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

May 13, 2009

The following item is a Letter of Intent of the government of Guinea-Bissau, which describes the policies that Guinea-Bissau intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Guinea-Bissau, is being made available on the IMF website by agreement with the member as a service to users of the [IMF](#) website.

Bissau, May 13, 2009

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

Dear Mr. Strauss-Khan:

1. Guinea-Bissau is taking important steps to stabilize an extremely difficult fiscal and economic situation. Faced with a heavy burden of salary arrears and large amounts of commercial bank debt, a new government appointed in January 2009 is implementing measures to control expenditures, increase revenue collection, and improve fiscal management. The new government intends to restore fiscal control in 2009 by using available resources to meet current-year expenditures and avoid new domestic arrears. To help achieve its objectives, and restore confidence in macroeconomic management, the government intends to pursue policies under the Fund's Emergency Post-Conflict Assistance (EPCA) for the period January-December 2009. The government is requesting a third purchase of SDR 1.775 million (12.5 percent of quota) under EPCA to support its 2009 program.

2. The details of the program for 2009 are included in the attached Memorandum on Economic and Financial Policies (MEFP). The government believes that the policies and measures set forth in the MEFP are adequate for achieving the objectives of the program, but we will take any further measures that may become appropriate for that purpose. In such cases, as well as before implementing policies that could adversely affect the program, we will consult the Fund.

3. To assist the Fund in assessing progress with implementing the program, we will provide the required information on a regular basis, as detailed in the attached Technical Memorandum of Understanding. Moreover, we invite the staff of the Fund to review performance under the program quarterly, on the basis of the quantitative and structural indicators (Tables 1 and 2 of the MEFP), as well as on the overall implementation of the program.

Sincerely yours,

/s/

José Mario Vaz
Minister of Finance

Attachments:

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

ATTACHMENT I

MEMORANDUM ON ECONOMIC AND FINANCIAL POLICIES

Bissau, May 13, 2009

I. INTRODUCTION

1. **Guinea-Bissau faces an extremely difficult fiscal and economic situation.** There are pressures to repay sizeable domestic arrears, including four months of 2008 government wages, that are weighing on an already tight fiscal situation. There are also large amounts of short-term commercial bank debt. At the same time, pressures are emerging from the global economic slowdown, with consequences for lower revenues, lower remittances, tightened trade credits, and reduced aid flows.

2. **Faced with an unsustainable fiscal situation, a new government appointed in January 2009 is already taking action to stabilize the fiscal situation in the near term, accelerate the implementation of structural reforms, and restore economic confidence.** The new government has taken measures to control expenditures, increase revenue collection, and improve transparency and governance. There have been encouraging signs of improved fiscal performance, including the payment of civil servant wages with domestic resources in the first months of the year.

3. **The government has agreed on a program of economic and financial policies for 2009 that focuses on meeting current-year expenditures with available resources, domestic and external, and avoids new budgetary arrears.** The government is requesting a third purchase of SDR 1.775 million (12.5 percent of quota) under EPCA to achieve its 2009 objectives and restore confidence in its economic management.

4. **This memorandum describes economic developments during 2008 and performance under the 2008 EPCA-supported program, and outlines policies and measures for 2009.**

II. RECENT DEVELOPMENTS AND PERFORMANCE UNDER EMERGENCY POST-CONFLICT ASSISTANCE IN 2008

5. **Economic activity continued to recover in 2008.** Real GDP growth reached 3.3 percent, from 2.7 percent in 2007, thanks in part to increased agricultural production as rains returned to normal. Consumer prices, especially food, declined in December, reversing the earlier trend; the 12-month rate was down to 8.7 percent in December. Annual inflation still averaged 10.4 percent in 2008, up from 4.6 percent in 2007, significantly higher than the annual average of under 2 percent in recent years. The external current account deficit (excluding official transfers) is estimated to have worsened to 14.9 percent of GDP in 2008, from 9.3 percent of GDP in 2007, as buoyant cashew exports were outweighed by higher

import costs. Broad money growth slowed somewhat in 2008 but still reached an estimated annual rate of about 21 percent.

6. **Despite efforts during the year to improve fiscal management and strengthen administrative capacity, the fiscal situation came under pressure in 2008.** The domestic primary deficit exceeded the program target by CFAF 4 billion, reflecting mainly revenue shortfalls. Total government revenues were lower than expected by CFAF 2.5 billion, with shortfalls in tax revenues amounting to CFAF 1.5 billion. Current expenditures were slightly higher than programmed, including a higher wage bill, as well as some unbudgeted outlays (including one-off payments for legal claims on the government) which were offset by lower spending on goods and services. Key quantitative indicators of the 2008 EPCA-supported program, namely revenue, domestic primary balance, accumulation of domestic arrears and payment of previous years' arrears (four out of seven quantitative indicators) were missed for end-December.

7. **Financing also fell short of projections, contributing to severe cash flow difficulties.** Pledged donor grants were lower than expected by CFAF 10 billion (5 percent of GDP). Payment of previous years' arrears also exceeded programmed levels (by CFAF 2 billion), which contributed to cash flow constraints. Sizeable arrears accumulated, reaching four months of government salaries (about 4 percent of GDP), while a large amount of outstanding Treasury bills held by regional financial institutions (CFAF 7.2 billion or 4 percent of GDP) could not be repaid as planned. Scheduled budgetary payments to the BCEAO were also not made.

8. **Implementation of structural measures under the 2008 EPCA-supported program, on the other hand, was generally satisfactory.** Most of the EPCA structural benchmarks were met. The installation of new software for unifying payroll and personnel management (SIGASPE) (benchmark for end-September 2008) was delayed pending formal agreement with the regional partner that was supposed to provide the necessary software. Lack of sufficient financial resources also prevented the government from upgrading the automated custom systems to ASYCUDA++ as planned for end-December 2008. The measure will now be implemented by end-October 2009, while the system for payroll and personnel management has been reviewed and will now be supported under a technical assistance agreement with Portugal and also implemented by October 2009 (¶¶ 17 and 18). The remaining structural benchmarks that were not met, were nonetheless implemented with a delay.

9. **Preliminary information suggests that revenue and expenditure performance was broadly as expected in the first quarter of 2009.** Strong revenue performance in the first two months of the year offset a sharp drop in customs revenues in March, when business confidence weakened following the assassinations of the president and the army chief of staff. Expenditures were in line with programmed amounts.

III. OUTLOOK, OBJECTIVES, AND POLICIES FOR 2009 AND THE MEDIUM TERM

10. **Real GDP growth in 2009 and the medium term is likely to be dampened by global economic developments.** Export prices for cashew nuts, the main export crop, are expected to be almost 30 percent lower than last year, constraining real GDP growth and affecting the poor in rural areas, as well as putting pressure on the budget and the current account. Remittances, which account for about 8 percent of GDP, are also expected to be lower by more than 10 percent, with further negative impact on real incomes and the current account. Real GDP growth of 1–2 percent is now expected for 2009, sharply lower than in 2008. The external current account is expected to worsen further. Lower food and fuel prices, on the other hand, will contribute to lower inflation.

11. **The fiscal stance is expected to worsen in 2009.** The domestic primary deficit is expected to be about 8 percent of GDP, from an estimated 6 percent in 2008. Tax revenues, in particular, will be hard hit by the global economic slowdown and the sharp expected decline in international prices for cashew nuts. Total revenues are expected to decline by about 2.7 percent of GDP, with tax revenues lower by 1.3 percent of GDP. Nontax revenues will also be lower by about 1.6 percent of GDP in 2009, as EU fishing compensation returns to one annual disbursement.¹ In order to make up for potential revenue losses from global developments, the authorities will make every effort to strengthen revenue performance elsewhere by fully implementing the planned reforms for 2009, including expanding the tax base, strengthening customs administration, and improving control of fishing licenses (¶ 17).

12. **Current primary expenditures are expected to decline by about 0.5 percent of GDP in 2009, reflecting a nominal freeze of current expenditures, including the wage bill.** Against this background, the government's expenditure policy continues to aim at controlling discretionary spending in order to free resources needed to address the needs of the poorest population groups in the areas of health and education, as well as to maintain and improve basic infrastructure. A slight decline in the 2009 wage bill as a share of GDP will be an important means for improving resource allocation in order to allow for some slight increase in spending on goods and services, especially social services (education, health care and justice). In order to produce a durable reduction in the wage bill, the government intends to finalize the strategy for security sector reform as well as for public administration.

13. **Budget support identified for 2009 is estimated at CFAF 22 billion (US\$44 million), from traditional as well as nontraditional donors.** The authorities will

¹ EU fishing compensation will return to a single annual disbursement in 2009, after two disbursements in 2008 corresponding to the 2008 annual compensation and the delayed 2007 compensation.

confirm the pledged donor assistance and continue to seek additional donor assistance. There remains a small financing gap of CFAF 2.8 billion (about US\$5.6 million) for 2009, which is expected to be filled by the third EPCA purchase (SDR 1.775 million or US\$2.8 million). The remainder could be filled by a fourth, final, EPCA purchase later this year, or, by PRGF resources. Contingent on satisfactory performance under the 2009 EPCA-supported program, the authorities may request a PRGF arrangement later this year and not proceed with the fourth EPCA purchase. To the extent of any shortfalls in external financing in 2009, the government is committed to further efforts to reduce expenditures or recover additional revenues, to make up for financing shortfalls.

14. There are no resources in the 2009 budget to pay outstanding domestic debt.

These include the large stock of outstanding arrears on wages and goods and services,² as well as outstanding commercial bank advances (CFAF 7.2 billion), treasury bills (CFAF 7.2 billion), and debt to the BCEAO (CFAF 15 billion). There are also no resources to pay debt service due to BCEAO in 2009 (CFAF 1.9 billion), which will be rescheduled. In early 2009, the authorities paid some CFAF 2 billion in 2008 wage arrears to teachers. For the remainder of 2009, the authorities will not make any further payment of budgetary arrears unless additional resources are secured (¶ 16).

15. The government will nonetheless take efforts to resolve its domestic arrears. The authorities will prepare a medium-term action plan to clear outstanding domestic arrears and seek donor assistance to help prepare this plan. The authorities intend to include arrears clearance as part of a medium-term budget framework that could eventually be supported by a PRGF arrangement.

16. The government intends to continue to mobilize external resources for 2009 and beyond. A Donor Round Table Conference is planned for later in 2009. If donor budget grants in 2009 exceed the amount needed to finance the fiscal gap, priority will be given to using the resources to repay outstanding commercial debts, wage arrears and other audited domestic arrears, as well as increased priority spending in social sectors above budgeted levels, in consultation with the Fund.

IV. STRUCTURAL REFORMS IN 2009

17. The government will also implement during 2009 further measures to address remaining structural weaknesses in revenue collection and expenditure management. In the area of strengthening revenue collection, the government recently undertook a fundamental review of the tax collection process, with technical support from the UNDP. Based on the conclusions of this study, the government intends to implement the necessary measures to broaden the tax base and boost fiscal revenues. These measures include:

² CFAF 56 billion (27 percent of GDP) at end-2008.

- (i) Implement (by end-October 2009), the computer software ASYCUDA++ (Automated System for Customs Administration), with financial assistance from the African Development Bank and Portugal. This tool will allow customs to improve control and valuation of imports by accessing on-line information from the General Direction of Taxes (DGCI) and commercial banks.
 - (ii) Use the recent general population census data (finalized March 2009) to update taxpayer fiscal identification numbers, by end-June 2009, which will allow better control of property and corporate taxes.
 - (iii) Begin, in June 2009, auctioning goods left in customs warehouses more than 3 months, in accordance with WAEMU customs code and custom legislation. Preparations are already underway.
 - (iv) Reinforce control of the Exclusive Economic Zone (ZEE) (a prohibited fishing zone) by offering, effective immediately, better incentives to patrol agents.
 - (v) Enact, by end-September 2009, the new investment code which replaces tax exemptions with tax credits, in line with best practices.
 - (vi) Strengthen collection of outstanding tax arrears (estimated at CFAF 5 billion), by offering incentives for taxpayers to pay arrears at a discount if paid by a specified date.
 - (vii) Start operations, by end-September 2009, of preshipment inspection with a reputable international agency, to enhance custom duties.
18. **The government will also significantly tighten expenditure control to prevent the recurrence of expenditure overruns and meet the expenditure targets for the 2009 fiscal program.** The measures include:
- (i) Launch biometric survey of civil servants by end-May 2009, with a view to finalizing the survey by end-July 2009.
 - (ii) Approval by Council of Ministers, by end-September 2009, Action Plan for Public Financial Management (PFM), coordinated with the World Bank, EU, and African Development Bank; the preliminary draft Action Plan will be completed by end-July.
 - (iii) Implement, by end-October 2009, the unified payroll and personnel management with technical assistance and software provided by the Portugal government.

(iv) Secure donor assistance, by end-June 2009, to finalize the audit of domestic arrears from 2000–07.

19. **The authorities also intend to further build capacity in the budget formulation and execution process to ensure that resources are allocated and used efficiently and that established spending limits are respected.** For this, the measures include:

(i) Fully implement SIGFIP (*Système Intégré de Gestion des Finances Publiques/Integrated Public Financial Management System*) by end-August 2009. This system will better manage and integrate budget preparation and entry, budget execution, and accounting. Two modules (budget preparation and budget execution) are already operational. The remaining accounting module will become operational with assistance from the African Development Bank. The new system will ensure that all expenditures (both regular and DNT *Depense Non Titulaire* expenditures) are recorded at the time of payment.

(ii) Implement, by end-June 2009, public debt management software (SIGADE) with assistance from the African Development Bank.

(iii) For improved fiscal transparency, starting with the 2009 budget, the Research Department of the Ministry of Finance will produce quarterly reports analyzing the fiscal situation (within 45 days of the end of the quarter) and submit to IMF, donors, parliament, and civil society.

(iv) The government has appointed a high-level steering committee, including senior staff of the Ministries of Finance, Economy, and the BCEAO, to monitor the IMF program. The committee meets at least one a month, and its main task is to follow up all actions and targets agreed in the IMF program.

(v) For improved transparency, starting with the 2010 budget, all government bodies that receive entitlements (*restituições*) will be required to submit their budgets to the Council of Ministers and send quarterly budget execution reports to the Ministry of Finance. In addition, the State Budget presented to parliament will include an attachment with the consolidated budgets of all the government bodies that receive entitlements.

20. **The authorities will strive to prepare a consistent and sustainable medium-term macroeconomic framework that could serve as the basis for a future PRGF arrangement.** Over the medium term the overall fiscal balance is expected to decline to levels that are more manageable given available domestic resources and sustainable levels of external budget support. The fiscal improvement will reflect further efforts to restore fiscal controls and rein in nonpriority expenditures. Importantly, the government wage bill should decline further through projected civil and security sector reform. The expected fiscal improvement will allow the country finally to move away from the situation of the recent past where external assistance is used to fill budget deficits and focus assistance instead on

the country's critical development needs. Continued commitment to policy reform will also enable the government to implement stronger Fund-supported reform programs and achieve sustained donor support. The medium-term fiscal situation will also allow fiscal space to repay the large burden of outstanding budgetary arrears.

21. **The government intends to move to a PRGF arrangement with the IMF later in 2009 based on satisfactory performance under this EPCA-supported program.** As a first step, the government will finalize, by end-June, the PRSP progress report and update it for 2010–12.

22. **The authorities will avoid introducing or intensifying exchange and trade restrictions in 2009 and beyond.**

V. CAPACITY BUILDING AND TECHNICAL ASSISTANCE

23. **Capacity building is a key complement to fiscal reforms in order to ensure their effectiveness and sustainability.** A number of partners are already providing technical assistance in all areas of public financial management as well as macroeconomic statistics. The highest priority is assistance to the Customs, Treasury, Tax and Budget Departments, National Statistics Institute, and the debt unit. The IMF is providing technical support, including technical assistance from West AFRITAC and AFRISTAT, to strengthen public financial management and tax collection, as well as improve macroeconomic statistics. The World Bank is also assisting these reforms with support from the State and Peace-Building Fund (SPF).

VI. PROGRAM MONITORING

24. **Progress with implementing the program outlined above will be monitored based on the quantitative and structural indicators provided in Tables 1 and 2.** The quantitative indicators are (i) a floor on government revenue (tax and nontax); (ii) a ceiling on the domestic primary deficit; (iii) a ceiling on domestic financing of the budget; (iv) no new domestic arrears; (v) a ceiling on payment of previous years' arrears; (vi) ceilings on public sector short- and long-term nonconcessional external debt. Specific definitions and explanations are contained in the annexed Technical Memorandum of Understanding (TMU). The government will provide, on a timely basis, all necessary data to monitor the program as indicated in the TMU. The third purchase under the EPCA will cover the period January–June 2009, based on completion of a number of prior actions. A fourth and final purchase, if necessary, would cover the period July–December 2009 based on performance through June 2009.

25. **As prior actions, and to ensure the success of the program,** (i) Parliament has already approved the 2009 government budget, which is fully consistent with the fiscal framework presented in this Memorandum; and (ii) the government will obtain firm donor financing assurances. The authorities have already received assurances that there are no

objections to EPCA from official Paris Club creditors to whom Guinea-Bissau is currently in arrears. The authorities have also been in periodic contact with their other creditors to make good-faith efforts to seek resolution to their external debt and arrears problem.

Table 1. Guinea-Bissau: Quantitative Indicators for the EPCA program for 2009

Quarterly Targets 1/
(Cumulative, CFAF millions)

	End-Jun.	End-Sep.	End-Dec.
	Prog.	Prog.	Prog.
1. Government Revenues 2/	17,313	24,047	29,887
Collection of tax revenues	9,341	14,683	18,966
Non tax revenues	7,972	9,364	10,921
2. Domestic primary balance (commitment basis) 3/	-6,736	-11,820	-17,684
3. Domestic financing of the budget 4/	-387	-1,518	-2,343
4. New domestic arrears 5/	1,308	-1,201	0
5. Payment of previous years arrears 6/	2,031	2,031	2,031
6. External nonconcessional public borrowing, maturity > 1 year	0	0	0
7. Non regularized expenditures (DNTs)	200	200	200

1/ Cumulative from January 1 of the corresponding year. The definition of the aggregates is provided in the Technical Memorandum of Understanding (TMU).

2/ Floor. Defined as direct taxes (01.00.00) plus indirect taxes (02.00.00) plus non tax revenues. If the disbursed amounts of EU fishing compensation are lower (higher) than programmed, the floor will be lowered (increased). For the programmed quarterly amounts of EU fishing compensation for 2009 see the TMU, ¶ 12.

3/ Ceiling. If the disbursed amounts of EU fishing compensation are lower (higher) than programmed, the ceiling will be increased (lowered). For the programmed quarterly amounts of EU fishing compensation for 2009 see the TMU, ¶ 12.

4/ Ceiling. If the actual amount of external budgetary assistance (including EU fishing compensation) falls short of program forecasts, the ceiling will be increased for the full amount of the shortfall. For the programmed quarterly amounts of external assistance (including EU fishing compensation) in 2009 see the TMU, ¶ 12. If external financing specifically targeted to clear arrears is available, the ceiling will be increased for the full amount of the funds available.

5/ Ceiling. At end-June and end-September, stock of accounts payables (rest-a-payer); at end-December, accounts payables accumulated during the current year (2009) and still outstanding one month after the end of the year in the case of wages and other personnel expenditures (including pensions) and three months after the end of the year, in the case of non personnel expenditures. The ceiling on the accumulation of new domestic arrears will be adjusted in line with available domestic financing of the budget. In particular, if the government is not able to increase (decrease) the domestic financing of the budget by the full amount of the shortfall (excess) in external budget support, the ceiling in the accumulation of new domestic arrears will be adjusted upward (downward) by that difference.

6/ Ceiling. Includes arrears in wages, transfers, and goods and services previous to 2009 and outstanding as of January 1, 2009. If external financing specifically targeted to clear arrears is available, the ceiling will be increased for the full amount of the funds available.

Table 2. Guinea Bissau: Prior Actions and Structural Indicators
Under the Emergency Post-Conflict Assistance
January 1, 2009–December, 31, 2009

Measures	Macro rationale	Timetable
<p>Prior Actions</p> <p>Approval by Cabinet of Ministers of the 2009 budget consistent with the fiscal framework presented in the MEFP for the 2009 EPCA-supported program</p> <p>Firm assurances of donor grants to finance 2009 fiscal framework</p>	<p>The 2009 budget objective is to avoid new domestic arrears</p> <p>Budget support from donors is critical for budget finance and balance</p>	<p>Done</p> <p>Prior action</p>
<p>Structural Indicators</p> <p>Launch biometric survey for civil servants</p> <p>Enact new investment code</p> <p>Start operations of pre-shipment inspection with a reputable international firm as an interim measure to improve revenue collection pending development of stronger domestic customs capacity.</p> <p>Approval by Council of Minister of PRSP progress report and update for 2010-12</p> <p>Fully implement the computer software ASYCUDA++ (Automated System for Customs Administration) with financial assistance from African Development Bank and Portugal</p> <p>Approval by Council of Ministers of Action plan for public financial management (PFM) coordinated with the World Bank, EU, and African Development Bank.</p> <p>Fully implement computer-based and unified payroll system with technical support and computer software provided by the Portugal government.</p>	<p>Biometric survey will allow the preparation of a strategy for civil servant reform and elimination of “ghost workers”</p> <p>The new code replaces tax exemptions with tax credits, in line with best practices</p> <p>The pre-shipment inspection aims to improve collection of custom duties during a period of weak domestic capacity</p> <p>Requirement for a PRGF program which is envisaged for later 2009</p> <p>This tool will allow customs to improve control on valuation of imports</p> <p>Improvements on PFM is critical for budget control and will enhance fiscal policy implementation</p> <p>Wage bill is the main item of expenditures and the unification and computerization will avoid duplication of payments</p>	<p>End-May 2009</p> <p>End-Sep. 2009</p> <p>End-Sep. 2009</p> <p>End-Sep. 2009</p> <p>End-Oct. 2009</p> <p>End-Sep. 2009</p> <p>End-Oct. 2009</p>

ATTACHMENT II
TECHNICAL MEMORANDUM OF UNDERSTANDING

Bissau, May 13, 2009

1. This memorandum describes the definitions of the quantitative indicators for the program for 2009 to be supported by Emergency Post-Conflict Assistance (EPCA) (Table 1) of the Memorandum on Economic and Financial Policies (MEFP) in accordance with the understandings reached between the authorities of Guinea-Bissau and the staff of the IMF. It also specifies the agreed periodicity and deadlines for transmission of data to the staff of the IMF for program monitoring purposes.

I. QUANTITATIVE INDICATORS AND ADJUSTORS

A. Quantitative Indicators

2. The quantitative indicators are the following:
- a) cumulative floors on government revenue
 - b) cumulative ceilings on the domestic primary fiscal deficit (on a commitment basis)
 - c) cumulative ceilings on the change in net domestic financing of the budget
 - d) cumulative ceiling on new domestic arrears of the government, including wage arrears
 - e) ceiling on payments of previous years domestic arrears (before 2009)
 - f) cumulative ceilings on new nonconcessional external debt contracted or guaranteed by the government
 - g) cumulative ceiling on the amount of nonregularized expenditures (DNTs)

Quantitative indicators have been set for end-June, end-September, and end-December 2009, and their values are cumulative from January 1, 2009. Indicative targets for new nonconcessional external debt are continuous.

Definitions and computation

3. **For EPCA purposes, the government is defined as the central government of Guinea-Bissau.** This definition excludes public entities with autonomous legal personality whose budget is not included in the central government budget.
4. The targeted ceiling of government revenues includes direct taxes, indirect taxes, and nontax revenues as well as recovery of tax arrears and additional revenue efforts.

Table 1. Quarterly Targets for Government Revenues, 2009
(Cumulative, CFAF millions)

	Jun.	Sept.	Dec.
	Prog.	Prog.	Prog.
Government Revenues	17,313.4	24,046.9	29,886.7
Tax revenues (direct, 01.00.00, and indirect, 02.00.00)	9,341.2	14,682.9	18,966.2
Non-tax revenues	7,972.2	9,364.1	10,920.5

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. 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 and externally financed capital expenditures. Government commitments include all expenditure for which commitment vouchers have been approved by the Ministry of Finance; automatic expenditure (such as wages and salaries, pensions, utilities, and other expenditure for which payment is centralized); and expenditure by means of offsetting operations. The estimated domestic primary balances for the program period are provided in Table 2.

Table 2. Estimates of the Quarterly Domestic Primary Balance, New Domestic Arrears, and Payment of Previous Arrears, 2009
(Cumulative, CFAF millions)

	Jun.	Sept.	Dec.
	Prog.	Prog.	Prog.
1. Total domestic primary deficit	-6,736	-11,820	-17,684
Revenue	17,313	24,047	29,887
Domestic primary expenditure	24,049	35,867	47,571
2. New domestic arrears	1,308	-1,201	0
3. Nonregularized expenditures (DNTs)	200	200	200
4. Payment of previous years' domestic arrears	2,031	2,031	2,031

6. **New domestic arrears of the government are defined as follows:**

- a. At end-June and end-September 2009, the stock of account payables (*rest-à-payer*).
- b. At end-December, accounts payable accumulated during 2009 and still outstanding one month after December 31 in the case of wages and salaries (including pensions), and three months after in the case of goods and services and transfers.

The targets for the program period are presented in Table 2.

7. **Nonregistered expenditures are defined as follows:** any Treasury outlay (including nontitularized expenditures, restitutions, etc.) not accounted for and therefore not reflected in the expenditure tables presented by the National Direction of Budget.

8. **Previous year's domestic arrears are defined as arrears in wages, transfers, and goods and services** outstanding as of January 1, 2009. The targets for the program period are presented in Table 2. The program allows for partial payment of expenditure commitments related to 2008 that are still outstanding as of January 1, 2009, up to a maximum of CFAF 2.31 billion.

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

Table 3. Domestic Financing by Quarter, 2009
(Cumulative, CFAF millions)

	Jun.	Sept.	Dec.
	Prog.	Prog.	Prog.
Domestic financing	-387	-1,518	-2,343
Bank financing	-387	-1,518	-2,343
BCEAO	1,166	297	-471
Commercial banks (including regional banks)	-1,554	-1,815	-1,872
Regional commercial banks and Treasury bills	0	0	0
Non-bank financing	0	0	0

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

- a. **The indicator for external borrowing** applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt, adopted by the Executive Board of the IMF on August 24, 2000, but also to commitments contracted or guaranteed for which value has not been received. For purposes of these guidelines, the term “debt” is understood to mean a current, that is not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services that requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and 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 that are equivalent to fully collateralized loans, under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers' credits, that is, contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and (iii) leases, that is, arrangements under which property is provided that the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For purposes of the guideline, the debt is the present value at the inception of the lease of all lease payments expected to be made during the period of the agreement, excluding those 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 debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt. For the purposes of monitoring the EPCA, arrangements to pay over time obligations arising from judicial awards to external creditors do not constitute nonconcessional external borrowing.

- b. **Loan concessionality** is assessed on the basis of currency-specific discount rates based on the OECD commercial interest reference rates (CIRRs). A loan is said to be on concessional terms if, on the date the loan is contracted, the difference between the net present value (NPV) of the debt and its nominal value, expressed as a percentage of the nominal value of the debt, is less than 50 percent (that is, a grant element of at least 50 percent). For debt with a maturity of at least 15 years, the ten-year average CIRR will be used to calculate the NPV of debt and hence its grant element. For debt with a maturity of less than 15 years the six-month average CIRR will be used. For shorter maturities, the six-month market reference rate is used. Purchases from the IMF are excluded from this limit.

11. **The concept of government for the purposes of the indicators on 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 government as defined in paragraph 3, the definition includes administrative public institutions; public enterprises authorized to contract, guarantee, or accommodate nonconcessional borrowing; scientific and technical public institutions; professional public institutions; industrial and/or commercial public institutions; and local governments.

B. Adjusters

12. The following adjusters will be in effect:

The ceilings on nontax revenues and domestic primary fiscal deficit will be adjusted upward (downward) for any shortfall (excess) in EU fishing compensation:³

- **The ceiling on nontax revenues and domestic primary deficit (on a commitment basis) will be increased (lowered) in case of lower (higher) than programmed disbursement of EU fishing compensation, for the full amount of the shortfall (excess).** The program assumes the following amounts of EU fishing compensation (cumulative from January 1, 2009): by end-June CFAF 4.59 billion; by end-September CFAF 4.59 billion; and by end December CFAF 4.59 billion.

The ceilings on domestic financing and on new domestic arrears will be adjusted upward (downward) for any shortfall (excess) in external budgetary assistance (including EU fishing compensation),

- **The ceiling on domestic financing will be adjusted in line with the amount of external budget support (including EU fishing compensation).** In particular, the ceiling will be increased (lowered) in the case of shortfall (excess) in external budget support, by the full amount of the shortfall (excess). The program assumes the following amounts of external budgetary assistance (including EU fishing compensation) (cumulative from January 1, 2009): by end-June CFAF 12.41 billion; by end-September CFAF 22.73 billion; and by end December CFAF 26.0 billion.
- **The ceiling on the accumulation of new domestic arrears will be adjusted in line with available domestic financing of the budget.** In particular, if the government is not able to increase (decrease) the domestic financing of the budget by the full amount of the shortfall (excess) in external support, the ceiling on the accumulation of new domestic arrears of nonpersonnel expenditures will be adjusted upward (downward) by that difference.

II. PROGRAM MONITORING

13. **To allow monitoring of the program, the Ministry of Finance will regularly report the following information to the staff of the IMF:**

- a. Detailed reports on revenue and expenditure by budget line and a completed summary table on central government operations (TOFE) (monthly, two weeks after the end of the month)
- b. Data on any extrabudgetary expenditure not included above, including: (i) incentives to tax collectors; (ii) restitutions to collecting agencies; and (iii) any other retentions operated by collecting agencies (DGA, DGCI, Fishing Ministry, etc.) (monthly, two weeks after the end of the month)

³ For the purposes of the TMU, the CFAF/US\$ exchange rate was updated to 426,6 and the CFAF/Euro exchange rate is 656.

- c. Tables on nonregularized expenditures (DNT) (monthly, two weeks after the end of the month)
- d. Table on accounts payable broken down by budget category (wages, goods and services, transfers, other) (monthly, two weeks after the end of the month)
- e. Previous years' domestic arrears (including 2008): stock and clearance, broken down by budget category (wages, goods and services, transfers, other) (monthly, two weeks after the end of the month)
- f. The monetary survey, the balance sheet of the central bank, and the balance sheet of commercial banks (monthly, within six weeks after the end of the month)
- g. A table with data on Treasury/central government outstanding loans (including short-term advances) from and deposits in local and regional commercial banks (monthly, two weeks after the end of the month)
- h. The amount and terms of new external debt (concessional or not) contracted or guaranteed by the government (within four weeks after the end of the month)
- i. A monthly table on disbursements of budget support (grants and loans) by donors (two weeks after the end of the month)
- j. Indicators to assess overall economic trends, such as the household consumer price index and exports of cashew nuts (immediately when such information becomes available)
- k. A table with a description of the status of implementation of the structural indicators in Table 2 of the MEFP (within two weeks after the end of the month)
- l. Information on any type of financial assistance received and not programmed. This should be reported on a continuous basis.

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

15. The above data will be provided to the economist at the local office of the IMF in Bissau (Mr. Fonseca) for transfer to the African Department of the IMF in Washington.