncertainty about its prospects** (Figure 3). Guinea-Bissau received only a quarter of the budget support expected through June. The resulting shortfall was 2 percent of GDP (or CFAF 8.4 billion). Some of the support was simply delayed, having been disbursed (AfDB) or approved (WB) in July. However, for the year, the authorities expect a significant shortfall in budget support and financial assistance of 3.2 percent of GDP (or CFAF 13.3 billion).

Figure 1. Guinea-Bissau: Economic Developments, 2005–10

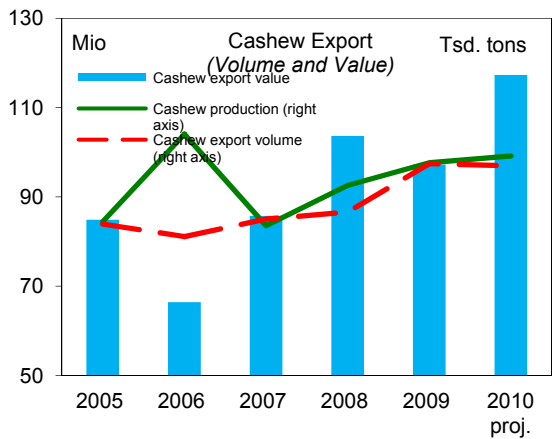
GDP growth is picking up this year, fueled by ...



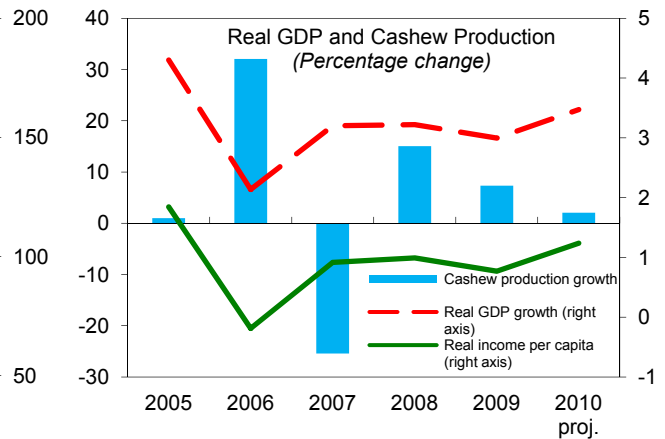
... terms of trade gains due to higher cashew prices.



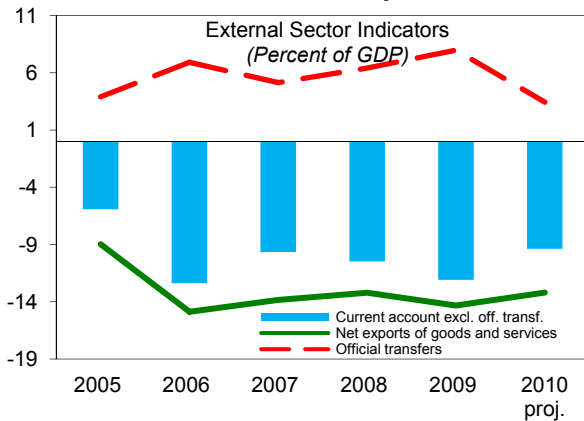
Rising cashew export receipts...



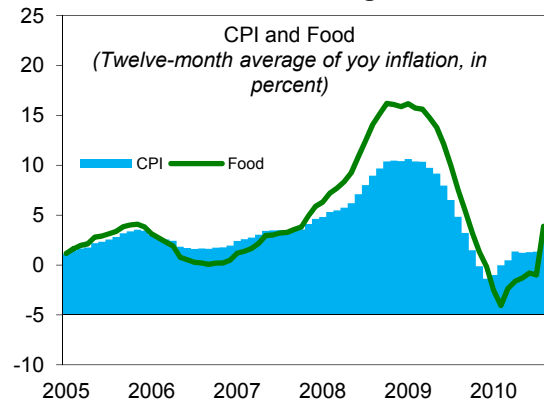
... supported growth in disposable income and domestic demand, and



...contributed to a narrowing of the external current account deficit.



Inflation is projected to remain within the WAEMU target.

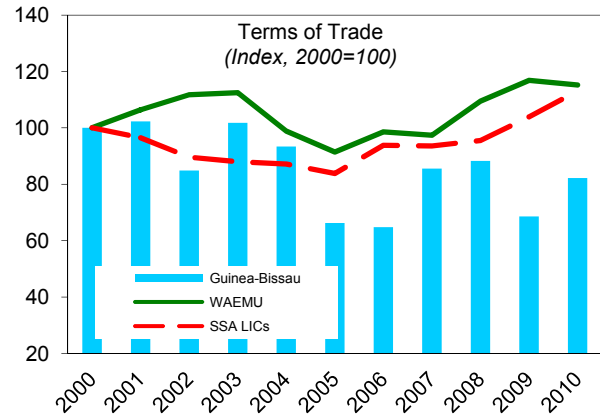
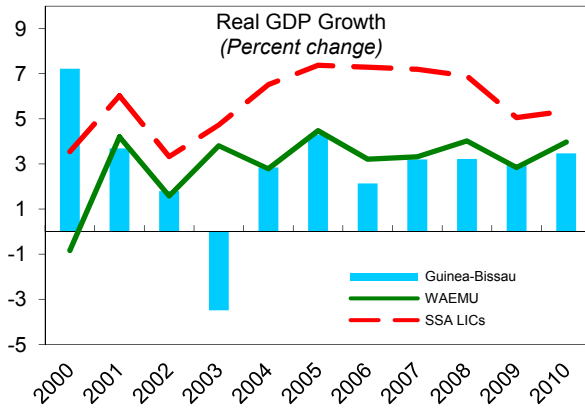


Sources: Guinea-Bissauan authorities and IMF estimates.

Figure 2. Guinea-Bissau: Regional Perspective, 2000–10

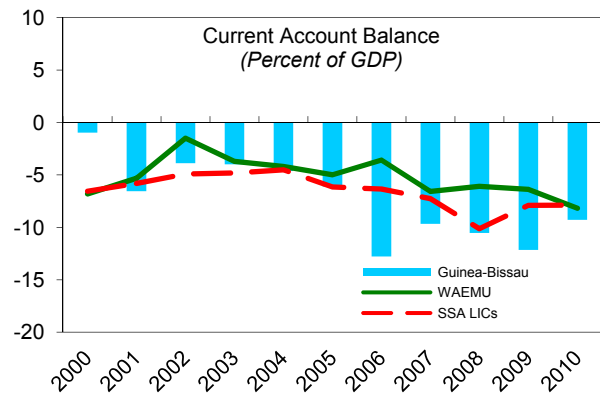
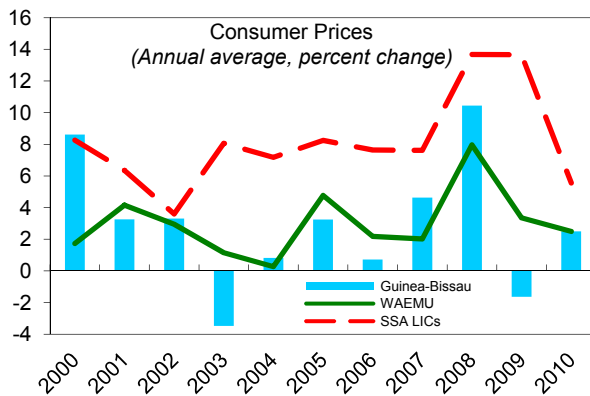
Growth rates are close to the WAEMU average, ...

... reflecting a rebound in the terms of trade.



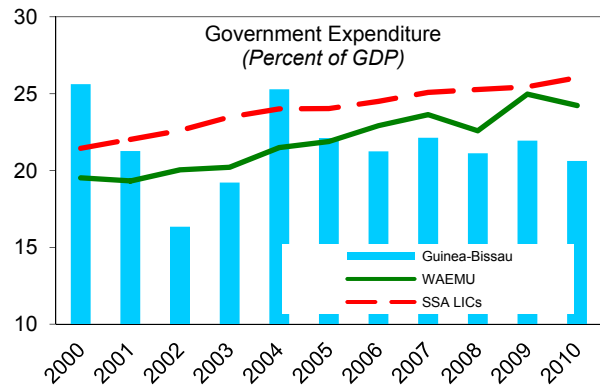
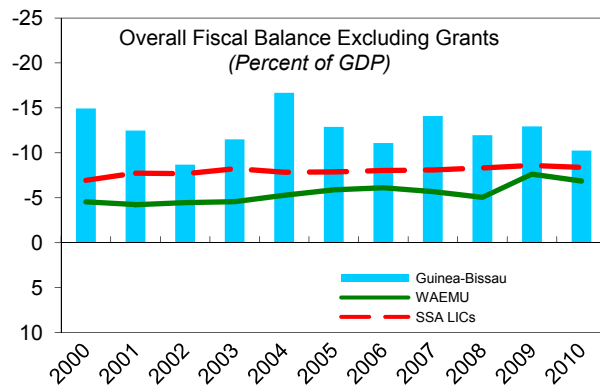
Inflation has been volatile, but broadly in line with that of WAEMU countries.

The balance of payments deficit is still under pressure, but improving.



The overall fiscal deficit reflects a relatively thin tax base ...

...while expenditures are below the regional average.



Source: African Department database, BCEAO, Guinea-Bissauan authorities and IMF staff estimates.

4. **Fiscal adjustment—a tightening of about 2 percentage points of GDP compared with the program—was achieved in the first half of the year through higher revenue and lower spending** (Text Table 1):

- *Revenues exceeded the program target by ½ percentage point of GDP, driven by direct and indirect taxes, reflecting healthy economic activity and tighter controls at customs (DGA) and revenue administration (DGCI).*
- *Expenditures were contained by 1½ percentage points of GDP below program. Savings reflected lower current primary spending due to reduced outlays in goods and services, and substantial underexecution of the public investment program.*

Text Table 1. Guinea-Bissau: Fiscal Developments 2009—10

	January-June		
	2009		2010
	Actual	Prog.	Est.
	Percent of GDP		
Revenues	4.8	5.5	6.0
Tax revenue	3.2	3.6	4.2
Non-tax revenue	1.6	1.8	1.8
Of which: EU fishing compensation	0.8	1.1	0.7
Domestic primary expenditure	4.3	7.1	5.5
Wages and salaries	2.6	2.5	2.6
Other current primary ¹	1.7	3.7	2.9
Domestically financed capital	0.0	0.9	0.0
Domestic primary balance	0.5	-1.6	0.5

Sources: GNB authorities and IMF staff estimates and projections.

¹ Includes EU Fishing Compensation.

II. PERFORMANCE UNDER THE ECF PROGRAM

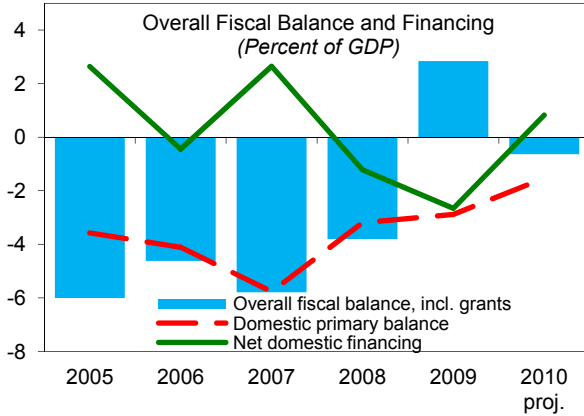
5. **Performance has been satisfactory despite the shortfall in budget support.** All quantitative performance criteria (PCs) at end-June 2010 and all structural benchmarks were met (Tables 4 and 5). Fiscal revenues were above target, with strong tax collection more than offsetting delays in the disbursement of fishing compensation (nontax revenue). Except for the indicative target on social and priority spending, all quantitative targets for end-June have been met. Shortfalls in budget support and uncertainty about its prospects led the government to contain spending below program levels, including social and priority spending.

6. **The government made progress implementing structural measures in several areas.** To strengthen oversight and control over public procurement, the National Assembly passed a new procurement law in July establishing a central procurement unit and a public procurement regulatory authority. As part of government efforts to better disseminate information on budget execution, the government started publishing and releasing to parliament quarterly budget execution reports. For the first time since independence, the general administrative accounts for FY2009 were submitted to the Court of Accounts. With respect to defense and security sector reform (SSR), laws governing reorganization of the armed forces, the police, and the national guard were approved by the National Assembly in June and published in September. The legal framework for a pension fund for the military and security forces was approved in June, with a view to making the fund operational once financing from development partners becomes available.

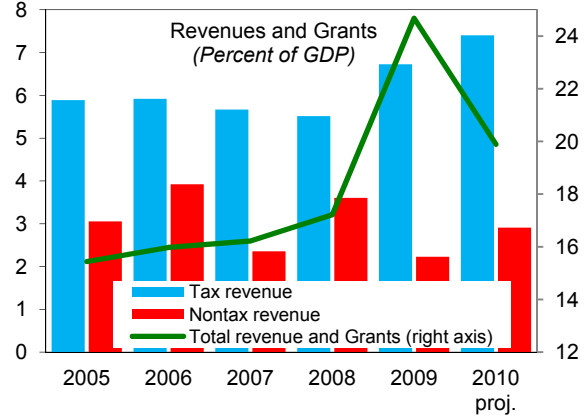
7. **The government implemented its arrears clearance plan.** In addition to the clearance of the arrears with the commercial banks at the beginning of the year, the government paid CFAF 3.5 billion (about 0.8 percent of GDP) in arrears clearance to the private sector in June 2010 (Table 6), as envisaged under the program.

Figure 3. Guinea-Bissau: Macroeconomic Policies, 2005–10

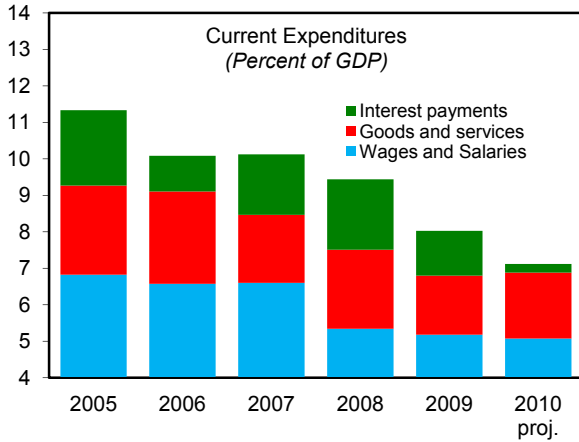
Fiscal performance has been satisfactory...



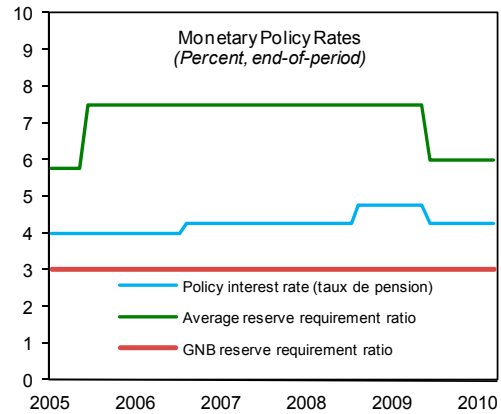
...with higher-than-program revenue partly compensating for shortfalls in budget support, ...



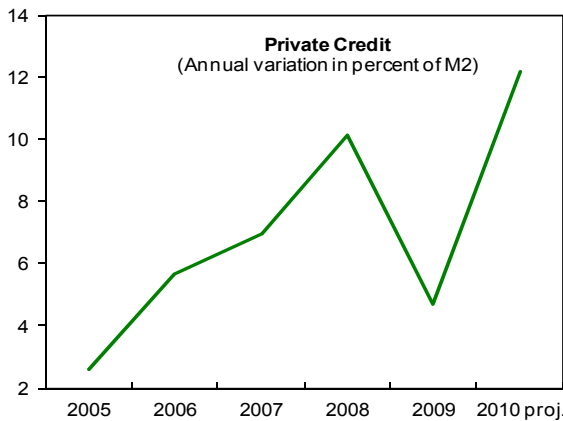
... and the government contained current spending.



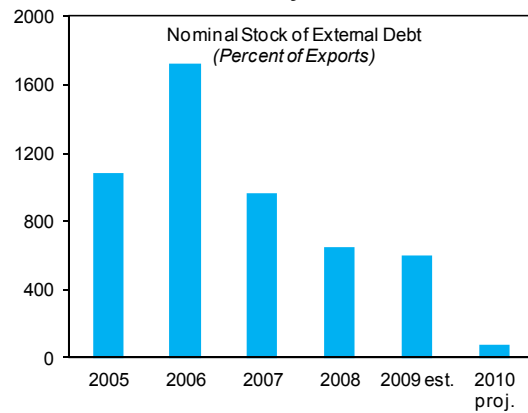
The WAEMU monetary policy stance was accommodating ...



... and private sector credit growth rebounded.



Debt levels are set to fall substantially with debt relief.



Source: African Department database, BCEAO, Guinea-Bissauan authorities and IMF staff estimates.

III. MACROECONOMIC OUTLOOK AND ECONOMIC POLICIES

8. **The authorities reiterated their commitment to maintaining macroeconomic stability and pursuing the medium-term macroeconomic objectives under the ECF-supported program:** (i) raise real growth to 4½ percent by program end, (ii) contain annual inflation below the WAEMU convergence norm of 3 percent, (iii) narrow the external current account gradually (excluding official transfers), and (iv) keep the budget deficit consistent with available financing, without adding to the government's debt problem. The medium-term outlook is in line with these objectives (Figure 4).

A. Macroeconomic Outlook

9. **Staff and the authorities agreed the 2011 macroeconomic outlook is broadly unchanged compared with the program approved in May.**

- *Economic growth is expected to accelerate moderately to 4.3 percent in 2011, driven by sustained cashew production, increased activity in cashew nut processing, and rebuilding of infrastructure.*
- *Inflation is expected to remain within the WAEMU convergence norm, supported by the CFA peg to the euro.*
- *The external current account (excluding official transfers) is projected to narrow slightly, assuming a slight rebound in the volume of cashew exports.*

B. Strengthening Public Finances

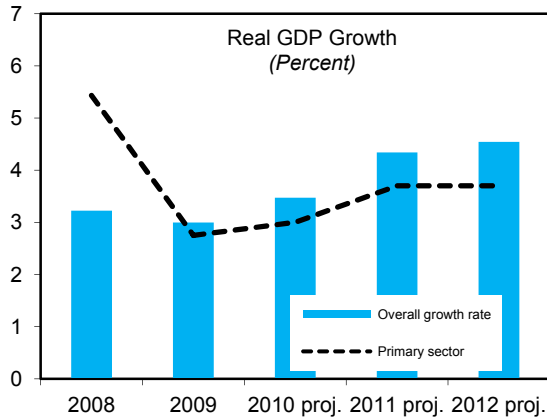
10. **The authorities remain committed to strengthening public finances.** Fiscal policy will contain the domestic primary deficit in line with available financing through higher revenue collection and expenditure control. This, combined with HIPC/MDRI debt relief, should help improve fiscal and debt sustainability. Fiscal reforms will aim at reinforcing revenue collection, deepening public financial management, and improving debt management.

Fiscal Policy

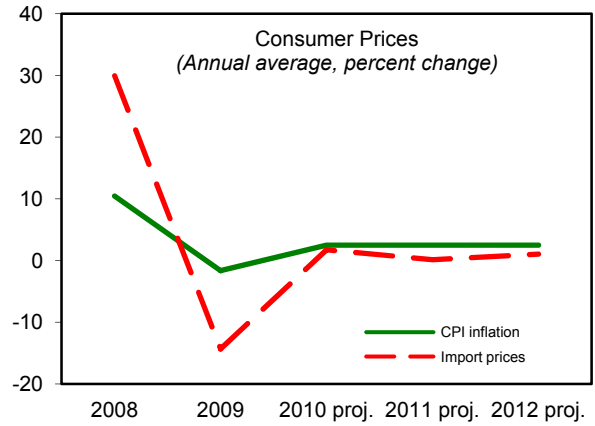
11. **The government agreed to adjust its fiscal plans for 2010 to address the expected shortfall in budget support** (3.2 percent of GDP). The adjustment reflects budget execution through August 2010, preserves priority spending, and minimizes the use of deposits at the BCEAO. Measures consist of preserving savings from higher revenues and lower spending in goods and services (by about 1 percentage point of GDP); underexecuting the budget for domestically financed capital spending by about 1½ percentage points of GDP; and drawing on government deposits at the BCEAO to raise domestic financing (by about ¾ percentage point of GDP). The government expressed its commitment to use resources that may become available from donors to restore spending in the priority areas of infrastructure, agriculture, health, and education, as well as rebuilding deposits at the BCEAO.

Figure 4. Guinea-Bissau: Medium-Term Outlook, 2008–12

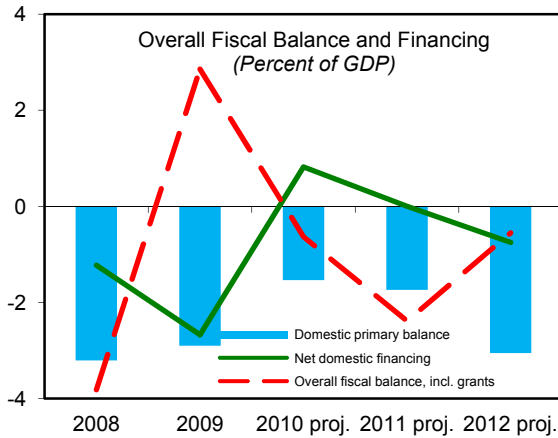
A modest pick-up in growth is expected,



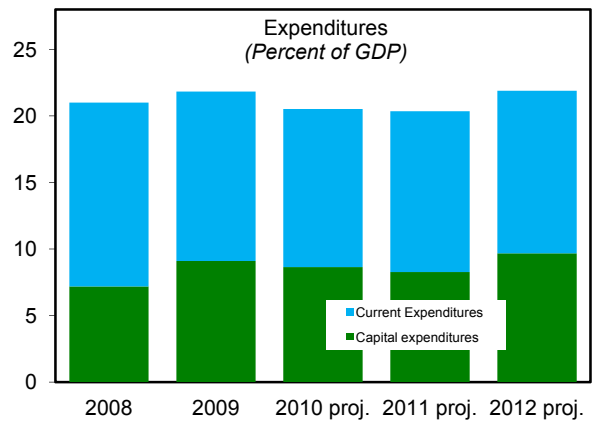
While inflation remains within WAEMU target levels.



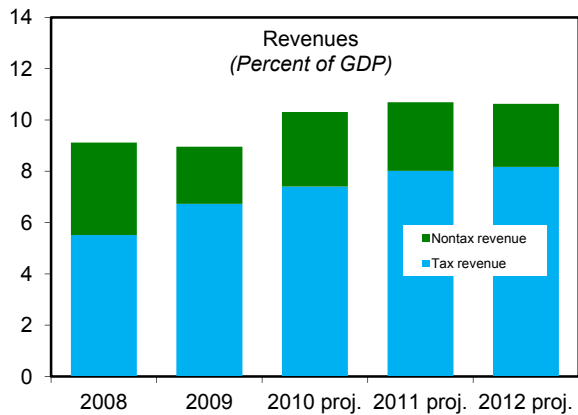
The domestic primary deficit will be contained in line with available financing ...



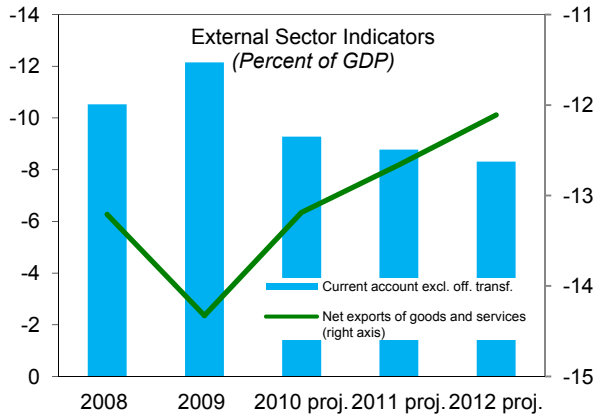
... through expenditure controls, debt relief, and...



... increased revenue collection.



The external current account deficit is expected to narrow gradually.



Sources: Guinea-Bissauan authorities and IMF estimates and projections.

12. **Staff held discussions on the draft budget for 2011, which the authorities intend to send to parliament by early December, consistent with the following parameters:** a domestic primary budget deficit of 1.7 percent of GDP, consistent with domestic primary spending of CFAF 55.3 billion and budget support of about CFAF 7.5 billion, without adding to Guinea-Bissau's debt problem (Text table 2, Table 7).

MEFP ¶17

- *On the revenue side*, the budget foresees the government will adopt revenue measures worth 0.5 percent of GDP, by raising the reference price for cashew exports and that for imports of certain products that need valuation adjustments, mainly staples, and by increasing the tax rate on advance payment of profit tax (ACI) from 3 percent to 5 percent for the informal sector.
- *On the spending side*, the government will freeze wages while accounting for contractual workers in the health and education sector in the wage bill.

Text Table 2. Guinea-Bissau: Fiscal Developments 2010—11

	2010		2011
	Prog.	Proj.	Proj.
	Percent of GDP		
Revenues	10.3	10.4	10.7
Tax revenue	7.2	7.4	8.1
Non-tax revenue	3.1	2.9	2.7
<i>Of which:</i> EU fishing compensation	1.6	1.2	1.1
Domestic primary expenditure	14.2	11.7	12.5
<i>Of which:</i> current primary ¹	12.3	11.5	11.7
<i>Of which:</i> domestically financed capital	1.9	0.2	0.7
Domestic primary balance	-3.9	-1.4	-1.7
<i>Memorandum items:</i>			
Revenues (excl. EU fishing compensation)	8.7	9.2	9.6
Current primary spending (excl. EU fishing compensation)	11.5	10.9	11.2
Overall fiscal balance (incl. grants)	-3.2	-0.5	-2.3

Sources: GNB authorities and IMF staff estimates and projections.

¹ Includes EU Fishing Compensation.

13. **The 2011 fiscal program is fully financed.** Budget support is expected from the AfDB and the World Bank and no other budget support has been programmed for 2011. The HIPC completion point is assumed to be reached by end-2010 and creditors are expected to provide debt relief in accordance with the HIPC Initiative. There is a residual financing gap of CFAF 3.5 billion, which is expected to be filled by the ECF disbursement in 2011. The government is committed to further efforts to reduce spending, or recover more revenues, to make up for financing shortfalls. If, on the other hand, budget support is higher than envisaged in the program, staff and the government agreed that the resources would be used to restore the public investment program (PIP) and increase other priority spending, as well as rebuilding deposits at the BCEAO.

14. **Staff and the authorities agreed it will be important to make best efforts to restore budget support from development partners to pre-2010 levels.** The compression of spending on investment and non-wage goods and services that has taken place in 2010 and is projected to continue in 2011 delays progress on growth and poverty reduction. Sustained donor support and sufficient concessional financing will still be required in the coming years, in support of progress toward the MDGs.

Fiscal Reforms

15. **Staff and the authorities agreed that fiscal reforms in 2011 will aim at mobilizing more revenue and deepening public financial management reforms, including debt management.**

Mobilizing More Revenue

16. **The authorities continue to see strengthening revenue collection as a priority** (see Box 1). In addition to the tax measures in the 2011 budget, the government will continue modernizing and improving customs and tax administration as detailed in the MEFP, reflecting advice from the Fund’s Fiscal Affairs Department. Structural benchmarks are: (i) customizing and testing the ASYCUDA ++ system (August 2011); (ii) conducting a comprehensive review of all custom exemptions (June 2011); (iii) cross-checking customs data with tax returns for the largest importers (June 2011); and (iv) auditing importers underreporting tax liabilities (December 2011). MEFP ¶20–22

Deepening public financial management reforms

17. **The government is committed to continue strengthening public financial management (PFM).** Structural benchmarks focus on (i) reviewing the legal framework that regulates revenue sharing agreements (“restitutions”) with the objective of increasing the share of non earmarked revenues in the budget (December 2011), and (ii) establishing an operational link from budget/treasury under the SIGFIP to the customs and tax administration (March 2011). MEFP ¶23

C. Medium-term Plan to Address Domestic Arrears

18. **The government will address domestic arrears in line with the medium-term strategy under the ECF.** In 2011, the government agreed to (i) monitor budget execution and available resources before carrying out its plan to pay CFAF 1.85 billion to the private sector; and (ii) complete the audit of the 2000-2007 arrears. MEFP ¶18

D. Modernizing the Public Administration

19. **To create fiscal space for priority spending, the authorities will pursue a gradual reform that modernizes the public administration and makes it more efficient.** The Ministry of Labor and Public Administration is preparing a medium-term plan that gradually downsizes the civil service through mandatory retirement and removal of redundant workers and increases the efficiency of public administration by upgrading the qualifications and working conditions for civil servants (structural benchmark). MEFP ¶24–25

Box 1. Revenue Mobilization: A Cross-Country Comparison.

We put in perspective revenue mobilization by looking at how much and how fast countries in SSA have managed to mobilize more revenue in recent decades.

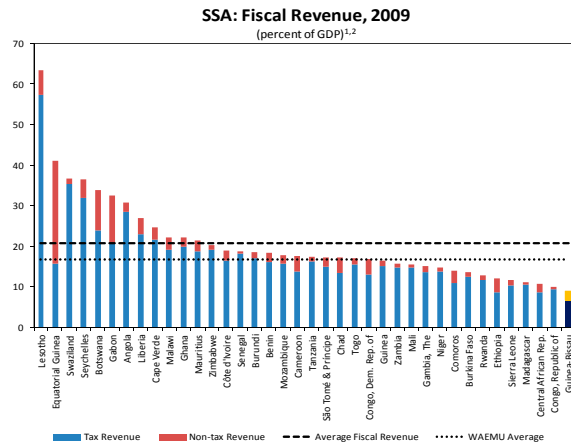
Weak revenue mobilization is the root cause of Guinea Bissau’s fiscal imbalances. It explains the dependence on budget support and lack of space to raise priority spending. In 2009, Guinea-Bissau collected revenues equal to 9 percent of GDP, the lowest ratio among all countries in Sub Saharan Africa (SSA) (Figure 1).

While mobilizing more revenue is a policy objective and challenge for many SSA countries, some have managed to mobilize revenues faster than others. We look into the experience of 27 SSA-LICs in raising fiscal revenues, including tax and nontax revenues, from 1980 to 2009 and review 1-, 3-, 5- and 10-year periods to determine how much and how fast countries were able to mobilize more revenues .^{1/}

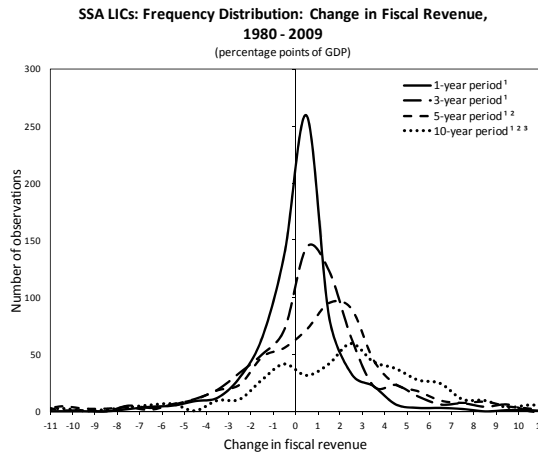
Almost all SSA-LICS (26) managed to increase revenue ratios by 2 percentage points of GDP or more in at least one 3-year period in the last 3 decades (Figure 2). Over longer periods, countries have been able to achieve higher increases in revenue ratios, with the frequency distribution shifting to the right in 10-year periods. By comparison, Guinea-Bissau is raising its revenue ratio by 1.7 percentage points of GDP in the first two years of the program (2010–11).

Can Guinea-Bissau do more in the coming years? Yes. Given the low base, Guinea-Bissau should be able to raise more revenues. While few countries managed to increase their revenue ratios by double digits, 16 SSA-LICs were able to raise revenue ratios by 5 percentage points of GDP or more in at least one 3-year period in the last decades. The revenue administration measures under the ECF-supported program should help Guinea-Bissau mobilize more revenues in the coming years, while tax policy reform, including the introduction of VAT, should help raise revenues in the longer term.

^{1/}Based on a cross-country study “Mobilizing Revenue in SSA LICs: How and How Fast?” being prepared by Paulo Drummond, Wendell Daal, Santiago Pena, and Luiz Edgard Oliveira.



Source: African Department Database.
¹ Countries not showing due to inconsistent data: Namibia.
² Countries not showing due to unavailability of data: Eritrea, Kenya, Nigeria, South Africa, and Uganda.



Source: African Department Database.
 Note: SSA LICs including fragile countries. Overlapping observations.
¹ Excludes Eritrea, and Uganda.
² Excludes Zimbabwe.
³ Excludes Liberia, and Zambia.

20. **Staff and the government agreed that implementing stricter payroll controls and establishing a more comprehensive payroll database are priorities.** The database will rely on the census of the public administration, and should allow for adequate control and regular updating of civil service employment (Annex 1). In early 2011, the government will start using the computerized and unified payroll and personnel management system in the Ministries of Finance and Labor and Public Administration (structural benchmark). The system will be extended to all ministries by August 2011 (structural benchmark).

21. **The government will work closely with partners to implement the defense and security sector reform.** The government intends to build on the steps taken earlier this year. Following a decision by the EU not to deploy a new mission to monitor the implementation phase of the security sector reform, the government strengthened coordination with the United Nations Integrated Peace-Building Office in Guinea-Bissau (UNIOGBIS) and regional and bilateral partners, including ECOWAS and the Community of Portuguese Language Countries (CPLP), with the aim of preparing a plan of action to ensure adequate financing of the reform, especially that of the pension fund. MEFP ¶26

E. Removing Impediments to Private Sector Development

22. **Faster economic growth will require a better business environment, more developed infrastructures, and sound management of the country's natural resources.** To improve the business environment, the government intends to identify and remove impediments to private sector development and improve the ease of doing business in Guinea-Bissau (structural benchmark, August 2011). The government will prepare a plan that can help the country start tapping into unexploited natural resources in the mining, oil, and gas sectors (structural benchmark, December 2011). MEFP ¶27–30

F. Improving Access to Social Services

23. **The government intends to make further progress on high rates of poverty.** It will finalize the new five-year poverty reduction strategy (PRS) by the first quarter of 2011. Staff concur with authorities that increasing per capita income and reducing the incidence of poverty will require efforts on several fronts, including access to basic services (health and education) and agricultural development. MEFP ¶31

G. Reinforcing Debt Management

24. **Guinea-Bissau is still in debt distress and a prudent debt management strategy is imperative.** Although its external debt outlook is expected to improve significantly after HIPC/MDRI debt relief, Guinea-Bissau would remain vulnerable to shocks. The government has committed not to contract or guarantee nonconcessional or short-term external debt, as defined in the technical memorandum of understanding (TMU). Moreover, any government or government-guaranteed borrowing MEFP ¶32

(external or domestic) will be subject to prior approval by the finance minister. The government will improve debt management by (i) strengthening the unit of public debt management; (ii) producing quarterly reports on public debt (structural benchmark, June 2011); and, (iii) using the Debt Management Financial and Analysis System (DMFAS; SYGADE in French) to record and manage all public debt (structural benchmark, December 2011).

H. Financial Sector and Monetary Policies

25. **The authorities will continue to pursue monetary policy within the WAEMU framework.** This arrangement has enabled the country to contain inflation and maintain a stable exchange rate.

26. **Access to credit is still low.** Much work is needed in contract enforcement. To strengthen legal rights the government will provide resources for the commercial tribunal to function and it will seek donor support for setting up a credit bureau and a collateral registry.

IV. FINANCING ASSURANCES

27. **The authorities are working to normalize relations with all external creditors, and are making good-faith efforts to resolve arrears to a single private external creditor.** Arrears to Paris Club creditors are addressed in the Paris Club Agreed Minutes of July 2010. The authorities plan to address all remaining external arrears—including to multilateral creditors and to a single private creditor—through debt relief at HIPC completion point. The government has implemented 10 of 11 HIPC completion point triggers and is requesting a waiver for lack of continuous implementation of one trigger, for which it has taken remedial action. The authorities have contacted all external creditors to request their participation in the HIPC Initiative. To date, creditors accounting for over 80 percent of HIPC-eligible debt have confirmed their intention to provide debt relief at completion point consistent with the HIPC Initiative.

V. PROGRAM MONITORING AND RISKS

A. Program Monitoring

28. **While the underlying objectives of the program remain unchanged, it has become necessary to modify the indicative target on social and priority spending for end-December 2010 in light of the significant shortfall in budget support** (Table 4). All other quantitative indicative targets and all performance criteria remain unchanged.

29. **The second year of the program covers the 12 months from January 1, 2011, to December 31, 2011, and includes quantitative indicators and structural measures relating to core areas of Fund expertise.** The authorities and staff agreed on quantitative indicators and performance criteria (Table 8) and on structural benchmarks that focus on

revenue mobilization and fiscal and debt management (Table 9). The second review is expected in May 2011 and the third review in November 2011 (Table 10).

B. Program Risks

30. **Guinea-Bissau faces significant risks, but risks to the Fund's resources are moderate.** The main concerns are political instability, vulnerability to external shocks, and the possibility of inadequate donor support, including delays in donor disbursements. Continued technical assistance will be vital to reinforcing the authorities' implementation capacity. The country's capacity to repay the Fund seems reasonably sound (Table 11). Risks to Fund resources are mitigated to a significant degree by the BCEAO's role as fiscal agent and its solid track record in making payments to the Fund, even without reimbursement by Guinea-Bissau.

VI. STATISTICAL ISSUES AND CAPACITY DEVELOPMENT

31. **Staff agreed with the authorities on the need for better data dissemination and for capacity building to ensure effectiveness of fiscal reforms.** The authorities will publish national account data this year for 2009, based on the SNA93. They will continue to publish a WAEMU harmonized consumer price index. On capacity building, priorities are customs, tax, and financial control departments. The Fund is providing technical support in public financial management, revenue administration, and national accounts statistics.

VII. STAFF APPRAISAL

32. **The authorities managed to maintain macroeconomic stability amid challenging political circumstances.** Pursuit of prudent policies while moving forward on structural reform was critical for successful implementation of the program.

33. **Staff welcomes the authorities' satisfactory performance under the ECF-supported program.** In light of shortfalls in budget support and limited sources of financing, fiscal policy had to find an appropriate balance between carrying out an already reduced spending envelope and preserving government deposits at the BCEAO to reduce vulnerability. The adjustments introduced by the government in the 2010 fiscal plans are in line with the understanding envisaged under the program.

34. **The 2011 draft budget is realistic.** It is consistent with available financing. Staff encourages the authorities to implement decisively the policies underlying the draft budget to control spending and raise domestic revenue through the implementation of new tax measures and better revenue administration next year. Staff supports the authorities' decision to use additional budget support that may become available to restore spending in priority areas, including the public investment program. At the same time, the authorities are committed to pursuing fiscal adjustment to make up for financing shortfalls.

35. **Staff welcomes the well-placed emphasis on collecting more revenue, better controlling budget execution, and improving PFM.** These efforts will help create fiscal space for priority spending, while gradually reducing dependence on external budget support in the longer term. However, sustained donor support and sufficient concessional financing will still be required in the coming years, in support of progress toward the MDGs.

36. **HIPC and MDRI debt relief is critical to securing debt sustainability.** It is important that Guinea-Bissau reach the completion point before World Bank and AfDB interim debt relief expires. Debt relief will help Guinea-Bissau normalize relations with its creditors, and should open up space for needed poverty-related spending. But debt ratios will remain high. Therefore, the authorities' medium-term strategy of filling financial needs with grant support and concessional financing will continue to be essential to help Guinea-Bissau have a sustainable debt path.

37. **Staff recommends the completion of the first review under the ECF arrangement and the financing assurances review, and supports the authorities' request for the second disbursement under the three-year ECF arrangement.** Despite program risks, the authorities' satisfactory performance under challenging circumstances, their efforts to normalize relations with external creditors and move ahead with economic reforms, and their commitment to successful implementation of the program warrant support from the Fund and Guinea-Bissau's development partners.

Table 1. Guinea-Bissau: Selected Economic and Financial Indicators, 2008–12

	2008	2009	2010		2011	2012
			Prog. ¹	Proj.	Proj.	Proj.
(Annual percentage change, unless otherwise indicated)						
National accounts and prices ²						
Real GDP at market prices	3.2	3.0	3.5	3.5	4.3	4.5
Real GDP per capita	1.0	0.8	0.5	1.2	2.1	2.3
GDP deflator	10.5	1.1	2.4	2.4	2.1	2.0
Consumer price index (annual average)	10.4	-1.6	2.5	2.5	2.5	2.5
External sector						
Exports, f.o.b. (based on US\$ values)	20.1	-7.0	13.6	14.9	11.2	4.5
Imports, f.o.b. (based on US\$ values)	18.8	-0.2	9.2	4.2	6.0	2.8
Export volume	1.9	16.1	4.3	-5.3	7.4	4.3
Import volume	-8.6	16.5	3.3	2.5	5.1	1.7
Terms of trade (deterioration = -)	3.2	-22.3	5.6	19.8	2.7	-0.9
Real effective exchange rate (depreciation = -)	7.1	-1.8	1.4	1.4	1.2	0.9
Nominal exchange rate (CFAF per US\$; average)	478.6	445.7	450.0	471.0	501.7	510.9
Government finances						
Domestic revenue (excluding grants)	30.0	2.3	21.5	22.1	10.4	7.5
Total expenditure	8.8	8.2	16.0	-1.0	6.9	13.9
Current expenditure	7.0	-4.0	13.1	-2.2	7.7	6.5
Capital expenditure ³	12.4	31.7	20.2	0.7	5.8	24.1
Money and credit						
Net domestic assets ⁴	19.7	-16.2	2.0	15.9	1.6	1.7
Credit to government (net)	8.4	-10.5	0.2	3.3	0.0	-2.1
Credit to the economy	10.1	4.3	0.8	12.2	1.6	3.8
Velocity (GDP/broad money)	3.8	4.0	3.8	3.2	3.2	3.2
(Percent of GDP, unless otherwise indicated) ²						
Investments and savings						
Gross investment	12.7	15.5	16.3	14.9	14.9	16.2
Of which: government investment	6.5	9.1	10.0	8.6	8.6	9.8
Gross domestic savings	-6.7	-6.5	3.7	-1.3	1.1	1.9
Of which: government savings	-11.8	-11.9	-8.3	-5.2	-4.1	-4.1
Gross national savings	2.4	3.7	10.7	5.9	8.9	10.4
Government finances						
Budgetary revenue ⁵	9.2	9.0	10.3	10.4	10.7	10.8
Total domestic primary expenditure	12.4	11.9	14.2	11.7	12.5	13.9
Domestic primary balance	-3.2	-2.9	-3.9	-1.4	-1.7	-3.0
Overall balance (commitment basis)						
Including grants	-3.8	2.9	-3.2	-0.5	-2.3	-0.5
Excluding grants	-12.0	-12.9	-13.6	-10.1	-9.8	-11.1
External current account (including official current transfers)	-4.1	-4.1	-1.3	-5.9	-6.0	-3.6
Excluding official transfers	-10.5	-12.1	-5.9	-9.3	-8.8	-8.4
Net present value of external debt/exports of goods and nonfactor services (percent) ⁶	348.3	473.1	111.1	136.4	134.6	137.6
Nominal stock of public debt, including arrears ^{7 8}	167.7	158.3	54.1	63.3	62.0	59.6
Of which: external debt, including arrears	132.7	121.9	28.4	33.4	34.3	34.0
Of which: arrears ⁷	49.6	48.9	10.3	0.0	0.0	0.0
Memorandum items (US\$ millions, unless otherwise indicated)						
Current account balance (including official current transfers)	-34.7	-34.5	-11.4	-48.9	-51.9	-32.9
Overall balance of payments	-16.9	-11.6	-806.6	-810.7	1.0	1.6
Nominal GDP at market prices (CFAF billions)	377.5	393.1	418.8	416.7	443.9	473.2
Nominal stock of external arrears, end of period ⁷	388.6	427.5	92.8	0.0	0.0	0.0

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

¹ EBS/10/56.² Based on new GDP figures which doubled the previous GDP level due to broader coverage of the economy, consistent with System of National Accounts 1993.³ Project grants in 2009 include externally financed large public investments.⁴ Contribution to the growth of broad money in percent.⁵ Nontax revenues decline by 0.4 percentage of GDP in 2011 because of lower EU fishing compensation after a one-off increase in 2010.⁶ In 2010, the difference between program and projection is due to revised estimates of HIPC and MDRI assistance using debt data and incorporating news estimates of Paris Club comparable treatment based on the terms of the July Paris⁷ Values in 2010 and thereafter reflect assumed impact of HIPC and MDRI debt relief.⁸ Exclude domestic arrears estimated at 23 percent of GDP at end-2009.

Table 2. Guinea-Bissau: Monetary Survey, 2008–12

	2008	2009	2010		2011	2012
			Prog. ¹	Proj.		
(CFA billions)						
Net foreign assets	66.6	80.6	72.6	99.1	105.6	112.6
Central Bank of West African States (BCEAO)	53.0	61.4	58.3	61.4	65.4	69.7
Commercial banks	13.6	19.2	14.3	37.7	40.2	42.8
Net domestic assets	33.7	17.5	36.9	33.1	35.2	37.6
Credit to the government (net)	19.3	8.8	9.0	12.1	12.1	9.0
Credit to the economy	17.4	21.8	24.7	33.7	35.9	41.2
Other items (net)	-3.0	-13.1	3.1	-12.7	-12.7	-12.7
Money supply (M2)	100.3	98.1	109.5	132.2	140.8	150.1
Currency outside banks	64.4	59.1	64.2	76.4	81.4	86.7
Bank deposits	35.8	39.0	45.3	55.8	59.5	63.4
Base money (M0)	64.7	63.3	76.9	85.3	90.8	96.8
Contribution to the growth of broad money						
Money supply (M2)	40.0	-2.2	6.0	34.8	6.5	6.6
Net foreign assets	20.4	14.0	4.0	18.9	4.9	5.0
BCEAO	12.0	8.3	3.2	0.0	3.0	3.1
Commercial banks	8.4	5.6	0.8	18.9	1.9	1.9
Net domestic assets	19.7	-16.2	2.0	15.9	1.6	1.7
Credit to the central government	8.4	-10.5	0.2	3.3	0.0	-2.1
Credit to the economy	10.1	4.3	0.8	12.2	1.6	3.8
Other items net	1.2	-10.0	1.0	0.4	0.0	0.0
<i>Memorandum items:</i>						
Money supply (M2, / dec t-1)	40.0	-2.2	6.0	34.8	6.5	6.6
Base money (M0, / dec t-1)	21.6	18.9	6.0	34.8	6.5	6.6
Credit to the economy (/ dec t-1)	71.5	24.9	3.6	54.9	6.4	14.9
Velocity (GDP/M2)	3.8	4.0	3.8	3.2	3.2	3.2
Money Multiplier (M2/M0)	1.6	1.6	1.4	1.6	1.6	1.6
Currency outside banks / M2 (in percent)	64.3	60.3	58.7	57.8	57.8	57.8

Sources: BCEAO; and IMF staff estimates and projections.

¹ EBS/10/56.

Table 3. Guinea-Bissau: Balance of Payments, 2008–12

	2008	2009	2010		2011	2012
			Prog. ¹	Proj.	Proj.	Proj.
	(CFAF billions)					
Goods and services	-50.1	-56.6	-34.6	-54.6	-55.0	-56.2
Goods	-31.6	-37.5	-12.9	-35.1	-34.3	-34.1
Exports, f.o.b	57.4	56.4	56.7	69.0	78.2	82.1
Of which: cashew nuts	46.2	45.8	54.5	58.8	67.3	70.6
Imports, f.o.b.	-89.0	-93.9	-69.6	-104.2	-112.5	-116.2
Of which: food products	-28.2	-26.5	-25.4	-29.7	-31.8	-32.3
petroleum products	-21.1	-18.5	-18.4	-23.5	-25.7	-26.9
other	-39.7	-48.9	-25.8	-51.0	-55.1	-56.9
Services (net)	-18.5	-19.1	-21.8	-19.5	-20.8	-22.1
Credit	5.4	5.4	24.8	5.7	6.1	6.5
Debit	-23.9	-24.5	-46.5	-25.2	-26.8	-28.6
Income (interest scheduled)	-6.0	-4.8	-4.8	-0.6	-0.3	-0.3
Current transfers (net)	40.7	45.1	34.1	30.7	28.8	39.7
Official ²	24.3	31.5	19.5	14.4	12.5	22.7
Of which: balance of payments support grants	16.4	28.5	13.0	9.5	7.5	17.6
EU fishing compensation	7.9	3.0	6.5	4.9	5.0	5.0
Private	16.4	13.7	14.6	16.3	16.3	17.0
Of which: remittances	14.8	10.9	11.4	12.5	12.9	13.4
license fees	1.4	2.6	3.0	3.6	3.1	3.4
Current account						
Including official transfers	-15.5	-16.3	-5.3	-24.5	-26.5	-16.9
Excluding official transfers	-39.7	-47.8	-24.8	-38.9	-39.1	-39.6
Excluding official transfers and interest payments	-33.7	-43.0	-20.0	-38.3	-38.8	-39.2
Capital and financial balance	-3.5	-0.6	-383.7	-400.2	21.1	11.5
Capital account ³	14.4	33.7	33.5	30.8	25.9	32.9
Financial account	-17.9	-34.3	-417.2	-431.1	-4.8	-21.4
Official medium- and long-term disbursements	11.4	8.5	4.7	4.7	9.4	4.8
SDR allocation	0.0	9.1	0.0	0.0	0.0	0.0
Project loans	11.4	1.0	4.7	4.7	9.4	4.8
Scheduled amortization	-12.8	-10.7	-362.4	-404.7	-0.6	-0.9
Treasury bills and regional financing	0.0	0.0	-6.7	-6.7	0.0	0.0
Commercial bank net foreign assets	-5.6	-5.9	-0.8	-18.2	-2.5	-2.6
Private net foreign assets and errors and omissions	0.6	-7.3	-35.3	-2.5	-5.2	-16.4
Overall balance	-7.5	-5.4	-375.6	-406.7	0.5	0.8
Financing	7.5	5.4	375.6	406.7	-0.5	-0.8
Net foreign assets (increase = -)	-8.6	-8.4	-3.3	0.0	-4.0	-4.3
Of which: net IMF credits	1.6	0.6	3.6	3.6	3.5	3.5
purchases and loans	2.5	1.3	7.5	7.5	3.5	3.5
repurchases and repayments	0.9	0.7	3.9	3.9	0.0	0.0
Debt relief	4.9	5.7	365.4	403.1	0.0	0.0
Change in debt-service arrears (decrease = -) ⁴	11.2	8.1	0.0	0.0	0.0	0.0
Gross financing gap ⁵	0.0	0.0	13.4	3.6	3.5	3.5
Additional financing	0.0	0.0	9.8	0.0	0.0	0.0
Residual financing gap	0.0	0.0	3.6	3.6	3.5	3.5
<i>Memorandum items:</i>						
Export volume of goods (annual percentage change)	1.9	16.1	4.3	-5.3	7.4	4.3
Import volume of goods (annual percentage change)	-8.6	16.5	3.3	2.5	5.1	1.7
Imputed international reserves						
US\$ millions ⁶	149.4	129.3	139.3	134.7	142.8	146.7
As percent of broad money	66.4	62.1	55.6	51.1	51.8	50.2
WAEMU gross official reserves (billions US\$)	10.5	13.8	...	...	...	...
Percent of broad money	55.0	58.8	...	...	...	...
Months of WAEMU imports of goods and non-factor ser	5.7	7.3	...	...	...	...
Scheduled debt service						
Percent of exports and service credits	22.2	25.7	10.6	2.9	1.1	1.4
Percent of total government revenue	40.3	44.9	20.1	5.0	1.9	2.4
Current account balance (percent of GDP)						
Including official transfers	-4.1	-4.1	-1.3	-5.9	-6.0	-3.6
Excluding official transfers	-10.5	-12.1	-5.9	-9.3	-8.8	-8.4
Overall balance (percent of GDP)	-2.0	-1.4	-4.1	-0.9	0.1	0.2
Gross financing gap (percent of GDP)	0.0	0.0	3.2	0.9	0.8	0.7

Sources: BCEAO; and IMF staff estimates and projection:

¹ EBS/10/56.² Includes food aid and technical assistance to projects.³ Excludes the financing gap, which BCEAO includes in the capital account.⁴ In 2010, arrears are assumed to be treated at HIPC completion point.⁵ Assumed to be filled with IMF resources and additional donor support.⁶ At program exchange rates.

Table 4. Guinea-Bissau: Quantitative Indicators for the ECF Program for 2010

Quarterly Targets ¹
(Cumulative, CFAF millions)

	End-March			End-June			End-Sept.	End-Dec.
	Prog.	Prog. ²	Actual	Prog.	Prog. ²	Actual	Prog.	Prog.
Performance criteria³								
1. Domestic financing of the budget	7,165	10,618	5,975	-1,411	8,627	302	3,430	231
2. New domestic arrears	0	0	0	0	0	0	0	0
3. External nonconcessional public borrowing, maturity > 1 year	0	0	0	0	0	0	0	0
4. External short term public borrowing	0	0	0	0	0	0	0	0
5. New external payment arrears	0	0	0	0	0	0	0	0
Indicative targets								
6. Government tax revenues	5,420	5,420	6,392	15,148	15,148	17,539	24,218	30,101
7. Domestic primary balance (commitment basis)	-7,789	-7,789	-1,497	-6,779	-8,386	1,895	-11,030	-16,333
8. Nonregularized expenditures (DNTs)	200	200	67	200	200	123	200	200
9. Social and priority spending	4,062	4,062	1,989	8,123	8,123	4,223	12,185	8,647 ⁴

¹ Cumulative from January 1. The definition of the aggregates and adjustors is provided in the Technical Memorandum of Understanding (TMU).

² Adjusted target under the program.

³ Performance criteria (PC) are defined for June and December. March and September are indicative. All performance criteria (PC) are ceilings and PC 3, 4 and 5 apply continuously.

⁴ Indicative target for social and priority spending is adjusted from CFAF 16,246 to CFAF 8,647.

**Table 5. Guinea-Bissau: Structural Benchmarks Under the ECF
January 1, 2010–December 31, 2010**

Category	Structural Benchmarks	Macro Rationale	Actual Delivery Date	Ministry	Status of Implementation
First Review					
Fiscal management	1 Prepare quarterly and monthly treasury plans and make the treasury committee operational within the Ministry of Finance.	To improve budget planning	June 2010	MoF ¹	Met
	2 Implement norms tightening the recourse to simplified spending procedures.	Greater control in budget execution	May 2010	MoF	Met
	3 Make the accounting system operational at the treasury under the SIGFIP.)	Greater control in budget execution	August 2010	MoF	Met
Tax reform and strengthening revenue collection	4 Put into operation ASYCUDA ++ in three customs posts (Bissau, airport, Safim).	To strengthen revenue collection	Sep 2010	MoF	Met
Expenditure reforms	5 Publish the verified data of the biometric census of public administration employees (civil servants and paramilitary).	To improve civil servant management	July 2010	MinLPS ²	Met
Business environment	6 The Council of Ministers will approve a legal framework for the "one-stop" shop, streamlining procedures and reducing costs for licensing and registration of new businesses.	Improve the ease of doing business	March 2010	MinEcon ³	Met.

¹ Ministry of Finance

² Ministry of Labor and Public Administration

³ Ministry of Economy

Table 6. Guinea-Bissau: Medium-Term Action Plan to Address Domestic Arrears

	Arrears as of end-2009	Arrears clearance in 2010
	(CFAF million)	
Total arrears (A+B+C+D)	93,170	23,810
<i>Of which:</i>		
A. Wages ¹	3,300	3,300
B. Banks	11,786	11,786
B.1 Treasury bills	7,561	7,561
B.1.1 Treasury bills, principal	6,740	6,740
B.1.2 Arrears of interest payment	821	821
B.2. Other commercial ²	4,225	4,225
BAO	3,044	3,044
BDU	858	858
CBAO-Senegal	323	323
C. BCEAO ³	6,237	5,224
<i>Of which:</i>		
Consolidations	601	
Comission (2004)	412	
Payments on behalf of the government ⁴	5,224	5,224
D. Private sector ⁵	71,847	3,500
D.1. 1974 - 1999	17,000	3,500
D.2. 2000 - 2007 ⁶	54,847	
Not registered at treasury	34,154	
Registered at treasury	20,693	
Memo item:		
Audited debt	132,709	

Source: Guinea-Bissau authorities; and IMF staff estimates.

¹ Part of the 2008 wage arrears were paid in December 2009 (CFAF 1,900 million).

² Part of the arrears to comercial banks (CFAF 2,900 million) were paid in 2009.

³ The government has requested to renegotiate all of its obligations to the BCEAO in a manner consistent with financing under the ECF-supported program.

⁴ Rescheduled over a period of 5 years.

⁵ Indicative only. The amounts do not include netting out of tax arrears.

⁶ Preliminary estimates of the uncompleted 2000–07 audit financed by the EU.

Table 7. Guinea-Bissau: Central Government Operations, 2008–12

(CFAF billions)

	2008	2009	2010		2011 Proj.	2012 Proj.
			Prog. ¹	Proj.		
Revenue and grants	65.3	97.5	86.6	83.3	80.9	101.6
Revenue	34.6	35.4	43.0	43.2	47.7	51.3
Tax revenue	20.9	26.6	30.1	31.0	35.7	38.9
Nontax revenue	13.7	8.8	12.9	12.2	11.9	12.4
Grants	30.7	62.1	43.6	40.1	33.2	50.3
Budget support ²	16.4	28.5	13.0	9.5	7.5	17.6
Project grants ³	14.4	33.6	30.6	30.6	25.7	32.7
Total expenditure	79.7	86.3	100.1	85.4	91.3	104.0
Current expenditure	52.4	50.3	56.9	49.2	52.9	56.4
Wages and salaries	20.5	20.5	20.7	21.3	22.4	23.9
Goods and services	8.0	6.4	10.2	7.6	8.1	8.6
Transfers	10.9	11.0	12.7	11.0	12.4	13.2
Other current expenditures	5.7	7.5	7.8	8.1	9.0	9.6
Scheduled interest	7.3	4.9	5.4	1.2	0.9	1.0
Domestic interest	1.3	0.0	0.6	0.6	0.6	0.6
External interest	6.0	4.8	4.8	0.6	0.3	0.3
Capital expenditure and net lending	27.3	36.0	43.3	36.2	38.4	47.6
Public investment program	24.7	35.7	42.0	35.9	37.8	46.0
Domestically financed	1.2	1.0	6.6	0.5	2.7	8.5
Foreign financed	23.5	34.6	35.4	35.4	35.1	37.5
Other capital expenditure	2.6	0.3	1.2	0.4	0.6	1.6
Domestically financed	0.4	0.3	1.2	0.4	0.6	1.6
Overall balance, including grants (commitment)	-14.4	11.2	-13.5	-2.1	-10.4	-2.5
Overall balance, excluding grants (commitment)	-45.1	-50.9	-57.1	-42.2	-43.6	-52.7
Net domestic arrears	4.8	-4.9	-7.9	-8.0	-1.9	-1.5
Accumulation current year	10.7	0.0	0.0	0.0	0.0	0.0
Payment previous years	-5.9	-4.9	-7.9	-8.0	-1.9	-1.5
External interest arrears current year	5.2	4.3	0.0	0.0	0.0	0.0
Float and statistical discrepancies	-0.4	0.0	0.0	0.0	0.0	0.0
Overall balance, including grants (cash)	-4.9	10.7	-21.5	-10.2	-12.3	-4.0
Financing	4.9	-10.7	21.5	10.2	12.3	4.0
Domestic financing	-4.6	-10.5	0.2	3.4	0.0	-3.4
Bank financing	-4.6	-10.5	0.2	3.4	0.0	-3.4
Of which: Domestic banks	-5.3	-2.5	-4.2	-4.0	0.0	0.0
Regional (including T-bills)	0.0	0.0	-6.7	-6.7	0.0	0.0
BCEAO	0.7	-8.0	11.2	14.2	0.0	-3.4
Foreign financing (net)	9.5	-0.2	7.8	3.1	8.8	3.9
Disbursements	11.4	1.0	4.7	4.7	9.4	4.8
Projects	11.4	1.0	4.7	4.7	9.4	4.8
Amortization (scheduled and arrears)	-12.8	-10.7	-362.4	-404.7	-0.6	-0.9
External arrears ⁴	6.0	3.7	0.0	0.0	0.0	0.0
Debt relief	4.9	5.7	365.4	403.1	0.0	0.0
Gross financing gap (+ = financing need)	0.0	0.0	13.4	3.6	3.5	3.5
Additional financing ⁵	0.0	0.0	9.8	0.0	0.0	0.0
Residual financing gap ⁶	0.0	0.0	3.6	3.6	3.5	3.5
Domestic primary balance	-12.1	-11.4	-16.3	-5.6	-7.6	-14.3
Revenue	34.6	35.4	43.0	43.2	47.7	51.3
Primary expenditure	46.7	46.8	59.3	48.8	55.3	65.6

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

¹ EBS/10/56.² In 2009 includes CFAF 5.2 billion (€ 8 million) of V-Flex 2009 from the EU for payment of 2008 arrears.³ Project grants in 2009 include new public investments externally financed.⁴ In 2010, arrears are assumed to be treated as debt relief at HIPC completion point.⁵ In 2010 assumed to be covered with EU V-Flex.⁶ Assumed to be covered with IMF resources.

Table 7. Guinea-Bissau: Central Government Operations, 2008–12 (concluded)

(Percent of GDP)

	2008	2009	2010		2011 Proj.	2012 Proj.
			Prog. ¹	Proj.		
Revenue and grants	17.3	24.8	20.7	20.0	18.2	21.5
Revenue	9.2	9.0	10.3	10.4	10.7	10.8
Tax revenue	5.5	6.8	7.2	7.4	8.1	8.2
Nontax revenue	3.6	2.2	3.1	2.9	2.7	2.6
Grants	8.1	15.8	10.4	9.6	7.5	10.6
Budget support ²	4.3	7.3	3.1	2.3	1.7	3.7
Project grants ³	3.8	8.5	7.3	7.4	5.8	6.9
Total expenditure	21.1	21.9	23.9	20.5	20.6	22.0
Current expenditure	13.9	12.8	13.6	11.8	11.9	11.9
Wages and salaries	5.4	5.2	5.0	5.1	5.1	5.1
Goods and services	2.1	1.6	2.4	1.8	1.8	1.8
Transfers	2.9	2.8	3.0	2.6	2.8	2.8
Other current expenditures	1.5	1.9	1.9	1.9	2.0	2.0
Scheduled interest	1.9	1.2	1.3	0.3	0.2	0.2
Domestic interest	0.3	0.0	0.2	0.1	0.1	0.1
External interest	1.6	1.2	1.1	0.1	0.1	0.1
Capital expenditure and net lending	7.2	9.2	10.3	8.7	8.6	10.1
Public investment program	6.5	9.1	10.0	8.6	8.5	9.7
Domestically financed	0.3	0.3	1.6	0.1	0.6	1.8
Foreign financed	6.2	8.8	8.4	8.5	7.9	7.9
Other capital expenditure	0.7	0.1	0.3	0.1	0.1	0.3
Domestically financed	0.1	0.1	0.3	0.1	0.1	0.3
Overall balance, including grants (commitment)	-3.8	2.9	-3.2	-0.5	-2.3	-0.5
Overall balance, excluding grants (commitment)	-12.0	-12.9	-13.6	-10.1	-9.8	-11.1
Net domestic arrears	1.3	-1.2	-1.9	-1.9	-0.4	-0.3
Accumulation current year	2.8	0.0	0.0	0.0	0.0	0.0
Payment previous years	-1.6	-1.2	-1.9	-1.9	-0.4	-0.3
External interest arrears current year	1.4	1.1	0.0	0.0	0.0	0.0
Float and statistical discrepancies	-0.1	0.0	0.0	0.0	0.0	0.0
Overall balance, including grants (cash)	-1.3	2.7	-5.1	-2.4	-2.8	-0.8
Financing	1.3	-2.7	5.1	2.4	2.8	0.8
Domestic financing	-1.2	-2.7	0.1	0.8	0.0	-0.7
Bank financing	-1.2	-2.7	0.1	0.8	0.0	-0.7
Of which: Domestic banks	-1.4	-0.6	-1.0	-1.0	0.0	0.0
Regional (including T-bills)	0.0	0.0	-1.6	-1.6	0.0	0.0
BCEAO	0.2	-2.0	2.7	3.4	0.0	-0.7
Foreign financing (net)	2.5	-0.1	1.9	0.8	2.0	0.8
Disbursements	3.0	0.3	1.1	1.1	2.1	1.0
Projects	3.0	0.3	1.1	1.1	2.1	1.0
Amortization (scheduled and arrears)	-3.4	-2.7	-86.5	-97.1	-0.1	-0.2
External arrears ⁴	1.6	1.0	0.0	0.0	0.0	0.0
Debt relief	1.3	1.4	87.3	96.7	0.0	0.0
Gross financing gap (+ = financing need)	0.0	0.0	3.2	0.9	0.8	0.7
Additional financing ⁵	0.0	0.0	2.3	0.0	0.0	0.0
Residual financing gap ⁶	0.0	0.0	0.9	0.9	0.8	0.7
Domestic primary balance	-3.2	-2.9	-3.9	-1.4	-1.7	-3.0
Revenue	9.2	9.0	10.3	10.4	10.7	10.8
Primary expenditure	12.4	11.9	14.2	11.7	12.5	13.9

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

¹ EBS/10/56.² In 2009 includes 1.3 percent of GDP of V-Flex 2009 from the EU for payment of 2008 arrears.³ Project grants in 2009 include new public investments externally financed.⁴ In 2010, arrears are assumed to be treated as debt relief at HIPC completion point.⁵ In 2010 assumed to be covered with EU V-Flex.⁶ Assumed to be covered with IMF resources.

Table 8. Guinea-Bissau: Quantitative Indicators for the ECF Program for 2011

Quarterly Targets ¹
(Cumulative, CFAF millions)

	End-March	End-June	End-Sept.	End-Dec.
	Prog.	Prog.	Prog.	Prog.
Performance criteria²				
1. Domestic financing of the budget	1,431	-520	-1,954	0
2. New domestic arrears	0	0	0	0
3. External nonconcessional public borrowing, maturity > 1 year	0	0	0	0
4. External short term public borrowing	0	0	0	0
5. New external payment arrears	0	0	0	0
Indicative targets				
6. Government tax revenues	6,437	17,988	28,759	35,745
7. Domestic primary balance (commitment basis)	-1,039	-449	-2,473	-7,579
8. Nonregularized expenditures (DNTs)	200	200	200	200
9. Social and priority spending	2,932	5,864	8,795	11,727

¹ Cumulative from January 1. The definition of the aggregates and adjustors is provided in the Technical Memorandum of Understanding (TMU).

² Performance criteria (PC) are defined for June and December. March and September are indicative. All performance criteria (PC) are ceilings and PC 3, 4 and 5 apply continuously.

Table 9. Guinea-Bissau: Structural Benchmarks Under the ECF
January 1, 2011–December 31, 2011

Category		Structural Benchmarks	Macro Rationale	Delivery Date	Ministry
Second Review					
Fiscal management	1	Establish an operational link from budget/treasury under the SIGFIP to the customs and tax administration.	Greater control in budget execution	March 2011	MoF ¹
Expenditure reforms	2	Submit to the Council of Ministers an action plan for public administration reform, with a medium-term schedule to downsize the civil service through retirement and removing redundant workers beginning in 2011.	To improve the efficiency of civil service	Jan 2011	MoF MinLaPS ²
	3	Start using the unified payroll and personnel management system and pilot it in the Ministries of Finance and Labor and Public Administration.	To modernize public administration	Jan 2011	MoF MinLaPS ²
Third Review					
Tax reform and strengthening revenue collection	1	Customize and test ASYCUDA ++, and provide training to staff.	To strengthen revenue collection	August 2011	MoF
	2	Conduct a comprehensive review of all customs exemptions to further broaden the customs revenue base and submit report to Council of Ministers.	To strengthen revenue collection	June 2011	MoF
	3	Cross-check SYDONIA data with tax returns for 300 largest importers in 2009–10.	To strengthen revenue collection	June 2011	MoF
Expenditure reforms	4	Extend the computerized and unified payroll and personnel management system to all ministries.	To modernize public administration	August 2011	MoF MinLaPS ²
Business environment	5	Prepare an action plan to identify and remove further impediments to private sector development and improve the ease of doing business in Guinea-Bissau.	Improve the ease of doing business	August 2011	MinEcon ³
Public debt management	6	Start producing, on a quarterly basis, electronic reports on public debt (external and domestic).	Improve transparency	June 2011	MoF

¹ Ministry of Finance

² Ministry of Labor and Public Administration

³ Ministry of Economy

Table 9. Guinea-Bissau: Structural Benchmarks Under the ECF (concluded)
January 1, 2011–December 31, 2011

Fourth Review					
Public debt management	1	Use SYGADE to record, monitor, and manage all public debt (external and domestic)	Improve debt management	Dec 2011	MoF ¹
Tax reform and strengthening revenue collection	2	Audit those importers underreporting their tax liabilities, beginning with largest gaps.	To strengthen revenue collection	Dec 2011	MoF
	3	Review the legal framework that regulates revenue sharing agreements (“restitutions”).	To strengthen revenue collection	Dec 2011	MoF
Business environment	4	Prepare a plan to manage the country’s natural resources.	Improve the ease of doing business	Dec 2011	MinEcon ²

¹ Ministry of Finance

² Ministry of Economy

Table 10. Guinea-Bissau: Reviews and Disbursements under the Three-Year ECF Arrangement, 2010–13

Board Date	Test Date	Action	Disbursement	
			% of quota	SDR millions
May 7, 2010		Board approval	55.5 ¹	7.881 ¹
December 2010	End-June 2010	First review	17	2.414
May 2011	End-December 2010	Second review	17	2.414
December 2011	End-June 2011	Third review	17	2.414
May 2012	End-December 2011	Fourth review	17	2.414
December 2012	End-June 2012	Fifth review	17	2.414
May 2013	End-December 2012	Sixth review	17	2.414
Total			157.5	22.365

Source: IMF estimates.

¹ For the amount approved for disbursement at the time of Board approval of the arrangement, 37.5 percent of quota, or SDR 5.325 million, was approved for the purpose of immediately repurchasing previously provided EPCA credit.

Table 11. Guinea-Bissau: Indicators of Capacity to Repay the Fund, 2008–18

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
	Projections										
Fund obligations based on existing credit ¹											
(SDR millions)											
Principal	1.3	1.0	6.3	0.0	0.0	0.0	0.0	0.8	1.6	1.6	1.6
Charges and interest ²	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fund obligations based on existing and prospective credit ³											
(SDR millions)											
Principal	1.3	1.0	6.3	0.0	0.0	0.0	0.0	0.8	2.3	3.3	4.2
Charges and interest	0.1	0.1	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.0	0.0
Total obligations based on existing and prospective credit ^{3,5}											
SDR millions											
CFAF billions	1.0	0.8	4.9	0.0	0.0	0.0	0.0	0.4	1.2	1.7	2.2
Percent government revenue	2.8	2.2	11.2	0.0	0.1	0.1	0.1	0.7	1.8	2.4	2.8
Percent exports of goods and services	1.7	1.4	7.0	0.0	0.0	0.1	0.0	0.5	1.3	1.7	2.1
Percent debt service ⁴	4.9	5.0	1.1	0.6	5.0	1.3	0.4	5.9	15.4	35.5	43.3
Percent GDP	0.3	0.2	1.2	0.0	0.0	0.0	0.0	0.1	0.2	0.3	0.3
Percent quota	9.7	7.7	45.0	0.5	0.6	0.8	0.8	6.3	17.0	23.7	30.4
Percent reserves	1.5	1.3	7.2	0.0	0.0	0.1	0.0	0.5	1.5	2.0	2.4
Outstanding Fund credit ^{3,5}											
SDR millions											
CFAF billions	5.6	6.3	2.4	7.2	12.1	14.5	14.5	14.5	13.8	12.1	9.4
Percent government revenue	11.4	13.0	4.3	11.8	18.4	20.5	12.6	11.8	10.5	8.6	6.2
Percent exports of goods and services	6.9	8.2	2.7	7.2	11.5	13.2	8.3	8.0	7.5	6.2	4.6
Percent debt service ⁴	19.9	29.0	0.4	1118.1	1322.3	311.1	97.7	100.0	90.2	129.2	95.4
Percent GDP	1.0	1.2	0.4	1.3	2.0	2.3	1.4	1.3	1.2	1.0	0.7
Percent quota	39.3	44.6	72.5	106.5	140.5	157.5	157.5	152.0	135.8	112.7	83.0
Percent reserves	5.9	7.6	2.7	7.7	12.5	14.6	9.4	9.1	8.7	7.2	5.3
Net use of Fund credit (SDR millions)											
Disbursements	2.3	0.8	5.0	4.8	4.8	2.4	0.0	0.0	-0.7	-1.7	-2.7
Repayments and repurchases before HIPC and MDRI	3.6	1.8	10.3	4.8	4.8	2.4	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases after HIPC and MDRI	1.3	1.0	6.3	0.0	0.0	0.0	0.0	0.8	2.3	3.3	4.2
			5.3	0.0	0.0	0.0	0.0	0.0	0.7	1.7	2.7
<i>Memorandum items (CFAF billions)</i>											
Charges and interest, after assumed subsidies	0.1	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.0	0.0
Nominal GDP	377.5	393.1	416.7	443.9	473.2	505.4	539.6	575.9	613.9	654.3	697.4
Exports of goods and services	57.4	56.4	69.0	78.2	82.1	86.2	90.4	94.4	94.5	100.4	106.7
Government revenue	34.6	35.4	43.2	47.7	51.3	55.6	59.6	63.8	68.3	73.1	78.2
Debt service ^{2, 4}	19.8	15.9	457.2	0.5	0.7	3.7	7.7	7.5	7.9	4.8	5.1
Net Foreign Assets Central Bank	66.6	60.9	67.6	72.9	75.4	77.8	80.1	82.1	82.25	87.4	92.8
Quota (SDR)	14.2	14.2	14.2	14.2	14.2	14.2	14.2	14.2	14.2	14.2	14.2

Sources: IMF staff estimates and projections.

¹ Data are actual through September 2010 and are projected after that.

² Effective on January 7, 2010 interest on ECF credit outstanding would be zero in 2010 and 2011. It is assumed the ECF interest rate would be at 0.25 percent from 2012 and onward. Charges include net SDR charges and SDR assessments.

³ A new ECF arrangement of 157.5 percent of quota (SDR 22.365 million) was approved in May 2010, of which 37.5 percent of quota (SDR 5.325 million) was used for early repurchase of outstanding EPCA credit.

⁴ Total debt service includes IMF repurchases and repayments.

⁵ Assuming Guinea-Bissau reaches HIPC completion point in December 2010 and receives the remaining HIPC assistance on stock basis.

APPENDIX I. CENSUS OF THE PUBLIC ADMINISTRATION

For the first time in years the government of Guinea-Bissau has an accurate account of all employees working at the public administration. The authorities conducted a comprehensive biometric census of all public administration employees, excluding the military personnel covered by a separate census conducted in 2008.¹ The biometric census was subject to verification through controls during the first half of 2010 and published in July 2010. It has helped to lay the groundwork for the government to prepare a broad civil service reform to achieve a more modern, efficient civil service.

The census was organized and carried out by the Ministry of Labor and Public Administration, and covered all employees in the public administration. The preliminary results were reviewed and validated by a committee, and on-site payroll controls were conducted to detect “ghost” workers and those collecting double salaries. Close to 4,000 out of 22,000 employees could not be verified.

According to the census, Guinea-Bissau has 18,317 employees in the public administration, of which 16,147 are nonmilitary personnel in the direct administration and the judiciary sector and are paid by the budget (see the table). Civil servants account for half of all public employees working in the direct administration. About 60 percent of all civilian employees in the direct administration work for the education and health sectors. Paramilitary employees are mostly concentrated in the Ministry of Interior, which includes police for public order, national guard, immigration, and the information services agency.

The census is being used to create a database that will feed into the Integrated Personnel Management System of the Public Administration (IPMSPA). This system will be an important tool for adequate and transparent management of the wage bill, allowing for a unified payment system.

Census of the Public Administration	
Total census	22,236
Non confirmed	3,919
Confirmed	18,317
Indirect administration	2,170
Magistrate	146
Direct administration	16,001
Civilians	12,450
Civil servants	8,495
o.w. Education	4,065
o.w. Health	1,373
Contractuals	3,955
o.w. Education	1,995
o.w. Health	427
Paramilitary	3,551
o.w. Ministry of Interior	3,181
Memo item.	
Military forces	4,458
Public employees in wage bill *	20,605

* Public employees in wage bill include military forces, magistrate and direct administration.

¹ The government conducted a census of the military forces in 2008.

APPENDIX II. LETTER OF INTENT

Bissau, November 16, 2010

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Mr. Strauss-Kahn,

1. This letter and the attached memorandum of economic and financial policies (MEFP) update and supplement our correspondence of March 11, 2010, describe performance under the government's economic program for 2010, and propose our economic program for 2011.
2. The government economic program, supported by a three-year Extended Credit Facility (ECF), is on track. All performance criteria through end-June 2010 have been observed, and structural benchmarks for the first review were met (see Tables 1 and 2 of the MEFP). Except for the indicative target on social and other priority spending, all quantitative targets for end-June have also been met. The government is determined to speed up implementation of its investment program and priority spending in line with available financing.
3. In view of this performance, the Government of Guinea-Bissau requests completion of the first review and the second disbursement under the ECF arrangement of SDR 2.414 million. Completion of the first review will help pave the way for Guinea-Bissau to reach the Heavily Indebted Poor Countries (HIPC) Initiative completion point in late 2010.
4. The attached MEFP articulates the economic policies the government intends to pursue during 2011, as well as the targets and objectives under the program (performance criteria and structural benchmarks are included in Tables 3 and 4 of the MEFP). The government's objectives continue to be achieving fiscal and external sustainability, reviving economic growth, reducing poverty, and making progress toward the Millennium Development Goals (MDGs). The policies elaborated in the MEFP are adequate to achieve the objectives of the ECF-supported program. However, if necessary, the government will adopt additional measures to achieve these objectives. It will consult with the Fund before adopting such measures or if there are changes in the policies contained in the MEFP, in accordance with the Fund's policies on such consultations.
5. In line with our commitment to transparency, we request the IMF to publish this letter of intent, the attached MEFP, the Technical Memorandum of Understanding, the staff report, and the HIPC completion point document.

Sincerely yours,

/s/

José Mario Vaz
Minister of Finance

ATTACHMENT I. MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES FOR 2011

I. INTRODUCTION

1. **This memorandum summarizes the progress achieved since the adoption of the ECF-supported program and describes the macroeconomic policies and structural reforms the government plans to implement in 2011.** The program objectives are unchanged: achieving fiscal and external sustainability, reviving economic growth, and making progress toward poverty alleviation and the Millennium Development Goals (MDGs). Policy priorities continue to focus on strengthening public finances; modernizing the public administration and rebuilding technical and policy implementation capacity; increasing access to social services and basic infrastructure; and developing the private sector.
2. **Program implementation has taken place against the background of the April 1 military incident.** Since then, the political situation has been stable. Spillovers to the functioning of the civilian government have been limited and the government ministries as well as the parliament are operating normally. Development partners continue to follow the resolution of the military incident closely, with implications for budget support.

II. RECENT ECONOMIC DEVELOPMENTS AND PERFORMANCE UNDER THE ECF-SUPPORTED PROGRAM

A. Recent Economic Developments

3. **Economic growth has been resilient.** Strong terms-of-trade gains more than offset a weather-related decline in cashew harvest. Higher exports had a positive impact on disposable income and domestic demand. Construction activity has been buoyant despite a delay in the government investment program. Overall, growth is expected to accelerate slightly to 3.5 percent in 2010, up from 3.0 percent in 2009.
4. **Shortfalls in budget support and uncertainty about its prospects led the government to contain spending below program levels, including social and other priority spending.** Guinea-Bissau received a quarter of the budget support expected during the first half of the year, resulting in a shortfall in financing of CFAF 8.4 billion. This shortfall was accommodated through a combination of higher revenues and lower expenditures, ultimately affecting social and capital spending. In July, the AfDB disbursed its budget support and the World Bank approved its budget support operation. For the year, the expected shortfall in budget support and financial assistance amounts to 3.2 percent of GDP (or CFAF 13.3 billion).
5. **Fiscal adjustment through June more than offset delays in donor support, reflecting strong revenue performance, lower current primary spending, and delays in investment spending.** End-June 2010 fiscal data show a domestic primary balance of 0.5 percent of GDP (about 2 percentage points of GDP higher than programmed).
 - **Revenues** were ½ percentage point of GDP above program driven by direct and indirect taxes, reflecting healthy economic activity and tighter controls at customs (DGA) and revenue administration (DGCI).

- **Expenditures** were kept below program. Spending in goods and services and capital investment were contained in light of delays in disbursement of donor support.
6. **Inflation is still projected to be within the WAEMU target of 3 percent for the region.** Private sector credit accelerated, reflecting the government's domestic arrears clearance with the commercial banks early in the year.
7. **The external current account excluding official transfers is expected to narrow moderately this year.** Exports benefited from sharp increases in the price of cashew, only partly offset by a drop in volume of cashew exports. Stable net remittances also helped contain balance of payments pressures.

B. Performance Under the ECF Program

8. **Fiscal performance has been satisfactory despite delays in the disbursement of external budget support, and all quantitative performance criteria (PCs) at end-June 2010 were met** (Table 1). Fiscal revenues were above target, with strong tax collection more than offsetting delays in the disbursement of fishing compensation (nontax revenue) by the EU. Except for the indicative target on social and priority spending, all quantitative targets for end-June have been met. Shortfalls in budget support and uncertainty about its prospects led the government to contain spending below program levels, including social and priority spending.
9. **All structural benchmarks have been met** (Table 2). The treasury committee became operational, and it is proving to be an effective tool in improving cash management. The committee includes the minister of finance, the secretary of state of the treasury, the secretary of state of fiscal affairs, the financial controller, and the general directors of the treasury and budget. The government has also approved and implemented norms that helped tighten the recourse to simplified spending procedures. As a result, the government managed to keep nonregularized expenditures (the so-called "DNTs") within program ceilings. In July, the data of the biometric census of the public administration was published. The Council of Ministers approved a law creating the legal framework for the "one-stop" shop. The treasury's accounting system under the government's financial management system (SIGFIP) became operational by end-August. The Automated System for Customs Data (ASYCUDA++) has been installed in Bissau with assistance from UNCTAD.
10. **Progress has been made implementing other structural reform measures.** To strengthen oversight and control over public procurement, the National Assembly passed a new procurement law in July establishing a central procurement unit and a public procurement regulatory authority. As part of government efforts to better disseminate information on budget execution, the government started publishing and releasing to parliament quarterly budget execution reports. On defense and security sector reform (SSR), laws governing reorganization of the armed forces, the police, and the national guard were approved by the National Assembly in June and published in September. The legal framework for a pension fund for the military and security forces was approved in June, with a view to be made operational once financing from development partners becomes available.

11. **The government is on track with the execution of its arrears clearance plan.** The plan includes addressing the 1974–99 arrears to the private sector, which have already been audited, and completing the audit of the 2000–07 arrears. In addition to the clearance of the arrears with the commercial banks at the beginning of the year, the government paid CFAF 3.5 billion (about 0.8 percent of GDP) in arrears clearance to the private sector in August 2010.

III. MACROECONOMIC OUTLOOK AND ECONOMIC POLICIES FOR 2011

A. Macroeconomic Outlook

12. **The government’s medium-term macroeconomic objectives are unchanged under the ECF-supported program:** (i) raise real growth to 4½ percent by program end, (ii) contain annual inflation below the WAEMU convergence norm of 3 percent, (iii) narrow the external current account gradually (excluding official transfers), and (iv) keep the domestic primary budget deficit below 4 percent of GDP annually through 2012.

13. **The 2011 macroeconomic outlook is projected to improve.** Economic growth is expected to accelerate to 4.3 percent, driven by a rebound in cashew production, increased activity in cashew nut processing, and rebuilding of infrastructure, especially roads, ports, electricity, and water. Stable cashew prices and remittances, stemming from an improved global environment, should help support domestic demand and a further narrowing of the external current account deficit.

14. **Inflation is expected to remain below the WAEMU convergence norm, supported by the CFA peg to the euro.** Monetary and exchange rate policy will continue to be pursued within the WAEMU framework.

B. Fiscal Policy

15. **The medium-term fiscal program will continue to aim at strengthening fiscal policy and achieving debt sustainability.** The strategy seeks to reinforce revenue collection—low by regional standards—and make space for priority spending. The government will continue to address domestic arrears in line with available resources. The fiscal program reduces the domestic primary deficit gradually. This, combined with HIPC/MDRI debt relief, will improve fiscal and debt sustainability while limiting reliance on external budget support.

16. **The government is adjusting its fiscal plans for 2010 to address the expected shortfall in budget support** (3.2 percent of GDP). The adjustment is driven by several considerations: budget execution through August 2010 and preservation of priority spending and deposits at the BCEAO. Measures consist of higher revenues and lower spending in goods and services (by about 1 percentage point of GDP); underexecuting the budget for domestically financed capital spending by about 1½ percentage points of GDP; and drawing on government deposits at the BCEAO to raise domestic financing (by about ¾ percentage point of GDP). If budget support is higher than envisaged in the program, the government is

committed to using resources to restore spending in the priority areas of infrastructure, agriculture, health, and education, as well as rebuilding deposits at the BCEAO.

17. **The 2011 budget will implement strong measures and will be consistent with available financing.** It will target a domestic primary budget deficit of 1.7 percent of GDP, consistent with domestic primary spending of CFAF 55.3 billion and budget support of about CFAF 7.5 billion, without adding to Guinea-Bissau's debt problem. On the revenue side, the government will raise the reference price for cashew exports to US\$ 750 per ton and for imports that need valuation adjustments (rice to CFAF 6000, sugar to CFAF 8500, and flour to CFAF 8500) and increase the tax rate on advance payment of profit tax (ACI) from 3 to 5 percent for the informal sector. On the spending side, the government will freeze wages while incorporating contractual workers in the health and education sector in the wage bill. Budget support is expected from the AfDB and the World Bank. The residual financing gap of CFAF 3.5 billion is expected to be filled by the ECF. The government will submit the 2011 budget to the National Assembly consistent with these parameters. In the event that budget support is higher, the government will restore its public investment program (PIP) and increase other priority spending.

18. **The government will continue to address domestic arrears in line with the medium-term strategy under the ECF.** For 2011, it will carefully monitor budget execution and available resources before carrying out its plan of paying a total of CFAF 1.85 billion. The government will also complete the audit of the arrears of 2000–07.

C. Structural Reforms

19. **The government's program will continue to center on strengthening revenue collection; improving public financial management; modernizing the public administration and creating space for priority spending; removing impediments to private sector development; improving access to social services; and reinforcing debt management.**

(i) Strengthening Revenue Collection

20. **A major source of fiscal imbalances in Guinea-Bissau is the low level of revenue compared with other Sub-Saharan African countries, including countries in WAEMU.** Revenue depends heavily on tax collection at customs (export and import duties, as well as sales taxes on imports). Measures to mobilize revenue focus partly on improving customs administration, especially import processing and customs clearance, and the tax base also needs broadening.

21. **To achieve its revenue collection targets, the government will modify customs and tax policy to enhance revenue collection and broaden the tax base.** The government plans to (i) start raising the reference prices for customs purposes of certain imports toward market values in the 2011 budget; (ii) raise the reference price for cashew exports; (iii) increase the tax rate on the advance payment of the profit tax collected at customs (anticipation of industrial contribution); and (iv) start preparing for a transition from the general sales tax to the VAT, similar to other WAEMU countries. The government will

request technical assistance from development partners on tax policy, possibly through a resident advisor.

22. To continue modernizing and improving customs and tax administration, the government will

- On customs, (i) reintroduce seals on alcoholic beverages and tobacco to combat smuggling (by January); (ii) customize and test the system of ASYCUDA ++ with the parameters for Guinea-Bissau and train staff with the help of UNCTAD (by August); and (iii) conduct a comprehensive review of all customs exemptions to further broaden the customs revenue base, submitting a report to Council of Ministers (by June).
- On tax administration, (i) revise taxpayer segmentation based on turnover criteria, with thresholds for small and large taxpayers at CFAF 10 and 40 million, respectively (by June); (ii) cross-check ASYCUDA ++ data with tax returns for 300 largest importers in 2009-10 (by June); (iii) audit importers underreporting tax liabilities, beginning with largest gaps (by December); (iv) increase to 90 percent large taxpayers filing rate for the general sales tax; and (v) continue to reinforce the large taxpayer unit in the Ministry of Finance to ensure compliance with tax declarations. Measures (i), (ii), and (iii) are prerequisites for preparing an action plan for the VAT in line with recommendations from the Fund's fiscal affairs department (FAD).

(ii) Improving Public Expenditure and Financial Management

23. The government will continue to implement its public financial management (PFM) action plan. Measures will focus on bettering budget planning, improving predictability and control in budget execution, strengthening reporting procedures, and reinforcing internal and external controls.

Bettering budget planning

- The government will review the legal framework that regulates revenue sharing agreements ("restitutions") to increase the share of non earmarked revenues in the budget, and will submit a proposal to the Council of Ministers (by December 2011). The review will include all restitutions between the collecting ministries (including allocated revenue from fishing, mining, and forestry; and administrative revenue such as revenue from passports) and the treasury.
- The government will seek technical assistance from development partners to reinforce budget preparation procedures.

Improving predictability and control in budget execution

- To ensure adequate cash management, the treasury committee in the Ministry of Finance will prepare and regularly update the treasury plan for the 2011 budget.
- To improve financial management the government will establish an operational link form budget/treasury under the SIGFIP to the customs and tax administration (by March 2011).

Strengthening reporting procedures

- The government will continue publishing quarterly budget execution reports, and send detailed budget execution reports to all sovereign institutions.

Reinforcing internal and external controls

- The government will modify the organic law for the Audit Court to harmonize it with the WAEMU directives. It will submit to the Court of Accounts the budgetary execution accounts of 2010 (by September 2011).

(iii) Modernizing the Public Administration and Creating Space for Priority Spending

24. **The government will launch a gradual civil service reform program to achieve a more modern, efficient civil service.** The minister of labor and public administration is preparing a plan to submit to the Council of Ministers by January 2011. The plan will (i) include a medium-term schedule with annual targets to gradually downsize the civil service through mandatory retirement and removal of redundant workers and (ii) increase the efficiency of public administration by upgrading the qualifications and working conditions for civil servants. The government will use savings in the wage bill to help cover the cost of severance payments.

25. **The government is working to implement stricter payroll controls and establish a more comprehensive payroll database.** This will allow for adequate control, regular updating, and verification of civil service employment. By January 2011, the government will start using the computerized and unified payroll and personnel management system in the Ministries of Finance and Labor and Public Administration. The system will be extended to all ministries by August 2011.

26. **The government continues to work with development partners to modernize defense and security sectors.** The government is preparing an operational plan with a list of potential retirees and projects for the construction of military and security installations. The government will facilitate donor coordination with the participation of ECOWAS, CPLP, the UN, and other development partners. Financing will be needed for the pension fund.

(iv) Removing Impediments to Private Sector Development

27. **The government program to remove impediments to private sector development has three main objectives:** (i) improve the business environment; (ii) restore and develop basic power, transportation, and communication infrastructures; and (iii) start managing the country's natural resources.

28. **To improve the business and investment environment, the government will**

- Adopt the implementing regulations of the new investment code, which removes the multiplicity of investment regimes, eliminates the discretion of granting incentives under the old law, and provides a level playing field for private investors.
- Prepare an action plan to further identify and remove impediments to private sector development and improve the ease of doing business in Guinea-Bissau (by August).

29. **As part of its new strategy for growth and poverty reduction, the government identified areas where investments are most promising in terms of medium-term growth.** These consist of sectors where the country has comparative advantage, such as agriculture and fishery, or sectors that constitute a significant constraint on growth, energy, transport and the port. The government is working with the World Bank to reactivate electricity generation and distribution installations in Bissau and will develop a sectoral strategy to promote alternative domestic energy sources. The government will coordinate closely with the BOAD and other development partners, with a view to improve roads connecting Bissau to neighboring countries and provide access to production areas. The construction of a fishing port should be ready by 2011.

30. **The government wants to exploit mineral deposits and other natural resources over the medium term.** Such resources could contribute to foreign exchange earnings and tax revenues, and enhance the country's overall financial position, thus helping reduce poverty. The government will prepare a plan to manage the country's natural resources by December 2011. This plan will help ensure that as preparatory work are undertaken in these areas, transparent and accountable practice will be followed in the mining, oil, and gas sectors, including dealing with the environmental impact of the development of mineral deposits. The plan would also include the feasibility studies of needed infrastructure such as the deep water port for developing bauxite deposits and roads for the phosphate deposits.

(v) **Improving Access to Social Services**

31. **The government aims to make further progress toward addressing high rates of poverty.** The government will adopt a new five-year poverty reduction strategy (PRS) that incorporates the lessons learned in implementing the 2007 PRS (by December 2010). Increasing per capita income and reducing the incidence of poverty will require efforts on several fronts, including improving access to basic services (health and education) and agricultural development because most of the poor live in rural areas and practice subsistence agriculture.

(vi) **Reinforcing Debt Management**

32. **The government plans to improve debt management by**

- Strengthening the unit of public debt management;
- Producing quarterly electronic reports on public debt (external and domestic) no later than three months after each quarter, in a manner consistent with the BCEAO reporting requirements, with the first report to be published by June 2011; and

- Using the Debt Management Financial and Analysis System (DMFAS; SYGADE in French) to record, monitor, and manage all public debt (external and domestic) by December 2011.

33. **The government will pursue a prudent debt management strategy.** The government will not contract or guarantee any nonconcessional or short-term external debt, as defined in the Technical Memorandum of Understanding (TMU). Moreover, any government or government-guaranteed borrowing (external or domestic) will be subject to prior approval by the finance minister.

D. Financial Sector and Monetary Policies

34. **Monetary policy will continue to be pursued within the WAEMU framework.** This arrangement has enabled the country to contain inflation and maintain a stable exchange rate.

35. **Access to credit is still low.** Much work is still needed in the area of contract enforcement. To strengthen legal rights the government will provide resources to allow the commercial tribunal to function. The government will seek donor support for setting up a credit bureau and a collateral registry. The government's arrears clearance strategy will continue to improve the liquidity of the private sector.

E. Reaching the HIPC Completion Point

36. **The government is committed to reach the HIPC completion point by end-2010.** The government has implemented all but one completion point trigger and is requesting a waiver for lack of continuous implementation of one trigger. The triggers that have been implemented are (i) a track record of satisfactory macroeconomic performance lasting at least six months, which will coincide with the first review of performance under the ECF; (ii) a satisfactory record of PRS implementation for at least one year, as shown by a joint WB-IMF staff assessment of the country's annual progress report (APR); (iii) better outcomes in the areas of health, education, and demobilization; and (iv) reforms in the area of governance, including the external audit of the 1997–99 budget outturns and the reform of the public procurement system. The government is requesting a waiver for lack of continuous publication of comprehensive budget execution reports since 2001. In 2010, the government started publishing quarterly budget execution reports and submitted the general administrative accounts for FY2009 to the Court of Accounts by end-September 2010.

37. **The government is seeking to normalize relations with all creditors in a manner consistent with the country's debt service capacity and consistent with the HIPC initiative.** The government has already received HIPC financing assurances from creditors representing over 80 percent of HIPC eligible debt and will continue to seek maximum participation in the HIPC initiative beyond the minimum threshold of 80 percent.

F. Statistics

38. **The government plans to better disseminate data.** It will publish national account data for 2009 this year, based on the SNA93, and will continue to publish WAEMU harmonized consumer price index.

G. Capacity Building and Technical Assistance

39. **Capacity building will be needed to ensure effectiveness and sustainability of fiscal reforms.** In the Ministry of Finance, the highest priorities are: customs, treasury, budget, and tax and financial control departments. The IMF is providing technical support, including technical assistance from FAD and West AFRITAC, in public financial management, revenue administration, and national accounts statistics.

H. Program Monitoring

40. **While the underlying objectives of the program remain unchanged, it has become necessary to modify the indicative target on social and priority spending for end-December 2010 because of a shortfall in budget support** (Table 1). All other quantitative indicators and all performance criteria remain unchanged.

41. **The second year of the program covers the 12 months from January 1, 2011, to December 31, 2011.** The program will be monitored using quarterly quantitative indicators and structural benchmarks, as well as semiannual reviews and the quantitative performance criteria presented in Table 3. Tables 4 and 5 contain a list of structural measures identified by the government. The definitions of quantitative performance criteria and benchmarks are in the attached TMU. We expect the second review to take place in May 2011 and the third review in November 2011.

Table 1. Guinea-Bissau: Quantitative Indicators for the ECF Program for 2010

Quarterly Targets ¹
(Cumulative, CFAF millions)

	End-March			End-June			End-Sept.	End-Dec.
	Prog.	Prog. ²	Actual	Prog.	Prog. ²	Actual	Prog.	Prog.
Performance criteria³								
1. Domestic financing of the budget	7,165	10,618	5,975	-1,411	8,627	302	3,430	231
2. New domestic arrears	0	0	0	0	0	0	0	0
3. External nonconcessional public borrowing, maturity > 1 year	0	0	0	0	0	0	0	0
4. External short term public borrowing	0	0	0	0	0	0	0	0
5. New external payment arrears	0	0	0	0	0	0	0	0
Indicative targets								
6. Government tax revenues	5,420	5,420	6,392	15,148	15,148	17,539	24,218	30,101
7. Domestic primary balance (commitment basis)	-7,789	-7,789	-1,497	-6,779	-8,386	1,895	-11,030	-16,333
8. Nonregularized expenditures (DNTs)	200	200	67	200	200	123	200	200
9. Social and priority spending	4,062	4,062	1,989	8,123	8,123	4,223	12,185	8,647 ⁴

¹ Cumulative from January 1. The definition of the aggregates and adjustors is provided in the Technical Memorandum of Understanding (TMU).

² Adjusted target under the program.

³ Performance criteria (PC) are defined for June and December. March and September are indicative. All performance criteria (PC) are ceilings and PC 3, 4 and 5 apply continuously.

⁴ Indicative target for social and priority spending is adjusted from CFAF 16,246 to CFAF 8,647.

Table 2. Guinea-Bissau: Structural Benchmarks Under the ECF
January 1, 2010–December, 31, 2010

Category	Structural Benchmarks	Macro Rationale	Actual Delivery Date	Ministry	Status of Implementation
First Review					
Fiscal management	1 Prepare quarterly and monthly treasury plans and make the treasury committee operational within the Ministry of Finance.	To improve budget planning	June 2010	MoF ¹	Met
	2 Implement norms tightening the recourse to simplified spending procedures.	Greater control in budget execution	May 2010	MoF	Met
	3 Make the accounting system operational at the treasury under the SIGFIP.)	Greater control in budget execution	August 2010	MoF	Met
Tax reform and strengthening revenue collection	4 Put into operation ASYCUDA ++ in three customs posts (Bissau, airport, Safim).	To strengthen revenue collection	Sep 2010	MoF	Met
Expenditure reforms	5 Publish the verified data of the biometric census of public administration employees (civil servants and paramilitary).	To improve civil servant management	July 2010	MinLaPS ²	Met
Business environment	6 The Council of Ministers will approve a legal framework for the “one-stop” shop, streamlining procedures and reducing costs for licensing and registration of new businesses.	Improve the ease of doing business	March 2010	MinEcon ³	Met.

¹ Ministry of Finance

² Ministry of Labor and Public Administration

³ Ministry of Economy

Table 3. Guinea-Bissau: Quantitative Indicators for the ECF Program for 2011

Quarterly Targets ¹
(Cumulative, CFAF millions)

	End-March	End-June	End-Sept.	End-Dec.
	Prog.	Prog.	Prog.	Prog.
Performance criteria²				
1. Domestic financing of the budget	1,431	-520	-1,954	0
2. New domestic arrears	0	0	0	0
3. External nonconcessional public borrowing, maturity > 1 year	0	0	0	0
4. External short term public borrowing	0	0	0	0
5. New external payment arrears	0	0	0	0
Indicative targets				
6. Government tax revenues	6,437	17,988	28,759	35,745
7. Domestic primary balance (commitment basis)	-1,039	-449	-2,473	-7,579
8. Nonregularized expenditures (DNTs)	200	200	200	200
9. Social and priority spending	2,932	5,864	8,795	11,727

¹ Cumulative from January 1. The definition of the aggregates and adjusters is provided in the Technical Memorandum of Understanding (TMU).

² Performance criteria (PC) are defined for June and December. March and September are indicative. All performance criteria (PC) are ceilings and PC 3, 4 and 5 apply continuously.

Table 4. Guinea-Bissau: Structural Benchmarks Under the ECF
January 1, 2011–December 31, 2011

Category		Structural Benchmarks	Macro Rationale	Delivery Date	Ministry
Second Review					
Fiscal management	1	Establish an operational link from budget/treasury under the SIGFIP to the customs and tax administration.	Greater control in budget execution	March 2011	MoF ¹
Expenditure reforms	2	Submit to the Council of Ministers an action plan for public administration reform, with a medium-term schedule to downsize the civil service through retirement and removing redundant workers beginning in 2011.	To improve the efficiency of civil service	Jan 2011	MoF MinLaPS ²
	3	Start using the unified payroll and personnel management system and pilot it in the Ministries of Finance and Labor and Public Administration.	To modernize public administration	Jan 2011	MoF MinLaPS ²
Third Review					
Tax reform and strengthening revenue collection	1	Customize and test ASYCUDA ++, and provide training to staff.	To strengthen revenue collection	August 2011	MoF
	2	Conduct a comprehensive review of all customs exemptions to broaden the customs revenue base and submit report to Council of Ministers.	To strengthen revenue collection	June 2011	MoF
	3	Cross-check SYDONIA data with tax returns for 300 largest importers in 2009–10.	To strengthen revenue collection	June 2011	MoF
Expenditure reforms	4	Extend the computerized and unified payroll and personnel management system to all ministries.	To modernize public administration	August 2011	MoF MinLaPS ²
Business environment	5	Prepare an action plan to identify and remove further impediments to private sector development and improve the ease of doing business in Guinea-Bissau.	Improve the ease of doing business	August 2011	MinEcon ³
Public debt management	6	Start producing, on a quarterly basis, electronic reports on public debt (external and domestic).	Improve transparency	June 2011	MoF

¹ Ministry of Finance

² Ministry of Labor and Public Administration

³ Ministry of Economy

Table 4. Guinea-Bissau: Structural Benchmarks Under the ECF (concluded)
January 1, 2011–December 31, 2011

Fourth Review					
Public debt management	1	Use SYGADE to record, monitor, and manage all public debt (external and domestic)	Improve debt management	Dec 2011	MoF ¹
Tax reform and strengthening revenue collection	2	Audit those importers underreporting their tax liabilities, beginning with largest gaps.	To strengthen revenue collection	Dec 2011	MoF
	3	Review the legal framework that regulates revenue sharing agreements ("restitutions").	To strengthen revenue collection	Dec 2011	MoF
Business environment	4	Prepare a plan to manage the country's natural resources.	Improve the ease of doing business	Dec 2011	MinEcon ²

¹ Ministry of Finance

² Ministry of Economy

Table 5. Guinea-Bissau: Structural Measures for 2011

Category	Measures	Delivery Date
Tax reform & strengthening revenue collection	1 Raise reference price for cashew exports to US\$750 per ton. (¶17)	2011
	2 Raise the reference price for staple imports (rice to CFAF 6000, sugar to CFAF 8500, and flour to CFAF 8500). (¶17)	2011
	3 Increase the tax rate on advance payment of the profit tax collected at customs (anticipation of industrial contribution) from 3 to 5 percent for the informal sector. (¶17)	2011
	4 Reintroduce seals on alcoholic beverages and tobacco. (¶22)	Jan 2011
	5 Customize and test the system of ASYCUDA ++ with the parameters for Guinea-Bissau (including the specific exemptions and tariffs), and train staff. (¶22)	Aug 2011
	6 Conduct a comprehensive review of all customs exemptions. (¶22)	Jun 2011
	7 Revise taxpayer segmentation based on turnover criteria, with threshold for small and large taxpayers at CFAF 10 and CFAF 40 million, respectively. (¶22)	Jun 2011
	8 Cross-check SYDONIA data with tax returns for 300 largest importers in 2009–10. (¶22)	Jun 2011
	9 Audit importers underreporting tax liabilities, beginning with largest gaps. (¶22)	Dec 2011
	10 Increase to 90 percent large taxpayers filing rate for the general sales tax. (¶22)	2011
	11 Continue to reinforce the large taxpayer unit in the Ministry of Finance. (¶22)	2011
Fiscal management	12 Review the legal framework that regulates revenue sharing agreements (“restitutions”) to increase the share of non earmarked revenues in the budget. (¶23)	Dec 2011
	13 Seek technical assistance to reinforce budget preparation procedures. (¶23)	Jun 2012
	14 Prepare and regularly update the treasury plan for the 2011 budget. (¶23)	2011
	15 Establish an operational link form budget/treasury under the SIGFIP to the customs and tax administration. (¶23)	Mar 2011
	16 Continue publishing quarterly budget execution reports. (¶23)	2011
	17 Modify the organic laws for the Audit Court. (¶23)	2011
	18 Submit to the Court of Accounts the budgetary execution accounts for 2010. (¶23)	Sep 2011
Civil service reform	19 Submit to the Council of Ministers an action plan for public administration reform, with a medium-term schedule to downsize the civil service through retirement and removing redundant workers beginning in 2011. (¶24)	Jan 2011

	20 Start using the computerized and unified payroll and personnel management system in the Ministries of Finance and Labor and Public Administration. (¶25)	Jan 2011
	21 Extend the computerized and unified payroll and personnel management system to all ministries. (¶25)	Aug 2011
Defense and security sector reform	22 Prepare an operational plan with a list of potential retirees and projects for the construction of military and security installations. (¶26)	2011
Arrears clearance	23 Complete the audit of 2000–07 private sector arrears. (¶18)	2011
Business environment	24 Adopt the implementing regulations of the new investment code. (¶28)	2011
	25 Prepare an action plan to further identify and remove impediments to private sector development and improve the ease of doing business in Guinea-Bissau. (¶28)	Aug 2011
	26 Prepare a plan to manage the country's natural resources. (¶30)	Dec 2011
Social services	27 Adopt a new five-year poverty reduction strategy (PRS). (¶31)	Dec 2010
Public debt management	28 Strengthen the unit of public debt management. (¶32)	2011
	29 Produce quarterly electronic reports on public debt no later than three months after each quarter, in a manner consistent with BCEAO reporting requirements. (¶32)	Jun 2011
	30 Use SYGADE to record, monitor, and manage all public debt. (¶32)	Dec 2011

ATTACHMENT II. TECHNICAL MEMORANDUM OF UNDERSTANDING

Bissau

November 16, 2010

1. **This memorandum describes the definitions of the quantitative and structural performance criteria, indicative targets, and structural benchmarks to monitor the program supported by an arrangement under the Extended Credit Facility (ECF).** It also specifies the agreed periodicity and deadlines for transmission of data to IMF staff for program monitoring.

Quantitative Indicators and Adjustors**A. Quantitative Indicators**

2. **The quantitative indicators are as follows:**
- a. Cumulative floors on government tax revenue
 - b. Cumulative ceilings on the domestic primary fiscal deficit (on a commitment basis)
 - c. Cumulative ceiling on the amount of nonregularized expenditures (DNTs).
 - d. Cumulative floor on social and other priority spending
 - e. Cumulative ceilings on the change in net domestic financing of the budget
 - f. Cumulative ceiling on new domestic arrears of the government, including wage arrears
 - g. Cumulative ceilings on new nonconcessional external debt contracted or guaranteed by the government
 - h. Cumulative ceiling on new external short term debt
 - i. Cumulative ceiling on new external payment arrears.

Quantitative indicators are set for end-March, end-June, end-September, and end-December. Quantitative performance criteria are proposed for end-June and end-December 2011 for indicators (e) through (i). Indicators for new nonconcessional external debt, new external short-term debt, and new external payment arrears are continuous.

Definitions and computation

3. **For program purposes the government is defined as the central government of Guinea-Bissau.** This definition excludes public entities whose budget is not included in the central government budget.
4. **The targeted floor on government tax revenues** includes direct and indirect taxes, as well as recovery of tax arrears and additional revenue efforts (Table 1).

Table 1. Quarterly Floors for Government Tax Revenues, 2011
(Cumulative, CFAF millions)

	March Prog.	June Prog.	Sept. Prog.	Dec. Prog.
Tax revenues	6,437	17,988	28,759	35,745

5. **The domestic primary fiscal deficit on a commitment basis** is calculated as the difference between government revenue and domestic primary expenditure on a commitment basis (Table 2). 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.

Table 2. Quarterly Domestic Primary Balance, New Domestic Arrears,
and Nonregularized Expenditures, 2011
(Cumulative, CFAF millions)

	March Prog.	June Prog.	Sept. Prog.	Dec. Prog.
Total domestic primary deficit	-1,039	-449	-2,473	-7,579
Revenue	8,161	21,436	38,978	47,688
Domestic primary expenditure	9,199	21,886	41,450	55,267
New domestic arrears	0	0	0	0
Nonregularized expenditures (DNTs)	200	200	200	200

6. **New domestic arrears of the government** are defined as accounts payable (rest-a-payer) accumulated during the year, still outstanding one month after the quarter for wages and salaries (including pensions), and three months after for goods and services and transfers, at end-March, end-June, end-September, and end-December 2011.

7. **Nonregularized expenditures** are defined as any treasury outlay not classified in the expenditure tables presented by the National Budget Directorate.

8. **Net domestic financing consists of bank and nonbank financing** (Table 3). Bank financing consists of net changes in the balances of the treasury accounts at the BCEAO (excluding net disbursement from the IMF) and commercial banks (excluding balances in those accounts that are not available for budget financing, such as accounts held under double signature arrangements with donors) and in the outstanding amounts of loans, including T-bills, from the BCEAO and commercial banks, local and regional. Nonbank financing encompasses privatization receipts and any other financial debt held outside the banking system other than new domestic arrears.

Table 3. Domestic Financing by Quarter, 2011
(Cumulative, CFAF millions)

	March	June	Sept.	Dec.
	Prog.	Prog.	Prog.	Prog.
Domestic financing	1,431	-520	-1,954	0
Bank financing	1,431	-520	-1,954	0
BCEAO	1,431	-520	-1,954	0
Commercial banks (including regional)	0	0	0	0
Regional commercial banks and Treasury bills	0	0	0	0
Nonbank financing	0	0	0	0

9. **The cumulative ceilings on new nonconcessional external debt apply to debt contracted or guaranteed by the government.** External debt is defined as debt held by creditors outside the WAEMU region. For ECF purposes, the definitions of “debt” and “concessional borrowing” are as follows:

- a. **The indicator for external borrowing** applies to debt including commitments contracted or guaranteed for which value has not been received. The term “debt” is understood to mean a current liability, not contingent, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services that requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s); these payments will discharge the principal and interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being (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 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 a 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 periods, usually shorter than the total expected service life of the property, while the lessor retains the title to the property. 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 that cover the operation, repair, or maintenance of the property. Under this definition of debt, arrears, penalties, and judicially awarded damages arising from failure to make payment on a contractual obligation that constitutes debt are also debt. Failure to make payment on an obligation that is not considered debt under this definition (for example, payment on delivery) will not give rise to debt. For monitoring the ECF, arrangements to pay over time obligations arising from

judicial awards to external creditors do not constitute nonconcessional external borrowing.

- b. **Debt concessionality**, for program purposes, is assessed based on its calculated grant elements. A debt is concessional if it includes a grant element of at least 50 percent, calculated as follows: the grant element of a debt is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt. The discount rates used for this purpose are the currency specific commercial interest reference rates (CIRRs), published by the Organisation for Economic Cooperation Development (OECD). For debt with a maturity of at least 15 years, the 10-year-average CIRR is used to calculate the PV of debt and hence, its grant element. For debt with a maturity of less than 15 years, the six-month average CIRR is used. To both the 10-year and six-month averages, the same margins for differing repayment periods as those used by the OECD need to be added (0.75 percent for repayment periods of less than 15 years, 1 percent for 15 to 19 years, 1.15 percent for 20 to 29 years, and 1.25 percent for 30 years or more).

10. **Ceiling on short-term external debt newly contracted or guaranteed by the government.** Short-term external debt is debt with the contractual term of less than one year. Debt-relief operations and treasury bills issued in CFA francs on the WAEMU regional market are excluded from this performance criterion. In the context of the program, the government and public enterprises will not contract, or guarantee, short-term external debt. This performance criterion is monitored on a continuous basis.

11. **Ceiling on new external payment arrears.** External payment arrears are defined as external payments due but not paid on the due date. In cases where a creditor has granted a grace period after the contractual due date, arrears are incurred following the expiration of the grace period. Under the program, the government undertakes not to accumulate arrears on its external debt, except those arising from government debt that is being renegotiated with creditors, including non-Paris Club bilateral creditors. This performance criterion is monitored on a continuous basis.

12. **The concept of government for the external debt is broader than the one used for the budget aggregates;** it includes all debt that may ultimately be deemed to be a liability of the state. In addition to the central government, 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.

13. **Social and other priority spending** is defined as total current expenditures in the education, health, and agricultural sector, and domestically financed capital spending (Table 4).

Table 4. Social and Priority Spending¹ by Quarter, 2011
(Cumulative, CFAF millions)

	March	June	Sept.	Dec.
	Prog.	Prog.	Prog.	Prog.
Social and other priority spending	2,932	5,864	8,795	11,727
Education	1,649	3,299	4,948	6,598
Health	897	1,794	2,691	3,588
Agriculture	264	527	791	1,055
Infrastructure	122	244	365	487

¹ Current and domestically financed capital spending.

B. Adjustors

14. The following adjustors will be in effect:

- a. The ceiling on the domestic primary deficit (on a commitment basis) will be increased in case of lower than programmed disbursement of fishing compensation, by the amount of the shortfall up to a maximum of CFAF 3 billion. The program assumes the following amounts of fishing compensation (cumulative from January 1, 2011): zero by end-March; zero by end-June; by end-September CFAF 5 billion; and by end-December CFAF 5 billion.¹
- b. The ceiling on domestic financing will be increased for any shortfall in external budget support, and fishing compensation, by the amount of the shortfall up to a maximum of CFAF 3.5 billion. The program assumes the following amounts of external budget support, and fishing compensation (cumulative from January 1, 2011): zero by end-March; zero by end-June; by end-September CFAF 8.9 billion; and by end-December CFAF 12.5 billion.
- c. The ceiling on domestic financing for March, June, and September will be increased for payment of previous years arrears in excess of programmed amounts up to a maximum of CFAF 1.85 billion. The program assumes the following arrears payments from previous years (cumulative from January 1, 2011): zero by end-March; zero by end-June CFAF; zero by end-September; and by end-December CFAF 1.85 billion.

¹ For this TMU, the CFAF/euro exchange rate is 655.956 and the CFAF/US\$ exchange rate is 524.

INTERNATIONAL MONETARY FUND

GUINEA-BISSAU

**First Review Under the Three-Year Arrangement Under the Extended Credit Facility
and Financing Assurances Review—Informational Annex**

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

November, 2010

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Guinea-Bissau: Relations with the Fund
(As of October 31, 2010)

I. Membership Status: Joined: March 24, 1977; Article VIII

II. General Resources Account:	SDR Million	%Quota
Quota	14.20	100.00
Fund holdings of currency	14.08	99.15
Reserve Tranche Position	0.13	0.905
Holdings Exchange Rate		

III. SDR Department:	SDR Million	%Allocation
Net cumulative allocation	13.60	100.00
Holdings	12.39	91.10

IV. Outstanding Purchases and Loans:	SDR Million	%Quota
ECF Arrangements	8.39	59.08

V. Latest Financial Arrangements:

<u>Type</u>	<u>Date of Arrangement</u>	<u>Expiration Date</u>	<u>Amount Approved (SDR Million)</u>	<u>Amount Drawn (SDR Million)</u>
ECF	May 07, 2010	May 07, 2010	22.37	7.88
ECF ^{1/}	Dec 15, 2000	Dec 15, 2000	14.20	5.08
ECF ^{1/}	Jan 18, 1995	Jan 18, 1995	10.50	10.50

^{1/} Formerly PRGF

VI. Projected Payments to Fund^{2/}

(SDR Million; based on existing use of resources and present holdings of SDRs):

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Principal	0.51				
Charges/Interest	<u>0.00</u>	<u>0.00</u>	<u>0.02</u>	<u>0.02</u>	<u>0.02</u>
Total	<u>0.51</u>	<u>0.00</u>	<u>0.02</u>	<u>0.02</u>	<u>0.02</u>

^{2/} When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Projected Payments to Fund: (with Board-approved HIPC Assistance)¹

(SDR Million; based on existing use of resources and present holdings of SDRs):

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Principal					
Charges/Interest	<u>0.00</u>	<u>0.00</u>	<u>0.02</u>	<u>0.02</u>	<u>0.02</u>
Total	<u>0.00</u>	<u>0.00</u>	<u>0.02</u>	<u>0.02</u>	<u>0.02</u>

VII. Implementation of HIPC Initiative:

	<u>Enhanced Framework</u>
I. Commitment of HIPC assistance	
Decision point date	Dec 2000
Assistance committed by all creditors (\$ million) ^{1/}	416.00
Of which: IMF assistance (\$ 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	1.56
Interim assistance	1.56
Completion point balance	--
Additional disbursement of interest income ^{2/}	--
Total disbursements	1.56

^{1/} Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point; assistance under the enhanced framework is expressed in NPV terms at the decision point. Hence the 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.

VIII. Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable**IX. Implementation of Post-Catastrophe Debt Relief (PCDR):** Not Applicable**X. Safeguards Assessments:**

The Central Bank of West African States (BCEAO) is a common central bank of the countries of the West African Economic and Monetary Union (WAMU). The most recent safeguards assessment of the BCEAO was completed on March 1, 2010. The 2010 update assessment found that the BCEAO continues to have controls in place at the operational level. The overall governance framework needed nonetheless to be strengthened by the addition of an audit committee to ensure that the Board of Directors exercises appropriate oversight over the control structure, including the audit mechanisms and financial statements. The Institutional Reform of the WAMU and the BCEAO completed after the approval of the safeguards report stipulated creation of the Audit Committee, which should now start working. Efforts to implement fully the International Financial Reporting Standards reporting framework should also be pursued.

XI. 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. It joined the West African Economic and Monetary Union (WAEMU) in 1997, and has no separate legal tender. The exchange system common to all members of the union is free from multiple currency practices and exchange restrictions on the making of payments and transfers for current international transactions. Since January 1, 1999, the CFA franc has been pegged to the Euro at a fixed rate of € 1=CFAF 655.95. On April 30, 2007, the rate of the CFA franc in terms of the SDR was CFAF 733.8=SDR 1. Effective January 1, 2007, the exchange arrangement of the WAEMU countries has been reclassified to the category of conventional pegged arrangement from the category of exchange arrangement with no separate legal tender. The new classification is based on the behavior of the common currency, whereas the previous classification was based on the lack of a separate legal tender. The new classification thus reflects only a definitional change, and is not based on a judgment that there has been a substantive change in the exchange regime or other policies of the currency union or its members.

XII. 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 March 16–30, 2006. The staff report (IMF Country Report No. 06/312) was discussed by the Executive Board on July 31, 2006. Selected Issues and Statistical Appendix (IMF Country report No. 06/313) was also circulated to the Board.

XIII. Technical Assistance

Department	Type of Assistance	Time of Delivery	Purpose
MAE	Expert	March 20– July 23, 1994	Assisting in banking supervision
MAE	Expert	June 6, 1994– January 26, 1997	Assisting in monetary policy
MAE	Expert	June– December 1995	Advising on bank accounting
STA	Staff	March 4–15, 1996	Assessing the quality of monetary, balance of payments, and government statistics
FAD	Staff	September 8– 24, 1996	Advising on tax administration and tax policy
FAD	Staff	March 9–25, 1997	Advising on import tariff reform and the design of a general sales tax (GST)
MAE	Expert	June– September 1997 (three short-term missions)	Assisting in the transformation of the central bank into a branch of the Central Bank of West African States (BCEAO)

FAD	Expert	September 8– 24, 1997	Assisting in the design and implementation of GST and in strengthening fiscal control
FAD	Expert	October 19, 1997– April 10, 1998	Assisting in GST implementation
FAD	Expert	June 3–15, 1998	Assisting in GST implementation
FAD	Expert	January 1, 1999– March 2, 1999	Tax administration advisor
FAD	Expert	April 15, 1999– June 14, 1999	Tax administration advisor
FAD	Staff	July 13–27, 1999	Assessing budget management and the tax system
FAD	Expert	January 24, 2000– March 5, 2000	Tax administration advisor
FAD	Expert	January 2001	Tax administration advisor
FAD	Expert	February 2001	Peripatetic public expenditure management advisor
FAD	Expert	July 2001	Peripatetic public expenditure management advisor
FAD	Staff	April 2003	Expenditure management
FAD	Staff	April 2003	Revenue administration
STA	Expert	March 2003	GDDS—Real sector statistics
STA	Expert	May 2003	GDDS—Fiscal statistics
WEST AFRITAC	Resident Advisor	November 2003	Public expenditure management
WEST AFRITAC	Resident Advisor; Expert	February 2004	Tax administration
WEST AFRITAC	Resident Advisor; Expert	March 2004	Customs administration
WEST AFRITAC	Expert	May 2004	Tax administration
WEST AFRITAC	Resident Advisor	May 2004	Public debt management
WEST AFRITAC	Resident Advisor	June 2004	Budget preparation and execution
WEST AFRITAC	Resident Advisor	August 2004	Assessing the priority needs for technical assistance and assisting the authorities with the preparation of a work plan for improving compilation of balance of payments and international investment position statistics.
WEST AFRITAC	Resident Advisor; Short-Term Expert	August 2004	Government finance statistics

WEST AFRITAC	Short-Term Expert	September 2004	Government finance statistics
WEST AFRITAC	Short-Term Expert	October 2004	Customs administration
WEST AFRITAC	Resident Advisor	November 2004	Public expenditure management
WEST AFRITAC	Resident Advisor; Short-Term Expert	November 2004	Tax administration
WEST AFRITAC	Resident Advisor; Short-Term Expert	January 2005	Government finance statistics
WEST AFRITAC	Resident Advisor; Short-Term Expert	February 2005	Tax administration
WEST AFRITAC	Resident Advisor; Short-Term Expert	March 2005	Public expenditure management
WEST AFRITAC	Resident Advisor; Short-Term Expert	April 2005	Customs administration
WEST AFRITAC	Resident Advisor; Short-Term Expert	May 2005	Tax administration
WEST AFRITAC	Resident Advisor	June 2005	Microfinance supervision
WEST AFRITAC	Resident Advisor	June 2005	Microfinance supervision
WEST AFRITAC	Resident Advisor	October 2005	Government finance statistics
WEST AFRITAC	Resident Advisor; Short-Term Expert	November 2005	Customs administration
WEST AFRITAC	Resident Advisor; Short-Term expert	November 2005	Tax administration
WEST AFRITAC	Resident Advisor; Short-Term Expert	November 2005	Public expenditure management/accounting
WEST AFRITAC	Resident Advisor; Short-Term Expert	January 2006	Tax administration
WEST AFRITAC	Short-Term Expert	March 2006	Public expenditure management/accounting
WEST AFRITAC	Resident Advisor	March 2006	Real sector statistics
WEST AFRITAC	Short-term expert	July 2006	Government finance statistics

WEST AFRITAC	Resident Advisor	July 2006	Tax administration
WEST AFRITAC	Short-term expert	July-August 2006	Customs administration
WEST AFRITAC	Resident Advisor	December 2006	Public debt management
WEST AFRITAC	Short-term expert	January 2007	Government finance statistics
WEST AFRITAC	Resident Advisor	January 2007	Customs administration
WEST AFRITAC	Resident Advisor	February 2007	Tax administration
WEST AFRITAC	Resident Advisor	March 2007	Public finance management
WEST AFRITAC	Short-term expert	June 2008	Customs administration
WEST AFRITAC	Short-term expert	June 2008	Public Expenditure management
STA	Expert	June 2008	Balance of Payment Statistics
WEST AFRITAC	Short-term expert	July 2008	Government finance statistics
WEST AFRITAC	Short-term expert	August 2008	Multisector Statistics
WEST AFRITAC	Short-term expert	September 2008	Real sector Statistics
WEST AFRITAC	Short-term expert	May 2009	National Accounts
WEST AFRITAC	Long-term expert	June 2009	National Accounts
WEST AFRITAC	Short-term expert	June 2009	Public Expenditure management
WEST AFRITAC	Short-term expert	June 2009	Public Debt management
WEST AFRITAC	Short-term expert	June 2009	Bank Supervision
WEST AFRITAC	Short-term expert	June 2009	Public Finance management
WEST AFRITAC	Short-term expert	September 2009	Tax administration
WEST AFRITAC	Short-term expert	September 2009	Customs administration

WEST AFRITAC	Short-term expert	November 2009	Public Debt management
WEST AFRITAC	Short-term expert	November 2009	Real Sector Statistics
West AFRITAC	Short-term expert	March 2010	Government Finance Statistics
FAD	Staff	September 2010	Tax Revenue and Customs Administration
West AFRITAC	Short-term expert	September 2010	Expenditure management
West AFRITAC	Short-term expert	September 2010	National Accounts

XIV. Resident Representative

The Resident Representative in Senegal also covered Guinea-Bissau from September 1997 through July 2007. There is no longer a Resident Representative for Guinea-Bissau, but the local office is still open and staffed by a local economist.

Table 1: Guinea-Bissau—Arrangements with the IMF, 1984–2009			
Arrangement	Period	Amount Approved	Remarks
First credit tranche purchase	August 27, 1984	SDR1.875 million	
Structural Adjustment Facility	October 14, 1987– October 13, 1990	SDR 5.25 million	2nd annual arrangement delayed; no 3 rd annual arrangement.
Enhanced Structural Adjustment Facility	January 18, 1995–July 24, 1998	SDR 10.5 million	Arrangement increased by SDR 1.05 million (10 percent of quota) with 3 rd annual arrangement.
Emergency post-conflict assistance	September 14, 1999	SDR 2.13 million	
Emergency post-conflict assistance	January 7, 2000	SDR 1.42 million	
Poverty Reduction and Growth Facility	December 15, 2000– December 14, 2003	SDR 14.2 million	PRGF expired without completion of a review.
Emergency post-conflict assistance	January 10, 2008	SDR 1.77 million	
Emergency post-conflict assistance	May 20, 2009	SDR 1.77 million	
Extended Credit Facility	May 7, 2010	SDR 22.365 million	

Source: International Monetary Fund.

Guinea-Bissau: Relations with the World Bank Group
As of October 15, 2010

1. As of October 15, 2010, IDA had approved altogether 31 credits and grants for Guinea-Bissau for a total value of commitments of US\$366.6 million equivalent. The most important sectors were the following: Transport/Infrastructure/ Energy (seven operations, total commitments: US\$ 121.5million), Structural Adjustment/Development Policy Operations (budget support, three operations approved in 1987-2000, and three since 2008, of which one exclusively for the payment of primary teachers' salaries; total commitments: US\$87.4 million) and Social Sectors, including Health and Education (eight operations and US\$ 67.2 million of total commitments). Two operations were implemented to support private sector development (overall commitment: US\$ 41million), and three to provide technical assistance for economic management (overall commitment: US\$ 22.9 million). Projects supporting extractive industries and agriculture/natural resources management benefited from 2 operations, each, with over commitments of US\$ 19.9 million and US\$ 6.7 million, respectively.

Budget Support Operations

2. IDA discontinued budget support operations in the early 2000s, in the context of political instability. Starting in 2008, however, the Bank initiated new budget support operations to Guinea-Bissau, first with an emergency economic rehabilitation operation approved in 2008 that provided funds exclusively for the payment of primary teachers' salaries, and then with a series of two programmatic Development Policy Grants approved in June 2009 and disbursed in early September (US\$8 million), and in June 2010 (US\$6 million), not yet disbursed.

Lending program

3. In June 2009, the Bank approved an Interim Strategy Note for Guinea-Bissau for 2009-2011, based on two pillars: (i) Strengthening Economic Management and Laying the Foundations for Improvement in the Productive Sectors; and (ii) Increased Access to Basic Services. Capacity Development for efficient governance and project implementation is a cross-cutting topic. A new Country Assistance Strategy (CAS) is envisaged to be delivered by May 2011.

4. The currently active IDA Portfolio is composed of four operations with a total commitment of US\$38.7 million, including a Multi-Sector Infrastructure Rehabilitation Project (US\$15 million) supplemented by a new Emergency Electricity & Water Rehabilitation Project (US\$12.7), a Community-Driven Development Project (US\$5 million), and the second Economic Governance Reform Grant (US\$6 million). As of October 15, 2010, the IDA undisbursed balance was US\$32.5 million.

5. In addition to the available country IDA allocation, the Bank had mobilized, in FY09-10, about US\$10 million from both the Bank and EU under the Food Price Crisis Response Trust Fund to support the agricultural sector and for school feeding/food-for-work programs in collaboration with WFP. Further, the IDA Community-Driven Development operation is complemented by a similar Participatory Rural Development operation of US\$5 million, funded from the State and Peace Building (SPF) Trust Fund window for fragile states. The SPF also provides funding for Technical Assistance on Economic Management to the Ministry of Finance, complementing the IDA budget support, and an operation to support the implementation of the National Health Development Plan. Further complementary (co-) funding is provided by the Global Environment Facility (GEF) to an IDA-funded Coastal and Biodiversity Project that is already closed due to all funds disbursed. An important multi-donor Education sector operation is currently under preparation in close cooperation with other donors, i.e. UNICEF, for delivery in 2011 to be submitted to the Education for All-Fast-Track Initiative (EFA-FTI) for funding.

Non-lending Program

6. IDA continues to provide interim assistance to the country as part of the Initiative for the Heavily Indebted Poor Countries (HIPC). On January 29, 2008, the IDA Board approved the extension of HIPC interim debt relief up to 50 percent (in NPV terms) of total IDA debt relief expected to be granted to Guinea-Bissau under the HIPC initiative. The extended interim debt relief is expected to have freed up about \$7 million in government resources annually.

7. In FY09, the Bank completed an Education Country Status Report (in preparation of the EFA/FTI funding proposal), and an Investment Climate Assessment. A Diagnostic Trade Integration Study was disseminated in FY10; further a Dept Management Performance Assessment carried out in September 2009; and finally, a Public Expenditure Management and Financial Accountability Review (PEMFAR), drawing in part on a EU-funded PEFA diagnostic and covering public financial management and procurement performance as well as a review of public expenditure in education, was finalized in December 2009. At current the Bank team is finalizing work on a Country Economic Memorandum which will identify key drivers for transformative growth in preparation of the upcoming CAS. The team is also preparing a Capacity Development Action Plan for the same purpose. Technical assistance is currently provided in the area of Economic Governance, and prepared for Extractive Industries Value Chain Management and for the establishment of a Global Development Learning Center for which funding has been sought from the government of Brazil.

8. **The World Bank Institute (WBI)** envisages to launch more activities in the coming fiscal year, through inputs and capacity development activities in areas such as leadership and governance (demand-side governance), and possibly by contributing to the provision of learning content through the Global Development Learning Center in Bissau.

IFC and MIGA:

9. **IFC:** At current, IFC has no committed portfolio in Guinea-Bissau.
10. **MIGA's** portfolio in Guinea-Bissau consists of two projects, sponsored by Senegalese and Malian investors. The investments, in support of the country's telecommunications and tourism sectors, have a combined gross exposure of \$17.1 million. The Agency has not received any formal requests to provide guarantees for investments in Guinea-Bissau during the first half of FY11.

Guinea-Bissau: Relations with the African Development Bank Group
As of October, 2010

1. By October, 2010, the AfDB had approved 38 operations for Guinea-Bissau, excluding multinational projects. These include 24 projects, 3 studies and 7 institutional supports, 3 special relief fund operations and 1 line of credit representing a net commitment of UA 188.08 million. 31.2% of these operations have been in the social sector, 21% in the in multi-sector, 19.4% in agriculture/fisheries, 18.4% in transport and 10% in infrastructure equipment. A total of UA 155.96 million representing 82.9% have been disbursed. As of October 2010, the active portfolio comprises 9 ongoing projects representing a total net amount of UA 59.98 million and a disbursed amount of UA 29.98 million.

Structural adjustment credits

2. AfDB has approved a total of UA 13 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.

Lending Program

3. During the period January 2008-October 2010, AfDB approved an interim HIPC debt relieve (US dollar 17.48 million, a Fragile State Facility grant (UA 2 million), a fish sector support grant (UA 2 million), a health sector grant (UA 6 million), an emergency support grant to cholera (UA 0.33 million), a capacity building grant to public administration (UA 7.86 million) and an emergency budget support to budgetary reforms (UA 5.7 million)

Nonlending Program

4. The Bank undertook a portfolio review in 2008, a mid-term review of its Country Strategy Paper (CSP) in 2009 as well as a combined portfolio review and completion report of its CSP 2005-2010, in October 2010. The Bank also participated in a Public Expenditure Management and Financial Accountability Review (PEMFAR) in 2009 in collaboration with the World Bank and the European Commission.

Guinea Bissau—Statistical Issues

As of November 10, 2010

I. Assessment of Data Adequacy for Surveillance
<p>General: Data provision has serious shortcomings that significantly hamper surveillance. Data compilation has been impaired during the 1998–99 civil conflict. The authorities have improved their data compilation in the recent years, with technical assistance from international and regional institutions.</p>
<p>National Accounts: Guinea-Bissau made progress on national account statistics in 2009. The National Institute of Statistics and censuses (INEC) published in the second quarter of 2010 revised national account data for 2003–08, based on the SNA93. The new data have a broader coverage of all sectors of the economy, and as a result the GDP level has doubled. The new data covers GDP in both constant and current prices, and GDP deflators.</p>
<p>Price statistics: Since July 2002, a harmonized consumer price index (CPI) has been compiled, based on the same structure as in other West African Economic and Monetary Union (WAEMU) countries. Price data are collected only for the capital Bissau.</p>
<p>Government finance statistics: Government finance statistics missions contributed to: (1) training on the methodology for Guinean officials, (2) implementation of a budgetary data collection program, and (3) setting up a source database and a worksheet Table of State Financial Operations (TOFE). Since 2007, the monthly TOFE is compiled on a regular basis and used as a basic tool in monitoring the program with the IMF. In March 2010, a government finance statistics (GFS) mission from West AFRITAC provided technical assistance to the authorities in compiling and disseminating GFS and implement an action plan designed to improve GFS data dissemination to users. A follow up mission is scheduled in February 2011.</p>
<p>Monetary statistics: Monetary and financial statistics, compiled and disseminated by the regional Central Bank of West African States (BCEAO), are broadly adequate and their institutional coverage is comprehensive. Accuracy is somewhat hampered by the use of outdated sorting coefficients to estimate cross border amounts of banknotes among BCEAO countries, which in turn, are used to estimate currency in circulation and to adjust the net foreign assets of each member country.</p>

Balance of Payments Statistics: Guinea-Bissau reports trade data to AFR for operational purposes, using information from customs. It reports balance of payments (BOP) and international investment position statistics to STA on an annual basis, albeit with considerable delays. BOP data are weak, mostly due to substantial unregistered trade and inconsistencies between data on net foreign assets as reported by the BCEAO and other economic indicators. In April 2008, an STA TA mission assessed the methodology and compilation procedures for the production of BOP statistics and provided training to BCEAO staff. The mission found that the large number of small-scale operators, a large informal sector, and institutional weaknesses (only some 20 percent of businesses file tax returns) hamper the data collection.

While no external debt data are published by the Ministry of Finance, stock and flow data are regularly produced and transmitted to the BCEAO. The outstanding stock of debt comprises only about 200 active loans.

II. Data Standards and Quality

The country participates in the GDSS since November 2001. Metadata for all data categories and plans for improvement need to be updated.

No data ROSC is available.

III. Reporting to STA

There is currently no monthly, quarterly or annual government finance data submitted for reporting in the *International Financial Statistics (IFS)* or the *Government Finance Statistics Yearbook*. Monthly data on monetary statistics for Guinea Bissau are reported on a regular basis for publication in the *IFS*, albeit with some delays.

Guinea-Bissau: Table of Common Indicators Required for Surveillance
(As of November 10, 2010)

	Date of latest observation	Date received	Frequency of data ⁷	Frequency of reporting ⁷	Frequency of publication ⁷
Exchange rates	Current	Current	D	D	D
International reserve assets and reserve liabilities of the monetary authorities ¹	Nov. 2009	Jan 2010	M	M	M
Reserve/base money	Jul. 2010	Oct. 2010	M	M	M
Broad money	Jul. 2010	Oct. 2010	M	M	M
Central bank balance sheet	Jul. 2010	Oct. 2010	M	M	M
Consolidated balance sheet of the banking system	Jul. 2010	Oct. 2010	M	M	M
Interest rates ²	Sept. 2010	Oct. 2010	M	M	M
Consumer price index	Feb. 2010	Jun 2010	M	M	M
Revenue, expenditure, balance and composition of financing ³ – general government ⁴					
Revenue, expenditure, balance and composition of financing ³ – central government					
Stocks of central government and central government-guaranteed debt ⁵					
External current account balance	2008	January 2010	A	I	I
Exports and imports of goods and services	2008	January 2010	A	I	I
GDP/GNP	2008	Forthcoming	A	I	I
Gross external debt					
International Investment Position ⁶	2008	Sept. 2010	A		

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

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

³ Foreign, domestic bank, and domestic nonbank financing.

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

⁵ Including currency and maturity composition.

⁶ Includes external gross financial asset and liability positions vis-à-vis nonresidents.

⁷ Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I); Not Available (NA).

Statement by the IMF Staff Representative on Guinea-Bissau

December 7, 2010

This statement is an update on recent developments in Guinea-Bissau.

1. On November 30, the government submitted to parliament the budget for 2011, consistent with the medium-term program under the ECF and available financing.
2. Fiscal performance was satisfactory in the third quarter. Except for the indicative target on social and priority spending, all quantitative indicators for end-September have been met. Revenues continued to outperform program estimates, while spending was kept under control and in line with year-end projections.
3. On the structural front, the government has made progress on the benchmarks for the second review. A unified database for the payroll system was created in the ministries of finance and labor and public administration; software was installed to establish an operational link from treasury to customs and tax administration; and the government started preparing the action plan for public administration reform.
4. In late October, the government signed with Angola a cooperation agreement in various areas, including security, private sector financing, and budget support.
5. In November, the UN Peacebuilding Commission reaffirmed its commitment to continue to support the government's efforts to reform the security sector. Some of the objectives of its engagement include: helping strengthen the national police and justice capacities; mobilizing support to the West Africa Coast Initiative (WACI), particularly the establishment of a Transnational Crime Unit in Guinea-Bissau; and helping generate additional support for an Anti-Narcotics Operational Plan.
6. The authorities have continued efforts to secure full participation from creditors in the HIPC initiative. In early December, the government signed an agreement with Algeria, raising total participation from creditors in the HIPC initiative to 82 percent.



Press Release No. 10/492
FOR IMMEDIATE RELEASE
December 14, 2010

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes First Review Under Extended Credit Facility for Guinea-Bissau and Approves US\$3.71 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) has completed the first review of Guinea-Bissau's economic performance under its program supported by the Extended Credit Facility (ECF) arrangement. Completion of the review, on December 13, 2010, enables the immediate disbursement of SDR 2.414 million (about US\$3.71 million), bringing total disbursements under the arrangement to SDR 10.295 million (about US\$15.83 million).

The Executive Board approved a three-year, SDR 22.365 million (about US\$33.4 million) ECF arrangement for Guinea-Bissau on May 7, 2010 (see Press Release No. 10/185). Guinea-Bissau became a member of the IMF on March 24, 1977 and has a Fund quota of SDR 14.2 million.

The Executive Board also agreed, in principle, that Guinea-Bissau has taken the steps necessary to reach its completion point under the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative. This decision on the HIPC completion point is contingent upon the Executive Board of the World Bank's International Development Association (IDA) reaching a similar decision at a meeting scheduled for December 16, 2010, after which a joint press release will be issued.

Following the Executive Board's discussion of Guinea-Bissau, Mr. Murilo Portugal, Deputy Managing Director and Acting Chair, said:

“The authorities' commitment to sound policies has been crucial in maintaining macroeconomic stability in Guinea-Bissau amid challenging political and financial circumstances. Performance under the ECF-supported program has been satisfactory and substantial progress with structural reforms has been achieved. Benefitting from a rebound in the price of cashew, growth is expected to accelerate slightly in 2010, while inflation is projected to be within the West African Economic and Monetary Union (WAEMU) target.

“The government had to adjust its 2010 fiscal plans to make up for a shortfall in budget support. The 2011 fiscal framework is realistic and consistent with available financing. The budget contains strong revenue increasing and spending control measures. Continued discipline on budget execution will be critical to achieving the authorities’ fiscal objectives.

“Fiscal reforms in 2011 will aim at mobilizing more revenues and strengthening public financial management, including debt management. These reforms should help create more fiscal space for priority spending to support economic growth and poverty reduction. To make decisive progress toward the Millennium Development Goals, further concerted efforts will be needed to secure sufficient concessional financing in the coming years, including budget support from development partners.

“Guinea-Bissau has qualified for debt relief, including topping up assistance, but its debt ratios remain high, and the authorities are committed to meeting their external financing needs through grants and highly concessional loans. Going forward, the authorities intend to build on their recent efforts to normalize relations with all external creditors and to maintain their commitment to the successful implementation of economic reforms.”

Statement by Kossi Assimaidou, Executive Director for Guinea-Bissau

December 8, 2010

1. Since the arrangement under the Extended Credit Facility (ECF) for Guinea-Bissau was approved by the Executive Board back in May, the security situation has been stable, enabling the authorities to make significant strides in the implementation of the ECF-supported program. Indeed, program performance under the ECF-supported program has been strong, as reflected by the observance of all end-June 2010 performance criteria and structural benchmarks. On the structural front, steps taken to advance the reform agenda contributed to improving treasury management, budget execution, revenue mobilization, and civil service reform, notably through the preparation of treasury plans, adherence to stricter spending procedures, modernization of the customs administration, and publication of the census of public administration employees.
2. On the quantitative front, the satisfactory program performance illustrates in particular the efforts made by the authorities to ensure sound public debt management. As a result, domestic financing of the budget was kept below program targets; no new domestic or external payment arrears were accumulated; and nonconcessional and external short-term borrowing was avoided. In response to lower-than-expected budget support in the first half of the year, the authorities took steps to reduce current expenditure, delay investments, and boost revenues. Thus, expenditures were contained below program targets. Revenues exceeded program forecasts and continue to do so, as underscored in staff's latest update on recent developments in Guinea-Bissau.¹
3. In view of Guinea-Bissau's strong program performance and the strong determination of my authorities to continue advancing their reform agenda under the ECF, I call on Directors to support the completion of the first review.

Policy Agenda and Reform under the ECF

4. As reiterated in the authorities' MEFP, the program objectives remain unaltered, encompassing the need to ensure fiscal and external sustainability, foster economic growth, and reduce poverty. This explains the intended prioritization of policies aimed at improving public financial management and the efficiency of public administration, building capacities, promoting private sector development, and expanding access to social services.

Fiscal Policy and Reform

5. The program objective of ensuring fiscal and debt sustainability will be served by the authorities' ongoing efforts to further enhance revenue collection and clear domestic arrears as well as expected HIPC/MDRI debt relief. Going forward, tax and customs administration will continue to be strengthened with a view to maximizing their contribution to revenue

¹ Statement by the IMF Staff Representative on Guinea-Bissau, December 7, 2010.

performance. Planned policy adjustments in the fiscal area are expected to result in a similar outcome, notably by triggering a broader tax base. Furthermore, the authorities will pursue their efforts to mobilize additional assistance from the country's partners and there are emerging signs that these efforts are bearing fruits. In this connection, it is envisaged that priority will be given to making up for recent spending adjustments in priority sectors (education, health, agriculture, and infrastructure) and increasing government deposits at the central bank.

6. Implementation of these revenue-enhancing measures will be concomitant with steps that will be taken to further improve public expenditure and financial management. As part of the authorities' public financial management (PFM) action plan, a number of measures will be implemented that are aimed at improving the preparation, execution, and reporting, and control of budget procedures. In this connection, specific actions include the submission of a proposed legal framework for the regulation of revenue-sharing agreements to the Council of Ministers, the establishment of a link between the treasury and customs and tax administration, continuous publication and dissemination of budget execution reports, and submission of 2010 budget execution accounts to the Court of Accounts.

7. In the area of debt management, recent developments were marked by the clearance of domestic arrears which is proceeding steadfastly. About 0.8 percent of GDP was allocated last August to the clearance of private sector arrears following the clearance of arrears to commercial banks which took place earlier this year. Going forward, a number of steps to strengthen debt management will also be taken as part of the authorities' reform agenda. Most notably, these include building capacities of the debt management unit, issuing on a regular basis reports that take stock of the domestic and external debt, and upgrading the debt management system.

Civil Service, Defense and Security Sector Reforms

8. The authorities are determined to pursue the reform of civil service to make it more performing and efficient. This reform will hinge on a plan under preparation that will define specific annual targets for the downsizing of civil service and explore ways of enhancing capacities in the civil service. Other initiatives to modernize public administration and control the wage bill include the introduction of a computerized and unified payroll and personnel management system in the ministries of finance and labor and public administration as well as recourse to stricter payroll controls.

9. The authorities remain committed to advancing the reform of defense and security sectors. The legal framework for the reorganization of the military and security forces has already been approved by the parliament and implementation will be resumed upon availability of necessary financing. In this connection, assistance from the country's multilateral and bilateral partners will be critical, particularly with regard to the financing of the pension fund for the military and security forces.

10. Structural reforms will continue to be implemented in other areas as well. In particular, financial sector reform will proceed in line with program objectives. In particular,

it will aim to improve access to credit notably by strengthening the legal framework for the enforcement and security of contractual rights. At the same time, private sector development is expected to benefit from planned measures aimed at reducing the cost of doing business and improving infrastructure. In this latter respect, the authorities will continue to closely collaborate with the World Bank and other development partners.

HIPC Completion Point

11. Ten years after reaching the decision point under the Enhanced Heavily Indebted Poor Countries Initiative (HIPC Initiative), Guinea-Bissau is rightly considered by the staffs of the IMF and IDA as having met the requirements to reach the HIPC completion point. Indeed, this assessment is supported by the considerable efforts made by the authorities to advance their reform program agreed under the HIPC Initiative and in the context of their current Fund-supported program. All but one HIPC completion triggers have been implemented, translating notably into the preparation of the first PRSP, sustained macroeconomic stability, improved public procurement system and public expenditure management, and progress in implementing public programs in social sectors and increasing security. Continuous compliance with the unmet trigger was jeopardized by episodes of fragile political situation in which the country was occasionally embedded. I would thus appreciate Directors' favorable consideration of the authorities' request for a waiver for the lack of continuous implementation of the trigger related to the publication of comprehensive budget execution reports.

Conclusion

12. Guinea-Bissau continues to make inroads in the implementation of the ECF-supported program. The flawless performance under the ECF that Guinea-Bissau has registered to date is reflective of the authorities' strong commitment to the program and a stable political and security situation that enables the normal conduct of government and private businesses. After years of unmet expectations about reaching the HIPC completion point, the authorities are hopeful that their perseverance in implementing sound policies in the face of oftentimes challenging domestic conditions will help the country reap the benefits of this decisive milestone. As the Fund and IDA staffs rightly stress in their joint report submitted to Board's consideration today, full delivery of HIPC assistance, additional bilateral assistance beyond HIPC, topping-up assistance, and MDRI assistance upon achievement of the completion point will significantly reduce Guinea-Bissau's external debt burden. In addition, it will help normalize relations with the country's creditors and contribute significantly to the authorities' reform efforts. I would thus welcome Directors' approval of the completion point and topping up for Guinea-Bissau under the HIPC Initiative.

13. Beyond reaching the HIPC completion point, Guinea-Bissau will continue to value Fund advice in the design and implementation of its policy and reform agenda. In this regard, the ECF-supported program will provide a useful policy anchor and Directors' continuous support will be needed.