International Monetary Fund

Guinea and the IMF

Guinea: Staff-Monitored Program: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

May 31, 2005

Country's Policy Intentions Documents

The following item is a Letter of Intent and a Memorandum of Economic and Financial Policies of the government of Guinea. The document, which is the property of Guinea, is being made available on the IMF website by agreement with the member as a service to users of the IMF website. This memorandum describes the policies that Guinea is implementing in the framework of a staff-monitored program. A member's staff-monitored program is an informal and flexible instrument for dialogue between the IMF staff and a member on its economic policies. A staffmonitored program is not supported by the use of the Fund's financial resources; nor is it subject to the endorsement of the Executive Board of the IMF.

Conakry, May 31, 2005

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
Washington, D.C. 20431
USA.

Dear Mr. de Rato,

1. Guinea's economic situation in 2004 was characterized by weak economic growth and a sharp increase in inflation. In an unfavorable environment marked by ongoing tensions in neighboring countries, recurring electricity and water outages, and interruptions of cement supplies, macroeconomic management proved to be inadequate and macroeconomic imbalances worsened.

2. Since the beginning of this year, the government has further consolidated its economic management. It has also taken the necessary steps to complete the actions agreed with the IMF for the initiation of negotiations on a staff-monitored program.

3. The government intends to implement a staff-monitored economic and financial program during the period April 2005 to March 2006. The satisfactory execution of this program is a prerequisite for negotiating a new IMF-supported program through a PRGF.

4. The attached memorandum (Annex I) outlines the economic developments in 2004 and early 2005, as well as the economic and financial policies that the government intends to implement in order to achieve the macroeconomic and structural objectives that it has set itself for 2005 and the first quarter of 2006. The government undertakes to provide Fund staff with all the information needed to monitor the implementation of the measures envisaged in the program. A technical memorandum of understanding, which sets out the performance benchmarks for the program and specifies the type of data to be reported to the IMF, is also attached (Annex II).

5. The Guinean government believes that the policies and measures set forth in the attached memorandum are adequate to achieve the objectives of its program. If necessary, it stands ready to take any further measures that may become appropriate for this purpose. During the program period, the government will consult with the Managing Director, at its own initiative or whenever the Managing Director so requests, regarding Guinea's economic and financial policies.

6. In any event, in order to evaluate the progress achieved in program implementation, the IMF, in conjunction with the government of Guinea, will conduct an initial staff assessment by end-August 2005 based on the benchmarks for end-June 2005 and will

perform a second staff assessment by end-November 2005 based on the benchmarks for end-September 2005. The government would wish to initiate the negotiations of a PRGF-supported program earlier than the allocated 12 months, if future staff assessments indicate that the program objectives have been reached more quickly than expected.

7. The Guinean government agrees to the publication of this letter, the government's memorandum on economic and financial policies for April 2005-March 2006, and the technical memorandum of understanding.

8. Please accept this letter with our highest regards.

Sincerely yours,

/s/	/s/
Mohamed Daffé Governor of the BCRG	Madikaba Camara Minister of Economy and Finance

Attachments:
- Memorandum on Economic and Financial Policies for the Period April 2005 - March 2006
- Technical memorandum of understanding

Memorandum on Economic and Financial Policies for the Period April 2005-March 2006

I. Introduction

1. Guinea's economic situation in 2004 was characterized by a weak growth rate, stagnating investment and savings, and a sharp increase in inflation. In this unfavorable environment, macroeconomic management proved to be inadequate and macroeconomic imbalances worsened.

2. Accordingly, early this year the government began to implement tighter monetary and fiscal measures intended to stabilize the economy and the structural measures necessary to accelerate growth, reduce poverty, and lay a solid basis for achievement of the Millennium Development Goals (MDGs). By end-March 2005, fiscal results reflected the progress made in macroeconomic management, the National Assembly had adopted a tight budget for 2005, the exchange rate regime had been liberalized, and renewed efforts had been made by the central bank to implement the recommendations of the safeguards assessment report.

3. The government remains convinced of the need to step up its efforts to improve fiscal performance, remedy the monetary situation, and pursue structural reforms with the aim of restoring confidence in its determination to conduct sound macroeconomic policies, lay the bases for sustained growth of the Guinean economy, and take effective action to reduce poverty.

II. Recent Economic Developments

4. **Macroeconomic imbalances remained substantial in 2004**. The real GDP growth rate was 2.7 percent, which was nonetheless an improvement over the rate of 1.2 percent in 2003. This weak growth reflects inadequate macroeconomic management, which aggravated an unfavorable environment marked by ongoing tensions in neighboring countries, recurring electricity and water outages, and interruptions of cement supplies. With rapid growth of the money supply, largely as a result of bank financing of the government deficit, inflation increased considerably to an average annual rate of 17.5 percent. The external current account deficit (excluding grants) remained around 4 percent of GDP. The overall external deficit was financed mainly by a considerable accumulation of external arrears.

5. **The deteriorating fiscal position could not be entirely corrected**. To address the situation, in March 2004 the government had adopted a package of measures that included strengthening tax administration at all levels and collection of tax arrears, better control over exemptions, reduction of public services to a minimum, the freezing of certain budget appropriations, and strict adherence to budget procedures for commitment of expenditures. Nonetheless, owing to the insufficient implementation of these measures, it was not possible to fully remedy the situation notably because of certain extra budgetary spending, and the government found it necessary to take further measures in the fourth quarter of 2004. It

established a commission for the collection of tax arrears, adopted a decree eliminating ad hoc exemptions, and adopted a supplementary budget law reducing budget allocations for nonpriority sectors. This package of measures enabled the government to curb the fiscal deterioration: revenues rose to the equivalent of 10.5 percent of GDP and primary current expenditure was held to 8.9 percent of GDP, about 2 percentage points of GDP less than in the previous year. The primary deficit was 0.5 percent of GDP, compared with a deficit of 2.5 percent in 2003, although this was below the targeted surplus of 1.6 percent of GDP included in the initial budget. The overall deficit (on a commitment basis, excluding grants) was 5.9 percent of GDP, versus the 2.6 percent expected in the initial budget. This deficit was covered primarily by bank financing and a considerable accumulation of external arrears.

6. **Monetary policy was strongly influenced by the financing of the fiscal deficit**. Financing of the fiscal deficit by central bank advances resulted in significant growth of base money and the money supply, despite the increased issuance of central bank sterilization bills (TRMs). By end-December 2004, the annual growth rate of broad money was 37 percent while the annual growth rate of base money was 33 percent. The net foreign assets of the central bank were negative, by approximately US$6 million at year’s end.

7. **During 2004, the government maintained its policy of fixing the Guinean franc/U.S. dollar official exchange rate, although at a more depreciated rate since mid-July**. After a series of depreciations totaling approximately 27.5 percent from mid-July through mid-September, the rate remained unchanged and the average spread between the official market rate and the parallel market rate was approximately 30 percent from mid-September through end-December. Furthermore, in view of the inability of the official exchange market (MED) to satisfy the needs of the private sector, the central bank officially notified market participants that they should resort to foreign exchange bureaus to cover their foreign exchange requirements.

8. **Progress on structural reforms was weak**. Measures were taken during 2004 to adjust certain administered prices based on price changes on the international markets. Thus, the official price of rice was raised more than 50 percent and fuel prices were raised considerably, 67 percent for gasoline and 70 percent for diesel, along with an increase in public transportation prices. These adjustments enabled the government to reduce distortions in the marketing of these products and to limit their cost to the budget. Guinea plans to adhere to the Extractive Industries Transparency Initiative and, in late April 2005, it organized a national workshop on the Initiative toward this end. The National Assembly adopted the new banking law in April 2005. However, there was little progress in restructuring public enterprises (particularly electricity and water).

9. **Guinea has had difficulties in covering its external debt service payments**. External arrears accumulated through end-December 2004 were equivalent to US$62.4 million. This total excludes certain deferred payments to Paris Club creditors. There have also been several delays in debt service payments to the IMF.

10. **Since early 2005, the government has resolutely tackled the macroeconomic imbalances and has taken the necessary steps to complete the agreed actions for the initiation of negotiations on a staff-monitored program.** Thus,

- A tight fiscal policy for 2005 was adopted as reflected in the 2005 budget approved by the National Assembly on March 24. During the first quarter, the government made limited expenditures, while implementing measures enabling it to achieve its revenue targets, particularly by eliminating ad hoc exemptions.

- On March 1, 2005, the central bank abolished the foreign exchange auction market and established a unified exchange market system in which the exchange rate is determined by supply and demand among market participants.

- In the area of safeguards measures, a central bank audit committee was put in place in early February. Bids to undertake an audit of the central bank's international reserves and a financial audit of the bank itself were launched in April 2005. The terms of reference for these bids benefited from the Fund's comments.

- The restructuring of public enterprises, particularly electricity, water, and telephone, is among the priorities of the government program. In this context, the government has reinitiated its dialogue with its development partners, including the World Bank.

11. **Macroeconomic performance has been relatively good in the first quarter of 2005**. Inflation has stabilized at an annual rate of around 27 percent. The tax revenue target set for end-March was achieved. The level of committed expenditures was moderate due to the use of monthly provisional appropriations (*douzièmes provisoires*) pending the National Assembly's approval of the 2005 budget. This has yielded a near fiscal balance (on a commitment basis, grants included). The overall fiscal deficit on a cash basis, resulting mainly from the payment of obligations made in 2004, has been close to projections. The financing of the deficit as well as an increase in net foreign assets of the banking system, primarily deriving from the monetization of gold and the impact of the depreciation of the exchange rate, have led to a renewed acceleration of monetary growth. In the absence of an active open market operations policy, the annual rate of growth of the money supply rose from 37 percent as of end-December 2004 to 44.2 percent as of end-March 2005. The government settled US$5.5 million in external arrears as of end-2004. However, because of the scarcity of foreign exchange, it was not able to service all its debt in the first quarter of 2005, accumulating a further US$13.8 million in arrears, which it intends to settle before year-end 2005.

III. ECONOMIC PROGRAM FOR 2005

12. **With the ultimate goal of setting up a three-year adjustment program supported by the Poverty Reduction and Growth Facility (PRGF), the government decided to implement a staff-monitored program for the period April 2005–March 2006**. The program's primary goal is to restore macroeconomic stability over the course of 2005, taking

into account the significant slippages observed in 2004. Real GDP growth is projected to be a modest 3 percent. In light of current international oil price levels, the government will take all appropriate measures to ensure Guinea's supply of petroleum products and full collection of the special tax on petroleum products consistent with the 2005 Budget Law. This policy's impact on prices will be offset by a monetary policy, targeted at reducing the inflation rate as measured by the consumer price index to slightly below 20 percent on a year-on-year basis. The external current account deficit, excluding official transfers, should be approximately 3 percent of GDP.

13. **The program also includes structural reforms intended to support the macroeconomic stabilization efforts**. These reforms, focusing primarily on tax administration, expenditure management, good governance, and revitalization of the privatization program, will enable the government to lay solid bases for subsequent measures intended to minimize the obstacles to sustained rapid growth and achievement of the Millennium Development Goals (MDGs).

A. Government Finance

14. **Fiscal consolidation is a key element of the staff-monitored program**. The primary objective is to increase the collection of domestic revenues by 1.7 percent of GDP and to cut government expenditures by 2.7 percent of GDP. This will make it possible to achieve a primary surplus of approximately 3 percent of GDP, 3.5 percentage points better than in 2004, to limit the overall deficit (commitment basis, excluding grants) to 1.7 percent of GDP, and to keep the use of bank financing in line with prudent monetary management.

15. **Mining revenues should reach the equivalent of 3.1 percent of GDP**, compared to 1.9 percent of GDP achieved in 2004. This increase is based on an expected increase in volumes extracted and prices of mining products, as well as on the strengthening of mining industry controls in strict compliance with the mining code and conventions.

16. **Nonmining revenue is expected to increase by about 0.4 percent of GDP**. This improvement is based on a broad range of measures summarized in Box 1. Specifically, it is a result of the application of the WAEMU common external tariff (CET) adopted during the first quarter of this year, as well as the implementation of measures recommended by IMF technical assistance missions to Guinea in 2004.

17. **The 2005 budget reflects the government's determination to strictly control nonpriority expenditure and to increase spending directly related to poverty reduction.** Primary current expenditure will be contained at 7.4 percent of GDP by controlling nonpriority spending, particularly transfers to the defense sector and expenditure involving missions abroad. Budget allocations for poverty reduction spending were set at 3.6 percent of GDP, up from the 3 percent achieved in 2004. The wage bill was fixed at 2.9 percent of GDP, down from 3.1 percent in 2004. The government also intends to settle external debt maturities due in 2005, and to reduce arrears. In order to do so, it is strengthening the

Box 1. Guinea: Key Measures for Improving Fiscal Performance in 2005

Customs administration

- Apply the new Guinean customs tariff based on the WAEMU's CET, including the new categorization of goods and the effective elimination of the lump-sum taxation system, consumption surtaxes, and the fiscal surtax, as well as the ad hoc exemptions granted to certain agents.
- Eliminate ad hoc exemptions and exemptions linked to certain unjustified benefits and institute a ban on new ad hoc exemptions; tighten conditions for the granting of legal exemptions by means of specific implementing decrees, particularly in order to: (a) exclude products that are too difficult to control, (b) limit the duration of certain benefits, (c) institute strict quotas.
- Step up the monitoring of exemption regimes by (a) an exhaustive survey of beneficiaries, (b) improvement of interactions with the pertinent agencies and departments, and (c) on-site inspections of the use of exempted goods.
- Apply the transaction value in clearing goods through customs pursuant to Article VII of the WTO Agreement on Customs Valuation.
- Implement the recommendations on strengthening customs administration, particularly with respect to the specific status of customs agents, the status of contractual agents, the customs administration's use of its operating budget, and the abandonment of informal appointments.

Tax administration

- Improve coverage of tax audits by giving preference to targeted audits. The goal for 2005 is to achieve 30 percent coverage for large enterprises and 25 percent for medium-sized enterprises
- Adopt a program of reminders and penalties for delinquent taxpayers to reduce VAT delinquencies to less than 10 percent
- Implement a centralized procedure for tracking outstanding amounts and establish an action plan for their settlement
- Update the taxpayer master file of the large enterprise unit (SGE)
- Have an independent firm audit fisheries sector revenues
- Implement an action plan to strengthen tax administration based on the recommendations made by the IMF technical assistance mission of May-June 2004.

department responsible for debt management. The government will also strictly apply budget and accounting rules and procedures, specifically rejecting the practice of issuing promissory notes and other exceptional spending practices. It is also pursuing and strengthening the decentralization of budget appropriations, primarily in the priority sectors. The specific measures it plans to implement in 2005 are summarized in Box 2.

18. **The government has initiated steps to stabilize the domestic debt situation**. It will carry out an inventory of VAT credits payable, primarily to mining companies, and will negotiate refund schedules with these companies, principally through the securitization of these claims. This should enable the mining companies to once again be subject to VAT

Box 2. Guinea: Key Government Expenditure Management Measures

- Integrate the defense sector into the medium-term expenditure framework, by setting budget ceilings and implementing a more rigorous and transparent review process.
- In order to control the wage bill, perform a physical inventory of civil servants at their posts, and then update the master files and personnel records, which are not managed by the Ministry of Finance and merge the civil service payroll and personnel master files.
- Require use of the computerized system for all expenditures and increase the capacity of the system by completing the interface with the Treasury.
- Establish a steering committee to supervise the operation of the computerized expenditure management system and prepare the terms of reference for an audit of the computer network.
- Amend Article 31 of the General Rules on Public Accounting in order to eliminate the possibility of extra budgetary expenditures.
- Continue efforts to extend the decentralization of budget appropriations to all priority sectors and all administrative regions and prefectures.
- Implement a system to track and forecast investment spending, and improve the public investment execution rate by adopting a law or regulation establishing the power of the various agencies involved in the process of preparing and executing public investments.
- Strengthen effective controls over services rendered and improve transparency in the management of public funds by ensuring compliance with government procurement procedures.
- Strengthen the capacity of government audit and control agencies to improve verification of government expenditures.

beginning in 2006. An inventory of cross debts between public enterprises and the government has also been undertaken and will be completed by end-July 2005. This will make it possible to adopt a plan for the settlement of such cross debts before year's end, which will constitute a benchmark under the program.

19. **The budget deficit financing structure promotes auctions of treasury bills over direct financing by the central bank**. Central bank advances in 2005 will in no case exceed GNF 60 billion, against GNF 197.4 billion in 2004, and total bank financing will not exceed GNF 180 billion. In the first quarter of 2006, bank financing will not exceed GNF 50.3 billion, of which GNF 6.9 billion will be from the central bank and GNF 43.4 billion will be from commercial banks. The program also calls for negative nonbank financing in order to gradually eliminate the government's domestic debt. Foreign

borrowing will be limited to concessional financing only. The financing gap in the amount of GNF 28.6 billion (US$ 8.2 million) is expected to be covered by assistance from development partners.

B. Monetary and Exchange Policy

20. **Under the program, the central bank will apply a restrictive monetary policy and effective management of bank liquidity in order to bring down the inflation rate and stem the loss of foreign assets**. This policy will consist of limiting the growth of the money supply to below 3.5 percent each quarter from April 2005 to March 2006 in order to limit its annual growth rate to 13.8 percent at end-March 2006. In addition, the net foreign assets of the central bank will be increased to US$35.5 million by end-March 2006. Effective control of base money will be achieved through issuance of Central Bank bills (TRMs) and through greater interest rate flexibility. Furthermore, bank liquidity management will be improved, primarily by enhancing its coordination with the Treasury's cash flow plan, and by implementing measures recommended by recent technical assistance missions from the IMF Monetary and Financial Systems Department. The government will also examine the possibility of issuing securities targeting the nonbank public.

21. **The BCRG will continue implementing the measures recommended by the safeguards assessment report**, in order to strengthen its financial statements and bring them into line with international standards for bank accounting. Specifically, the special audit of the foreign assets of the central bank will be completed by end-September 2005 and the financial audit of the central bank itself by end-December. Furthermore, all accounts held by individuals on the books of the central bank will be closed by end-2005. These three measures constitute benchmarks under the program. Furthermore, the government will continue its efforts to implement measures to combat money laundering and the financing of terrorism, particularly in terms of customer identification and know-your-customer guidelines for customers registered prior to the entry into force of the 2003 instructions. The draft anti-money laundering law has been submitted to the Ministry of Justice in April and should be finalized in October 2005.

22. **In the area of bank supervision, the BCRG will monitor compliance with the prudential rules for all commercial banks through off-site examinations and on-site inspections and, if necessary, will impose sanctions on banks in violation**. In this context, the BCRG will ensure that one bank in distress is recapitalized by end-December 2005. These supervision efforts will be extended to include the microfinance institutions subject to the new rules set out in various BCRG instructions. The government has submitted the draft microfinance law to the National Assembly, so that it may be reviewed and adopted. Harmonization of microfinance institution accounting systems will be pursued.

23. **The government's priority is to strengthen the proper functioning of the foreign exchange market after its liberalization**. The new foreign exchange regime should make the central bank's international reserves more secure and enhance the competitiveness of the Guinean economy. The ultimate goal of the reform is to create a unified foreign exchange

market, reducing the role of the parallel exchange market and increasing the use of banks by enterprises and individuals. In light of the recommendations of the recent IMF technical assistance missions, the BCRG will rapidly adopt a number of structural measures to modernize the foreign exchange market; the principal measures are summarized in Box 3.

Box 3. Guinea: Measures Concerning the Functioning of the Foreign Exchange Market

- Creation at the central bank of a foreign exchange market committee comprising representatives of the central bank, deposit banks, and exchange bureaus.
- Daily reporting by banks and exchange bureaus of foreign exchange transactions, and buy and sell rates in the format recommended by the recent IMF technical assistance mission.
- Calculation of the weighted rate for the U.S. dollar and the euro against the GNF, based on reports received, to use as a reference rate. Prompt adoption of daily publication of the rate.
- Increase the circulation of information on the foreign exchange market, primarily by disclosing daily benchmark rates for foreign currencies against the GNF to the public.
- After consulting with foreign exchange market participants, promptly adopt a market operating convention.
- In-depth review of regulations governing foreign exchange policy together with the various government departments involved, the banking sector, and exchange bureaus; simplify and merge the various regulations.
- Strengthen the foreign exchange market regulatory authority in order to permit close monitoring of foreign exchange regulations, direct contact among the central bank, banks, and exchange bureaus, and continuous monitoring of market developments.
- Prompt repayment of the central bank’s foreign exchange obligations to the banking sector. For future execution of operations for the repatriation of banknotes, contractual application of a value date beyond which remuneration will be paid by the central bank. Furthermore, banks will be obliged to repatriate all foreign exchange deriving from export transactions domiciled at their institution, or they will be subject to sanctions.

IV. Structural Reforms

24. **The government will pursue structural reforms** to improve the quality and availability of public services and create an environment more conducive to sustainable growth, particularly by promoting the private sector. These reforms will concentrate on improving the supply of electricity and water and the telecommunications network, the restructuring and privatization of public enterprises, fighting corruption, and improving the justice system.

25. **One of the government's key priorities is the restructuring of the electricity, water, and telecommunications companies** in order to foster regular, high-quality service, which is vital to stimulate growth. To this end, the government will adopt the following measures:

- ***Electricity sector:*** (i) definition of an overall strategy to stimulate the sector; (ii) adoption of a plan to combat fraudulent use of electricity; (iii) adoption of a plan to strengthen the financial situation of the electricity company; specifically, the government will sign an agreement with the electricity company (EDG) to settle cross debts by September 2005 and will not accumulate new payment arrears to the company; the government will contain its consumption of electricity under a package of technical and institutional measures (prepaid meters and verification of connections); (iv) completion of discussions in progress with the former private operators in the sector in order to resolve the financial disputes that arose out of the abandonment of prior agreements.

- ***Water sector:*** (i) definition of an overall strategy to increase access to drinking water; preparation and implementation of an action plan; (ii) strengthening of the mechanisms for coordinating and managing water resources; rapid adoption of implementing decrees for the water code; (iii) enhanced efficacy of managing drinking water at the institutional, technical, and commercial levels, including an agreement to settle cross debts by September 2005 and not to accumulate new arrears; (iv) adoption of a plan to combat fraud.

- ***Telecommunications sector:*** (i) establishment of a regulatory framework to stimulate private investment in the sector; (ii) search for a technical partner to replace the former partner.

26. The government has decided to revitalize its public enterprise privatization program to enable the private sector to participate more fully in the economic and social development of the country. The 2005 program focuses on the sale of shares and assets. First, the government will sell a portion or all of its holdings in seven companies: Banque Internationale pour le Commerce et l'Industrie de Guinée (BICIGUI), Banque Populaire Maroco-Guinéenne (BPMG), Union Générale des Assurances et Réassurances (UGAR), Société Mixte de Carburants Aéronautiques de Guinée (SOMCAG), Société Guinéo-Russe de carrières minières (SOGUIRUSSE), Société de Production d'Allumettes de Guinée (SOPRAG), and Société de Production Chimique (SOPROCHIM). It will also sell the assets of three enterprises: Société Mixte de Dragage (SOMIDRAT), a commercial enterprise (DIVERMA) and the movie theaters (ONACIG). These efforts will be continued during the period 2005-2008 with the planned privatization of some twenty enterprises. Finally, a third lot of some ten enterprises, primarily in the mining sectors, will be privatized after 2008.

27. **The government will step up its efforts to strengthen governance and combat corruption**. The corruption and governance survey recently undertaken by the National Agency to Combat Corruption (ANLC) showed that corruption is widespread and found at

all levels, to the extent that there is a risk of developing a culture of corruption. The results of this survey will be used to update the ANLC action plan, within the framework of the national strategy to combat corruption and promote good governance that will be adopted at the validation forum planned for September 2005. This will make it possible to simultaneously adopt an action plan to combat corruption, including concrete objectives and performance indicators, as well as specific actions to improve governance in key public sector activities and an implementation schedule, which will constitute a benchmark under the program. The complaints office for citizens, suppliers and users of public services, established in late April 2005, will play an important role in this effort. Moreover, the preparation of the anti-corruption draft law will be accelerated and the State Inspectorate General will pursue its investigations and the recovery of related revenue obligations. Furthermore, in order to reduce corruption and to promote use of the banking system, the government will eliminate the possibility of endorsing checks and will limit the use of cash to a certain ceiling for all transactions with the government.

28. **The reform of the justice system will be intensified**. Aware of the justice system's essential role in the poverty reduction strategy and the promotion of the private sector in the economy, the government, in collaboration with its development partners, will step up the reforms already underway. This primarily involves the implementation of the OHADA treaty's uniform acts, particularly on banking law, and the prompt adoption of the implementing regulations for five decrees on the organization of the justice system that were signed in March 2005.

V. The Poverty Reduction Strategy

29. The implementation of Guinea's poverty reduction strategy, as presented in its Poverty Reduction Strategy Paper (PRSP), has done much to improve the living standards of the population over the last two years despite an unfavorable macroeconomic environment. Progress has been significant in the areas of primary and pre-university education, health, village-level water resources, urban sanitation, and rural roads.

30. **However, certain recent developments are cause for concern**. Specifically, the expenditure cutbacks have affected government investment and nonwage expenditures in the social sectors. With the assistance of its development partners, Guinea finalized the second report on the implementation of the Millennium Development Goals (MDGs) in February 2005. This report concludes that much remains to be done and there is a risk that the MDGs may not be achieved in three areas: (i) elimination of extreme poverty and hunger; (ii) promotion of gender equality; and (iii) protection of the environment and access to drinking water. The government will prepare an action plan and its implementation beginning in 2006 should help it rise to the challenges in these three areas.

31. **The government will finalize the second PRSP progress report by end-June 2005**. This second report will present an update on the medium-term macroeconomic strategy and will discuss the results of the integrated basic survey for evaluating poverty in Guinea (EIBEP), the core welfare indicators questionnaire (CWIQ), the public expenditure tracking

survey, the study of the integrated framework for trade, and other ad hoc surveys. The results will enable us to more precisely identify the causes of poverty in Guinea and to refine the PRS. The number of indicators to be monitored and assessed under the PRS that will serve as the basis for the preparation of the second progress report was reduced from 123 to 56 indicators. The necessary data on progress in 2004 and the challenges to be overcome were collected and the drafting of the preliminary report has begun.

VI. Program Monitoring

32. **The monitoring of program implementation will be based on the indicative targets for end-June, end-September, end-December 2005, and end-March 2006, as specified in Table 2, and on the structural measures specified in Table 1**. The quantitative benchmarks under the program will include: (i) the floor for the primary fiscal balance; (ii) the ceiling for net credit to the government; (iii) the ceiling for base money; (iv) the floor for net foreign assets of the central bank; (v) new medium-term and long-term external debts contracted or guaranteed by the government or by the central bank; (vi) new short-term external debts contracted or guaranteed by the government or by the central bank; (vii) the non-accumulation of external debt payments arrears; (viii) nonmining revenues of the government; (ix) current expenditures of the government, excluding debt service; (x) the government's expenditures in priority sectors; and (xi) non-accumulation of domestic arrears. The attached technical memorandum of understanding sets forth the quantitative benchmarks and the terms underlying them. The implementation of the program and the results recorded in relation to these objectives will constitute a basis for evaluating the possibility of negotiating a new PRGF-supported program. The program will be subject to quarterly staff assessments conducted by the authorities and Fund staff; the first two will take place on the basis of data for end-June 2005 and end-September 2005.

33. During the period of the staff-monitored program, the Guinean government will not introduce new or intensify existing exchange restrictions, introduce any multiple currency practices, impose or intensify import restrictions for balance of payments reasons, or conclude bilateral payments agreements that are inconsistent with Article VIII of the Fund's Articles of Agreement.

Table 1. Structural Benchmarks for the 2005-06 Staff-Monitored Program

Areas	Measures	Implementation Date
Tax administration		
	• Adoption of an action plan with a timetable for strengthening tax and customs administration, based on the recommendations of the IMF technical assistance missions.	End-June 2005
	• Moratorium on new ad hoc tax or customs tariff exemptions	On a continuous basis
Expenditure control		
	• Establishment of a monitoring committee to review the operation of the computerized expenditure management system and prepare the terms of reference for a complete computer network audit	End-June 2005
	• Amend Article 31 of the General Rules on Public Accounting in order to eliminate the possibility of extra budgetary transactions.	End-September 2005
	• Launch a call for bids for an audit of the computerized expenditure management system	End-September 2005
	• Closing of all accounts held by individuals on the books of the central bank	End-December 2005
	• Completion of an audit of the government's domestic debt and of the cross debts between public enterprises and the government	End-December 2005
Fiscal issues regarding public enterprises		
	• Adoption by the Council of Ministers of an action plan to combat fraudulent use of electricity and drinking water	End-June 2005
	• Adoption of an action plan to strengthen financially the electricity and water companies	End-September 2005
	• Adoption of a plan to settle cross debts between public enterprises and the government.	End-December 2005

Table 1. Structural Benchmarks for the 2005-06 Staff-Monitored Program (concluded)

Areas	Measures	Implementation Date
Safeguard measures		
	• Completion of the special audit of the central bank's international reserves.	End-September 2005
	• Completion of the financial audit of the central bank itself.	End-December 2005
Governance		
	• Adoption of an action plan to combat corruption, including concrete objectives and performance indicators, as well as specific actions to improve governance in key public sectors and an implementation schedule.	End-September 2005
Exchange rate regime		
	• Refrain from introducing any new multiple currency practices.	On a continuous basis

Table 2. Guinea: Quantitative Indicative Targets for the Staff-Monitored Program, 2004-06

	2004	2005				2006
		March	June	Sept.	Dec.	March
		Prel.	Indicative targets			
		(In billions of Guinean francs)				
Central government primary balance (floor) 1/	-40.3	125.0	186.0	259.7	331.5	116.9
Net bank credit to the government (ceiling) 2/ 3/	240.5	50.3	123.7	169.6	180.0	50.3
Reserve money (ceiling)	763.3	907.5	926.2	942.5	959.6	976.9
		(In millions of U.S. dollars)				
Stock of net foreign assets of the central bank (floor) 4/ 5/	-6.0	0.7	9.4	18.1	30.0	35.5
New nonconcessional medium- or long-term external debt contracted of guaranteed by the government or the central bank (ceil	0.0	0.0	0.0	0.0	0.0	0.0
Outstanding stock of short-term external debt contracted or guaranteed by the government or the central bank (ceiling) 5/	0.0	0.0	0.0	0.0	0.0	0.0
Stock of outstanding external payments arrears (ceiling) 6/	62.4	74.2	72.7	68.9	50.7	47.1
		(In billions of Guinean francs)				
Central government nonmining revenue 2/	765.0	246.4	498.0	742.7	1,002.9	294.1
Central government noninterest current expenditure 2/	791.0	156.5	388.3	598.2	825.9	201.9
Expenditure in priority sectors 2/ 7/	263.9	71.8	181.2	280.8	399.0	96.0
Change in domestic arrears (a "-" sign indicates repayment) 2/	21.4	4.7	4.7	0.0	0.0	0.0
Memorandum items:						
External budgetary assistance (in millions of US dollars) 2/	0.0	0.0	0.0	0.0	8.2	0.0

1/ On a commitment basis; the domestic primary balance is defined as the difference between total revenue (excluding grants) and noninterest domestic expenditure, excluding foreign-financed capital expenditure.

2/ Cumulative from the beginning of the calendar year

3/ Subject to adjustment mechanisms for deviation in cash settlement of domestic arrears and disbursement of external budgetary assistance as specified in Technical Memorandum of Understanding (TMU).

4/ Subject to adjustment mechanisms for accumulation of new external arrears and deviation in disbursement of external budgetary assistance as specified in Technical Memorandum of Understanding (TMU).

5/ Excluding commercial credits.

6/ Excluding arrears under negotiation with creditors; monitored on a continuous basis.

7/ Priority sectors include public health, education, transport, road maintenance, justice, rural development, urban planning, and social affairs. This expenditure includes outlays funded by HIPC resources.

GUINEA

Technical Memorandum of Understanding

May 31, 2005

I. Introduction

1. This memorandum sets out the understandings between the Guinean authorities and staff of the International Monetary Fund regarding the definitions of benchmarks of the staff monitored program and the related reporting requirements to facilitate program monitoring.

II. Definitions

A. External Debt

2. As specified in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted by the Executive Board of the IMF on August 24, 2000,[1] for purposes of the program, "debt" will be understood to mean 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. Debt can take a number of forms, the primary ones being the following:

- **loans**: advances of money to the obligor by the lender on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' or suppliers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

- **suppliers' credits:** contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and

[1] See EBS/00/128 (6/30/00)—"Limits on External Debt or Borrowing in Fund Arrangements—Proposed Change in Coverage of Debt Limits."

- **leases**: arrangements under which property is provided that the lessee has the right to use for one or more specified period(s) of time, which are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of this memorandum, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement, excluding those payments that cover the operation, repair, or maintenance of the property.

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

B. Concessionality of External Debt

4. Debt is considered concessional if it has a grant element equivalent to 35 percent or more using the available currency-specific commercial interest reference rate (CIRR) and following the methodology set out in staff paper SM/96/86 (4/8/96) and approved by the IMF Executive Board on April 15, 1996.

C. Domestic Debt

5. The domestic debt includes all current—and unconditional—obligations arising from a contractual agreement concluded or guaranteed by the Guinean government with a resident partner, as the counterpart to an interest that may take the form of assets (including cash) or services and by virtue of which the obligor must subsequently make one or several payments in the form of assets (including cash) or services in repayment of the principal and/or interest arising from the contractual obligation.

D. Cash Relief from External Debt Relief

6. For the purpose of the program, the only debt relief that will be subject to the adjustment mechanisms described below is one that leads to an effective reduction in programmed debt service. This excludes debt relief given on debt that has been in drawn-out rescheduling/restructuring negotiations with non-Paris Club creditors and for which no debt service has been paid in the past year, for example, debts to be considered under the debt-and debt-service-reduction operation with commercial creditors, and for which no provision in debt service has been explicitly made in the fiscal program (except for up-front costs).While this includes traditional external debt relief, it also excludes the assistance provided under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative.

E. Government

7. Unless otherwise noted, the government is meant to include the central government. Local governments are excluded from the definition of government. The units covered under the central government correspond to those listed in the government flow of funds table (TOFE).

F. Program Exchange Rate

8. Amounts denominated in SDRs will be converted to U.S. dollars at the fixed exchange rate of US$1.5 per SDR, and converted into Guinean francs at the fixed exchange rate of US$1=GF 3,150. IMF liabilities, in particular, which are included in the definition of net foreign assets, will be valued at these fixed exchange rates. Any deviations resulting from the variations between these fixed and actual exchange rates will lead to a full upward or downward adjustment, as appropriate, in the valuation of the net foreign assets of the central bank for the purpose of assessing the respect of the benchmark on the net foreign assets of the central bank.

G. Public Accounts with the Central Bank of the Republic of Guinea and Primary Banks

9. The net treasury position (NTP) vis-à-vis the Central Bank and the primary banks is determined by credit and debit flows reported on all accounts belonging to the central government, local administrations, public development projects and programs, public entities, and counterpart funds. It covers a broader area than the central government budget, which results in a gap between the financing of budget operations and net flows of public accounts entering in the determination of the NTP.

10. This gap is reported in the government flow of funds table (TOFE) as an adjustment item, owing to the replacement of bank financing by the NTP. To make this adjustment item more explicit, it is necessary to set up tables of the flows in so-called “satellite” accounts located at the Central Bank of the Republic of Guinea and in commercial banks. For the purpose of the program, such tables should be attached to the TOFE.

H. Privatization Receipts

11. For the purpose of this memorandum, privatization receipts will be understood to mean all monies received by the government through the sale or concessioning of a public company, organization, or facility to a private company or companies, organization(s), or individual(s). To the extent possible, receipts should be presented on gross basis; if costs are incurred in the sale or concessioning, they should be recorded separately as expenditure.

III. QUANTITATIVE BENCHMARKS

A. Central Government Primary Balance

Definition

12. The primary budget balance (commitment basis) is calculated as total government revenue, excluding foreign grants and privatization proceeds (counted as financing), less noninterest domestic expenditure, excluding foreign-financed investment expenditure.

Indicative target

13. The floor on the primary budget balance, cumulative from the beginning of each calendar year, is set at Guinean francs (GF) 186.0 billion at June 30, 2005, GF 259.7 billion at September 30, 2005, GF 331.5 billion at December 31, 2005, and GF 116.8 billion at March 31, 2006. These floors represent an indicative target at end-June, end-September, and end-December 2005, as well as at end-March 2006.

Reporting deadlines

14. Data on the primary budget balance (commitment basis) will be forwarded monthly by the Ministry of Economy and Finance within 30 days following the end of each month.

B. Net Claims of the Banking System on the Government

Definition

15. Net claims of the banking system on the government comprise the stock of all outstanding claims of the domestic banking sector on the government (loans, advances, and all other government debt instruments, such as government securities) less all deposits held by the government with the domestic banking system.

16. Net claims of the banking system on the government are calculated by the Central Bank of the Republic of Guinea, whose figures are deemed valid within the context of the program, after review by the Treasury.

Indicative target

17. The ceiling on the change in net claims of the banking system on the government, cumulative from the beginning of each calendar year, is set at Guinean francs (GF) 123.7 billion at June 30, 2005, GF 169.6 billion at September 30, 2005, GF 180.0 billion at December 31, 2005, and GF 50.3 at March 31, 2006. These ceilings represent an indicative target at end-June, end-September, and end-December 2005, as well as at end-March 2006.

Adjustment

18. The ceilings on the cumulative changes in net claims of the banking system on the government will be subject to adjustment if disbursements of external budgetary assistance (including debt relief as defined above), exceed or fall short of program forecasts. The indicative target will be adjusted (i) upward for a shortfall in exceptional external financing up to an amount equivalent to 75 percent of the shortfall; and (ii) downward for the full amount of any excess in external assistance.

19. For the purpose of the program, the indicative target on net claims of the banking system on the government will be adjusted downward for the full amount of any net accumulation of domestic arrears.

20. For the purpose of the program, the indicative target on net claims of the banking system on the government will be adjusted downward (upward) by the amount of government securities held by the banking system on March 31, 2005 and sold to (purchased from) the nonbank financial system and/or the public from April 1, 2005 onward.

Reporting deadlines

21. Data on net claims of the banking system on the government will be forwarded monthly by the Central Bank of the Republic of Guinea within 30 days following the end of each month.

C. Reserve Money

Definition

22. Reserve money comprises bank reserves and deposits of the private sector with the central bank, as well as cash in circulation.

Indicative target

23. The ceiling on reserve money is set at Guinean francs (GF) 926.2 billion at June 30, 2005, GF 942.5 billion at September 30, 2005, GF 959.6 billion at December 31, 2005, and GF 976.9 at March 31, 2006. These ceilings represent a benchmark at end-June, end-September, and end-December 2005, as well as at end-March 2006.

Reporting deadlines

24. Data on reserve money will be forwarded monthly by the Central Bank of the Republic of Guinea within 30 days following the end of each month.

D. Net Foreign Assets of the Central Bank

Definition

25. Net foreign assets of the Central Bank of the Republic of Guinea include the official reserves of the central bank net of external obligations. They comprise holdings of monetary gold, the reserve position in the International Monetary Fund, SDR holdings, and short- and long-term foreign assets, net of external obligations. They exclude the amounts pledged or otherwise encumbered.

Indicative target

26. The floor on net foreign assets of the Central Bank of the Republic of Guinea is set at U.S. dollars 9.4 million at June 30, 2005, U.S. dollars 18.1 million at September 30, 2005, U.S. 30.0 million at December 31, 2005, and U.S. dollars 35.5 at March 31, 2006. These floors represent an indicative target at end-June, end-September, end-December 2005, as well as at end-March 2006.

Adjustment

27. The floor on net foreign assets of the Central Bank of the Republic of Guinea will be subject to adjustment if disbursements of external budgetary assistance (including debt relief as defined above) exceed or fall short of program forecasts. The quantitative benchmark will be adjusted (i) downward for a shortfall in exceptional external financing up to an amount equivalent to 75 percent of the shortfall; and (ii) upward for the full amount of any excess in external assistance.

28. The floor on net foreign assets of the Central Bank of the Republic of Guinea will be adjusted upwards for any new accumulation of external payment arrears, or cash settlement of such arrears inferior to the program projections.

Reporting deadlines

29. Data on net foreign assets of the Central Bank of the Republic of Guinea will be forwarded monthly by the Central Bank of the Republic of Guinea within 30 days following the end of each month.

E. Nonconcessional Foreign Loans Contracted or Guaranteed by the Government or the Central Bank

Indicative target

30. The Government and the Central Bank of the Republic of Guinea undertake not to contract or guarantee any foreign loans maturing in one year or more, with a grant element of less than 35 percent (as defined above). This benchmark applies not only to debt as defined in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt, adopted

by the IMF's Executive Board on August 24, 2000,[2] but also to commitments contracted or guaranteed for which value has not been received. However, this benchmark does not apply to financing granted by the Fund. This obligation is a benchmark to be observed continuously.

Reporting deadlines

31. Details on any government or central bank loan (terms of the loan and creditors) must be reported within 30 days of the end of each month. The same requirement applies to guarantees extended by the government and/or the Central Bank of the Republic of Guinea.

F. Short-Term External Debt of the Government or the Central Bank

Benchmark

32. The government and the Central Bank of the Republic of Guinea undertake not to contract or guarantee any new external debt with a contractual maturity of less than one year. This benchmark applies not only to debt as defined in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt, adopted by the IMF's Executive Board on August 24, 2000,[3] but also to commitments contracted or guaranteed for which value has not been received. Excluded from this benchmark are normal import-related commercial credits and changes in deposits from international bodies. This obligation is a benchmark to be observed continuously. As of March 31, 2005, the government of Guinea and the Central Bank of the Republic of Guinea had no short-term external debt.

Reporting deadlines

33. Details on any new government or central bank short-term external debt (terms of the loan and creditors) must be reported within 30 days of the end of each month. The same requirement applies to short-term guarantees extended by the government and/or the Central Bank of the Republic of Guinea.

G. Nonaccumulation of External Payment Arrears

Definition

34. External arrears of the government or the Central Bank of the Republic of Guinea consist of all debt-service obligations (principal and interest) arising in respect of loans contracted or guaranteed by the government or the Central Bank of the Republic of Guinea that are due but not paid on the due date, and unpaid penalties or interest charges associated

[2] See paragraph 2.

[3] Ibid.

with these arrears. Thus defined, the stock of external arrears as of March 31, 2005 amounted to US dollars 72.9 million.

Benchmark

35. Under the program, the government and the Central Bank of the Republic of Guinea undertakes not to accumulate external payment arrears on government and/or central bank debt, with the exception of external payment arrears arising from government and/or central bank debt being renegotiated with external creditors, including Paris Club creditors. This nonaccumulation is a performance criterion to be observed continuously.

36. The government and the Central Bank of the Republic of Guinea also commit to reduce the stock of external arrears to US$69.1 million by September 30, 2005, to US$50.0 million by December 31, 2005, and US$ 46.4 million by March 31, 2006. These ceilings on the stock of external arrears represent benchmarks at end-September 2005, end-December 2005, and end-March 2006.

Reporting deadlines

37. Data on outstanding balances, accumulation, and repayment of external payment arrears will be forwarded within 30 days following the end of each month.

H. Central Government Nonmining Revenue

Definitions

38. Government revenue includes tax, nontax revenue, and capital revenue. Tax and nontax revenue are defined in accordance with *Government Finance Statistics (GFS)* 1986, section IV.A.1, using the following categories. For tax revenue, the main categories are taxes on income, profit and capital gains (Title 1); taxes on property (Title 2); taxes on international trade (Title 3), including import duties, the export duty (droit fiscal de sortie), the surtax on consumption, the liquidation levy (redevance de liquidation) and penalties related to international trade; taxes on goods and services (Title 4), including general sales taxes, value-added taxes on domestic sales and on imports, the single tax on vehicles (TUV), the TAF, taxes on petroleum products, and (export) taxes on mining products, including the tax on mining products, taxes on diamonds, and taxes on precious metals. Other tax revenue include stamp taxes and revenue from recording taxes. Tax receipts also incorporate the taxes assumed by the State. Nontax revenue is defined as property income, including dividends, revenue from fishing licenses, revenue from the sale of telephone licenses, revenue from the rental of infrastructure, revenue for services rendered, administrative duties and fees and other receivables. For the purpose of the program, capital revenue includes revenue from the sale of fixed assets, excluding revenue from privatization (which is presented as a separate item), and includes repayment of loans by public enterprises.

39. For the purpose of the program, central government nonmining revenue is defined as the sum of (i) taxes on revenue and profits (Title 1) minus the income tax paid by mining

companies; (ii) taxes on property (Title 2); other tax receipts (Title 5); (iii) taxes on goods and services minus the proceeds from taxes on mining products (Title 4, Chapter 42); taxes on international trade (Title 3); and nontax revenue pertaining to Titles 6, 7, and 8 excluding privatization proceeds, fees paid by the diamond purchase centers (61.21) and mining fees (61.31).

Benchmark

40. The floor on central government nonmining revenue, cumulative from the beginning of each calendar year, is set at Guinean francs (GF) 498.0 billion at June 30, 2005, GF 742.7 billion at September 30, 2005, GF 1,000.9 billion at December 31, 2005, and GF 294.1 at March 31, 2006. These floors represent a benchmark at end-June, end-September, and end-December 2005, as well as at end-March 2006.

Reporting deadlines

41. Data on government revenue will be forwarded monthly by the Ministry of Economy and Finance within 30 days of the end of each month.

I. Central Government Noninterest Current Expenditure

Definition

42. Central government noninterest current expenditure is defined as total fiscal expenditure minus outlays for domestic and external debt service, investment expenditures, net lending, and restructuring expenditures.

Benchmark

43. The ceiling on central government noninterest current expenditure, cumulative from the beginning of each calendar year, is set Guinean francs (GF) 388.3 billion at June 30, 2005, GF 598.2 billion at September 30, 2005, GF 825.9 billion at December 31, 2005, and GF 201.9 at March 31, 2006. These ceilings represent a benchmark at end-June, end-September, and end-December 2005, as well as at end-March 2006.

Reporting deadlines

44. Data on government expenditure will be forwarded monthly by the Ministry of Economy and Finance within 30 days of the end of each month.

J. Central Government Current Expenditure in Priority Sectors

Definition

45. The priority sectors include public health, education, transport, road infrastructure, justice, rural development (agriculture, fisheries, livestock, and village-level water resources), urban planning, and social affairs. For the purpose of the program, expenditure in priority sectors shall include spending under Title 2 (wages and salaries), Title 3 (goods and services), Title 4 (transfers and subsidies), Title 5 (domestically financed investment) and Title 6 (capital transfers), excluding expenditures under Title 4, Title 5, and Title 6 related to higher education, but including expenditures financed by resources made available under the HIPC Initiative.

Benchmark

46. The floor on central government expenditure in priority sectors, including expenditures financed by resources made available under the HIPC Initiative, cumulative from the beginning of each calendar year, is set at Guinean francs (GF) 181.2 billion at June 30, 2005, GF 280.8 billion at September 30, 2005, GF 399.0 billion at December 31, 2005, and GF 96.0 at March 31, 2006. These floors represent a benchmark at end-June, end-September, and end-December 2005, as well as at end-March 2006.

Reporting deadlines

47. Data on central government expenditure in priority sectors will be forwarded monthly by the Ministry of Economy and Finance within 30 days of the end of each month.

K. Nonaccumulation of Domestic Arrears

Definition

48. Domestic payment arrears are defined as follows:

- For all obligations having a contractual due date, the arrear arises by non-payment on the due date;

- For expenditures that are treated through the normal procedure, the non-payment, in cash, by bank transfer, or any other legal means of settlement, including through compensations, within 90 days from the date when the payment order was issued, generates an arrear;

- Tax credits confirmed by the proper authorities after review, and not paid within 60 days from the date of confirmation, are considered arrears;

- All other obligations arising from unexpected events or from a decision of the proper public authorities, such as indemnities for expropriations, public enterprise restructuring associated with social plans, whose payments have not been made within the timeframe specified in the subsequent legal acts, are considered arrears.

Benchmark

49. The government will not accumulate any domestic payment arrears on a net basis, starting on April 1, 2005. This non accumulation is a benchmark to be observed continuously. Furthermore, during the third quarter of 2005, the government will pay GF 4.7 billion of domestic arrears accumulated during the first quarter of 2005.

Reporting deadlines

50. Data on outstanding balances, accumulation, and repayment of domestic arrears will be reported by the Ministry of Economy and Finance within 30 days following the end of each month.

IV. Structural Benchmarks

Benchmark

51. The following three measures will serve as structural benchmarks for **end-June 2005:**

- Adoption of an action plan with a timetable for strengthening tax and customs administration, based on the recommendations of the IMF technical assistance missions;

- Establishment of a monitoring committee to review the operation of the computerized expenditure management system and prepare the terms of reference for a complete computer network audit;

- Adoption by the Council of Ministers of an action plan to combat fraudulent use of electricity and drinking water.

52. The following four measures will serve as structural benchmarks for **end-September 2005:**

- Amend Article 31 of the General Rules on Public Accounting in order to eliminate the possibility of extra budgetary transactions;

- Launch a call for bids for an audit of the computerized expenditure management system;

- Adoption of an action plan to strengthen financially the electricity and water companies;

- Adoption of an action plan to combat corruption, including concrete objectives and performance indicators, as well as specific actions to improve governance in key public sectors and an implementation schedule.

- Completion of the special audit of the Central Bank's international reserves.

53. The following four measures will serve as structural benchmarks for **end-December 2005.**

- Adoption of a plan to settle cross debts between public enterprises and the government;

- Closing of all accounts held by individuals on the books of the central bank;

- Completion of an audit of the government's domestic debt and of the cross debts between public enterprises and the government;

- Completion of the financial audit of the central bank itself.

54. The following two measures will serve as structural benchmarks **on a continuous basis:**

- Moratorium on new ad hoc tax or customs tariff exemptions;

- Refrain from introducing any new multiple currency practices.

Reporting deadlines

55. The information concerning the implementation of these structural benchmarks will be reported to the Fund within two weeks following their scheduled implementation date.

V. Reporting Requirements

56. The authorities will send the data in Table 1 to the Fund within the time limits set out in that table. Barring any indication to the contrary, the data will take the form mutually agreed by the authorities and the IMF. The authorities will supply the Fund with any additional information that the Fund requests in connection with monitoring performance under the program on a timely basis.

57. The status of implementation of all structural measures pertaining to the program will be transmitted to the IMF's African Department within 30 working days after the end of each month.

Table 1. Guinea: Data Reporting Requirements

Category of Data	Table/Report	Frequency	Deadline
Financial and monetary data	Central bank balance sheet, consolidated commercial bank, balance sheet, monetary survey.	Monthly	30th of the month for the previous month
	Interest rates.	Monthly	30th of the month for the previous month
	HIPC Initiative Central Bank of Republic of Guinea account transactions.	Monthly	30th of the month for the previous month
	Detailed NTP and NGP.	Monthly	30th of the month for the previous month
Fiscal data	Table of indicators (*tableau de bord*), including details on revenues, expenditures, financing, and cash-flow operations.	Monthly	30th of the month for the previous month
	Treasury balances (*balances générales du Trésor*).	Monthly	30th of the month for the previous month
	Cash-flow plans (*plan de trésorerie*).	Monthly	30th of the month for the previous month
	Monthly government flow of funds table (TOFE).	Monthly	30th of the month for the previous month
	Monthly expenditure reports by ministries in expenditure circuit (*chaîne des dépenses*).	Monthly	30th of the month for the previous month
	HIPC Initiative spending plans and budget execution.	Monthly	30th of the month for the previous month
Real sector data	Consumer price index, Conakry.	Monthly	30th of the month for the previous month
	National accounts.	Annual	Summary estimates: three months after the end of year
Balance of payments data	Imports by use and exports by major product, trade balance.	Monthly	30th of the month for the previous month
	Price and volume indices of imports and of exports.	Quarterly	One month after end of quarter
	Consolidated estimates of the balance of payments.	Annual	Summary estimates: six months after the end of year
External debt	Debt service due before and after debt relief.	Monthly	30th of the month for the previous month
	Cash debt service paid.	Monthly	30th of the month for the previous month
	Debt service reconciliation table.	Monthly	30th of the month for the previous month
	Stock of outstanding debt and arrears.	Monthly	30th of the month for the previous month
	Drawings on new loans.	Monthly	30th of the month for the previous month
External grants and loans	Disbursements.	Monthly	30th of the month for the previous month
	Monthly transfer of HIPC debt relief to the HIPC account of the central bank (compte générique)	Monthly	30th of the month for the previous month