Guinea-Bissau and the IMF

Press Release:
IMF Executive Board Approves US$5.24 million Disbursement Under the Rapid Credit Facility for Guinea-Bissau
November 3, 2014

Country’s Policy Intentions Documents

E-Mail Notification
Subscribe or Modify your subscription

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

September 25, 2014

The following item is a Letter of Intent of the government of Guinea-Bissau, which describes the policies that Guinea-Bissau intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Guinea-Bissau, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.
Bissau, September 25, 2014

Ms. Christine Lagarde
Managing Director
International Monetary Fund
700, 19th Street, N.W.
Washington, D.C. 20431
United States

Dear Madam Managing Director:

1 The two years following the coup d’état in April 2012 were very difficult for the people of Guinea-Bissau and have left deep marks in the economy, the institutions and the country's social fabric. The economic and political instability that followed clouded our vision of the future. Meanwhile, the hope and confidence in a better future have rapidly started to emerge following the long awaited parliamentary and presidential elections in April and May, and after the taking office of the new government, between the end of June and the beginning of July. The new government is determined to seek rapid solutions to the severe problems that currently affect our country and to meticulously plan an in-depth strategy to place Guinea-Bissau on the road to sustainable growth. Thus, the government’s ultimate aim is to build a solid foundation for the economy to grow rapidly, consistently reducing the high level of poverty that rages in our country.

2 The government’s key priorities include promoting a social and political environment in order to maintain macroeconomic and financial stability. We are also developing a medium-term plan to bring the economy of Guinea-Bissau back on its path of sustained and inclusive growth. To help us achieve this aim, we count on the financial support of the international community, whose presence is indispensable in future years to support our efforts to increase jobs, reduce poverty and improve the standards of living of the population. We therefore request from the International Monetary Fund immediate support in the form of a disbursement under the RCF in an amount equivalent to 25 percent of the Guinea-Bissau quota, i.e., SDR 3.55 million.

1 The Letter of Intent, Memorandum of Economic and Financial Policies and the Technical Memorandum of Understanding have been translated from the original Portuguese version.
3. The Memorandum of Economical and Financial Policies attached lays out the policies planned for the next six months. The government of Guinea-Bissau is convinced that the policies and measures included in this Memorandum will help solve the difficulties in the balance of payments and promote our objectives of growth and poverty reduction. The government will hold consultations with the IMF staff, either on its own initiative or by request of the IMF, prior to adopting any additional measures which may be deemed necessary, or in the case of changes to the policies set forth in this Memorandum. The government undertakes to cooperate fully with the IMF to achieve its policy aims, and undertakes furthermore not to introduce measures or policies that could worsen the current balance of payments difficulties in Guinea-Bissau.

4. The authorities of Guinea-Bissau agree on the publication of this Letter of Intent, of the Memorandum of Economic and Financial Policies and of the Technical Memorandum of Understanding attached, as well as the Staff Report associated to the request for disbursement under the Rapid Credit Facility and the Debt Sustainability Analysis. We hereby authorize the publication in print and on the IMF Website, following approval by the IMF’s Executive Board.

Sincerely,

/s/

Mr. Geraldo Martins,
Minister of Economy and Finance

Attachments:
1. Memorandum of Economic and Financial Policies
2. Technical Memorandum of Understanding
Attachment I—Memorandum of Economic and Financial Policies

25th September, 2014

Background

1. Guinea-Bissau has just emerged from two years of difficulties in the economic, social and political spheres. Following the 2012 coup d’état, the country, which had seen high growth rates after the adoption of a medium-term program with the IMF, went off track. As the institutional capacity deteriorated, financial support from donors and international partners fell, and tax revenue dropped. In addition, the price of cashew nuts, the main export product, was severely reduced in the international market, both in 2012 and 2013.

2. The economic activity was severely affected by those two shocks, and GDP dropped 2 percent between 2012 and 2013. Infrastructure and social investment levels, already low and highly dependent on the foreign resources, were considerably reduced. The domestic revenue/GDP ratio, one of the lowest in African countries, dropped even lower. The social consequences were severe. The chronic lack of resources prevented timely payment of civil servants’ salaries, particularly in the education and health sectors, where delays reached several months, leading to frequent strikes and jeopardizing the school year. Interruption in water and energy supply contributed to the outbreaks of cholera, further worsening the general health conditions of the population.

3. Political instability exacerbated institutional weaknesses and, in addition to lower tax pressure, this instability was also reflected in frequent changes in policy in the cashew sector, which further worsened farm gate prices. The exchange rate between rice and cashew, which was 1 to 1 in 2011, dropped to 1 to 3 in 2013, and has not yet recovered in 2014 (1 to 1.5). This had a significant effect on the level of poverty and food security. A recent World Bank study indicates that the portion of the population facing severe food insecurity went from 20 percent in 2011 to 40 percent in 2013. It is also estimated that over 70 percent of the population live on less than US$2 a day.

4. After a long transition period, parliamentary and presidential elections were held. The results were recognized as valid and legitimate by the international community. The new coalition government took office during June and July. It is highly committed to economic and political stability, and has embraced economic reforms, transparency in public management and improvement of the business environment. To this end, some important measures have already been
taken since the inception of this new government, namely the successful placing of CAF15 billion to help clear salary arrears, and the merging of the ministries of Economy and Finance, aimed at achieving greater flexibility when implementing economic policies.

**Recent Economic Developments**

5. The effects of the coup d'état of April 2012 were far-reaching and deep, and are still being felt. It had ample repercussions on the economy and the institutions of Guinea-Bissau. The economic effects were rapidly felt, both through the drop in the volume of budget support and the severe reduction in the number of project loans and grants. Whilst in 2012 the absence of some budget support partners was compensated by aid from other donors, in 2013 the volume of budget support was reduced considerably, dropping more than 56 percent. The resources available for public investment also fell drastically. Consequently, the level of public investment dropped by 41.1 percent in 2012 and by 15 percent in 2013.

6. Apart from the adverse effects of the political shock, the economy was affected by the considerable drop in cashew prices. After rising 62 percent in 2011, the price of cashew dropped 28 percent in 2011 and 21 percent in 2013, contributing to the contractionary impact of political instability. Additionally, the effects of an erratic policy with regard to the FUNPI contributions were reflected on a drop of farm gate prices of almost 50 percent in 2013. As a result, the economy, which had grown 4.4 and 9.0 percent in 2010 and 2011, respectively, retracted by 2.2 percent in 2012 and virtually stagnated in 2013 (0.3 percent).

7. The contraction of economic activity and government’s worsened management capacity resulted in the significant drop in domestic revenues and deterioration in the fiscal pressure. Between 2011 and 2013 tax revenue dropped by 12 percent, whilst non-tax revenue dropped 58 percent, although this largely reflects the suspension of financial fishing compensation payments by the European Union. Customs revenues, in turn, dropped 12 percent in the same period. The efficiency loss of the tax administration was an important factor behind the drop in the tax to GDP ratio, which fell from 10.1 percent in 2011 to 8.6 percent in 2013.

8. The severe drop in both tax revenue and foreign financial support obliged the government to cut expenditure. The lack of resources forced the government to reduce the volume of current expenditure by 3 percent between 2011 and 2012. On the other hand, the drop in project grants and financing was reflected in the serious contraction of public investments, which dropped by half over the same period. As a result, investment in the social area and in infrastructure projects suffered severe cuts.
9. Although the government reduced its level of spending in an attempt to adjust to lower revenues, payment delays continued to build up during the transition period. To maintain fiscal discipline, the government reacted to the drop in revenue by lowering the level of expenditure; however, the accumulation of arrears was inevitable. At the end of 2013, the volume of arrears reached 2 percent of GDP. After the recent issue of FCFA 15 billion by the new government, the stock of arrears fell to 0.6 percent of GDP at the present time.

10. The slowdown of economic activity, together with the appreciation of the exchange rate contributed to the maintenance of price stability. After reaching 5.7 and 3.4 percent in 2010 and 2011, respectively, the consumer price index (CPI) rose by 1.6 percent in 2012 and remained stable in 2013 (-0.1 percent). Over the past twelve months, until August, the CPI shows a deflation of -1.1 percent, reflecting, in part, the delays in salary payments. After remaining stable in 2011 and 2012 (0.3 and 0.5 percent, respectively), the exchange rate appreciated by 4.3 percent in 2013.

11. In spite of higher prices, the volume of formally exported cashew dropped due to the increase in smuggling. After substantial drops in the two previous years, the prices recovered in 2014, increasing, on average, by 27 percent during the export period. Nevertheless, the export volume from the formal sector, which reached 140 thousand tons in 2013, is expected to reach 136 thousand tons in 2014. This drop is due to a large volume of cashew smuggled into Senegal and the Gambia, partly due to the high tax (FCFA 40 per kilo) set for FUNPI in 2014.

12. Higher cashew prices, payment of several months of salary arrears, and the peaceful solution of institutional instability should help economic recovery in 2014. The substantial inflow of resources into the economy due to higher cashew prices, both to the exporter and to the producer, as well as the payment of four months of salary arrears should push up domestic demand. Added to that, with institutions returning to normal, the inflow of capital has started to increase. Thus, it is expected that the economy grow by 2.5 percent in 2014.

13. Exports continue to recover in 2013, whilst budget support starts to once again flow into the country. The increase in the international cashew prices should, compared with 2013, result in an increase of FCFA 6 billion in exports. On the same time, the increase in imports is being largely financed through the increase in budget support. Thus, after reaching a peak of 6.5 percent in 2012, the current account deficit will continue to drop in 2014, and should reach 0.4 percent of GDP. The accumulation of international reserves should accelerate, driven by an improvement of the current account and the increase of direct investment and public sector loans.
2014 and Medium-term Policies

14. The new government found the country in a very difficult situation, and its immediate priority was to restore a minimum level of normal operations. The following emergency measures were taken:

a) **Arrears:** The government needed to act rapidly to clear the volume of salary arrears amounting to four months, as a way to kick-start the economy and install confidence in the economic agents. To this end, FCFA 15 billion in Treasure Bonds were successfully issued, and purchased by both residents and non-residents. This issue, along with the World Bank budget support, helped bring down the volume of arrears from FCFA 9.7 billion to FCFA 2 billion. Almost all salary arrears have been cleared.

b) **Normalization of the budget procedure:** As it took office, the new government faced a country without a budget. In the first two months of its term, the government drafted the State Budget for 2014, which is currently being discussed in Parliament, and should be submitted for approval by the end of September. It has also drafted a Treasury Plan through the end of the year, in order to obtain a precise idea of the country’s financial needs and to manage the liquidity difficulties until the end of 2014. The budget for 2015 will start to be drafted soon and should be ready by the end of the year.

c) **Treasury Committee:** apart from the conventional Treasury committee (operational), charged with the daily cash flow management, which should be composed of representatives from the directorates of tax (DGCI), customs (DGA), budget (DGO) and treasury (DGT), Fisheries, the Economic Environment and Forecasting Unit and the BCEAO, the government will also set up a high-level Treasury Committee. This committee will be composed of representatives from the Presidency of the Republic, the Prime Minister’s office, the Ministry of Economy and Finance, the BCEAO, the IMF and donors. This high-level committee should, when necessary, set priorities for spending, approve non-regularized expenditure when these go beyond pre-established amounts and reconcile payment orders with bank statements on a monthly basis. Both committees should be set up and be operational by mid-October, following the approval of the State Budget and of the government Program for the 2014–2018.

d) **Foreign Financial Aid:** Given the substantial needs of resources required by the government to resume normal operations and to recover its investment capacity, the government has sought and continues to actively seek resources from donors. There are already initial results, and the country has already received US$6 million in grants from East Timor and, by the end of the year will have received a further €10 million in budget support from the EU. The government of Guinea-Bissau and the EU have also reached an agreement for resumption of fishing compensation payments which had been suspended following the coup d’état in 2012. The agreement will enable the government to receive €9.2 million. The government intends to organize a round-table in January 2015 in order to present its development plans to the development partners.
e) **Exemption Committee:** The government has set up a committee to identify, analyze, quantify and rationalize the use of tax exemptions, which currently bear a high fiscal cost to the country in a context of a chronic lack of resources.

15. The concentration of foreign financial aid at the end of the year could lead to difficulties in terms of managing cash flows in 2014. Although the projected volume of financial resources until the end of the year (including the requested disbursement under the IMF’s Rapid Credit Facility) should be sufficient to cover the projected volume of spending, there will be a mismatch in the timing between the two flows. For that reason, management of government cash flows until the end of the year should be careful and parsimonious. Nevertheless, and depending on the circumstances, the government may have to issue short-term Treasury bonds to avoid the accumulation of new arrears.

16. The government will start drafting its 2015 budget at the beginning of October in order to obtain Parliamentary approval by the end of the year. As for the 2014 budget, the government strives to include as much revenues and expenditures in the budget, including those that had previously been outside the budget. The 2015 spending will be limited to available domestic resources, foreign aid and concessional loans for foreign investment, without resort to the banking sector. Bearing in mind the uncertainty of the impact of the various measures related to the increase in revenue, the government will make conservative projections for the 2015 revenues, with which it intends to: finance essential social spending (see floor for social expenditure); pay salaries in line with 2014; resume public investment and make some payments to further reduce domestic arrears. The totally funded budget will allow selected payments and prevent repetition of domestic or foreign arrears. Should government revenue exceed those conservative projections, it will primarily increase public investments and further reduce domestic arrears.

17. The government program for 2014–1018, just approved, makes a distinction between current and structural needs, as follows:

a) **Emergency Program:** includes timely action to deal with emergency issues. For example:

- Payments of salaries in arrears: the high volume of salaries in arrears has already been paid.
- Completing the school year: delays in teacher salaries and teacher strikes represent a risk for the completion of the school year. With the payment of salary arrears and the resumption of classes, the loss of a school year could be prevented.
- Water and energy: the chronic lack of clean water and energy imposes a high cost on the population. The government has already taken measures to increase the supply of those services.
• Cashew campaign: to improve cash flow due to the limitations of the Port of Bissau, timber exports have been suspended, permitting the increase of the export of cashew.

• Agriculture: the late and irregular rainfall will affect agricultural production this year. Amongst other measures, the government intends to distribute rice seed to promote production, to offset this impact.

b) **Contingency Program:** the government has decided that all contracts signed by the administration should be analyzed and made public with a view to increasing transparency and credibility in public administration. Following an assessment, structural measures should be taken to improve operational viability and provision of public services, by adopting targets and monitoring execution, as well as increasing management transparency. The following will be assessed:

• Natural resources: assessment of contracts for prospection and exploitation of natural resources (i.e., phosphate (Farim), bauxite (Boé) and heavy sands (Varela)).

• Oil: prospecting contracts and feasibility.

• Public Companies: Guinea-Bissau Energy Company, Guiné Tel and Guiné Telecom.

• Privatization: audit to privatized companies.

• Autonomous funds: audit of autonomous funds with the participation of the Administration (e.g., FUNPI, Road Fund, Tourism Fund, Mining Fund, etc.)

c) **Development Program:** The government intends to implement a development program focusing on three areas: infrastructure, with a view to increasing production and competitiveness of the country; industrialization, with a view to diversifying the productive structure of the economy, and urban development, to improve the well-being of the populations.

**Measures to Improve Public Finance Management**

18. The government is committed to minimizing the use of “non-regularized spending” (DNTs). Once the budget process is on track and the Treasure Plan is completed, and once technical assistance from the IMF in public financial management is in place, the government will make efforts to reduce the amount of non-regularized spending. The High-level Treasury Committee will also set ceilings for DNTs, which could only be exceeded with the approval of the Committee.

19. The government will take all steps necessary to clear foreign arrears as quickly as possible. The government is planning to clear foreign arrears to BOAD by the end of the year and, as soon as
possible, to start negotiations to come to an agreement with the remaining foreign creditors. In particular, the government will make efforts to reschedule its debt with the remaining Paris Club and other creditors, still pending since the conclusion of the HIPC initiative: Brazil, Russia and Portugal. In addition, while there is already a verbal agreement, the renegotiation of the Angola debt still needs to be signed, and the government will do its best to proceed with it as quickly as possible. The government also feels that the old debt to the Franco-Portuguese bank should be considered sovereign debt to Portugal and, therefore, subject to the same terms as the agreement with the Paris Club creditors. By the end of the year, the government will do its best to resume negotiations. Finally, the government will try, once again, to contact the governments of Libya, Pakistan and Taiwan in an attempt to renegotiate its debt to those countries.

20. The government is committed to avoiding the accumulation of new budget arrears in 2014 and to paying the remaining stock of 2013 arrears as soon as possible. By the end of this year, the government will have cleared the arrears carried over from 2013. It is also committed not to accumulate arrears in 2014. Should there be any temporary liquidity difficulties due to mismatch between revenue and expenditure, the government will resort to issuing short-term government bonds.

21. The government commits to solving, in a timely fashion, the question of older domestic arrears. The volume of old arrears can be divided into three parts: The first relates to arrears accumulated between 1974 and 1999. The second, between the years 2000 and 2007, and the third, between 2008 and 2012, including government-backed guarantees. The first part was audited and the government has already paid a part of the amount recognized as valid. The second part was also audited, but the government has doubts about the legitimacy of some of these debts, and thus will have the authenticity of these debts assessed through an international audit. The third part is yet to be audited, and requires an external audit to assess the situation. Once the audits are concluded, the government will design a strategy on how to clear those arrears, taking into consideration the macroeconomic environment and the resources available.

22. The government commits to only seeking concessional loans. Considering the tight budget and the pressing needs for investment in different areas, Guinea-Bissau needs to resort to loans to implement its development plan. Nonetheless, under the circumstances, the country should only resort to concessional credit lines.
Measures to Increase Tax Revenue

23. Fiscal revenue and fiscal pressure should be increased urgently. The government must do its utmost to increase tax collection, which was significantly reduced after the coup in 2012. Some measures will help increase tax revenue on the short term, such as: (i) expanding the tax base through implementation of the adoption of tax identification numbers (NIF) to the main operators in the informal sector; (ii) enforce payment by chronic tax evaders; (iii) reconcile imports/export volumes with tax payments. In addition, to increase the tax base, it is important to implement structural reforms in public finance management, payroll management, tax and customs administration (DGCI and DGA) and debt management. The GDP/tax collection ratio in Guinea-Bissau is lower than in the majority of the neighboring countries, and is one of the lowest in the world. The 33 percent increase in customs duties collection of August 2014 (compared to August 2013) is encouraging. Some measures and structural reforms in the government’s pipeline are:

a) **Improving public finance management:** the government will devise a medium-term strategy to modernize public finance management, with technical support from the IMF and international partners to, among other things:

- Increase forecasting capacity;
- Complete implementation of SIGFIP (Integrated System of Public Finance Management)

b) **Improve Debt management:** increase the use of SYGADE and increase the level of training of the Debt Office staff. Other aims are:

- Quarterly publication of public debt levels, including disbursements and amortizations, improving both the control and transparency of debt management.
- Renegotiating and rescheduling of foreign debt and arrears to international creditors, drafting of a payment plan.

c) **Improving Payroll Management:** consolidate the reform of payroll management through SIGRHAP (Integrated System for Human Resource Management in Public Administration).

- The financial module is already operational and the government has already registered all civil servants whose salaries will now be paid through a bank transfers.
- The government has already received a list of all military personnel to be gradually entered into the system, starting with the higher-ranking officers. By the end of the year, the civil servants under the Ministry of the Interior should also be included.
The Administrative module (human resources) is still under construction.

d) **Improving Customs control and efficiency:** some important measures are:

- Improving the operational efficiency of the Port of Bissau and other customs points, including Safim.
- Drastically reducing tax exemptions.
- Urgent payment of the Oracle license, to avoid having the services interrupted.
- Extend the use of SYDONIA++ to São Domingos, Bafatá and Gabú. The contract with the company hired to manage the system should include the supply of energy and internet.
- By the end of the year, controls should increase with the marking of fuel and the installation of scanners in the port and border points.

e) **Render tax collection efficient**

- Improving the infrastructure of DGCI facilities by allocating the necessary resources in the budget.
- Introduce a Human Resources Policy in the DGCI, including the creation of professional auditor career.
- Streamline the DGCI procedures (Mapping Processes) to lend security and flexibility to taxpayers.
- Introduce a new computer system to DGCI, including a communication network between the head office and the local/regional tax offices.
- Rapidly increase control and auditing of large and medium-sized enterprises.

**Other Measures**

24. With the support of the IMF, the government is seeking to identify a solution to the large volume of non-performing loans in the economy. Two of the four commercial banks in Guinea-Bissau have rates of non-performing loans that exceed the prudential norms. Despite the difficulties, the volume of credit to the economy continued to grow in the first half of 2014. The government wants to evaluate options to solve this problem and to avoid future financial
difficulties, and is expecting technical assistance from the Monetary and Capital Markets Department (MCM) of the IMF quite soon to assist the authorities in identifying optimal solutions.

25. The government will carry out an extensive study to identify all tax exemptions currently granted in the country, in order to make them transparent to the public and to assess their true cost to the country. As soon as possible, the government wishes to identify and measure all tax exemptions granted today and to make their cost transparent in the budget, thus increasing transparency and accountability to society. In addition, it wishes to analyze whether those exemptions have, in fact, achieved their purpose, particularly those intended to benefit the poorer portions of the population. In other words, apart from their financial cost, which is clear and objective, the aim is to, above all, to assess the economic costs and its social equity.

26. The government intends to increase the efficiency of public enterprises in water and electricity, which have not managed to supply quality services to the population. As soon as possible, the government wishes to bring to an end the constant interruptions and rationing in clean water and electricity supply. The first step is to ensure that those companies become operationally viable and capable of self-financing their own growth in the long term through an adequate level of investment. To this end, the government will strive to identify appropriate strategies to solve the problem of lack of water and energy. Those strategies should include not only management and improvements and operational efficiency, but also efforts to reduce waste. This could imply a realignment of tariffs to levels compatible with the cost of maintenance and amortization of investment.

27. The government believes that the security sector reform is a sine qua non conditions to political and economic stability in Guinea-Bissau. Without political stability, neither economic stability nor prosperity can be achieved. The government is determined to reform the security sector that has been a source of instability. The first step has already been taken with the replacement of the Chief of the Armed Forces. In a second phase, there will be a need to finance the reform and to fill the financing gaps with the help of international partners, so that the pension fund and the payment of bonuses will be totally financed by donors.

28. Improving the business environment is one of the government’s priorities. The new government considers the private sector a key partner on the road to sustainable development in Guinea-Bissau. Moreover, it considers that essential measures to improve the business environment include not only the reduction of the cost of doing business but, above all, the promotion of a stable and foreseeable environment based on rule of law and an even level playing field for all. An improved business environment will contribute towards meeting other important objectives.
The government wishes to develop the cashew sector. Recognizing the negative impact of smuggling, the loss of tax revenue and its perverse effect on poverty, the government is considering alternatives to the FUNPI, which are more efficient and socially fairer. In this respect, the IMF argues in favor of the immediate abolition of the FUNPI with a view to promoting the sector, increasing government revenue and reducing poverty. The government has also decided to conduct an external audit of the FUNPI, since its inception in 2011, with a view to assessing its functioning, efficacy and the use of its resources.

It is essential to increase expenditure in infrastructure investment without compromising the sustainability of public debt. Guinea-Bissau is a country that requires investment in different sectors, particularly in infrastructure, education and health. The government's medium-term investment plan should be in line with a strategy of debt management that preserves the sustainability of public debt. To that effect, public sector access to foreign financing should be limited to loans at concessional interest rates. If that is not possible, the IMF and the World Bank staff should be consulted before the country contracts loans under less favorable conditions.

The government is prepared should Ebola arrive to the country. While there are no cases of Ebola in Guinea-Bissau, some of its neighboring countries have reported innumerable cases. Therefore, the country must be prepared for an Ebola outbreak in Guinea-Bissau. The government has prepared a contingency program estimated at US$5 million with assistance from the World Health Organization. In addition, the World Bank has already made available US$500,000 for emergency measures. Because the country imports large amounts of rice, for instance, any interruption in supply would cause an undesirable hike in inflation. Therefore, as a precaution, the government is warehousing rice.

Apart from seeking a solution to the current banking problems, the government wishes to promote the responsible bank coverage of the economy. Given that only a small portion of the population has access to bank services, and that the sector has developed mainly towards the cashew sector, the government wishes to adopt measures to increase access to the banking and financing system in general. To this end, the government recognizes the following conditions as essential to the broadening of the financial system: reforms in infrastructure, education and legal system; institutional stability; sporadic measures to improve legislation to recover loans; creation of a credit rating agency; strengthening payment and settlement systems. The government also intends to request financial and technical assistance from donors to implement the Microfinance Master Plan approved in April 2014.
### Table 1. Guinea-Bissau: Indicative Targets¹
(Cumulative, CFAF millions)

<table>
<thead>
<tr>
<th>Measure Description</th>
<th>End-Dec 2014</th>
<th>End-March 2015</th>
<th>End-June 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Accumulation of Treasury deposits at BCEAO</td>
<td>3,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2. Floor of domestic revenues</td>
<td>41,000</td>
<td>8,750</td>
<td>14,750</td>
</tr>
<tr>
<td>3. New domestic arrears</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>4. External nonconcessional public borrowing</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>5. New external payment arrears</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>6. Domestic primary balance (commitment basis)</td>
<td>-19,400</td>
<td>-8,000</td>
<td>-8,200</td>
</tr>
<tr>
<td>7. Social spending</td>
<td>12,200</td>
<td>3,200</td>
<td>7,407</td>
</tr>
</tbody>
</table>

Sources: The Authorities of Guinea-Bissau and IMF Staff Estimates

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

### Table 2. Guinea-Bissau: Structural Benchmarks¹

<table>
<thead>
<tr>
<th>Measures</th>
<th>Proposed Due Dates</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Prior action</strong></td>
<td></td>
</tr>
<tr>
<td>Adopt and publish a prudent budget for 2014, based on conservative estimates of fiscal revenue and donor financing and with no financing gap</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Structural benchmarks</strong></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduce a high-level treasury committee to enhance fiscal controls and reduce the perception of fiduciary risks by donors</td>
<td>End of October 2014</td>
</tr>
<tr>
<td>Undertake a comprehensive audit of past activities of FUNPI</td>
<td>End of March 2015</td>
</tr>
<tr>
<td>Streamline tax exemptions on fuel imports</td>
<td>End of March 2015</td>
</tr>
<tr>
<td>Expand SYDONIA++ system to the Safim post</td>
<td>End of December 2014</td>
</tr>
</tbody>
</table>

Sources: The Authorities of Guinea-Bissau and IMF Staff Estimates

¹ RCF do not have any ex-post conditionalities. The benchmarks reflect the authorities’ intended structural reforms.
Attachment II—Technical Memorandum of Understanding

1. This Technical Memorandum of Understanding defines the variables adopted to establish the indicative targets for 2014 and 2015, how they are calculated, and any adjustments that may be necessary. Unless otherwise indicated, the flow variables are measured by the accumulation of values since the beginning of 2014 and 2015 respectively.

Absence of New Domestic Arrears.

2. Domestic arrears are defined as accounts payable accumulated over the year, and still unpaid by the month following the quarter for salaries and wages including pensions, and up to three months for goods, services and transfer, evaluated at the end of December 2014, March 2015 and June 2015.

Maximum Ceiling for Foreign Arrears.

3. Foreign arrears are defined as foreign payments due but not paid (i.e., payment of principal and interest) at the date of maturity. If the creditor has granted a grace period after the maturity date in the contract, the foreign payment will be considered in arrears at the end of the grace period. Within the scope of the program, the government commits not to accumulate arrears on its foreign debt, with the exception of those under renegotiation with creditors, including bilateral creditors outside the Paris Club. This quantitative objective will be permanently monitored.

Absence of Non-Concessional Foreign Loans.

4. For the purpose of this objective, a debt is considered concessional when it includes at least a 35 percent grant element; the grant element is the difference between current value of the debt and its nominal value expressed as a percentage of the debt nominal value. The current value of the debt at contract is calculated by deducting the future flow of debt service payments. The discount rates applied to that effect are the commercial interest reference rates for a specific currency (CIRR), as published by the OECD.

2 The IFM Website contains a link to a tool that allows the calculation of the grant element in a wide range of financing packages: http://www.imf.org/external/np/pdr/conc/calculator.

3 For the purpose of calculation of concessionality, all aspects of the debt agreement should be taken into consideration, namely: term, grace period, repayment period, initial commission and administrative fees.

4 For debt in foreign currency, for which no CIRR is calculated by OECD, the grant element shall be based on the composite CIRR (weighted average) of the currencies in the SDR basket.
Ceiling for Domestic Primary Deficit (Commitment Basis).

5. This is calculated as the difference between public revenue and domestic primary expenditure on a commitment basis. Public revenue includes all tax and non-tax revenue and excludes foreign grants. Primary domestic expenditure consists of current expenditure plus domestically financed investment excluding all interest payments.

6. Government commitments include all expenditure earmarked and approved by the Ministry of Economy and Finance; automatic spending (such as wages and salaries, pensions, utilities and other expenses which are paid centrally), and expenses through compensation operations.

Floor for Tax Revenue.

7. Tax revenue includes direct and indirect taxes as well as recovery of tax arrears and additional collection efforts.

Ceiling of Non-Regularized Expenditure.

Defined as any payment by Treasury without classification in the table of expenditure submitted by DG Budget.

Floor for Social and Priority Spending.

8. Defined as the total current expenditure in Education and Health.