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

September 11, 2012

GUINEA: LETTER OF INTENT

Conakry, September 11, 2012

CENTRAL BANK OF THE REPUBLIC OF GUINEA

MINISTRY OF ECONOMY AND FINANCE

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

Subject: Letter of Intent

Madame Managing Director,

President Alpha Condé's government is implementing the reforms contained in the 2012–14 economic and financial program, supported by the IMF under the Extended Credit Facility (ECF), approved on February 24, 2012. The aim of the program is to reduce inflation and to lay the foundation for accelerated and diversified growth with a view to achieving significant poverty reduction. It embodies the economic and social vision of the government formed in the wake of the 2010 presidential elections, which consists of capitalizing on the country's agricultural, hydroelectric, and mining potential to improve infrastructure and access to social services, and of strengthening governance. The policies for 2012 are consistent with the objectives of the second Poverty Reduction Strategy Paper (PRSP-II), extended for 2011–12, and with the 2011–15 Five-Year Development Plan.

The program's policies and measures for the first half of 2012 have been satisfactorily implemented. The sound economic and financial performance achieved in 2011 continued, despite the difficulties arising from delays in collecting the new windfall mining revenues that were expected in the second quarter. The end-June quantitative performance criteria have been met but the continuous performance criterion related to new external arrears was not observed. As a result of technical problems with the central bank's international transfer system, some external debt service payments were delayed by a few days during the course of April and May. However, these incidents triggered no arrears notifications from the concerned creditors. We are seeking a waiver for this temporary and minor nonobservance of the performance criterion on new external arrears for which corrective measures have been implemented. Considerable progress has also been made with regard to structural reforms; actions on which implementation has fallen behind are continuing with assistance from technical and financial partners.

The government is seeking a modification of the program performance criteria for end-December 2012. The changes take account of recent developments, especially the delay in collecting the windfall mining revenues and the policies to address the resulting shortfall. Overall, the revised criteria are in line with the program's macroeconomic objectives. The attached Supplement to the Memorandum of Economic and Financial Policies sets out the policies and criteria for end-December 2012 for the second program review, and for end-June 2013 for the third review.

The government is requesting completion of the first review of the program. In view of the solid performance in program implementation, as well as the policies and measures contained in the Supplement to the Memorandum of Economic and Financial Policies, the government is requesting completion of the first review of the ECF-supported program and a second disbursement of SDR 18.36 million (17.1 percent of quota). With the completion of this review, Guinea is expected to reach the completion point under the enhanced HIPC Initiative.

The government firmly believes that the policies and measures described in the attached Supplement are adequate to achieve the program objectives. However, it will take any further measures that may become appropriate for that purpose. The government will consult with the IMF on the adoption of such measures, either at its own initiative or at the request of the Managing Director of the Fund, prior to adopting such measures, or in advance of revisions to the policies contained in the Supplement, in accordance with the IMF's policies on such consultations. The government undertakes to provide the IMF with any information that may be necessary to monitor implementation of the measures and attainment of the program objectives.

The government authorizes the IMF to publish this Letter, the attached Supplement to the MEFP and the TMU, as well as the Staff Report relating to the first review of the IMF-supported program under the ECF.

Sincerely yours,

/s/
Louncény Nabé
Governor of the
Central Bank of the
Republic of Guinea

/s/
Kerfalla Yansané
Minister of Economy
and Finance

Attachments: - Supplement to the Memorandum of Economic and Financial Policies
- Technical Memorandum of Understanding

GUINEA: SUPPLEMENT TO THE MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

Conakry, September 11, 2012

This Supplement to the Memorandum of Economic and Financial Policies summarizes the implementation of the economic and financial program described in the February 11, 2012 Memorandum of Economic and Financial Policies during the first half of 2012. *Moreover, it sets forth the key program policies and measures for the remainder of 2012 as well as the general outlook for 2013.*

I. INTRODUCTION

1. **As soon as it took office, the government of President Alpha Condé carried out important structural reforms and economic and financial recovery measures under the 2011 IMF staff-monitored program (SMP)**. Management of the International Monetary Fund (IMF) approved this program on June 30, 2011 and submitted it for information to the Executive Board on July 1, 2011. This program aimed at macroeconomic stabilization and jump-starting growth, mainly by lowering the budget deficit and increasing public and private investment. Implementation was quite satisfactory, leading up to the medium-term program supported by the IMF under the Extended Credit Facility (ECF) that was approved on February 24, 2012.

2. **The government continued to satisfactorily implement its program in 2011 and during 2012**. The final data for end-December 2011 show that performance was even better than projected in the February 2012 Memorandum of Economic and Financial Policies (MEFP), based on the results of the first nine months of the year. These positive trends continued during the first half of 2012 despite delays in receiving projected windfall mining revenue. The end-June quantitative performance criteria were met but the continuous performance criterion on new external arrears was not met because of technical difficulties. Notable progress was made with structural reforms, despite the fact that some actions constituting structural benchmarks experienced delays.

3. **The government's program is part of the Second Poverty Reduction Strategy Paper (PRSP II)**, extended for 2011–12. It is consistent with the 2011–15 Five-Year Development Plan. In preparing the Plan, Guinea decided to give new impetus to its development policy. This new strategy is based on a recovery and development program that is both ambitious and realistic, and is based on improving public investment in infrastructure and social services, and in developing the potential of mining, agriculture and hydropower, with the goal of promoting private initiative and investment.

4. **The government is determined to establish the bases for strong economic growth in order to significantly reduce poverty**. For the remainder of 2012 and for 2013, the following specific objectives will be pursued in implementing the Poverty Reduction Strategy:

- consolidate social peace by organizing peaceful elections and completing the reform of the security sector;

- restore confidence and credibility of the economic, financial, and monetary institutions by lowering inflation, stabilizing the exchange rate, and maintaining an adequate level of international reserves;

- 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;

- improve infrastructures by developing and implementing a public investment program in collaboration with development partners;

- develop mining potential and ensure that there is synergy in terms of diversification and growth with the other sectors of the economy;

- increase agricultural production to rapidly attain food self-sufficiency, reduce the country's dependence on imports, and increase agricultural exports; and

- enhance the production and distribution of electricity by tapping the country's hydroelectric potential.

5. **The government and the people of Guinea wish to reach the completion point under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative by end-September 2012**. With the conclusion of the first review of their ECF-supported three-year program, they will have met the macroeconomic stability completion point trigger. As of end-July 2012, the government had already completed the implementation of the other triggers (Table 3). Moreover, the government will continue to implement the extended PRSP II and by end-December 2012 it will prepare, in a participatory process, the PRSP III for 2013–15. The government will continue to pursue prudent policies after the HIPC Initiative completion point.

II. Macroeconomic Results in 2011

6. **The very good performance under our economic program for 2011, described in the February 2012 MEFP, was confirmed by the end-December 2011 final data**. The real growth rate accelerated to reach nearly 4 percent in 2011, compared to 1.9 percent in 2010; this reflects the normalization of the political and social situation, but also a very good performance in the agricultural and mining sectors. The government improved public finances and lowered the basic fiscal deficit from nearly 13 percent of GDP in 2010 to less than 2 percent in 2011. This adjustment was made possible by implementing a rigorous fiscal policy, including cash-based expenditure management. Moreover, the final data indicate that, thanks to the monetary and foreign exchange policies, the growth of the money supply was contained to less than 10 percent in 2011 as opposed to 74 percent in 2010. These rigorous policies halted the

trend of worsening inflation by stabilizing the increase in the 12-month consumer price index to 19 percent as of end-December 2011, and by curbing the rapid depreciation of the exchange rate. With the windfall mining revenue received in May 2011, international reserves were replenished to 4.5 months of imports of goods and services. Bank financing of the budget deficit, which amounted to more than 1 percent of GDP per month in 2010, was avoided. After Guinea normalized its relations with development partners, in particular by clearing its arrears with the multilateral financial institutions, budget financing benefitted from the resumption of external financing. All end-2011 quantitative targets of the program were met with considerable margins (Table 1). Structural reforms continued as planned, and all benchmarks under the SMP for end-December 2011 were observed.

7. The **initial fiscal objectives under the SMP were achieved** despite pressing demands for additional spending and the postponement of budget support. Due to measures such as the discontinuation of ad hoc exemptions, expansion of the coverage of import inspections, efforts to collect arrears, and other measures, the projected revenue was collected. Basic expenditures were contained to a level below the program target, although the supplemental budget law authorized additional spending after the windfall mining revenue was received. This culminated in a deficit on the budget's basic balance of 1.6 percent, compared to a target of 2 percent of GDP.

III. Economic Developments and Implementation of the Economic and Financial Program (January–June 2012)

A. Recent Macroeconomic Developments

8. **Good macroeconomic performance continued in 2012**. Indications are that activity continued to accelerate, pulled by an increase in investment in the mining sector—especially the Simandou iron ore project—the positive effects of government support on agricultural production, and the improvement in power generation due to public investment to reestablish existing capacity and install new capacity under the electricity sector reform program. Inflation continued its downward trend and fell below 15 percent in July 2012 (y-o-y). The drop in inflation reflects the continued prudent fiscal and monetary policies, higher rice production, and government measures to facilitate the procurement of essential goods by the population. The exchange rate stabilized, the premium in the foreign exchange market practically vanished, and the international reserves of the Central Bank of the Republic of Guinea (BCRG) amounted to the equivalent of 4.2 months of imports at end-June.

9. **The end-June performance criteria under the ECF-supported program—adjusted for the delayed windfall mining revenue—were met, but the continuous performance criterion on the non-accumulation of new external debt service arrears was not met** (Table 1). Strong revenue performance and the continuation of cash-based expenditure management, kept the budget's basic balance practically in equilibrium (compared to the target of a deficit of 3.7 percent of GDP), despite the loss of fuel tax revenue and the fact that the expected new windfall mining revenue was not received. The good

performance with regard to the basic balance more than offset the additional financing need generated by the unanticipated payment of expenditures from fiscal year 2011. External budget financing benefitted from an unexpected disbursement of the first tranche of a budget loan from Angola ($72 million out of a total loan of $150 million). Following these developments, the program performance criteria on net bank financing of the government, the Central Bank's net domestic assets, and net international reserves, were met. Due to the delay in implementing a large investment project in the electricity sector, the indicative target (floor) on expenditures in the priority sectors was not reached. Moreover, due to technical problems with the SWIFT system in the Central Bank, and delays in recording payments made for external debt service owed to two creditors, some external debt service payments were late by a few days in April and May 2012, leading to the temporary and minor nonobservance of the criterion on avoiding new external arrears. Nonetheless, there were no notices of arrears from the creditors in question as a result of these incidents. Corrective measures were taken, including the establishment of direct and regular telecommunication with the internet access supplier assuring the interface with the SWIFT system. The BCRG is planning to install an upgraded version of the SWIFT system in the context of a project on the payments system; moreover, a backup system was made operational at the Kindia site in accordance with the recommendations of the IMF safeguards mission.

B. Budget Execution

10. **Fiscal policy during the first half of 2012 aimed at increasing budget revenue and continuing cash-based expenditure management**. Budget revenue exceeded projections by almost 1 percent of GDP. This performance was primarily due to the tax audits on fiscal years 2009 to 2012. Moreover, revenue from withholding non-salary income increased with the rise in the rate (from 10 to 15 percent) and the growing number of mining-sector expatriates subject to this tax. Customs achieved its revenue target despite the accumulated losses in fuel taxes (over 1 percent of GDP)—particularly in the second quarter—since pump prices remained stable while import costs increased (the government considered that the gradual adjustment of pump prices and the regular mechanism for adjusting fuel prices (structural benchmark for July 1) could not be implemented due to the unfavorable social context). Instead of a lump-sum valuation by container, the valuation of imports based on market value in line with the transaction documents, is being used increasingly. The harmonization of customs clearances at the port and land borders was accelerated to reduce leakage. The thorough review of the tax exemption specifications continued for companies eligible for advantages under the Investment Code. However, a few tax revenue line items were subject to negative externalities. For example, the Treasury's failure to repay VAT credits to the mining companies led the companies not to pay the tax to their subcontractors or suppliers. Finally, the expansion of the VAT base was hampered by the fact that the medium-sized taxpayer unit did not operate as anticipated.

11. **Expenditures were contained to maintain macroeconomic stability**. The retirement of a large number of military personnel; postponement of the coming into effect of some special

personnel statutes in public administration; the continued improvement in the civil service database; and better auditing of new employees generated savings in the wage bill. The start of cleaning up the list of scholarship recipients in higher education lowered subsidy expenditures. Investment expenditures were well below forecasts, mainly due to the change in the contract for purchasing electricity generators and the postponement of contracts to build and renovate military barracks. However, a large share of expenditures not executed in the first half of the year will be executed in the second half, so that there will be no real savings in expenditures for the year as a whole, especially with regard to expenditures for the legislative elections and the subsidies for the agriculture and electricity sectors.

12. **Satisfactory fiscal performance resulted in meeting the program performance criteria for end-June**. The basic fiscal balance for the first half of 2012 was nearly zero, whereas the target was a deficit of 3.7 percent of GDP. Regarding financing, it was not possible to collect the $250 million in new windfall mining revenue (4.5 percent of GDP) that was expected in the second quarter (this revenue was to come from the renegotiation of mining contracts). The government opted for a transparent and inclusive process under two commissions in charge of reviewing the mining titles and conventions established in March 2012, the results of which are expected in 2013. Moreover, a sizeable amount (over 1 percent of GDP) of expenditures for fiscal year 2011 was paid in 2012. This was mainly due to the late adoption of the 2011 supplemental budget law, and the inability of the administration to commit some expenditure before the normal commitment closing date. Expenditure commitments continued until the end of the fiscal year, which forced the Treasury to make the related payments in 2012.

13. **In June, the government informed IMF staff of two loan agreements for a total amount of US$175 million contracted in 2011 that had not previously been included in the debt database**: **(**i) a loan from Palladino Capital ($25 million on nonconcessional terms), intended for a public enterprise that was then in the process of being created (*Société Guinéenne du Patrimoine Minier* - SOGUIPAMI), was disbursed in May 2011. The amount was deposited into a suspense account with the Central Bank; it was never used, and in July 2012 the government canceled the loan agreement and repaid in full the amount that had been disbursed; and (ii) in October 2011, the government signed an agreement for a $150 million concessional loan with the government of Angola, also to finance SOGUIPAMI. An initial disbursement of $72 million was received in February 2012; pending the finalization of SOGUIPAMI's management structure, this amount was not used either.

14. **The BCRG continued a monetary policy aimed at further reducing inflation and stabilizing the exchange rate**. The BCRG's policy rate and the reserve requirement ratio remained unchanged at 22 percent. To strengthen the official foreign exchange market, the Central Bank held twenty-six (26) foreign exchange auctions, selling a total amount of $123 million, equivalent to a net liquidity contraction of GNF 847 billion. Indications are that the banking system's interest rates fell in line with lower inflation. However, bank credit to the private sector was down by 26 percent in the first six months of 2012 (after increasing

94 percent in 2011). This was in part a reflection of paying back loans after foreign financing was replaced by domestic financing for petroleum product imports in 2011, as well as seasonal effects. Broad money also declined (by 1.2 percent during the first half of 2012), indicating that the monetary policy objective of lowering excess liquidity in the economy is being attained. The Guinean franc appreciated against the dollar and the euro by 2.0 percent and 5.9 percent respectively during January-June 2012, and the average exchange rate differential for the dollar between the official and parallel markets was roughly 0.5 percent versus almost 11 percent in June 2011.

15. **In April, Paris Club creditors reached an agreement with the government of Guinea to provide relief for its external public debt on exceptional terms**. Discussions have started with other official bilateral and commercial creditors on debt restructuring under terms comparable to those of the Paris Club. Regarding commercial creditors, the government continued these discussions in a manner consistent with IMF policy on loans to countries in arrears, in particular regarding the transparency of information, equity among creditors, and dialogue. The government of the United States of America announced its decision to cancel 100 percent of the arrears and debt service owed during 2012–14. Moreover, a bilateral agreement was signed with France in June 2012, also including additional debt relief.

C. Implementation of Structural Reforms

16. **The government placed the utmost importance on implementing and monitoring the structural reforms, including with regard to both structural benchmarks and other measures**. To ensure a good program coordination, the Council of Ministers, chaired by the Prime Minister, took on a major role in monitoring the execution of program reforms, and each minister is aware not only of the measures for which her department is responsible, but also of the measures for which her other colleagues are responsible. Under these conditions, the ambitious structural reform program continued to progress apace, even though there were lags in meeting the structural benchmarks under the ECF program, due mainly to the need for additional technical assistance from our development partners (Table 2).

17. **Several actions were taken in tax administration and tax policy reform and in strengthening public financial management (PFM)**. The Ministry of the Economy and Finance prepared a tax reform action plan in June, including comments from the IMF, which will be submitted to the development partners before end-December 2012. With considerable support from several external partners, the government also made good progress in PFM reform; it adopted a new procurement code, which was sent to Parliament in July 2012; and on July 27, Parliament approved the Organic Budget Law, prepared in collaboration with the IMF's Fiscal Affairs Department (FAD), establishing the principles, rules and procedures for directing and managing expenditures and government resources. With the goal of ensuring long-term cost-effectiveness and viability of the projects financed through windfall mining revenue, a decree prepared with IMF and World Bank assistance was issued in March 2012 on the accounting procedures governing the Special Investment Fund (SIF); $250 million was

deposited in the fund's account, which will operate as an account earmarked to finance priority investments, beginning in 2013. Work began on preparing a medium-term public investment program (PIP) for 2013–15 (a structural benchmark for end-September) with assistance from the UNDP and the AfDB.

18. **The Central Bank made further progress with strengthening and developing the financial system**. Following reinforcement of the Banking Supervision Department, including with the help of technical assistance from West AFRITAC, the BCRG continues to intensify banking supervision, including for microfinance institutions; substantial progress was made in strengthening prudential regulations. The number of banks that do not meet the minimum capital requirement fell from five at end-2011 to two at end-June 2012. As a result of poor management and insufficient capital endowment, one small bank—with 0.4 percent of bank deposits and a government participation of 55 percent—specialized in financing for agriculture and mining, was placed under receivership in January 2012. The licensing committee approved four new banks and is currently reviewing four applications. The Central Bank also completed the external audit work on the financial statements as of December 31, 2011. The audited financial statements were published on the BCRG website. The BCRG is now completing the process of hiring a new external auditing firm of international renown and has continued implementing the recommendations of the IMF safeguards assessment mission.

19. **Major progress was made in mining sector reforms, which aim to improve governance and ensure that Guinea receives its fair share of revenue from the country's mineral resources**. The institutional framework of awarding mining titles and conventions was strengthened with the decree of March 26, 2012 that created the National Mining Commission (CNM), charged with discussing new mining titles and conventions. Moreover, another decree established two interministerial committees, a strategic committee and a technical committee, in charge of reviewing all existing mining titles and conventions. The technical committee is the only discussion forum for the revision of mining contracts. It reports to the strategic committee consisting of four ministers. An audit of the mining registry was also performed, which identified and listed all the mining titles and permits. Although the government has been unable to sign and publish the implementing regulations for the new Mining Code and the standard mining convention (a structural benchmark for end-June 2012), most of these texts and the standard convention were prepared by end-June; the finalization of the text on the fiscal regime was awaiting a technical assistance mission from the IMF Fiscal Affairs Department early in September.

20. **In March 2012, the government adopted an action plan for reforming the electricity sector** in accordance with the recommendations of the donor roundtable held in Conakry in January 2012 (a structural benchmark). Since then, notable progress was made in implementing the action plan, especially with the rehabilitation of hydroelectric and thermal generators, as well as the repair of poles, transmission lines and distribution grids with support from development partners, including the World Bank, the African Development Bank, and the Islamic Development Bank. These investments allowed increasing substantially the supply of

electricity, especially in the capital Conakry. Available capacity increased from 109 MW at end-2010 to 162 MW currently, and average availability of electricity rose to 15 hours per day. Management of the public company (*Electricité de Guinée* - EDG) has been strengthened, including through audits, an update of the customer database, and improvements in billing and collecting, contributing to doubling average monthly revenue from private customers from GNF 8 billion in 2011 to GNF 16 billion during the first six months of 2012. Construction has begun on the Kaléta Hydroelectric dam and power plant. This should increase the share of cheaper hydroelectricity in overall electricity production by 2015. Finally, the government established a monitoring committee, whose main task is to monitor and coordinate the implementation of this action plan.

21. **The agricultural sector reforms aim at achieving food self-sufficiency in 2014**. After the reforms began in 2011 (which contributed significantly to the increased agricultural production during that year), the measures in 2012 aimed at ensuring that assistance to the sector would remain sustainable over the medium term by raising the loan collection rate and controlling budget subsidies. However, there were delays in implementing the harmonization of the methods and procedures of assistance to the agricultural sector with those under projects supported by the World Bank and the International Fund for Agriculture Development (IFAD) (structural benchmark for end-March 2012). In June, the Prime Minister signed an order organizing the distribution of farm inputs and cost recovery. A circular letter on arrangements for implementing this order was widely distributed, and a three-party convention on its implementation was signed on August 7 by the Ministry of Agriculture, the Chamber of Agriculture and five organizations of farmers, including the National Confederation of Guinea Farmer Organizations (CNOPG). Under the convention, the CNOPG and other organizations are charged with distributing seeds, inputs and agricultural materials, and with collecting loans, in accordance with the Prime Minister’s order and in line with the methods and procedures for assistance under projects funded by the World Bank and IFAD.

22. **The revision of the Investment Code is continuing with technical assistance from the World Bank, the International Finance Corporation (IFC), and the IMF**. The agency to promote private investment was established and the one-stop-shop for registering new companies is operational. Based on IFC recommendations, the revision of the Code will now be made together with the revision of the General Tax Code, the Customs Code and the Customs Tariff; this requires additional technical assistance and the revision of the code is now scheduled for the end of June 2013. A workshop with all the stakeholders will be held in September to prepare an investment policy letter. A comprehensive list of the companies that benefit from the incentives under the Investment Code was prepared in March. An inter-ministerial commission, set up in June, started reviewing those companies, with the aim to terminate the benefits for companies that do not comply with the contractual obligations under the code by end-December 2012 (structural benchmark).

IV. Implementation of the Extended PRSP for 2011–12

23. **As part of the program to fight poverty, as soon as the government took office, it implemented an emergency program based on the Second Poverty Reduction Strategy Paper (PRSP II)**. PRSP II (2007–10) was extended to cover 2011–12 to achieve some of its goals that had not been reached during the period of the military regime in 2009–10; the extension was presented to the members of the government governmental seminar in January 2011 and to the National Transition Council (CNT) in February 2011.

24. **The government also adopted a 2011–15 Five-Year Development Plan that is consistent with PRSP II**. The goals of this development plan are to reduce poverty by implementing the PRSP and to lift Guinea to the rank of emerging countries. The CNT adopted this plan in May 2012, and it includes a priority public investment program, particularly in infrastructure in the mining, industrial, water and energy, and tourism sectors.

25. **An annual progress report on the implementation of the PRSP II for 2011 was produced and submitted to the Bretton Woods institutions** in May 2012. This report was validated after comments from technical and financial partners were taken into account. It examines the results achieved in 2011 and presents the outlook for 2012. It also shows the continuing increase in expenditures in the priority sectors.

26. **The preparation of the PRSP III is in progress**. An outline of the document and a roadmap for preparing it were submitted to technical and financial partners. The PRSP III will be divided into two major parts. The first part will present the present situation by assessing poverty and reviewing the lessons learned from the strategy since the second PRSP was prepared. The second part will present the government's vision and the strategies of the different sectors, arranged around six pillars: (i) macroeconomic stability; (ii) improved governance and institutional reforms; (iii) development of economic infrastructures; (iv) rural development; (v) mining and industrial development; and (vi) development of human capital. Moreover, an implementation process will be established and specified for financing the strategy and the priority action plans, along with the communication strategy and the evaluation of the strategy's impact on the living conditions of Guinea's population with a view to pursuing the Millennium Development Goals.

V. Policies for the Remainder of 2012 and 2013

27. **The government is determined to implement the macroeconomic and structural policies in the ECF-supported medium-term program (2012–14)**. The government will continue the prudent fiscal and monetary policies that broke the spiral of inflation and depreciation of the exchange rate. The government is also determined to continue the structural reforms to reduce the obstacles to unlocking the country's vast economic potential and to support strong, sustainable and diversified growth. With the debt relief following the HIPC Initiative completion point, additional resources can be set aside for priority spending programs, including financing for basic infrastructure and social expenditures. The government intends to take advantage of the experience gained while developing and implementing the program to strengthen reforms in the post-HIPC period.

A. Macroeconomic Outlook for 2012–13

28. **Despite the sluggish international economic environment, the macroeconomic outlook for Guinea remains favorable for the rest of 2012 and 2013**. Investment in developing deposits of iron ore and other minerals should continue, even if risks remain regarding international prices, particularly for aluminum. With the reforms, the growth in agricultural production, especially rice, is estimated to continue apace, which should also decrease risks from the increase in international food prices. The forecast for real GDP growth for 2012 was revised slightly upward (4.8 percent compared to a forecast of 4.7 percent early in the year) and, also based on the rapid acceleration of investments in the large Simandou iron ore project, is projected to reach 5 percent in 2013. The trend in inflation during the first six months of 2012 is consistent with the program target for end-2012 of 12 percent (y-o-y); the target for 2013 is still to lower the rate to 8.7 percent. Nonetheless, even if the macroeconomic program targets for 2012–13 remain broadly unchanged, the fact that the windfall mining revenue initially planned for 2012 (equivalent to 4.5 percent of GDP) was not received, required an adjustment of the budget and monetary policies for the second half of 2012. The target for international official reserves also had to be revised, although the good performance in 2011 and budget support from Angola mitigated the reduction. The revised program targets a floor on international reserves equivalent to 2.9 months of imports for end-2012 (compared to 3.3 months in the initial program) and 2.9 months of imports for 2013.

B. Fiscal Policy for July-December 2012

29. **Fiscal policy for the rest of 2012 will seek to meet the macroeconomic targets under the ECF-supported program, taking into account the shortfall from the expected windfall mining revenue and the expenditure overflow from 2011**. The main objective of fiscal policy remains avoiding bank financing of the budget deficit besides that stemming from the decrease in deposits due to the use of the 2011 windfall mining revenue for investments. In this context, the government prepared a supplementary budget law for 2012 (prior action), which was recently submitted to the CNT taking into account the shortfall in the windfall mining revenue and the payment in 2012 of expenditures from fiscal year 2011. The revised budget aims for a basic balance deficit of 3.6 percent of GDP (compared to 3.8 percent in the initial budget for 2012), including the recapitalization of the Central Bank for an amount equivalent to 0.5 percent of GDP. Net bank financing in the revised budget rises to 5.0 percent of GDP (compared to 1.6 percent of GDP in the initial budget).

30. **Revenue projections for the year as a whole exceed initial forecasts (by 0.4 percent of GDP)**. This reflects the substantial collection efforts in the first half of the year, higher mining revenue, and lower losses in fuel tax revenue following the fall in international oil prices compared to the projections in the initial budget. The revenue estimates are also based on additional measures to increase tax revenue, in particular: (i) the medium-size enterprise unit starts activities and VAT collection is expanded to such enterprises by end-December 2012 (structural benchmark); (ii) the gradual repayment of VAT credits, lowering the stock by 50 percent in 2012—the resumption of efficient repayment of such credits should promote

compliance with collecting and paying VAT, especially in the mining sector; and (iii) the termination of tax advantages under the Investment Code for companies that do not meet the contractual obligations associated with the advantages in the code by end-2012 (structural benchmark). The government will also analyze the cross debts between the Treasury and public enterprises in order to make a decision by end-November 2012 regarding the frozen tax revenue of these enterprises (*Electricité de Guinée, Port Autonome de Conakry, Société de Télécommunications de Guinée*, and *Société des Eaux de Guinée*). Pending a decision on the regular price adjustment mechanism, the revised budget does not include an increase in the price of fuel. However, if prices in international markets were to rise above the assumption used for the budget estimate, the government will adjust pump prices to prevent further tax losses or take revenue and/or expenditure measures to offset such losses.

31. **Basic expenditures were lowered compared to the initial budget (by about 0.5 percent of GDP)**. Current expenditures were reduced, but allocations for investment expenditures were increased to accommodate some projects (mainly in the electricity sector) that were scheduled for 2011 but could not be executed at that time. Savings are expected from the continued cleaning of the civil service payroll database, including through (i) better monitoring of the wage bill through on-site inspections; (ii) the continuous updating of contracts instead of the automatic renewal that existed; and (iii) the continuation of actions necessary for the interconnection of the budget payroll and civil service databases. The savings from lower recruitment during the first half of the year will be carried forward as the government will not grant any retroactive payment. Moreover, in subsidies, savings are expected to come from continuing improvement in the database for student scholarships, and from managing transfers to the decentralized authorities.

32. **Net expenditure savings are expected despite recent developments that had not been anticipated when the initial budget law was prepared but require some additional expenses**. The government plans to gradually clear the stock of VAT credit arrears (0.25 percent of GDP). A provision has been set aside to deal with the restructuring or liquidation of a bank currently under Central Bank receivership; the authorities will choose the least costly option for the budget. While awaiting technical assistance from the World Bank and the IMF on SOGUIPAMI's role, institutional organization and relations with the Treasury, a provision was also included in the budget to provide financing for its administrative costs. Moreover, an amount of GNF 220 billion was budgeted to bring the capital of the Central Bank up to the minimum statutory level.

33. **The government considers that the 2012 budget can be financed**. As planned in the program, the budget will use the amount remaining from the 2011 windfall mining revenue after the $250 million was transferred to the SIF. The revised budget also includes a provision equivalent to 1.1 percent of GDP for paying the expenditure overflow from 2011. With assistance from the *Agence Française de Développement*, the government will audit the stock of domestic debt, including arrears, before end-March 2013, to determine its exact nature and the treatments required.

34. **Financing of the budget will benefit from external debt relief**. In addition to the relief from the Paris Club, the budget will benefit from debt service savings in the fourth quarter after reaching the HIPC completion point, including relief from the MDRI and additional relief provided by Paris Club members. Discussions have begun with the other official bilateral creditors and with the commercial creditors on debt rescheduling under terms comparable to that of the Paris Club. Regarding commercial creditors, the government will continue these discussions in a manner consistent with IMF policy on lending to countries in arrears. Moreover, the budget will benefit from budget support from Angola and the AfDB, and the repayment by the *Agence Française de Développement* of excess debt service payments during 2009–11.

C. Fiscal Objectives for 2013

35. **Fiscal policy for 2013 will aim at consolidating the basic balance deficit and limiting bank financing to the gradual use of SIF resources, as provided for in the initial ECF-supported medium-term program**. Additional resources are expected to be generated from lower external debt service payments following the HIPC completion point, including from relief under the MDRI. The basic balance deficit would fall from 3.6 percent of GDP in 2012 to 1.4 percent of GDP in 2013. The use of SIF resources will be spread out over 2013–15 to ensure a sufficient level of public investment before the expected permanent increase in mining revenue following the start of production at the Simandou iron mine, planned for mid-2015. The use of external financing will be consistent with the objective of ensuring debt sustainability. The government is aiming at submitting the draft budget to the CNT on October 15, 2012, which would be within the constitutional requirement for the first time in a decade.

36. **Budget revenue is projected to increase from 19.2 percent of GDP estimated for 2012 to 20.2 percent of GDP**. These projections are based on the assumption that, as of January 1, 2013, the price of petroleum products at the pump will be adjusted regularly to cover the import cost to prevent revenue losses. The 2012 decision to terminate the benefits for companies that do not comply with the contractual obligations under the current Investment Code will affect the full fiscal year 2013.

37. Since **petroleum products are a major source of government revenue, it is important to prevent losses caused by the gap between import costs and the price at the pump in order to protect priority expenditures**. To this end, an automatic system for adjusting monthly petroleum prices, based on changes in the international prices and the exchange rate, will be applied starting in January 2013 (continuous structural benchmark). The special committee on petroleum products will decide on the price adjustments; the Director General of Customs and the Special Customs Collector will henceforth participate in this committee. The new system should aim at limiting erratic fluctuations of pump prices while safeguarding government revenue.

38. **The revenue agencies will begin to implement the measures provided for in the action plans for tax and customs reform, with assistance from technical and financial partners**. The action plan of the tax department is based on (i) streamlining the organization to allow more effective administration; (ii) harmonizing and simplifying the tax legislation; (iii) promoting taxpayer compliance; (iv) strengthening employee skills; (v) expanding the tax base; and (vi) strengthening management and supervision of the administration. The action plan of the customs department aims at: (i) strengthening the customs agency; (ii) improving human and financial resources; and (iii) modernizing customs procedures and strengthening risk-based control. The following priority activities will be carried out:

- Revise the General Tax Code, the Customs Code and Customs Tariff to include recent tax changes, as well as the various tax incentives that are presently included in the Investment Code or disseminated in other statutes;
- Conduct a study, with IMF assistance, to provide recommendations on reforming real estate taxation;
- Make the tax appeal commission operational to accelerate the settlement of disputes and tax collection;
- Clear the backlog in VAT credits and put in place an appropriate system to refund the VAT for exporters;
- Implement risk-based customs control by selectively using ASYCUDA ++ declarations and computerizing customs offices at the in-land frontiers;
- Develop a partnership with the private sector by signing an agreement on the gradual payment of customs duties; importers will have the possibility to take just a portion of imported goods and to pay a portion of customs duties; the unpaid portion of customs duties will be guaranteed by the goods that are not taken;
- Interconnect computers between the two tax agencies and with the other administrations, in particular Procurement and the Treasury, to accelerate services for users, including payment of taxes and customs clearance of goods, and to limit fraud;
- Start using the mobile scanner already available at the Port of Conakry.

39. **Even though discussions between ministries on expenditures are still taking place at the time this Memorandum is prepared, the government has already set the guidelines for expenditures in 2013**. Expenditures will aim at achieving the target for the basic balance deficit within the envelope of available resources. Thus, current primary expenditures will slightly rise in percentage of GDP, implying a nominal increase of about 20 percent. The main factors are: (i) offset the impact of inflation on civil service wages; (ii) hiring in the social sectors and police of about 8,500 new staff, while continuing the reforms begun in the civil service, such as cleaning up the payroll database; (iii) start applying the special statutes for a few functional groups in public administration; (iv) keep spending on goods and services constant in real terms despite the growing number of ministerial departments; (v) reduce agricultural subsidies for the crop year by increasing the part of input cost paid by farmers and

use funds collected and deposited in the revolving account; and (vi) reduce subsidies to the electricity sector by stemming technical and commercial losses and by adjusting rates.

40. **Domestically-financed investment expenditures will fall from 7 percent of GDP in 2012 to 4.9 percent in 2013 as the balances from the 2011 exceptional mining revenue are gradually exhausted**. This reflects the completion of a number of priority projects in the electricity sector in 2012. Based on the public investment program prepared in 2012, the government will select projects to be submitted to the SIF for approval. With assistance from the World Bank, mainly for setting up the management bodies, the SIF will be operational by end-December 2012. Projections for externally-financed investment (4.4 percent of GDP) are based on the assumption that the financing envelope from the European Union under the 10th EDF—which depends on holding legislative elections—will continue to be available as planned.

41. **The budget will benefit from the impact of debt relief**. The savings on external debt service expected for 2013 from the HIPC completion point, the MDRI and the additional relief from bilateral creditors are estimated at about $148.3 million compared to if only the Paris Club agreement of April 22 would be applied. The 2013 budget provides that half of the deposits in the SIF as of end-2012 ($125 million or 2.5 percent of GDP), will be used in 2013. Net bank financing will be avoided, other than resulting from the planned use of SIF resources. The budget also includes grants in the context of the Debt Reduction and Development Contracts (C2Ds) with France to finance approved projects. Under the C2Ds, Guinea will make regular debt service payments, which will, in the context of the HIPC initiative debt relief, be returned as grants to finance development projects. The government intends to organize a donor round table in early-2013 that could generate additional financing.

D. Monetary and Exchange Policy

42. **The main objective of monetary policy remains lowering inflation**. BCRG monetary policy will continue to be based on containing base money. Given the absence of a developed financial market and the low use of indirect instruments, the intervention in the weekly foreign exchange auction (FEA) will remain the main monetary policy instrument; the FEA allows the BCRG to sterilize excess liquidity by selling foreign exchange. The BCRG will monitor liquidity developments very closely to reduce any excess that may arise from the government's drawdown of deposits of the 2011 windfall mining resources for local expenses, within the limit of the target for international reserves. Nonetheless, the drop in the inflation rate and the slower bank lending in the first half of 2012 give the BCRG leeway to lower the policy rate. If the growth in bank lending remains low, the BCRG could also consider gradually lowering the reserve requirement ratio. The BCRG will align the discount rate with the policy rate, setting it at a level that will encourage the banks to develop an interbank market for Guinean francs and to mobilize deposits. Since July 10, the banks have been authorized to include their cash in vault in meeting reserve requirements; this exemption will be suspended once the operation for replacing older GNF 10,000 banknotes is completed before end-2012.

43. **Now that the parallel market premium has nearly disappeared, the monetary authorities will consider the possibility of widening the band around the FEA rate, from ±3 percent to ±5 percent, around which banks purchase or sell foreign exchange**. In line with the recommendations of the March 2012 IMF Fiscal Affairs Department technical assistance mission on the implementing texts of the SIF, the monetary authorities are considering keeping the SIF account in Guinean francs instead of in US dollars, in agreement with the Ministry of Finance. To further enhance transparency, the BCRG will adopt a memorandum clarifying the FEA operating regulations, such as the modalities for allocating foreign exchange and setting the exchange rate, validated by the Exchange Commission (by end-December 2012).

44. **The BCRG is pursuing its policy of strengthening the financial sector**. The Central Bank will continue on-site and off-site supervision of financial institutions to ensure that all the banks observe the prudential ratios. The government will adopt the draft banking law by end-December 2012 (structural benchmark) and the BCRG will continue preparing a new bank chart of accounts with the goal of completing it by end-2014. To upgrade the payments system, the BCRG has started setting up a payment incidents clearinghouse with assistance from the Banque de France. It is also planning to organize a workshop to disseminate the new instructions on the microfinance institutions and to strengthen regulation in the insurance sector. To increase the sector's contribution to the country's development, a study on the development of the financial sector was launched with assistance from the AfDB, the UNDP, and other economic and financial partners, which is expected to be adopted by the government by June 2013.

45. **BCRG's instruments of intervention will be strengthened**. With IMF assistance, the BCRG plans to review the overall monetary policy framework, including the setting-up of permanent facilities. In this regard, it will sign a framework agreement with the Ministry of the Economy and Finance to update the 2010 convention on the outstanding stock of advances by end-December 2012 (structural benchmark). Once its statutory capital has been replenished, as provided for in the 2012 supplemental budget law, the BCRG is expecting additional requirements due to the growth in the banking system. To that end, it submitted a request to the IMF Monetary and Capital Markets Department to prepare a financial assessment of its entire balance sheet in order to more precisely determine capital requirements. The Central Bank will also work to establish its investment policy, set up the trading room for its outside investments, and train staff with technical assistance from the IMF and the World Bank. With regard to audits, work will primarily consist of the following:

- ✓ Review the agreed procedures to validate the level of net domestic assets and net international reserves indicated in the June 30, 2012 monetary survey. The new independent auditor will certify by end-October the monetary statistics that are used to evaluate the program's performance on June 30, 2012;
- ✓ Continue implementing the recommendation of the IMF safeguards assessment mission of January 2012;
- ✓ Prepare the audit of the accounts for December 31, 2012.

E. Structural Reforms

Fiscal management:

46. **The government continues to implement the public financial management modernization program with support from the technical and financial partners**. Over the next twelve months, the government plans to implement the following activities:

- Strengthen the operationalization of the Treasury single account (TSA) by finalizing the identification of accounts that are to be transferred under the TSA, and move from the current monthly leveling to daily leveling of the balances in credit accounts into the account of the National Treasury Directorate (DNT), except for the bank accounts of public accountants in the regions.

- Sign the regulatory instructions on closing the fiscal year;

- Regularize suspense accounts to produce financial statements for the 2011 budget review law, and to ensure reliable financial reports for fiscal year 2012.

- Reintroduce the oversight of the budget implementation process through budget review laws; prepare the administrative and management accounts for 2010–11 in order to submit the draft budget review laws to Parliament for 2010 and 2011.

- Put in place the governance structure of the SIF and submit projects that could be financed by it in 2013, based on a medium-term public investment program; a medium-term public investment program, based on advice provided by the development partners, will be adopted before end-December 2012 (structural benchmark);

- Adopt, by end-December 2012, the implementing decree for the Procurement Code that was adopted by the government in July 2012 and submitted to Parliament.

- Revise and harmonize the budget classification with the new government chart of accounts that is scheduled to come into effect in 2014; and

- Audit domestic payment arrears and prepare a plan to clear these arrears with support from the *Agence Française de Développement* (AFD).

47. **The overflow of expenditures between fiscal years will be avoided through the budget framework law (LORF) and the General Regulations on Fiscal Management and Public Accounting (*Règlement Général de Gestion Budgétaire et de Comptabilité Publique - RGGBCP*)**. A decree on the RGGBCP will be signed by December 31, 2012 (structural benchmark). In the context of these two legal frameworks, no expenditure commitments can be made after November 30 of the fiscal year; no payments for expenditure from a fiscal year can be made after January 31 of the following year (i.e. a supplementary period of one

month). Transactions that are made under special procedures will also be limited through these two texts. The revised budget law for 2012 includes a clause that closes expenditure commitments on November 30, 2012 and sets the supplementary period until January 31, 2013. This clause is meant to limit expenditure overflow from 2012 into 2013.

48. **The government took measures to strengthen the management of the country's external debt**. The recent loan agreements for SOGUIPAMI have highlighted a few weaknesses in the country's debt management system. The government has taken measures to limit the borrowing framework for public entities and public enterprises to minimize the financial risks to the government. The government will adopt, by end-December 2013, revisions to the legal texts on public entities to make them consistent with the new budget framework law and the General Regulations on Fiscal Management and Public Accounting (*RGGBCP*) (structural benchmark). In this context, the texts on public entities—and in particular Order O/91/025 of March 11, 1991 on the institutional framework of public enterprises and Decree D92/133/PRG/SGG of May 26, 1992—will include provisions to control their recourse to borrowing and therefore limit the risks for the government budget. Similarly, Law L/93/021/CTRM/SGG of May 6, 1993 on public administrative entities (EPAs) that allows EPAs to borrow, will be reviewed in line with the LORLF and the RGGBCP, which will forbid those entities from borrowing.

Improve the business climate

49. **The work on revising the Investment Code continues with technical assistance from our partners, with the aim to promote the private sector, improve the business environment, and give incentives for investment**. With the assistance of IFC, the World Bank, and the IMF, the government decided to separate investment regulations and tax incentives. The new Investment Code will be limited to non-tax and non-customs related incentives, while all the tax and customs incentives for investment will be included in the General Tax Code, the Customs Code and the Customs Tariff. The program for 2012–13 includes the adoption by Parliament of the new Investment Code by end-June 2013. This consists of the following stages:

(i) The draft investment policy letter will be discussed with the private sector during a workshop in September 2012; the policy letter will be submitted to the Council of Ministers for approval by end-November 2012. A draft law revising the Investment Code will be submitted to parliament by end-March 2013 (structural benchmark).

(ii) The government will submit a draft law on tax incentives to parliament by end-May 2013 (structural benchmark); this law, which is expected to be adopted before end-June 2013, will incorporate all the tax and customs investment incentives with precise triggering thresholds. The law will include all the incentives ministries grant outside the Investment Code; to this end, the Ministry of the Economy and Finance will prepare a report on these incentives, with the assistance from IFC and the IMF, by end-April 2013.

Afterwards, projects and businesses will no longer be required to seek approval for the incentive systems. In 2013, the government will prepare, with assistance from the IFC and the IMF, new Tax and Customs Codes and a new Customs Tariff, incorporating the investment incentives;

(iii) Pending parliament adoption of the law on tax incentives, the National Investment Commission (CNI) will continue to operate under the Minister of Industry and SMEs;

(iv) To complete the operationalization of the private investment promotion agency (APIP), the government will appoint its executive board and nominate the deputy managing director and the heads of the four departments provided for under its statutes, by end-October 2012; and

(v) To monitor the reforms, the government will put in place a private-sector reform coordination unit in the Ministry of Industry and SMEs by end-November 2012.

50. **The government will further focus on additional improvements in the "Doing Business Index" indicators**. To this end, the government will launch reforms on three indicators by May 30, 2013. On the basis of performance criteria for (a) the delays; (b) the number; and (c) the cost of procedures, the government will ensure the monitoring of effective implementation of reforms. It will also work with the private sector to streamline the professional organizations, including the organization of a roundtable early in 2013 with support from the development partners and the participation of all the stakeholders from the private sector.

51. **In 2012–13, the government will implement a permanent education program for judges and other officers of the court** and will assist in strengthening the capacities of the associations of attorneys, notaries, court clerks and auctioneers, to better execute court decisions. It will submit to Parliament a draft anticorruption law that transposes into domestic law the provisions of the UN and the African Union conventions on controlling corruption, and will launch a second survey to evaluate the level of corruption in the country by end-June 2013. As part of the fight against money laundering, a decree on the operation and duties of CENTIF (National Financial Information Processing Unit) will be issued by end-June 2013, providing the unit with human, financial and technical resources.

Mining policy

52. **The government plans to adopt and publish the implementing texts of the 2011 mining code as well as a standard mining convention (structural benchmark), and to submit to Parliament for adoption the draft technical amendments to the code, by end- December 2012 (structural benchmark)**. The implementing texts and the amendments to the code that pertain to the tax system will be based on IMF recommendations. They will address primarily: (1) fees; (2) the export tax; (3) tax barriers to operation; (4) capital gain taxation; (5) the provision for replenishing deposits; (6) restricted capitalization; and (7) tax

regime stabilization. As soon as this revision is enacted, the government will adopt and publish the implementing texts of the Mining Code, as well as the new standard mining convention for Guinea that is consistent with these provisions.

53. **The technical committee in charge of reviewing all existing mining conventions is expected to exercise its term until end-December 2014**. The government budget will pay for its operations and equipment. An initial allocation of GNF 400 million was included in the 2012 supplemental budget law. To strengthen the technical committee's negotiating capacity, the government will hire specialized firms that can mobilize expertise in legal, technical and financial areas. To cover the costs of this assistance, discussions are in progress to create a trust fund that could be financed by partners, the government budget, and contributions from mining companies. Nonetheless, to allow the committee to begin as soon as possible, the 2012 supplemental budget law includes an allocation of GNF 21 billion for this purpose. Moreover, the authorities will conduct an audit of the mining companies, with assistance from partners, to ensure that past business of the companies was consistent with the provisions of the existing conventions.

54. **The government intends to review the role and institutional framework of the *Société Guinéenne du Patrimoine Minier* (SOGUIPAMI)**. Based on the 2011 law on the creation and management of mining resources, SOGUIPAMI was founded in August 2011 as a government-held joint stock company. By decree of August 11, 2011, it was granted broad powers, including obtaining ownership of all government assets and equity investments in the mining sector, collecting all revenue from these assets and equity investments, as well as the possibility to contract loans and make other commitments. However, although SOGUIPAMI has begun operating—two loan agreements were contracted for it and the company participates in the possible management and financing of the government's participation in the Simandou iron ore infrastructure project—it does not yet have institutional structures to guarantee the oversight and supervision of its governance. In view of the very high financial and fiscal risks under the current system, the government requested technical assistance from the World Bank and the IMF to conduct a study on SOGUIPAMI's role and its relationship with the public administration, with a view to bringing it in line with best international practices with regard to public wealth managing entities; to ensure that the government's assets in the mining sector remain under full government control and parliamentary supervision; that government revenue is protected; and that the fiscal risks from external debt and other commitments are contained within the limits of debt sustainability. The government plans to complete this study by end-March 2013 at the latest (structural benchmark).

55. **The envisaged revisions in the role of SOGUIPAMI will be based on the following principles**: (i) SOGUIPAMI's activities should be limited to managing the portfolio of the government's mining assets (equity investments); the Public Treasury remains the owner of the government's portfolio of securities and other stocks, including in the mining sector; (ii) SOGUIPAMI will work in liaison with the Department of Government Portfolio and Private Investments of the Ministry of the Economy and Finance and the Ministry of Mines and

Geology; (iii) it will not be able to contract loans or collect government revenues; (iv) its activities will be funded through an annual allocation in the government budget. Moreover, SOGUIPAMI will not be able: (v) to make investments in activities outside the mining sector; (vi) to manage in a discretionary manner the use of funds other than the allocations from the government budget; (vii) to independently own real estate, securities, intangible assets and tangible personal property, and any assets other than assets that are necessary for its usual operations; and (viii) to raise funds. SOGUIPAMI's activities will be monitored regularly by a supervisory council including the Minister of the Economy and Finance and the Minister of Mines and Geology. The budget appropriations allocated to this company in the 2012 supplemental budget law will be disbursed after SOGUIPAMI's business plan has been finalized and approved by the Ministry of Economy and Finance and the Ministry of Mines and Geology.

56. **Pending the finalization of this review, the government decided that SOGUIPAMI should not exercise its rights as an independent entity** with financial autonomy and that it should operate in strict compliance with the rules that govern government entities. Specifically, it should carry out those operations that it is explicitly authorized to carry out under the government budget adopted by the National Assembly and should not: (i) collect revenue from any source other than sources approved in the government budget. Any other income outside budget allocations will be deposited into a special account with the Central Bank from which transfers can be executed only by the Minister of the Economy and Finance to the principal Treasury account; (ii) contract foreign or domestic debt or other types of debts or commitments directly or through its subsidiaries; or (iii) create or hold equity investments in subsidiaries or business activities. These precautionary provisions are included in a presidential decree of August 10, 2012.

Energy sector

57. **The government will continue implementing its recovery plan and investment program in the electricity sector**. With regard to the statutory and regulatory framework and the EDG management structure, the government will implement the following activities, with support from the development partners:

- Submit to Parliament a draft revision of the law on electricity, a draft law on BOT projects (Build, Operate, and Transfer), and a draft law on the regulatory agency for the sector by end-June 2013; and approve the implementing texts for these laws;
- Define EDG's legal status and establish the company's governance institutions, including management, by end-June 2013 (structural benchmark);
- Negotiate and sign with EDG a performance contract that will be audited periodically by independent auditing firms;
- Select a strategic partner; and with it, enter into a management contract for EDG, or sign a contract for management technical assistance, by end-December 2013; and
- Develop a program to communicate with, and inform the people on, the recovery of the electricity sector.

58. **EDG will place in service new thermal generators for a total capacity of 50 MW** at Tombo I and Tombo II by end-November 2012, and an additional 50 MW at Kipé (in Conakry) by end-March 2013, and 22 MW in the interior prefectures. These thermal generators will provide service for an average of 18 hours per day in the Conakry metropolitan area, beginning in the second quarter of 2013. However, operating costs for these generators are high, and it is projected that EDG will use the 250 billion Guinean francs in subsidies planned for 2012 in the government budget, with the same amount in 2013. To limit subsidies in 2013 despite the significant increase in power generation, the government (i) will adjust rates by end-January 2013 in accordance with the principle of flexibility that was adopted recently; (ii) will continue to install meters on the premises of identified customers; and (iii) will discourage the use of incandescent light bulbs to promote energy-saving bulbs during 2013. The government will conduct an audit of the billing of industrial companies, with the assistance of development partners; the monitoring committee will ensure implementation of the audit recommendations with regard to upgrades in billing to industrial companies, to ensure that the payments EDG receives reflect the services that are provided.

59. To **control costs in the medium term and to streamline investments, the government will adopt a public investment program for 2013–15** which, in the electricity sector, will place emphasis on hydroelectric dams, transmission lines and distribution grids. Moreover, in 2013, it will conduct a public expenditure review in the electricity sector with support from the World Bank. Finally, the government will update the electricity rate study in June 2013 with assistance from the World Bank. By 2015, the government will complete the construction of the Kaléta Dam, funded for one-fourth from the national development budget's own resources, and for the remainder by China Exim Bank.

60. **In the water sector, the government will conduct a diagnostic study and prepare investment scenarios by end-March 2013**. It subsequently will hold a donor roundtable with support from the AFD and the World Bank by end-June 2013. As is the case for the electricity sector, this process is expected to culminate in identifying a restructuring and investment program, including the selection of a strategic partner for technical assistance.

Agricultural sector

61. **To achieve its objectives of food security and promoting agricultural exports**, the government plans to implement an action plan in the second half of 2012 and in 2013 to (1) improve the use of resources in its agricultural support programs; (2) assess the execution of operations for crop years 2011–12 and 2012–13; and (3) increase the competitiveness of agricultural products relative to imported food staples and promote agricultural exports.

62. **Regarding the proper use of resources,** the government prepared the National Agricultural Investment and Food Security Plan (PNIASA), which is consistent with the Comprehensive Africa Agriculture Development Policy (CAADP), launched by the African Union and spelled out by ECOWAS under the Regional Agricultural Policy for West Africa

(ECOWAP). During April 23–27, 2012, it organized a joint mission in Conakry to review the rural sector with the participation of development partners. After the mission, it was agreed to organize a roundtable on the rural sector with the participation of all the national stakeholders and development partners. To prepare for the roundtable, scheduled to be held by end-March 2013, the government will carry out the following five activities:

- Review public expenditures in the agricultural sector by end-January 2013, with technical and financial assistance from the World Bank; the findings from this study will be used to lower budget subsidies to the sector.
- Hold a dialogue workshop with stakeholders representing the national private sector in two agricultural subsectors important for the country's food security or agricultural exports, such as rice, potatoes or vegetable farming. The goal will be to specify, in light of the expectations and investment capacities of private stakeholders, the needs for essential government interventions and/or disengagement.
- Hold a dialogue meeting with mining companies on the medium-term estimates of their requirements for agricultural products, as well as their vision of the impact of their investments on the development of agriculture;
- Prepare an employment and resource matrix for the period covered by the PNIASA, consistent with the programs and sub-programs of the PNIASA; and
- Streamline PNIASA monitoring.

63. **The roundtable will review the findings and recommendations of the five activities** described above and will propose an action plan that the government will approve by end-June 2013 to improve the use of resources and the quality of assistance services in the agricultural sector.

64. **The government will select independent consultants under an open competitive procedure** with technical and financial assistance from the World Bank, IFAD and the *Agence Française de Développement* to prepare a detailed assessment of the execution of operations for the 2011–12 and 2012–13 crop years in comparison with best practices in Africa and in the world, and propose an action plan to achieve the objectives of food security and promoting agricultural exports, including an institutional reform project in the sector. This assessment mission is expected to submit its report by end-June 2013. Its findings and recommendations will be discussed at a national workshop that the government would like to organize by end-October 2013 with technical and financial partners and key players in the sector to draw conclusions from past crop years, with a view to improving the quality and effectiveness of expenditures in agriculture.

65. **With regard to improving the competitiveness of agricultural products** relative to imports of food commodities, the objective is to ensure a better connection of farms to markets. This entails the adoption and implementation of a public investment program for 2013–15 which, in the agriculture sector, would focus on several activities, the most important of which are as follows:

- Implement an ambitious program of bringing the large crop production areas out of isolation;
- Launch an ambitious irrigation development program;
- Build multifunctional storage infrastructures in villages;
- Support agricultural product processors through their organizations to facilitate access to loans for materials and for harvesting; and
- Revitalize the agricultural product information system and involve the private sector in marketing agricultural products.

F. HIPC Initiative Completion Point

66. **The status of the completion point triggers is described in Table 3**. These were all met by end-July 2012, except for the audit of all government procurement contracts over GNF 100 million, which was not fully met, even though the broad objective was maintained. The macroeconomic performance trigger, which is addressed in this memorandum, will be met once the IMF Executive Board completes the first review under the ECF-supported program.

67. **Debt relief will be allocated entirely to expenditures for the priority sectors under budget laws to reduce poverty** in accordance with government commitments under the economic and financial program. To this end, with assistance from the technical and financial partners, the government will prepare a functional budget classification that will better target priority expenditures.

G. Program Financing

68. **The financing requirements for the program are met**. The financing requirements in 2012 and in 2013 will be met in part by external assistance in the form of budget support and investment financing. In addition, a debt rescheduling agreement was reached with the creditor members of the Paris Club in April 2012, and the government will continue to hold discussions with the other foreign creditors to obtain debt rescheduling under terms comparable to the Paris Club terms and in line with the HIPC Initiative. Guinea also benefited from the fourth allocation of interim HIPC assistance from the IMF during the first half of 2012. Reaching the HIPC Initiative completion point in September 2012 and implementing the MDRI will free resources from servicing the debt beginning in the fourth quarter of 2012. Moreover, residual financing requirements will be met through the use of international reserves accumulated in 2011 thanks to the exceptional mining revenue, while maintaining an adequate level of international reserves. Disbursements under the ECF-supported program will cover the residual balance of payments financing need.

69. **To ensure prudent debt management, the authorities will mobilize only grants and concessional loans**. The government's equity investment in the project to develop Simandou blocks 3 and 4 of the iron deposit will be financed without any direct loans or government guarantees, apart from possible World Bank enclave financing. The financing should be covered entirely by project revenue. In any event, the government will provide IMF staff with the details on the financing for its equity investment. To ensure debt sustainability, once the HIPC Initiative completion point is reached, the authorities will adopt a new debt strategy and a

program to strengthen debt management capacities, in consultation with the Fund, with the goal of maintaining debt sustainability. The authorities agree to submit to the National Debt Directorate all proposals for new loan agreements and loan guarantees to ensure that the terms are concessional. Moreover, the government agrees to consult with IMF staff on the conditions and concessionality of all new debt agreement proposals before contracting or guaranteeing any external debt. Regarding debt service to the IMF, the BCRG will keep sufficient funding in its SDR account with the IMF to cover all payments falling due during the next quarter.

VI. Statistics and Strengthening Program Monitoring Capacities

70. **The government intends to continue its efforts to improve the statistics system to ensure the steady production and supply of quality statistical data**. It will also strive to launch the implementation of capacity-building programs already negotiated with the development partners.

71. **The government has identified a broad range of technical assistance needs in macroeconomic management**. Institutional capacities, already weak, declined further in 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 technical assistance center West AFRITAC. There have been several missions of these two organizations for this purpose since February 2011. The missions made recommendations in the areas of tax policy, tax and customs administration, public financial management, the foreign exchange market, monetary policy, banking supervision, the balance of payments and the national accounts.

72. **To monitor the implementation of the measures and the attainment of its objectives under its ECF-supported program, the government of Guinea created a monitoring system** consisting of a Reform Coordination Committee (CCR) chaired by the Prime Minister, and a Technical Support Committee for the CCR, as well as a Program Monitoring Technical Unit (CTSP) in the Ministry of Economy and Finance. With these mechanisms, the government, the Central Bank, the international financial institutions and Guinea's development partners will receive periodic reports on the progress made, the outlook, and the measures envisaged.

73. **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) (Attachment II). The first year of the program will finish in end-December 2012 and the second year covers the period from January to December 2013. The second (third) program review based on the performance criteria at end-December 2012 (June 2013) should be completed no later than March 2013 (October 2013).

74. **During the program period, the government agrees** not to introduce or intensify 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 intensify import restrictions for balance of payments purposes. Moreover the authorities agree to adopt, in consultation with IMF staff, any new financial or structural measures that may prove necessary for the program's success.

Table 1. Guinea: Indicative Targets under SMP 2011 and Performance Criteria under ECF 2012 1/ 2/

(Billions of Guinean francs unless otherwise indicated)

	2011				2012								
	end-Dec.				end-Mar.			end-Jun.				end-Sep.	end-Dec
	SMP	Est.	Actual	Status	Indicative Targets	Actual	Status	PC	PC 7/ adjust.	Actual	Status	Indicative Targets	PC
Quantitative Performance Criteria													
Basic fiscal balance (floor)	-663	-864	-539	Met	-1,102	-571	Met	-1,497	-1,839	60	Met	-1,418	-1,518
Net domestic assets of the central bank (ceiling)	2,488	3,178	2,105	Met	4,484	3,409	Met	3,385	5,020	2,471	Met	3,541	3,854
Domestic bank financing of the government (ceiling)	-3,943	-3,120	-4,378	Met	1,300	1,206	Met	197	1,832	315	Met	348	650
Net international reserves of the central bank (floor); US$ millions 3/	669	541	759	Met	435	547	Met	585	360	643	Met	504	458
New nonconcessional medium- or long-term external debt contracted or guaranteed by the government or central bank (ceiling); US$ millions 4/ 5/	0	0	0	Met	0	0	Met	0	0	0	Met	0	0
Stock of outstanding short-term external debt contracted or guaranteed by the government or the central bank (ceiling); US$ millions 5/	0	0	0	Met	0	0	Met	0	0	0	Met	0	0
New external arrears (ceiling) 5/					0	0	Met	0	0	0	Not Met 8/	0	0
Indicative targets													
Expenditure in priority sectors (floor) 6/		2,100	1,457		1,765	1,445	Not Met	2,501	2,428	2,341	Not met	3,208	3,910
Memorandum items:													
Reserve money	7,101	7,287	6,638	Met	7,083	6,534	Met	7,078	7,078	6,195	Met	6,644	6,744

Sources: Guinean authorities and IMF staff projections.

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

2/ Flow for fiscal criteria and stock for monetary and external debt criteria.

3/ Calculated using the program exchange rates.

4/ 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.

5/ Continuous performance criterion.

6/ Priority sectors include education, health, agriculture, energy, justice, social affairs, and public works (as defined in the TMU).

7/ PC adjusted to reflect the shortfall in expected exceptional mining revenue and the higher-than-expected external assistance.

8/ During April and May, a relatively small amount of external debt service arrears of a short duration were accumulated and were fully cleared before end-June.

Table 2. Guinea: Structural Benchmarks Under the ECF-Supported Program, 2012[1]

Measures	Date	Status	Rationale
Prior actions			
Adopt a 2012 budget law that is consistent with the discussions of the November 2011 mission		Completed	Protect the program's budgetary targets
Provide IMF staff with a copy of the Rio Tinto contract with the government		Completed	Promote transparency in government operations
Hold a roundtable on the electricity sector to establish a sector reform program		Completed	Reduce the burden of transfers and subsidies on the budget
Publish the BCRG audited financial statements and the auditors' opinion on the BCRG web site		Completed	Promote transparency and accountability in management
Structural benchmarks			
Consult with the IMF before making any changes in the new Mining Code that have a tax impact (MEFP ¶ 47)	Continuous	Met	Protect budget revenue
Adopt a comprehensive plan for reform of the electricity sector MEFP ¶ 49	End-March 2012	Completed	Reduce the burden of transfers and subsidies on the budget
Harmonize 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, based on advice provided by the World Bank and IFAD (MEFP ¶ 32)[2]	End-March 2012	Completed with delays. New system was implemented in early-August 2012	Ensure control of agricultural subsidies and improve the rate of collections for producers

Table 2. Guinea: Structural Benchmarks Under the ECF-Supported Program, 2012 (continued)

Measures	**Date**	**Status**	**Rationale**
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)[2]	End-March 2012	Completed	Improve public infrastructures while preserving the viability of public finances
Reintroduce the mechanism for regularly adjusting petroleum product prices based on changes in international market prices and in the exchange rate (MEFP ¶ 27)	Continuous, starting July 1, 2012	Not implemented. Postponed to January 1, 2013	Protect revenue and ensure budget viability
Adopt and publish implementing decrees for the new Mining Code as well as a standard mining contract (MEFP ¶ 47)	End-June 2012	Not completed pending additional technical assistance on the fiscal regime from FAD. Draft decrees and new standard convention are expected to be completed and published before end-December 2012	Ensure a larger share for the government in the country's mining revenues
Develop a plan to implement tax reforms (MEFP ¶ 26)	End-June 2012	Completed	Promote predictability in public finance reforms
Certify, by an independent external auditor, the statistical data on program performance at test dates submitted to the IMF by the BCRG, and approve the investment policy and investment procedure guidelines for its assets by end-December 2012 by the BCRG board of directors. (MEFP ¶ 42, 43)	End-December 2012	In progress. The BCRG selected a new auditor that will certify the data from end-June 2012.	Ensure appropriate utilization of resources entrusted to the BCRG

Table 2. Guinea: Structural Benchmarks Under the ECF-Supported Program, 2012 (concluded)

Measures	**Date**	**Status**	**Rationale**
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	Not completed; on the basis of technical assistance recommendations of the IFC and FAD, the authorities have broadened the objective of the revision of the Investment Code, requiring additional technical assistance. The Investment Code will be revised by end-March 2013, once the new investment policy has been finalized with assistance from the IFC. The government prepared a list of companies that benefit from the Investment Code and their tax advantages. It will terminate the benefits of companies that do not comply with the contractual obligations under the code by end-December 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)[2]	End-September 2012	The PIP is being prepared with assistance from the UNDP and the AfDB; completion expected to be delayed to end-December 2012.	Create a pipeline of viable projects that could receive funding from the SIF

[1] The references to the MEFP concern the MEFP attached to Appendix I of IMF Country Report n° 12/18; February 13, 2012.
[2] The IMF is solely responsible for assessing compliance with the conditions.

Table 3. Guinea: Status of HIPC Initiative Completion Point Triggers
(As of end-July 2012)

Triggers	Assessment
Poverty Reduction	
Preparation of a full PRSP through a participatory process and its satisfactory implementation for one year as evidenced by the Joint Staff Assessment of the country's annual progress report.	**Met**. Implementation of the PRSP-II issued in 2007 was interrupted by the military coup of December 2008. The Government formed after the presidential election at end-2010 extended the PRSP-II over the 2011–12 period. A full one-year progress report on implementation of the strategy during 2011 was submitted to the World Bank and the IMF in May 2012. A Joint Staff Assessment Note on the annual progress report, confirming satisfactory implementation of the PRSP during 2011, will be presented to the Boards of the World Bank and the IMF.
Improvement of the poverty database and monitoring capacity by preparing a living standards measurement survey that establishes poverty lines and indicators based thereon, and establishment of a poverty monitoring system involving key stakeholders.	**Met**. A comprehensive poverty assessment survey was conducted in 2002/3. Thereafter the poverty database was improved and updated. Based on the household survey, 54 poverty indicators were formulated. Two new surveys were conducted in 2007/8 and 2012. The results of the 2012 survey were validated in a meeting including key stakeholders on July 30, 2012.
Continued maintenance of macroeconomic stability as evidenced by satisfactory implementation of the PRGF-supported program.	**Met**. A PRGF-supported program approved on December 21, 2007 went off-track after the first review. Since 2011 the Government has established a strong track record under the IMF Staff-Monitored Program and under a program supported under the Extended Credit Facility (ECF) for 2012–15, approved by the IMF Board on February 24, 2012. The report on the satisfactory first review of the ECF-supported program will be presented to the Board of the IMF with this Supplement to the MEFP.
Develop and take steps to provide an appropriate regulatory framework for microcredit institutions.	**Met**. A new law was passed by Parliament in November 2005, establishing a regulatory framework for microcredit institutions; and implementing regulations were approved.
Governance and Anticorruption	
Make publicly available a one-year progress report (showing resources and activities) of the Anti-Corruption Committee (CNLS).	**Met**. Activity reports of the CNLS, covering the years 2007–11, have been published, and are accessible on the Government's website (http://www.srp-guinee.org/).

Table 3. Guinea: Status of HIPC Initiative Completion Point Triggers (As of end-July 2012) (concluded)

Triggers	Assessment
Audit all government procurement contracts over GNF 100 million and publish results of these audits on a quarterly basis.	Not **completed, but satisfactory progress has been made**. The government commissioned a comprehensive audit of all government contracts over 2002–04 and a final audit report was completed in 2007. A system of quarterly audits based on a representative sample of large government contracts was put in place in 2008. Reports covering 2007, 2008, 2009, 2010, and the first semester of 2011 have been completed. The audited sample represented 70 percent of the public contracts in 2009–10. The audit reports were published (in the Official Journal of the Government of Guinea in May 2012 and the Procurement Gazette). Reports covering 2007, 2008, 2009, 2010, and the first semester of 2011 have been completed. The audited sample represented 70 percent of the public contracts in 2009–10. The audit reports were published (in the Official Journal of the Government of Guinea in May 2012 and the Procurement Gazette)
Education	
Increase the gross enrollment rate for primary school students from 56 percent in 1999 to 62 percent in 2001 and 71 percent in 2002, of which the gross enrollment rate of girls should be 40 percent in 1999, 51 percent in 2001 and 61 percent in 2002.	**Met**. Gross enrollment increased significantly after 2002, reaching 79 percent in 2006 and 80 percent in 2011. Gross enrollment for girls reached 71 percent in 2006 and 73 percent in 2011.
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.	**Met**. On average 1,673 primary school teachers have been recruited and trained each year from 2001 through 2011.
Health	
Increase immunization (DTP3: diphtheria, tetanus, pertussis) rates for children under 1 year of age, from 45 percent in 2000, to 50 percent in 2001, and to 55 percent in 2002.	**Met**. Immunization coverage of DPT3 reached 88 percent in 2011.
Improve the percentage of pregnant women benefiting from at least 1 prenatal consultation from 70 percent in 2000, to 80 percent in 2001, and to 85 percent in 2002.	**Met**. 88 percent of pregnant women had at least one ante-natal care consultation in 2011.

Table 4. Guinea: Performance Criteria (PC) and Indicative Targets, ECF 2012-13 1/ 2/
(Billions of Guinean francs unless otherwise indicated)

	2012			2013			
	Jun. Act.	Sep. Rev. Indicative Targets	Dec. Rev. PC	Mar. Indicative Targets	Jun. PC	Sep. Indicative Targets	Dec. Indicative Targets
Quantitative Performance Criteria							
Basic fiscal balance (floor)	60	-1,005	-1,469	-238	-475	-555	-634
Net domestic assets of the central bank (ceiling)	2,471	3,756	4,331	4,645	4,959	5,064	5,168
Domestic bank financing of the government (ceiling)	315	1,490	2,010	340	680	793	906
Net international reserves of the central bank (floor); US$ millions 3/	643	463	382	363	344	338	331
New nonconcessional medium- or long-term external debt contracted or guaranteed by the government or central bank (ceiling); US$ millions 4/ 5/	0	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 5/	0	0	0	0	0	0	0
New external arrears (ceiling) 5/	0	0	0	0	0	0	0
Indicative targets							
Expenditure in priority sectors (floor) 6/	2,341	2,700	4,069	1,105	2,367	2,959	3,945
Memorandum items:							
Reserve money	6,195	6,218	6,229	6,424	6,619	6,683	6,748

Sources: Guinean authorities and IMF staff projections.
1/ Definitions and adjustors are included in the technical memorandum of understanding (TMU).
2/ Flow for fiscal criteria and stock for end-December 2012 for monetary and external debt criteria.
3/ Calculated using the program exchange rates.
4/ 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.
5/ Continuous performance criterion.
6/ 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-Supported Program (2012–13)

Measures	Date	Macroeconomic rationale
Prior action		
Adoption by the government of a revised budget for 2012 as agreed with the July–August 2012 mission, including a clause that closes expenditure commitments on November 30, 2012 and sets the end of the supplemental period as January 31, 2013	August 30, 2012	Implement the revised program.
Structural benchmarks		
Adoption of a medium-term public investment program, based on advice provided by the development partners (MEFP, ¶ 46)	End-December 2012[1]	Create a pipeline of viable projects that could receive funding from the SIF
Signing of a decree on the General Regulations on Fiscal Management and Public Accounting (RGGBCP) (MEFP ¶ 47)	End-December 2012	Strengthen budget management; limit the possibility of expenditure overflows between fiscal years; strengthen central control over public external debt.
Signing by the BCRG and the Ministry of Economy and Finance of a framework agreement to update the 2010 convention on the outstanding stock of advances (MEFP ¶ 45)	End-December 2012	Shorten repayment period in line with recommendations by external auditors.
Adoption by the government of the draft new banking law (MEFP ¶ 44)	End-December 2012	Strengthen the banking system.
Termination of tax advantages under the Investment Code for companies that do not meet the contractual obligations associated with the advantages in the code (MEFP ¶ 30)	End-December 2012[1]	Lower tax exemptions.
Submission to Parliament of the draft technical amendments to the 2011 Mining Code (MEFP ¶ 52)	End-December 2012[1]	Ensure that the Mining Code is competitive and a larger share for the government in the country's mining revenues.
Adoption and publication of the implementing texts of the 2011 Mining Code as well as a standard mining convention (MEFP ¶ 52)	End-December 2012[1]	Ensure that the Mining Code is competitive and a larger share for the government in the country's mining revenues.
The medium-size enterprise unit starts activities and VAT collection is expanded to medium-sized enterprises (MEFP ¶ 30).	End-December 2012	Increase budget revenues.

Table 5. Guinea: Prior Actions and Structural Benchmarks, ECF-Supported Program (2012–13) (concluded)

Measures	Date	Macroeconomic rationale
Apply an automatic system to monthly adjust the price of petroleum products based on changes in the international market price and the exchange rate (MEFP ¶ 37)	Continuous, beginning January 1, 2013[1]	Protect budget revenues.
Completion of a study on the role of SOGUIPAMI and its relationship with the public administration (MEFP ¶ 54)	End-March 2013	Maintain government control over its assets in the mining sector, protect budget revenue, and limit financial risks.
Submission to parliament a draft law revising the Investment Code (MEFP ¶ 49)	End-March 2013[1]	Reduce tax expenditures and improve the business environment.
Submission to parliament of a draft law on tax and customs incentives (MEFP ¶ 49)	End-May 2013[1]	Separate the function of investment regulation from tax incentives.
Definition of the legal status of EDG and establishment of the company's governance institutions, including management (MEFP ¶ 57)	End-June 2013	Improve EDG's governance and performance, and reduce budget subsidies.
Adoption of a revision to legal texts on public entities to make them consistent with the new budget framework law and the General regulation on budget management and public accounting (RGGBCP) (MEFP ¶ 48)	End-December 2013	Limit the risks for the government budget; improve central control over external public debt.

[1]Rescheduled measures.

GUINEA: TECHNICAL MEMORANDUM OF UNDERSTANDING

September 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 Supplement to the Memorandum of Economic and Financial Policies of September 11, 2012 (Supplement).

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 (PNT2); 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 sixth 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 June 29, 2012 (US$1598.50 per oz.) for the second half of 2012 and at the price in effect on December 28, 2012 for the first half of 2013. For the test dates, the U.S. dollar value of the reserve assets (other than gold) and foreign exchange liabilities will be calculated using the program exchange rates in effect on June 29, 2012**,** namely: for the second half of 2012, the exchange rates between U.S. dollar and the Guinean franc (6950.09 GNF/US$), SDR (1.5176 US$/SDR), Euro (1.2667 US$/EUR), and other currencies as published in *International Financial Statistics*; and for the first half of 2013, the exchange rates in effect on December 28, 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 is 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 months).[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.

[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.

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. 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.

11. **The float is the flow** of expenditures accepted by the Treasury that is not yet paid. The **net change in the float** is the difference between the accumulation and the payments.

B. Indicative Target and Memorandum Item

12. **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, Te**chnical Education and P**rofessional 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 (transfers and subsidies) of the Ministry of Higher Education and Scientific Research.

13. **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

14. 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

[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).

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:

- 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.

15. 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.

16. 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

17. 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); (3) the net change of "program" arrears; and (4) the net change in the float. 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, exceptional mining revenue and the float, 2012-13
(Billions of Guinean Francs, cumulative from the beginning of the fiscal year)

	2012		2013	
	Sept.	Dec.	Mar.	Jun.
Net external assistance	-13	-33	-279	-328
Budgetary assistance (grants + loans)	739	841	0	0
Extrnal debt service	-1,112	-1,740	-512	-1,057
Interest	198	273	50	116
Principal	913	1,467	462	941
Payment of external arrears	-1,617	-1,771	-61	-79
Debt relief	1,977	2,637	294	808
Exceptional mining revenues expected	0	0	0	0
Net change in the float	-384	-332	-58	-115

Sources: Guinean Authorities and IMF staff estimates

18. 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, exceptional mining revenues and/or the net change in the float differ from the projected amounts.

19. **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).

20. **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. 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).

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

- *In the case of surplus exceptional mining revenues of up to US$125 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$25 million or 0.4 percent of GDP).

- *For surplus exceptional mining revenues in excess of US$125 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$125 million, while the floor for the basic fiscal balance will not be adjusted (resulting in the saving of the surplus beyond US$125 million pending a review of the budget outlook and a cost-benefit and sustainability analysis before these excess revenues are committed). Surplus exceptional mining revenues between US$125 million and US$250 million will be saved in the Special Investment Fund (SIF).

*22. **Adjustment related to the net change in the float**:*

- In case the net change in the float exceeds the projected amounts under the program, the ceilings on NDA of the BCRG and bank financing of the government will be adjusted downward by an amount equal to the excess.

IV. Definitions for Purpose of the TOFE

23. 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.

24. 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.

25. **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.

26. **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

27. The information on implementation and/or execution of the structural benchmarks under the program (as specified in Table 5 of the Supplement) 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.

28. 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