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

Press Release:
[IMF Executive Board
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Financing Assurances
Review Under ECF
with Guinea-Bissau
and Approves
US\\$3.77 Million
Disbursement](#)
December 5, 2011

November 14, 2011

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LETTER OF INTENT

Bissau, November 14, 2011

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Ms. Christine Lagarde,

1. This letter of intent and the attached memorandum of economic and financial policies (MEFP) update and supplement our correspondence of April 29, 2011, and describe performance under the government's economic program since then.
2. The government's economic program, supported by a three-year Extended Credit Facility (ECF), is on track. All performance criteria through end-June 2011 have been observed, and all structural benchmarks for the third review were met, except for the unified payroll system which we have extended to most ministries and plan to complete extending it to the ministries of defense and interior by end year. All but one quantitative indicative targets for end-September 2011 were also met (see Tables 1 and 2 of the MEFP). Nonobservance of the indicative target on non-regularized expenditures has been brought below target by end-October.
3. The attached Supplementary MEFP summarizes the substantial progress made in implementing the ECF supported program through June 2011 and outlines our economic and structural policies for 2012. The policies elaborated in the MEFP are adequate to achieve the targets and objectives under the program (performance criteria and structural benchmarks for the 2012 are included in Tables 3, 4, and 5 of the MEFP). However, if necessary, the government will adopt additional measures to achieve these objectives. It will consult with the Fund before adopting such measures or if there are changes in the policies contained in the MEFP, in accordance with the Fund's policies on such consultations.
4. In view of the performance under the ECF-supported program and the government commitment to economic reforms as specified in the MEFP attached, the Government of Guinea-Bissau requests completion of the third review and the fourth disbursement under the ECF arrangement of SDR 2.414 million.
5. In line with our commitment to transparency, we request the IMF to publish this letter of intent, the attached MEFP, the Technical Memorandum of Understanding, and the staff report relating to this request.

Sincerely yours,

/s/

José Mario Vaz
Minister of Finance

MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES FOR 2011–12

I. INTRODUCTION

1. **This memorandum updates the MEFP of April 29, 2011, summarizes the progress achieved since then, and defines economic policies for 2012.** The program objectives are unchanged: achieving fiscal and external sustainability, reviving economic growth, and making progress toward poverty alleviation. The overarching goal is to improve living conditions for the Guinea-Bissau people, which is essential to maintaining peace and social cohesion.

II. RECENT DEVELOPMENTS AND PERFORMANCE UNDER THE PROGRAM

A. Macroeconomic Developments

2. **The economy has benefitted from better-than-expected prices for cashews (the predominant export) and a robust cashew harvest.** The increase in terms of trade by about 50 percent has helped sustain incomes and alleviated fiscal and balance of payment pressures. On the inflation front, rising prices of imports of food and fuel pushed average headline inflation up to 5.5 percent through September this year, but core inflation has remained subdued.

3. **Budget execution through September is on track.** Tax revenue reached slightly above the program objective, but nontax revenue was below program due to lower-than-programmed fishing compensation from the EU. As a result, the fiscal revenue was broadly in line with the program. At the same time, higher-than-programmed current spending was offset by lower-than-envisaged domestically financed capital spending due to a delay in the implementation of public investment program. As a result, the domestic primary deficit remained as envisaged in the program.

B. Performance under the ECF Program

4. **Performance under the ECF-supported program has been satisfactory.** All performance criteria for end-June 2011 have been observed. All quantitative targets for end-June 2011 were met, except for the nonregularized expenditures (DNTs) which the government brought in the indicative target by end-October (Table 1).

5. **All structural benchmarks for the third review were met, except for the unified payroll system.** The payroll system has been extended to most ministries. We plan to complete extending the system to the ministries of defense and interior by end-March 2012 (Table 2). The ASYCUDA++ system was satisfactorily implemented, data of largest importers was cross-checked to strengthen revenue collection, and an action plan to remove impediments to private sector development was prepared. A review of all customs exemptions and the publication of the public debt report have been completed with minor

delays. A report on the review of all customs exemptions would be submitted to Council of the Ministers by end-October 2011.

III. MACROECONOMIC OUTLOOK AND ECONOMIC POLICIES

A. Macroeconomic Outlook

6. **The economic outlook is generally positive.** Owing to the good cashew harvest and the large positive terms-of-trade shock, real GDP growth is expected to accelerate to 5.3 percent in 2011. Growth is projected to remain robust in 2012, reflecting expectations of a sustained cashew production, restoration of the public investment program, and buoyant construction activity including on the back of a return of confidence following the HIPC completion point. As imported food and fuel price inflation is projected to be moderate in the second half of this year, headline inflation is likely to decline to 4.8 percent in 2011. Core inflation is expected to remain subdued and headline inflation should come back within the WAEMU's target range of 2(±1) percent in 2012, as international food and fuel prices stabilize. The external current account is expected to improve only slightly in 2011, driven by higher cashew exports largely offset by higher food and fuel imports. Assuming cashew export prices revert to their medium-term average, the current account is estimated to widen slightly in 2012.

B. Fiscal Policy

7. **The government is on track to meet the fiscal program for 2011.** Tax revenue would reach the program objective. Nonetheless, fiscal revenue is expected to be below program by 0.3 percentage point of GDP, due to lower fishing compensation from the EU and fishing license receipts. Also budget support is expected to be 0.2 percentage point lower than programmed, reflecting slightly lower-than-programmed assistance from the World Bank and the AfDB. Current expenditure would be 0.5 percentage point higher than programmed, while capital expenditure is projected to be 1.1 percentage points below program, reflecting the continuing delays in the budget execution of capital projects. This would reduce the expenditure envelope by 0.5 percentage point. The lower-than-programmed expenditure would fully cover the projected shortfall in revenue and grants without recourse to domestic financing.

8. **The budget for 2012 will be submitted to Parliament in December and it is designed to reach several important objectives:** keep spending within available resources without adding to the debt burden; mobilize more revenues largely by reducing implicit customs subsidies (higher reference prices) and exemptions and tightening controls; continue to reduce the large stock of domestic arrears in previous years consistent with the government medium-term plan; protect priority spending; and preserve resources for contingencies and reforms. For the first time in recent years, fiscal revenues in the budget will be sufficient to cover current expenditures. Thus, beginning in 2012, all budgetary

assistance will be available to be used to support spending on infrastructure and other investment projects consistent with the goal of raising investment and growth.

9. **The revenue objective of the 2012 budget is realistic, and anchored on revenue raising measures.** Fiscal revenues are expected to increase by about 2 percentage points of GDP. About half of this increase reflects higher fishing compensation from the EU (0.8 percentage points of GDP) and higher gross revenues due to the recording of exemptions of capital good imports, including fuel, by the government and NGOs (0.4 percentage points of GDP). Revenue raising measures are expected to contribute 0.6 percentage points of GDP to the revenue target next year, in addition to tax and custom administration reforms discussed further below.

10. **To support our revenue objective in the 2012 budget, we will put in place the following measures:**

- Raise customs reference prices for diesel, rice, sugar and flour to market levels by the end of 2011. As of end-August 2011, the reference prices and the market prices for these products are as follows.
 - i. Diesel: from CFAF 391 per liter vis-à-vis to CFAF 475.
 - ii. Rice: from CFAF 8,000 per bag of 50kg vis-à-vis CFAF 11,000.
 - iii. Sugar: from CFAF 16,000 per bag of 50 kg vis-à-vis CFAF 16,500.
 - iv. Flour: from CFAF 9,500 per bag of 50 kg vis-à-vis CFAF 10,000.
- Ensure that no customs exemptions will be granted for the importation of any one of these products.
- Maintain reference prices close to market levels during the year, with quarterly reviews of price developments.
- Raise the reference price for cashew exports, to be set at US\$ 850 per metric ton.

11. **The 2012 budget will be fully financed with no recourse to domestic borrowing.** Budget support from donors is expected from the AfDB (CFAF 3 billion) and the World Bank (CFAF 3.2 billion). The budget envelope (revenues and budget support) will be sufficient to sustain the same level of current expenditures as a ratio to GDP estimated for this year, and will support an increase in the domestic financed capital expenditure close to 1 percentage point of GDP. Also, we will make a deliberate effort to contain nonwage current spending to help preserve social and other priority spending.

12. **In partnership with the private sector, the government established a fund to promote the industrialization of agricultural products, financed with a surcharge on cashew exports.** The management of the fund and the use of its resources (about CFAF7.2 billion by end-August) will be defined with the assistance from the World Bank.

The government acknowledges the surcharge transfers resources from the private sector and it will be important to set up clear and transparent statutes to make best use of these funds and manage them professionally to prevent the misuse of resources. The government will submit statutes of the fund to the Parliament for its appreciation. We will create an oversight commission with participation of members of the Parliament to monitor the fund operation.

C. Structural Reforms

13. **The economic reforms under the ECF supported program are aligned with the objectives under our new 2011–15 poverty reduction strategy approved in July.** With the overriding objective to boost growth and reduce poverty, the focus of the program will continue to be mobilizing more revenue, strengthening public financial management, including tax administration and debt management, improving the business climate and removing impediments to private sector development, and modernizing the public administration and improving public services (Tables 5 and 6). We will renew efforts to consolidate gains and sustain our reform agenda as detailed in the MEFP of April 29, 2011.

- (i) **Mobilizing more revenue.** The government is improving substantially the coverage of our current spending with our own revenue. Compared to a ratio of fiscal revenues to current spending of less than 75 percent in 2008, the 2012 budget envisages the full coverage of current spending with fiscal revenues. Revenue mobilization efforts will continue to take place on various fronts including tax administration and customs:
 - a. On tax administration, the government will prepare a report on tax stop-filers during the period 2010-11 (new structural benchmark-June 2012); and to double the filing rate of self-assessed taxes to 80 percent, which will ensure the effectiveness of tax collection (new structural benchmark-December 2012). The number of contributors from group of large taxpayers (Group A) would be raised to 800.
 - b. On customs, the government will expand SYDONIA ++ to Bafata and Gabu, (new structural benchmark-December 2012) as well as to reinforce the operations of the customs in SAFIN including the construction of warehouses to inspect trade coming from the sub-region, aiming at strengthening the supervision of land trade.
 - c. On revenue administration, a comprehensive survey on all nontax revenues not collected by the Treasury will be prepared and attached to the annual laws (new structural benchmark-June 2012). Also public accountants will be appointed to report and verify nontax revenues in each line ministry.
 - d. Other initiatives to revenue mobilization that will be undertaken in 2012 include: registering at the large taxpayer office all merchants with total annual imports of exports above FCFA 40 million; adopting indicative ceiling to control volume of exempted fuel (new structural benchmark-June 2012).

- (ii) **Modernizing public administration and improving public services.** Efforts to revamp the public administration are underway. Personnel management software (SIGRHAP) will start operating in November 2011. To maintain the momentum on the public administration reform, the government will:
- a. complete the work of the unified payroll system for ministries of interior and defense by end-March 2012 (rephased benchmark).
 - b. approve regulations on human resources management for public employees that includes career development, performance and retirement (new structural benchmark-June 2012).
 - c. enforce retirement and reduce personnel according to the medium-term plan.
 - d. operationalize the procurement services for public tender with the aim to improve the efficiency of government purchases.
- (iii) **Boosting private sector development.** The government wants to create an environment that could attract private investment and promote economic diversification. To achieve this goal, the government will:
- a. approve an action plan to identify and remove impediments to private sector development (new structural benchmark-June 2012).
 - b. submit a new mining code to the parliament setting up regulations royalties for mining exploration.
 - c. broaden the One-Stop-Shop will broaden its activities to improve its services to business including training.
- (iv) **Keeping up the momentum of security sector reform.** The security sector reform is underway following several agreements between Guinea-Bissau and its partners, including the UN, ECOWAS, and Community of Portuguese Language Countries (CPLP). In 2012, the government will:
- a. operationalize the pension fund for the defense and police sectors, including the retirement of the first group of the police and the armed forces, once the support from development partners becomes available.
 - b. implement the new regulation of the creation of the National Guard in 2012.
- (v) **Strengthening debt management.** The government will adopt a debt management system (SYGADE) by end of 2011. In 2012, the government will:
- a. strengthen the public debt management unit by improving interface among users, the BCEAO and the Ministry of Finance (new structural benchmark-December 2012).

D. Monetary Policy

14. **Monetary policy will continue to be pursued within the WAEMU framework.** The monetary policy framework has set an inflation objective of 2 (± 1) percent over a 24-month horizon.

E. Debt Policies

15. **Efforts are being undertaken to complete the HIPC process with all creditors.** Following the Paris Club agreement in May to provide extensive debt relief to Guinea-Bissau, we are working on bilateral agreements with Paris Club creditors, aiming at finalizing them by the end of 2011, and are seeking comparable treatment from all other creditors.

16. **The government stepped up efforts to clear the long-standing domestic arrears.** The government intends to continue making annual payments consistent with available resources, and will finalize verifying the audit of the 2000–2007 arrears by end-June 2012.

17. **The government has requested a rescheduling of debts owed to the Central Bank of West African States (BCEAO).** A request for a deferral of payment and better terms on debts owed to the BCEAO was presented to the new BCEAO governor and negotiations are ongoing.

IV. PROGRAM MONITORING

18. **The third year of the program covers the 12 months from January 1, 2012, to December 31, 2012.** The program will be monitored using quarterly quantitative indicators and structural benchmarks including 5th and 6th reviews, as well as semiannual reviews and the quantitative performance criteria presented in Table 4. Tables 5 and 6 contain a list of structural measures identified by the government, including the structural benchmarks for the third and fourth review. The definitions of quantitative performance criteria and benchmarks are in the attached TMU. The government expects the fourth review to take place in May 2012 and the fifth review is expected to take place in December 2012.

Table 1. Guinea-Bissau: Quantitative Indicators for the ECF Program for 2011
 Quarterly Targets¹
 (Cumulative, CFAF millions)

	End-Mar		End-Jun		End-Sep		
	Prog.	Actual	Prog.	Actual	Prog.	Adj. Target	Actual
Performance criteria²							
1. Domestic financing of the budget	1,431	-1,733	-520	-4,915	-1,954	-749	-1,070
2. New domestic arrears	0	0	0	0	0	0	0
3. External nonconcessional public borrowing, maturity > 1 year	0	0	0	0	0	0	0
4. External short-term public borrowing	0	0	0	0	0	0	0
5. New external payment arrears	0	0	0	0	0	0	0
Indicative targets³							
6. Government tax revenue	6,437	6,958	17,988	20,444	30,506	30,506	30,845
7. Domestic primary balance (commitment basis)	-3,597	-3,320	-5,842	-2,865	-5,911	-8,794	-6,066
8. Nonregularized expenditure (DNTs)	200	252	200	1,235	200	200	315
9. Social and priority spending	2,932	2,294	5,864	6,129	8,795	8,795	8,945

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

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

³ At the time of the second ECF review (IMF Country Report No. 11/67), the indicative targets 6, 7, and 9 were revised compared to program (IMF Country Report No. 10/379) to reflect the higher revenue base from 2010 and the additional budget support.

Table 2. Guinea-Bissau: Structural Benchmarks Under the ECF

Category		Structural Benchmarks	Macro Rationale	Delivery Date	Ministry	Status
Third Review						
Tax reform and strengthening revenue collection	1	Customize and test ASYCUDA ++, and provide training to staff.	To strengthen revenue collection	August 2011	MoF ¹	Met
	2	Conduct a comprehensive review of all customs exemptions to further broaden the customs revenue base and submit report to Council of Ministers.	To strengthen revenue collection	June 2011	MoF	Met
	3	Cross-check ASYCUDA data with tax returns for 300 largest importers in 2009–10.	To strengthen revenue collection	June 2011	MoF	Met
Expenditure reforms	4	Extend the computerized and unified payroll and personnel management system to all ministries.	To modernize public administration	August 2011	MoF MinLaPS ²	Proposed to be rephased to December 2011
Business environment	5	Prepare an action plan to identify and remove further impediments to private sector development and improve the ease of doing business in Guinea-Bissau.	To improve the ease of doing business	August 2011	MinEcon ³	Met
Public debt management	6	Start producing, on a quarterly basis, electronic reports on public debt (external and domestic).	To improve transparency	June 2011	MoF	Met

¹ Ministry of Finance² Ministry of Labor and Public Administration³ Ministry of Economy

Table 3. Guinea-Bissau: Structural Benchmarks Under the ECF

Category		Structural Benchmarks	Macro Rationale	Delivery Date	Status
Fourth Review					
Public debt management	1	Use SYGADE to record, monitor, and manage all public debt (external and domestic)	Improve debt management	Dec 2011	In progress
Tax reform and strengthening revenue collection	2	Audit those importers underreporting their tax liabilities, beginning with largest gaps.	To strengthen revenue collection	Dec 2011	In progress
	3	Review the legal framework that regulates revenue sharing agreements ("restitutions").	To strengthen revenue collection	Dec 2011	In progress
Business environment	4	Prepare a plan to manage the country's natural resources.	Improve the ease of doing business	Dec 2011	In progress
Expenditure reforms	5	Extend the computerized and unified payroll and personnel management system to all ministries.	To modernize public administration	March 2012	Proposed to be rephased in the third review

Table 4. Guinea-Bissau: Quantitative Indicators for the ECF Program for 2011–2012
 Quarterly Targets¹
 (Cumulative, CFAF millions)

	2011		2012		
	End-Dec	End-Mar	End-Jun	End-Sep	End-Dec
	Prog.	Prog.	Prog.	Prog.	Prog.
Performance criteria²					
1. Domestic financing of the budget	0	2,585	115	1,394	0
2. New domestic arrears	0	0	0	0	0
3. External nonconcessional public borrowing, maturity > 1 year	0	0	0	0	0
4. External short-term public borrowing	0	0	0	0	0
5. New external payment arrears	0	0	0	0	0
Indicative targets					
6. Government tax revenue	37,917	7,702	23,246	38,472	46,657
7. Domestic primary balance (commitment basis)	-12,087	-2,491	-1,682	-2,867	-7,846
8. Nonregularized expenditure (DNTs)	200	200	200	200	200
9. Social and priority spending	12,227	4,482	8,128	10,552	15,207

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

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

Table 5. Guinea-Bissau: Structural Benchmarks Under the ECF

Category		Measures	Macro Rationale	Proposed Delivery Date
Fifth review				
Revenue mobilization	1	Prepare a comprehensive survey of all non-tax revenues not collected by the Treasury Office to be attached to the annual budget laws.	To strengthen revenue collection	June 2012
Revenue mobilization	2	Adopt indicative ceilings to control volume of exempted fuel.	To strengthen revenue collection	June 2012
Public administration	3	Approve management regulations for public employees (career, performance, licensing, management staff).	To modernize public administration	June 2012
Tax administration	4	Prepare a report on tax stop-filers during the period of 2010-11	To strengthen revenue collection	June 2012
Business environment	5	Submit to the Council of Ministers an action plan to identify and remove impediments to private sector development and improve the ease of doing business in Guinea-Bissau.	To improve the ease of doing business	June 2012
Sixth review				
Customs administration	6	Setup of SYDONIA ++ in Bafata and Gabu.	To strengthen revenue collection	December 2012
Tax administration	7	Increase filing rate of self-assessed taxes to 80 percent	To strengthen revenue collection	December 2012
Public Debt Management	8	Install debt management software for interface between the BCEAO and the Ministry of Finance.	To improve transparency	December 2012

Table 6. Guinea-Bissau: Structural Reform Measures for 2012

Category	Measures	Proposed delivery date
Revenue mobilization	1 Quantify all non-tax revenues not collected by the Treasury Office to be attached to the annual budget laws.	June 2012
	2 Adopt indicative ceilings to control volume of exempted fuel.	June 2012
	3 Use a software interfaced with ASYCUDA++ to authorize and to monitor import exemptions.	June 2012
Revenue management	4 Appoint public accountants to report and verify nontax revenues in each line ministry	June 2012
Tax administration	5 Prepare a report on transfers in 2011 of large taxpayer files from local offices to the Large Taxpayer Office (LTO)	June 2012
	6 Register at the LTO all traders with total annual imports or exports of CFAF 40 million or more	June 2012
	7 Increase filing rate of self-assessed taxes to 80 percent	December 2012
	8 Prepare a report on tax stop-filers during the period of 2010-11	June 2012
	9 Attach to the government budget an estimate of revenue foregone from each type of exemptions or tax incentives	September 2012
	10 Implement the new tax integrated management system (including tax identification number, NIF, and management of revenue collection and arrears), with appropriate software.	December 2012
Customs administration	11 Setup of SYDONIA ++ in Bafata and Gabu.	December 2012
	12 Reinforce the customs of Safim (including the finalization of infrastructure to improve the clearance of imported goods by land.	June 2012
Public administration	13 Approve management regulations for public employees (career, performance, licensing, management staff).	June 2012
	14 Enforce mandatory retirement and remove redundant workers.	2012
	15 Install debt management software for interface between the BCEAO and the Ministry of Finance.	December 2012
	16 Submit to the Council of Ministers an action plan to identify and remove impediments to private sector development and improve the ease of doing business in Guinea-Bissau.	June 2012
Business environment	17 Submit legislation of the new Mining Code to the Parliament	June 2012
	18 Broaden the activities of the One-Stop-Shop to include the assistance and training of companies	December 2012
Public tendering	19 Operationalize the Procurement Services for Public Tenders	December 2012
Security sector reform	20 Implement regulation of the National Guard	March 2012
	21 Operationalize the pension fund for the Defense and Police sectors, including the retirement of the first group of the police and the armed forces.	March 2012

TECHNICAL MEMORANDUM OF UNDERSTANDING

Bissau

November 14, 2011

1. **This memorandum updates the Technical Memorandum of Understanding of April 29, 2011 and describes the definitions of the quantitative and structural performance criteria, indicative targets, and structural benchmarks to monitor the program supported by an arrangement under the Extended Credit Facility (ECF). It also specifies the agreed periodicity and deadlines for transmission of data to IMF staff for program monitoring.**

Quantitative Indicators and Adjustors

A. Quantitative Indicators

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

Quantitative indicators are set for end-March, end-June, end-September, and end-December. Quantitative performance criteria are set for end-June and end-December 2011–12 for indicators (e) through (i). Indicators for new nonconcessional external debt, new external short-term debt, and new external payment arrears are continuous.

Definitions and computation

3. **Government.** Unless otherwise indicated, “Government” means the central administration of the Republic of Guinea-Bissau and does not include any local administration, the central bank, or any other public or government-owned entity with autonomous legal personality not included in the government flow-of-funds table (TOFE).
4. **The targeted floor on government tax revenues** includes direct and indirect taxes, as well as recovery of tax arrears and additional revenue efforts.

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. 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.

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

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

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

Contracting or Guaranteeing of New Nonconcessional External Debt by the Government.

9. **Definition of debt.** For the purposes of the relevant performance criteria, the definition of debt is set out in Executive Board Decision No.6230-(79/140), Point 9, as revised on August 31, 2009 (Decision No. 14416-(09/91)).

- a. the term “debt” will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:
 - i. loans, i.e., 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, i.e., 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
 - iii. leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.
- b. Under the definition of debt above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

10. **Debt guarantees.** For the purposes of the relevant performance criteria, the guarantee of a debt arises from any explicit legal obligation of the government to service a debt in the event of nonpayment by the debtor (involving payments in cash or in kind).

11. **Debt concessionality.** For the purposes of the relevant performance criteria, a debt is considered concessional if it includes a grant element of at least 35 percent;¹ the grant element is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt.² The discount rates used for this purpose are the currency specific commercial interest reference rates (CIRRs), published by OECD.³ For debt with a maturity of at least 15 years, the ten-year-average CIRR is used to calculate the PV of debt and, hence, its grant element. For debt with a maturity of less than 15 years, the six-month average CIRR is used. The margins for differing repayment periods (0.75 percent for repayment periods of less than 15 years, 1 percent for 15 to 19 years, 1.15 percent for 20 to 29 years, and 1.25 percent for 30 years or more) are added to the ten-year and six-month CIRR averages.

¹ The following reference on the IMF website creates a link to a tool that allows for the calculation of the grant element of a broad range of financing packages: <http://www.imf.org/external/np/pdr/conc/calculator>.

² The calculation of concessionality will take into account all aspects of the debt agreement, including maturity, grace period, payment schedule, upfront commissions, and management fees.

³ For debts in foreign currencies for which the OECD does not calculate a CIRR, calculation of the grant element should be based on the composite CIRR (weighted average) of the currencies in the SDR basket.

12. **External debt.** For the purposes of the relevant performance criteria, external debt is defined as debt borrowed or serviced in a currency other than the CFA franc. This definition also applies to debt among WAEMU countries.
13. **Debt-related performance criteria.** The relevant performance criteria apply to the contracting and guaranteeing of new nonconcessional external debt by the government. The criteria apply to debt and commitments contracted or guaranteed for which value has not yet been received. The criteria also apply to private debt for which official guarantees have been extended and which, therefore, constitute a contingent liability of the government. The performance criteria are measured on a cumulative basis from the time of approval of the ECF by the Executive Board. PCs will be monitored on a continuous basis. No adjuster will be applied to these criteria.
14. **Ceiling on short-term external debt newly contracted or guaranteed by the government.** Short-term external debt is external debt with the contractual term of less than one year. Debt-relief operations and treasury bills issued in CFA francs on the WAEMU regional market are excluded from this performance criterion. In the context of the program, the government and public enterprises will not contract, or guarantee, short-term external debt. This performance criterion is monitored on a continuous basis.
15. **Ceiling on new external payment arrears.** External payment arrears are defined as external payments due but not paid on the due date. In cases where a creditor has granted a grace period after the contractual due date, arrears are incurred following the expiration of the grace period. Under the program, the government undertakes not to accumulate arrears on its external debt, except those arising from government debt that is being renegotiated with creditors, including non-Paris Club bilateral creditors. This performance criterion is monitored on a continuous basis.
16. **Reporting requirements.** The government will report any new external borrowing and its terms to Fund staff as soon as external debt is contracted or guaranteed by the government, but no later than within two weeks of such external debt being contracted or guaranteed.
17. **Social and other priority spending** is defined as total current expenditures in the education, health, and agricultural sector, and domestically financed capital spending.

B. Adjustors

18. **The following adjustors will be in effect:**
- i. **The ceiling on domestic financing will be increased for shortfalls in external budget support, and fishing compensation,** by the amount of the shortfall up

to CFAF3.5 billion. The program assumes the following path on amounts of external budget support, and fishing compensation.⁴

Cumulative from January 1, 2011:

end-March	end-June	end-September	end-December
0	0	CFAF8.9 billion	CFAF12.5 billion

Cumulative from January 1, 2012:

end-March	end-June	end-September	end-December
CFAF3 billion	CFAF3 billion	CFAF5 billion	CFAF14.2 billion

- ii. **The ceiling on domestic financing for March, June, and September will be increased for payment of previous years' arrears** in excess of programmed amounts up to a maximum of CFAF1.85 billion. The program assumes the following path on arrears payments from previous years:

Cumulative from January 1, 2011:

end-March	end-June	end-September	end-December
0	0	0	CFAF1.85 billion

Cumulative from January 1, 2012:

end-March	end-June	end-September	end-December
0	0	0	CFAF1.5 billion

- iii. **The ceiling on the domestic primary deficit will be increased in the case of lower than programmed disbursement of fishing compensation**, by the amount of the shortfall up to a maximum of CFAF3 billion. The program assumes the following path on amounts of fishing compensation.

Cumulative from January 1, 2011:

end-March	end-June	end-September	end-December
0	0	CFAF5 billion	CFAF5 billion

Cumulative from January 1, 2012:

end-March	end-June	end-September	end-December
CFAF3 billion	CFAF3 billion	CFAF5 billion	CFAF8.3 billion

⁴ For this TMU, the CFAF/euro exchange rate is 655.956 and the CFAF/US\$ exchange rate is 464.