

International Monetary Fund

[Guinea-Bissau](#) and
the IMF

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

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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.

Letter of Intent

Bissau, Guinea-Bissau
June 20, 2015

Ms Christine Lagarde,
Managing Director,
International Monetary Fund,
Washington, D.C. 20431
USA

Dear Managing Director,

1. After holding transparent and fair elections—with the help of the international community—we took office in mid-2014 and found the country in a critical situation. Our institutions, already weak before the military *coup*, had deteriorated even further. Arrears on salaries and foreign debt accumulated, shortage of electricity became chronic, and the State's capacity to provide public goods became virtually non-existent. Notwithstanding these seemingly insurmountable challenges, our commitment and determination to break with the past of chronic political instability has been resolute and we have started to place our country on the path of sustainable and inclusive growth.

2. After almost one year in office, we are encouraged by the initial positive results and are as resolutely committed to embark on the next phase of reforms. The emergency measures adopted helped the government to regain control over the economy, bringing renewed hope and a smile back to the faces of the people of Guinea-Bissau. The results of policies adopted with support from the Rapid Credit Facility disbursement were satisfactory. We now request from the IMF an Enhanced Credit Facility (ECF) arrangement in support of our program of economic and financial reforms. We are confident that this is a critical point in the history of our country: a break with a past of chronic political instability and despair, and a move towards sustained and inclusive development. Our ultimate objective is to move the country onto a virtuous cycle of progress by 2025. There is broad-based consensus, therefore, to maintain macroeconomic stability, implement needed reforms to promote better governance to support public sector efficiency and enhance private sector development and job creation.

3. The attached Memorandum of Economic and Financial Policies (MEFP) lays out the policies the government plans to adopt over the next three years. The government of Guinea-Bissau is convinced that the policies and measures contained in this MEFP will constitute the solid foundation the country needs to solve difficulties in its balance of payments and to face the challenges related to growth and poverty reduction. In support of our economic program, the Government of Guinea-Bissau requests a 36-month arrangement under Extended Credit Facility of the International Monetary Fund in an amount equivalent to SDR 17.04 million, or 120 percent of Guinea-Bissau's quota. The ECF arrangement will provide needed financing during the program period and signal our determination to implement sound policies, catalyze additional financing and technical

assistance from our development partners, and boosts investor and business confidence. Progress in implementation of our program will be assessed through semi-annual reviews, quantitative performance criteria, indicative targets, and agreed structural benchmarks as described in the attached memorandum.

4. We believe that the policies set forth in the attached MEFP are adequate to meet the objectives of the program, but we stand ready to undertake any further measures as may become appropriate as circumstances change. The government will consult the IMF staff, on its own initiative or at your request, before adopting any such measures, and in advance of any revisions to the policies contained in the MEFP. The government agrees to fully cooperate with the IMF to achieve policy aims and avoid introducing policies or measures that might increase the balance of payment difficulties faced by Guinea-Bissau. We will also provide timely information necessary for monitoring economic developments and the implementation of policies defined in the program, as agreed under the attached Technical Memorandum of Understanding (TMU), or upon request.

5. The government of Guinea-Bissau agrees to the publication of this Letter of Intent, together with the attached MEFP and the TMU, as well as of the Article IV Staff Report related to the disbursement request under the ECF and the Debt Sustainability Analysis.

Yours sincerely,

/ s /

Geraldo Martins
Minister of Economy and Finance
Guinea-Bissau

Attached: - Memorandum of Economic and Financial Policies
- Technical Memorandum of Understanding

Memorandum on Economic and Financial Policies

June 20, 2015

Context

1. Following two very difficult, troubled years in the economic, social and political spheres after the *coup d'état* of April 2012, Guinea-Bissau returned to a period of hope and self-assertion. The new government immediately took measures to normalize its operations and discussed with its stakeholders a strategy to put the country back on a path of sustainable and inclusive growth. The government benefited from a disbursement under the Rapid Credit Facility (RCF) from the International Monetary Fund (IMF) which contributed towards catalyzing urgently needed resources from international partners. Performance relative to the policies supported by the RCF exceeded expectations in several areas, particularly with regard to mobilising domestic revenue.

2. The government's reform and development plans are ambitious and the challenges are enormous but so are the commitment and the will of the government to place the country on the path of sustainable and inclusive growth, social equity, transparency and effective institutions. After 18 actual, attempted or alleged military *coups* since independence, the new government that took office in July 2014 aims to subject the military to public finance management procedures applied in other sectors of the government. The initiated security sector reform also demonstrates that the government wishes to break with a past of instability and poor governance. The government's vision of the future that received an encouraging endorsement by the donor community at the Brussels roundtable in March 2015 has the following three main pillars (i) significantly increasing investment in infrastructures, (ii) encouraging industrialisation and (iii) improving urban development.

A. Recent Economic Developments and Performance under RCF-Supported Policies

3. Economic activity recovered in 2014, and prices remained stable. After the economy contracted 1.8 percent in 2012 and virtually stagnated in 2013, economic activity remained weak during the first half of 2014, when it was negatively impacted by delays in civil servants' salary payments, constant cuts in the water and power supplies and high macroeconomic uncertainty. Timely measures taken by the new government, higher cashew prices, and an uptick in construction and telecommunications helped drive the economy during the second half of the year. Clearance of four months of salary arrears and income from higher cashew proceeds increased domestic demand resulted in an estimated 2.5 percent growth in 2014. This rather modest recovery of economic activity and a weak credit market contributed towards keeping inflation stable (-0.1 percent) in 2014.

4. The return to normal institutional activity and strong government commitment to reform led to a return of donor support. Peaceful elections were successfully held, and an inclusive government, strongly committed to adopting the reforms the country need was formed. This made it possible to rapidly benefit from an RCF disbursement from the IMF, restore the

financial compensation agreement for fisheries with the EU and receive budget support from international partners, thus alleviating the tight fiscal situation.

5. Initial results of the measures adopted by the new government with the support of the RCF disbursement exceeded expectations. First measures to limit the use of fuel subsidies, improve compliance by large taxpayers, and step up custom controls to reduce fraud and under-invoicing resulted in a considerable increase in tax revenue. Tax revenue (*DGCI*) increased by 45 percent in the last quarter of 2014 year-on-year, while customs revenue (*DGA*) leaped by 145 percent over the same period, implying growth rates of 10 and 39 percent, respectively, and increasing tax pressure by 3.9 percentage points to 12.0 percent of GDP in 2014. Non-tax revenue almost tripled due to the resumption of fishing compensation payments and the transfer of funds collected by FUNPI to the budget. The government re-instated electricity supply by contracting a private company to install thermal generators that added 10MW to the Bissau grid. The government also laid off more than 200 interns who had been hired to the tax authority without following appropriate procedures and without the necessary qualifications.

6. Increased revenue and the re-establishing of international financial flows allowed the government to start settling a number of arrears. The long transition period caused considerable loss of fiscal control, resulting in arrears amounting to CFA 17,857 billion. Improvement in the fiscal situation—including the issuance of T-Bills amounting to CFA 15 billion—helped the government to start clearing arrears. Currently almost all salary arrears from 2013 and 2014 and all external arrears have been cleared.¹ In addition, the government is paying and renegotiating debts to state owned enterprises.²

7. Apart from expected higher international cashew prices in 2015, the economy will also benefit from the government's decision to suspend the FUNPI collections this year. Recent evidence suggests a negative effect of the FUNPI levy on poverty. The lack of a positive impact of the FUNPI receipts on the sector prompted the government to call for a full audit to be concluded by July 2014 of the FUNPI and its beneficiaries. Together with the higher cashew prices, the suspension of the FUNPI levy will increase income of cashew producers. This will significantly reduce poverty, as 100,000 cashew producers support an estimated 800,000 people 70 percent of which live below the poverty line. The suspension of FUNPI will likely reduce the amount of cashew nuts smuggled into neighbouring countries,

¹ There remains a small amount of arrears related to teachers' bonuses carried over from 2013 as well as payments of arrears to embassies.

² The government rescheduled a debt with Ecobank in the amount of CFA 6 billion from 2013, contracted by Guinea-Bissau Electricity and Water Company (EAGB), to be fully repaid by 2017. At the same time, *Petromar*—the fuel importing company—has been paying off a debt of approximately CFA 2 billion contracted by the military, through withholding tax due to the government. This debt is expected to be cleared in 2015. The European Investment Bank is demanding payment of an old debt of 2 million euros from *Guiné Telecom* from when it was still a 100 percent state owned company which the government intends to repay with the receipts from the planned privatization of the company.

8. The current account deficit narrowed to an estimated 1.2 percent of GDP in 2014 and is expected to remain stable in 2015. The 2014 improvement in the current account balance reflected the recovery of international cashew prices, a modest increase in cashew volume exported, and a large inflow of budgetary assistance of CFA 23 billion. Both cashew nut prices and export volumes are expected to increase in 2015. Improved terms of trade from low oil prices and higher cashew prices would cause the current account balance to remain relatively steady in 2015, despite high import demand driven by stronger GDP growth and import-intensive capital investments.

9. The banking sector is strengthening with the enforcement of non-performing loan (NPL) provisioning and capital injections. In line with IMF advice and international best practice, banks affected by the 2012 and 2013 decline in cashew nut prices have started provisioning for NPLs in line with regional regulation, seize collateral, and one bank decided on a phased increase of its capital subscription over the next two years as agreed with the regional banking commission. Seizing and liquidating collateral should significantly improve lending conditions as it demonstrates the banks' ability to enforce contracts. The total banking system's NPLs stood at 29.2 percent of gross loans at the end of December 2014. To remedy weak contract enforcement the Government is now also promoting leasing as a less risky credit instruments. To this end, a contract was signed end-April with the International Finance Corporation (IFC). As part of its commitments, the IFC will assist the government in the adoption of a legislation and institutional framework for leasing operations as well as in the building of capacity of technical partners to promote access to finance for SMEs and smaller businesses. It will also provide advisory services to stakeholders.

B. Policies for 2015 and the Medium Term

Overall strategy

10. The government's fiscal policy aims at increasing revenues to help finance key public services and narrow the infrastructure gap to reduce poverty and support sustained and inclusive growth. The government envisages implementing the 2015 budget as approved by Parliament in December 2014. If revenues exceed budgeted resources, the government intends to allocate the additional resources to non-salary priority spending, including in the social sectors and to the procurement of equipment for strengthening tax and customs administration. The Government also intends to submit to Parliament in 2015 the 2016 budget with a spending envelope that reflects available resources without recourse to the banking sector.

11. To properly monitor key macroeconomic variables, including performance indicators under the ECF, coordinate technical assistance and monitor progress in implementation of reforms, the government will staff its reform unit and provide it with the necessary means. This reform unit periodically reports to the Minister of Finance progress in achieving agreed performance indicators and development objectives. It will also keep updated lists of all its partners, prioritize technical assistance and agree with partners on the division of labor in technical assistance. Finally, it will ensure the information sharing, including TA reports, with partners involved in the same area in order to avoid conflicting and overlapping advice.

12. Following successful implementation of the emergency program, the government received pledges of US\$1.5 billion from international partners at the recent round table to finance its medium-term development strategy (2015–25). The three main objectives of the strategy are to substantially increase investment in infrastructure, encourage industrialization and promote urban development. This would help to diversify the economy in the four key sectors—agriculture and agro-industry, fishery, tourism and mining.

13. The Government Development Program (2014–18) includes several measures to build sufficient energy supply to break from a chronic shortage of power. Around 28MW of energy shall be added to the national grid from the Kaléta and Sambangalou international hydro-electric power stations that Guinea-Bissau shares with Senegal, Guinea-Conakry and The Gambia through the OMVG energy project, with the first power station to be completed this year and the second one, once started, to be completed within 40 months. Further investments would cover instalments of low and medium voltage power lines, including building a 30km transmission network around Bissau as well as installing 219km of high voltage power lines, as part of the 1,760km of the OMVG project.

14. The poor state and limited size of the country’s road network constrains private sector development and therefore requires massive investments. The government’s investment strategy includes the re-construction of the Farim bridge and rehabilitation of the Buba-Catio road at an estimated cost of 276 billion FCFA by 2018.

Measures to Improve Fiscal Management

15. The government commits to clear all outstanding domestic arrears and to avoid accumulating new domestic or external arrears. It will pay the remaining stock of almost CFA 0.5 billion for teachers’ bonuses and CFA 2.4 billion to embassies by the end of 2015. Furthermore, the government intends to clear any remaining domestic arrears³ using the following strategy: (i) determine the true amount of any outstanding arrears through further auditing and verifications by mid-2016,⁴ (ii) verify full tax compliance of all creditors by mid-2016 (with US-financed technical assistance), (iii) determine net government arrears after correcting for any tax obligations, and (iv) establish a repayment schedule for these arrears over a time period of five to seven years, included in the respective state budgets. The government intends to start clearance of these arrears in 2016 with an amount of CFA 3 billion and issue treasury bonds with maturities ranging from one to six years to cover the remaining balance.

³ There are three types of domestic arrears (i) accumulated between 1974 and 1999 which have been audited, partially recognized and settled, (ii) accumulated between 2000 and 2007 which have been audited but for some of which validity remains doubtful, and (iii) accumulated between 2008 and 2012, including government backed guarantees, which have not been audited, yet.

⁴ In this process, the government also intends to assess the level of outstanding membership fees to international institutions and define a strategy regarding membership cancellation, rescheduling and/or settling of obligation.

16. The government remains committed to reach rescheduling or debt relief agreements with Paris Club and non-Paris Club creditors. This includes efforts to formalize agreements with Brazil, Russia, and Angola and to initiate negotiations with the UAE, Libya, Pakistan and Taiwan, Province of China, and the International Fund for Agriculture Development (IFAD). The government is making best efforts to conclude rescheduling agreements with our official bilateral creditors (Paris Club and non-Paris Club) to whom it has arrears, and has a credible plan and projected financing in place to eliminate the arrears with the International Fund for Agricultural Development (IFAD), a multilateral creditor. The government is also making good faith efforts to reach a collaborative agreement with the Franco-Portuguese bank, a private creditor with whom it is in arrears.

17. The government will overhaul its currently weak debt management. The immediate priority (by July 2015) consists of re-installing and operationalizing the debt management IT system (DMFAS) and updating its debt database with any current and future debt obligations. The government further intends to elevate the current debt unit to the level of a directorate with more capacities and autonomy. It will seek long-term technical assistance from international partners to improve its capacity for debt recording, monitoring and overall debt management. In addition, in December 2015, it will start publishing quarterly reports on external debt commitments, agreements and disbursement with a lag of three months.

18. The government will carefully plan new investments and contract future debt only on highly concessional terms. To ensure that the risk of debt stress remains manageable, the government will carefully rank investments based on cost-benefit analysis, including social considerations, and its impact on macroeconomic stability. To avoid high interest payments in a situation of scarce government resources and weak debt management capacity, the government is also committed not to rely on non-concessional loans. In December 2014, the Government started quarterly meetings with all Project Implementation Units (PIUs) to take stock of the rate of project implementation and discuss challenges ahead. To further enhance coordination, the government will prepare, starting in December 2015 for September 2015, quarterly reports on PIP execution. In the medium term, the government will design a three-year PIP, fully integrated with the medium-term expenditure framework. For highly profitable projects where resources can be ring-fenced, the government could, after consultation and agreement with IMF staff, consider non-concessional borrowing.

19. To improve treasury management, transparency and budgetary controls, the government plans to take steps towards the creation of a Treasury Single Account (TSA). The government intends to merge the bank accounts of line ministries and other public bodies into a Treasury Single Account. To this end, by March 2016, the government will make an inventory of all revenue sources and government accounts and require beneficiaries to collect revenues exclusively through the banking system and to periodically report all their revenues to the Treasury. In a second step, the Ministry of Finance will consider releasing budgetary resources only to beneficiaries who comply with their reporting requirement.

20. The treasury committee will be strengthened and inter-ministerial communication will be improved. At the end of 2014, the government reintroduced the operational treasury committee

and, this year, the high-level treasury committee, with strategic and monitoring functions. Both are essential for sound public financial management and should become an integral part of the budget implementation process, especially under tight budgetary conditions. The technical treasury committee will meet weekly to compile due payments, including scheduled debt payment, verify their budgetary justification, assess recent revenue outcomes against targets and plan payments in line with available resources. The Minister of Finance amended the terms of reference of the treasury committee to henceforth also include the head of the debt unit. The treasury committee will prepare, no later than by July 2015, a monthly rolling treasury cash flow projection table consistent with the 2015 budget. International partners have already committed technical assistance to support these efforts. The treasury committee secretariat prepares a set of supporting tables that help structure the functioning of the committee. Information on external debt service will be shared across all departments involved in the budgetary process on a timely and continued basis.

21. The government is committed to minimizing the use of irregular and improperly documented expenditure (DNTs) to emergency cases. The government will issue a cabinet decree, laying out which types of expenditure may justify irregular expenditure. To minimize *DNTs* the government has issued an order to reduce the number of stages in the expenditure process. Also, ministers are no longer authorized to make expenditure commitments, unless previously approved by the treasury committee.

22. To reduce the number of ghost workers and to better manage the wage bill, the Government plans to consolidate the financial module of the payroll system—under the Ministry of Economy and Finance—with the administrative module, under the Ministry of Public Administration. Currently, all civil servants are on the financial model of the payroll (*folha única*), which includes not only salaries but also all allowances. However, the link between the payment of salaries and the human resource management is still deficient. Furthermore, payments of salaries through the banking system will now be extended to all civil servants, including for salaries below CFA 50,000 and all military personnel by September 2015.

Revenue measures

23. The government will continue to implement, enlarge and deepen reforms introduced to improve tax collection. The tax authority would: (i) increase controls and inspections of large and medium size companies; (ii) increase tax audits and controls and encourage the payment of taxes by non-compliant taxpayers, including for the port, APGB and airport authority; (iii) increase core functions in tax administration (register, tax returns, payments, taxpayer services, dispute resolution); and (iv) broaden the taxpayer base. Important structural reforms of *DGCI* and *DGA* include:

- **Setting up a professional auditing career structure**, and with the help of technical assistance complete by July 2015 the hiring of 100 competent tax officials through a competitive hiring process
- **Develop with the help of technical assistance and adopt by end of 2015 a detailed strategy for improving infrastructure and working conditions of officials of the**

domestic tax and customs administrations. This strategy should include an investment plan with cost estimates. In addition to the recently constructed building adjacent to the current headquarters of the DGCI, which it will refurbish and equip with appropriate office supplies and computers by July 2015, it will also be necessary to construct or rehabilitate buildings of the regional and local tax offices and to provide staff with vehicles to carry their on-sight controls.

- **Streamline the tax system to ease payment of taxes, reduce distortions and improve tax collection.** To this end, the Government intends to
 - (i) Set up a committee to propose changes to the tax code and organize a tax conference by the year-end to discuss options for reforms with stakeholders,
 - (ii) Implement a number of initiatives to facilitate tax payments, such as the recently created one-stop office for cashew export, which includes the Ministry of Commerce, customs and tax officials, and where exporters can register exports and declare and pay taxes.
 - (iii) With the help of technical assistance, streamline tax declarations and tax payment procedures.
 - (iv) Carry out a far-reaching survey to identify and quantify all non-tax and tax levies, and charges not collected by the treasury. Public accountants will be appointed to check and advise on non-tax revenues of each ministry.
- **Implement an intra-trade post in SAFIM to reconcile invoice merchandise volumes with actual contents of the cargo** (structural benchmark). Anti-fraud and under-invoicing controls will be stepped up, reconciling quantities declared with those actually leaving customs. Government will increasingly use scanners. These measures would facilitate reconciling trade (export and import) volumes with taxes paid and increase the collaboration between *DGCI* and customs *DGA* authorities. In the medium term, the government will also introduce a one-stop window for import clearance.
- **To improve voluntary compliance and raise tax revenue, implement a universal tax payer identification number (TIN) as part of a new small taxpayer regime by December 2015** (structural benchmark).
- **Electronically connect the tax authority headquarters with its regional and local tax offices using the new IT system SIGF.**
- **Over the medium term, the government will extend the customs IT system SYDONIA++ to remaining border posts.**
- **To improve and strengthen the monitoring system of payments of customs duties, the Ministry of Finance will assess the efficiency of SGS, Bissau-Link and other companies that provide services to customs.**

24. The government plans to continue to restrict tax exemptions and fine-tune subsidies.

To avoid unjustified tax exemptions and their abuse, the government will

- (i) Identify and quantify the value of subsidies and tax exemptions, assess their impact on the poor, and transparently account for them in the budget,
- (ii) Produce, with the help of technical assistance, by June 2016, a comprehensive study/analysis of the current mechanism of fuel pricing and subsidies and design an automatic fuel price mechanism to ensure international price pass-through and reduce the burden of the budget.

Other Measures

25. In the context of the security sector reform, the government intends to retire the first group of 500 soldiers by the end of 2015, and the design of the wider social security sector reform is ongoing. To this end, the government issued a decree creating a special pension fund with an estimated cost of US\$82 million over the next five years, the time period within which a total of 2500 military personnel will be gradually retired. For this fund, the government has received commitments from ECOWAS amounting to US\$46 million, US\$1 million from Timor-Leste, and US\$1.2 from the UN peace building fund and is following up on other pledges received at the Brussels round table. To contribute to its financial viability, the government will start transferring budgetary resources into the fund amounting to the salary equivalent of retired personnel. In addition, with the help of IMF technical assistance, the government will conduct an actuarial study of the special pension fund as well as the pension fund for civil servants (under which soldiers not qualifying for the special pension fund will fall) with a view to designing a sustainable social security system. The government will also continue discussions with partners on the implementation of the wider security sector reform for which ECOWAS committed an additional US\$17 million and for which discussions on the content and support with other partners are ongoing.

26. The government wants to restructure the electricity and water company (EAGB) into a profitable, financially healthy enterprise, and privatize Guiné Telecom. The government will make EAGB an operationally viable company capable of self-financing its maintenance and investment. Transfers from the government to EAGB in 2015 are very costly to the state budget. To safeguard the state budget, while keeping social tariffs for the most vulnerable the government intends to align the company's tariff structures—last adjusted in 1997—to allow for maintenance cost and amortization, and improve operational efficiency. In line with a study conducted by the World Bank, the government intends to increase tariffs by December 2015 for regular customers to achieve at least cost recovery, while increasing social tariffs by 5 percent. The government will also prepare an audit plan by March 2016 for all SOEs and autonomous funds (structural benchmark). The government also intends to privatize Guiné Telecom by end-2016.

27. With a view to improving cashew nut production and trade, the government will complete an international and comprehensive audit of the Fund for Industrialization of Agricultural Products (FUNPI). This audit will be completed by end September 2015 and include all its beneficiaries. The government will publish the results of the audit. These results will serve as the basis for a new strategy, to be designed by June 2016, to promote cashew nut production and

transformation. The government considers eliminating the FUNPI. At minimum, the FUNPI will remain inactive in the meantime.

28. The government will improve compilation of statistics. The government will improve the coordination among various institutions and ensure that adequate resources are allocated for the production of statistical data, including staffing, equipment, and training. For the national accounts, the government will start to hold regular meetings between BCEAO, ANCA, Customs, the Ministry of Trade and INE to reconcile official statistics. Furthermore, the government will reach out to partners to support a cashew nut production inventory, following which it will conduct annual cashew production surveys to estimate the contribution of the sector to economic growth. The government will decide which institution will take the lead responsibility in compiling raw data for cashew production. Finally, to strengthen the medium-term expenditure framework and enhance efficiency of public investments, the government will migrate to the new TOFE based on GFSM2001 and the TOFE 2009 directive.

29. To mitigate risks of organized crime and corruption, the government will continue to improve its AML/CFT framework. To this end, (i) a national strategy on AML/CFT, consistent with the FATF (Financial Action Taskforce on Money Laundering) standards and drafted with technical assistance by GIABA, will be submitted to parliament by the end of the year; (ii) high ranking government officials will be obliged to disclose their assets to the Secretary General of the Presidency of the Council of Ministers by September 2015; (iii) the financial intelligence unit (CENTIF-GB) will continue awareness raising activities to commercial banks and the general public on the importance of and compliance with AML/CFT measures; and (iv) CENTIF will conduct training of border posts personnel to implement the new border declaration forms by June 2015.

Program Monitoring

30. The government intends to take all the necessary measures agreed in the context of the ECF-supported program. The program will be subject to semiannual reviews and semiannual performance criteria, indicative targets and structural benchmarks, as set out in Tables 1 and 2 of this Memorandum and in the attached Technical Memorandum of Understanding (TMU). In the first year of the ECF-arrangement two semiannual reviews are scheduled, the first will be based on PCs at end-June 2015 and completed on or after October 15, 2015, and the second review will be based on PCs at end-December 2015 and completed on or after April 15, 2016. To facilitate program monitoring, we are committed to providing detailed statistical information as specified in the TMU, which also defines the scope and frequency of data to be reported for program monitoring purposes.

Table 1. Guinea-Bissau: Quantitative Performance Criteria and Indicative Targets for 2015–16

(Cumulative from beginning of calendar year to end of month indicated; CFA billions, unless otherwise indicated)

	Dec. 2014	2015			2016			
	Stock	June	Sept. 1/	Dec.	Mar. 1/	Jun.	Sept. 1/	Dec.
		Proposed		Proposed	Proj.	Proj.	Proj.	Proj.
Performance criteria 1/								
Total domestic tax revenue (floor)	44.2	26.2	40.7	53.3	15.7	31.5	47.2	62.9
Net domestic bank credit to the central government (ceiling)	2.7	8.2	7.9	4.4	0.0	0.0	0.0	-1.6
Ceiling on new nonconcessional external debt (in \$ million) 2/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Outstanding stock of external debt owed or guaranteed by the central government with maturities of less than one year (ceiling) 2/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External payment arrears (ceiling) 2/	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Indicative targets								
New domestic arrears (ceiling)	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Social and priority spending (floor)	21.3	12.9	19.4	25.8	7.7	21.7	23.2	31.0
Domestic primary balance (commitment basis, floor)	-19.4	-2.6	-6.0	-6.5	-0.7	-1.3	-2.0	-2.6
Non regularized expenditures (DNTs, ceiling)	...	0.41	0.62	0.83	0.21	0.43	0.64	0.86
<i>Memorandum items:</i>								
Clearance of domestic payment arrears	...	4.30	5.95	8.10	0.75	1.50	2.25	3.00
External budgetary assistance (US\$ million) 3/	24.0	7.6	15.8	23.6	5.9	9.2	13.8	23.8
ECF disbursements (SDR millions, flow) 4/	10.79	0.0	2.84	2.84	0.0	2.27	0.0	2.27

1/ The performance criteria and indicative targets are defined in the Technical Memorandum of Understanding (TMU); end-September 2015 and end-March 2016 are indicative targets.

2/ These apply on a continuous basis.

3/ Comprises grants and loans.

4/ A disbursement of 20 percent of quota (SDR 2.84 million) is proposed on Board approval of the ECF arrangement in July.

Table 2. Guinea-Bissau: Proposed Structural Benchmarks Under the ECF Program, 2015–16

Measures	Timing	Macro Rationale
Revenue Mobilization		
<ul style="list-style-type: none"> Implement an intra-trade post in SAFIM to reconcile invoice merchandise data with actual contents of the cargo. 	Sept. 2015	Strengthen revenue collection.
<ul style="list-style-type: none"> Draw up a strategic plan for improving infrastructure and working conditions of officials of the domestic tax and customs administration. 	Dec. 2015	Strengthen revenue collection.
<ul style="list-style-type: none"> Implement a new small taxpayer regime by the introduction of universal NIF (tax payer identification number) 	Dec. 2015	To improve voluntary compliance and raise tax revenue.
Expenditure management		
<ul style="list-style-type: none"> Prepare a monthly rolling Treasury cash flow projection table consistent with the 2015 budget. 	July 2015 for August 2015 and monthly thereafter	Enhance expenditure management.
<ul style="list-style-type: none"> Transition to the payment of the salaries, wages, and allowances of all public servants (including the security service) through the banking system. 	Sept. 2015	Reduce handling of cash by the Treasury and strengthen public financial management.
<ul style="list-style-type: none"> Prepare a quarterly report on PIP execution. 	Dec. 2015 for Sept. 2015 Report, quarterly thereafter	Enhance PIP execution and monitoring.
Debt management		
<ul style="list-style-type: none"> Reinstall and operationalize debt management IT system. 	July 2015	Enhance debt management capacity and borrowing policies.
<ul style="list-style-type: none"> Prepare a quarterly report on external debt commitments, agreements and disbursements. 	Dec. 2015 for Jun. 2015 Report, quarterly thereafter	Enhance debt management capacity and transparency in external debt commitments.
Business Environment		
<ul style="list-style-type: none"> Complete an international and comprehensive audit of the fund for industrialization of agricultural products (FUNPI) 	Sept. 2015	To improve cashew nuts production and trade.
<ul style="list-style-type: none"> Prepare an audit plan for all State-owned Enterprises and autonomous funds. 	Mar. 2016	To improve service delivery by and financial sustainability of public enterprises.
<ul style="list-style-type: none"> Design a strategy to promote cashew production and transformation based on results of the FUNPI audit. 	June 2016	Reduce transaction costs.

Technical Memorandum of Understanding

Bissau, Guinea-Bissau, June 24, 2015

INTRODUCTION

1. This memorandum sets out the understandings between the Bissau-Guinean authorities and the International Monetary Fund (IMF) regarding the definitions of the quantitative performance criteria (PCs) and structural benchmarks (SBs) for the program supported by the Extended Credit Facility (ECF) arrangement, as well as the related reporting requirements. Unless otherwise specified, all quantitative PCs and indicative targets will be evaluated in terms of cumulative flows from the beginning of the period, as specified in Table 1 of the Memorandum of Economic and Financial Policies (MEFP).
2. **Program exchange rates.**¹ For the purpose of the program, foreign currency denominated values for 2015 will be converted into local currency (CFA francs) using a program exchange rate of CFA 532.3/US\$ and cross rates as of end December 2014.

QUANTITATIVE PERFORMANCE CRITERIA

A. Floor on Total Domestic Tax Revenue

3. **Definition.** Tax revenue is defined to include direct and indirect taxes as presented in the central government financial operations table, as well as programmed recovery of tax arrears.
4. **Adjustment clauses.** The floor on the total domestic tax revenue will be adjusted downwards (upwards) by the amount of any shortfall (excess) in programmed recovery of tax arrears.

B. Net Domestic Bank Credit to the Central Government (NCG)

5. **Definition.** NCG refers to the net banking system's claims on the central Government as calculated by the Treasury Department. It is defined as follows:
 - a. the net position of the Government with the national BCEAO, including: treasury bills and bonds; less (a) central Government deposits (excluding project-related deposits) at the BCEAO.
 - b. the net position of the Government with commercial banks, including: (a) treasury bills; (b) treasury bearer bonds; and (c) loan and advances of commercial banks to the central Government; less central Government deposits (excluding project-related deposits) in commercial banks;

¹ The source of the cross exchange rates is International Financial Statistics.

6. **Adjustment clauses.** The ceiling on changes in NCG will be adjusted (a) upwards (downwards) by up to the CFA value of the shortfall (excess) in external program grants and loans, including IMF drawings—the upward adjustment will be capped at the equivalent of CFA 10 billion; and (b) downwards (upwards) by the excess (shortfall) in the CFA value of any programmed privatization receipts. In addition, central government deposits at the BCEAO and the commercial banks will be adjusted downwards by any clearance of domestic arrears in excess of program.

7. **Data source.** The data source for the above will be the Table “*Position Nette Du Tresor*”, submitted to the IMF staff monthly and adjusted by the stock of project-related deposits at the BCEAO and the commercial banks.

8. **Definition of Central Government.** Central government is defined for the purposes of this memorandum to comprise the central administration of the Republic of Guinea-Bissau and does not include any local administration, the central bank nor any other public or government-owned entity with autonomous legal personality not included in the government flow-of-funds table (TOFE).

C. New Non-Concessional External Debt Contracted or Guaranteed by the Central Government with an Original Maturity of One Year or More

9. **Definition.** Those are defined as all forms of new debt with original maturity of one year or more contracted or guaranteed by the central government. For this purpose, new non-concessional external debt will exclude normal trade credit for imports and debt denominated in CFA franc, but will include domestically held foreign exchange (non-CFA franc) debts. This PC applies not only to debt as defined in the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274 (00/85), August 24, 2000, Point 9, as revised on August 31, 2009, (Decision No. 14416–(09/91)) but also to commitments contracted or guaranteed for which value has not been received. Excluded from this PC are disbursements from the IMF and those debts subject to rescheduling or for which verbal agreement has been reached. This PC will apply on a continuous basis.

D. External Short-Term Debt Contracted or Guaranteed by Central Government

10. **Definition.** External short-term debt is defined as external debt stock with a maturity of less than one year contracted or guaranteed by central government. Debt is defined in Annex I of this TMU. For this purpose, short-term debt will exclude normal trade credit for imports and debt denominated in CFA franc, but will include domestically held foreign exchange (non-CFA franc) debts. For the purposes of this PC, central government is as defined in paragraph 8 above. This PC will apply on a continuous basis.

E. External Payment Arrears of the Central Government

11. **Definition.** External payment arrears of the central government are defined to include all debt-service obligations (interest and principal) arising from loans contracted or guaranteed by the government. The non-accumulation of external arrears is a continuous performance criterion during the program period. For the purposes of this performance criterion, external arrears are obligations that have not been paid on due dates (taking into account the contractual grace periods, if any). Excluded from this PC are those debts subject to rescheduling or restructuring (once a contractual agreement is signed or a verbal agreement reached), or are under litigation or negotiation. In addition, arrears on membership fees (which are to non-financial international organizations) are excluded. This PC will apply on a continuous basis.

QUANTITATIVE INDICATIVE TARGETS

A. New Domestic Arrears of Central Government

12. **Definition.** The ceiling on domestic arrears are defined as accounts payable (rest-a-payer) accumulated during the year, and still unpaid by one month after the quarter for wages and salaries (including pensions), and three months for goods, services and transfers, evaluated at the end of September 2015, and March 2015.

B. Social and Priority Poverty-Related Expenditures

13. **Definition.** Social and Priority Poverty-related expenditures are defined to include spending on health, education, and the gender ministry (Table 3).

C. Domestic Primary Balance (Commitment Basis)

14. **The domestic primary fiscal deficit on a commitment basis** is calculated as the difference between government revenue and domestic primary expenditure on commitment basis. Government revenue includes all tax and nontax receipts and excludes external grants. Domestic primary expenditure consists of current expenditure plus domestically financed capital expenditure, excluding all interest payments. Government commitments include all expenditure for which commitment vouchers have been approved by the Ministry of Finance; automatic expenditure (such as wages and salaries, pensions, utilities, and other expenditure for which payment is centralized); and expenditure by means of offsetting operations.

D. Non-Regularized Expenditure (DNTs)

15. **Definition.** Any treasury outlay not properly accounted for by the National Budget Directorate and/or not included in the budget.

PROGRAM MONITORING

16. In the first year of the ECF arrangement two semiannual reviews are scheduled, the first will be based on PCs at end-June 2015 and completed on or after October 15, 2015, and the second review will be based on PCs at end-December 2015 and completed on or after April 15, 2016. The Bissau-Guinean authorities shall recommend policy responses, inform the IMF monthly about the progress of the program, and transmit supporting information necessary for the evaluation of QPCs and benchmarks in electronic format as indicated in the attached summary table to IMF staff (Table 1). The government will report any new external borrowing and its terms to Fund staff as soon as external debt is contracted or guaranteed by the government, but no later than within two weeks of such external debt being contracted or guaranteed.

17. **To properly monitor key macroeconomic variables, including performance indicators under the ECF, coordinate technical assistance and monitor progress in implementation of reforms, the government will staff its reform unit and provide it with the necessary means.** This reform unit periodically reports to the Minister of Finance progress in achieving agreed performance indicators and development objectives. It will also keep updated lists of all its partners, prioritize technical assistance and agree with partners on the division of labor in technical assistance. Finally, it will ensure the information sharing, including TA reports, with partners involved in the same area in order to avoid conflicting and overlapping advice.

Annex I. Implementation of the Revised Executive Board— Decision on Performance Criteria with Respect to Foreign Debt

The term “debt” has the meaning set forth in Executive Board Decision, No. 6230-(79/140), Point 9, as amended, and which reads as follows: “(a) For the purpose of this guideline, the term “debt” will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows: (i) loans, i.e., advances of money to obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers’ credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers’ credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property. (b) Under the definition of debt set out above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt”. (c) Excluded from this performance criterion are normal import-related credits, disbursements from the IMF, and those debts subject to rescheduling arrangements.”

Table 1. Guinea-Bissau: Summary of Reporting Requirements

Information	Frequency	Reporting Deadline	Responsible
Fiscal Sector			
Central Government budget and outrun	Monthly	30 days after the end of the month	Budget Directorate
Grants	Monthly	30 days after the end of the month	Budget Directorate
Budgetary grants	Monthly	30 days after the end of the month	Budget Directorate
Project grants	Monthly	30 days after the end of the month	Budget Directorate
Change in the stock of domestic arrears	Monthly	30 days after the end of the month	Budget Directorate
Unpaid claims	Monthly	30 days after the end of the month	Budget Directorate
Interest arrears	Monthly	30 days after the end of the month	Budget Directorate
Proceeds from bonds issued in the regional WAEMU market	Monthly	30 days after the end of the month	Budget Directorate
Real and External Sector			
Updates on annual National Accounts by sector	Annually	Within 6 weeks of availability	CSO/MOEF ¹
Balance of Payments data	Annually	Within 6 weeks of availability	CSO/MOEF
Details of exports breakdown	Quarterly	30 days after the end of the quarter	CSO/MOEF
Details of imports breakdown	Quarterly	30 days after the end of the quarter	CSO/MOEF
CPI	Monthly	30 days after the end of the month	CSO/MOEF
Debt			
External and domestic debt and guaranteed debt by creditor	Monthly	30 days after the end of the month	DMU ²
Disbursements	Monthly	30 days after the end of the month	DMU
Amortization	Monthly	30 days after the end of the month	DMU
Interest payments	Monthly	30 days after the end of the month	DMU
Stock of external debt	Monthly	30 days after the end of the month	DMU
Stock of domestic debt	Monthly	30 days after the end of the month	DMU
Arrears on interest and principal	Monthly	30 days after the end of the month	DMU
Exceptional domestic financing	Monthly	30 days after the end of the month	DMU
Copies of any new loan agreements	As occurring		DMU
1/ Central Statistics Office / Ministry of Economy and Finance.			
2/ Debt Management Unit of the Ministry of Economy and Finance.			