

International Monetary Fund

[Guinea](#) and the IMF

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

June 30, 2011

[Country's Policy
Intentions Documents](#)

E-Mail Notification
[Subscribe](#) or [Modify](#)
your subscription

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

LETTER OF INTENT

Conakry, June 30, 2011

Mr. John Lipsky
Acting Managing Director
International Monetary Fund
Washington, DC 20431
USA

Dear Mr. Lipsky:

Guinea is emerging from a prolonged period of political crisis. After several years of intermittent civil unrest, a military coup in December 2008 led to a break in our relations with the international community, including the international financial institutions. The first free and democratic elections since independence in 1958 led to a new political regime and a new government in December 2010 and relations with the IMF and the World Bank resumed in January 2011. The government intends to complete the transition process with the conduct of legislative elections by the end of 2011.

Based on the improvement in the political environment and the entering into office of the new government, the population's expectations for a rapid improvement in living conditions are high, but the government inherited a very difficult financial and macroeconomic situation. During the military regime of 2009–10, fiscal control collapsed and inflation and poverty increased. The government's first task is to stabilize the economy and reduce inflation, which is a condition for longer-term development policies to be effective and for poverty reduction and social peace to be sustained.

Guinea has ample natural resources and our efforts to use these to raise additional revenue for development have already resulted in a substantial contribution to the budget with the conclusion of an agreement with a mining company. However, despite the country's immense needs, these funds have been put aside for the moment so as to be able to reflect, in cooperation with our international partners, how best to use them for the development of the country in the context of a medium-term framework

Against this background, the government has started implementing a short-term macro-economic stabilization program for the period January–December 2011 as described in the attached Memorandum on Economic and Financial Policies (MEFP). We request that the implementation of this program be monitored by the staff of the IMF so as to pave the way for a formal Fund arrangement later in the year, also in view of our objective to attain the completion point under the Enhanced Heavily Indebted Poor Countries' Initiative as soon as possible. In this regard, we intend to further strengthen our policies during the second half of the year.

To benchmark our progress, we expect to meet a set of indicative targets for end-June, end-September, and end-December 2011 provided in Table 3 of the attached MEFP and detailed in the attached Technical Memorandum of Understanding (TMU). Table 4 shows the target dates for putting in place some of the main structural reforms we are planning.

The government believes that the policies set forth in the attached MEFP will achieve the objectives of the program but will take any additional measures that may become necessary for this purpose. The government will consult with IMF staff on the adoption of such additional measures, at its own initiative or on the request of the IMF's staff, and in advance of any revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultations. Moreover, the government will refrain from commitments that could endanger the HIPC process, including government- or government-guaranteed borrowing at non-concessional terms or, more generally, at terms that would endanger attaining the post-HIPC debt-sustainability targets. The government undertakes to provide the IMF with any information that may be necessary to monitor implementation of the proposed measures and attainment of the objectives.

We hereby grant our permission for publication on the IMF's website of the staff report, the MEFP, the TMU, and this Letter of Intent.

Sincerely,

_____/s/_____
 Lounceny Nabé
 Governor of the Central Bank
 of the Republic of Guinea
 for the Governor,
 First Vice Governor
 Abdoulaye Yero Baldé

_____/s/_____
 Kerfalla Yansané
 Minister of Economy and Finance

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

**GUINEA: MEMORANDUM OF ECONOMIC AND
FINANCIAL POLICIES FOR 2011**

JUNE 2011

I. INTRODUCTION

1. **Guinea is emerging from a prolonged period of political crisis.** After several years of intermittent civil unrest, a military coup in December 2008 led to a break in our relations with the international financial organizations. The first free and democratic elections since independence in 1958 led to a new political regime and a new government in December 2010. Relations with the IMF and the World Bank were resumed in January 2011. This memorandum describes the government's economic and financial policies for 2011 to address the serious macroeconomic and financial imbalances that have arisen in recent years. The government attaches high priority to bringing Guinea back on the road toward the HIPC completion point and reducing the high external debt burden, which is crucial for reducing the fragility of public finances and to make scarce resources available for poverty reduction and growth enhancing policies.

2. **The macroeconomic situation deteriorated sharply during 2009–10 as fiscal control collapsed.** Government expenditure doubled during this period, especially reflecting a tripling of military expenditure to almost 10 percent of GDP and a 50 percent increase in public sector wages in 2010. Procurement procedures were largely circumvented; the contracts signed considerably exceeded available resources. The budget deficit was over 1 percent of GDP per month. This deficit was mostly financed by advances from the central bank (BCRG), by selling treasury bills to the commercial banks, and the accumulation of external arrears. Consequently, broad money more than doubled, the 12-month inflation rate, which had initially declined to 7.9 percent by December 2009, rebounded to reach 21 percent by end-2010, and international reserves remained much below a level equivalent to one month of imports. The parallel market exchange rate of the Guinea franc (GNF) depreciated by 25 percent during 2010.

3. **The immediate challenge for the government is to regain fiscal and macroeconomic stability.** The population's expectations for a rapid improvement in poverty and living conditions following the first democratic elections are high and Guinea's ample natural resources provide an excellent basis for those expectations. However, policies to unblock these resources will only bear fruit in a stable macroeconomic environment. The government's first task is to bring the fiscal deficit under control and reduce the high inflation rate, which disproportionately affects the poorest in our society and threatens social stability. The success of these stabilization policies will allow the government to shift the focus towards medium-term policies to reduce poverty and enhance growth, which will also allow a resumption of the HIPC debt relief process.

4. **On structural reform, the first priority of the government is to remove distortions stemming from weak governance in the past.** To this end, a review of major contracts concluded under previous regimes is under way. Most importantly, we recently settled a long-standing dispute with a mining company, resulting in very substantial additional government revenue. Following the adoption of a new mining code, we also intend to review other mining contracts to ensure that Guinea obtains a fair share of its natural resource wealth. Reviews of contracts regarding Conakry's container port and in the mobile telephone sector have also led to additional revenue. Efforts are underway to eliminate monopolies in the wholesale and retail sectors so as to reduce prices of basic necessities.

5. **Guinea is emerging from a period in which governance sharply deteriorated.** Therefore, 2011 will remain a very difficult year, and it will be important to ensure consensus among all stakeholders in our society to implement the measures needed to restore stability. Reducing inflation and security sector reform are crucial elements in reducing the risks to the program. This memorandum describes our policies to address inflation. With regard to security sector reform, a workshop on a joint ECOWAS/UN report took place from March 28–31, and the government will implement the recommendations from this workshop.

II. ECONOMIC AND FINANCIAL POLICIES FOR 2011

6. **The economic and financial policies for 2011 aim at reversing the upward inflation trend and stopping the depreciation of the Guinean franc.** The objective of the 2011 budget is to avoid additional financing of the deficit by the central bank and to minimize possible financing by commercial banks, as these are the main sources of inflationary pressures. This approach will be supported by a restrictive monetary policy that will also address the issue of excess liquidity in the economy. In this context, the main macroeconomic objectives will be to raise economic growth to 4 percent and contain inflation to below that of 2010. Moreover, to strengthen confidence in the national currency, international reserves will be increased to 5.5 months of imports of goods and services, while keeping a majority of the IMF's 2009 special SDR allocation.

A. Fiscal Policy

7. **The budget for 2011 that was approved by the government on April 21 and by the interim parliament on May 30 aims to drastically reduce expenditures and the need for bank financing.** Expenditures are being cut sharply in areas where growth was excessive in recent years, but increased in other areas under the President's Action Plan to respond to the immediate needs of the population. Moreover, we have taken additional measures, equivalent to about 4 percent of GDP to keep domestically financed expenditures in line with domestic revenue, thereby improving the basic fiscal balance from a deficit of about 13 percent of GDP in 2010 to a deficit of about 2 percent in 2011. These measures are detailed below.

Revenue

8. We have taken and will take measures to increase revenue by GNF 646.5 billion (about 2 percent of GDP) (Box 1).

- **The government intends to reinstate the mechanism for the regular adjustment of fuel prices in relation to international price changes and exchange rate movements.** Following substantial increases in international prices and the depreciation of the exchange rate, which were not fully passed-on to domestic prices, government petroleum product tax revenues have declined, and petroleum products are being re-exported to neighboring countries where fuel prices are higher. The re-application of the automatic adjustment mechanism will be applied during the third quarter of 2011. The budget provides funding for measures to mitigate the impact of this adjustment on the most vulnerable segment of the population. The net revenue effect is estimated at GNF 400 billion.
- **Better control over autonomous public agencies is expected to raise additional resources for the budget.** Some of the larger autonomous government agencies collect revenue or realize profits, which in recent years have not—or only partially—been transferred to the budget. Under the principle of the Treasury Single Account, a law laying down the general principles of treasury management of funds belonging to autonomous government agencies was enacted on March 29, 2011. The government is now working on the practical arrangements for implementing this Act. In addition, the Ministry of Economy and Finance is strengthening the capacity of the Treasury department and the National Department of Government Assets and Private Investment to improve the oversight of the autonomous agencies. Henceforth, the agencies must submit quarterly financial statements.
- **Excise taxes on beer and tobacco were raised on April 21, 2011.** Moreover, the valuation basis for import duties on cigarettes was changed from the Brussels system to transaction-based system. These measures are estimated to generate additional revenue of GNF 15.5 billion.
- **Measures affecting import duties are expected to raise approximately GNF 100 billion in additional revenue.** First, all ad-hoc exemptions on import-tax and customs duties and the exemption for heavy fuel oil were abolished and no new ad-hoc exemptions will be granted. The budget provides for an additional subsidy to the state-owned power company, Electricité de Guinée, to offset the effects of this increase. Second, from March 10, 2011 the list of products that require pre-shipment verification was extended to include 85 previously exempted products, thus covering all imports. Third, exemptions on imports by mining companies will be strictly limited to the items specified in their contracts and they will be encouraged to purchase as much as possible on the local market. At the same time, we have reduced the protective import duties on flour (from 37.5 percent to 10 percent) and cooking oil (from 10 percent to 0 percent), bringing them in line with the rates under the WAEMU's Common External Tariff.

9. **Measures in the area of income taxes, including recovering tax arrears, are estimated to raise an additional GNF 50 billion.** The government will take all appropriate measures to accelerate the procedures for recovering tax arrears. The regulation under which all companies with an annual turnover of less than GNF 500 million must pay a fixed tariff of 10 percent on government contracts will be strictly applied. Also, rigorous control will be put in place to prevent large companies from fraudulently benefiting from this regulation. The Tax Department is reviewing the list of large government contracts concluded in 2009 and 2010 and will submit to the Minister of Economy and Finance before end-2011 (with a preliminary report before end-June) the list of companies where this provision was applied erroneously and will suggest measures to recover the correct amounts.

10. **Meeting the revenue targets will require a strong effort of all revenue agencies.** To this end, the Ministry of Economy and Finance has concluded performance contracts with the Customs and Tax Departments. It also intends to set performance objectives with other agencies that collect revenue on behalf of the government.

11. **On April 22, the government renegotiated an agreement with the mining company Rio Tinto on an iron ore concession that led to a payment to the government of \$700 million (equivalent to 15 percent of GDP) on May 4, 2011.** The agreement and the large revenue windfall it provided create opportunities to accelerate growth and reduce poverty in our country, but also pose new challenges.

- *First, it will be important to ensure that the money will be spent efficiently, effectively and transparently, without creating further pressure on inflation.* To this end, we are considering the creation of a special fund (which would also receive possible up-front payments from other natural resource agreements). This fund could disburse to the budget for specific investment projects, taking into account the limited capacity in managing large investment projects and the need to safeguard fiscal sustainability by limiting possible related future claims on the budget, such as for operations and maintenance. We expect that annual disbursements would be spread more or less evenly over the years before production in the mining sector increases by 2015. Management assistance for the fund, including capacity building, could be provided under the World Bank's Reserves Advisory and Management Program (RAMP); full transparency could include representation on the fund's board of members of parliament and appointees from civil society. The government intends to finalize plans for such a fund by the time of the discussions on a successor program with the IMF.
- *Second, the agreement allows for substantial government participation in the mining project and the required infrastructure.* In this regard, the government intends to carefully assess the financing modalities of such participation to avoid commitments that could put debt sustainability at risk or interfere with progress toward the HIPC completion point and will consult the staffs of the IMF and the World Bank before finalizing agreements on such financing.

Expenditure

12. **The government has taken measures to address the excessive growth in expenditures in recent years.** A main factor in the rapid expansion has been the conclusion of procurement contracts for a total amount of GNF 13,400 billion (40 percent of 2010 GDP) during 2009–10. A first review of these contracts, conducted with assistance of the World Bank, indicated that they were mostly awarded outside normal procurement procedures at inflated costs, while providing limited benefits for the country. In March, the government suspended all such contracts and stopped payments and will undertake a full review of these contracts before taking further actions. The 2011 budget provides for a contingency for possible audit and legal costs and for unavoidable payments. The decisions on those contracts will be reflected in a revised budget later in the year, on which the government will consult the IMF.

13. **The government has initiated a reform of the civil service, particularly in the areas of the number of civil servants and payroll.** Civil service recruitment will be frozen during 2011, except for hiring for education, health, and justice. We expect that the new hiring in these three ministries will be offset by the elimination of fictitious or duplicate workers. In this regard, efforts to clean up the civil service roster have already led to the identification of 1,327 fictitious employees from 2,619 cases of duplication.

14. **The government has formulated an Action Plan to meet some of the most urgent needs of the population.** Total expenditure under the Plan is estimated at GNF 1,207 billion, of which GNF 1,091 billion has been included in the budget and will be financed from domestic resources and GNF 116 billion is expected to be financed from external resources. In order to make room for the high-priority expenditure projects under the Plan, we had to delay implementing other investment projects, for which we will now seek external financing.

15. **When these measures are included, the 2011 budget's basic balance (domestic revenue minus domestically-financed expenditure) shows a small deficit of 2 percent of GDP, compared to a deficit of 13 percent of GDP in 2010.** Including debt service obligations and providing for clearing external arrears, the overall financing gap of the budget would amount to 11.5 percent of GDP (US\$535 million). After the approval by the World Bank and the African Development Bank of budget support operations of US\$78 million and about US\$30 million, respectively, possible additional budget support in 2011 amounts to about US\$55 million. The government plans to use a small part of the recent windfall revenue from the mining sector and issue treasury bills for a total of about 3 percent of GDP. For the remaining financing need, about US\$340 million, the government intends to open discussions with its external creditors on the clearance of arrears and deferment of current debt service falling due with the aim of finding a solution in the context of the HIPC Initiative.

**Box 1. Fiscal Adjustment Measures 2011
(GNF billion)**

Measures	Expected impact
REVENUE	646.5
Tax Department	50.5
Recovery of tax arrears	50
Raising excise taxes on alcoholic drinks	0.5
Customs Department	596
Petroleum product-related revenue	480
Expanding the list of products requiring pre-shipment inspection	21
Raising excise taxes on tobacco	15
Control of imports by mining companies and sub-contractors benefiting from exemptions	30
Levy on heavy oil	16
Elimination of ad-hoc exemptions	50
Adjustment to CET on flour and cooking oil	-16
EXPENDITURE	-664
Suspension/Renegotiation of contracts signed in 2009-10	-660
Accompanying measures for the fuel price mechanism	80
Reduction in projected civil service recruitment	-5
Reduction in projected expenditures on vehicle purchases, fuel and overseas missions	-79
TOTAL	1,310.5

Sources: Guinean authorities, and IMF staff estimates.

Other measures

16. **Spending will be broadly implemented on a cash-management basis during 2011.** The 2011 budget projections reflect our best estimates on revenue and existing expenditure commitments and available financing. However, uncertainties are larger than usual due to the deterioration of the budget over 2009–10 and the only recently restored relations with donors. In this context, to reach our fiscal targets, we will limit expenditure to available resources. To this end, the Treasury Committee, chaired by the Prime Minister, was reinstated in January 2011, and, while bank financing amounted to 1.5 percent of GDP in December 2011, we were able to avoid any further such financing during January–April 2011. Our cash flow plan for the first six months of 2011 (Table 1) provides for bank financing of GNF 300 billion for the purpose of smoothing. Should available resources exceed forecasts, the government will use all or part of these additional resources to reduce bank financing. Consistent with the cash-flow plan, we have limited the opening of budgetary credits for ministries and departments to through end-June 2011. If needed, the government will consult the IMF in mid-2011 to implement corrective actions under a supplementary budget law.

17. **There is an urgent need to reform the civil service.** Civil service employment has risen from 56,000 in 2006 to 98,344 in January 2011, when outlays on wages and salaries equaled almost 40 percent of revenue. In addition to reconciling civil service employee records and the payroll and other efforts underway to update the civil service database, the government has started preliminary work on a biometric census of all civil service employees

and the army. With regard to civilian personnel, a draft project outline for the selection of a technical contractor has been submitted to the World Bank to ensure its conformity with the procurement rules for technical and financial partners. The objective is to deliver the biometric database at the time when the computing systems of the Ministries in charge of civil service, finance, and budget are reconciled; this is planned for December 2011. In February 2011, the government created a High Commission for Reform of the State responsible for leading the modernization of the public administration.

18. **The sharp deterioration of public financial management during 2009–10 is the main cause of the large financial problems we now face and strengthening measures are underway or will be implemented in the short term.** In the area of budget management, we issued a ministerial decree on March 22 that strictly limits the use of exceptional procedures for the execution of expenditure commitments, including penalties for noncompliance. Furthermore, we prepared and circulated a decree on March 11, 2011 that restored normal procedures to ensure that all procurement contracts will be awarded on a competitive basis (including army contracts that were previously excluded). At the same time, we are working to ensure that the procedure for regularly taking stock of public accounts is reestablished. With regard to cash management, we have conducted a comprehensive inventory of bank accounts opened by public enterprises at commercial banks, including project-related accounts. A report outlining the steps taken and actions required to ensure convergence toward establishment of a Single Treasury Account at the central bank was designed for this purpose. In addition, we intend to finalize the process for reforming the legal framework of public financial management (e.g. the organic law of the finance laws, budget classification, government chart of accounts, the organic law of the court of auditors, and the procurement code) to bring this in line with regional standards. Finally, it is essential that internal control of budget execution be reestablished through the restoration of budgetary procedures and controls on costing. The implementation of these actions, included in the matrix of priority actions, will be given special attention by the relevant departments of the Ministry of Economy and Finance.

19. **With the aid of our technical and financial partners, we will also restart implementation of broader public financial reform, based on the 2008 Strategy of Public Financial Management Reform.** The matrix of actions under this strategy, which was based on extensive technical assistance from the Fiscal Affairs Department of the IMF (FAD), is being updated in close cooperation with several partners, including, in addition to FAD, the World Bank, the African Development Bank, the European Union, UNDP, and France. To coordinate its implementation, the government has set up a technical secretariat headed by a high-level official of the Ministry of Economy and Finance.

A. Monetary and Foreign Exchange Policies

20. **Monetary policy will focus on reducing pressure on inflation and the exchange rate from the strong growth in the money supply during 2009–10.** The main causes of this excessive growth have been advances from the BCRG to finance the budget. Avoiding

additional such financing will be essential in achieving a reduction in inflation. This policy will be supported by measures to sterilize the excessive liquidity in the economy and promote positive interest rates in real terms, which could in turn encourage private savings and discourage capital flight.

21. The BCRG is taking all the measures necessary to reduce inflation and stabilize the Guinean franc.

- As a first step, it raised the reserve requirement for commercial banks from 9.5 percent to 17 percent on March 23, 2011.
- If needed, it plans to place non-negotiable Treasury bills with particularly liquid commercial banks. To this end, and in close collaboration with the Ministry of Economy and Finance, the BCRG could convert part of its existing stock of advances to the government into treasury bills. In order to further reduce excessive liquidity, the authorities also plan to review the possibility of issuing securities to the public.
- It will make no further advances to the government. The government's financing needs will be covered by issuance of treasury bills through the existing auction system, which is expected to generate interest rates sufficiently to encourage savings and discourage flight into foreign currency holdings.
- The BCRG's policy rate (taux directeur) was increased from 16.75 percent to 22 percent on March 23 and will henceforth be adjusted in line with the results of the Treasury bill auctions.
- The issuance of central bank bills could complement other measures in support of the implementation of the monetary program and a stable level of liquidity.

Finally, the BCRG will monthly publish a summary balance sheet and brief analysis of monetary developments in the main local press to reduce uncertainties in our nascent financial market.

Exchange policy

22. On April 7, the BCRG started to reopen the foreign exchange bureaus, allowing the market to freely determine the exchange rate. The official rate is determined by the commercial bank average on the previous day. Based on this, all central bank foreign exchange transactions, including with the government, will henceforth be made within the limit of 1 percent around the daily weighted average exchange rate of the commercial banks. This measure will remove the distortions arising from the existence of different prices for this important economic indicator, thus providing the same signal to all economic actors.

23. The BCRG is undertaking a number of additional measures to improve the working of the foreign exchange market. To strengthen monitoring, on March 29 the central bank adopted new regulations on foreign exchange bureaus, and on April 13 it did the same for money transfer offices. The BCRG is requiring that all offices renew their operating

licenses. These measures are expected to encourage a deepening of the formal foreign exchange market and together with other measures for banks to promote development of an interbank market, for which the BCRG has also requested IMF technical assistance.

24. Following some limited auctions in March 2011, on May 20, 2011, the BCRG began conducting foreign exchange auctions, in which participants are invited to offer sales or submit bids for purchases to pay for purchases, documented in line with foreign exchange regulations. Bids and sales are settled at the auction market-clearing rate.

Bank supervision

25. **The BCRG attaches high priority to strengthening the supervision of the commercial banks.** Following the redeployment of its staff, the capacity of the supervisory authority (Banking Department) at the BCRG has significantly weakened. Based on technical assistance provided by the IMF's Regional Technical Assistance Center for Africa (AFRITAC West), the BCRG will reinforce the staffing of the Banking Department and develop a training program to rapidly rebuild its capacity. In this regard, the BCRG has requested further technical assistance from the IMF and AFRITAC West.

Safeguards

26. **The BCRG will request an update of the 2007 safeguards assessment.** To this end, it has already issued an authorization for Fund staff to hold discussions with the external auditors and to have access to the central bank's external audit reports.

B. Other Structural Reform Measures

27. **The government plans to implement measures to improve management of public enterprises for water, electricity, and telephony.** With the support of technical and financial partners, a study on the institutional reform of these enterprises, especially Electricité de Guinée, will be completed by end-2011. We plan to update the study on electricity pricing by end-2011, launch a study on tariffs in the water sector, and expect to confirm these studies and determine whether energy sector policy needs further review by end-2011. We will ensure that financial statements of prior years will be produced, audited, and certified by end-2011. We will also ensure that commercial losses will be reduced through measures to reduce transmission losses and improved billing rates and recovery.

28. **The government intends to complete a new Mining Code and a Standard Mining Convention.** A first draft of the new mining code has been reviewed by external consultants with financing provided by France. The completed draft and relevant regulations, including the standard convention (initially prepared with World Bank assistance), were presented in a seminar with a broad range of domestic and external stakeholders and partners during May 10–12, 2011. The draft mining code will be submitted for government review no later than June 2011.

29. **Other economic governance initiatives are moving forward:** (i) The secretariat of the EITI reinstated Guinea's status as a candidate member in March 2011. The 2006

and 2007 financial audits have been completed and published on the government's website. The audits for 2008 and 2009 will be completed following reactivation of the World Bank grant in this regard; (ii) the government created an audit committee in the President's office to look into suspected cases of mismanagement; (iii) the national anti-corruption agency will resume the publication of its report from the second half of 2011; and (iv) while an anti-money laundering law was passed by the National Assembly in 2006, its implementation has been hindered by weak institutional capacity. We are committed to providing the BCRG's financial intelligence unit with the resources necessary for the effective implementation of this law.

HIPC Initiative

30. **The government attaches high priority to reaching the completion point under the enhanced HIPC initiative as soon as possible.** An extension of the PRSP II through June 2012, including a progress report on implementation during 2009–10, has been prepared with assistance from the World Bank, the UNDP, and other partners. Following two regional workshops to ensure participation of a broad range of the population it was validated at a February 17–18, 2011 national seminar and obtained government approval in May 2011. We will ensure continued implementation of the completion point triggers.

C. External financing

31. **Guinea continues to face serious financial constraints and has not been servicing its debt to most of its creditors including some multilateral creditors, leading to external arrears accumulation.** The government intends to regularize its financial relations with its external creditors. To this end, it has cleared its arrears with the World Bank, allowing the latter to provide budget support and resume project support. Regarding our arrears to the European Investment Bank (EIB), we have agreed with the EU on the steps by both parties needed to clear these arrears, which would open up the possibility of renewed interim HIPC assistance from the EIB; we are committed to fulfilling those steps required of Guinea. With respect to creditors with which it has accumulated arrears, the government intends to open discussions to reach an agreement on the clearance of arrears and deferment of current debt service falling due, with the aim of finding a solution to these arrears in the context of the HIPC Initiative. For other creditors, it will remain current on debt service falling due. Regarding debt service to the IMF, the BCRG will continue to maintain adequate funding in its SDR account to cover all payments falling due in the following quarter. Based on our strategy regarding external debt service obligations and prospective donor financial assistance, the program for 2011 is fully financed.

32. **The government will refrain from incurring or guaranteeing external debt on non-concessional terms.** As such, it undertakes to submit to the National Debt Department all prospective loans so that it can assess the concessionality of these loans. In 2009, the then-government agreed to a joint venture with a foreign private company (the China Investment Fund-CIF) that allowed for a broad range of infrastructure investments with a possible government guarantee for non-concessional debt. On the basis of information

gathered by the government, only one loan (amounting to \$78 million) has been contracted, to be reimbursed through royalties and dividends realized through the investments made by the companies set up with the CIF in Guinea. The government will refrain from any non-concessional borrowing or the issuance of guarantees under this contract.

D. Technical Assistance Needs

33. **The government has identified a broad range of technical assistance needs in macroeconomic management.** Our already weak institutional capacity has been further eroded during the last two years when normal procedures and regulations were largely by-passed. To make a new start, we have requested technical assistance from the IMF's Fiscal Affairs Department (tax policy, tax administration, customs reform; public financial management) and Monetary and Capital Markets Department (foreign exchange market; central banking). In February 2011, a mission of the IMF's AFRITAC West identified other areas of possible assistance, including in national accounts statistics and banking supervision and its assistance program for Guinea has resumed.

E. Program Monitoring

34. **The government plans to complete the actions indicated in the attached Table 2 prior to signing the letter of intent for the program.**

35. **The government intends to closely monitor the implementation of its program.** To this end, and also to establish a track record towards a possible medium-term program that can be supported by the IMF under the Extended Credit Facility, we have established a number of quantitative and structural indicators for end-June, end-September, and end-December 2011 listed in the attached Tables 3 and 4, respectively. The definitions of the relevant variables are contained in the Technical Memorandum of Understanding (Attachment 1). The program monitoring committee has been reactivated to closely follow developments and the implementation of the measures included in the program. It will provide a monthly report to the Minister of Economy and Finance and the Governor of the BCRG on progress under the program. The Ministry of Economy and Finance will also submit a monthly report on budget execution to the Council of Ministers.

Table 1. Guinea: Cash Flow Estimates 2011
(in billions GNF)

	Jan. real.	Feb. real.	Mar. real.	Apr. real.	May real.	Jun. proj.	Jul. proj.	Aug. proj.	Sep. proj.	Oct. proj.	Nov. proj.	Dec. proj.
Resources	1,067.60	923.84	1,092.52	1,961.15	1,282.12	1,351.69	868.68	744.96	616.17	1,367.09	1,324.75	1,194.95
Resources available at the beginning of the month		576.88	512.06	575.49	698.63	725.41	0.00	75.36	35.40	-0.04	70.76	29.44
Revenue	329.56	346.96	343.53	528.08	557.68	485.94	415.46	418.10	516.87	485.59	478.99	480.91
Taxes	101.26	113.26	115.71	143.30	268.42	197.21	172.23	144.06	198.12	186.12	182.11	161.05
Customs	106.10	117.14	153.83	185.25	189.56	208.15	169.92	211.72	211.72	206.98	204.89	228.49
Treasury	122.20	116.56	73.99	199.53	99.70	80.58	73.31	62.32	107.03	92.49	91.99	91.37
Other revenue				328.42		140.34						
Treasury bills	738.04	0.00	236.93	0.00	0.00	0.00	0.00	251.50	63.90	0.00	775.00	684.60
Other financing							284.60			426.90		0.00
Budget support	0.00	0.00	0.00	529.16	25.81	0.00	168.63	0.00	0.00	454.65	0.00	0.00
Expenditures	490.72	411.78	517.03	1,262.52	556.71	1,351.69	793.32	709.56	616.22	1,296.34	1,295.31	1,194.95
Salary	115.13	51.31	137.66	132.81	172.81	265.20	191.00	127.30	157.40	200.10	187.40	190.88
Debt service	164.18	250.34	150.00	851.02	95.48	225.20	356.92	322.06	75.42	680.24	701.31	593.28
Domestic debt	125.00	200.00	150.00	175.00	0.00	200.00	300.00	300.00	0.00	315.95	600.00	485.80
Of which : Treasury bills	125.00	200.00	150.00	175.00	0.00	200.00	300.00	300.00	0.00	0.00	600.00	400.00
External debt	39.18	50.34	0.00	676.02	95.48	25.20	56.92	22.06	75.42	364.29	101.31	107.48
Other expenditures	87.33	93.89	182.99	238.21	176.13	781.24	225.40	250.20	363.40	406.00	396.60	400.79
Other treasury operations	124.08	16.24	46.38	40.48	112.29	80.05	20.00	10.00	20.00	10.00	10.00	10.00
Of which : 2010 payments	116.60	6.85	39.46	36.59	106.34	37.05	10.00	10.00	10.00	0.00	0.00	0.00
Resources available end-month	576.88	512.06	575.49	698.63	725.41	0.00	75.36	35.40	-0.04	70.76	29.44	0.00
Memorandum item: Net bank financing												-3,943.00

Sources: Guinean authorities; and IMF staff projections.

Table 2. Guinea: Actions to be Completed before Signing the Letter of Intent of the Staff-Monitored Program

Actions	Macroeconomic Rationale	Status
Adopt the 2011 budget in line with commitments under the program.	To enforce fiscal control and consolidation	Implemented (May 30, 2011)
Reopen foreign exchange bureaus and let the market freely determine the exchange rate. The BCRG official exchange rate continues to be determined as the average rate used by commercial banks on the previous day.	To eliminate exchange rate distortions	Implemented. Commercial bank rates limited to +/- 3 percent of the official rate as established in the last foreign exchange auction.
Collect the details of the contracts signed with China Sonangol and China International Fund and initiate a review of the terms of these agreements to ensure that the government does not contract or guarantee non-concessional loans.	To help assure debt sustainability	Implemented

Table 3. Guinea: Indicative Targets for 2011 Under the SMP /1

(in billions of Guinean francs unless otherwise indicated)

	2010	2011			
	end Dec./2 Est.	end Mar. Est.	end Jun. Prog.	end Sep. Prog.	end Dec. Prog.
Quantitative targets					
Basic fiscal balance (floor) /3	-3,410.9	-58.9	-330.0	-429.1	-662.5
Net domestic assets of the central bank (ceiling)	6,740.8	6,740.8	1,760.3	2,044.9	2,487.9
Domestic bank financing of the government (ceiling) /3	4,037.4	-76.5	-4,681.5	-4,396.9	-3,943.0
Net international reserves of the central bank (floor); US\$ millions /3, 4, 5	21.5	102.8	801.5	773.5	668.9
New nonconcessional medium- or long-term external debt contracted or guaranteed by the government or central bank (ceiling); US\$ millions /6	n.a.	0.0	0.0	0.0	0.0
Stock of outstanding short-term external debt due or guaranteed by the government or the central bank (ceiling); US\$ millions	n.a.	0.0	0.0	0.0	0.0
Memorandum items:					
Reserve money	6,981.7	6,979.0	6,983.9	6,998.3	7,101.4

Sources: Guinean authorities; and IMF staff projections.

1/ Definitions and adjustors are included in the technical memorandum of understanding (TMU).

2/ Flow over 2010 for fiscal criteria and stock for end-December 2010 for monetary and external debt criteria.

3/ Cumulative change from end-December 2010.

4/ Calculated using the program exchange rates.

5/ End 2010 figure excludes 2009 SDR allocation.

6/ External debt contracted or guaranteed other than with a grant element equivalent to 35 percent or more, calculated using a discount rate based on the OECD commercial interest rates. Excludes borrowing from the IMF.

Table 4. Guinea: Structural Reforms Under the Staff-Monitored Program

Continuous	Macroeconomic Rationale	Status
No payment by the central bank for the account of the government without the prior signature of the Minister of Economy and Finance or his official representative. (MEFP ¶ 6)	To restore fiscal control and procedures	Observed in Q1 2011
No new ad hoc tax and customs exemptions (MEFP ¶ 8)	To restore fiscal discipline and ensure government revenue	Observed in Q1 2011
Monthly publication in local media of a brief summary and analysis of the monetary outlook. (MEFP ¶ 21)	To inform economic agents on monetary developments	
No new extra-budgetary expenditures. (MEFP ¶ 18)	To restore fiscal control and prevent expenditure overruns	
No net increase in the civil service. Any recruitment in health, education, and justice will be offset by the elimination of ghost workers or duplicates. (MEFP ¶ 13)	To prevent a structural increase in wage expenditures (to improve efficiency of expenditures)	Observed in Q1 2011
Execute a cash-basis budget with no central bank financing in 2011. (MEFP ¶ 6, 16)	To enforce fiscal consolidation and contain inflation	Observed in Q1 2011
March 31, 2011		
Publication of a decree restoring normal procedures ensuring that procurement contracts are awarded on a competitive basis. (MEFP ¶ 18)	To enforce public financial management rules	Completed
April 30, 2011		
Adoption of the law on treasury single account. (MEFP ¶ 18)	To improve control over government funds and reduce cost of government borrowing	Completed
June 30, 2011		
Submission to the government of a standard mining contract based on international best practices. (MEFP ¶ 28)	To improve business environment in the mining sector and ensure government revenue	
June 30, 2011		
Publication of the promulgation decree on the treasury single account. (MEFP ¶ 18)	To improve control over government funds and reduce cost of government borrowing	

Table 4. Guinea: Structural Reforms Under the Staff-Monitored Program (cont.)

September 30, 2011	
Submission by the Tax Department to the Minister of Economy and Finance of an initial report on the fiscal control of government contracts signed during 2009–10. (MEFP ¶ 12)	To enforce fiscal discipline and improve revenue collection
October 31, 2011	
Publish the central bank's audited financial statements for 2010 on its website together with the auditors' opinions.	To inform economic agents on the central bank's activities and situation
December 31, 2011	
Carry out an institutional audit of the electricity sector in partnership with the World Bank and the Agence Française de Développement. (MEFP ¶ 27)	To initiate a restructuring of the electricity sector, a main bottleneck for economic growth

TECHNICAL MEMORANDUM OF UNDERSTANDING

JUNE 2011

I. INTRODUCTION

1. This memorandum sets out the understandings between the Guinean authorities and staff of the International Monetary Fund (IMF) regarding the definitions of the indicative targets for the program supported under the Rapid Credit Facility, as well as the related reporting requirements.
2. The indicative targets and cut-off dates are specified in Table 3 of the Memorandum of Economic and Financial Policies (MEFP).

II. MAIN DEFINITIONS

A. Indicative Targets

3. The **basic fiscal balance** is calculated as the difference between **government revenue excluding grants** and **basic government expenditure**. Definitions of bolded terms above are specified in the Table of Financial Operations of the Government (TOFE), as described in Section V below.
4. **Domestic bank financing of the government** is calculated as the sum of the change in **central bank financing** and **commercial bank financing of the Treasury**. Definitions of bolded terms above are specified in the Table of Financial Operations (TOFE), as described in Section V of the TMU.
5. **Net domestic assets** (NDA) of the BCRG are, by definition, equal to the difference between **reserve money** (defined below) and **net foreign assets** (NFA) of the BCRG, both calculated at program exchange rate as indicated below. NFA are equal to the difference between the gross foreign assets of the BCRG, including foreign assets that are not part of reserve assets, and foreign liabilities of the BCRG (in other words, $NDA = \text{Reserve Money} - NFA$, based on the BCRG balance sheet).
6. **Net international reserves (NIR) of the BCRG** are, by definition, equal to the difference between the reserve assets of the BCRG (i.e. the external assets readily available to, and controlled by, the BCRG as per the fifth edition of the IMF's *Balance of Payments Manual*) and the foreign exchange liabilities of the BCRG to residents and nonresidents (including foreign exchange deposits of the local banks in the BCRG). Allocations of Special Drawing Rights (SDRs) shall not be deducted in the calculation of NIR. In the program context, the gold holdings of the BCRG will be evaluated at the gold price in effect on December 31, 2010 (US\$1224.8 per oz.). For the test dates, the US dollar value of the reserve assets (other than gold) and foreign exchange liabilities will be estimated using the program exchange rates, namely: the exchange rates between US dollar and the Guinean franc (7115 GNF/US\$), the SDR (1.53561 US\$/SDR), the Euro (1.32185 US\$/EUR) and other currencies as published in the IFS.

Medium- and long-term external debt contracted or guaranteed by the government or the central bank is defined as the amount of **external debt** (see Section B) incurred or guaranteed by the state or central bank for a period of one year or more during the period January to June 2011. Debt is considered **concessional** if it has a grant element equivalent to 35 percent or more using the available currency-specific commercial interest reference rate (CIRR) and following the methodology set out in staff papers SM/96/86 (April 8, 1996) and EBS/00/128 (June 30, 2000).¹ This definition criterion does not apply to financing granted by the Fund.

7. **Short-term external debt owed or guaranteed by the government or the central bank** is defined as the stock at a specific date of **external debt** owed or guaranteed by the government or the central bank with an initial contractual maturity of less than one year. Excluded from this definition are normal import-related commercial credits and changes in foreign currency deposits at the central bank.

8. **Reserve money**, which is a memorandum item in the table of indicative targets, comprises local banks' deposits and other deposits with the BCRG (including required reserves of the banks) denominated both in Guinean francs and in foreign exchange, Guinean franc cash in circulation, and cash in Guinean francs in vaults of local banks. The amounts in foreign exchange will be converted to Guinean francs at the program exchange rate as specified above (in the section on net international reserves).

B. External Debt

9. With regard to the term “external debt,” as specified in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted by the Executive Board of the IMF on August 31, 2009,² for purposes of the program, “debt” will be understood to mean current, i.e., not contingent, liabilities, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. **External debt** can take a number of forms, the primary ones being the following:

- **loans**: advances of money to the obligor by the lender on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' or suppliers' 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

¹ More detailed discussion of the concessionality concept and a calculator to estimate the grant element of a financing package are available at the IMF website at <http://www.imf.org/external/np/pdr/conc/index.htm>.

² See “Guidelines on Performance Criteria with Respect to Foreign Debt”—IMF Executive Board Decision No. 12274, as amended by Decision No. 14416-(09/91) (SM/09/215, suppl. 1, August 20, 2009).

collateral from the buyer in the future (such as repurchase agreements, official swap arrangements, swaps, or leases);

- **suppliers' credits:** contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and
- **leases:** arrangements under which property is provided that the lessee has the right to use for one or more specified periods of time, which are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of this memorandum, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement, excluding those payments that cover the operation, repair, or maintenance of the property.

10. Under this definition of debt, arrears, penalties, and judicially awarded damages arising from failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

III. ADJUSTMENTS TO PROGRAM TARGETS

11. **Domestic bank financing of the government**, in other words, **bank financing of the Treasury**, is calculated based on the projected amounts of revenue and external grants and financing. For program purposes, revenue includes tax and non-tax revenue as defined in Section V, grants include non-refundable financing, and external financing includes loans from governments, financial institutions, or external private entities.

12. The ceiling on domestic bank financing to the Treasury will be adjusted downward if revenue and budget support (either grants or loans) exceed the amounts projected in the budget.

IV. INFORMATION FOR PROGRAM MONITORING

13. The information necessary for monitoring the indicative targets under the program, as specified in Table 3 of the MEFP, will be reported to the IMF's African Department. The required data information and time limits are specified in Table 1. Barring any indication to the contrary, the data will take the form mutually agreed by the authorities and the IMF. The authorities will supply the Fund with any additional information that the Fund requests in connection with monitoring performance under the program on a timely basis. In addition, the authorities will consult with IMF staff if they obtain any information or new data pertinent for assessing or monitoring performance against the program objectives.

14. The status of implementation of structural measures pertaining to the program, as specified in Table 4 of the MEFP, will be transmitted to the IMF's African Department within two weeks of the date of implementation.

15. The authorities will inform IMF staff of any new external borrowing and the associated terms as soon as external debt is contracted or guaranteed by the state. The BCRG will communicate to IMF staff reports on the meetings of the inter-bank foreign exchange market.

V. DEFINITION OF TOFE ITEMS

16. Unless otherwise indicated, the **government** is defined as the central administration of the Republic of Guinea and does not include local administrations, the Central Bank of the Republic of Guinea (BCRG), or any other public entity with autonomous legal personality, notably public administration (*établissements publics administratifs*) and public enterprises of an industrial or commercial nature (*établissements publics à caractère industriel et commercial*).

17. **Government revenue** includes tax and nontax revenue. It does not include external grants or the proceeds from privatization (recorded as financing). Tax and nontax revenue are defined in accordance with *GFSM* 1986, section IV.A.1, using the following categories. For tax revenue, the main categories are taxes on income, profit, and dividends (Title 1); taxes on property (Title 2); taxes on international trade (Title 3), including import duties, the export duty (*droit fiscal de sortie*), the surtax on consumption, the liquidation levy (*redevance de liquidation*) and penalties related to international trade; taxes on goods and services (Title 4), including general sales taxes, value-added taxes on domestic sales and on imports, the single tax on vehicles (TUV), the TAF, taxes on petroleum products, and export taxes on mining products, including the tax on mining products, taxes on diamonds, and taxes on precious metals. Other tax revenues (Title 5) include stamp taxes and revenue from recording taxes. Tax receipts also incorporate the taxes assumed by the State for the purchase of externally-financed capital goods. Nontax revenue consists of royalties and dividends (excluding revenue from the sale of telephone licenses), administrative duties and fees, and fines and forfeitures (Title 6), other non-tax revenue (Title 7), and incidental revenue and capital receipts (Title 8).

18. **Government expenditure** will be measured at the stage of incurrence of expenditure (*prise en charge*) by the Treasury, regardless of the execution procedure followed. Under regular or simplified procedures, expenditures will be incurred by the Treasury once the payment order (*ordonnancement*) is issued; in the case of decentralized government appropriations (*délégations de crédit*) or payments without prior authorization, the expenditure will be incurred by the Treasury at the time of recording of the payment order (*mise en paiement*), and in the latter case, no expenditure will be measured on the basis of the regularization orders. For refunds of VAT credits, incurrence by the Treasury occurs when refund requests are transmitted from the National Tax Directorate to the National Directorate of the Treasury. Government expenditure includes all expenditure of the central government, including subsidies and transfers to autonomous public entities, and loans granted or on lent by the government to public enterprises and other sectors of the economy, net of repayments on such loans.

19. **Basic expenditure** is defined as the sum of (i) current expenditure, excluding expenditure on interest on external debt and (ii) domestically-financed capital expenditure.
20. **Bank financing, or domestic credit the government from banks** comprises (i) **central bank financing of the Treasury**, that is to say the change in net position of the Treasury with respect to the central bank (PNT1) excluding changes in the net position of “satellite” government accounts with the central bank, and (ii) **commercial bank financing of the Treasury**, which includes changes in the stock of Treasury bills held by banks, but excludes changes in the net position of “satellite” government accounts held in commercial banks.
21. **Non-bank financing** includes: (i) privatization receipts, including proceeds from the sale of telephone licenses; (ii) suppliers’ credits falling due in more than three months received (with positive sign) or refunded (with negative sign); and (iii) retirement of other domestic debt.
22. **External financing** comprises: (i) disbursements of external loans; (ii) principal owed on government external debt; (iii) relief and rescheduling of government external debt, net of HIPC assistance obtained from multilateral institutions, which is considered part of grants; and (iv) change in external arrears (interest and principal presented separately).
23. **Payment float**, an item contained in the cash plan, is defined as the stock of expenditure borne by the Treasury (see definition above) and not yet paid.

Table 1. Guinea: Data Reporting Requirements

Category of Data	Table/Report	Frequency	Deadline
Financial and monetary data	Central bank balance sheet, consolidated commercial bank balance sheet, monetary survey (at the current exchange rate as well as at the program exchange rate)	Monthly	30 th of the month for the previous month
	Detailed net treasury position (NTP) and net government position (NGP)	Monthly	30 th of the month for the previous month
	Repayment schedule, interest rates and outstanding volumes of the government and central bank securities (<i>BDT</i> and <i>TRM</i>)	Monthly	30 th of the month for the previous month
	Budget of foreign exchange operations (<i>Budget en Devises</i>)	Monthly	30 th of the month for the previous month
Fiscal data	Table of indicators (<i>tableau de bord</i>), including details on revenues, expenditures, and cash-flow operations	Monthly	30 th of the month for the previous month
	TOFE	Monthly	30 th of the month for the previous month
	Treasury balances (<i>balance générale du Trésor</i>)	Monthly	30 th of the month for the previous month
	Cash-flow plan for most recent month (in preparation and execution) and the plan for the current month (in preparation)	Monthly	15 th of the current month
	Stock of expenditures in process	Monthly	30 th of the month for the previous month
Real sector data	Consumer price index, Conakry	Monthly	30 th of the month for the previous month
	Quarterly summary of macroeconomic developments	Quarterly	60 days after the end of the quarter
Balance of payments data	Imports by use and exports by major product, trade balance	Quarterly	Three months after the end of the quarter
	Price and volume indices of imports and of exports	Quarterly	Three months after end of quarter
	Consolidated estimates of the balance of payments	Annual	Summary estimates: six months after the end of year
External debt	Debt service due before and after debt relief	Monthly	30 th of the month for the previous month
	Debt service paid	Monthly	30 th of the month for the previous month
	Debt service reconciliation table	Monthly	30 th of the month for the previous month
	Stock of outstanding debt and arrears	Monthly	30 th of the month for the previous month
	Drawings on new loans	Monthly	30 th of the month for the previous month
Grants	Disbursements	Monthly	30 th of the month for the previous month