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

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July 3, 2006

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Bissau, July 3, 2006

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
Washington D.C. 20431
U.S.A.

Dear Mr. de Rato:

1. Guinea-Bissau has taken important steps to overcome the effects of a long period of political instability that started with a civil war in 1998–99 and ended with a bloodless coup by mid-2003. During this period there was a virtual collapse of the government's administrative capacity, a significant deterioration of the fiscal stance, and a stagnant economy. Political and economic stability have been regained since parliamentary and presidential elections were held in 2004 and 2005. A new government was nominated in December 2005, and a ruling by the Supreme Court on its constitutionality and subsequent parliamentary approval of the government program have eased political tensions. In the context of a staff-monitored program (SMP) in 2005, which this government endorsed, the country started rebuilding the administrative capacity of the state and stabilizing the macroeconomic environment.
2. The priorities of our government are to strengthen public administrative capacity, enforce adherence to regulations and laws, and prepare the ground for reactivation of economic growth. The program for 2006, which is part of a broader government program for 2006–09, in line with the draft Poverty Reduction Strategy Paper intends to improve the fiscal situation through better tax and public expenditure management so as to avoid domestic arrears. The program also sets forward macroeconomic policies and structural reforms that will be key for improving the investment climate and reducing widespread poverty in the country. Recognizing that a reduction in the wage bill is crucial to achieving fiscal sustainability, we are starting a civil service and security reform in 2006, aimed at rationalizing the organizational structures.
3. In its meeting on Guinea-Bissau on November 19, 2004, the Executive Board of the IMF concluded that the next step in Fund engagement could be emergency post-conflict assistance (EPCA), provided that such assistance was part of a concerted international effort. Based on the progress we have made thus far, we are confident that such a concerted effort will emerge later this year, and we intend then to request the start of discussions on a program that can be supported by the Fund under EPCA. Meanwhile, we request that the staff of the Fund monitor our economic program, which is expected to help us establish a track record of policy performance and pave the way for the post-conflict assistance.

4. The details of the program for 2006 are included in the attached Memorandum on Economic and Financial Policies (MEFP), which was approved by the Council of Ministers. The government believes that the policies and measures set forth in the MEFP are adequate for achieving the objectives of the program, but we will take any further measures that may become appropriate for that purpose. In such cases, as well as before implementing policies that could adversely affect the program, we will consult the Fund.

5. To assist the Fund in assessing progress with implementing the program, we will provide the required information on a regular basis, as detailed in the attached Technical Memorandum of Understanding. Moreover, we invite the staff of the Fund to review performance under the program quarterly, on the basis of the quantitative and structural indicators (Tables 2 and 4 of the MEFP), as well as on the overall implementation of the program.

Sincerely yours,

/s/

Víctor Luís Mandinga
Minister of Finance

Attachments:

- Memorandum on Economic and Financial Policies
- Technical Memorandum of Understanding

MEMORANDUM ON ECONOMIC AND FINANCIAL POLICIES FOR 2006

Bissau, July 3, 2006

I. INTRODUCTION

1. **Building on its program for 2006–09, the draft PRSP (DENARP) and the Action Plan for 2006, the government of Guinea-Bissau is committed to the goal of consolidating peace and political stability and laying the foundation for sustainable high growth and significant poverty reduction.** To help achieve these broad objectives and restore confidence in macroeconomic management, the government intends to pursue policies under a Fund staff-monitored program during April–December 2006. The government is determined to take the necessary actions and to intensify its efforts in order to strengthen the public finance situation, accelerate the implementation of structural reforms, and improve its financial relations with creditors.
2. This memorandum describes recent economic developments and provides an overview of the planned policies and measures for 2006.

II. RECENT DEVELOPMENTS AND PERFORMANCE UNDER THE STAFF-MONITORED PROGRAM DURING 2005

3. **Despite difficult conditions, progress has recently been made on the political and security fronts.** The approval by parliament of the new government program is an encouraging sign of support for reforms urgently needed, including civil service and military reforms. Moreover, the new military leadership has pledged allegiance to the constitution and its neutrality in political affairs, and reduced internal tensions by reincorporating senior officers from different military factions of the civil war. However, the persistence of security risks was highlighted recently by the renewed conflict in the northern part of the country with rebel factions in Casamance. The government has since taken stringent security measures to secure its northern border with Senegal.
4. **The economic and financial situation has also shown some improvement, although serious difficulties remain.** Rules-based government has been largely restored and a start has been made with addressing the fiscal and economic problems. Most importantly, fiscal control has been reestablished, including by centralizing the authorization for expenditure commitments in the Ministry of Finance and closing all government bank accounts outside the central bank (BCEAO). Efforts have also been made to improve budget preparation and tax administration, which has allowed for a significant increase in tax revenues.

5. **Real GDP growth is estimated to have rebounded to 3.5 percent on the back of a good performance of cashew nut and grains harvest.** Activity in other sectors, however, remained sluggish. In particular, industry and tourism have lagged behind because the country lacks basic facilities such as electricity; public administration also did not contribute to growth as the supply of public services did not improve. Average CPI inflation rose to 3.4 percent in 2005 reflecting an increase in the prices of imported goods mainly during the first half of the year. Reflecting a large increase in import and a drop in private remittances, the external current account balance turned into a deficit of 7.1 percent of GDP.

6. **The fiscal situation is also improving, but the government continues to face difficulties in cash flows, due in part to shortfalls in external assistance.** The overall budget deficit (including grants) in 2005 was lower than programmed at 12 percent of GDP compared to 15 percent in 2004, thanks to a stronger-than-projected tax revenue. Current primary expenditures were higher than projected, reflecting overruns in the wage bill, which represented about 75 percent of revenue in 2005. As a result, nonwage current spending, including to the social sectors, was kept below its budgeted level in 2005. The improvement in the domestic primary fiscal balance (a program indicator), from a deficit of 7.6 percent of GDP to 6.9 percent of GDP in 2005, masks a persistent cash flow problem, as evidenced by the accumulation of new domestic arrears. In the face of delays in budget support from the World Bank and EU, initially expected during the second semester of 2005, the government contracted commercial debt amounting to 6.3 percent of GDP, which allowed for the clearance of part of the new domestic arrears in 2005; but an outstanding stock of CFAF 4.2 billion of these arrears remained. Moreover, external debt service, except to the IMF, World Bank, and AfDB remained unpaid.

7. **Performance under the SMP has been mixed.** The targets for revenue, domestic financing and the domestic primary budget deficit (commitment basis) were met. But, the indicative targets for the wage bill for the year as a whole, and the accumulation of new domestic arrears were breached (Table 2). Progress on structural reform was also mixed, reflecting serious technical capacity constraints and delays in obtaining technical assistance, and the change in government. Only 6 out of the 10 structural benchmarks were met (Table 3).

III. OBJECTIVES AND POLICIES FOR 2006

8. **Consolidating the fragile peace and political stability require maintaining macroeconomic stability and implementing deeper structural reforms.** The policies for 2006 aim at improving the fiscal situation, restoring confidence in macroeconomic management, and strengthening technical capacity in preparing and implementing macroeconomic policies.

9. **The macroeconomic framework underlying the staff-monitored program (SMP) is based on the achievement of real GDP growth of 4.2 percent, higher than the population growth rate; and an average annual inflation rate close to 2 percent, in line with the WAEMU convergence criterion.** In addition to preserving recent gains in real per capita income, the SMP also aims to support poverty reduction by accelerating the pace of priority spending within the scope of the existing budget.

Fiscal policies

10. **The government is committed to pursuing a prudent fiscal policy.** Revenue as a percentage of GDP is projected to increase by about 3 percentage points, reflecting better enforcement of fishing licenses, payment of licenses by cell phone operators, and continued improvement of customs administration controls implemented since 2005. Domestically financed expenditures are projected to decrease as a proportion of GDP with respect to 2005. As a result, the overall deficit (including grants) is projected to fall to 6.1 percent of GDP from 12 percent in 2005. Mainly reflecting large scheduled external debt service amounting to CFAF 19.7 billion (11.4 percent of GDP), of which debt relief covers only CFAF 5.7 billion (3.3 percent of GDP), the budget for 2006 shows an overall financing gap of CFAF 26.8 billion (17.2 percent of GDP) for this year. Taking into account debt service payments that will fall into arrears, the financing gap for 2006 amounts to CFAF 14.2 billion.

11. **On the expenditure side, the government's policy is aimed at reining in discretionary spending in order to free the resources needed to address the increasing needs of the poorest population groups in the areas of health and education, as well as to maintain and improve basic infrastructure.** Accordingly, budgeted current primary expenditure as a ratio to GDP will be reduced by 1.9 percentage points, while domestically-financed investment expenditure will be increased by 1.3 percentage points over the outturn for 2005. The wage bill is expected to decline by CFAF 2.1 billion as a result of the implementation of the first phase of the civil service reform marked by the retrenchment of nearly 2,800 civil servants. However, transfers are projected to rise by about CFAF 3.3 billion, reflecting partly the cost associated with such program.

12. **With the parliamentary approval of the government program as a sign of an emerging broader consensus for reforms, the outlook for new financing has improved.** The European Union's budget support amounting to CFAF 7.7 billion is expected for disbursement in April and December, and the regional organizations (WAEMU and ECOWAS) began in February the disbursement of a budget support amounting to CFAF 5.5 billion to help cover wage payments in March 2006, settle debt service due to the IMF and World Bank and pay past arrears. However, the postponed budget support under preparation by the World Bank amounting to CFAF 5.5 billion is not

expected until December, 2006. Assistance for 0.3 percent of GDP by China has already been received. The government also intends to contact its external creditors to seek solutions to the high external debt payments. This, combined with additional external resources from the multidonor-supported EEMF, would allow the gap to be fully covered.

13. **In view of the weakness in nontax revenue performance observed during the first five months of the year, in order to ensure program targets are met, the government has undertaken additional expenditure cuts beyond those included in the 2006 budget.** These measures, which will become effective immediately, comprise reductions in transfers of CFAF 600 million and in other nonwage expenditures of CFAF 500 million. The government will submit to parliament by end-September 2006, an amendment to the budget law to reflect these adjustment measures.

14. **In line with the budget, the government does not anticipate the payment of previous years' arrears in 2006, unless specific external financing for their clearance is obtained.**¹ The government intends to launch with donor assistance, a comprehensive audit of these arrears and seek external financing for their clearance later. Meanwhile, a program of wage arrears clearance will be prepared during 2006. If a donor financial assistance is found, this program will be executed in consultation with Fund staff. However, the government's first priority would be to avoid the accumulation of new arrears.

Public expenditure management

15. **The government recognizes the need to improve budget execution and cash flow management, with the twofold objective of improving public expenditure management and preventing the accumulation of domestic and external payments arrears.** Short-term fiscal policy will thus focus on avoiding new domestic arrears over the year as a whole, within the framework of a day-to-day fiscal management on the basis of a strict cash management system. A circular has been issued by the Prime Minister to strengthen the mandate of the Treasury Committee, in charge of implementing the cash flow plan. The Treasury Committee will be guided by a cash-flow plan for 2006 (Table 1), based on the budget for 2006. Starting immediately and in cooperation with the BCEAO, the movements in the treasury accounts will be reconciled with the expenditure allocations of the Treasury Committee and authorized commitments by the Budget Department on a daily basis.

¹ Some domestic claims on government from 2000–05, mainly wages, were settled selectively during the first quarter of 2006, to reduce political tensions.

16. **The government will also ensure that all expenditure commitments, irrespective of their actual payment, will be entered in the accounting system maintained by the Budget Department without delay.** In order to follow budget execution, the Ministry of Finance will, within two weeks after the end of each month, prepare a report comparing the budget and actual expenditure by main budget category. The government will further strengthen budgetary control procedures. It will provide support for external audits of the government's end-year treasury accounts by the Audit Court, and parliamentary examination of budget review laws within the timeframe specified by WAEMU directives. In order to increase transparency and donor confidence, the government has allowed the UNDP and the EU to participate in the Treasury Committee as observers.

17. **While the cash rationing system is expected to help avoid new arrears on discretionary expenditure items, temporary arrears on nondiscretionary items may arise during the year.** The large share in expenditure of wages and other nondiscretionary outlays, the concentration of tax revenue in the middle of the year, and the concentration of World Bank and other donor financing during the second semester, imply that, without additional financing, new arrears (on a commitment basis) on these expenditure categories may arise during the first part of the year. At the end of the complementary period of the budget execution for 2005, these arrears, salaries included, amounted to CFAF 4.1 billion. Clearing such arrears will get the highest priority when new financing is found.

18. **The government has introduced since 2002 a procurement reform program in the public sector with the assistance from the Netherlands.** After being successfully implemented in five pilot ministries (education, health, finance, agriculture, and infrastructure) with the creation of a General Directorate of Public Procurement (DGCP) and a National Committee for monitoring public contracts (CNCS) in 2002 and 2004, respectively, the reform will be extended to the rest of the public sector in 2006 with assistance from the World Bank in the context of its support to low-income countries under stress (LICUS). Moreover, public finance management in Guinea-Bissau is still governed by outdated laws adopted back in 1986. The government will strive to align the country's legal and regulatory framework with the WAEMU norms.

Tax reforms

19. **The government intends to continue with tax reforms initiated by the previous government.** There is considerable scope to generate additional revenue from better administration. The main measures envisaged under the current budget include, tightened customs control through the verification of import declarations at main destination sites (where control is more effective) instead of at the border for goods entering the country by land, and declaration and payment of export taxes before exportation takes place. Efforts

will also be pursued to strengthen control over the payment of customs tariffs, including for petroleum products and rice. The Customs Department will step up regional cooperation, including for the valuation for tax purposes of rice imports. Custom exemptions, which represented nearly 40 percent of total custom revenue, will be reduced by putting an end to discretionary exemptions. The government intends to record these exemptions in customs revenue and register the counterpart tax spending in the budget.

20. **The planned fiscal reform for 2006 aims to simplify the tax system, widen the tax base, promote investment and competitiveness, promote voluntary compliance, and combat tax evasion.** The process of simplifying the tax system started with the elimination of several low-yielding taxes in the budget for 2005. Corporate income tax rates were already unified and a minimum tax was introduced for companies that are unable to provide a balance sheet.² The banderole system for alcoholic beverages and cigarettes, a structural benchmark under the program, will be implemented by end-July 2006. These reforms will be continued in 2006 in close cooperation with measures to improve the investment climate. Following up on the recommendations of the World Bank's Foreign Investment Advisory Service (FIAS) Department report, the government intends to reduce the effective marginal tax rate by lowering the corporate income tax from 30 percent in 2005 to 25 percent in 2006. This measure is only expected to impact revenue collection in 2007, when taxes on 2006 corporate profits are paid. With the view to improve revenues, the government intends to strengthen corporate taxes by making cashew nut exporters pay their taxes in advance.

21. **The government recently implemented a reduction in tariffs and sales tax for a number of products it considers to be heavily weighted in the consumption basket of the population (including rice, wheat, sugar, cement, and gas), and thus could have a strong impact on poverty.** Some of these measures brought the tariff classification out of line with the WAEMU common external tariff. The government has requested a waiver from the WAEMU commission for these specific cases. These fiscal measures will have a moderate revenue impact in 2006, while contributing to reduce fraud and tax evasion. Regarding export taxes on cashews, cooperation between the ministries of Finance and Commerce will be strengthened to ensure that the reference price for taxation of such exports closely reflects actual prices.

22. **Measures will be taken to protect and increase revenue from the fishing sector, which accounts for more than one-fourth of government revenue.** Surveillance

² With assistance from AFRITAC, a Large-Taxpayers Unit (LTU) has been set up; allowing for the centralization of tax accounts from large firms in a single file, by requiring the submission of their end-of-year financial statements and balance sheet. A minimum rate of 0.5 percent of total sales is imposed on those firms declaring zero or negative profits.

of territorial waters will be stepped up with the repair of two boats, and the acquisition of additional monitoring equipment. The latter is part of a US\$3 million, four-year project financed by AfDB that started in 2005, and includes the construction of a port for fishing vessels, acquisition of additional boats, fish processing facilities, and training, among others. The Scientific Project for Fisheries financed by the EU will also contribute significantly to the development of this sector: a survey of the stock of fish and shrimp was carried out in 2005, and another one is planned for this year that will allow the authorities to estimate the rate of depletion of this resource; and assistance programs for local fishermen include provision of fishing and storage equipment. Moreover, agreements under which fishing licenses are obtained against payments in kind or for settling government obligations were stopped in 2005 and any new agreement will be based on monetary payment only. All fishing agreements will be harmonized. These measures are also supported by the EU, World Bank, and the AfDB.

IV. STRUCTURAL REFORMS, GOVERNANCE, AND TRANSPARENCY

23. **The severity of Guinea-Bissau's problems implies that they can only be solved durably through deeper structural reforms over the medium term and with donor assistance.** In addition to structural reforms in taxation and public expenditure management, the government remains committed to implementing a reform of the public administration (civil and military) and other structural measures such as privatization and energy reform. It will aim at improving governance and transparency in all its operations. To accelerate growth and meet substantial demand for social services, the government has also launched a number of private sector development initiatives.

Civil service reform

24. **The key element in reducing expenditure is personnel costs.** At about 75 percent of revenue, the high level of personnel expenditure is the main reason for the serious fiscal problems, and it also leaves little room for social policies and for promoting higher economic growth. The principal causes of the high wage bill are excessive levels of public sector employment and high level staff, as the average wage does not appear to be out of line with respect to other countries in WAEMU.³ However, the reduction in personnel costs must be implemented in the context of a comprehensive public sector reform program. A new census conducted in 2005 has revealed a total of about 12,000 civil servants.⁴ The results of this census are now being compared with the payroll

³ Preliminary estimates indicate that the average wage is about one-fifth of the average public sector wage in Senegal while GDP per capita in Guinea-Bissau is approximately one-fourth of that in Senegal.

⁴ A harmonization in wages conducted in mid-2004 led to an increase in the total wage bill in spite of the decreased number of staff.

maintained by the Ministry of Finance. Starting in July 2006, a new test-based appointment of key administrative posts will be launched with the objective of replacing political appointees by competent civil servants in the highest areas of responsibilities.

25. **The government intends to accelerate the pace of the reform starting with the 2006 budget.** It will be based on a Public Sector Reform Law, which will be adopted by the Council of Ministers in July, following the adoption of organic laws for the various ministries. A steering committee, chaired by the Prime Minister and including representatives of the labor unions, employers organizations, and civil society, has also been recently established. Several donors, including the EU, the UNDP and Portugal, have announced support for the program, and additional support will be sought at the time of the Round Table conference. The reform will be implemented in two stages. The first stage started in June 2006 with the retirement of more than 1,000 employees, of which 391 had already passed the mandatory retirement age in 2005. In addition, a freeze on new hiring and promotions will take effect. These wage bill reduction efforts, will be complemented during the rest of the year by identifying civil servants and military personnel who need to be laid off during 2006. In the second stage of the reform, a program of re-insertion in the private sector will be launched, with assistance from donors. A number of initiatives will be enacted to facilitate private sector absorption of these workers.

Military and security reform

26. **The government believes that the reforms of the security sector are a necessary condition for securing lasting peace and moving ahead with its development agenda.** It also recognizes the positive impact of such reforms on the public finances. The size of the military increased sharply as a result of the war; about 4,000 military were retrenched under the post-conflict demobilization program (PDRRI), but the number of military is still high, nearly 5,000 by some estimates. Despite efforts to harmonize the wage scales with the civilian administration, the wage bill for the military has remained excessive.

27. **Following a mission by the U.K. security sector development advisory team in October 2005, the government issued on February 7, 2006 a decree creating an inter-ministerial committee on security sector reform.** Subsequently, a steering committee, chaired by the Minister of Defense was set up to orient the work of a technical team and approve its proposals before submitting them to the cabinet. Meanwhile, the government intends to conduct in July 2006 a census of the military—in preparation for a military reform program—and identify the contractual workers, who will be incorporated into the civil service or laid off. A census of the paramilitary for the entire country has been completed.

Other structural reforms and private sector development initiatives

28. **Improving the outlook for economic growth requires repairing the damage from the conflict at the outset.** The EU is financing the rehabilitation of roads, while the World Bank is preparing assistance to rehabilitate the electricity company and other infrastructure. The government will submit an electricity bill to parliament in July 2006, which aims at reforming the institutional framework of the sector, opening financial bids for a long-term leasing contract of the power and utility (EAGB), and creating an independent regulatory agency. The government intends to seek donor assistance with the rehabilitation of the commercial and fishing ports of Bissau and cold-storage facilities, as well as with repairing and re-equipping the many schools that were destroyed during the conflict.

29. **The rehabilitation efforts will be supported by policies to improve the investment climate.** An action plan for simplifying procedures for trade and investment, is being implemented under the World Bank-financed project for the rehabilitation and development of the private sector (PRDSP). Recent initiatives aimed at removing obstacles to private investment include (i) a review of the Investment Code; (ii) adhesion to MIGA and other FDI-guarantees agencies such as FAGACE; (iii) the introduction of a single stop for potential investors; (iv) the preparation of a draft law on build-operate-transfer (BOT) procedures for projects requiring public/private partnerships; (v) creation of export processing zones; (vi) elimination of administrative barriers; (vii) elimination of most license (fee) requirements for the industrial and commercial sector, including for imports and exports; (viii) identification and elimination of remaining constraints for private sector involvement in strategic sectors such as cashew nut production and processing, the fishing sector, and rice and fruit and vegetable production. Labor laws will be brought in line with the provisions of the Organization for the Harmonization of Trade Legislation in Africa (OHADA).

30. **The government has also initiated a privatization program aimed at reducing state participation in commercial and production activities.** Starting with the 2006 budget, some 14 companies with a total market value of CFAF 2.6 billion, including two hotels, will be brought to the point of sales. Privatization will be carried out in a transparent manner, using public bidding procedures.

Governance and transparency

31. **Promoting good governance will remain a cornerstone of government policies.** The UN system has taken the lead in providing assistance in promoting political stability, supported by ECOWAS, the CPLP, and other international partners. Key immediate issues are military reform and political institution and capacity building, but also improving good

governance and transparency, the lack of which was a major factor behind the civil war. To enhance fiscal accountability, the government will continue to: (i) apply rules and regulations in government operations; (ii) strengthen the political and democratic institutions, including at a local level; (iii) apply measures to increase the efficiency and effectiveness of government administration; and, (iv) strengthen with donor assistance, the judiciary system; and (v) reinforce the means and independence of the audits court to allow it to perform its control of budget execution.

32. **To improve transparency in public finances, the Ministry of Finance will continue publishing monthly a summary table on fiscal developments, which started in July 2005.** More generally, the National Committee for Social Cooperation—which is chaired by the Prime Minister and includes trade unions and employer organizations—will be reactivated and meet regularly to discuss economic developments and reform policies.

33. **The promotion of regional integration is one of the central elements of the government's economic policy.** The government remains committed to the implementation of policies required to meet the objectives under the WAEMU's Convergence, Growth and Solidarity Pact. Given its prolonged economic crisis, Guinea-Bissau was unable to respect any of the eight convergence criteria set by WAEMU at end-2005. Little progress has also been achieved with respect to the other regional initiatives. While the common external tariff was adopted in 2000, the country continue to avail itself of the safeguard measures allowed under the CET. The five directives on the public finances, and the directive on the harmonization of indirect taxes have still not been applied. However, the government intends to request technical assistance in tax administration, with a view to introducing a single-rate value-added tax in 2007.

Financial sector issues

34. **The government will also continue efforts to strengthen the financial system, whose landscape has been shaped by the establishment of a new commercial bank (Banco da União, BDU) and a policy bank (the regional solidarity bank, BRS), since February 2006 and December 2005, respectively.** It is expected that two commercial banks from the WAEMU region will take advantage of the single licensing law and open branches in Bissau by end-2006. The BRS will focus on the financing of microprojects. The Ministry of Finance will support and supervise the development of microfinance, and prudential supervision of the banks will be provided through the BCEAO and the WAEMU's Banking Commission. The banking system remains reasonably sound, although credit concentration poses a vulnerability risk for the sector.

35. **Guinea-Bissau made recourse to the regional market for short-term government paper for the first time in October 2005.** The treasury collected

CFAF 6 billion (about 4 percent of GDP) by issuing a six-month treasury bill that was mostly subscribed by banks outside Bissau at a rate of 5.5 percent. These bills have been repaid only partially, due to delays in the ECOWAS disbursement. Over the medium term, the government intends to issue treasury bills for liquidity purposes and also to support financial market development in the region.

External debt issues

36. **The budget is burdened by high internal and external debt service obligations.** The main element in domestic debt concerns the commitment, following Guinea-Bissau's accession to the WAEMU, to contribute to the capital of the BCEAO and the Monetary Agency of West Africa, and the West African Development Bank (BOAD); this debt amounts to CFAF 70 billion (40 percent of GDP), to be paid over 25 years, starting June 2005. However, at about 10 percent of projected annual revenue for the coming years, these payments would seriously undermine the ability to improve the fiscal situation. Therefore, the government intends to seek assistance from its partners to clear the payment arrears of 2005 and reduce payments for 2006 (still pending) and 2007; a longer-term solution will be sought at the time of the Round Table conference.

37. **The external debt problem can only be resolved in the context of the HIPC Initiative.** Without debt relief, annual debt service payments amount to more than half of annual revenue. The government intends to continue to cooperate closely with the IMF in order to allow returning to a program that can be supported under the PRGF in the future, which would also allow debt relief under the HIPC Initiative to resume. In the interim, it will undertake every effort to remain current on debt service, especially to multilaterals and those creditors that can provide new assistance. In this context, efforts are ongoing to set up with interested donors a multilateral debt-service fund that will help the country honor its obligations vis-à-vis its multilateral creditors in the perspective of the MDRI for which Guinea-Bissau is eligible. Moreover, the government will engage in an early and collaborative dialogue with the other creditors so as to achieve a viable solution to the external debt problem until this can be addressed under the HIPC Initiative. Any new external debt will be on strictly concessional terms, with a grant element of at least 50 percent. The external debt database is in the process of being rebuilt and debt management strengthened, with technical assistance from Debt Relief International.

V. SOCIAL POLICIES AND THE PRSP PROCESS

38. **The government is firmly committed to the Millennium Development Goals (MDGs), which are clearly reflected in its Poverty Reduction Strategy Paper (PRSP).** To that end, the growth and development objectives underlying its economic and financial program for 2006 were based on the guidelines specified in the PRSP. The government's

PRSP for 2006–09 indicates a core objective of reducing poverty from its current level of two-thirds to a substantially low level by 2015, and at the same time makes progress toward reaching MDGs in education, literacy, health, water, sanitation, and housing. The strategy has four pillars: (i) strengthening governance, modernizing the public administration and enhancing macroeconomic stability; (ii) promoting economic growth and job creation; (iii) improving the access to basic social services; and (iv) improving living conditions for vulnerable groups. The document is expected to be finalized and submitted to the respective Executive Boards of the World Bank and the International Monetary Fund in the second half of 2006. The government intends to seek donor assistance in implementing these policies at a Round Table conference, which is tentatively planned for November 2006.

39. **In line with the government’s poverty strategy, social policies aim at increasing access to primary health care and basic education, implementing specific poverty alleviation measures and improving the opportunities for employment.** One in five children does not reach the age of five. Moreover, HIV/AIDS is a major threat to the future of Guinea-Bissau, where knowledge of this disease and its prevention is minimal. Further, about 70 percent of the population cannot read or write. In the health sector, efforts aim at improving primary health care, and especially at the fight against malaria. The government is also planning to increase HIV/Aids awareness, to improve the training of health-care workers, regulate pharmaceutical activities, and update the diagnosis and treatment database. In education, the main priorities are the rehabilitation of classrooms and teacher training. The government has received support in these areas from the World Bank and other donors.

VI. CAPACITY BUILDING AND TECHNICAL ASSISTANCE

40. **The country’s institutions and technical capacity need to be largely rebuilt.** The civil war and its aftermath resulted in a severe weakening of the institutions required for a democracy and a market-based economy, many of which were still being built up before the war. Moreover, many educated and experienced cadre left the civil service and the country. Strengthening is urgently needed to promote political stability, and to provide adequate government services, for which considerable technical assistance will be needed. As a first step, the government has requested donor assistance for the preparation of a comprehensive country technical assistance plan to identify priority areas.

41. **Recent missions from the World Bank and the IMF—including by its regional technical assistance center West AFRITAC—identified technical assistance needs in all areas of fiscal management as well as in macroeconomic statistics (Table 5); the highest priority is assistance to the Budget and Customs Departments.** Short-term missions are reaching the limits of absorption capacity, and the government’s especially

seeking donor support for assigning long-term resident experts. Such experts will be assigned qualified counterparts, who will be allowed to stay in their function for a sufficient period to allow technical expertise to be transferred. In this vein, the one-year assignment of a resident advisor on revenue administration by the IMF (with donor funding), to start work in Bissau in April 2006, is expected to contribute significantly to the strengthening of the Ministry of Finance.

42. **It will be important to ensure adequate coordination of the extensive assistance needs, which may require involvement of multiple donors.** A first step in this direction has been the preparation of the Action Plan in 2005, which should become the common framework for donor assistance. Moreover, while the Ministry of Foreign Affairs will remain responsible for overall relations with donors, the Ministry of Economy will be in charge of coordinating technical cooperation with donors.

VII. PROGRAM MONITORING

43. **The monitoring of progress with implementing the program outlined above will be based on the quantitative and structural indicators provided in Tables 2 and 4.** The quantitative targets are (i) a ceiling on domestic financing of the budget; (ii) a floor on budgetary revenue; (iii) a ceiling on the wage bill; (iv) a ceiling on the domestic primary deficit; (v) a ceiling on new domestic arrears; and (vi) ceilings on public sector short- and long-term nonconcessional external debt. The structural benchmarks relate to the strengthening of tax administration and collection, and improving transparency in public finance developments. The government will provide all necessary data to monitor the program as indicated in the technical memorandum of understanding. To ensure the success of the program, the government has taken the following prior actions: (a) submission of the 2006 government budget to parliament; and (b) adoption by the cabinet of organic laws in the context of the civil service reform.

Table 1. Guinea-Bissau: Treasury Cash-Flow Plan 2006¹

(Millions of CFA francs)

	Jan. Actual	Feb. Actual	Mar. Actual	Apr. Actual	May Actual	Jun. Proj.	Jul. Proj.	Aug. Proj.	Sep. Proj.	Oct. Proj.	Nov. Proj.	Dec. Proj.	Total Proj.	Percent of GDP	
Inflows	1,357	3,032	4,848	1,733	7,188	7,042	4,912	10,011	4,714	3,046	1,632	14,289	63,806	37.0	
Revenue and grants	1,105	869	4,800	1,733	6,888	4,292	4,462	3,170	2,681	2,410	1,632	6,719	40,761	23.7	
Revenue	1,105	869	2,500	1,733	3,280	4,292	4,462	3,170	2,681	2,410	1,632	6,719	34,853	20.2	
Taxes	851	790	1,820	1,394	1,724	2,670	3,600	1,897	1,829	1,400	1,071	1,467	20,513	11.9	
Nontax revenue	254	79	680	339	1,556	1,623	862	1,273	852	1,009	561	5,252	14,339	8.3	
Budget support			2,300		3,608	0	0	0	0	0	0	0	5,908	3.4	
Bank financing	252	2,164	48	0	0	0	0	0	0	0	0	0	2,464	1.4	
BCEAO (treasury account) (use of deposits = +)	252	164	48			0	0	0	0	0	0	0	464	0.3	
Commercial bank (BAO)		2,000		0	0								2,000	1.2	
Other financing	0	0	0	0	300	0	0	6,251	0	0	0	0	6,551	3.8	
Treasury bills								6,000					6,000	3.5	
Privatization	0	0	0	0	300	0	0	251	0	0	0	0	551	0.3	
Identified budget support	0	0	0	0	0	2,750	450	589	2,034	637	0	7,571	14,030	8.1	
Outflows	4,218	4,106	4,220	3,254	7,446	6,384	4,522	3,780	3,797	4,459	3,774	14,042	64,001	37.1	
Current primary expenditure	2,862	3,550	2,897	2,118	2,656	3,292	3,292	3,292	3,292	3,292	3,292	3,265	37,097	21.5	
Wages and salaries	1,838	1,940	1,688	1,528	1,527	1,527	1,527	1,527	1,527	1,527	1,527	1,500	19,182	11.1	
Fixed remunerations	1,613	1,656	1,465	1,366	1,334	1,334	1,334	1,334	1,334	1,334	1,334	1,307	16,743	9.7	
Variable and eventual remuneration	70	88	71	36	39	39	39	39	39	39	39	39	578	0.3	
Embassy, personnel expenses	2	18	50	5	36	36	36	36	36	36	36	36	361	0.2	
Food	153	178	102	121	118	118	118	118	118	118	118	118	1,500	0.9	
Goods and services	494	547	584	118	484	484	484	484	484	484	484	484	5,613	3.3	
Of which: embassies' goods and services	1	18	45	2	35	35	35	35	35	35	35	35	346	0.2	
Transfers	470	832	548	429	630	921	921	921	921	921	921	921	9,352	5.4	
Social security (include pensions)	275	376	389	369	315	315	315	315	315	315	315	315	3,932	2.3	
Others	195	456	158	60	314	605	605	605	605	605	605	605	5,420	3.1	
Other current expenditure	60	231	77	43	16	360	360	360	360	360	360	360	2,950	1.7	
Memo: nonclassified expenditures		399													
Capital expenditure	241	324	114	74	400	400	400	400	400	400	400	541	4,097	2.4	
Public investment (domestically financed)	241	324	114	74	400	400	400	400	400	400	400	541	4,097	2.4	
Public investment program	40	8	49	0	270	270	270	270	270	270	270	270	2,255	1.3	
Capital goods	201	316	65	74	131	131	131	131	131	131	131	272	1,842	1.1	
Payment of domestic arrears and complimentary period	910	144	272	356	0	0	0	0	0	0	0	-1,182	500	0.3	
Complimentary period	910		272									-1,182	0	0.0	
Current year													0	0.0	
Previous to 2005		144		356									500	0.3	
Bank financing	162	0	913	591	707	82	787	0	81	652	0	1,309	5,283	3.1	
BCEAO	162	0	152	59	0	82	787	0	81	652	0	1,161	3,135	1.8	
Debt to BCEAO	0	0	0	59	0	0	163	0	0	96	0	120	438	0.3	
BCEAO—other (includes arrears— IMF account)	162	0	0	0	0	0	624	0	0	556	0	1,029	2,370	1.4	
Interest on domestic debt	0	0	152	0	0	82	0	0	81	0	0	13	327	0.2	
Commercial bank (BAO)			761	532	707	0	0	0	0	0	0	148	2,148	1.2	
Non-classified expenditures	0	0	0	0	3,600	2,400	0	0	0	0	0	0	9,900	15,900	9.2
Treasury bills					3,600	2,400							6,000	12,000	7.0
Regional commercial banks													3,900	3,900	2.3
Debt service to multilaterals	43	88	24	115	83	210	43	87	24	115	82	210	1,124	0.7	
Float	-2,861	-1,073	628	-1,521	-258	659	390	6,231	917	-1,413	-2,143	247	-195	-0.1	
Memo item: accounts payable (end- of period)	-2,861	-3,934	-3,306	-4,826	-5,084	-4,425	-4,035	2,196	3,113	1,700	-442	-195			
Of which: Arrears							3,000	0	0	0	0	0			
Of which: wage arrears							3,000	0	0	0	0	0			
Of which: non-wage arrears							0	0	0	0	0	0			

¹Based on 2006 revised draft budget.

Table 2. Guinea-Bissau—Quantitative Indicators under Staff Monitored Program of 2005–06

	(Billions1 CFA francs)									
	2005						2006			
	End-Jun.		End-Sept.		End-Dec.		End-Jul.	End-Oct.	End-Dec.	
	Actual	Prog	Actual	Prog	Actual	Prog	Prog	Prog	Prog	
Domestic financing of the budget ²	2.3	2.1	-5.5	-2.2	-5.6	-3.7	-6.2	-0.6	-11.8	
Domestic primary budget balance (commitment basis) ³	-4.5	-5.6	-0.4	-9.1	-11.0	-12.9	-4.4	-7.2	-6.3	
Revenue ⁴	3.6	14.0	18.8	20.6	28.0	26.8	18.0	27.0	34.9	
Wage bill ^{5,6}	5.0	10.2	10.0	15.0	22.4	20.5	11.6	16.2	19.2	
Accumulation of domestic arrears ⁵	1.8	0.0	4.7	0.0	4.2	0.0	3.0	0.0	0.0	
External public debt, maturities <=1 year ⁵	0	0	0	0	0	0	0	0	0	
External non-concessional public debt, maturities > 1 year ⁵	0	0	0	0	0	0	0	0	0	

¹Cumulative from January 1 of the corresponding year. The definition of the aggregates for 2006 is provided in the technical memorandum of understanding (TMU). For definition of the aggregates for 2005 quantitative targets, refer to the TMU of the 2005 staff-monitored program.

²Ceiling. If the actual amount of external budgetary assistance falls short of program forecasts, the ceiling will be increased for the full amount of the shortfall. The programmed amounts of external assistance in 2006 are (on a cumulative basis) CFAF 9.1 billion, by end-July, CFAF 12.4 billion by end-October, and CFAF 19.9 billion by end-December. Definition applied in 2005 includes payment of previous years domestic arrears and therefore differs from definition applied in 2006 as stated in TMU.

³Floor. If the actual amount of external budgetary assistance surpasses program forecasts, the floor will be decreased by the full amount of the difference between actual and programmed external budgetary assistance. The programmed amounts of external assistance in 2006 are (on a cumulative basis) CFAF 9.1 billion by end-July, CFAF 12.4 billion by end-October, and CFAF 19.9 billion by end-December.

⁴Floor. This floor on revenue will be fully adjusted for advances or delays in the European Union's compensation for fishing rights compared to the assumptions underlying the program. The program assumes payments of CFAF 4.8 billion in December 2006.

⁵Ceiling.

⁶Definition applied in 2005 includes transfers to the National Assembly and excludes transfers to embassies; therefore, it differs from definition in 2006 as stated in TMU.

Table 3. Guinea Bissau: Structural Indicators Under the Staff-Monitored Program for April—December 2005

Structural indicators	Target date	Status as of March 28, 2005
Establishment of a Large-Taxpayers Unit within the Ministry of Finance.	End-June 2005	Done
Implement banderole system for alcoholic beverages and cigarettes.	End-June 2005	Partially done
Transfer the collection of customs duties and taxes to the Office of Customs in the port of Bissau.	End-June 2005	Done
Complete discussions with all ministries and other budgetary units on the budget for 2006.	End-September 2005	Done
Approval by the Council of Ministers of the Organic Law of the Ministry of Economy and Finance.	End-September 2005	Not done (organic laws for Ministry of Finance and Ministry of Economy have been elaborated and await approval by Council of Ministers)
Rehabilitation of the taxpayer master file.	End-December 2005	Done
Implementation of the new organizational chart of the Customs Department.	End-December 2005	Not done (lack of technical assistance)
Implementation of censuses of the military and paramilitary.	End-December 2005	Partially done: paramilitary census completed in Bissau
Reconciliation of changes in the treasury accounts at the BCEAO with expenditure authorized by the Treasury Committee, and immediate liquidation of such expenditure.	Continuous	Done
Collect full amount of taxes due on (i) imports of petroleum products through the port in Bissau; (ii) rice imports; and (iii) cashew nut exports.	Continuous	Done

Table 4. Guinea Bissau: Structural Benchmarks Under the
Staff-Monitored Program,
April 1, 2006–December 31, 2006

Preconditions	Target date	Status as of June 1, 2006
Approval of organic laws of ministries by the Council of Ministers.	Mid-May 2006	Done
Submission to parliament of the government budget fully consistent with the fiscal program presented in this MEFP.	Mid-May 2006	Done
Structural indicators		
Launch of a test-based recruitment program of high level civil servants.	End-July 2006	
Eliminate discretionary customs duty exemptions (i.e., those not set under international conventions).	End-July 2006	
Implement an excise stamp or banderole for alcoholic beverages and cigarettes.	End-July 2006	
Implementation of military census.	End-July 2006	
Identify civil servants and military personnel to be laid off during 2006.	End-July 2006	
Enact the new electricity bill for the energy sector.	End-September 2006	
Introduce an automatic adjustment mechanism for petroleum product prices.	End-December 2006	
Bring three state-owned companies in the production and commercial sectors to the point of sales.	End-December 2006	

Table 5. Technical Assistance Needs of the Ministry of Finance

Department	Area	Long term	Short term	(Possible) provider
Cabinet Minister	Macroeconomic advisor	X ¹		(IMF)
Budget	Expert expenditure management	X		(EU)
	Expert expenditure management	X		(EU)
	Accounting system	X		(France)
	Computerization expenditure accounts	X ²		France/EU
	Public financial management		X	IMF/FAD
Treasury	Advisor to the Treasurer	X		BCEAO
	Advisor		X	
Tax Department	Expert on tax code		X (3–6 months)	(Portugal)
	Computerization of revenue accounting	X		
	Advisor Directorate of Large Enterprises		X (6 months)	(West AFRITAC)
Customs	Advisor for revising customs statute	X		
	Customs advisor	X		
	Advisor implementing ASYCUDA ++			AfDB
External debt	Debt management		X ³	DRI
Microfinance	Advisor		X	(West-AFRITAC)
Conjuncture	Advisor, fiscal analysis	X		
Planning	National accounts advisor	X		
	Implementation System of National Accounts 1993		X	IMF/AFRISTAT

¹ TA requested and under consideration.

² TA in place.

³ First mission conducted in January 2005.

**TECHNICAL MEMORANDUM OF UNDERSTANDING FOR THE STAFF-MONITORED PROGRAM
FOR 2006**

Bissau, July 3, 2006

1. This memorandum describes the definitions of the quantitative indicators for the staff-monitored program (SMP) for 2006 (Table 2) of the Memorandum on Economic and Financial Policies (MEFP) in accordance with the understandings reached between the authorities of Guinea-Bissau and the staff of the IMF. It also specifies the agreed periodicity and deadlines for transmission of data to the staff of the IMF for program monitoring purposes.

I. QUANTITATIVE INDICATORS AND ADJUSTORS

A. Quantitative Indicators

2. The quantitative indicators (Table 2 of the MEFP) are the following:
- a. cumulative floors on government revenue;
 - b. cumulative ceilings on the government wage bill;
 - c. cumulative floors on the domestic primary fiscal balance (on a commitment basis);
 - d. cumulative ceilings on new domestic payments arrears of the government, including wage arrears.
 - e. cumulative ceilings on the change in net domestic financing of the budget; and
 - f. cumulative ceilings on new nonconcessional external debt contracted or guaranteed by the government.

Quantitative indicators have been set for end-July, end-October, and end-December 2006, and their values are cumulative from January 1, 2006. Indicative targets for new nonconcessional external debt are continuous.

Definitions and computation

3. **For the purposes of the SMP, the government is defined as the central government of Guinea-Bissau.** This definition excludes public entities with autonomous legal personality whose own budget is not included in the central government budget.
4. **For the SMP, government revenue includes all tax and nontax receipts and excludes external grants.** The cash-flow estimates are based on the revenue estimates in the approved budget for 2006, which are adjusted for revenue items that are offset by corresponding expenditure or financing items. In particular, an adjustment is made for the revenue from the European Union that is earmarked for the fishing project (CFAF 656 million, offset in domestically financed capital expenditure).
5. **The SMP uses a broad definition for the targeted ceiling on the government wage bill.** The wage bill as understood under the program target includes (i) all staff (permanent and temporary) of the civil service and the military and paramilitary, and encompasses the budget categories 01.01.00 (gross wages) and 01.02.00 (bonuses and subsidies); (ii) payments for food (budget category 02.02.04); and (iii) transfers to embassies for expenditures on personnel (budget category 03.07.01.1). The quarterly targets are given in Table 1 below.

Table 1. Targets for the Broadly Defined Wage Bill, 2006
(Cumulative, in millions of CFA francs)

	Jul.	Oct.	Dec.
Wages (01.01.00)	10,101	14,102	16,743
Bonuses and subsidies (01.02.00)	383	500	578
Food (02.02.04)	908	1,263	1,500
Embassies: expenditure on personnel (03.07.01.1)	182	289	361
Total wage bill under the SMP target	11,574	16,155	19,182

Source: Budget 2006.

6. **The domestic primary fiscal balance on a commitment basis is based on the cash-flow estimates provided in Table 1 of the MEFP.** It is calculated as the difference between the revenue defined in para. 4 of this TMU and domestic primary expenditure on a commitment basis. The latter consists of current expenditure plus domestically-financed capital expenditure (corrected for the EU-financed expenditure for the fishing project), excluding all interest payments, externally financed capital expenditure, and the capital

contribution to WAEMU financial institutions. 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. The estimated July, October, and December domestic primary balances for 2006 are provided in Table 2 below.

	Jul.	Oct.	Dec.
Revenue	18,241	26,502	34,853
Current expenditure excluding interest	20,665	30,540	37,097
Domestically financed capital expenditure	1,954	3,155	4,097
Balance	-4,378	-7,194	-6,341

Source: Table 1, MEFP.

7. **New domestic payments arrears of the government are defined as any of the following:** i) Any bill that has been received by the spending ministry from a supplier of goods and services, delivered and verified and for which, payment has not been made within 90 days after the due date of payment, unless otherwise stipulated in the contract between the suppliers and the government; ii) wages and salaries and any payment to a government employee that were due to be paid in a given month but remained unpaid on the thirtieth day of the following month.

8. **Net domestic financing of the budget is defined based on the cash-flow estimates in Table 1 of the MEFP.** Bank financing consists of the net changes in the balances in the treasury accounts at the BCEAO and at the commercial bank(s)—excluding balances in those accounts that are not freely available for budget financing, such as accounts that are held under double signature arrangements with donors—as well as in the outstanding amounts of loans from the BCEAO and the commercial bank(s). Domestic nonbank financing encompasses changes in debt owed to projects, changes in the stock of treasury bills placed in the domestic (regional) market, loans from foreign commercial banks within the WAEMU region, and privatization receipts, as well as any other domestic financial debt held outside the banking sector, other than arrears, that may arise. Table 3 below provides the details.

Table 3. Estimates of Domestic Financing, 2006
(In millions of CFA francs)

	Jul.	Oct.	Dec.
	(Cumulative change)		
Domestic financing	-6,243	-644	-11,841
Bank financing	-543	-1,195	-2,492
BCEAO	-543	-1,195	-2,344
Treasury accounts	464	464	464
Statutory advance	-119	-180	-300
Consolidated debt ex-BCN and ex-BCGB	-103	-138	-138
IMF	-786	-1,342	-2,370
Commercial bank(s)	0	0	-148
Other financing	-5,700	551	-9,349
Privatization receipts	300	551	551
Treasury bills placed in regional market	-6,000	0	-6,000
Financing from foreign banks in WAEMU region	0	0	-3,900

Source: Table 1, MEFP.

9. **The indicators for external debt are cumulative ceilings on new nonconcessional external debt contracted or guaranteed by the government.** For the purposes of the SMP, the definitions of “debt” and “concessional borrowing” are as follows:

- a. The indicator for external debt applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt, adopted by the Executive Board of the IMF on August 24, 2000 but also to commitments contracted or guaranteed for which value has not been received. For purposes of these guidelines, the term “debt” is understood to mean a current, that is, 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, that is, advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers’ credits) and temporary exchanges of assets that are equivalent to fully collateralized loans, under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase

agreements and official swap arrangements); (ii) suppliers' credits, that is, 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 (iii) leases, that is, arrangements under which property is provided that 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 lesser 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. 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. For the purposes of monitoring the SMP, arrangements to pay over time obligations arising from judicial awards to external creditors do not constitute nonconcessional external borrowing.

- b. Loan concessionality is assessed on the basis of the commercial interest reference rates (CIRRs) established by the OECD. A loan is said to be on concessional terms if, on the initial date of contraction of the loan, the ratio of the present value of the loan, calculated on the basis of the reference interest rates, to its nominal value is less than 50 percent (that is, a grant element of at least 50 percent). For debts with a maturity exceeding 15 years, the ten-year reference interest rate published by the OECD is used to calculate the grant element. For shorter maturities, the six-month market reference rate is used. Purchases from the IMF are excluded from this limit.

10. **The concept of government for the purposes of the indicators on external debt is broader than the one used for the budget aggregates, including all debt that may ultimately be deemed to be a liability of the state.** In addition to the government as defined in para. 3, the definition includes administrative public institutions, public enterprises authorized to contract, guarantee, or accommodate nonconcessional borrowing, scientific and technical public institutions, professional public institutions, industrial and/or commercial public institutions and local governments.

B. Adjusters

11. The following adjusters will be in effect:

- **The floors on revenue will be fully adjusted for advances or delays in the EU's compensation for fishing rights** compared to the assumptions underlying the program. The program assumes payments of CFAF 4.8 billion in December 2006.

- **The floors on the domestic primary fiscal balance (on a commitment basis) will be adjusted in line with the external budget support.** In particular, the floor on the domestic primary balance will be lowered in case of higher budget support than programmed, for the full amount of the excess. The program assumes external budget support of (cumulative from January 1, 2006) CFAF 9.1 billion by end-July 2006, CFAF 12.4 billion by end-October 2006 and CFAF 19.9 billion by end-December 2006.
- **The ceiling on domestic financing will be adjusted in line with the adjustment of external budget support.** In particular, the ceiling will be increased in the case of shortfall in external budget support, by the full amount of the shortfall. The program assumes external budget support of (cumulative from January 1, 2006) CFAF 9.1 billions by end-July 2006, CFAF 12.4 billion by end-October 2006, and CFAF 19.9 billion by end-December 2006.

II. PROGRAM MONITORING

12. **To allow monitoring of developments under the program, the Ministry of Finance will regularly report the following information to the staff of the IMF:**

- The monetary survey, the balance sheet of the central bank, and the balance sheet of the commercial banks, (monthly, within six weeks following the end of the month);
- The net claims on the government held by the banking system, including details on the balances in the treasury accounts freely available for budget financing (the treasury account, the solidarity account, and the special account) (monthly, within ten days of the end of the month);
- The monthly report of the Treasury Committee, including tables on revenue by tax and expenditure by budget line, and a table, reconciling the revenue and expenditure data with the changes in the treasury accounts at the BCEAO (monthly, within ten days after the end of the month);
- The detailed reports on revenue and expenditure by budget line and a completed summary table on central government operations (TOFE) monthly, two weeks after the end of the month;
- A monthly table providing the end-of-period stock of unpaid bills by the treasury (RAP), sorted out by budget category (wages, goods and services, etc.); and payment delays (i.e., period in which payment orders were made);
- The amount and terms of new external debt (concessional or not) contracted or guaranteed by the government (within four weeks after the end of the month);

- A monthly table on the disbursements of budget support (grants and loans), by donors (two weeks after the end of the month);
- Indicators to assess overall economic trends, such as the household consumer price index and exports of cashew nuts (when such information becomes available);
- A table with a description of the status of implementation of the structural indicators in Table 4 of the MEFP (within two weeks after the end of the month); and
- Information on any type of financial assistance received and not programmed. This should be reported on a continuous basis.

13. **The Ministry of Finance will provide the staff of the IMF with any other information that the Ministry or the staff of the IMF deem necessary for program-monitoring purposes.**

14. **The above data will be provided to the Assistant-Economist at the local office of the IMF in Bissau (Mr. Fonseca) for further transfer to the African Department of the IMF in Washington, D.C.**