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

December 4, 2007

The following item is a Letter of Intent of the government of Guinea, which describes the policies that Guinea intends to implement in the context of its request for financial support from the IMF. 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.

Conakry, December 4, 2007

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Mr. Strauss-Kahn:

Since taking office on March 28, 2007, the Guinean government has implemented an economic program designed to reinstate fiscal control, stabilize the economy, improve governance, and launch a major program of structural reforms. The attached Memorandum on Economic and Financial Policies (MEFP) sets out the policies that the Guinean government intends to implement in the context of a medium-term program (covering the period from July 2007 to June 2010) to consolidate macroeconomic stabilization, promote growth, and attain the objectives defined in our second poverty reduction strategy paper. The MEFP also sets out macroeconomic objectives, structural measures, and tracking indicators for the first year of the program. A unit made up of senior staff, including from the Ministry of Finance, the Economy and the Plan and the central bank, has been set up to monitor implementation of the program.

To assist in the attainment of the above objectives and facilitate implementation of the relevant policies, the government hereby requests an arrangement under the Poverty Reduction and Growth Facility (PRGF) in an amount equivalent to SDR 48.195 million (45 percent of Guinea's quota). The government also requests resumption of the interim assistance granted by the IMF under the enhanced HIPC Initiative, specifically, the third tranche of interim HIPC assistance in the amount of SDR 4.848 million.

The government undertakes to provide the IMF with any information that may be necessary to monitor implementation of the proposed measures and attainment of the objectives. The attached Technical Memorandum of Understanding (TMU) sets out the performance criteria, indicative targets, and structural benchmarks of the program and defines the relevant economic variables and the data to be reported to the IMF (see TMU, Table 1). The first review of Guinea's progress under this arrangement will be carried out no later than end-April 2008, and the second no later than end-October 2008.

The government is convinced that the policies and measures set out in the attached MEFP are adequate to achieve the program objectives. However, it stands ready to take any further measures that may prove necessary. The government will consult with the IMF on the adoption of these measures prior to any revision of the policies described in the MEFP, in conformity with the rules of the Fund's policies on such consultation.

During and after the program period and so long as Guinea has financial obligations to the IMF for loans disbursed under this arrangement, the government will consult the Managing Director, on its own initiative or at his request, to discuss Guinea's economic and financial policies.

The government consents to the publication of this letter, the MEFP, the TMU, and the IMF staff report on the request for the conclusion of the arrangement under the PRGF.

Sincerely yours,

/sgd/

Daouda Bangoura
Governor of the BCRG

/sgd/

Ousmane Doré
Minister of Economy, Finance,
and Planning

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

ATTACHMENT I

GUINEA: MEMORANDUM ON ECONOMIC AND FINANCIAL POLICIES
FOR THE PERIOD FROM JULY 2007 TO JUNE 2008

December 4, 2007

I. INTRODUCTION

- 1. The government intends to learn from the past and to undertake a new medium-term program to resume the path of economic and social development.** The first poverty reduction strategy (PRS-I) adopted in 2002 did not yield all the expected results. The incidence of poverty increased from 49 percent in 2002 to 54 percent in 2005. Economic growth slowed from 4.9 percent on average in the latter half of the 1990s to an average 2.9 percent in 2000–06; inflation accelerated, to reach an annual rate of about 39 percent at end-2006; and foreign exchange reserves fell to less than one month of imports. These developments are explained in part by greater insecurity in the region (which required increased military expenditure) and the terms of trade deterioration that our country experienced during that period. Lax economic policies and the worsening of governance problems, which were rapidly sanctioned with the suspension of external assistance and debt relief (Guinea reached the HIPC Initiative decision point in 2000) were also key factors. To date, economic stabilization and reform efforts, including implementation of the April 2005–March 2006 staff-monitored program, have proved insufficient.
- 2. Since taking office at end-March 2007, the government has adopted important measures to stabilize the macroeconomic situation and put the country back on the road to reform.** We have acted quickly and resolutely to restore fiscal discipline, regain control of monetary policy, and improve transparency and governance. We also decided in May 2007 to launch a recovery program including a series of priority actions aimed at economic, political, and social stabilization, to be implemented by end-2007. Currently, inflationary pressures have abated and confidence in the domestic currency has been strengthened.
- 3. Our second poverty reduction strategy (PRS-II), which covers the period 2007–10, aims at reversing the upward trend of poverty observed since 2002 by expanding and deepening the priority actions of the recovery program.** This strategy is based on: (i) improving governance and building capacity; (ii) accelerating sustainable economic growth that benefits all; and (iii) developing basic public services. Growth policies will be based on sound macroeconomic management and expedited structural reforms aiming to promote private sector development. To ensure that the macroeconomic and financial components of the PRS-II are implemented and to facilitate the mobilization of external resources and the debt relief necessary for its success, we have drawn up a three-year program for July 2007–June 2010, for which we request IMF support under the Poverty Reduction and Growth Facility (PRGF). The purpose of this memorandum is to describe the broad outline of that program and the actions that will be taken in the first year.

II. ECONOMIC ENVIRONMENT AND REFORMS: RECENT DEVELOPMENTS

4. **The new government inherited a difficult economic and social situation.** In 2006 the economic indicators continued to erode in the wake of the breakdown of governance, owing in particular to a lax monetary policy and the lack of fiscal discipline. By year's end, inflation accelerated to nearly 39 percent on a year-on-year basis, GDP growth slowed to 2.2 percent, official exchange reserves shrank even further, and external arrears began to mount again from mid-2006. The overall fiscal deficit widened to approximately 2.9 percent of GDP and was financed by a very sizable increase in the central bank credit to the government. As a result, monetary aggregates expanded rapidly and put increased pressure on prices and the exchange rate, further encouraging the dollarization of deposits and transactions.

5. **Certain measures adopted in the first quarter of 2007 to restore social peace are proving costly in both economic and fiscal terms.** In January 2007, inflationary slippages and the level of corruption, which the public increasingly resented, triggered general strikes and social unrest that brought economic activity and government operations to a halt for several weeks. A tripartite agreement put an end to the strikes in February 2007, but at the cost of reductions in taxes (on petroleum products and rice) and wage hikes that further dampened the fiscal outlook. Moreover, temporary bans on exports of food and forestry products had to be put in place in an effort to contain their prices, with adverse effects on the balance of payments and the incomes of agricultural workers, among whom the poverty rate is especially high.

6. **Beginning from April 2007, the new government took bold steps to stabilize the macroeconomic environment, restore fiscal discipline, and tighten monetary policy.** In the area of government finance, the amount of central bank advances to the government leveled off in reaction to the strict application of a monthly cash plan beginning in April; extrabudgetary expenditure and ad hoc tax exemptions were prohibited; and nonpriority expenditure was strictly controlled. This fiscal policy and stricter application of the reserve requirement for bank deposits facilitated the tightening of monetary policy. These measures have begun to yield positive results. Consequently, the Guinean franc has strengthened since the beginning of the year and the inflation rate fell back to 17 percent in September 2007.

7. **The government also took resolute steps to enhance the transparency of government actions and governance, including in the key extractive industries sector.** We decided to review the existing mining contracts, in view of the international best practices, particularly with regard to the taxation of mining activities. The government published the results of the audit of fiscal revenues from mining sector for 2005 (cf. site web www.laurore.info) in the context of the Extractive Industries Transparency Initiative (EITI). It decided to continue and even deepen audits pertaining to revenues for 2006 to determine whether the payments made by the mining companies were strictly in line with their contractual obligations. In addition, a full assessment of our public finance management

(PFM) was completed in 2007 and will serve as a major starting point for the reforms envisaged in this area. Lastly, management audits of all government agencies are under way.

8. **The BCRG also began correcting the serious deficiencies in governance and policies uncovered in the external audit of the 2006 financial statements and by the expert commission appointed by the prime minister.** Serious accounting errors are being corrected and a plan to improve the internal control of the central bank operations was adopted. Payments on behalf of the central government or other government entities circumventing the approved budgetary procedures, especially those without the prior authorization of the Minister of Finance, and the posting of such payments to reconciliation or suspense accounts were prohibited. As provided by the law, the BCRG's 2006 financial statements have been sent for publication to the *Journal Officiel* on November 30, 2007.

III. MEDIUM-TERM MACROECONOMIC FRAMEWORK

9. **To reverse the upward trend of poverty since the start of the decade, we intend to promote stronger economic growth.** Our objective is to lower the incidence of poverty to 49 percent in 2010 from 54 percent in 2005. To accomplish this, we will need to achieve average annual real GDP growth of 5.3 percent over the 2008–10 period, compared to 2.6 percent in 2004–06, to enable an average increase of 2.3 percent in per capita income per year. This growth target will be sustainable only if we restore the stability of prices (inflation will be lowered to 15 percent by end-2007 and gradually to 5 percent by end-2010) and strengthen our external position (gross foreign exchange reserves should increase to the equivalent of 3 months of imports of goods and services by end-2010). We plan to achieve these targets by implementing strict macroeconomic policies, improving conditions for private sector development, and carrying out major infrastructure programs to remove the main obstacles to growth.

10. **The primary fiscal objectives will be to increase government revenue and reorient expenditure toward the priority sectors defined in our strategy, to the extent that this is compatible with macroeconomic stability and the reduction of public debt.** The weight of public debt service in public expenditure—the main cause of the fragility of government finances—should be brought to a sustainable level. This assumes, first, a prudent debt strategy based on the elimination of external and domestic arrears, the exclusive use of concessional financing sources to meet external financing needs, the expected substantial relief from our external debt, and the restructuring of government obligations to the central bank. We also plan to gradually bring the basic primary fiscal balance to more than 4 percent of GDP. Accordingly, the government aims to increase tax revenue by at least 2 points of GDP over the course of three years to 15.5 percent in 2010, primarily by expanding the tax base and improving the tax collection, including in the mining sector. To achieve this, the government will continue reducing tax and customs exemptions, particularly through a thorough revision of the investment code, and will modernize the revenue-collecting units and enforce controls over them by applying performance contracts.

11. **The additional resources mobilized from reduction in debt service and donor support will be used primarily to increase expenditure in the priority sectors,** particularly those that affect the access of the poor to basic social services (education and health) and the social safety net protecting vulnerable segments of the population. These expenditures will gradually increase from 35.5 percent of primary expenditure in 2006 to 42 percent in 2010. A youth employment program will be launched and the development of public infrastructures will be accelerated.

12. **Monetary policy will focus on the objective of controlling base money growth.** Such a policy will provide the economy with a solid nominal anchor for controlling inflation. It will be greatly facilitated by the elimination of all financing of the Treasury by the central bank, so that a sufficient margin will be maintained for the development of bank financing of the economy. New permanent deposit and refinancing facilities will be introduced and the central bank's policy rates will be regularly adjusted to accommodate monetary policy requirements. Our priorities in the foreign exchange policy will be to maintain the current floating exchange regime while continuing to restore confidence in our currency. This will create conditions for gradually replenishing our exchange reserves and improving the market mechanisms upon which the valuation of our currency is based.

13. **In view of the strong potential of Guinea's mining sector, the establishment of a transparent and stable framework to promote investment in this sector will underpin the primary outlook for sustained medium- and long-term growth.** Reform of the mining code and the adoption of model contracts will be the main components of that framework. Several major projects financed by foreign direct investment are planned to increase the capacity to produce bauxite and alumina, as well as develop iron ore deposits. These investments are expected to be spread over the coming eight years and could total an estimated US\$27 billion, approximately half of which being carried out during the term of the program. Although the operations of these projects will begin after 2010, their construction should contribute significantly to growth in the next three years.

14. **The maintenance of an open trade system is an important element of our growth and export diversification strategy.** The government already aligned its tariff with the WAEMU common external tariff in 2005 and participates actively in other regional trade integration initiatives. In particular, it supports the rapid creation of a free trade area in the ECOWAS countries. The government also plans to follow up on the recommendations of the Diagnostic Trade Integration Study (DTIS) in order to reduce the obstacles to domestic and international trade. The DTIS identified agriculture, fisheries, and tourism as export diversification sectors. The build up of export capacities in agriculture and fishing will create employment opportunities and income for rural population where poverty is the most widespread. In this context, we will remove all restrictions on exports of these products and of forestry products by end-2007. The effort will also involve the development of adequate infrastructures and warehousing facilities, better service coverage throughout the country, and promotion of the provision of services to exporters. The government will implement a

forestry development strategy both to promote an efficient timber industry and to protect the environment.

15. **The objectives of our program cannot be achieved without an improvement in governance and in the quality of government and central bank policies.** Initially, this improvement will involve the clarification and enforcement of existing laws and regulations. First and foremost, this concerns fiscal management (including all revenue and expenditure phases) and management of the central bank (including reestablishing accurate accounting and strict internal control, as well as transparent operating by the foreign exchange market). With assistance from the IMF and our development partners, reform and modernization plans will be implemented in the first year of the program in these two areas, together with efforts to combat corruption and reform the civil service, public enterprises (in particular EDG and SEG), and the judiciary.

16. **The government will continue to improve the management of the civil service with a view to controlling the wage bill, establishing ethical rules, and promoting a performance culture.** It will make a special effort to remove ghost workers. A staff redeployment policy will be implemented to remedy the overstaffing observed in certain departments and to meet the needs of priority sectors. In the context of modernizing human resources management, instruments for forward-looking management of skills and of positions (organic frameworks) will be developed and more sustained efforts will be made to provide staff training. A motivating compensation system will be developed and put in place to promote a merit and performance-based culture.

17. **The government aims to restore the viability of public enterprises that are in difficulty, particularly in the electricity sector and, to a lesser extent, in the water and telecommunications sectors.** This will first require rehabilitation of the existing infrastructures and improvement of the quality of service, while at the same time eliminating the implicit and explicit government subsidies they have been granted. Based on the audits currently under way, performance contracts will be adopted or updated for these three enterprises. These contracts will call for the restoration of financial equilibrium, including through anti-fraud efforts and the adjustment of tariff rates.

18. **The resumption of our privatization program will allow for increased private sector participation in economic and social development.** The public sector remains heavily involved in the economy. The government holds stakes in 45 public enterprises. Over the 2007–10 period, it is expected that government holdings in about 25 enterprises will be privatized. Finally, the government holds a major share of improved and unimproved real estate property in the country, which is a major impediment to the access of businesses and private individuals to land. The management of the improved real estate property will be centralized and placed under the direct authority of the ministry in charge of government holdings. An inventory will be taken and lease rates will be revised upwards to reflect market value. In addition, the program to sell off such property will be reactivated with complete

transparency, and all revenue from the sale of government assets will be deposited in the Treasury account, as required by law.

19. **Aware of the crucial role of a properly functioning judiciary in implementing the poverty reduction strategy and promoting the private sector in the economy, the Government will deepen reforms already under way with the assistance of its development partners.** In particular, this will involve effective application of the uniform acts of the OHADA treaty, notably the act concerning banking law. Moreover, cases of misappropriation of funds uncovered in the aforementioned audits will be submitted to the courts.

20. **The stability and development of financial intermediation are key to the success of the program.** At present, the payment system is outdated; the access of enterprises to credit is more or less limited to the financing of imports of petroleum products and rice; there are no medium-term loans, particularly for SMEs; and microcredit is available only to a small proportion of the population and is disconnected from the banking system. In addition to reorganizing the central bank, we plan as quickly as possible to draw up a plan to reform the financial sector. Accordingly, we have submitted a request for participation in the Financial Sector Assessment Program (FSAP) managed by the World Bank and the IMF.

IV. ECONOMIC AND FINANCIAL PROGRAM FOR THE PERIOD JULY 2007–JUNE 2008

21. **The priorities for the first year of the program will be to implement the emergency program and to prepare and begin carrying out action plans in the priority areas outlined above.** First, this will involve building on the progress made in stabilizing the economy and strengthening the authority of the central government in all domains. We will return promptly to best practices in the matter of governance, based on the enforcement of laws, regulations, and court decisions and, if need be, the strengthening of existing laws and regulations. We will also undertake specific programs—financed in large part by development partners—to restore minimum access to water and electricity and to rehabilitate public equipment and infrastructure destroyed in the social unrest that occurred in early 2007.

22. **We foresee the resumption of growth (in early 2008), in tandem with our continuing macroeconomic stabilization efforts.** In the second half of 2007, the pace of growth will remain relatively slow owing to the gradual fiscal adjustment and restrictions on exports of certain products. In 2008, growth will likely get a new impulse from the recovery of private investment, particularly in the mining sector, as a result of the expected improvement in the business climate and the restoration of the macroeconomic stability. Our program therefore projects growth of close to 5 percent in 2008. The inflation rate, which we aim to lower to 15 percent by end-2007, should continue to fall and amount to no more than 10 percent by end-2008. Finally, the foreign exchange reserves of the BCRG will gradually increase to 1.0 months of import coverage by end-2008. The fiscal, monetary, and foreign exchange policies applied in the first year of the program, as well as the structural and governance reforms, are described in the following.

A. Fiscal Policy

23. **Strict observance of the 2007 budget law, approved by the National Assembly in July 2007, is key to fiscal consolidation.** The budget provides for a reduction in the overall deficit (excluding grants, on commitments basis) from 4.3 percent of GDP in 2006 to 1.7 percent of GDP in 2007, a fiscal adjustment that is in line with our macroeconomic stabilization objective. The basic primary balance surplus (excluding grants, interest on debt, and externally financed expenditure) will be 3.0 percent of GDP, with total revenue equivalent to 12.9 percent of GDP and current primary expenditure equivalent to 8.7 percent of GDP.

24. **The budget is based on revenue-enhancing measures, particularly in the nonmining sector.** Fiscal controls have been strengthened, especially for enterprises that have declared successive losses over the course of several years. Application of the unique identification number of the taxpayer has been systematized, particularly at the customs. The tax and customs exemptions granted under the investment code and other agreements will be no longer extended without prior approval of the Finance Minister and verification of their conformity to the existing legislation. All nonconforming exemptions will be eliminated by end-June 2008 at the latest.

25. **Budget expenditure in 2007 reflects government priorities.** Spending in the priority sectors is projected to increase from 3.6 percent of GDP in 2006 to 3.7 percent of GDP. The budget also calls for more realistic appropriations for sovereignty expenditures and for water and electricity consumption, as well as expenditure covering part of the cost of the legislative elections to be held in 2008 (GNF 73 billion, of which GNF 58 billion from foreign sources).

26. **The 2007 budget does not envisage further reliance on central bank advances, in line with the authorities' intention to prohibit such financing in the charter of the central bank.** Advances and all claims of the central bank on the government as at June 30, 2007 were consolidated and securitized in August 2007. The securitization agreement provides for reimbursement over a maximum term of 20 years for securities unrelated to foreign exchange losses. The budget envisages moderate reliance on net issuance of treasury bills to banks to facilitate the repayment of previously rescheduled domestic debt as well as the repayment of domestic arrears. Similarly, the budget calls for the clearance of all external arrears.

27. **Execution of the 2007 budget will broadly conform to the original budget law.** To deal with rising international prices and fulfill the preceding government's commitments to social partners, the government has established a time-limited program of price subsidies for several staple goods, including rice and sugar, amounting to approximately GNF 20 billion, financed by reallocation of other subsidies and government transfers. Moreover, the government plans to undertake the equivalent of GNF 83.3 billion in additional expenditure by end-2007 under the emergency program decided last May, to be financed entirely with

external assistance. The budget execution will continue to be subject to strict monthly monitoring in the context of treasury committee meetings under the aegis of the prime minister. As the 2007 budget law reaffirms, new spending commitments will not be made after November 30, 2007 to avoid the issuance of payment orders after the end of the calendar year. The government will keep the stock of pending treasury payments, including pending repayments of VAT credits and domestic debt payment arrears, below a ceiling of approximately two months of basic nonwage primary expenditure.

28. The 2008 budget that we submitted to the National Assembly on October 11, 2007 will extend the adjustment efforts begun in 2007, with the basic primary balance kept above 3.3 percent of GDP. The projected growth of revenue will facilitate the reorientation of expenditure toward the priority sectors and will make any recourse to central bank financing unnecessary, all this to avoid compromising our macroeconomic stabilization objective.

- On the revenue side, we project a slight increase in mining receipts (from 3.4 percent of GDP in 2007 to 3.6 percent of GDP in 2008) as a result of the delayed effect on revenue of the increase in international prices of bauxite and alumina. As a precautionary measure, we do not foresee any effect in 2008 from the proposed revision of certain mining agreements. Conversely, all the measures we will take to boost the productivity of revenue collection agencies and expand the tax base should result in an increase in nonmining revenue of the order of 1.1 points of GDP.
- On the expenditure side, the budget calls for a significant increase in capital expenditure and, with regard to current expenditure, a decrease in subsidies and military expenditure in favor of the priority sectors—education first and foremost. A large part of the increase in the wage bill will be aimed at overhauling the system of bonuses and incentives, particularly for managerial level staff to narrow the sizable gap vis-à-vis the private sector. We will also honor all commitments made by the government in 2007 regarding the hiring of contractuels in the civil service and improving the situation of teachers.

B. Tax Administration and Fiscal Management

29. The government plans to expedite the modernization of the tax and customs administrations based on the recommendations of IMF technical assistance missions. A list of performance indicators will be drawn up by end-December 2007 with each of the revenue collection agencies; quarterly targets will be set and the necessary resources will be made available. Financial incentives for staff will be increased. In addition, effective cooperation between the two administrations will be established and the computerization of the various tax offices will be accelerated. Regarding nontax revenue, the government will review all the existing revenue appropriations granted to public enterprises and will return to the Treasury any appropriations that are not justified. Box 1 contains detailed information on the planned key measures.

Box 1. Guinea—Key Tax Revenue Measures for 2007–08

- Adoption of performance contracts between revenue collection agencies and the Ministry of Finance for 2008, based on performance indicators pertaining to fiscal control and tax collection for the National Tax Administration (NTA) and reduction of exemptions and efficiency of revenue collection for the National Customs Administration (NCA) (December 2007).
- Strengthening of revenue collection procedures, including through the effective use of notices to third parties for uncooperative taxpayers.
- Review of the conformity of tax conventions with the existing legislation and enforcement of its application (cancellation when enterprises do not honor their commitments) (June 2008).
- Amendment of the Customs Code to incorporate international best practices and reflect the adoption of the new customs tariff based on the WAEMU common external tariff (Article 24); adoption of implementing regulations, particularly those related to exemptions from conventions and exceptional regimes (June 2008).
- Application of international standards to customs clearance procedures under the transit regime and enhanced inspection of goods under that regime and the suspension regime (December 2007).
- Elimination of reference values for rice, wheat, sugar, and cigarettes (with modification of excise taxes and of the tariff classification to adjust the overall levy accordingly) and use of the transaction value in the clearing of goods, in accordance with Article VII of the WTO agreement on customs valuation (2008 Budget Law).
- Establishment of direct computer access for the NTA to individual customs records (June 2008).
- Adoption of the decree establishing the powers of the NTA's department for medium-size enterprises (December 2007).
- Monitoring by the NTA of the results of programmed management audits of the accounts of mining enterprises over the 2000–06 period.

30. **The government wants to make a decisive break with past practices and apply basic international standards to public finance management (PFM).** To accomplish this, a reform strategy and a 2008–10 priority action plan for the improvement of PFM will be finalized by December 2007. This plan will be prepared and monitored by a steering committee and a support unit within the framework of an international partnership. It will cover the entire expenditure procedure from budget preparation to submission of the budget review law to the National Assembly, as well as execution, audit and supervision procedures, and data reporting.

31. **Measures in the PFM area will be adopted without delay, specifically to enhance budget preparation and execution and the activities of the audit teams.** To ensure the incorporation of PRS-II objectives in the budget, the Budget Directorate will draw up medium-term expenditure frameworks beginning with the preparation of the 2009 budget. The introduction of a functional budget classification will allow for better identification and better tracking of poverty reduction expenditure. The regular procedure for executing public expenditure, which now covers only a small fraction of expenditure, will be rehabilitated and the use of exceptional procedures will be limited; in particular, the simplified procedure applicable to procurement contracts will be eliminated. In addition, the ongoing decentralization of expenditure payment authorization to the sectoral ministry level will be completed in 2007. The transparency of government accounting and of the Treasury balance

will be enhanced. The responsibilities of the audit teams and, in particular, of the financial supervision unit, the General Finance Inspectorate (IGF), and the General Government Inspectorate (IGE) will be clearly defined and delineated and their performance more closely monitored. In the 2008 budget we have given the IGF and the IGE the resources they will need to improve their performance. We will also ensure that the findings and recommendations of their reports are followed up and we will publish their annual activity report. The specific measures to be implemented in 2007–08 are summarized in Box 2.

Box 2. Guinea—Key Public Finance Management Measures for 2007–08

Budget preparation

- Revise the budget classification to conform it to the classification recommended in the IMF *Government Finance Statistics Manual* and identify poverty expenditure on that basis (March 2008).
- Prepare an overall medium-term budgetary framework and expenditure frameworks for the health and education sectors, linking budget appropriations to sectoral programs and objectives in time for preparation of the 2009 budget (March 2008). The preparation of expenditure frameworks for other priority sectors will be spread out over the 2009–10 period.

Budget execution

- Prohibit all extrabudgetary expenditure.
- Issue a decree stating which expenditures are eligible for simplified procedures, including those without prior commitments (December 2007).
- Place in service a secure computer link between the Treasury and the BCRG to increase transparency and to ensure prompt processing of financial transactions (end-January 2008).
- Complete the decentralization of the administrative expenditure phase of the budgetary process (end-December 2007).
- Resume consolidated cash management by returning to the Treasury the accounts of government entities and public institutions currently held in commercial banks and at the central bank, including project accounts recording counterpart entries of the national development budget (June 2008).
- Prohibit overdrafts in all Treasury accounts, except those controlled by senior government accountants (on a continuous basis).

Accounting, budget audit, and financial information pertaining to the budget

- Complete the government chart of accounts update (June 2008).
- Standardize the Treasury balance accounts (June 2008).
- Each month, verify the balances of the accounts of revenue collection agencies at the central bank (on a continuous basis).
- Within a period of one month, carry out a monthly reconciliation of the balances of government accounts at the BCRG with the Treasury balance (on a continuous basis).

Legal framework

- Adapt the fundamental law concerning budget laws and the general regulation on government accounting to the reforms under way (June 2008).

32. **We will also continue reforming the public procurement system with World Bank support.** The aim of the reform is to rationalize the legal framework, entrust management to decentralized and deconcentrated levels so that the units currently involved retain authority only to ensure the regularity of procurement and the effectiveness of contract performance. A revised public procurement code will be submitted to the National Assembly by end-June 2008. To enhance transparency, we plan to publish the results of all invitations

to bid on procurement contracts within 30 days of the end of each month starting from January 2008, and a quarterly audit report on the largest public procurement contracts according to a sampling method agreed with the World Bank (within a period of three months, beginning with the first quarter of 2008). We hope thereby to meet one pending trigger for the HIPC completion point.

33. **We will also adopt measures to strengthen the domestic debt management systems.** The primary measures in this area will relate to: (i) strengthening the monitoring of domestic public debt and arrears; (ii) audits of domestic claims on the government which are in dispute, if necessary with the assistance of qualified audit firms; and (iii) update of the 2005 audit of domestic arrears and implementation of a plan to clear such arrears.

34. **The government intends to realize major savings through stricter management of its personnel and thus free up resources to hire staff in the priority sectors.** The following measures will be taken to that effect:

- Regularization of personnel records by reconciling the civil service record with that of the payroll department (March 2008).
- Removal of ghost workers by periodically reconciling the list of actual active staff, certified by each ministry, with the staff on the records of the payroll department (December 2008).

C. Monetary and Foreign Exchange Policy

Monetary policy

35. **The disinflation objective will be pursued through firm control of base money growth by the central bank.** In 2007, our goal will be to keep the money supply expansion well below the nominal GDP growth, to harness inflation pressures and offset the excessive liquidity that built up in 2006. In 2008, the goal will be to roughly align the growth of the money supply with nominal GDP growth. Achieving these targets will be facilitated by our decision to eliminate definitively any new advances from the BCRG to the government. Considering our goal of gradually rebuilding the central bank's net foreign assets, the program projections allow for a sufficient margin of increase (around 36.1 percent in 2007) for net credit to the private sector.

36. **To achieve our monetary policy objectives, we plan to energize our liquidity management and strengthen the existing indirect monetary policy instruments and coordination between the central bank and the Treasury.** The BCRG will make a special effort to manage bank liquidity, primarily by issuing central bank bills and (depending on the needs of the Treasury) Treasury bills. Accordingly, it will reactivate the bank liquidity monitoring committee and will keep its policy rates at levels compatible with its monetary objectives. The BCRG will also ensure that commercial banks continue to scrupulously observe the required reserve ratio (currently 9.5 percent) and will apply the regular sanctions

for noncompliance, if necessary. It will consult IMF staff should adjustments of that ratio or of policy interest rates prove necessary.

37. **With IMF assistance, the BCRG will complete its indirect monetary control mechanism.** Two permanent deposit and refinancing facilities will be put in place to provide flexibility in determining the interest rates of Treasury bill and TRM auctions. The caps on commercial bank lending and deposit rates will be eliminated by end-December 2007.

Exchange policy

38. **The authorities want to base the determination of the exchange rate to market mechanisms, while at the same time minimizing exchange rate volatility.** Until April 2007, loosened monetary policy and central bank purchases of foreign exchange outside the banking sector contributed to the depreciation of our currency and to a rising premium on the parallel market. Early in the year, the local currency appreciated considerably as a result of a temporary shortage of banknotes, the expectation of economic reforms created by the political handover, and, in the second quarter, the drastic reduction of the central bank's foreign exchange purchases. Today, the central bank is seeking to gradually rebuild exchange reserves through transparent interventions on the official market.

39. **The central bank will address the operational problems of the official foreign exchange market and make a special effort to reduce the sizable exchange rate premium between the official and parallel market rates.** First, it will publish the details of the official exchange rate calculation and its application. The central bank transactions (including with the government) will be made within the limit of 1 percent around the daily average exchange rate applied by the commercial banks. Moreover, it will launch an interbank exchange market. An exchange market agreement (*convention de place*) was signed in September 2007 by all banks to establish the basis for conducting foreign exchange operations among them. A framework for the efficient and transparent conduct of central bank exchange operations on that market will be put in place shortly with IMF support. The reduction of the parallel market premium and stricter enforcement of the exchange regulation, particularly with regard to capital transactions, should make it possible to halt the trend toward the dollarization of our economy, to domicile a larger proportion of export earnings in banks and thus develop the interbank market. As soon as possible, the determination of the official exchange rate will be based on that market's transactions.

Bank supervision

40. **The central bank will increase its surveillance missions to banks and insurance companies.** It will step up off-site audits and on-site inspections of banks. The new bank chart of accounts will take effect on January 1, 2009. An action plan to rehabilitate the insurance sector and reform the insurance code will be prepared by end-June 2008. Daily tracking of the exchange position of banks will be instituted.

41. **The development of microfinance will be encouraged.** With AFRITAC technical assistance, the central bank will conduct a new survey of the locations of microfinance institutions throughout the entire national territory. It will also upgrade its financial data reporting system, strengthen the service capabilities of the bank supervision directorate, and will draft implementing regulations for the new law on microfinance.

D. Reform of the Central Bank Governance

42. **Building on the work of the panel of experts appointed by the prime minister and with IMF assistance, the government has undertaken a complete reform of the central bank.**¹ This reform will focus in particular on the central bank's charter, its administrative organization, its accounting and internal and external control procedures, and the transparency of the information it produces. To that end, a package of measures will be taken during the first year of the program:

- Application of international standards to the oversight management and accounting of the foreign exchange reserves, and reorganization of the central bank's Foreign Exchange Directorate (January 2008).
- Implementation of the recommendations of the external audit of BCRG financial statements at end-2006 to correct accounting errors and reform internal control procedures (end-2007).
- Establishment of a reliable internal audit system under the supervision of the Board of directors of the central bank, through the adoption of an internal audit charter and the effective organization of the audit committee (October 2007).
- Submission to parliament of a draft law amending the charter of the central bank in order to clarify its responsibilities, guarantee its independence, ensure the transparency of its operations, and prohibit any financing of the government (June 2008).
- Finalization of the audit of the 2007 financial statements and publication on the Internet of the financial statements and audit reports for 2006 and 2007 (August 2008).
- Establish an external audit policy that provides for ongoing annual audits of the BCRG's financial statements in accordance with International Standards on Auditing. Prepare an action plan for implementing International Financial Reporting Standards as the BCRG's financial reporting framework (June 2008).

¹ This reform will focus in particular on implementing the recommendations of a the recent IMF safeguards assessment mission.

E. Other Structural Reforms

43. The focus will be on the electricity and water sectors, telecommunications, the mining sector, the privatization of public enterprises, the promotion of good governance, and combating corruption.

44. **With the support of our development partners, from 2008 we expect to enhance the financial situation in the EDG and SEG, while improving their management and services provided.** By end-2007, the two enterprises will agree with their supervisory ministry and the finance ministry on quantitative targets for 2008 regarding operational deficit and reduction of technical, commercial, and payment collection losses. Efforts will be stepped up to eliminate the fraudulent use of water and electricity. Sufficient appropriations were programmed into the central government budget to pay for water and electricity consumption and instructions will be given for the timely payment of invoices. The situation of cross arrears with the government at end-June 2007 will be updated and a settlement plan will be adopted in 2008. If necessary tariff rate adjustments will be made on an urgent basis in early 2008 so that the enterprises can reach their financial objectives. In addition, the ongoing study of the overall policy on electricity and water rates will be completed by end-June 2008 with a view to rationalizing the rate structure by end-2008.

45. **The legal framework governing the operation and output of the mining sector will be revised.** Model contracts based on international best practices will be finalized with World Bank assistance by end-April 2008. They will clearly delineate the exceptions provided for in the 1995 Mining Code for projects exceeding US\$50 million. The government will undertake to revise the existing contracts to harmonize and align them with international standards, based on these model contracts. The taxation of the mining sector will be reviewed and amended in consultation with the IMF and the World Bank.

46. **The government envisages to finalize several privatization deals during the first year of the program.** The government plans to prepare for sale some or all of its holdings in at least four companies: GHI (Novotel), Union Guinéenne d'Assurance et de Réassurance (UGAR), Société Mixte de Carburant Aéronautique de Guinée (SOMCAG), and Société de Production Chimique (SOPROCHIM). The government also plans to sell Hôtel Niger, Hôtel Camayen, and the real estates including Hôtel Kaloum. The sale of some of the government's shares in Banque Populaire Maroco-Guinéenne (BPMG) and in Société des Ciments de Guinée is also planned for 2008. In addition, the Société de Production d'Allumette de Guinée (SOPAG) will be liquidated by end-December 2007.

47. **Through end-June 2008, the government will gradually reinstate the formula-based mechanism for monthly adjustments of petroleum products prices in line with international prices.** This mechanism will contribute to ensuring continuous supply and to regularizing the tax regime applicable to petroleum products. The government's outstanding debt vis-à-vis distribution companies at end-2006 will be reconciled as soon as possible, and settled as agreed in principle by both parties. If needed, a

margin to settle losses incurred by distribution companies in 2007 will be introduced in the formula.

48. The following measures will be adopted to improve transparency and governance and combat corruption:

- Publication of audited reports in the context of EITI for 2006 (by end-June 2008).
- To promote ethical rules, adoption of a civil service code of professional conduct and specific charters for tax staff (June 2008).
- Submission to Parliament of an anti-corruption law, specifically providing for the mandatory declaration of assets for certain categories of senior officials (June 2008).
- Promulgation of decrees on the powers and operation of the Audit Office and the status of its judges; this institution will also be provided with necessary resources, and its financial autonomy will be confirmed (during 2008).
- Completion of ongoing audits in all ministerial departments and publication of the summary report, including the list of cases submitted to the courts (early 2008).
- Promulgation of U.N. and African Union anti-corruption agreements (during 2008).
- Promulgation of the anti-money laundering law passed by the National Assembly in 2006 and establishment of the financial intelligence unit provided for in that law (during 2008).
- Publication of the activity report of the national anti-corruption agency (March 2008).

F. External Financing

49. The government will take all necessary steps to meet its obligations to external creditors in accordance with the established timetable and address all outstanding arrears. Regarding debt service to the IMF, the BCRG will continue the quarterly prepayments to its SDR account to cover all payments falling due in the following quarter.

50. The government will ask all its external creditors to approve generous debt relief measures, which will enable it to finance its program. We have asked Paris Club creditors to reinstate the debt service relief and negotiate the settlement of external arrears (including arrears on post cut-off debt) in the context of the prospective PRGF-supported program. We have also applied to other bilateral creditors for debt relief on at least comparable terms. The government is also asking for resumption of the interim assistance granted by the IMF under the enhanced HIPC Initiative. The authorities request the third tranche of interim HIPC assistance in the amount of SDR 4.848 million.

51. **To cover the financing requirements of the program without running the risk of once more compromising the sustainability of our external debt, the government will only contract assistance in the form of concessional loans and grants beginning in the final quarter of 2007.** The nonconcessional assistance that Guinea was forced to obtain in recent months to finance crucial imports will not be renewed. If our assumptions concerning rescheduling/relief of the above-mentioned debt are correct, the first year of the program, covering the period up to end-June 2008, will be fully financed. We expect that the financing gaps in the last two years of the program will be financed by additional assistance from donors, once this program is approved, and by additional external debt relief when we have achieved the HIPC Initiative completion point.

G. Improvement of Economic Statistics

52. **Better statistics are needed to monitor the program, particularly with regard to the national accounts, the balance of payments, and monetary statistics.** With support from the IMF and AFRITAC, revised national accounts with a new price base will be published up to 2005 by end-2008. In accordance with the new PRS-II, the government will adopt an overall plan to make significant improvements in the quality of macroeconomic statistics and develop appropriate poverty indicators. We plan to ask donors to provide financing for this plan.

H. Risks

53. **Attainment of the program objectives may be affected by the vulnerability of the Guinean economy to exogenous shocks, such as terms of trade fluctuation or the resumption of armed conflicts in neighboring countries.** The government believes that implementation of the present program will enhance its capacity to (i) respond appropriately to such shocks, by strengthening monetary and fiscal safeguards and the country's external position, and (ii) mobilize additional external resources. Moreover, as indicated in the PRS-II (section on risks), the government will endeavor to strengthen consensus among political and social players concerning its poverty reduction strategy and the objectives of this program, to ensure its complete success, regardless of the outcome of the coming elections.

I. Program Monitoring

54. **The government plans to complete the actions indicated in the attached Table 1 prior to consideration, by the IMF Executive Board, of Guinea's request to conclude a three-year arrangement under the PRGF.** To date, all the prior actions except one have been completed.

55. **Program implementation during the first year of the PRGF arrangement will be monitored with the quantitative and structural indicators** listed, respectively, in the attached Tables 2 and 3. The definitions of the relevant variables are contained in the Technical Memorandum of Understanding (TMU, Attachment II). Program implementation and actual economic results compared with programmed objectives will be discussed in two

annual reviews, the first to be concluded by end-April 2008 (in accordance with the performance criteria established for December 31, 2007) and the second by end-October 2008 (in accordance with the performance criteria established for June 30, 2008). A unit that includes senior staff of the Ministry of Finance, Economy and Planning and the central bank has been set up to monitor program implementation.

56. It is understood that the first disbursement under the PRGF arrangement will be available, upon the request of the Guinean government, immediately following approval of the arrangement by the Executive Board. The second disbursement will be subject to fulfillment of the performance criteria established on December 31, 2007 and conclusion of the first review. The third disbursement will be contingent on meeting the performance criteria established on June 30, 2008 and conclusion of the second review. Additional performance criteria and structural benchmarks may be established in consultation with Fund staff during the first review. The timing, reviews, and other conditions governing disbursements for the second year will be determined in the second review of the arrangement.

57. In the first year of implementation of the PRGF-supported program, the Guinean government will refrain from:

- a. imposing new exchange restrictions or tightening existing restrictions;
- b. introducing multiple currency practices (MCPs) and modifying existing MCPs;
- c. imposing or tightening import restrictions for balance of payments reasons;
- d. concluding bilateral payment arrangements contrary to the Article VIII of the IMF Articles of Agreement.

Table 1. Guinea: Status of Prior Actions for the Poverty Reduction and Growth Facility

	Status of the measure
I. Quantitative benchmarks	
• End-July	Met
• End-August	Met
II. Central bank	
• Complete the external audit report on financial operations of the central bank in 2006	Met
• Sign an agreement between the Treasury and the central bank concerning the current level of the central bank claims on government and the repayment schedule, including a commitment that the central bank will make no payment for the account of the government without the prior approval of the Minister of Finance or his official representative.	Met
• Arrange for independent verification by an external auditor of the central bank balance sheet data at end-June 2007 that will be used to calculate quantitative performance criteria (i.e., net international reserves and net domestic assets of the central bank).	Met
• Adopt an action plan for the recommendations of the external audit of central bank financial operations in 2006.	Met
• Retain KPMG France to conduct the audit of central bank financial operations in 2007.	Met
• Establish a separate account at the Bank for International Settlements (BIS) for future disbursements under the PRGF. The design of the controls on this account will ensure that withdrawals from this account will require internal approval and independent verification by an external auditor.	Partially met ¹
III. Government finance	
• Prohibit all ad hoc tax and customs exemptions.	Met
• Prohibit all extrabudgetary expenditure. ²	Met

¹ The central bank has requested an account for it be opened at the BIS and has drafted regulations on applicable controls. The regulations are expected to be transmitted to the central bank Board shortly.

² Extrabudgetary expenditure is defined as central government spending for which there is no budget appropriation or legal authorization.

Table 2. Guinea: Proposed Quantitative Performance Criteria and Indicative Targets for 2007–08 Under the PRGF Program¹

(Cumulative change from end-June 2007 for the 2007 targets, and from end-December 2007 for the 2008 targets)

(Billions of Guinean francs unless otherwise indicated)

	2007			2008	
	end-Jun. ² Est.	Sep. Prelim.	Dec. ³ Proj.	Mar. Proj.	Jun. ³ Proj.
Quantitative targets					
Basic fiscal primary balance (floor)	431.7	83.7	173.7	147.0	345.0
Net domestic assets of the central bank (ceiling) ^{4, 5}	2,085.2	-121.4	-45.2	67.0	61.9
Net international reserves of the central bank (floor); US\$ millions ^{4, 5}	-90.2	4.3	20.9	6.1	32.8
Treasury float (ceiling) ^{6, 7}	295.0	0.0	0.0	5.0	5.0
New nonconcessional medium- or long-term external debt contracted or guaranteed by the government or central bank (ceiling); US\$ millions	n.a.	28.5	28.5	0.0	0.0
Stock of outstanding short-term external debt due or guaranteed by the government or the central bank (ceiling); US\$ millions	0.0	25.0	15.0	-15.0	-15.0
New external payments arrears (continuous ceiling); US\$ millions ⁸	77.8	89.1	0.0	0.0	0.0
Expenditure in priority sectors (floor) ^{6, 9}	257.7	255.1	482.1	240.0	493.3
Reserve money (ceiling) ^{5, 6}	2,002.3	-113.0	-37.1	80.1	157.3
<i>Memorandum items:</i>					
Exchange rate, GNF/US\$ (program)	3,360.0				

Sources: Guinean authorities and IMF staff projections.

¹ For definitions and adjustors, see the technical memorandum of understanding (TMU).

² Flow over the first six months of 2007 for fiscal criteria and stock for end-June 2007 for monetary and external debt criteria.

³ Performance criteria, unless otherwise indicated.

⁴ Adjusted upward or downward by program external assistance as specified in the TMU.

⁵ Calculated using the program exchange rates.

⁶ Indicative target.

⁷ Includes float, reimbursements due of VAT credits, and arrears on domestic debt recognized by the government.

⁸ No new payment arrears starting from the Board presentation.

⁹ Priority sectors include public health, education, urban planning, the environment, energy, and justice. The TMU has a detailed definition.

Table 3. Guinea: Structural Conditionality for the First Year of the Program

	Date of execution
I. Structural performance criteria	
<ul style="list-style-type: none"> Independent verification by an external auditor of central bank balance sheet data that will be used to calculate quantitative performance criteria the (i.e., net international reserves and net domestic assets) at end-December 2007. 	March 31, 2008
<ul style="list-style-type: none"> Deposit of PRGF disbursements in a separate account at the Bank for International Settlements (BIS). Withdrawals from this account will be subject to the express authorization of the Governor or Vice Governor of the BCRG. 	Continuous
<ul style="list-style-type: none"> No payment by the central bank for the account of the government without the prior signature of the Minister of Economic, Finance, and Planning or his official representative. 	Continuous
<ul style="list-style-type: none"> Ad hoc tax and customs exemptions are prohibited. 	Continuous
<ul style="list-style-type: none"> Extrabudgetary expenditure is prohibited. 	Continuous
<ul style="list-style-type: none"> Submission of a draft law to Parliament amending the charter of the central bank to strengthen its independence and limit financing of the central government budget by the central bank. 	June 30, 2008
<ul style="list-style-type: none"> Lift the prohibition against exports of agricultural, forestry, and fishery products. 	December 31, 2007
<ul style="list-style-type: none"> Reinstate the mechanism for the monthly determination of oil prices based on a pricing formula. 	June 30, 2008
II. Structural benchmarks	
<ul style="list-style-type: none"> Publish the central bank's audited financial statements for 2006 and 2007 on its website, together with the opinion of the external auditor. 	August 31, 2008
<ul style="list-style-type: none"> Apply international standards to the oversight, management, and accounting of the foreign exchange reserves in accordance with the recommendations contained in the report on safeguard measures. 	January 31, 2008
<ul style="list-style-type: none"> Close all accounts of nonautonomous government entities at commercial banks, except those explicitly required by donors. 	February 29, 2008

Table 3. Guinea: Structural Conditionality for the First Year of the Program (concluded)

	Date of execution
• Issue a ministerial decree stating which expenditures are eligible for simplified procedures and do not require prior authorization.	December 31, 2007
• Adopt in the Council of Ministers a standard mining contract based on international best practices.	April 30, 2008
• Adopt a budget classification based on the IMF Government Finance Statistics Manual 2001 (particularly the economic and functional classifications) and define poverty-reducing expenditure based on the functional classification.	June 30, 2008
• Finalize and publish the results of the audit of mining sector revenue and expenditure in 2006 in the context of the Extractive Industries Transparency Initiative.	June 30, 2008
• Adopt an overall strategy and a rate policy for the electricity sector.	December 31, 2008
• The BCRG will ensure the compliance of commercial banks with the required reserves ratio on their deposits and the system of sanctions provided for that purpose.	Continuous

ATTACHMENT II

GUINEA: TECHNICAL MEMORANDUM OF UNDERSTANDING (TMU)

December 4, 2007

I. INTRODUCTION

1. This technical memorandum sets out the understanding between the Guinean authorities and the staff of the International Monetary Fund (IMF) concerning the definition of quantitative performance criteria and indicative targets for the program supported by the PRGF arrangement, as well as the type of data to be reported to the IMF.
2. The quantitative performance criteria, indicative targets, and cut-off dates are set out in Table 2 of the Memorandum on Economic and Financial Policies (MEFP).

II. MAIN DEFINITIONS

A. Quantitative Performance Criteria

3. The **basic primary fiscal balance** is calculated as the difference between **government revenue excluding grants** and the **government's basic primary expenditure**. The definitions of terms in bold above are consistent with the definitions of the Government Financial Operations Table (TOFE), the method of calculation of which is described in Section V below.
4. The **net domestic assets** (NDA) of the BCRG are, by definition, equal to the difference between base money (defined below) and net foreign assets (NFA) of the BCRG, both calculated at the program exchange rate as indicated below. NFA are equal to the difference between the gross foreign assets of the BCRG, including foreign assets that are not part of reserve assets, and the foreign liabilities of the BCRG (in other words, $NDA = \text{base money} - \text{NFA}$, based on the BCRG balance sheet).
5. The **net international reserves** (NIR) of the BCRG are, by definition, equal to the difference between the reserve assets of the BCRG (i.e., external assets immediately available to and controlled by the BCRG, in accordance with the fifth edition of the IMF *Balance of Payments Statistics Manual*), and the foreign exchange liabilities of the BCRG vis-à-vis residents and nonresidents (including the foreign exchange deposits of local banks with the BCRG). In the context of the program, the BCRG's reserve assets in gold will be valued at the price in effect on June 29, 2007 (US\$650.50 per ounce) for the second half of 2007 and at the price on December 31, 2007 for 2008. On the dates of valuation, the equivalent in U.S. dollars of other reserve assets and liabilities in foreign exchange will be calculated at the program exchange rate, i.e.: for the second half of 2007 at the exchange rate in effect on June 29, 2007 between the U.S. dollar and the Guinean franc (GF 3,360/US\$), the SDR (US\$1.51557/SDR), the euro (US\$1.3505/€), and the other currencies published in

International Financial Statistics; and for 2008, at the exchange rate in effect on December 31, 2007.

6. **Medium- and long-term external debt contracted or guaranteed by the government or the central bank** is defined as the amount of **external debt** (see Section C below) contracted by the government or the central bank with a maturity of one year or more during the period under review. Debt is considered **concessional** if it has a grant element equivalent to 35 percent or more using the currency-specific commercial interest reference rate (CIRR) on the currency of the loan and following the methodology set out in staff papers SM/96/86 (April 8, 1996) and EBS/00/128 (June 30, 2000).¹ This definition does not apply to financing granted by the IMF.

7. **Short-term external debt contracted or guaranteed by the government or the central bank** is defined as the stock at a specific date of **external debt** owed or guaranteed by the government or the central bank with an initial contractual maturity of less than one year. Regular suppliers' credits linked to imports are excluded from this definition for the purposes of the program, as are deposits in foreign currencies at the central bank.

8. **External arrears of the government or the BCRG** include all debt-service obligations (principal and interest) arising from loans contracted or guaranteed by the government or the BCRG that are due but not paid on the due date, and unpaid penalties or interest charges associated with these loans. For the purposes of this performance criterion, an arrear will be defined as a payment which has not been made within 30 days after falling due.

9. **Extrabudgetary expenditure** is defined as central government spending for which there is no budget appropriation or legal authorization.

B. Indicative Targets

10. Payments pending are outstanding expenditures assumed by the Treasury (see definition below) and not yet paid, including reimbursements of VAT credits, and arrears on domestic debt that are recognized by the government.

11. **Expenditure in priority sectors** includes spending under Title 2 (wages and salaries), Title 3 (goods and services), Title 4 (transfers and subsidies), and Title 5 (domestically financed investment) by the Ministries of (i) Justice and Human Rights, (ii) Agriculture, Livestock, Environment, Water Resources, and Forests, (iii) Fisheries and Aquaculture, (iv) Public Works, Urban Planning, and Housing, (v) Public Health, (vi) Social Affairs, Status of Women and Children, (vii) Education and Scientific Research, and

¹ A more detailed discussion of the concessionality concept and a calculator to estimate the grant element of a financing package is available at the IMF website at <http://www.imf.org/external/np/pdr/conc/index.htm>.

(viii) Energy and Hydraulics. This expenditure also includes spending under Title 6 (Financial Investment and Capital Transfers) by the Ministry of Public Health as well as utility charges for water, electricity, and telephone (Title 3 of the ministries listed above). However, they exclude spending under Title 4 and Title 6 in connection with university instruction.

12. **Base money** includes deposits of local banks and the private sector with the BCRG (including bank's required reserves) denominated in Guinean francs or in foreign currency, central bank money in circulation in Guinean francs, and the cash holdings of local banks in Guinean francs. Amounts in foreign exchange are converted into Guinean francs at the program exchange rates (as defined in the paragraph on net international reserves).

C. External Debt

13. As indicated in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted by the IMF Executive Board on August 24, 2000,² for purposes of the program, "debt" will be understood to mean current, i.e., not contingent, liabilities, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services; these payments will discharge the principal and/or interest liabilities incurred under the contract. **External debt** can take a number of forms, the primary ones being the following:

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

² See EBS/00/128 (June 30, 2000)—"Limits on External Debt or Borrowing in Fund Arrangements—Proposed Change in Coverage of Debt Limits."

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.

14. Under this definition of debt, the arrears, penalties, and judicially awarded damages arising from failure to make payment under a contractual obligation that constitutes debt are also considered 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.

III. ADJUSTMENTS TO PROGRAM TARGETS

15. The NIR and NDA targets of the program are calculated on the basis of the projected amounts of **net external assistance**. For the purposes of the program, net external assistance is defined as the difference between: (a) total budgetary assistance (grants and loans) and the impact of debt relief granted by external creditors after June 30, 2007; and (b) total external debt service payments owed after relief already obtained. The impact of future debt relief excludes all debt relief under the HIPC (including interim assistance) and MDRI Initiatives.

16. The floor on NIR and the ceiling on NDA will be subject to simultaneous adjustment if disbursements of net external assistance (as defined above) differ from program projections. The floor on NIR will be adjusted upward (downward) and the ceiling on NDA downward (upward) and by an amount equal to the surplus (shortfall) in actual net external assistance compared to expected net external assistance. For the purpose of calculating the adjustment for NDA, the amount of net external assistance will be converted into Guinean francs at the program exchange rate. For a shortfall in net external assistance, the total downward adjustment of NDA will be capped at the equivalent of US\$20 million at the program exchange rate.

IV. INFORMATION FOR PROGRAM MONITORING

17. The information concerning the implementation and/or execution of structural benchmarks under the program (specified in Table 3 of the MEFP) will be reported to the IMF African Department within two weeks following their scheduled implementation date. The status of implementation of all other structural measures pertaining to the program will be transmitted within 30 days after the end of each month.

18. The authorities will send the data summarized in Table 1 to the IMF's African Department 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 its staff requests in connection with monitoring performance under the program.

V. DEFINITIONS FOR THE TOFE

19. Unless otherwise indicated, the **government** is defined as the central administration of the Republic of Guinea and does not include local administrations, the Central Bank of the Republic of Guinea (BCRG), or any other public entity with autonomous legal personality, including government administrative agency.

20. **Government revenue** includes tax and nontax revenue. It does not include external grants and revenue from privatization (recorded as financing). Tax and nontax revenue are defined on a cash basis, in accordance with the IMF *Government Finance Statistics Manual (GFSM)* 1986, section IV.A.1, using the following categories. For tax revenue, the main categories are taxes on income, profit, and dividends (Title 1); taxes on property (Title 2); taxes on international trade (Title 3), including import duties, 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 tax on financial transactions, 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 revenues (Title 5) include stamp taxes and revenue from recording fees. Tax receipts also incorporate the taxes assumed by the State for the purchase of externally financed capital goods. Nontax revenue consists of royalties and dividends (excluding revenue from the sale of telephone licenses), administrative duties and fees and fines and forfeitures (Title 6), and other nontax revenues (Title 7), including incidental revenue and capital revenue (Title 8). Capital revenue includes revenue from the sale of government assets, excluding revenue from privatization.

21. Starting in 2008, **government expenditure** is measured in the stage of assumption (*prise en charge*) by the Treasury, regardless of the execution procedure followed. Under regular or simplified procedures, the expenditure is assumed by the Treasury immediately after the payment order (*ordonnancement*) is issued; in the case of decentralized government appropriation (*délégations de crédit*) or payments without prior payment order, assumption occurs at the time of recording of the payment order (*mise en paiement*), and in the latter case, no expenditure will be measured at the basis of the regularization orders (*mandatements de régularisation*). For reimbursements of VAT credits, assumption occurs when those requests are transmitted from the National Tax Directorate to the Treasury. For 2007, government expenditure is measured on a commitment (*engagement*) basis. Government expenditure includes all expenditures of the central government, including subsidies and transfers to autonomous public entities, and loans granted or onlent by the government to public enterprises and other sectors of the economy, net of repayments on such loans.

22. **Basic primary expenditure** is defined as total budgetary expenditures less domestic and external interest outlays, and expenditure financed with foreign loans or grants or counterpart funds.

23. **Bank financing** includes (i) **central bank financing of the Treasury**, i.e., the change in the Treasury's net position at the central bank (TNP1) including the HIPC account but excluding the change in the net position of "satellite" government accounts at the central bank; and (ii) **commercial bank financing of the Treasury**, which includes the change in the stock of Treasury bills held by banks and excludes the change in the net position of "satellite" government accounts held in commercial banks.

24. **Nonbank financing** includes (i) amounts paid to resident holders of government securities; (ii) amounts owed to holders of government securities which have been rescheduled under an agreement signed by the two parties; (iii) revenue from privatization, including revenue from the sale of telephone licenses; (iv) advances of mining receipts received (positive sign) or paid out (negative sign); (v) suppliers' credits falling due in more than three months received (positive sign) or repaid (negative sign); and (vi) the retirement of other domestic debt.

25. **External financing** includes (i) disbursements of external loans; (ii) principal owed on government external debt, (iii) relief and rescheduling of government external debt, minus HIPC assistance obtained from multilateral institutions, which are considered part of grants; and (iv) change in foreign assets.

Table 1. Guinea: Data Reporting Requirements

Category of Data	Table/Report	Frequency	Deadline
Financial and monetary data	Central bank balance sheet, consolidated balance sheet of commercial banks, monetary survey (at both the current and program exchange rate)	Monthly	30 th of the month for the previous month
	Detailed net treasury position (NTP) and net government position (NGP)	Monthly	30 th of the month for the previous month
	Interest rates and outstanding volumes of government and central bank securities (<i>BDT</i> and <i>TRM</i>)	Monthly	30 th of the month for the previous month
	Prudential indicators of commercial banks	Quarterly	One month after end of quarter
	Foreign exchange budget (<i>budget en devises</i>)	Monthly	30 th of the month for the previous month
Fiscal data	Table of indicators (<i>tableau de bord</i>), including a detailed statement of revenue, expenditure, and cash-flow operations	Monthly	30 th of the month for the previous month
	Treasury balances (<i>balances générales du Trésor</i>)	Monthly	30 th of the month for the previous month
	Cash-flow plan (<i>plan de trésorerie</i>)	Monthly	30 th of the month for the previous month
	Monthly government flow of funds table (<i>TOFE</i>)	Monthly	30 th of the month for the previous month
	Expenditure reports by ministries in expenditure circuit (<i>chaîne des dépenses</i>)	Monthly	30 th of the month for the previous month
	Execution of budgetary expenditure, HIPC resources, and other priority expenditure	Monthly	30 th of the month for the previous month
	Outstanding Treasury float, including reimbursements of VAT credits, and arrears on domestic debt recognized by the government	Monthly	30 th of the month for the previous month
	Nonbank financing, indicating transactions in Guinean francs and those in foreign currencies.	Monthly	30 th of the month for the previous month
Real sector data	Consumer price index, Conakry	Monthly	30 th 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	Three months after end of quarter
	Price and volume indices of imports and of exports	Quarterly	Three months 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	30 th of the month for the previous month
	Debt service paid	Monthly	30 th of the month for the previous month
	Debt service reconciliation table	Monthly	30 th of the month for the previous month
	Stock of outstanding debt and arrears	Monthly	30 th of the month for the previous month
	Drawings on new loans	Monthly	30 th of the month for the previous month
External grants and loans	Disbursements	Quarterly	30 th of the last month of the quarter for the preceding quarter
	Monthly transfers of amounts of HIPC Initiative debt relief, by creditor	Monthly	30 th of the month for the previous month