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Guinea and the IMF

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IMF Executive Board Approves Three-Year, US$198.9 Million Extended Credit Facility Arrangement and Additional Interim HIPC Assistance for Guinea
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Guinea: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

February 11, 2012

GUINEA: LETTER OF INTENT

Conakry, February 11, 2012

Madame Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C.

Madame Managing Director,

1. **The government issued from the 2010 presidential elections, the first free and democratic elections in Guinea**, **acted quickly and decisively to reverse the catastrophic situation inherited from the military regime**. To usher in peace and social cohesion, it launched a reform of the defense and security forces and instituted political dialogue to prepare for transparent legislative elections. During 2011, the government implemented significant structural reforms and corrective economic and financial measures that served to improve governance, accelerate real economic growth, halt the inflationary spiral, rebuild international reserves, and stabilize the Guinean franc exchange rate. In the area of public finance, it reduced the government deficit by over 10 percentage points of GDP. Finally, it established a new mining policy to promote transparency and discipline in the management of Guinea's natural resources, which encouraged investments in the mining sector. These unprecedented corrective measures were supported by the international community, including through an IMF staff-monitored program; budget support from the African Development Bank, the World Bank, and the European Union; and technical assistance from other partners.

2. **Despite the progress achieved**, **significant challenges remain for the years ahead**. Inflation, while stabilized, remains a matter of concern and the main short-term macroeconomic challenge. The heavy burden of external public debt and weak infrastructures, particularly in the electricity, water, transportation, and communications sectors, represent formidable challenges for the recovery of growth. Structural reforms are expected to prepare the Guinean economy for the massive investments expected in the mining sector in the coming years and increased mining production beginning in the middle of the decade.

3. **To consolidate the results achieved under the staff-monitored program, restore growth, and reduce poverty, the government has prepared an economic and financial program covering the period 2012–14**. The program is intended to reduce inflation and lay the groundwork for rapid and diversified growth. It will serve to realize the government's economic vision of mobilizing Guinea's agricultural, hydroelectric, and mining potential; increase the economy's competitiveness by improving the business climate, infrastructures, and social services; and strengthen good governance and anticorruption efforts.

4. **The attached memorandum of economic and financial policies (MEFP) describes the economic vision and policies the government is determined to implement during the program period**. The authorities request that the IMF support their three-year economic and financial program under the Extended Credit Facility (ECF). We request the IMF's financial support for this program equivalent to 120 percent of our quota share, or SDR 128.520 million, and a first disbursement of SDR 18.36 million (17.1 percent of quota) following Board approval of the arrangement. The government also requests continuation of the interim assistance provided by the IMF under the Heavily Indebted Poor Countries (HIPC) Initiative, in the amount of SDR 1.2852 million.

5. **The government is determined to achieve the completion point under the HIPC Initiative without delay**. It counts on the support of the development partners to substantially reduce the external debt burden at the completion point in order to ensure the sustainability of public finances, normalize Guinea's relations with its creditors, and refocus the government's budget priorities on poverty reduction spending. The government will spare no effort to achieve the structural completion point triggers soonest, with support from the development partners.

6. **The government is convinced that the policies and measures set forth in the attached memorandum will serve to achieve the program objectives**. However, it will take any additional measures that prove necessary to that end. The government will consult IMF staff with respect to the adoption of such measures, either on its own initiative or at the request of the IMF Managing Director, before adopting such measures or before modifying the policies set out in the memorandum, in accordance with IMF policy regarding such consultations. Furthermore, the government will refrain from assuming obligations that would compromise debt sustainability or the HIPC Initiative, including contracting or guaranteeing debt under non-concessional terms or more generally under terms that would jeopardize achievement of the objectives of debt sustainability after the HIPC Initiative completion point. The government agrees to provide the IMF with any information required to monitor the implementation of measures or the achievement of program objectives.

7. The government authorizes the IMF to publish this letter, the attached MEFP and technical memorandum of understanding, as well as the IMF staff report on the Article IV consultation and the request for an arrangement under the ECF.

Very truly yours,

__________/s/____________
Louncény Nabé
Governor, Central Bank of the
Republic of Guinea

_________/s/_________
Kerfalla Yansané
Minister of Economy and
Finance

Attachments: Memorandum of economic and financial policies
Technical memorandum of understanding

ATTACHMENT I—GUINEA: MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

February 11, 2012

I. INTRODUCTION

1. **The military regime's lax economic, fiscal, and foreign exchange management during 2009–10 led to a disastrous situation marked by severe macroeconomic instability and the weakening of governance**. Insecurity and social tensions undermined confidence and put a damper on private investment and economic growth. The already weak economic and social infrastructure further deteriorated, social indicators worsened, and poverty became more acute. Governance problems led to loss of control over government revenue and expenditure. The basic fiscal balance declined from a surplus of close to 2 percent of gross domestic product (GDP) in 2008 to a deficit of almost 13 percent of GDP in 2010, which was entirely financed by money creation and the accumulation of external payments arrears. The rate of inflation spiraled to almost 21 percent by end-December 2010; international reserves almost depleted to less than one month of imports, the domestic currency depreciated considerably, and the gap between the official and parallel market exchange rates widened to close to 20 percent.

2. **The government of President Alpha Condé, resulting from the first free democratic elections in Guinea, acted quickly and decisively to correct the situation**. Since January 2011, it has undertaken significant structural reforms and unprecedented economic and financial recovery measures. To implement lasting peace and social cohesion, the government launched the reform of the security sector and engaged in dialogue on national reconciliation. To complete the transition to a normal constitutional situation, discussions are underway to organize legislative elections as soon as possible in 2012. A new mining code was adopted to improve transparency in the sector and to increase Guinea's share in mining resources. Public expenditure was controlled through rigorous implementation of a cash-based government expenditure management system through a monthly cash flow plan approved by a Treasury Committee chaired by the Prime Minister. This made it possible to avoid further advances to the Treasury by the Central Bank of the Republic of Guinea (BCRG). Furthermore a prudent monetary policy and proactive exchange policy halted spiraling inflation and curbed exchange rate fluctuations. These efforts were supported by the international community. To that end, discussions had been initiated with the International Monetary Fund for a Rapid Credit Facility program starting in early 2011. After some modifications resulting from the receipt of windfall mining revenue (see Box 1), these discussions finally resulted in the staff-monitored program covering the period January–December 2011, approved by IMF management on June 30, 2011 and presented for information to its Executive Board on July 1, 2011.

Box 1. Windfall Mining Revenue in 2011

On April 22, 2011, the government signed an agreement with the mining company Rio Tinto concerning the Simandou south concession (Blocs 3 and 4). Within the framework of that agreement, and in order to resolve all pending issues and finalize the new terms of the investment agreement, the Rio Tinto subsidiary SIMFER paid US$700 million to the Treasury in May 2011. This amount is deposited in an account with the BCRG. For 2011, the government committed to use US$145 million of these resources for priority and urgent investments, 70 percent of which in the electricity sector. US$40 million was intended for financing other budgetary spending under the supplementary budget approved by the CNT on October 15, 2011.

3. **The government's vision for the medium term is to consolidate economic and financial stabilization and to lay the foundations for sustained and shared real growth**. The consolidation of economic stabilization undertaken in 2011 is expected to promote better use of Guinea's mining, hydroelectric, and agricultural potential in the years to come. This requires major public investment efforts, to equip the country with essential infrastructure and build a solid foundation for private investment. These investments may be financed in part through mobilization of windfall mining revenue, which will be allocated on a priority basis to increasing the capacity to produce electrical energy and to developing the agriculture sector and transport infrastructure. Supplemented by other structural measures designed to improve the business climate, these investments could help diversify the Guinean economy and mitigate the adverse impact the rapid development of the mining sector could have on the other sectors of the economy through the "Dutch disease" syndrome.

4. **The government is determined to lay the foundations for strong economic growth to significantly reduce poverty**. To that end, the following specific goals will be pursued within the framework of implementing the Poverty Reduction Strategy:

- consolidate social peace by organizing peaceful elections and completing the reform of the security sector;
- reform the public sector to improve its productivity and intensify the efforts to improve governance and the business climate, including combating corruption and strengthening the judicial system;
- restore the confidence and credibility of the economic, financial, and monetary institutions by stabilizing inflation and the exchange rate;
- develop the potential of the mining sector and its synergistic growth with the other sectors of the economy;
- improve infrastructure by developing and implementing a public investment program in concert with development partners;

- increase agricultural production to attain food self-sufficiency in the medium term, to reduce the country's dependence on imports, and to increase agricultural exports in the long term;
- enhance the production and distribution of electrical energy by tapping the country's hydroelectric potential.

5. **This Memorandum on Economic and Financial Policies describes performance under the IMF Staff-Monitored Program in 2011 and the government's economic vision for the medium-term**. It gives greater details about the objectives of the economic and financial program for 2012 and describes medium-term financing and technical assistance needs, as well as program indicators and monitoring arrangements. The government is determined to reach completion point under the Heavily Indebted Poor Countries Initiative (HIPC Initiative) in 2012, one of the triggers of which is performance with regard to macroeconomic stability. The government also expects to complete implementation of the other triggers during the first quarter of 2012. In addition, it will continue to implement the Poverty Reduction Strategy Paper (PRSP), which has been extended to cover the 2011–12 period.

II. Performance Under the Staff-Monitored Program in 2011

6. **Performance under the Staff-Monitored Program has been very satisfactory**. All the quantitative and structural program benchmarks for end-June and end-September 2011 have been met (Tables 1 and 2). On the macroeconomic front, real growth increased to almost 4 percent in 2011, up from 1.9 percent in 2010, reflecting the normalization of the political and social situation and very good performance in the agricultural and mining sectors. The government accomplished fiscal consolidation and reduced its basic fiscal deficit, excluding investments funded with its windfall mining revenues, from 13 percent of GDP in 2010 to less than 1 percent of GDP in 2011. This unprecedented adjustment was made possible by the implementation of a rigorous fiscal policy and cash-based expenditure management system. Moreover, provisional data indicate that the money supply expanded by less than 10 percent during 2011 compared to 74 percent in 2010. These strict policies halted the upward trend in inflation by stabilizing the rise in the consumer price index at 19 percent at end-December 2011, year-on-year, and halted the rapid depreciation of the exchange rate. With the windfall mining revenue, international reserves were replenished to 4.5 months of imports of goods and services.

7. **Fiscal consolidation was the cornerstone of the government's macroeconomic stabilization policy**. In addition to cash-based budget execution, several other measures were vigorously implemented to increase revenue, control expenses, and take back control of the budget, in particular:

- With respect to revenue, ad hoc exemptions from customs tariffs were eliminated and the list of products subject to import verification was extended; excise taxes on beer and tobacco were increased; efforts to collect back taxes were intensified; and control of contributions from autonomous revenue-collecting agencies was strengthened, inter alia, through strict enforcement of the terms of contracts and licenses, enabling the government to recover exceptional nontax receipts in non-mining sectors representing more than 1 percent of GDP.

- A very important measure taken in early 2011 to control expenditures was the freeze of 2009–10 government contracts—totaling over 40 percent of GDP—that had been signed in violation of the government procurement code and overbilled. This step was taken following a World Bank-funded audit by experts from the French Audit Court. This financial support and technical assistance was provided as part of the work of the settlement committee that was established to review the contracts in question and make recommendations to the government on the final handling of the contracts concerned.
- In order to improve budget control, the government reinstated the procedure of competitive selection as the normal process for awarding government contracts (Ministerial Decree of March 11, 2011), and prohibited the signing of contracts without budget appropriation caps and without the signature of the Finance Minister.
- The government began to apply the law establishing the Treasury Single Account to all public structures, including government-owned companies.

8. **Budget execution at end-September 2011 was in line with the IMF staff-monitored program**. The budget approved in April 2011 by the interim legislative body, the National Transition Council (CNT), projected a deficit in the basic fiscal balance of 2 percent of GDP in 2011 and net bank financing of 3.6 percent of GDP. At end-September, the basic fiscal balance for the first nine months of the year was a surplus of 0.5 percent of GDP and the government reduced its net debt to the banking system, a key component of the authorities' efforts to control inflation, by over 1 percent of GDP excluding deposits of windfall revenue. These achievements exceed the program targets and benchmarks at that date by a wide margin.

9. **In October 2011 the CNT approved a revised budget authorizing the use of a portion of the windfall mining revenue in 2011**, **in particular**, **for investment projects in the electricity sector**. This was in response to citizens' high expectations for immediate improvements in living conditions as well as urgent needs. However, indications are that the government succeeded in reducing the basic fiscal deficit for 2011 to less than 1 percent of GDP, below the initial budget objective, excluding investments financed from windfall revenue, and to 2.5 percent of GDP if these investments are included. These results reflect a larger budget adjustment (excluding investments financed from windfall revenue) than provided in the staff-monitored program. To achieve those objectives, the government took a number of measures including (i) increasing fuel prices by 27 percent in October,

substantially reducing tax revenue losses generated by the gap between the cost of imports and retail prices; (ii) intensifying efforts to increase the financial contribution of autonomous revenue-collecting agencies to the government budget; (iii) reducing budget appropriations for current expenditures; and (iv) postponing several investment projects to 2012–13. Furthermore, although the budget support from the World Bank planned for the second half of the year (equivalent to nearly 0.8 percent of GDP) was not received, the government reduced its net borrowing from the banking system (excluding deposits of windfall mining revenue) in line with the staff-monitored program objective.

10. **Following normalization of Guinea's relations with its development partners, external budgetary assistance was resumed**. In 2011, after accumulating new arrears during the period 2009–10, the government began to normalize its financial relations with foreign creditors, despite funding constraints. The arrears owed to multilateral financial institutions were cleared in 2011. Arrears payable to the World Bank were cleared using its budgetary support. Some arrears to the European Investment Bank (EIB) were cleared with a grant. An agreement also was reached to clear the remaining arrears in order to reach the completion point under the HIPC Initiative. These actions, and the normalization of relations with Guinea's partners in general, made it possible to resume budgetary support and project assistance.

11. **The objectives of monetary and exchange policy were to mop up excess liquidity of the 2009–10 period and to stabilize inflation and the exchange rate of the Guinean franc**. The BCRG took a number of measures to achieve these goals, in particular:

- raising the policy rate from 16.75 to 22 percent on March 23, 2011, and increasing the reserve requirement rate by 7.5 percentage points, to 17 percent on March 23, and by an additional 5 points to 22 percent on October 19, 2011.
- improving the regulations for exchange bureaus. After the bureaus were closed in early March, the conditions for practicing the money changing profession were clarified (Instruction 025 of April 29, 2011) and the BCRG reopened the exchange bureaus on April 7. Since then, the exchange rates of these bureaus have been freely determined and the BCRG's official rate has been determined as the average of the commercial banks' rates for the preceding day; and
- reviving the interbank foreign exchange market (IFEM) in March 2011, allowing the allocation of about US$170 million to the banks to finance imports during 2011.

The BCRG set up a monetary programming committee to better monitor the evolution of the monetary situation. A monthly monetary and exchange policy bulletin has been prepared since June, with the intention to publish it in the press. The BCRG also began to build its banking supervision capacity with the assistance of the IMF Regional Technical Assistance Center for West Africa (West AFRITAC).

12. **In the area of structural reforms**, **the government has taken important measures to create the conditions for sound economic and financial management in the medium term**. Therefore:

- The government has implemented a new mining policy to ensure more transparent and stricter management of the country's natural resources. To that end, on September 9, 2011, it adopted and promulgated a new mining code conforming to international standards, with support from the *Agence Française de Développement* (AFD) and other development partners. The implementing texts and a standard contract are expected to be finalized in 2012. Furthermore, on March 1, 2011, Guinea resumed participation in the Extractive Industries Transparency Initiative (EITI Initiative), which it had voluntarily suspended in 2009, and the steering committee action plan is currently being implemented to complete the process of validating Guinea's EITI.
- With support from the World Bank and the AFD, an institutional audit of the energy sector was completed and submitted to stakeholders in September 2011 and will be used to define a sector reform program following the roundtable organized for this purpose on January 16–17, 2012. Discussions are under way with French utility *Electricité de France* (EDF) with a view toward providing technical assistance to its Guinean counterpart *Electricité de Guinée* (EDG).
- The reform of the justice and security services sectors was launched in 2011 through the organization of the forum on justice and the adoption of a program to restructure the armed forces, gendarmerie, and police. This restructuring includes, inter alia, a biometric census of the military, completed for the Conakry garrisons in October 2011 and in progress for garrisons in the interior; the retirement of 3,928 military personnel in December 2011; and the creation of a judicial framework for the military and adoption of the corresponding statute.
- The government launched a broad agricultural sector recovery program with a view to attaining food self sufficiency in the medium term and developing agricultural exports in the long term. It reinstated the structures for agricultural training and extension services and executed a major program to distribute inputs, seeds, and agricultural materials.
- With support from the World Bank and the International Finance Corporation (IFC), reforms were undertaken to promote the private sector in order to attract investors and facilitate the establishment of enterprises. To that end, a framework for public-private sector dialog became operational in May 2011 with the organization of a public-private roundtable. A private investment promotion agency (APIP) was established in November 2011 and implemented a one-stop window for creating enterprises in early December 2011. These actions will improve the business climate

and therefore Guinea's ranking in the next "Doing Business," which will make Guinea eligible for support from the Millennium Challenge Account (MCA). The export sector also benefitted from renewed access to the US markets, which had been suspended at end-2009, under the "African Growth and Opportunity Act" (AGOA) in October 2011.

- In the hotel and tourism sector, three hotels were privatized (Hôtel Kaloum, Hôtel du Niger and Hôtel Camayenne), thereby paving the way to increasing sector capacity within the next 18 months.

13. **In the context of poverty reduction**, **since it took office**, **the government has established an emergency program based on the Poverty Reduction Strategy Paper (PRSP)**. The PRSP II (2007–10) was extended to cover the period 2011–12 in order to achieve certain objectives that had not been reached under the military regime of 2009–10. The extension was presented to the members of government at a governmental seminar in January 2011 and to the interim legislature (*Comité National de Transition*—CNT) in February 2011. An implementation report covering the first half of 2011 was produced and shared with the Bretton Woods institutions. The PRSP III and a new poverty survey are being prepared.

14. **During 2011***,* **the government took steps to address the urgent needs of the population**. In particular, the government established a system to facilitate access to some essential goods at affordable prices, such as rice, flour, sugar, and vegetable oil. This system operates in parallel with private sector operations. It includes imports and/or distribution services, which were initially provided by the government alone but are gradually being performed in partnership with the private sector. Over time, the government intends to divest these operations. Measures taken also include the ad hoc and temporary waiver of duties and taxes on the government's imports of these goods.

15. **Efforts to implement the structural triggers for the completion point under the HIPC Initiative are continuing with the help of the development partners (Table 3)**. The quarterly audits of public contracts through June-2009 have been completed. Contract audits for the second half of 2009 and for 2010 have mostly been completed, with the support of the World Bank and experts from the French Audit Court; work is underway with the aim to complete the remaining by February 2012. The government has launched the audit of contracts concluded in the first half of 2011. The Anti-corruption Agency reports through end-2010 have been produced and published on the Poverty Reduction Strategy (PRS) website and the report for 2011 will be prepared and published by end-March 2012. With respect to health indicators, Ministry of Health and World Bank data have been harmonized thereby enabling Guinea to achieve this trigger of the HIPC completion point.

16. **Despite the progress made in 2011**, **major challenges lie ahead**. Despite the stabilization in 2011, inflation remains a matter of concern and the main macroeconomic challenge in the short term. The very heavy burden of the external public debt and weak infrastructure, particularly in the electricity, water, transport, and telecommunications

sectors, are major handicaps to the revival of growth. Structural reforms in particular are needed to prepare the economy for the massive investments expected in the mining sector in the coming years.

III. Economic and Financial Policies For 2012–14

17. **The government intends to adopt and implement an economic and financial program covering the period 2012–14 to consolidate the results obtained in 2011 under the Staff-Monitored Program**, **to resume growth**, **and to reduce poverty**. This program seeks to reduce inflation and to lay the foundations for accelerated and diversified growth. It is in line with the extended PRSP for 2011–12 and the 2011–15 five-year plan, which will serve as the basis for the PRSP III for 2013–16, now under preparation, which will establish the operational pillars for the support from Guinea's development partners. The government's economic vision consists of mobilizing the country's agricultural, hydroelectric, and mining potential, increasing the competitiveness of the economy by improving infrastructure and social services (education, public health) and by strengthening good governance and anti-corruption efforts.

18. **The government will continue to make every effort to receive the support of the international community for the program**. This support could take the form of enhanced technical and financial assistance and reduction of the foreign debt burden upon reaching the completion point under the HIPC Initiative.

A. Medium-Term Macroeconomic Objectives

19. **The medium-term macroeconomic framework is heavily influenced by mining sector megaprojects**. Foreign direct investments in the sector, particularly for the development of iron deposits, could represent over 40 percent of GDP per year on average during 2012–14. During that period, the economic impact of these investments will essentially produce a substantial increase in imports and the external current account deficit. When production and exports from the megaprojects begin in 2015, these deficits should decline markedly, while the real growth rate and government revenue should sharply increase.

20. **The main macroeconomic objectives of the program are to**: (1) achieve real growth of 4.7 percent in 2012—based on large investments in the mining sector, the effects of the recovery efforts and of public investment in the energy sector, support for the agricultural sector, and continued normalization of the political and social situation—and an average rate of 4–5 percent in 2013–14; (2) reduce inflation to an annual average of 15 percent in 2012 and close to 12 percent year-on-year by end-2012, and gradually aim for levels well below 10 percent in 2014; and (3) in order to protect against exogenous shocks, maintain the level of exchange reserves above 2.5 months of imports (excluding imports for megaprojects financed by foreign investment).

21. **Macroeconomic policy will hinge on strengthening economic and financial policy coordination**. In the area of public finance, emphasis will be placed on mobilizing government revenue and strengthening public expenditure management. Given the weakness of the financial markets, fiscal policy will continue to play a key role in the strategy to reduce inflation. The budget deficit will be constrained by the goal to avoid net domestic bank financing (excluding the use of deposits of exceptional resources), the availability of financing from development partners, and the need to maintain debt sustainability both before and after reaching the completion point under the HIPC Initiative. The budget's windfall resources from the mining sector will be used mainly to finance infrastructure. Given the limited absorptive capacity of the economy, resource use will be planned over the medium term by continuing to adjust the basic fiscal balance to levels compatible with available funding. Monetary policy should also be tightened to mop up excess liquidity and curb inflation. A proactive exchange policy should limit erratic fluctuations and prevent mining investments from driving up the real exchange rate and diminishing the competitiveness of the non-mining sectors of the economy.

22. **Structural reforms will be continued to ensure good governance and improve the economy's capacity to manage the mining boom**. The reform of the mining sector will be pursued in particular by renegotiating mining contracts in a spirit of partnership. Far-reaching reforms of the energy sector will be undertaken with a view to increasing the supply of electrical energy while strengthening technical, commercial, and financial management of the EDG, including a tariff adjustment. The government will also conduct sector studies with a view to reorganizing public enterprises, including those in the transportation and telecommunications sectors, and implement a credible, realistic public investment program in the medium term in line with the Poverty Reduction Strategy and the five-year plan. The business climate will also be improved by strengthening the judicial system and the legal and institutional framework of the private sector. With support from the development partners, reform of the defense and security forces will continue through retirement programs followed by support and training measures. The government reform and modernization program will continue, notably with improved procedures, government-wide automation, and capacity building and efforts to increase the proportion of young and female employees. Finally, the agricultural sector will be developed, in collaboration with the development partners, with a view to achieving food self-sufficiency and to developing agro-industry.

B. Fiscal Policy

23. **The government's fiscal policy will reflect three basic pillars**: **(i) increased mobilization of government revenue**; **(ii) control and improvement of the quality of public spending and its reorientation towards the priority sectors**, **within the limits of available resources**; **and (iii) caps on the budget deficit and debt while maintaining fiscal and public debt sustainability**. With respect to revenue, the goal is convergence towards the ECOWAS standard in 2014, i.e., a tax ratio of 20 percent of GDP, compared with close to 17.5 percent in 2011. After an increase in 2012, current expenses should

decrease slightly as a percentage of GDP by 2014. By contrast, investment expenses will increase sharply in 2012 and remain at a high level above 10 percent of GDP in 2013–14, reflecting the use of the windfall revenue collected in 2011 and a resumption of assistance from development partners. Mainly as a result of the increase in domestically-financed investment, the basic fiscal deficit will increase from 2.5 percent of GDP in 2011 to 3.8 percent in 2012, but will fall to around 1 percent of GDP in 2013 and 2014.

24. **With respect to financing, the objective is to prevent budget-based monetary expansion—other than the growth associated with the use of deposits of windfall revenue—and to maintain the public debt at a sustainable level**. In order to support efforts to reduce inflation as quickly as possible, the budget will not be financed with advances from the BCRG, and the proceeds of bond and debt issues will be used to reduce the outstanding balance of these advances. Deposits of the windfall earnings of 2011 will be gradually used over the medium term. The medium-term macroeconomic framework is based on the principle that, after IMF approval of the Extended Credit Facility (ECF) arrangement, Guinea's remaining arrears on its external debt and its debt service obligations falling due during the program period will be rescheduled by its Paris Club creditors. The government also expects comparable treatment from other bilateral creditors within the framework of the HIPC Initiative. The residual financing requirement should be met after reaching the completion point under the enhanced HIPC Initiative in 2012. After the legislative elections—which should mark the end of the transition to a normal constitutional situation—a donor conference is expected to mobilize additional external resources.

Revenue

25. **The tax ratio will be increased through strict compliance with the existing laws and regulations combined with reforms of tax administration and policy**. Concerning tax revenue from the mining sector, the government will implement the new mining code strictly and transparently and the standard mining contract after its completion in 2012 (see paragraph 47). This is expected to stabilize current mining revenue at around 4 percent of GDP by 2014. Fuel taxes—which contribute close to 15 percent of revenue—will be safeguarded by the controlled implementation of a system of flexible prices at the pump, in an attempt to gradually eliminate petroleum product revenue losses.

26. **The Ministry of Economy and Finance (MEF) will develop a plan to implement tax reforms by end-June 2012 (structural benchmark)** based on technical assistance received in 2011 from development partners, including the IMF. These reforms will consist of enhancing the efficiency of tax policy and tax administration.

- The steps for reforming tax policy will include mainly: (i) simplification of the tax system by consolidating certain duties and taxes, taking their yield into account; (ii) changing the tax brackets for taxpayers; (iii) making the minimum income tax progressive; (iv) expanding the VAT to medium-sized enterprises; (v) making payroll taxes consistent with corporate taxes; and (vi) gradually decentralizing taxation based on capacity at the local level.

- Tax administration reforms will be based on: (i) greater segmentation of the taxpayer population through the creation of large, medium-sized, and small enterprise directorates; (ii) transition from a system of administrative assessment to a system of voluntary filing; (iii) restructuring of the tax and customs administration to separate the management, steering, and monitoring of operational functions; (iv) strengthening of reporting, survey, and supervision activities to combat tax fraud and tax evasion; (v) enhanced auditing of autonomous government agencies to guarantee that they contribute to the government budget; (vi) accelerated computerization and connection with offices outside Conakry and with users (VERITAS, carriers, importers); and (vii) redeployment of customs officers to land border stations. The objectives of these reforms are listed in the performance contracts and are accompanied by the relevant audited performance indicators to measure the efforts made by the various units independent of the economic situation.

27. **For 2012**, **the government will take the following measures**:

- The mechanism for regularly adjusting fuel prices based on changes in international market prices and in the exchange rate will be reintroduced starting July 1, 2012 (**structural benchmark**) after gradually reducing losses from the beginning of the year. This will help considerably reduce revenue losses, which were estimated at over 3 percent of GDP between January and September 2011.

- The unit in charge of the investment code will be revived to closely track implementation of the code. It will draw up an exhaustive list of companies benefiting from the code and their tax advantages by end-March 2012, will terminate the benefits for companies for which the duration of eligibility has expired, and will revise the code for adoption by the government by end-August 2012 (**structural benchmark**) to limit the tax revenue cost while remaining competitive.

- Proposals for changing the rate and scope of certain taxes will be submitted to the government and parliament. The increase in fixed-rate and prorated business taxes will be adopted in the context of the general tax code. The rate of withholdings at source on nonwage income has already been raised from 10 to 15 percent in the context of the 2012 budget law.

- The system for reimbursing VAT credits will be improved to reduce complaints, accelerate refunds, and avoid impairing corporate cash flow.

- Regulatory and contractual exemptions will be reviewed by end-June 2012 to eliminate all exemptions that no longer serve the purposes for which they were granted. The government will refrain from granting exemptions other than those provided under ordinary law.

- A mobile scanner will be installed at the port of Conakry and a pallet scanner at the Conakry airport.
- The technical framework will be improved: secure and computerized taxpayer census; computerization of tax units and revenue stations and their online connection with other administrations.
- The government will conduct an institutional and regulatory audit of all revenue-generating services. The MEF will prepare an exhaustive list of these services and, by end-September 2012, will draw up performance contracts with the revenue authorities under the aegis of the ministries to which they are attached. The share of the revenue of autonomous agencies in the semi-public sector accruing to the government budget will be revised by end-December 2012, taking care to safeguard the financial equilibrium of these entities.
- The complete inventory of government-owned buildings will be completed by end-September 2012 and the approach to their management will be changed to ensure that the revenue they produce reaches the Treasury. The government will submit to parliament a draft law reviewing all texts allocating revenue from end-September 2012, with a view to placing them under the responsibility of the Finance Minister based on the "single pot" principle, while preserving the financial autonomy of the recipients.
- The tax audits begun in 2011 in partnership with the AFD will be completed with respect to effective collections and resolution of disputes. A complete list of delinquent taxpayers owing more than GNF 1 billion will be published every six months. To complete the legal mechanism of these verification actions, the tax appeal commission will come on stream during the first half of 2012. The investigation and research units at the National Tax Directorate and the General Customs Directorate will be strengthened in terms of their administrative positioning and the human and material resources made available to them.

Expenditure

28. **The government will continue efforts to control public expenditure, to improve the quality of expenditure**, **and channel spending toward priority social and economic sectors**. The increase in operating expenses will be mitigated, mainly by the expected increase in revenue. Key elements will be the stabilization (as a percentage of GDP) of the wage bill (which has almost doubled as a percentage of GDP since 2005) and rationalization of subsidies. The reform of the security sector should help redirect spending towards such priority sectors as health, education, justice, and infrastructure. Windfall mining revenue significantly increases investment potential. Aware of the challenges posed by these resources, the government has created a Special Investment Fund (SIF) to manage them (Box 2). Investments will also benefit from renewed aid inflows from development partners. The government attaches great importance to public financial management reform. With the

technical assistance from Guinea's partners, the medium-term objective is to revamp the legal, organizational, and technical framework of public financial management so that it can meet the challenges Guinea must face in managing macroeconomic and revenue volatility, to secure the allocation of public resources to economic growth and poverty reduction.

29. **The government will institute reforms to contain the public sector wage bill**. During the period 2012–14, the wage bill will be limited to around 5.3 percent of GDP. Based on the Government Reform and Administrative Modernization Program (PREMA),s to be approved during first quarter 2012, the government will adopt, by end-2012, a civil service reform plan for the following years aimed at controlling the number of government employees and enhancing civil service productivity. These measures will create the fiscal space to address the increasingly pressing social demands for new hiring in the basic public services—health, education, roads, water, energy, sanitation, etc.—while stabilizing the wage bill as a percentage of GDP.

30. **The budget for 2012 includes a 16 percent increase in the wage bill**, which would allow for partially adjusting wages to the increased cost of living. That notwithstanding, controls on staffing and hiring restrictions based on the government's financial capabilities will help stabilize the wage bill as a percentage of GDP. The measures implemented in 2011 will be continued, particularly the biometric census, the elimination of duplicate records and deceased persons from the payroll, the effective implementation of provisions concerning retirement, and the harmonization of civil service staff and payroll files and their availability online. The government will also launch priority actions under the PREMA, namely: (i) redefining the government's missions; (ii) streamlining public administration; (iii) enhancing the coordination and effectiveness of government work; and (iv) consolidating the decentralization process.

31. **The government will continue to rationalize subsidies**. Spending on subsidies and transfers has risen considerably since 2008. In the medium term, financial support from the government will be allocated mainly to mitigating the negative impact of the reforms on the underprivileged population and reducing inequalities. Social safety nets will be developed through targeted spending on poverty reduction and the development of human capital. Although spending on subsidies and transfers will once again increase in 2012, to 4 percent of GDP, because of agricultural subsidies and transfers to the electricity company (EDG), the government proposes to stabilize them at around 3.4 percent of GDP in 2013–14 based on the expected results of security reform, the cleanup of the student subsidy register, rationalization of government interventions in the agriculture sector, and reform of the electricity sector.

32. **Two important components of the government's policy to streamline subsidies will come from reforms in the electricity and agricultural sectors**.

- Given the operating conditions of the semi-public electricity company (EDG), the government should subsidize the cost of operating new thermal plants, estimated at 0.6 percent of GDP in 2012 (see paragraph 49 electricity sector reform). Because of the magnitude and urgency of the power supply problem, the government organized a roundtable on January 16–17, 2012 with its main development partners to draw up measures to overhaul the management of the EDG. The government will adopt the action plan resulting from this round table by end-March 2012, including the increase in electricity rates to keep subsidies in 2012 at the amount indicated above.

- The methods and procedures for assistance to the agricultural sector (distribution of inputs, seeds, and agricultural materials), as well as the extension and collection of agricultural loans will be harmonized, based on advice provided by the World Bank and IFAD by the start of the 2012 crop year (April 2012) with a view to controlling agricultural subsidies and improving the rate of collection of producer loans (**structural benchmark**).

33. **Investment expenditures are projected to remain high in the years to come to meet urgent needs**, **particularly in the energy and infrastructure sectors**. Investment financed domestically will rise to an average of 6 percent of GDP per year from 2012 to 2014, about two thirds of which are expected to be financed with windfall mining revenue in 2012–13 and one third in 2014, including the SIF (Box 2). In keeping with the PRSP and the five-year plan, investments will be mainly geared towards the electricity and infrastructure sectors. With the resumption of relations with the development partners, spending on investment projects financed with external resources is expected to increase rapidly in 2013–14.

34. **The government estimates that the 2012 budget can be financed**. In a context of declining budgetary assistance, financing requirements will be met with domestic resources and external debt relief (see paragraph 55 below). There will be no change in the Treasury's net position vis-à-vis the banking system during 2012 except for the use of deposits of windfall revenue. The 2012 budget provides for the use of US$215 million (about 4 percent of GDP) of the windfall revenue collected in 2011 and deposited with the BCRG. Also, of the US$250 million in windfall revenue anticipated in 2012, half is earmarked for financing general budget expenditure and the other half will be deposited in the SIF and will improve the Treasury's net position vis-à-vis the BCRG. For the purpose of developing the monetary and financial markets, the government intends to increase the balance of Treasury bills (usually subscribed by the commercial banks) by GNF 300 billion and will also issue bonds of GNF 300 million. To maintain zero banking system financing of government financial operations other than the use of deposits representing windfall revenue, the government will use those funds for an additional GNF 600 million in repayments to the BCRG.

35. **With respect to structural measures**, **public financial management will be modernized**. To that end, the government will review its legislative and regulatory framework to align it with international or regional standards. A new framework budget law will be drafted in 2012, adopted, and submitted to the parliament by end-June 2012; the new public procurement code will be approved and implemented by end-2012; the general government accounting regulations will be adopted by end-September 2012; a new budget

nomenclature will be prepared by end-September 2012 and a new government chart of accounts will be prepared by end-December 2012 for implementation in time for preparation and execution of the 2014 budget law; the general tax code will be revised; the book on tax procedures will be drafted; the customs and investment codes will be adapted to the changing national and international economic environment. All these reforms will be supported by capacity-building actions with assistance from the IMF, West AFRITAC, and other development partners.

36. **The government continues to ensure that government contracts are awarded transparently through competitive bidding processes**. To prevent the disastrous problems of 2009–10, public procurement regulations were strictly enforced in 2011. However, during the last quarter of 2011, the government was compelled by serious problems, urgent needs, and high expectations of populations in the agriculture and energy sectors to award two 2 major contracts through direct negotiation. The contracts related to the procurement of thermoelectric generators from Brazil to alleviate the shortfall in electricity product with respect to demand, and to the acquisition of tractors, combine harvesters and other agricultural equipment for the harvest. In 2012 and hereafter, the government will refrain from any negotiated transactions that violate the procurement code. With respect to the government contracts signed in 2009–10 that were frozen, the government decided to cancel those for which execution had not begun, and a contract adjustment committee was created to reclassify the others to make them compatible with budget provisions and subject to strict specifications.

C. Monetary and Exchange Policies

37. **The first priority of medium-term monetary policy will be to control inflation by regularly mopping up excess liquidity**. To that end, the BCRG will maintain a very rigorous monetary policy, limiting growth of base money to the inflation reduction target, including through revitalizing market instruments and interventions on the foreign exchange market. The BCRG will do everything possible to curb any inflationary pressures that may result from the rapid acceleration of mining megaprojects in 2012, in particular by sterilizing the equivalent amount in Guinea francs of inflows of foreign exchange intended to cover the local expenses of those projects. The BCRG will continue to increase the efficiency of the foreign exchange market and, more generally, develop the financial system, including its supervision. The government attaches great importance to the independence of the BCRG and will take necessary steps to strengthen its financial position following the excesses of 2009–10.

Box 2. Special Investment Fund

The 2012 budget law established the Special Investment Fund (SIF) to promote the efficient and sustainable use of the windfall mining revenue. The SIF will take the form of a special (fiscal) Treasury account at the BCRG denominated in Guinea francs. SIF funding will come mainly from windfall mining revenue, although development partners and other sources may also contribute to jointly finance projects. The SIF will finance projects in the Public Investment Program. This financing and the projects concerned will be subject to the general provisions of public financial management and will be part of the annual budget approved by the parliament. The government will establish an SIF Steering Committee, which will provide opinions on the quality of the projects proposed by the ministries for financing by the SIF, in particular in accordance with the public investment program and the objectives established for the five-year plan and PSRP, their efficiency and sustainability over the medium term. The Steering Committee will include representatives of the BCRG, government agencies, partners contributing to SIF-funded projects, and civil society. SIF counterpart funds in foreign currency will be managed by the BCRG in accordance with best international practices for asset management as part of its portfolio of foreign assets. The authorities intend to request technical assistance from the IMF and the World Bank with a view to adopting implementing texts and general terms and conditions of operation for implementation of the SIF by end-March 2012 (**structural benchmark**).

In March 2012, **the SIF will receive the equivalent of US$250 million in start-up funds from the 2011 windfall mining revenue**. In the 2012 budget, the government projects additional windfall revenue of US$250 million, half of which will also be used to fund the SIF. Given the limited absorptive capacity of the economy and government agencies, and the increasing complexity of sustainability issues, the challenges of efficient management of windfall revenue will increase in proportion with the amounts. If the government were to collect more than the expected US$250 million in windfall revenue in 2012, at least 75 percent of the additional amounts would be transferred to the SIF. In the event that this additional revenue should materialize, program objectives would be adjusted by 80 percent of the additional amount for net foreign reserves (upwards), for net domestic bank financing of government (downwards), and for net domestic assets of the BCRG (downwards), allowing for the immediate use of 20 percent of this revenue. In that connection, the government, based on advice provided by its development partners, will adopt a medium-term public investment program by end-September 2012 (**structural benchmark**), which will provide a portfolio of projects held in reserve for possible financing through the SIF. Notwithstanding this provision, the government will consult with IMF staff before using the additional windfall revenue in excess of the US$250 million provided in the 2012 budget to ensure that use of the revenue remains aligned with overall program objectives. If the government earns even more windfall revenue, it will prepare more comprehensive rules for allocating these receipts to the SIF.

38. **In 2012, the BCRG plans to strengthen its capacities to define and execute its monetary policy**. Following the increase in the required reserves ratio to 22 percent in October 2011, the BCRG intends to resume its interventions using its own financial securities (monetary regulation securities—TRM). Moreover, in close cooperation with the MEF**,** it will prepare a study on the consolidation and conversion of BCRG advances into Treasury bills and the use of Treasury securities to implement monetary policy. With IMF technical assistance, the BCRG plans to develop its tools for an improved assessment of liquidity conditions in the economy and thus better inform monetary policy. It will also continue providing better information to the economy through the monthly publication of its balance sheet and an analysis of the evolution of the monetary situation on its website and in the local newspapers.

39. **The exchange policy objective will be to improve the determination of rates by market forces, minimize daily fluctuations, and reduce the exchange premium between the official and informal markets**. The improved international reserves level will facilitate increased intervention in the interbank foreign exchange market (IFEM), although the BCRG is aware of the need to preserve external competitiveness. Moreover, to strengthen the Guinean economy's capacity to absorb external shocks, the monetary authorities will maintain gross international reserves at a level equal to at least 2.5 months of goods and services imports (excluding imports for major mining sector projects financed by foreign direct investment).

40. **The BCRG will continue to improve the operation of the foreign exchange market with a view to unifying the official and parallel markets and eliminating multiple exchange rates**. To better reflect market forces, further reduce the premium vis-à-vis the parallel market, and attract transactions to the formal market, the monetary authorities plan to initially expand the band around the reference rate within which the banks are required to buy and sell foreign exchange and subsequently eliminate it. The reference rate will continue to be determined as the weighted average of commercial bank rates. Based on the technical assistance recommendations of the IMF, the BCRG will increase the transparency of transactions in the weekly auctions (IFEM). It will also draft a memorandum clarifying the operating regulations for the IFEM (method of allocation and the fixing of exchange rates) approved by the Foreign Exchange Commission—by end-March 2012. It will ensure that the foreign exchange positions of primary banks comply with the regulations in force. The BCRG also plans to amend the foreign exchange regulation with IMF technical assistance. It will request further IMF technical assistance with a view to proposing new measures to eliminate the multiple currency practice. To ensure the success of its foreign exchange policy, the BCRG will seek to strengthen operational foreign exchange capacities through the establishment of a foreign exchange trading room and personnel training. To this end, a request for technical and financial assistance has been submitted to the World Bank.

41. **The BCRG attaches great importance to strengthening bank supervision**. With technical assistance from West AFRITAC, the BCRG increased the staffing of the financial

institutions supervision directorate by hiring 18 inspectors at end-2011. It will focus on training its personnel in 2012, with support from West AFRITAC and Banque de France. Implementation of this training program will quickly bring the BCRG's bank supervision capacity up to standards. The BCRG has also requested technical assistance from the IMF and West AFRITAC to strengthen the regulations governing bank supervision. In 2012, the BCRG plans to prepare a comprehensive financial sector development plan, including with a view to preparing for stronger economic growth in the second half of the decade, following the start of production of new mining reserves.

42. **The BCRG will continue its policy of modernization and increased transparency in the conduct of its operations**. The external audit of the BCRG 2011 financial statements will be completed by end-June 2012 and the results, including the auditor's opinion, will be published on its website by end-August 2012. During the program period, an independent external auditor will certify the accounting and the statistical data on the program performance at test dates submitted to the IMF by the BCRG. The audit of the information system was carried out by an independent firm and steps were taken to correct the shortcomings identified. In particular, a technical assistant was hired in November 2011 to assist the BCRG in reorganizing the IT directorate and strengthening the governance of the information system. In addition, a new IT master plan was adopted in December 2011.

43. **The BCRG will also continue to strengthen management and the financial position**. Following the January 2012 IMF mission to update the 2007 safeguards assessment, the BCRG will implement most of the recommendations during 2012, in particular, revitalization of the audit committee, the publication of audited financial statements, and strengthening of the external audit mechanism. Furthermore, the BCRG board of directors will approve an investment policy and guidelines by end-December 2012 (**structural benchmark)**. To strengthen capacity for the management of external assets—on the rise owing to windfall mining revenues—the BCRG requested technical assistance from the World Bank under its Reserve Advisory and Management Program (RAMP). Finally, the BCRG will request technical assistance to modify the accounting system to comply with the International Financial Reporting Standards (IFRS). This could necessitate an increase in the bank's capital, partly to cover the losses resulting from huge banknote orders in 2009–10. Pending the conversion of the financial statements to the IFRS, the government intends to recapitalize the BCRG by US$50 million during the second half of 2012. This amount will be drawn from windfall mining revenue.

D. Other Structural Reform Measures

44. **The principal medium-term objective in the area of structural reforms is to create an environment favorable to diversified economic growth by preparing the economy for the mining boom in the years ahead**. Following the normalization of the political and social situation and based on the fundamental improvement in governance the government is determined to achieve, foreign investors' interest in the development of Guinea's rich natural resources has quickly returned. Major investment projects to exploit

iron ore and convert bauxite into alumina are in the execution phase or in the advanced stages of preparation. The volume of investment in these megaprojects during the period 2011–14, including transportation infrastructures, is estimated at US$25 billion, or more than 5 times the 2011 GDP. The start of production, expected to occur toward the middle of the decade, will transform the Guinean economy. The challenge for these structural reforms will be to ensure that this transformation reduces poverty and contributes to improved living conditions for the Guinean people. The main reforms concern the mining sector, the energy sector, and promotion of the agricultural sector, as well as improvement of the business climate.

Mining policy

45. **Medium-term prospects for the mining sector depends on megaprojects currently under way to exploit iron ore and convert bauxite into alumina**. The longer-term development of the sector requires diversification of exploitation to other natural and nonrenewable resources such as petroleum, gold, uranium, nickel, and rare earths. The government's approach to development of Guinea's mining sector is based on the concept of Mines and Sustainable Integrated Development, which is based in turn on four pillars: (i) development of agriculture and the industrial fabric in mining zones and along the transportation routes for mining projects; (ii) protection of the environment through close monitoring of environmental management plans and appropriate control of the escrow fund for environmental protection; (iii) community development through institutional capacity building for local governments to ensure sound management of the mining companies' contribution and the preparation of community development agreements to be executed by mining companies and local governments; and (iv) regular surveillance of mining activities with a view to improving government revenue. In the petroleum sector, drafts of the revised petroleum code, the standard production-sharing contract, and the implementing regulations have already been prepared; the government expects to work with a prominent firm to finalize the texts by end-September 2012.

46. **The new mining policy is intended to ensure that the Guinean people benefit from the country's mining resources and to promote synergies with the rest of the economy**. The strategy for development of loading infrastructures for mining products will be implemented by positioning the government as owner of the loading infrastructures and integrating mining companies into the master infrastructure development plan prepared by the government, in order to achieve coherent economic development on the national scale and pool the use of infrastructures to ensure financial and economic profitability and promote economic integration of the areas where they are located. In view of their complexity and capacity, the megaprojects will require the government to train personnel in order to develop managers and technical teams capable not only of supervising and monitoring mining activity but also of directing or executing the construction and operation of mining projects. The government will improve governance through adherence to the principles developed by the international organizations active in this area. Guinea will strive to fully implement the principles of the EITI and the Kimberley Process to increase transparency and build

credibility in the management of mining revenue and ensure traceability of diamonds produced in Guinea in international trade. The practice of transparency and good governance will be maintained and reinforced with the development of megaprojects.

47. **In 2012**, **the mining policy will focus on**: **(i) finalizing the implementation of the new mining code through the adoption of implementing texts**; **(ii) auditing and revising existing contracts to comply to the extent possible with the new mining code**; **and (ii) rehabilitating the mining cadastre**.

- *In the context of implementing the new mining code, the government, with technical assistance from partners including the IMF, will finalize the implementing regulations.* To ensure that the government obtains an equitable share of the revenues from the exploitation of mining resources, implementing decrees for the new mining code, as well as a standard mining contract for Guinea, will be adopted and published by end-June 2012 (**structural benchmark**). To that end, the standard mining contract drafted in 2008 will be harmonized with the provisions of the new mining code. In view of the mining sector's significant role in Guinea's fiscal revenue and economy, the government will consult with the IMF before approving any modification of the new mining code or implementing regulations that could have an impact on tax revenue (**continuous structural benchmark**).
- *The existing mining contracts will be revised, based on mutually agreeable conditions, to ensure that all investors are treated equally under the country's mining legislation.* The prompt recruitment of specialized firms to advise the government on the revision of mining contracts will reassure companies currently operating in the sector and avoid penalizing the development of projects in progress. In this regard, the authorities selected independent firms to conduct an audit of the mining companies to ensure that their past activities were in compliance with all the provisions of the existing contracts. The audit is expected to be completed by end- 2012.
- *The mining cadastre will be audited and corrected to facilitate more rational management of mining resources to promote effective development of the sector.* The overhaul of the cadastre aims to establish a natural resources data file enabling the government to access information on the mining reserves identified. The file should support tracking of mining activities in order to inform users of all transactions in the sector. Following a competitive bidding process complying with the public procurement code, an independent external firm was selected to conduct the mining cadastre audit. The technical teams will soon be operational, and the audit is scheduled to be completed by end-June 2012.

Energy sector

48. **The medium-term policy for the energy sector is based on two components**: **(i) restructuring and rehabilitation of the sector**, **including the EDG semipublic monopoly**; **and (ii) development of Guinea's enormous hydroelectric potential**. Lack of maintenance and technical and commercial losses of more than 43 percent of production have led to the near-total unavailability of electricity in most areas of the country. Reform of the sector is one of the government's most important priorities, given the disastrous effect on economic growth and on living conditions in Guinea. Pending implementation of those reforms, the government has already begun to launch one of the major hydroelectric projects identified long ago, the Kaléta dam on the Konkouré River which, together with micro-dam projects, will not only increase the local availability of power but also offer the opportunity to export electricity to neighboring countries.

49. **In 2012**, **the emphasis will be on rehabilitating and restructuring the sector**. Following the energy sector audit, the government, with the support of development partners, will undertake an in-depth reform of the sector designed both to increase the supply of electric power and to strengthen the technical, commercial, and financial management of EDG, including the adjustment of tariffs. A recent sector roundtable with the development partners organized in Conakry on January 16–17, 2012 reviewed the consultant's audit report and the 2011–14 energy sector investment program, as well as the structure of governance and management of EDG. At the conclusion of this roundtable an action plan including the investment program, a tariff adjustment calendar, and rehabilitation measures aimed at reducing technical and nontechnical losses and strengthening the commercial and financial management of EDG was agreed. The government plans to adopt a comprehensive plan for reform for the sector by end-March 2012 (**structural benchmark**); this plan will include a tariff adjustment to ensure that budgetary support to EDG remains within the limit established in the budget law. The government will also choose a strategic partner to provide technical assistance for management.

50. **The government also intends to rehabilitate and improve management of the water sector**. To that end, an institutional audit of the sector is planned during 2012 and a roundtable of partners will be held thereafter with support from the AfDB and World Bank. As in the electricity sector, the process is expected to lead to the definition of a program for restructuring and investment in the water sector, including the selection of a strategic partner for technical assistance.

Agricultural sector

51. **The government's agricultural policy aims to ensure food security by 2014 and ultimately position Guinea as an exporter of agricultural products**. The government intends to make this vision a reality by modernizing family farms and promoting the agricultural private sector. The government's interventions, including financial support to

the agricultural sector, will be guided by the desire to improve economic efficiency and social equity in that sector. The main actions envisaged are:

- promote the development of a dynamic agricultural private sector by putting in place sustainable mechanisms for financing the sector;
- in cooperation with the development partners, strengthen agricultural infrastructures with a view to facilitating private investment in agro-industry;
- diversify food production beyond rice while sustainably developing rice cultivation by improving control of water resources; and
- increase productivity and yields per hectare in agricultural operations through a policy to encourage the use of improved inputs and seeds and the introduction of appropriate mechanization.

52. **The main policy objective for agriculture in 2012 will be to enhance the sustainability of assistance measures initiated in the sector in 2011**. In collaboration with the development partners, the Ministry of Agriculture drew up a National Agricultural Investment Plan (PNIA), soon to be adopted by the government. With the assistance of the World Bank, the government will continue refocusing public expenditure in accordance with the priorities of the PNIA. In addition, the current system for facilitating access to agricultural inputs will be gradually adjusted to ensure the effective competitiveness of the sector and optimize the use of budget subsidies. Initially, while also prefinancing and subsidizing seeds, fertilizer, and agricultural equipment, the government will ensure recovery of the producer's share. Thereafter, the government will gradually reduce subsidies as agricultural production expands so as to reduce the fiscal burden and avoid supporting artificial competitiveness, which would be detrimental to the optimal development of the economy as a whole.

Improving the business climate

53. **The government is also in the process of finalizing an action plan to improve the business climate**. In 2011, Guinea was ranked 181 out of 183 countries worldwide in the Doing Business index. The objective is to improve Guinea's ranking by at least 10 places in the next three years. To this end, the government will:

- facilitate economic activity by promoting competition and public-private partnerships to establish key enterprises in strategic sectors such as energy. In 2012, it plans to strengthen the institutional framework for private investment, in particular by: (a) initiating the operations of the private investment promotion agency (APIP) and the one-stop window and building the respective capacities to respond to investor requests; and (b) streamlining private sector professional organizations. The government has requested technical and financial assistance from the World Bank and the IFC to carry out the reforms needed to promote the private sector, improve the business climate, and encourage investment in non-mining sectors of the economy. To this end, a policy letter for the promotion of private investment will be prepared with assistance from the development partners and adopted by the government by end-September 2012. At the same time, a coordination unit for private sector reforms will be established within the Ministry of Industry and Small and Medium Enterprises;

- enhance the credibility and authority of the judiciary with a view to increasing its independence, integrity, and accessibility to all. In 2012, the government will put in place a continuing education program for judges and judiciary personnel and strengthen capacities of associations of attorneys, auctioneers, and other officers of the court to execute court decisions.
- continue the practice of quarterly audits of major government contracts and strengthen the National Governance and Anti-Corruption Agency by adopting and promulgating the anti-corruption law transposing the anti-corruption provisions of the United Nations and African Union conventions in national laws. In 2012 the government will initiate a second survey to assess the extent of corruption in the country.
- Institute reforms of public enterprises and implement an improved monitoring mechanism. The government will adopt a strategy for withdrawal of the government from businesses by end-December 2012. A list of enterprises to be privatized will be drawn up by end-June 2012. The method of managing the 19 enterprises returned to the government's portfolio in 2011 will be redefined.

HIPC initiative

54. **The government attaches high priority to reaching the HIPC Initiative completion point as soon as possible**. It will make every effort to quickly meet the remaining triggers, including the satisfactory implementation of a program supported by the IMF under the ECF. Updating the poverty profile with data from the ongoing household survey will enable the authorities to fine-tune their policies to better protect the poor, while the publication of audit reports on government contracts exceeding GNF 100 million will further establish the culture of transparency in public financial management.

E. External Financing

55. **To fulfill its financing requirements in 2012 and normalize relations with external creditors**, **the government plans to seek debt relief from its creditors**. Following approval of the program by the IMF Executive Board, the government will approach Paris Club creditors to request debt rescheduling on exceptional terms similar to those accorded in 2008. With respect to bilateral non-Paris Club creditors with which arrears have been accumulated, the government plans to initiate discussions to reach agreement on treatment of the debt on terms comparable to those of the Paris Club and in the context of the HIPC

Initiative. Reaching the HIPC Initiative completion point will also permit coverage of a portion of the program financing requirements. Moreover, the government will request resumption of the interim assistance granted by the IMF under the HIPC Initiative, which will represent the fourth tranche of that assistance, amounting to SDR 1.2852 million. In the meantime, disbursements linked to the ECF-supported program will cover the remaining balance of payments requirements.

56. **To ensure prudent debt management**, **the authorities will mobilize only grants and concessional debts**. The project for the development of iron ore deposits in the Simandou 3 and 4 blocks provides for a government interest of up to 51 percent government in the infrastructure company associated with the project, which could require a contribution of over US$4 billion in financing from Guinea; the government will provide IMF staff with details on the financing of its contribution before end-June 2012. To ensure debt sustainability both before and after reaching the HIPC Initiative completion point, the authorities agree to submit any proposed new debt agreements or debt guarantees to the National Debt Directorate to ensure that the terms are concessional. The government further agrees to consult with IMF staff on the terms and concessionality of any new proposed debt agreements before contracting or guaranteeing any external debt. Regarding the service of debt to the IMF, the BCRG will keep a sufficient balance in its SDR account with the IMF to cover all payments falling due during the next quarter.

IV. Statistics and Technical Assistance Needs

57. **The government intends to pursue its efforts to improve the statistical system with a view to ensuring the regular production and provision of high-quality statistical data**. This will include the implementation of the National Statistics Development Strategy (SNDS). In particular, the authorities will pursue institutional reforms by finalizing the establishment of the National Statistics Institute through the appointment of its board of directors during first quarter of 2012. They will also work toward implementing the capacity building programs negotiated previously with the development partners.

58. **The government has identified a wide range of technical assistance needs in the area of macroeconomic management**. Institutional capacities, already weak, declined further during 2009–10, when normal procedures and regulations were largely bypassed. To make a fresh start, the authorities requested technical assistance from the partners, including the IMF and its regional center West AFRITAC. The latter two organizations have conducted several missions; since February 2011, they have provided recommendations in the areas of fiscal policy, tax and customs of ministration, public financial management, the foreign exchange market, monitor policy, bank supervision, and the national accounts.

59. **The government is determined to improve the coordination of technical assistance in order to maximize benefits**. The recent appointment of a technical assistant from the AFD to take charge of such coordination will allow for improved monitoring of donor actions to prevent duplication and develop synergies. The authorities have already

asked the development partners to better coordinate their actions. In this context, the European Union has joined with (i) the IMF, in regard to the modernization of the legal framework and the improvement of accounting management; (ii) the World Bank, in regard to the establishment of the public procurement regulatory agency; and (iii) France, for strengthening of the supervisory body. Other projects in which the principal partners are involved, in particular the AfDB, the World Bank, the United Nations Development Program(UNDP), the European Union, and the United States agency for international development (USAID) address crosscutting areas (training, automation of the Ministry of Economy and Finance, financial deconcentration and decentralization, capacity building with respect to economic and financial coordination, government reform and modernization); mobilization of domestic revenue (tax and customs) and external financing (debt and official development assistance, crucial in this period of heightened emphasis on achieving the triggers for the HIPC Initiative completion point and re-engaging with the international community); macroeconomic framing and cash flow and budget management; and the Ministry of Planning, the Ministry of Mines and Geology; the Ministry of Labor and Civil Service; and the High Commission on Government Reform and Administrative Modernization.

V. Program Monitoring, Assessment, and Supervision

60. **To monitor the implementation of measures and the attainment of its program objectives**, **the Guinean government has instituted a monitoring mechanism** consisting of a Reform Coordination Committee (CCR) and a Technical Support Committee for the CCR, as well as a Program Monitoring Technical Unit (CTSP) created as a unit of the Ministry of Economy and Finance. With this mechanism, the government, the BCRG, international financial institutions, and Guinea's development partners will receive periodic reports on the progress made, the outlook, and the measures envisaged.

61. **The program will be reviewed semiannually by the IMF Executive Board on the basis of quantitative monitoring indicators and structural benchmarks** (Tables 4 and 5 attached). These indicators are defined in the attached Technical Memorandum of Understanding (TMU), attached as (Annex 1). The first year of the program covers the period January to December 2012, and the first (second) program review based on the performance criteria as at end-June 2012 (end-December2012) is expected to be completed no later than October, 2012 (April 30, 2013).

62. **During the program period**, **the government agrees** not to introduce or increase restrictions on the balance of payments or transfers pertaining to current international transactions, introduce multiple currency practices, enter into bilateral payment agreements inconsistent with Article VIII of the IMF Articles of Agreement, or impose or increase any import restrictions for BOP balancing purposes. Furthermore, the authorities agree to adopt — in consultation with IMF staff—any additional financial or structural measures that prove necessary to the program's success.

Table 1. Guinea: Indicative Targets Under the SMP in 2011 1/
(Billions of Guinean francs unless otherwise indicated)

	2010	2011								
	end Dec.2/ Actual	end Mar. Actual	end Jun. Prog.	end Jun Actual	end. Jun Status	end Sep. Prog.	end Sep. Actual	end Sep. Status	end Dec. Prog.	end Dec7/ Est.
Quantitative targets										
Basic fiscal balance (floor) 3/	-3,424	-59	-330	616	Met	-429	183	Met	-663	-864
Net domestic assets of the central bank (ceiling)	6,741	6,741	1,760	-12	Met	2,045	1,495	Met	2,488	2,780
Domestic bank financing of the government (ceiling) 3/	4,037	-77	-4,682	-5,558	Met	-4,397	-4,964	Met	-3,943	-3,518
Net international reserves of the central bank (floor); US$ millions 3, 4, 5/	22	103	802	1,026	Met	774	927	Met	669	541
New nonconcessional medium- or long-term external debt contracted or guaranteed by the government or central bank (ceiling); US$ millions 6/	n.a.	0	0	0	Met	0	0	Met	0	0
Stock of outstanding short-term external debt due or guaranteed by the government or the central bank (ceiling); US$ millions	n.a.	0	0	0	Met	0	0	Met	0	0
Memorandum items:										
Reserve money	6,982	6,979	6,984	7,167		6,998	6,863		7,101	6,889

Sources: Guinean authorities and IMF staff projections.

1/ Definitions are included in the technical memorandum of understanding (TMU).

2/ Flow over 2010 for fiscal criteria and stock for end-December 2010 for monetary and external debt criteria.

3/ Cumulative change from end-December 2010.

4/ Calculated using the program exchange rates.

5/ End-2010 figure excludes 2009 SDR allocation.

6/ External debt contracted or guaranteed other than with a grant element equivalent to 35 percent or more, calculated using a discount rate based on the OECD commercial interest rates. Excludes borrowing from the IMF.

7/ The end-december 2011 estimates are based on discussions between the authorities and staff during the November mission. Staff expects to receive updated figures during February 2012. Although the current estimates show some overruns compared to program targets, if the additional investments financed with the exceptional revenue and already discussed with staff are excluded, the performance is stronger than that envisaged under the program. On the basic fiscal balance, if those investments are excluded, the end-Dec 2011 figure would be a deficit of GNF 356 billion, smaller than the deficit envisaged under the program. For the net domestic assets of the central bank, the domestic bank financing of the government, and the reserve money, the valuation of the exceptional revenue uses the program exchange rate.

Table 2. Guinea: Structural Reforms Under the Staff-Monitored Program 1/

Ongoing Actions	Macroeconomic Impact	Status
No payment by the central bank for the account of the government without the prior signature of the Minister of Economy and Finance or his alternate/representative. (MEFP ¶6)	Restore budgetary control and procedures.	Observed until September 2011
No new tax and customs exemptions. (MEFP ¶8)	Restore budgetary control and ensure government revenue.	Observed, with the exception of essential goods
Monthly publication in the local media of a brief summary and analysis of the monetary outlook. (MEFP ¶21)	Inform economic agents about monetary developments.	Monthly memorandum on monetary and exchange policy prepared since June, and published in January 2012
No new extra-budgetary expenditure. (MEFP ¶18)	Restore budgetary control and prevent expenditure overruns.	Observed until September 2011
No net civil service recruitment in sectors other than health, education, and justice. Civil service recruitment will be offset by the elimination of ghost workers and duplicates. (MEFP ¶13)	Prevent a structural increase in wage expenditure (improve expenditure efficiency).	Freeze announced by joint (interministerial) decree of March 22, 2011
Execute a cash-basis budget with no BCRG financing in 2011. (MEFP ¶6, 16)	Enforce fiscal discipline and contain inflation.	Observed until September 2011
March 31, 2011		
Publication of a circular-letter reinstating the competitive selection process as the normal method of public procurement. (MEFP ¶18)	Enforce public financial management rules.	Completed per Ministerial Decree of March 11, 2011
April 30, 2011		
Adoption of the law on the Treasury single account. (MEFP ¶18)	Improve control of government funds and reduce borrowing costs.	Completed, Law 2011/002/CNT

Table 2. Guinea: Structural Reforms Under the Staff Monitored Program (concluded)

June 30, 2011		
Submission for government approval of a standard mining contract conforming to international best practices. (MEFP ¶28)	Improve the business environment in the mining sector and ensure government revenue.	Mining code adopted by CNT on September 9, 2011; implementation decrees and the standard mining contract will be adopted by end-June 2012.
June 30, 2011		
Publication of the decree promulgating the law on the Treasury single account. (MEFP ¶18)	Improve control over government funds and reduce borrowing costs.	Completed
September 30, 2011		
Submission by the Tax Directorate to the Minister of Economy and Finance of an interim report on the results of the tax audit of government contracts signed in 2009 –10. (MEFP ¶12)	Restore fiscal discipline and increase revenue.	A report is prepared and a tax audit is undertaken with the support from the *Agence Française de Développement* (AFD) .
October 31, 2011		
Publication of the central bank's audited financial statements on its website, together with the auditors' opinions.	Inform economic agents about the central bank's activities and its position.	Final audit report available and published on BCRG's website.
December 31, 2011		
An institutional audit of the energy sector will be carried out in partnership with the World Bank and the AFD. (MEFP ¶27)	Undertake a restructuring of the electricity sector, an obstacle to economic growth.	Report of the firm *Conseil Nodalis* finalized.

1/ Guinea: Staff-Monitored Program; EBS/11/106 (July 1, 2011); Appendix I, Attachment I, Table 4.

Table 3. Guinea: Status of HIPC Initiative Completion Point Triggers

Triggers	Assessment
Poverty Reduction	
A full PRSP has been prepared through a participatory process and satisfactorily implemented for one year as evidenced by the IMF/World Bank Joint Staff Assessment of the country's annual progress report.	**Partially Implemented**. The first PRSP was adopted in 2002. Its implementation suffered as a result of macroeconomic instability and poor governance. The authorities issued the second PRSP in 2007; its implementation was interrupted by the military coup of December 2008. The new government formed after the presidential election at end-2010 extended the PRSP-II to the 2011–12 period. A midterm report was prepared in June 2011. The government will prepare a report of full implementation for 2011 for review by the World Bank and the IMF.
Improvement of the poverty database and monitoring resources by conducting a living standards measurement survey making it possible to define poverty thresholds and formulate indicators based thereon; establishment of a poverty monitoring system with the participation of key stakeholders.	**Partially Implemented**. A comprehensive poverty survey was conducted in 2002–03 (and finalized in 2004–05) followed by Core Welfare Indicators Questionnaire Survey (CWIQ), Demographic and Health Survey 2007/2008. Based on the systems of household surveys, conducted between 2002 and 2008, the poverty database was improved and updated. Five income thresholds were established, differentiated for rural and urban areas, together with poverty thresholds ranging from 37 cents to 50 cents a day. Based on the household survey, 54 poverty indicators were defined. The National Statistical Office has completed the first phase activities of the CWIQ II survey (in December 2011) and is working with the Bank/UNDP and AfDB on the second phase activities (including production of primary social statistics) to be completed no later than March 2012.
Maintain macroeconomic stability as evidenced by satisfactory implementation of the ECF-supported program.	**Not Implemented**. The PRGF-supported program approved on December 21, 2007 went off-track after the first review. The government built a strong track record under the IMF Staff-Monitored Program. Negotiations on an ECF-supported program are under way.
Design and take steps to create an appropriate regulatory framework for microcredit institutions.	**Implemented**. A new law establishing an appropriate framework for microcredit institutions was adopted in November 2005.
Governance and combating corruption	
Make publicly available a one-year progress report describing the resources and activities of the National Anti-Corruption Committee (CNLC).	**Implemented**. The 2002 and 2010 activity reports have been published. The 2011 report is scheduled for publication in March 2012.

Table 3. Guinea: Status of HIPC Initiative Completion Point Triggers (concluded)

Audit all government contracts for amounts greater than GNF 100 million and publish the results of these audits on a quarterly basis.	**Partially implemented**. The authorities did not begin this action promptly after the decision point. To make up for the delay, the government commissioned a comprehensive audit of government contracts for 2002–04; the final audit report was presented in 2007. To support a more operational and less costly system, a system of quarterly audits based on a sample of large government contracts was put in place in 2008. The report covering 2007 was published in October 2008. Reports on contracts signed in 2008 and the first six months of 2009 have been completed. Most of the audits for the second half of 2009 and for 2010 have been completed; the authorities are currently working with the World Bank to complete the remaining reports by February 2012. For 2011, the process has already begun, and the audit of contracts signed in the first six months is expected to be completed by end-March 2012.
Education	
Increase the gross enrollment rate of primary school students from 56 percent in 1999 to 62 percent in 2001 and 71 percent in 2002; the gross enrollment rate of girls should be 40 percent in 1999, 51 percent in 2001, and 61 percent in 2002.	**Implemented**. Gross enrollment gradually increased after 2002, reaching 79 percent in 2006 and 2007. Gross enrollment for girls increased even more, reaching 71 percent in 2006 and 2007 and significantly reducing the enrollment gap between boys and girls. Provisional data from the 2009-2010 Education Statistics Yearbook show that this target was also achieved during that period. The 2011 Education Statistics Yearbook is being prepared.
Increase the number of new primary school teachers hired by at least 1,500 a year for each year until the HIPC completion point, from an estimated base of about 15,000 primary school teachers in 2000.	**Implemented**. On average 1,673 primary school teachers have been trained and recruited each year from 2001 through 2007. In 2009–10, given the significant delay in reaching the completion point, hiring 1,500 new teachers every year no longer corresponds to the country's education needs and priorities. However, the newly elected Government has been working closely with Development Partners including the World Bank under the Education for All–Fast Track Initiative (EFA-FTI) to increase the number of primary school tearchers (and about 1500 teachers were hired between 2009–11 on average), thus meeting the trigger.
Health	
Increase rates of immunization (against diphtheria, tetanus, and whooping cough) for children under age one from 45 percent in 2000 to 50 percent in 2001 and 55 percent in 2002.	**Implemented**. Immunization rates were 52 percent in 2001 and 58 percent in 2002. The rates continued to increase to 85 percent in 2007. The report on health data in 2008–2011 is being prepared.
Improve the percentage of pregnant women benefiting from at least one prenatal consultation from 70 percent in 2000 to 80 percent in 2001 and 85 percent in 2002.	**Implemented**. Review of the Health Information System by WB staff (in 2012) shows that the trigger related to prenatal care consultations has been met (at 88% in 2010).

Table 4. Guinea: Performance Criteria (PC) and Indicative Targets, ECF 2012 1/
(Billions of Guinean francs unless otherwise indicated)

	2011		2012			
	end Sep. Actual	end Dec.2/ Est.	end Mar. Indicative Targets	end Jun. PC	end Sep. Indicative Targets	end Dec. PC
Quantitative Performance Criteria						
Basic fiscal balance (floor) 3/	183	-864	-1,102	-1,497	-1,418	-1,518
Net domestic assets of the central bank (ceiling)	1,495	3,178	4,484	3,385	3,541	3,854
Domestic bank financing of the government (ceiling) 3/	-4,964	-3,120	1,300	197	348	650
Net international reserves of the central bank (floor); US$ millions 4/	927	541	435	585	504	458
New nonconcessional medium- or long-term external debt contracted or guaranteed by the government or central bank (ceiling); US$ millions 5/ 6/	0	0	0	0	0	0
Stock of outstanding short-term external debt contracted or guaranteed by the government or the central bank (ceiling); US$ millions 6/	0	0	0	0	0	0
New external arrears (ceiling) 6/			0	0	0	0
Indicative targets						
Expenditure in priority sectors (floor) 3/ 7/		2,100	1,765	2,501	3,208	3,910
Memorandum items:						
Reserve money	6,863	7,287	7,083	7,078	6,644	6,744

Sources: Guinean authorities and IMF staff projections.
1/ Definitions and adjustors are included in the technical memorandum of understanding (TMU).
Performance criteria for end-June and end-December 2012; indicative targets for end-March and end-September 2012.
2/ Flow over 2011 for fiscal criteria and stock for end-December 2011 for monetary and external debt criteria.
3/ Cumulative change from end-December 2011.
4/ Calculated using the program exchange rates.
5/ External debt contracted or guaranteed other than with a grant element equivalent to 35 percent or more, calculated using a discount rate based on the OECD commercial interest rates. Excludes borrowing from the IMF.
6/ Continuous performance criterion.
7/ Priority sectors include education, health, agriculture, energy, justice, social affairs, and public works (as defined in the TMU).

Table 5. Guinea: Prior Actions and Structural Benchmarks, ECF 2012

Measure	Date	Rationale
Prior actions		
Adopt a 2012 budget law as discussed with November 2011 mission.	Completed	Preserve program budget objectives.
Provide IMF staff with a copy of the Rio Tinto contract with the government.	Contract annex still pending	Promote transparency in government operations.
Conduct a roundtable on the electricity sector in order to define the sector reform program.	Completed	Reduce the burden of transfers and subsidies on the budget.
Publish the central bank's 2010 audited financial statements on its website, together with the auditors' opinions.	Completed	Promote accountability and transparency.
Structural benchmarks		
Consult with the IMF before approving any modification to the new mining code or implementing regulations that could have a tax impact. (MEFP ¶ 47)	Continuous	Protect budget revenue.
Adopt a comprehensive plan for reform of the electricity sector. (MEFP ¶ 49)	End-March 2012	Reduce the burden of transfers and subsidies on the budget.
Harmonize the methods and procedures for assistance to the agriculture sector (distribution of inputs, seeds, and agricultural materials) as well as the extension and collection of agricultural loans, based on advice provided by the World Bank and IFAD (MEFP ¶ 32)[1]	End-March 2012	Ensure control of agricultural subsidies and improve the rate of collections for producer credits.
Adopt implementing texts and general terms and conditions of operation for the implementation of the Special Investment Fund, based on advice provided by IMF and World Bank. (MEFP, Box 2)[1/]	End-March 2012	Improve public infrastructures while preserving the sustainability of public finances.
Reintroduce the mechanism for regularly adjusting petroleum product prices based on changes in the international market prices and in the exchange rate. (MEFP ¶ 27)	Continuous from July 1, 2012	Protect budget revenue and ensure budget sustainability.
Adopt and publish implementing decrees for the new mining code as well as a standard mining contract. (MEFP ¶ 47)	End-June 2012	Ensure a larger share for the government in Guinea's mining revenues.

[1/] The IMF is solely responsible for assessing compliance with the conditions.

Table 5. Guinea: Prior Actions and Structural Benchmarks, ECF 2012 (concluded)

Measure	Date	Rationale
Develop a plan to implement tax reforms. (MEFP ¶ 26)	End-June 2012	Promote predictability in public finance reforms.
Certify, by an independent external auditor, the statistical data on the program performance at test dates submitted to the IMF by the BCRG, and approve an investment policy and guidelines by end-December 2012 by the BCRG board of directors. (MEFP ¶ 42, 43)	End-December 2012	Ensure appropriate utilization of resources entrusted to the BCRG.
Based on an exhaustive list of companies benefitting from the investment code and their tax advantages, terminate the benefits of companies whose eligibility periods have expired, and adopt a revised investment code. (MEFP ¶ 27)	End-August 2012	Reduce tax expenditures and improve the business environment.
Adopt a medium-term public investment program, based on advice provided by the development partners. (MEFP, Box 2)[1]	End-September 2012	Create a pipeline of viable projects that could receive funding from the SIF.

ATTACHMENT II—GUINEA: TECHNICAL MEMORANDUM OF UNDERSTANDING

February 11, 2012

I. INTRODUCTION

1. This memorandum sets out the understandings between the Guinean authorities and staff of the International Monetary Fund (IMF) regarding the definitions of the quantitative performance criteria and indicative targets for the program supported under the ECF, as well as the related reporting requirements.

2. The quantitative performance criteria, indicative targets, and cut-off dates are detailed in Table 4 of the Memorandum of Economic and Financial Policies (MEFP).

II. KEY DEFINITIONS

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

A. Quantitative Performance Criteria

4. The **basic fiscal balance** is calculated as the difference between government **revenue**, excluding grants, and **basic government expenditure**. Definitions of bolded terms above are consistent with the definitions in the government flow of funds table (TOFE), for which the calculation method is described in Section IV below.

5. **Net domestic assets** (NDA) of the BCRG are, by definition, equal to the difference between **reserve 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 foreign liabilities of the BCRG. (In other words, NDA = Reserve Money – NFA, based on the BCRG balance sheet).

6. **Domestic bank financing of the government**, or net domestic bank credit to the government from banks, comprises: (i) central bank financing of the Treasury, i.e., the change in the net position of the Treasury with the central bank (NTP1), including the HIPC account and accounts for exceptional resources, such as the Special Investment Fund (SIF), but excluding changes in the net position of "satellite" government accounts with the central bank; and (ii) commercial bank financing of the Treasury, which includes changes in the stock of Treasury bills held by banks, but excludes changes in the net position of "satellite" government accounts held in commercial banks.

7. **Net international reserves** (NIR) of the BCRG are, by definition, equal to the difference between the reserve assets of the BCRG (i.e., the external assets readily available to and controlled by the BCRG as per the fifth edition of the IMF's *Balance of Payments Manual*) and the foreign exchange liabilities of the BCRG to residents and nonresidents (including the foreign exchange deposits of the local banks with the BCRG and off-balance sheet liabilities). These foreign exchange liabilities, which are used to calculate the NIR, do not include long-term liabilities, such as SDR allocations. In the context of the program, the gold holdings of the BCRG will be valued at the gold price in effect on December 30, 2011 (US$1565 per oz.) for the first half of 2012 and at the price in effect on June 30, 2012 for the second half of 2012. For the test dates, the U.S. dollar value of the reserve assets (other than gold) and foreign exchange liabilities will be calculated using the program exchange rates in effect on December 30, 2011**,** namely: for the first half of 2012, the exchange rates between U.S. dollar and the Guinean franc (7089.53 GNF/US$), SDR (1.5353 US$/SDR), Euro (1.2961 US$/EUR), and other currencies as published in *International Financial Statistics*; and for the second half of 2012, the exchange rates in effect on June 30, 2012.

8. **Medium- and long-term external debt** contracted or guaranteed by the government or the central bank is defined as the amount of external debt (see Subsection C below) contracted by the government or the central bank for a period of one year or more during the period under review. Debt is considered concessional if it has a grant element equivalent to 35 percent or more of the net present value (NPV). The net present value (NPV) of the debt is calculated using the average of the OECD commercial interest reference rates (CIRRs) for the previous 10 years for debts with a maturity of 15 years or more. For debts with a maturity of less than 15 years, the average OECD CIRRs for the previous six months (January 1 to June 30 or July 1 to December 31) are used to calculate the NPV. The same margins for different repayment periods (0.75 point if the repayment period is less than 15 years, 1 point if the repayment period between 15 and 19 years, 1.15 points if the repayment period is between 20 and 29 years, and 1.25 points if the repayment period is 30 years or more) are added to the two averages (over 10 years and over six month[1] This definition does not apply to financing granted by the IMF.

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

10. **New external arrears** 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.

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

For the purposes of this performance criterion, an obligation which has not been paid within 30 days after falling due will be considered a "program" arrear. Arrears not to be considered as arrears for the performance criteria or "non-program" arrears are defined as: (i) arrears accumulated on the service of an external debt for which there is a request for rescheduling or restructuring; and/or (ii) litigious amounts.

B. Indicative Target and Memorandum Item

11. **Expenditure in priority sectors**, an indicative target for the program**,** includes spending under Title 2 (wages and salaries), Title 3 (goods and services), Title 4 (transfers and subsidies), and Title 5 (domestically financed investment) by the Ministries of (i) Justice,(ii) Agriculture, (iii) Fisheries and Aquaculture; (iv) Livestock; (v) Public Works and Transport; (vi) Urban Planning, Housing and Construction; (vii) Health and Public Hygiene; (viii) Social Affairs, Women Promotion and Children; (ix) Pre-University Instruction and Civic Education; (x) Labor, Technical Education and Professional Training; (xi) Higher Education and Scientific Research; (xii) Alphabetization and Promotion of National Languages ; and (xiii) Energy and Environment. This expenditure also includes spending under Title 6 (Financial Investment and Capital Transfers) by the Ministry of 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 of the Ministry of Higher Education and Scientific Research.

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

C. External Debt

13. The term "external debt" is understood as specified in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted by the Executive Board of the IMF on August 31, 2009.[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, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. External debt can take a number of forms, the primary ones being the following:

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[2] See "Guidelines on Performance Criteria with Respect to Foreign Debt"—IMF Executive Board Decision No. 12274, as amended by Decision No. 14416-(09/91) (SM/09/215, Sup. 1, August 20, 2009).

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

- suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and

- leases, i.e., arrangements under which property is provided that the lessee has the right to use for 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 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, arrears, penalties, and judicially awarded damages arising from failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

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

III. Adjustments to program Performance Criteria

16. The quantitative performance targets are calculated on the basis of projected amounts of (1) net external assistance; (2) exceptional revenues of the mining sector (see table below); and (3) the net change of "program" arrears. For program purposes, net external assistance is defined as the difference between: (a) cumulative budgetary assistance (grants and loans), the impact of debt relief granted by external creditors, , and the net change in "non-program" arrears; and (b) cumulative payments of external debt service due after relief, for loans on which debt relief is secured.

Guinea: External Assistance and Exceptional Mining Revenues, 2012

(Millions of U.S. dollars, cumulative from end-December 2011)

	Mar.	June	Sept	Dec
Net external assistance	-22.17	-60.99	-85.00	-106.48
Budgetary assistance (grants + loans)	1.52	3.88	5.23	6.75
Impact of debt relief obtained	391.07	409.44	428.10	485.11
External debt service due	-40.21	-99.78	-143.79	-223.70
Interest	-8.46	-25.21	-35.92	-52.74
Principal	-31.75	-74.57	-107.87	-171.05
Net change in “non-program” arrears	-374.54	-374.54	-374.54	-374.54
Exceptional mining revenues expected	0.00	250.00	250.00	250.00

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

18. **Adjustments for net external assistance**:

- *If net external assistance exceeds the program forecasts,* the floor for the basic fiscal balance will be adjusted downward by an amount equal to the surplus external assistance (allowing the entire surplus to be used for supplementary expenditures). The floor for NIR and the ceilings on NDA of the BCRG and bank financing of the government will not be adjusted.

- *If net external assistance is below program forecasts,* the floor on NIR will be adjusted downward by 80 percent of the shortfall, and the ceilings for NDA of the BCRG and bank financing of the government will be adjusted upward by 80 percent of the shortfall. The floor for the basic fiscal balance will be adjusted upward by 20 percent of the shortfall (requiring a fiscal adjustment equivalent to 20 percent of the shortfall).

19. **Adjustment related to the net change in “program” arrears**:

- *If the net change in “program” arrears exceeds program projections,* the floor for NIR will be adjusted upward by an amount equal to the surplus net change in arrears.

[3] The surplus or shortfalls will be calculated using the program exchange rates.

The ceilings on NDA of the BCRG and bank financing of the government will be adjusted downward by an amount equal to the surplus net change in arrears. The floor for the basic fiscal balance will not be adjusted.

- *If the net change in "program" arrears is below program projections,* the floor on NIR will be adjusted downward by 80 percent of the difference, and the ceilings for NDA of the BCRG and bank financing of the government will be adjusted upward by 80 percent of the difference. The floor for the basic fiscal balance will be adjusted upward by 20 percent of the difference (requiring a fiscal adjustment equivalent to 20 percent of the difference).

20. **Adjustments for exceptional mining revenues**:

- *In the case of surplus exceptional mining revenues of up to US$500 million,* the floor for NIR will be adjusted upward and the ceilings on NDA of the BCRG and bank financing of the government will be adjusted downward by 80 percent of the surplus, while the floor for the basic fiscal balance will be adjusted downward by 20 percent of the surplus (allowing the surplus to be used for supplementary expenditures up to the amount of US$100 million or 2 percent of GDP).

- *For surplus exceptional mining revenues in excess of US$500 million,* the floor for NIR will be adjusted upward and the ceilings on NDA of the BCRG and bank financing of the government will be adjusted downward by an amount equal to 100 percent of the surplus beyond US$500 million, while the floor for the basic fiscal balance will not be adjusted (resulting in the saving of the surplus beyond US$500 million pending a review of the budget outlook and a cost-benefit and sustainability analysis before these excess revenues are committed).

- *In the case of shortfalls of exceptional mining revenues of up to US$125 million,* the floor for NIR will be adjusted downward and the ceilings on NDA of the BCRG and bank financing of the government will be adjusted upward by the total amount of the shortfall, while the floor for the basic fiscal balance will not be adjusted (the 2012 budget calls for a deposit of US$125 million from exceptional mining revenues, or 2 percent of GDP).

- *For shortfalls in exceptional mining revenues in excess of US$125 million,* the floor for NIR will be adjusted downward by the equivalent of 80 percent of the shortfall. The ceilings on NDA of the BCRG and bank financing of the government will be adjusted upward by the equivalent of 80 percent of the shortfall, while the floor for the basic fiscal balance will be adjusted by the equivalent of 20 percent of the shortfall (requiring a fiscal adjustment of up to the equivalent of 20 percent of the US$125 million (or up to 0.5 percent of GDP), which is the amount of new exceptional mining revenues that the 2012 budget has set aside for general budgetary financing).

IV. DEFINITIONS FOR PURPOSE OF THE TOFE

21. Government **revenue** includes tax and nontax revenue. It does not include external grants, the proceeds of privatizations, or exceptional mining revenues (the latter two being recorded as financing). Tax and nontax revenue are defined in accordance with Section IV.A.1 of the 1986 edition of the IMF's *Government Finance Statistics Manual (GFS)*, using the following categories. For tax revenue, the main categories are taxes on income, profit, and dividends (Title 1); taxes on property (Title 2); taxes on international trade (Title 3), including import duties, export duties, the surtax on consumption, the liquidation levy (*redevance de liquidation*), and penalties related to international trade; taxes on goods and services (Title 4), including general sales taxes, value-added taxes on domestic sales and on imports, the single tax on vehicles (TUV), the business tax (TAF), taxes on petroleum products, and export taxes on mining products, including the tax on mining products, taxes on diamonds, and the tax on precious metals. Other tax revenues (Title 5) include stamp taxes and registration fees. Tax receipts also include the taxes borne by the government for the purchase of externally financed capital goods. Nontax revenue consists of royalties and dividends (excluding revenue from the sale of telephone licenses), administrative duties and fees, and fines and forfeitures (Title 6), other nontax revenue (Title 7), including incidental revenues, and capital revenues (Title 8). Capital revenues include the proceeds from the sale of government assets, but exclude privatization proceeds.

22. Government **expenditure** is measured at the stage of acceptance by the Treasury, regardless of the execution procedure followed. In the case of both the regular procedure and the simplified delegated spending authority procedure, expenditures are accepted by the Treasury immediately after the payment order is issued. In the case of simplified procedures and delegated spending authority or payments without prior issuance of a payment authorization, the Treasury accepts the expenditure at the time that payment is ordered and in such cases no expenditure is measured on the basis of the adjusting payment orders (*mandatements de régularisation*) when the adjustment to a payment order basis is done. For refunds of VAT credits, acceptance by the Treasury occurs when refund requests are transmitted by the National Tax Directorate to the National Director of the Treasury. Government expenditure includes all expenditure of the central government, including subsidies and transfers to autonomous public entities, and loans granted or on-lent by the government to public enterprises and other sectors of the economy, net of repayments on such loans.

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

24. **External financing** comprises: (i) disbursements of external loans; (ii) principal owed on government external debt; (iii) relief and rescheduling of government external debt, net of HIPC assistance obtained from multilateral institutions, which is considered part of grants; and (iv) the net change in external arrears (interest and principal, to be shown separately).

V. Data Reporting for Program Monitoring Purposes

25. The information on implementation and/or execution of the structural benchmarks under the program (as specified in Table 5 of the SEFP) will be reported to the IMF's African Department within two weeks of the planned date of implementation. The status of the implementation of other structural measures included in the program will be transmitted within 30 days of the end of each month.

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

Table 1. Guinea: Data Reporting Requirements for Program Monitoring

Category of Data	Table/Report	Frequency	Deadline
Financial and monetary data	Central bank balance sheet, consolidated commercial bank balance sheet, monetary survey (at the current exchange rate as well as at the program exchange rate).	Monthly	30th of the month for the previous month.
	Detailed net treasury position (NTP) and net government position (NGP).	Monthly	30th of the month for the previous month.
	Interest rates and stock of government and central bank securities (*BDT* and *TRM*).	Monthly	30th of the month for the previous month.
	Prudential indicators for commercial banks.	Quarterly	One month after the end of the quarter.
	Foreign exchange budget.	Monthly	30th of the month for the previous month.
Fiscal data	Status report, including a detailed statement of revenue, expenditure, and cash-flow operations.	Monthly	30th of the month for the previous month.
	General Treasury balances.	Monthly	30th of the month for the previous month.
	Cash-flow plan.	Monthly	30th of the month for the previous month.
	Government fiscal reporting table (TOFE).	Monthly	30th of the month for the previous month.
	Use of exceptional mining revenues.	Quarterly	30th of the month after the end of the quarter.
	Execution of budgetary expenditures from HIPC resources and other priority expenditures.	Monthly	30th of the month for the previous month.
	Balance of current expenditures, VAT credits to be refunded, and domestic debt arrears.	Monthly	30th of the month for the previous month.

Table 1. Guinea: Data Reporting Requirements for Program Monitoring (concluded)

Category of Data	Table/Report	Frequency	Deadline
	Nonbank financing, indicating operations in Guinean francs and those in foreign currencies.	Monthly	30th of the month for the previous month.
Real sector data and prices	Consumer price index, Conakry.	Monthly	30th of the month for the previous month.
	National accounts	Annually	Summary estimates three months after the end of the year.
Balance of payments data	Imports by use and exports by major product, trade balance.	Quarterly	Three months after the end of the quarter.
	Price and volume indices of imports and of exports.	Quarterly	Three months after end of quarter.
	Consolidated balance of payments estimates.	Annual	Summary estimates: six months after the end of year.
External debt	Debt service due before and after debt relief.	Monthly	30th of the month for the previous month.
	Debt service paid	Monthly	30th of the month for the previous month.
	Debt service reconciliation table	Monthly	30th of the month for the previous month.
	End-of-month outstanding debt and stock of daily debt service outstanding (after relief) and unpaid, stock of daily arrears according to the program definition.	Monthly	30th of the month for the previous month.
	Drawings on new loans	Monthly	30th of the month for the previous month.
External grants and loans	Disbursements	Quarterly	30th of the month for the previous quarter.
	Monthly transfers of debt relief amounts under the HIPC Initiative, by creditor.	Monthly	30th of the month for the previous month.