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February 11, 2015

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

January 27, 2015

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Letter of Intent Republic of Guinea



Conakry, January 27, 2015

MINISTRY OF ECONOMY
AND FINANCE

CENTRAL BANK OF
REPUBLIC OF GUINEA

To:
Madame Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C., 20431
United States of America

Subject: Letter of Intent on Economic and Financial Policies

Madame Managing Director,

1. This fifth supplement to the Memorandum on Economic and Financial Policies reviews the implementation of the program supported by the IMF Extended Credit Facility (ECF) during the first half of 2014 and describes our policies for the remainder of 2014 and 2015.
2. The Ebola epidemic is expected to continue to have a significant adverse impact on Guinea's economy for most of 2015. The growth forecasts for 2014 and 2015 were substantially reduced. The effects of the epidemic were particularly strong in the trade and transport sectors, which are expected to contract in 2014 and 2015, while the manufacturing sector is projected to remain flat for both years. However, the agriculture sector is expected to continue its growth with the help of government interventions. Mining activity continued normally and is expected to post relatively strong growth in 2014. The Ebola shock and our efforts to contain its effects on the population and the economy generated a financing requirement of US\$191 million in 2014 that was covered with assistance from our partners. For 2015, the financing need is projected at US\$315 million.
3. The implementation of the ECF-supported program remained satisfactory. All the performance criteria at end-June 2014 were met, in addition to most of the quantitative targets at

end-June and end-September 2014. This performance reflects the continuation of prudent macroeconomic policies, which maintained inflation below 10 percent while supporting strong private sector credit growth. The exchange rate on the official market of the Guinean Franc with respect to the US dollar depreciated by about 2 percent on average during the second half of 2014, and international reserves are still above the program objective. However, the implementation of structural reforms met with difficulties and only two structural benchmarks were implemented.

4. The government is determined to continue implementing its ECF-supported program in 2015 to promote stronger, inclusive growth, as provided in the PRSP III, and eradicate the Ebola epidemic. To support growth, on one hand, we will loosen the monetary policy to an extent compatible with our economic stability objectives, and on the other hand, we will increase the fiscal deficit in line with available domestic financing and concessional external financing. We will continue to execute the budget on a cash basis in order to meet our fiscal objectives. These policies will help maintain inflation below 10 percent in 2015 and coverage of imports at roughly 3 months. Despite difficulties in mobilizing technical assistance, we will continue the structural reforms, particularly in the areas of public financial management, the business environment, and the electricity sector.

5. To ensure effective implementation of the emergency Ebola response plan, the government created a special earmarked budget (BAS) which will record a portion of the international community's financial assistance as well as the government's own resources allocated to fighting the epidemic. Also, with support from Fund staff, we will conduct an evaluation of fiscal safeguards to ensure that the international assistance dedicated directly to the budget will be used effectively and transparently in the fight against Ebola.

6. Based on the progress to date in program implementation, we request approval of the fifth review of the ECF-supported program. We request an extension of the ECF arrangement to end-December 2015 to support our macroeconomic policies and an increase in the Fund's financial support equivalent to 42.1 percent of our quota, 25 percent of which to be disbursed in the form of budget support in connection with the fifth review (thereby resulting in a sixth disbursement in an amount of SDR 45.135 million) and 17.1 percent under a seventh review. The increased access to Fund resources, which is expected to catalyze donor support, will support our international reserves, partly cover the budget and balance of payments financing requirements created by the Ebola epidemic, and enable us to maintain an adequate public investment effort. Fund support in 2015 should cover about one third of the projected balance of payments financing requirement.

7. The government remains convinced that the policies and measures described in the Memorandum on Economic and Financial Policies are sufficient to achieve the program objectives. However, it stands ready to take any additional measures that prove necessary to this end. The government will consult with Fund staff on the adoption of such measures, on its own initiative or at the request of the IMF Managing Director, before adopting such measures or in advance of revisions to the policies contained in the MEFP, in accordance with Fund policies on such consultations. The government undertakes not to introduce any measures or policies that would exacerbate Guinea's balance of payments difficulties, and to provide the Fund with any information required to monitor the implementation of program measures and achievement of program objectives.

8. In keeping with our policy of transparency in government operations, we authorize the Fund to publish this Letter of Intent, the Memorandum on Economic and Financial Policies, the Technical Memorandum of Understanding, and the Staff Report relating to the fifth review of the ECF-supported program.

Very truly yours,

_____/s/_____
Mohamed Diaré
Minister of Economy and Finance

_____/s/_____
Louceney Nabé
Governor, Central Bank of the Republic of
Guinea

Attachments:

- ✓ Fifth Supplement to the Memorandum on Economic and Financial Policies
- ✓ Technical Memorandum of Understanding

Attachment I. Guinea: Fifth Supplement to the Memorandum on Economic and Financial Policies

January 27, 2015

RECENT ECONOMIC DEVELOPMENTS AND PROGRAM IMPLEMENTATION

A. Macroeconomic Developments

1. Economic developments since the fourth review indicate a more severe impact of the Ebola epidemic during the second half of 2014. The sectors most affected include transport, tourism, trade, and hotels and restaurants. We estimate real GDP growth in 2014 at 1.3 percent compared to the 2.4 percent growth projected in September. Inflationary pressures have emerged and slowed the downward trend of inflation, which stood at 9.3 percent at end- November 2014. The external account (including grants) improved, reflecting higher official transfers and a weaker demand despite higher food imports and lower agricultural exports following the closing of borders with certain neighboring countries. However, a drop in medium- and long-term capital and financial flows, mostly due to a sharp slowdown in foreign direct investment, and lower short-term capital inflows would translate into a decline of the overall position of the balance of payments. Foreign currency inflows from expatriate workers and business travelers declined, which increased exchange rate volatility as well as the parallel market premium. However, our prudent policies helped contain inflation and maintain the international reserves of the Central Bank of the Republic of Guinea (BCRG) at a satisfactory level, covering more than 4 months of imports at end-December 2014.

2. Implementation of the program supported by the Extended Credit Facility (ECF) continued to be satisfactory despite the difficult environment in 2014. All the ECF-supported program end-June 2014 performance criteria were met (Table 1). The available data indicate that most of the indicative targets at end-September 2014 were also met, and we expect our policies to enable us to achieve the performance criteria at end-December 2014. However, the government's mobilization on the fight against Ebola combined with difficulties in mobilizing technical assistance delayed the implementation of our structural reform agenda (Table 2).

B. Budget Execution

3. All the program fiscal objectives at end-June and end-September 2014 were met with the exception of the end-September indicative target for priority expenditures. The

continuation of cash-based budget execution helped maintain end-June expenditure within the limits of available financing. We executed only 80 percent of the planned investment expenditures financed from domestic resources in order to offset the shortfall of budget support and revenue. This generated a basic balance at end-June 2014 of -0.6 percent of GDP, largely better than the program performance criterion (-1.5 percent of GDP), and enabled us to meet the performance criterion on domestic financing of the budget. With the persistence of the Ebola epidemic, budget revenue at end-September 2014 fell short of projections by 1.4 percent of GDP, and budget support remained below projections. To offset this shortfall, the government continued to limit spending to ensure the achievement of program objectives. The regular review of the investment projects portfolio and measures to expedite the processing of related procurements helped increase the execution rate of domestically-financed investment expenditure. Cuts in investment spending led to the nonobservance of the program indicative targets for priority expenditures.

4. The 2014 supplemental budget incorporates the impact of the Ebola epidemic and is in line with the revised objectives of the ECF program. It projects a higher basic fiscal deficit than in the original budget by 1.3 percent of GDP. The revisions reflect the anticipated revenue shortfall and increased expenditure associated with the Ebola epidemic (Text Table 1 below). The increased spending also reflects the extension of the rental agreement for thermal generators to maintain the supply of electricity, which remains one of our key priorities. The supplemental budget includes exceptional revenue from the sale of bauxite blocks in Boffa, but the corresponding expenditures were not executed because the revenue was not received in 2014. According to preliminary information, the performance criteria at end-December 2014 would have been met through the continued implementation of a cash-based budget.

Targeted Interventions	2014–15
Coordination, finance, logistics	95.0
Epidemiology, laboratory, research	175.1
Prevention	22.0
Social mobilization, communication	32.5
Food distribution and social protection	24.2
Total	348.8
<i>Memorandum item</i>	
Special Budget Account for 2015	230.4

Source: Guinean authorities.

C. Monetary and Exchange Rate Developments

5. All of the monetary program targets for end-June and end-September 2014 were met except the end-September indicative target on BCRG's net domestic assets. The central bank's end-June 2014 net domestic assets were met with a significant margin, reflecting sound management of public finances and strict avoidance of monetary financing of the budget. Net international reserves also exceeded the program objectives for the period, partly due to higher-than-anticipated inflows of foreign currency. This performance was achieved in the context of a gradual relaxation of monetary policy, with the reduction of the policy rate by three percentage points to 13 percent, roughly six months after the required reserves ratio was reduced by two percentage points to 20 percent. Improved bank liquidity helped increase credit to the private sector by 30 percent in 2014 and reduce the interest rate on Treasury bonds from 11 percent at end-2013 to 9 percent at end-2014. The exchange rate between the Guinean franc (GNF) and U.S. dollar remained stable, but the premium relative to the official rate increased, reflecting greater uncertainty in the exchange market.

6. The health of the financial system remains satisfactory and has improved slightly since 2013. Between end-2013 and end-September 2014, nonperforming loans declined from 6.5 percent to 6.3 percent, while the average bank solvency ratio rose from 15.6 percent to 18.0 percent. The improved bank solvency reflects the strengthening of banks' capital through the implementation of the first tranche of the banks' capital increase in June 2014. A benchmarking with certain partners helped amend the insurance code to take account of changes in the local context and international regulations. The revised draft code is under technical review. Reflections on the regulations of banking-insurance and microfinance have already begun, and consultations with market actors are planned for the near future.

7. The external current account deficit (grants included) is expected to improve from 21.1 percent in 2013 to 18.1 percent of GDP in 2014 thanks to a rise in official transfers and a lower import demand, despite higher food imports and a decline in agricultural exports due to restrictions on cross-border trade with some neighboring countries. However, a drop in medium-term capital and financial flows, mostly due to a sharp slowdown in foreign direct investment, and lower short-term capital inflows, would translate into a weakening of the overall balance of payments.

D. Implementation of Structural Reforms

8. The government has improved governmental coordination, but the Ebola epidemic complicated the mobilization of technical assistance and delayed structural reforms. The technical unit for program monitoring (CTSP) was strengthened with the appointment of the executive secretary in June 2014 and an assistant in September 2014. The government prepared a priority action plan for 2014–15, which was the subject of consultation with donors in October 2014. However, the Ebola epidemic slowed the implementation of the reforms because of difficulties in mobilizing technical assistance missions while discussions with private partners have had to be conducted via teleconference or videoconference. Progress has been achieved despite these constraints:

9. In public finance:

- The preliminary draft law on the financial governance of public enterprises was adopted by the Council of Ministers in December 2014 (**end-September 2014 structural benchmark**). Also, the decree on the governance framework of public finances, the second implementing regulation of the budget framework law (LORF), was signed on October 31, 2014.
- Consultations were launched with the main autonomous entities, namely the postal and telecommunications regulatory agency (ARPT) and the company tasked with the management of government buildings to clarify their relations with the Treasury and transfer their accounts to the Treasury single account at the BCRG (**end-September 2014 structural benchmark**). A fact-finding mission was conducted in countries of the sub-region.
- The adoption of the new budget nomenclature by the October 9, 2014 signature of the order on budget nomenclature (**end-September 2014 structural benchmark**) will enable completing the revision of the government's chart of accounts.
- The production of the government's management and administrative accounts for 2011 and 2012 (**end-December 2014 structural benchmark**) was partially implemented. The 2011–13 management accounts were produced in December 2014. The production of the administrative accounts was delayed because of the line ministries' lack of experience in the elaboration of these accounts, previously done at the central level by the national Budget Directorate.
- In addition, on November 6, 2014 the Council of Ministers adopted the draft revised customs code, and the selection criteria for investment projects were submitted to the Special Investment Fund management committee chairman on September 30, 2014.

10. The government continued to implement the medium-term action plan adopted in March 2014 to improve debt management. A decision concerning referral to the National Public Debt Committee (CNDP) (created in March 2014) that will meet at least once per quarter was signed on September 8, 2014. The decision was followed by the first CNDP meeting on October 31, 2014. However, certain actions have been delayed, such as the preparation of the medium-term debt strategy, debt sustainability analyses, completion of the public debt policy statement, and training on the procedures manual. The technical assistance missions planned in this area were postponed due to the Ebola epidemic. The rescheduling of those missions is under discussion with the technical and financial partners. Progress was made regarding the audit of domestic debt with the recruitment in December 2014 of the consultant to conduct the audit on which a schedule for clearing domestic payment arrears by distinguishing arrears relating to fiscal years 2011–13 from arrears for fiscal years 2005–10 will be based (**end-December 2014 structural benchmark**).

11. Progress in the mining sector relate to SOGUIPAMI and the petroleum code. The government has redefined the role of SOGUIPAMI, in line with recommendations from IMF technical assistance and the study on the role of SOGUIPAMI prepared with World Bank assistance and approved by the surveillance council. The draft decree on SOGUIPAMI's new role and its relationships with the public administration (**end-September 2014 structural benchmark**) is being finalized. The draft petroleum code, prepared with support by an international firm with AfDB financing and validated on July 18 2014 during a workshop with donors, the private sector and the civil society, was adopted by the National Assembly in December 2014.

12. In the electricity sector, the financing agreement for the Electricity Sector Rehabilitation Project (PRSE) was signed with the World Bank in July 2014, and the international call for tenders to select a private partner for the Électricité de Guinée (EDG) management contract was issued on August 20, 2014 (**structural benchmark for end-December 2014**), a later date than planned due to difficulties in mobilizing technical assistance following the Ebola epidemic. Similar difficulties were experienced in mobilizing the consultant to assist the government in the revision of the Electricity Law and implementing regulations of the law on public private partnerships. The executive board of EXIM Bank of China has just approved the financing of the transmission line Manéah-Tombo (about US\$ 91 million of which 85 percent financed by EXIM Bank of China).

13. Civil service reforms have also progressed. The biometric census of government officials and long-term contractual employees was completed in August 2014; the preliminary results indicate that 11 percent of paid civil servants did not complete biometric identification forms. Significant progress was made toward the adoption of the civil service reform plan, based on the results of the biometric census, and the action plan for the State Reform and Modernization

Program (PREMA) (**end-December 2014 structural benchmark**) with the validation on November 12, 2014 of the reform plan, its timeline and costs during a workshop with the technical and financial partners, the unions, and the civil society. Activities relating to the framework of governing provisions and position descriptions were also begun, with assistance from the World Bank.

14. The reforms to improve the business environment continued. The justice reform plan adopted in July 2014 includes a component designed to protect land tenure and the enforcement of commercial contracts as well as a timetable for the creation of an Economic Section. The draft 10-year action plan to implement the justice reforms was prepared with technical assistance from the European Union and was the subject of discussions between the public authorities, civil society, and technical and financial partners in December 2014. The validation of the action plan by the steering committee chaired by the President of the Republic, initially planned for December 2014, is now expected for the first quarter of 2015. The Presidential Council on Investment and Public-Private Partnership (CPI-PPP) was established by decree on October 17, 2014. The council is tasked with reducing delays for investors, simplifying administrative procedures, and instituting norms consistent with international standards. The advisory committee to the council is composed of 30 members from the administration, the private sector, and civil society and foreign figures and investors with recognized experience in the area.

ECONOMIC AND FINANCIAL POLICIES AND STRUCTURAL REFORMS FOR 2015

A. Macroeconomic Outlook

15. The economic outlook for 2015 is less favorable than initially anticipated. Our economy will continue to be affected by travel restrictions, notably the closing of borders with certain countries and the economic disruptions relating to the effects of the Ebola epidemic. However, we anticipate that the epidemic will be contained during the first half of 2015 based on our efforts supported by our partners. In that context, growth is expected to reach 2.1 percent in 2015 compared to 4.1 percent initially projected. Inflation should remain close to the 2014 level, because upward pressure on food prices in the context of weak agricultural production will be offset by the moderating effect of weaker domestic demand. The BCRG's reserves are expected to remain at a comfortable level of three months of imports in a context of exchange rate stability. Growth is expected to recover in 2016, in particular with the recovery of investment in the mining sector.

16. Our economic policies are designed to consolidate the progress in macroeconomic stabilization. The policies will continue to focus on poverty reduction, in line with the objectives of the PRSP III, and the elimination of the Ebola epidemic and mitigation of its effects. Fiscal policy will be prudent and will seek to absorb the impact of the Ebola epidemic and support the economy, in line with available financing. We will strive to better coordinate the use of external assistance and our own resources in order to increase the effectiveness of the overall response to the Ebola crisis. We will continue to implement a cash-based budget to ensure the control of budget execution needed to achieve our objectives. We also intend to relax monetary policy to support private sector growth and make domestic resources available to support the fiscal policy effort undertaken to eradicate the Ebola epidemic. Our exchange policy will continue to focus on the stability of our national currency and maintaining BCRG's international reserves at an adequate level.

B. Fiscal Policy

17. The 2015 budget approved by the Parliament on December 18 2014 takes into account the increase in expenditure generated by the impact of the Ebola epidemic and aims to maintain an adequate public investment effort to sustain growth. In the context of relatively weak growth that reduces the tax base and constrains revenue collection, this objective will result in a larger fiscal deficit. The basic balance deficit is expected to stand at 6.6 percent of GDP compared to an estimated 5.7 percent of GDP in 2014. The deficit implies a financing gap of roughly GNF 1,644 billion, reflecting the increase in the cost of the response plan against Ebola, partly covered by the IMF budget assistance, loans and grants of funders, and domestic financing. We are continuing discussions with partners to cover the financing of the response plan. In case the needed financial resources do not become available, we expect to take domestic adjustment measures.

18. Revenues under the 2015 budget are estimated at 20.7 percent of GDP, or an increase of 2.0 percentage points of GDP relative to 2014. Mining receipts are expected to decrease slightly as a percentage of GDP due to weaker profits generated by the mining companies in 2014 and an anticipated decline in the prices of Guinea's mineral exports. The ratio of direct taxes to GDP should remain constant, while indirect taxes are expected to rise significantly due to the delayed pass-through of changes in international oil prices onto pump prices, the introduction of the new tax on telecommunications (TARTEL), and improved management of the revenue-collecting agencies. On the other hand, taxes on international trade are expected to decline with the implementation of the Common External Tariff (CET).

Text Table 2. Impact of Measures to Increase Revenue		
	GNF billions	Percent of GDP
TARTEL	80	0.2
Administrative measures	100	0.2
Customs administration	50	0.1
Tax administration	50	0.1
Petroleum revenue	901	1.8
Total	1,081	2.2

19. The 2015 budget projects significantly increased spending, largely due to expenses associated with the Ebola epidemic. In consultation with our partners we have updated the cost of the Ebola response plan, which is now estimated at US\$348.7 million, of which roughly US\$118 million was executed in 2014 (¶4, Text Table 1). Salary and wage expenditure budgeted in 2015 would increase in light of the creation of new institutions provided by the Constitution, the introduction of special regimes for certain categories of civil servants, and hiring in the health (0.1 percent of GDP), education (0.2 percent of GDP), and security (0.04 percent of GDP) sectors. The projections for the wage bill were revised to reflect the recent agreement with unions (¶20). The subsidies to EDG will fall from 1.1 percent of GDP in 2014 to 0.5 percent of GDP thanks to the fall in international oil prices and the tariff adjustment planned in the second half of the year after the expected improvements in electricity production and access materialize (¶34). Domestically-financed investment spending should increase to 6.5 percent of GDP, or an increase of 0.3 percentage points of GDP compared to 2014. This increase should enable us to maintain our support for infrastructure building.

20. The recent agreement reached with unions maintains the parameters of the 2015 budget. The government obtained on 7 January 2015 an agreement with the unions who demanded a 300 percent general wage increase for civil servants. To preserve social stability and the gains of reforms, including in the context of the satisfactory implementation of the ECF program, the government has decided to grant in 2015 an increase in the basic salary of 40 percent (20 percent in April, 10 percent in July and 10 percent in October). The financial impact of this increase is estimated at GNF 261 billion¹ (0.5 percent of GDP) compared to the 2015 budget projection. To finance this increase, the government will (i) cancel recruitments planned this year for nonpriority sectors (GNF 153 billion), (ii) implement the conclusions of the biometric census (GNF 30 billion), and (iii) revise

¹ This amount also includes GNF 17 billion corresponding to an increase in the basis of the evaluation of the 2015 wages using 2014 outturns (clarify)

the financial impact of the application of specific statutes in light of end-2014 outcomes (GNF 78 billion). These measures will help achieve savings of GNF 261 billion and offset the financial impact in 2015 of the increase in basic wages.

21. In light of the impact of the Ebola epidemic on revenue, the government will use bank financing to avoid a drastic budgetary adjustment and to support the economy. The budget expects external financing comprising mainly grants and concessional loans of 10.0 percent of GDP, of which 5.4 percent of GDP in the form of grants. The government will also issue bills and bonds on the local market for a maximum projected amount of GNF 1,000 billion (2 percent of GDP). To ensure the sound management of this issuance and medium-term fiscal sustainability, the government has requested technical assistance from the Fund and the World Bank to prepare a medium-term debt strategy (MTDS). In addition, the government expects to receive at least US\$600 million from the sale of bauxite blocks in Boffa, of which US\$80 million is expected to support investment expenditure under the 2015 budget. In the event these exceptional receipts are realized, the government will reduce its use of domestic financing.

22. The government has decided to establish a special earmarks budget (BAS) for an amount of GNF 1,613 billion (US\$230 million) for the management of the funds allocated for the fight against Ebola, in accordance with provisions of the LORF and the General Fiscal Management and Public Accounting Regulations (RGGBCP) concerning the allocation of revenue. The governance structure of the BAS, developed with technical assistance from the Fund, is intended to ensure transparency in the use of donor support through the production of regular implementation reports and periodic audits by an internationally recognized firm, which we will recruit by June 2015.

C. Monetary and Exchange Policies for 2014–15

23. The BCRG will continue the gradual and prudent relaxation of the monetary policy stance while taking into account inflation developments. The BCRG will assist the government in mobilizing financing to mitigate the effects of Ebola, in particular through the sale of securities to the public. The BCRG will reduce the policy rate and the required reserves rate to ensure sufficient liquidity in the banking system so as to ensure that the planned bank financing of the public deficit does not crowd out the private sector. To contain the adverse effects of bank financing on inflation, the BCRG will sterilize the financing by increasing currency sales in the interbank foreign exchange market (MIC) without compromising the international reserves objective of about 3 months coverage of imports. It will maintain its policy of exchange rate stability and launch the operations of the international reserves investment committee in order to fully implement the new investment policy and the intended control procedures.

24. Several other measures are planned to strengthen the banking and financial sector.

The BCRG plans to implement an "open market" window by end-March 2015, to encourage the interbank market in national currencies with the implementation of the market convention which was developed with and circulated to banks for opinion. The other measures aim at setting up an information system on credit to improve the credit bureau, with assistance from the World Bank. Measures are also planned to consolidate the microfinance sector and the protection of depositors, including: (i) drafting a new microfinance law by end-December 2014; finalizing the directives by end-June 2015; (iii) adoption by the government of the National Inclusive Finance Strategy by end-June 2015; (iv) strengthening of microfinance institutions (MFI) through training and supervision; (v) the establishment of a credit information repository to more effectively manage the MFI portfolio by end-December 2015; and (vi) the preparation of the directive concerning mobile financial services by end-March 2015. In regard to insurance, the efforts will focus on finalizing the revised insurance code by end-June 2015 and consultations with actors concerning banking-insurance and micro-insurance.

C. Structural Reforms

25. The government will work to complete the program's structural reform agenda. The Council for Economic Coordination and Reforms (CCER) and the technical support committee (CTA) to the CCER will redouble their efforts to accelerate the adoption of the texts being drafted and implement the priority action plan defined in October. The strengthening of the CTSP will also be completed by the hiring of experts and the equipping of its new offices by end-February 2015, with technical assistance from the World Bank, the African Development Bank, and the European Union. The key structural measures are intended to strengthen public financial management, reform the civil service, improve the business environment, strengthen the reform of the mining sector, and restore the financial viability of the electricity sector while increasing the supply of electricity. At the center of the government's priorities is the eradication of the Ebola epidemic based on the response plan piloted by the national Ebola coordination mechanism, in consultation with our partners.

Public Financial Management

26. The government will continue the implementation of the priority actions provided in the Public Finance Reform Plan (PREFIP) adopted in May 2014. To this end, the government will deepen the reforms designed to modernize the revenue-collecting agencies and will implement the following structural reforms:

- Implementation of the new procurement code by ministerial decision, which will set the thresholds for public procurements and harmonize the standard documents for tender offers with those of donors (**prior action**).
- Alignment of the fiscal and accounting management practices of public entities collecting public revenue with the provisions of the LORF and the RGGBCP by end-March 2015 (**reformulated and reprogrammed structural benchmark**).
- Production of the administrative accounts for fiscal years 2011–13 by end-April 2015 (**reformulated and reprogrammed structural benchmark**), at the end of the training session of the financial affairs divisions of line ministries planned for the first quarter of 2015. For fiscal years 2005–10, the government will draw from Mali's experience in processing transactions from exceptional periods and will produce cumulative management accounts based only on available figures.
- Approval of a timetable for clearing domestic payment arrears, distinguishing arrears for budget years 2011–13 from 2005–10 arrears, by end-June 2015 (**reprogrammed structural benchmark**).
- Effective implementation of the new VAT credit refund mechanism, by (i) organizing meetings with the mining companies to present the new mechanism, and (ii) finalizing the multiyear program for clearing arrears by end-March 2015.
- Continue the strengthening of the Medium-Size Taxpayer Unit (SME) through training, internal organization, monitoring of statistics, and the implementation of a support committee by June 30, 2015.

27. Other reforms to address budget programming and preparation and public

expenditure management envisage: (i) the adoption of a budget execution manual of procedures by end-March 2015; (ii) the start of work by end-September 2015 to prepare for implementation of the new budget nomenclature, planned for 2016; and (iii) the preparation of a manual of procedures for ex ante financial control. In addition, the PREFIP provides for the reform of the general legislation, procedures, information systems, and controls through:

- the start of training programs on the laws and regulations (LORF, RGGBCP, draft law Governance) at headquarters and regional offices by March 2015,
- the adoption of standards and the new accounting framework by end-March 2015,

- continued reform of the Treasury single account (CUT), in particular through the creation of a central account of the BCRG and signature of the new CUT account agreement, already prepared, by end-March 2015,
- the preparation of new budget documents in connection with the changeover by end-September 2015 to the requirements under the LORF beginning in 2016,
- the drafting of new directives on the preparation of the TOFE in line with the IMF 2001 GFSM, by September 2015, and,
- the completion of the recruitment and training of financial inspectors by end-December 2015.

Civil service

28. The results of the biometric census that we expect to complete in the very near future will continue to inform our civil service reform strategy. Based on the results of the biometric census, we will adopt by March 2015 a civil service reform plan and the action plan for the State Reform and Modernization Program (PREMA) (**reprogrammed structural benchmark**). The key steps remaining to complete the biometric census include: (i) physical controls in all departments and units for three months combined with the distribution of biometric cards to employees and the installation of electronic readers in all departments and units (November 2014 through January 2015), and (ii) cleanup of data files in 2015 (the pension beneficiaries file, with 50,000 records, and the contractual employees file, with 10,000 records). The other measures planned by end-June 2015 relate to: (i) the installation and start of operations of regional inspectors; and (ii) the creation of a system of ongoing control of staffing, the application of laws and regulations concerning the organization and operations of organizational units, and the work of Human Resources Management.

Business environment

29. The reforms will focus on improving the business environment, including the implementation of the action plan for the justice reform program. The Private Investment Promotion Agency (APIP) will complete a business promotion strategy and business plan by end-March 2015, with assistance from an international consultant to be selected with support from the World Bank. For the judicial sector, the revision of the criminal code and code of criminal procedures will be completed by end-June 2015, and a new judiciary organization, which provides, inter alia, for specialized sections (Chambre Économique) to handle commercial matters will be implemented by end-September 2015.

Mining sector

30. Mining reforms will aim to complete the legal and regulatory framework and adapt the structure of the Department of Mines to its new environment. We aim to finalize the implementing regulations for the mining code and revise the mining contracts before end-May 2015. The institutional audit of the Department of Mines planned by end-June 2015 will facilitate the alignment of its structure with the new mining sector reforms, in particular the new mining code, the new petroleum code, the process of reviewing mining contracts and rights, and the modernization of the cadastre, and will also adapt the department's missions to the new challenges and issues of national mining development.

31. We will finalize by the end of the first quarter of 2015 the initial operation of SOGUIPAMI. A decree to implement the recommendations on SOGUIPAMI's new role and relations with the public administration will be adopted by end-February 2015 (**reprogrammed structural benchmark**). SOGUIPAMI will not engage in financial activities, including in indebtedness of any form. SOGUIPAMI will not possess in its own right shares of mining companies which are active in the mining operations, or in the infrastructure, and cannot alienate state holdings and assets nor collateralize them. The statutes of SOGUIPAMI will be modified to reflect the provisions of the new decree on the role and the relations of SOGUIPAMI with the administration, established on the basis of the recommendations of a consultant hired with the assistance of the Work Bank. We will closely monitor the development of SOGUIPAMI and will make sure that these operations will not expose public finances to significant risks.

32. The study on the division of artisanal exploitation areas into parcels, and the study on the organization of artisanal gold exploration financed by the World Bank through the Mining Sector Governance Support Project (PAGSEM), will begin in March 2015. The modernization of the mining cadastre is continuing based on the results of the audit of the geological and mining information system (SIGM) conducted in 2014. The second and final phase of the project began with the selection of the consultant to identify and install geodetic references by end-March 2015. The new SIGM will be deployed and operational no later than end-December 2015.

33. The government plans to establish a one-stop mining window (GUM) by end-June 2015. The GUM will be responsible for the reception and quick processing of all requests for permits and other administrative steps required to conduct large, integrated mining projects. It will have exceptional powers to receive and diligently process all requests for permits in accordance with applicable regulations, in cooperation with the responsible departments of the administration.

Energy sector

34. The government plans to step up the pace of energy sector reforms by year-end. The selection of the partner in the EDG's management is expected to be completed by end-March 2015 (**reprogrammed structural benchmark**), and the start of a management contract will begin as soon as possible after that date. With respect to the seven priority projects, after the July 2014 signature of the financing agreement for the Electricity Sector Rehabilitation Project (PRSE) with the World Bank, negotiations on the financing agreement with the European Investment Bank (EIB) were concluded and the EIB board of directors validated the provision of a loan. The government will also pursue measures to improve the EDG's financial position, in particular by readjusting electricity rates during second semester of 2015, as improved access will be possible only after the entry into service of Kaleta. Work on the revision of the electricity law and the implementing regulations under the public-private partnership law will continue and are expected to be completed in 2015. The coming on stream of the Kaleta plant in June 2015, will increase hydropower production by 560 GWh in 2015, or 39.5 percent of total production in 2014.

Agriculture sector

35. The government will continue agricultural reforms to improve yields and production. It will continue to support the sector through the distribution of quality seed and fertilizer, improved equipment for farmers, and capacity-building for the agencies in charge of agronomic research, outreach, and statistics. These efforts will create the conditions to make further investments beginning in 2015 in the processing, storage, and marketing of agricultural products. Efforts will also be undertaken to resume exports of coffee, with the completion of the Zياما coffee certification process, as well as fruits, vegetables, and cotton. The government will accelerate work on irrigation and water control facilities as well as the integration of isolated production areas, with support from the technical and financial partners. The market information system and monitoring of food imports will be enhanced and integrated in the Development Strategy Bureau to ensure the continuity of this function. The decision-making bodies of the National Chamber of Agriculture will be renewed with the organization of elections to its representative body by end-June 2015 following a revision of the institution's governing texts.

36. The proposed framework agriculture law will be shared among the various sector's actors in regional workshops. The promulgation of the law, planned by end-June 2015, will lay the legal foundation for the transformation of traditional agriculture and secure land tenure for private investment. With assistance from technical and financial partners, the government will identify options by end-March 2015 to strengthen the revolving account it finances, in particular through a review of the level of subsidies for agricultural inputs and equipment. In consultation with its partners, including the World Bank, the government will also identify key measures to ensure the sustainability of the revolving account by end-March 2015.

D. First Annual PRSP Implementation Report

37. The first report on the implementation of the 2013-2015 PRSP III was prepared on the basis of extensive consultation with all the stakeholders. The implementation of the PRSP III in 2013 produced mixed results, reflecting an unfavorable national and international context (political instability, decline in commodities prices) and weak performance in sectors that are drivers of growth such as mining. The performance in 2013 suggests that the strategy's overall objectives will be difficult to achieve. For example, the objective of average growth of 5 percent appears unrealistic taking into account the weak growth of 2.3 percent posted in 2013, although investments in infrastructures supporting growth have increased substantially. However, we note that investments in the energy sector did not produce the expected results due to the poor condition of the outdated network, commercial management problems, and other factors. In regard to overall governance, notable efforts were made, specifically in the areas of justice, strengthening the rule of law and the management of public finances.

38. Despite the unfavorable environment and exogenous shocks, the government expanded access to social services. In education, the overall primary enrollment ratio increased from 82 percent in 2010/2011 to 86 percent in 2012/2013 and the gross enrollment ratio increased from 78 percent to 82 percent over the same period. In regard to health, we find an improvement of the prenatal consultation ratio, support for the implementation of free obstetrical care, a reduction of infant mortality through the vaccination of 186,533 children under age one, and the increased availability of drugs and medical products at healthcare facilities. These improved health outcomes were facilitated by improved access to safe drinking water, with an increase of close to 5 percent of the volume of potable water produced. However, these results remain below the government's objectives for 2013–15.

39. The government has begun preparations for a new PRSP covering 2016–20. The new PRSP will be aligned with the next National Development Program (PND). The PRSP will be based on the 2013 annual implementation report and the report for 2014 which will be finalized in mid-2015 to incorporate progress made and lessons learned as well as the consequences of the Ebola epidemic and requirements identified. In parallel, the PND will be based on our long-term strategy, Vision Guinée 2035, which is expected to be completed in the first half of 2015.

E. Program Financing

40. The government estimates the 2015 program financing requirement to be fully covered. Most of the financing will come from external resources. Following the achievement of the HIPC completion point in 2012, nearly all of the Paris Club and multilateral creditors have signed bilateral debt relief agreements or can be expected to sign them in the near future. In addition, the government has pursued debt-relief discussions with official non-Paris Club creditors. However, the majority have yet to respond to our requests for discussions. The government also invited commercial creditors to open discussions to clear arrears, including through debt reduction, in accordance with the Fund's lending into arrears policy; however, many of them have not yet responded. The Fund's disbursements under the ECF arrangement will cover the residual balance of payments financing needs.

41. The authorities will continue to give priority to concessional loans and grants in mobilizing external financing to ensure the sustainability of the public debt. However, financing certain projects, in particular the large infrastructure and energy projects, with concessional resources could prove difficult in light of the limited availability of concessional resources from donors.

42. The government will deepen reforms to improve debt management in 2015 and will accelerate the reforms in the action plan to strengthen public debt management. Progress in this area will depend largely on the resumption of technical assistance. In that context, emphasis will be given to formulating the medium-term debt strategy, with technical assistance from the IMF and the World Bank; training in debt sustainability analysis; completing the wide dissemination of the national public policy; and effectively implementing the debt procedures manual with the help of a European Union technical assistance mission. An AFRITAC technical assistance mission will also be mobilized for debt sustainability analyses and to support the programming of domestic debt issuances.

PROGRAM MONITORING

43. The government will continue its efforts to improve the statistics system to ensure the regular production and supply of good quality statistical data. The 2006–11 national accounts were adopted and are currently being disseminated. The production of the national accounts for 2012 (final) and 2013 (interim) is planned for end-January 2015 using 2010 as the base year. The government will request technical assistance from the Fund to develop a series of economic indicators to be monitored periodically through the use of the macroeconomic summary table (*Tableau de Bord de l'Économie*) and a methodology to develop annual growth estimates based on monthly indicators. Program monitoring will be continued through the new entities created for this purpose (the CCER, the CTA, and the CTSP), which are now operational. The CTSP, for which capacity-building activities are planned, will fully discharge its role consistent with its new structure.

44. The government requests an extension of the ECF arrangement to end-December 2015 to support our macroeconomic policies. We also request an increase in financial support from the Fund of 42.1 percent of our quota, equivalent to about US\$65 million (SDR 45.135 million), of which 25 percent of the quota to be disbursed in the form of budget support in connection with the fifth review, and 17.1 percent of the quota to be disbursed in connection with the seventh ECF review. The increased access to Fund resources, which is expected to rally support among donors, will strengthen our international reserves. The total Fund support amounted to US\$96 million in 2014; in 2015 Fund support is expected to cover about 18 percent of the 2015 budget financing needs.

45. The program will be monitored semiannually by the IMF Executive Board based on the quantitative indicators and structural benchmarks (Tables 1–3 below). Those indicators are defined in the Technical Memorandum of Understanding (Attachment II). The sixth program review, based on the performance criteria at end-December 2014, should be completed no later than May 2015, and the seventh program review based on the performance criteria at end-June 2015 is should be completed no later than November 2015

46. During the program period, the government will refrain from (i) introducing or intensifying exchange restrictions on the making of balance of payments or transfers relating to current international transactions; (ii) introducing or modifying multiple currency practices; (iii) entering into any bilateral payment agreement that is inconsistent with Article VIII of the IMF Articles of Agreement; and (iv) imposing or intensifying import restrictions for balance of payments purposes. Moreover, the authorities undertake to adopt, in consultation with Fund staff, any new financial or structural measures that may prove necessary for the program's success. The government undertakes to provide the Fund with any information required to monitor the implementation of program measures and for the achievement of program objectives.

Table 1. Guinea: Performance Criteria and Indicative Targets, 2014–15

	2014				2015							
	Jun.		Act.	Status	Sep.		Dec.	Status	Mar.		Jun.	Sep.
	PC	Adj. PC ¹			Indicative Targets	Adj. Targets ¹			Prel.	PC			Indicative Targets	PC	Indicative Targets
Quantitative performance criteria												
Basic fiscal balance (floor; cumulative change for the year)	-635	-676	-260	Met	-1,570	-1,537	-947	Met	-2,628	-773	-1,276	-2,101
Net domestic assets of the central bank (ceiling; stock)	5,018	4,910	4,171	Met	4,789	4,921	5,217	Not Met	5,318	4,048	4,628	5,109
Net domestic bank financing of the government (ceiling; cumulative change for the year)	879	771	43	Met	1,077	1,208	652	Met	1,452	394	794	1,194
Net international reserves of the central bank (floor; stock); US\$ million ²	459	459	552	Met	513	495	557	Met	516	482	419	369
New non-concessional medium or long-term external debt contracted or guaranteed by the government or central bank (ceiling); US\$ million ^{3,4,6}	0	0	0	Met	80	80	0	Met	80	80	80	80
Stock of outstanding short-term external debt contracted or guaranteed by the government or the central bank (ceiling); US\$ million ⁴	0	0	0	Met	0	0	0	Met	0	0	0	0
New external arrears (ceiling) ⁴	0	0	0	Met	0	0	0	Met	0	0	0	0
Indicative targets												
Expenditure in priority sectors (floor) ⁵	2,167	2,167	2,276	Met	2,633	2,633	2,425	Not Met	4,706	1,252	2,616	4,124
<i>Memorandum items:</i>												
Reserve money (ceiling)	7,441	...	7,183		7,306	...	8,303		7,830	6,620	6,760	6,889
Net external assistance	94	...	136		237	...	72		408	196	404	933
of which, Ebola-related grants	...	...	...		...	...	0		792	...	...	615
Change in the float	-72	...	36		240	...	-214		5	-71	-143	-113

Sources: Guinean authorities; and IMF staff estimates and projections.

¹ Definitions and adjustors are included in the Technical Memorandum of Understanding (TMU).

² Calculated using program exchange rates.

³ External debt contracted or guaranteed other than with a grant element equivalent to 35 percent or

⁴ Continuous performance criterion.

⁵ Priority sectors include education, health, agriculture, energy, justice, social affairs, and public works (as defined in the TMU).

⁶ The ceiling for 2014 is tied to new debt to finance the Kaleta hydroelectric dam - Conakry transmission line project.

Table 2. Guinea: Structural Benchmarks for the ECF-Supported Program for 2014

Measure	Date	Implementation status	Macroeconomic rationale
Structural benchmarks			
Adopt the proposed law on public entities to conform to the new Budget Framework Law (LORF) and the General Regulations on Fiscal Management and Public Accounting (RGGBCP).	End-September 2014	Not met Completed December 15, 2014 (¶19)	Limit risks for the government budget; strengthen central control of external public debt
Transfer the accounts of autonomous public entities to the Treasury single account at the BCRG	End-September 2014.	Not met (¶19)	Ensure budget integrity and improve cash flow management
Adopt and implement the recommendations of the study on the SOGUIPAMI's role and relations with the public administration	End-September 2014	Not met Reprogrammed (¶11 and ¶31)	Maintain government control of assets in the mining sector; protect government revenue; and limit financial risks
In consultation with donors, adopt a new budget nomenclature, including a functional classification	End-September 2014.	Not met Completed October 9, 2014 (¶19)	Improve the monitoring of poverty reduction efforts
Produce the government's end-year Treasury account and the budget execution account for 2011 and 2012	End-December 2014.	Not met Management accounts only were produced. Reformulated and reprogrammed (¶19 and ¶26)	Improve public financial management and transparency
Adopt a civil service reform plan based on the results of the biometric census under way and the action plan for the State Reform and Modernization Program (PREMA)	End-December 2014	Not met. Plans validated with donors and civil society in November 2014 (¶13 and ¶28) Reprogrammed	Control the wage bill and improve the administration's productivity
Recruit a management partner for EDG with assistance from the World Bank and the IFC	End-December 2014.	Not met (¶12 and ¶34)	Increase electricity production and reduce fiscal risks
Approve a timetable for clearing domestic payment arrears, distinguishing arrears for budget years 2011–13 from 2005–10 arrears	End-December 2014	Not met (¶10 and ¶26)	Support the Guinean private sector and enhance the government's credibility

Table 3. Guinea: Prior actions and Structural Benchmarks for the ECF-Supported Program for 2015

Measure	Date	Implementation status	Macroeconomic rationale
Prior actions			
Set by ministerial decision the thresholds for public procurements and harmonize the standard documents for tender offers with those of donors (¶ 26)			Ensure the transparency and effectiveness public expenditure
Structural benchmarks			
Adopt and implement the recommendations of the study on the SOGUIPAMI's role and relations with the public administration (¶31)	End-February 2015		Maintain government control of assets in the mining sector; protect government revenue; and limit financial risks
Ensure compliance of the fiscal and accounting management of public bodies receiving public revenue with the provisions of the LORF and RGGBCP (¶26)	End-March 2015		Ensure budget integrity and improve cash flow management
Adopt a civil service reform plan based on the results of the biometric census under way and the action plan for the State Reform and Modernization Program (PREMA) (¶28)	End-March 2015		Control the wage bill and improve the administration's productivity
Recruit a management partner for EDG with assistance from the World Bank and the IFC (¶34)	End-March 2015		Increase electricity production and reduce fiscal risks.
Produce the administrative accounts for 2011–13 (¶26)	End-April 2015		Improve public financial management and transparency
Approve a timetable for clearing domestic payment arrears, distinguishing arrears for budget years 2011–13 from 2005–10 arrears (¶26)	End-June 2015		Support the Guinean private sector and enhance the government's credibility

Attachment II. Guinea: Technical Memorandum of Understanding

January 27, 2015

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 quantitative performance criteria and indicative targets for the program supported under the ECF, as well as the related reporting requirements.
- 2. The quantitative performance criteria, indicative targets, and cut-off dates** are detailed in Table 1 of the Fifth Supplement to the Memorandum of Economic and Financial Policies.

KEY DEFINITIONS

- 3. Unless otherwise indicated, the government is defined** as the central government of the Republic of Guinea and does not include local governments, the Central Bank of the Republic of Guinea (BCRG), or any other public entity with autonomous legal personality, notably administrative public entities (*établissements publics administratifs*).

A. Quantitative Performance Criteria

- 4. The basic fiscal balance** is calculated as the difference between government revenue, excluding grants, and **basic government expenditure**. The definitions of the bolded terms above are consistent with the definitions used in the government fiscal reporting table (TOFE), for which the calculation method is described in Section E below.
- 5. Net domestic assets (NDA)** of the BCRG are, by definition, equal to the difference between reserve money (defined below) and the BCRG net foreign assets (NFA). NFA are equal to the difference between BCRG gross foreign assets, including foreign assets that are not part of reserve assets, and BCRG foreign liabilities (i.e., $NDA = \text{Reserve Money} - NFA$, based on the BCRG balance sheet).
- 6. Domestic bank financing of the government**, or net domestic bank credit to the government from banks, comprises: (i) central bank financing of the Treasury, i.e., the change in the net position of the Treasury with the central bank (NTP1), including the HIPC account and accounts for exceptional resources, such as the Special Investment Fund (SIF), but excluding changes in the net position of "satellite" government accounts with the central bank (PNT2); 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.

7. 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 sixth edition of the IMF's Balance of Payments Manual) and the foreign exchange liabilities of the BCRG to residents and nonresidents (including the foreign exchange deposits of the local banks with the BCRG and off-balance sheet liabilities). These foreign exchange liabilities, which are used to calculate the NIR, do not include long-term liabilities, such as SDR allocations. In the context of the program, the gold holdings of the BCRG will be valued at the price of gold on the on June 30, 2014 (US\$1,315 per oz.) for the second half of 2014, on the price in effect on December 30, 2014 (US\$1,206 per oz.) for the first half of 2015, and on the price in effect on June 30, 2015 for the second half of 2015. For the test dates, the U.S. dollar value of the reserve assets (other than gold) and foreign exchange liabilities will be calculated using the program exchange rates in effect, namely: on June 30, 2014, for the second half of 2014, the exchange rates between the U.S. dollar and the Guinean franc (7,017.4097 GNF/US\$), SDR (1.5456 US\$/SDR), Euro (1.3535 US\$/EUR), and other currencies as published in International Financial Statistics; on December 31, 2014, for the first half of 2015, the exchange rates between the U.S. dollar and the Guinean franc 7,227.6632 GNF/US\$, SDR (1.4699 US\$/SDR), Euro (1.2324 US\$/EUR), and other currencies as published in International Financial Statistics; and for the second half of 2015, the exchange rates in effect on June 30, 2015.

8. In the context of the program, the gold holdings of the BCRG will be valued at the price of gold in effect on June 28, 2013 for the second half of 2013, on December 31, 2013 (US\$1,205.9 per oz.) for the first half of 2014 and at the price in effect on June 30, 2014, for the second half of 2014. For the test dates, the U.S. dollar value of the reserve assets (other than gold) and foreign exchange liabilities will be calculated using the program exchange rates in effect, namely: on June 28, 2013, for the second half of 2013, the exchange rates between the U.S. dollar and the Guinean franc (6808.8444 GNF/US\$), SDR (1.5039 US\$/SDR), Euro (1.3080 US\$/EUR), and other currencies as published in International Financial Statistics; on December 31, 2013, for the first half of 2014, the exchange rates between the U.S. dollar and the Guinean franc (7005.8314 GNF/US\$), SDR (1.5400 US\$/SDR), Euro (1.3783 US\$/EUR), and other currencies as published in International Financial Statistics; and for the second half of 2014, the exchange rates in effect on June 30, 2014.

9. 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 subsection C below) contracted by the government or the central bank for a period of one year or more during the period under review. A debt is considered concessional if its grant element is at least 35 percent, the net present value (NPV) of the debt being calculated with a discount rate of 5 percent.¹ This definition does not apply to financing granted by the IMF.

¹ A 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>.

10. Short-term external debt contracted or guaranteed by the government or the central bank is defined as the stock as of a specific date of external debt contracted or guaranteed by the government or the central bank with an initial contractual maturity of less than one year. Excluded from this definition for the purposes of the program are normal import-related suppliers' credits and foreign currency deposits at the central bank.

11. New external arrears include all external debt-service obligations (principal and interest) arising from loans contracted or guaranteed by the government or the BCRG that are due but not paid on the due date, and unpaid penalties or interest charges associated with these loans. For the purposes of this performance criterion, an obligation which has not been paid within 30 days after falling due will be considered a "program" arrear. Arrears not to be considered as arrears for the performance criteria, or "non-program" arrears, are defined as: (i) arrears accumulated on the service of an external debt for which there is a request for rescheduling or restructuring; and/or (ii) litigious amounts.

12. The float is the flow of expenditures accepted by the Treasury that is not yet paid. **The net change in the float** is the difference between the accumulation and the payments.

B. Indicative Target and Memorandum Item

13. Expenditure in priority sectors, an indicative target for the program, includes spending under Title 2 (wages and salaries), Title 3 (goods and services), Title 4 (transfers and subsidies), and Title 5 (domestically financed investment) by the Ministries of (i) Justice; (ii) Agriculture; (iii) Fisheries and Aquaculture; (iv) Livestock; (v) Public Works and Transport; (vi) Urban Planning, Housing, and Construction; (vii) Health and Public Hygiene; (viii) Social Affairs, Advancement of Women, and Children; (ix) Pre-University Instruction and Civic Education; (x) Labor, Technical Education, and Professional Training; (xi) Higher Education and Scientific Research; (xii) Literacy and Promotion of National Languages; and (xiii) Energy and Environment. This expenditure also includes spending under Title 6 (financial investment and capital transfers) by the Ministry of Health and Public Hygiene as well as utility charges for water, electricity, and telephone (Title 3) of the ministries listed above. However, they exclude spending under Title 4 (transfers and subsidies) of the Ministry of Higher Education and Scientific Research.

14. Reserve money, a memorandum item, comprises deposits from local banks and the private sector to the BCRG (including bank reserve requirements) denominated both in Guinean francs and in foreign currencies, Guinean francs in circulation, and Guinean francs in the vaults of local banks. The amounts in foreign currencies will be converted to Guinean francs at the program exchange rate (as defined above in the paragraph on net international reserves).

C. External Debt

15. The term “external debt” is understood as specified in point 9 of the Guidelines on Performance Criteria with Respect to External Debt in Fund arrangements.² External debt is defined with respect to the residency of the creditor. 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 , i.e., 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 collateral from the buyer in the future (such as repurchase agreements, official swap arrangements, swaps, or leases);
- 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
- leases, i.e., arrangements under which property is provided that the lessee has the right to use for periods of time which are usually shorter than the total expected service life of the property, without transfer of ownership, 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.

16. 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 also 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.

17. The government and the central bank agree not to contract or guarantee any nonconcessional external debt on the terms defined in paragraphs 8 and 9 above, with the exception of debt in the form of reschedulings and those specified in paragraph 17 below. To this end, the government undertakes to consult with IMF staff on the terms and concessionality of all proposed new loan agreements before contracting or guaranteeing any external debt.

18. The performance criteria for new nonconcessional medium-term external debt includes a provision in 2014–15 relating to financing for a project to expand, rehabilitate, and modernize the electricity network between the Kaleta hydroelectric dam and Conakry. The

² See “Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements” approved by the Executive Board Decision No. 6230-(79/140), as subsequently amended, including by Executive Board Decision No. 14416-(09/91), effective December 1, 2009.

amount stipulated under this provision is US\$80 million. The government will inform the Fund prior to contracting a loan to finance the project, and will provide information on the terms of the loan as well as a summary of the project to be financed and its profitability, including an independent evaluation.

D. Adjustments to the Program Performance Criteria

19. The quantitative performance targets are calculated on the basis of projected amounts of (i) net external assistance; (ii) exceptional revenues from the mining sector (see table below); (iii) the change in "program" arrears; and (iv) the net change in the float. For program purposes, net external assistance is defined as the difference between: a) cumulative budgetary assistance (grants and loans), the impact of debt relief granted by external creditors, and the net change in "non-program" arrears; and b) cumulative payments of external debt service due after relief, for loans on which debt relief is secured. The net change in "program" arrears represents the cumulative "program arrears" in respect of the current debt maturity dates, less the cumulative cash payments to pay down these arrears.

TMU Text Table 1. Guinea: External Assistance, Program Arrears, Exceptional Mining Receipts, and Expenditure Float, 2014–15

(GNF billions, cumulative, from the beginning of the fiscal year)

	2014												2015			
	Mar.			Jun.			Sep.			Dec.			Mar.	Jun.	Sep.	Dec.
	Prog.	Act.	Diff.	Prog.	Prel.	Diff.	Prog.	Prel.	Diff.	Prog.	Rev. Prog.	Diff.				
Net external assistance ¹	-140	-64	133	94	136	42	237	72	-165	408	2,042	589	196	404	933	1,500
Budget support	0	0	0	446	369	-77	594	369	-225	993	2,502	464	298	668	668	668
Grants	0	0	0	309	369	60	594	369	-225	720	1,503	-262	298	668	668	668
Loans	0	0	0	137	0	-137	0	0	0	273	999	726	0	0	0	0
Ebola-related grants and loans (2015)	...	...	...	...	...	...	...	...	...	...	...	...	0	0	615	1,357
External debt service	-140	-71	124	-352	-258	94	-383	-328	55	-596	-513	83	-101	-264	-350	-524
Interest	-37	-28	65	-54	-46	8	-94	-79	15	-104	-93	11	-47	-66	-110	-128
Principal	-103	-43	60	-298	-212	86	-289	-250	39	-492	-421	71	-54	-198	-240	-396
Net change in non-program arrears and debt relief	0	7	8	0	25	25	26	32	6	11	54	43	0	0	0	0
Net change in non-program arrears	-218	7	226	-720	25	745	-31	32	63	-878	50	928	-57	-57	-57	-1,079
Debt relief	218	0	-218	720	0	-720	57	0	-57	889	4	-885	57	57	57	1,079
Program arrears	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Exceptional mining revenue	0	0	0	0	0	0	0	0	0	435	0	-435	0	0	0	560
Change in the float	-101	-104	-3	-72	36	108	240	206	-34	5	106	101	-38	-75	-113	-150

Sources: Guinean authorities and IMF staff calculations.

¹ For Dec. 2014 corrected for an incorrect sign on interest payments at the time of the RCF request.

20. The floor for NIR, the ceilings NDA of the BCRG and bank financing of the government, and the floor for the basic fiscal balance will be adjusted if net external assistance, the net change in "program" arrears, exceptional mining revenues, and/or the net change in the float differ from the projected amounts.³

21. Adjustment for net external assistance:

- *If net external assistance exceeds the program projections*, the floor for the basic fiscal balance will be adjusted downward by an amount equal to the surplus external assistance (enabling the entire surplus to be used for supplementary expenditures). The floor for NIR and the ceilings on BCRG NDA and bank financing of the government will not be adjusted.
- *If net external assistance is below program forecasts*, the floor on NIR will be adjusted downward by 80 percent of the shortfall, and the ceilings for NDA of the BCRG and bank financing of the government will be adjusted upward by 80 percent of the shortfall. The floor for the basic fiscal balance will be adjusted upward by 20 percent of the shortfall (requiring a fiscal adjustment equivalent to 20 percent of the shortfall).

22. Adjustments related to the net change in "program" arrears:

- *If the net change in "program" arrears exceeds program projections*, the floor for NIR will be adjusted upward by an amount equal to the surplus net change in arrears. The ceilings on NDA of the BCRG and bank financing of the government will be adjusted downward by an amount equal to the surplus net change in arrears. The floor for the basic fiscal balance will not be adjusted.
- *If the net change in "program" arrears is below the program projections*, the floor on NIR will be adjusted downward by 80 percent of the difference and the ceilings for NDA of the BCRG and bank financing of the government will be adjusted upward by 80 percent of the difference. The floor for the basic fiscal balance will be adjusted upward by 20 percent of the difference (requiring a fiscal adjustment equivalent to 20 percent of the difference).

23. Adjustments for exceptional mining receipts

- *The 2015 budget includes US\$80 million in exceptional mining receipts for investment financing.*
- *For exceptional mining receipts of between US\$80 million and US\$125 million, the floor for NIR will be adjusted upward and the ceilings on BCRG NDA and bank financing of the government will be adjusted downward by 80 percent of the surplus, while the floor for the basic fiscal balance will be adjusted downward by 20 percent of the surplus (allowing use of up to US\$16 million of the surplus for investment expenditures).*

³ The surpluses or shortfalls will be calculated using the program exchange rate.

- *For exceptional mining receipts in excess of US\$125 million, the floor for NIR will be adjusted upward and the ceilings on BCRG NDA and bank financing of the government will be adjusted downward by an amount equal to 100 percent of the surplus in excess of US\$125 million, while the floor for the basic fiscal balance will not be adjusted (i.e., the surplus beyond US\$125 million will be retained in the Special Investment Fund, which will reduce the use of domestic financing to finance the deficit).*

24. Adjustments for net change in the expenditure float:

- *If the net change in the float exceeds the projected amounts under the program, the ceilings on NDA of the BCRG and bank financing of the government will be adjusted downward by an amount equal to the excess.*

E. Definitions for the Fiscal Reporting Table (TOFE)

25. Government revenue includes tax and nontax revenue. It does not include external grants, the proceeds of privatizations, or exceptional mining revenues (the latter two being recorded as financing by agreement of the parties). Tax and nontax revenue are defined in accordance with Section IV.A.1 of the 1986 edition of the IMF's Government Finance Statistics Manual (GFS), 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, export duties (*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 business tax (TAF), taxes on petroleum products, and export taxes on mining products, including taxes on mining products, taxes on diamonds, and the tax on precious metals. Other tax revenues (Title 5) include stamp taxes and registration fees. Tax receipts also include the taxes borne by the government 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 nontax revenue (Title 7), including incidental revenues, and capital revenues (Title 8). Capital revenues include the proceeds from the sale of government assets, but exclude privatization proceeds.

26. Government expenditure is measured at the stage of acceptance by the Treasury, regardless of the execution procedure followed. In the case of both the regular procedure and the simplified delegated spending authority procedure, expenditures are accepted by the Treasury immediately after the payment order is issued. In the case of simplified procedures and delegated spending authority or payments without prior issuance of a payment authorization, the Treasury accepts the expenditure at the time that payment is ordered and in such cases no expenditure is measured on the basis of the adjusting payment orders (*mandatements de régularisation*) when the adjustment to a payment order basis is done. 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.

27. Basic expenditure is defined as total fiscal expenditure less expenditure on interest on the external debt and expenditure financed by external grants or loans or by counterpart funds.

28. 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) the net change in external arrears (interest and principal, to be shown separately).

F. Reporting Requirements for Program Monitoring

29. The information on implementation and/or execution of the structural benchmarks under the program (as specified in Table 3 of the Supplement) will be reported to the IMF's African Department within two weeks of the planned date of implementation. The status of the implementation of other structural measures included in the program will be transmitted within 30 days of the end of each month.

30. The authorities will report the information summarized in Table 1 below to the IMF's African Department by the deadlines set in this table. Barring any indication to the contrary, the data will take the form as discussed between the authorities and the IMF. The authorities will supply the Fund with any additional information that its staff may request for program monitoring purposes.

Table 1. Guinea: Data Reporting Requirements for Program Monitoring

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
	Interest rates and stock of government and central bank securities (BDT and TRM)	Monthly	30 th of the month for the previous month
	Prudential indicators for commercial banks	Quarterly	One month after the end of the quarter
	Foreign exchange budget	Monthly	30 th of the month for the previous month
Fiscal data	Status report, including a detailed statement of revenue, expenditure, and cash-flow operations	Monthly	30 th of the month for the previous month
	Monthly report of the high-level technical committee on revenue monitoring	Monthly	15 th of the month for the previous month
	General Treasury balances	Monthly	30 th of the month for the previous month
	Cash-flow plan	Monthly	30 th of the month for the previous month
	Government fiscal reporting table (TOFE)	Monthly	30 th of the month for the previous month
	Use of exceptional mining revenues	Quarterly	30 th of the month after the end of the quarter
	Execution of budgetary expenditures from HIPC resources and other priority expenditures	Monthly	30 th of the month for the previous month
	Balance of current expenditures, VAT credits to be refunded, and domestic debt arrears	Monthly	30 th of the month for the previous month
	Nonbank financing, indicating operations in Guinean francs and those in foreign currencies	Monthly	30 th of the month for the previous month

Table 1. Guinea: Data Reporting Requirements for Program Monitoring (concluded)			
Category of Data	Table/Report	Frequency	Deadline
Real sector data and prices	Consumer price index, Conakry	Monthly	30 th of the month for the previous month
	National accounts	Annually	Summary estimates three months after the end of the year
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 balance of payments estimates	Annually	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
	End-of-month outstanding debt and stock of daily debt service outstanding (after relief) and unpaid, stock of daily arrears according to the program definition	Monthly	30 th of the month for the previous month
	Drawings on new loans	Monthly	30 th of the month for the previous month
External grants and loans	Disbursements	Quarterly	30 th of the last month of the quarter for the previous quarter
	Monthly transfers of debt relief amounts under the HIPC Initiative, by creditor	Monthly	30 th of the month for the previous month