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Debt Management Performance Assessment (DeMPA)

Guinea-Bissau

January 2010

The DeMPA is a methodology for assessing public debt management performance through a comprehensive set of indicators spanning the full range of government debt management functions. It is adapted from the Public Expenditure and Financial Accountability (PEFA) framework. The DeMPA tool presents the 15 debt performance indicators along with a scoring methodology. The DeMPA tool is complemented by a guide that provides supplemental information for the use of the indicators.

For additional information on the World Bank's Debt Management Technical Assistance Program, including more on the DeMPA Tool, please visit our website at: http://www.worldbank.org/debt

1. INTRODUCTION AND SUMMARY OF FINDINGS

INTRODUCTION

At the request of the government of Guinea-Bissau, a World Bank mission visited Bissau on August 26 to September 4. The mission comprised Mr. Gervais Doungoupou (Pole-Dette), Mr. Wilfried Engelke (AFTP4) and Juan Pedro Schmid (lead, PRMED).

The objective of the mission was to evaluate current government debt management practices in Guinea-Bissau using the Debt Management Performance Assessment (DeMPA) tool[1]. The assessment will establish a benchmark for monitoring progress over time and provide an analytical background for reform programs developed by the authorities in partnership with their technical and financial partners, and providers of technical assistance in the area of debt management.

The team met with officials from the Ministry of Finance (MoF), especially from the Treasury (Direcção Geral do Tesouro, DNT), the Budget Directorate (Direcção-Geral do Orcamento), and the internal auditor (Inspeccão-Geral de Finanças). Within the Treasury, the team worked closely with the Service Directorate of Public Debt (Direcção do Serviço da Dívida Publica (SDP). Meetings were also held with officials from the Ministry of Planning and Economics, the General Directorate of Planning, the Central Bank, and the General Accounting Office (Tribunal de Contas - the autonomous supreme audit institution), and members of the international donor community (see Annex 1 for a full list of individuals and institutions).

This report presents the findings of the mission based on information available as at 4 September 2009. Section 2 explains the DeMPA methodology. Section 3 provides the country context for the evaluation. Section 4 presents the mission's detailed assessment of current debt management practices. Section 5 concludes and discusses potential next steps.

This report has been peer-reviewed by debt management experts and World Bank staff, and is being submitted to the authorities of Guinea-Bissau for their review and comment prior to finalization. The final mission report will be transmitted to the authorities for use and disclosure at their sole discretion.

[1] This report uses the revised December 2009 tool, which is available from http://go.worldbank.org/GZ4857VJ91.

SUMMARY OF FINDING

The assessment reflects Guinea-Bissau's difficult environment for public administration, including debt management functions, as a result of years of political turmoil and weak economic performance. Nevertheless, Guinea-Bissau meets or exceeds the minimum requirements as defined in the DeMPA in the areas of domestic borrowing, coordination with monetary policy and the legal and managerial framework for debt management.

Guinea-Bissau does not meet the minimum requirements with respect to the other indicators, although in some cases work is underway that would lead to meeting the requirements (e.g. debt recording) or only small improvements would be required in order to meet those requirements (e.g. the annual report). The concluding section of this paper outlines areas in which the minimum requirement could be met over the short run with minimal adjustments, and areas where progress would require stronger efforts, and possibly TA from donors.

Key challenges identified by the assessment are the implementation of a debt strategy, improvements in operational risk management, the strengthening of cash management practices and the building of staff capacity for analytical work.

ASSESSMENT AND SCORING METHODOLOGY

The DeMPA comprises a set of 15 debt management performance indicators (DPIs), which aim to cover the full spectrum of government debt management (DeM) operations, as well as the overall environment in which these operations are conducted. While the DeMPA does not specify recommendations on reforms and/or capacity and institution building needs, the performance indicators do stipulate a minimum level that should be met under all conditions. Consequently, indicators for which the minimum requirements are not met indicate areas in which reform and/or capacity building would be most beneficial.

The scope of the DeMPA includes central government debt management activities and closely related functions, such as the issuance of loan guarantees, on-lending, cash-flow forecasting, and cash balance management. Thus, the DeMPA does not assess the ability to manage the wider public debt, including implicit contingent liabilities (such as liabilities of the pension system, losses of state-owned enterprises, etc.), as well as the debt of state-owned enterprises if these are not guaranteed by the central government.

The DPIs have one or more dimension linked to the subject of the DPI. Each of these dimensions is assessed separately. The scoring methodology assesses each dimension, and assigns a score of either "A", "B", "C" or "D" based on the criteria listed. A score of "C" indicates that the minimum requirement for that dimension has been met. A minimum requirement is the necessary condition for effective performance under the particular dimension being measured. If the minimum requirements set out in “C” are not met, then a “D” score is assigned. In the cases where a dimension cannot be assessed, a score of “N/R” (not rated or assessed) is assigned. The A score reflects sound practice for that particular dimension of the indicator. The “B” score is an in-between score lying between the minimum requirements and sound practice.

2. BACKGROUND

COUNTRY BACKGROUND

Guinea-Bissau continues to suffer the effects of a civil war that started in June 1998 and ended with the ousting of the long-standing president, João Bernardo Vieira in May 1999. Following the war, political instability continued, leading to a deterioration of relations with the international donor community and a worsening of the economic and political situation. According to the 2008 UN Human Development Report, Guinea-Bissau is one of the world’s poorest countries, ranking 171st out of 179 countries listed in the Human Development Index (HDI).

Guinea-Bissau joined in 1997 the West African Economic and Monetary Union (WAEMU) as their most recent member. WAEMU is a regional economic and monetary community with an important role in the coordination of macroeconomic policies. As a member of the WAEMU, Guinea-Bissau shares the Franc CFA and is a member of the regional Central Bank, the BCEAO, which is responsible for monetary policy. The regional central bank plays the role of economic and financial adviser to the government and administers debt issuance on the regional government securities market.

The latest debt sustainability analysis (DSA) conducted jointly by the IMF and the World Bank in June 2009 concludes that Guinea-Bissau is in debt distress. The country reached the Decision Point under the Heavily Indebted Poor Country (HIPC) Initiative in 2000, but has so far not reached the Completion Point. The country went off track in 2000 with its PRGF supported program and consequently became liable for servicing a large share of its external debt in full since 2001. In addition, many bilateral rescheduling agreements made in relation with the HIPC initiative were not implemented because the country failed to remain current on debt service obligations. As a result, starting in 2001 the country stopped servicing debt to all creditors other than IDA and the African Development Bank, which continued to provide interim relief, and to the IMF.

The nominal stock of public and publicly guaranteed (PPG) external debt at the end of 2008 amounted to US$1,040 million (246 percent of GDP), US$383 million of which were in arrears (Table 1). In end-2008 Net Present Value (NPV) terms, external debt was US$788 million, equivalent to 171 percent of GDP and 573 percent of exports.

Table 1: Guinea-Bissau: External Debt Outstanding at end-2008

	Total external debt outstanding (including arrears)	External Arrears Outstanding
Total	**1,040.3**	**382.8**
Multilateral	**504.7**	**39.4**
Bilateral creditors	**534.7**	**342.5**
Paris Club	385.4	248.5
Other bilateral creditors	149.4	94.1
Commercial	**0.8**	**0.8**

Sources: Adapted from Joint IMF/IDA Debt Sustainability Analysis May 2009. The original source is: Guinea-Bissau authorities; IMF and World Bank staff estimates and projections.
Estimates are based on incomplete and unreconciled data provided by the Guinea-Bissau authorities and on IMF and WB staff estimates and projections.

External debt, including arrears, have remained roughly constant over the past few years but domestic liabilities increased over the same period due to an accumulation of domestic arrears. At the end of 2008, domestic liabilities were estimated at Franc CFA 144 billion, which is equivalent to 70 percent of GDP or 22 percent of total public debt (Figure 1). Of this amount, 60 percent consists of arrears, including to government suppliers and to the regional central bank BCEAO. Domestic arrears also include FCFA14.4 billion outstanding to WAEMU banks, half of which consists of Treasury bills that are outstanding since 2006 (Table 2). The remainder of domestic liabilities consists of capital contribution to join WAEMU (CFAF 58.8 billion).

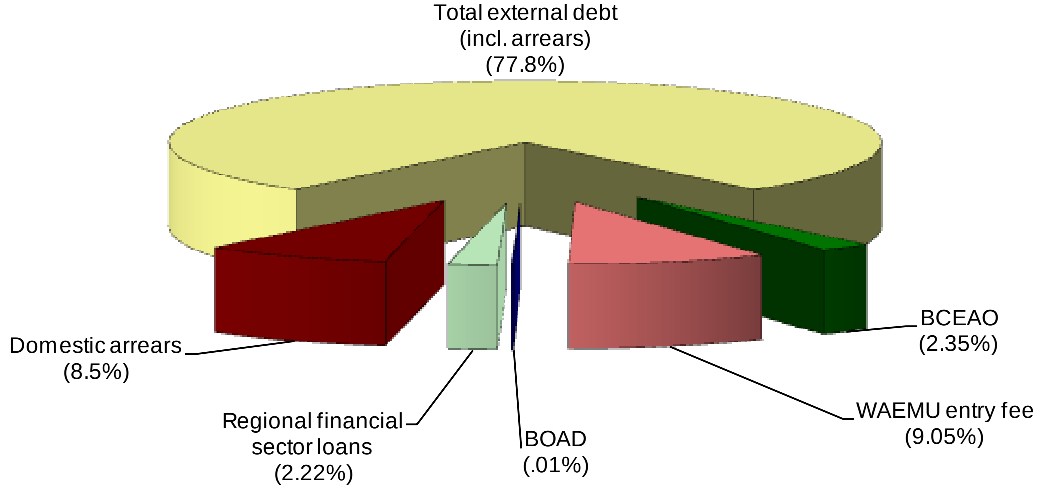
Table 2: Guinea-Bissau: Stock of Domestic Arrears at end-2008

	CFAF billions	% of GDP
Arrears on wages and goods and services	55.6	27.1
Other domestic debt	29.7	14.4
Treasury bills	7.2	3.5
Short-term commercial debt	7.2	3.5
Owed to BCEAO	15.2	7.4
Total	85.3	41.5

Sources: Adapted from Joint IMF/IDA Debt Sustainability Analysis May 2009.
The original source is: Guinea-Bissau authorities; IMF and World Bank staff estimates.

Figure 1: Guinea-Bissau: Composition of Public Debt at end-2008

(Total Public Debt: US$1.3 billion US$)



Sources: Adapted from Joint IMF/IDA Debt Sustainability Analysis May 2009. The original source is: Guinea-Bissau authorities; IMF and World Bank staff estimates and projections.
Estimates are based on incomplete and unreconciled data provided by the Guinea-Bissau authorities and on IMF and WB staff estimates and projections

While access to external funding is highly restricted, the government has remained committed to seeking new financing with at least 35 percent concessionality. Given the government's low revenue capacity and an ambitious poverty reduction program, it is highly dependent on budget support, which is expected to be provided in 2009 up to an amount of CFAF 22 billion (US$44 million), equivalent to 10.4 percent of GDP.

Being a member of the WAEMU, the country agreed to apply the regulations of the Union. The main regulation in relation with debt management that has been implemented is Regulation N° 06/2001/CM/UEMOA[2] on Treasury Bill and Bond issuance, which establishes the general framework and procedures for domestic borrowing in all member countries. In addition, Guinea-Bissau has co-signed the Regulation N° 09/2007/CM/UEMOA[3], concerning public debt policy and management and has prepared for incorporating its obligation into national law (see Appendix I for details).

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[2] http://www.uemoa.int/actes/2001/reglement_06_2001_CM_UEMOA.htm

[3] http://www.uemoa.int/actualite/2007/CM04072007/Règlement%2009-2007-CM-UEMOA%20portant%20cadre%20référence%20politique%20d'endettement.pdf

Guinea-Bissau has received technical assistance in the area of debt management from the Africa Regional Technical Assistance Center AFRITAC and Debt Relief International (DRI). In addition, Pole-Dette is involved in training and UNCTAD is in the process of installing the specialized debt management software DMFAS and will provide intensive training on the use of the software.

3. PERFORMANCE ASSESSMENT

GOVERNANCE AND STRATEGY DEVELOPMENT

DPI-1 LEGAL FRAMEWORK

Dimension	Score
1. The existence, coverage and content of the legal framework	C

The Organic Law (Article 5) of the Ministry of Finance (MoF) and the Annual Budget Law (Article 2) determine the current legal framework to contract financial obligations in Guinea-Bissau. Both highlight the exclusive role of the MoF in the contracting and administering of domestic or external credit with the sole purpose of financing the budget's financing gap. The Budget law prescribes that the financing terms need to be on concessional terms. Similar to credit arrangements, the granting of guarantees can only be issued by the MoF. Both credit and guarantee agreements need to be approved by the Council of Ministers[4].

The National Assembly of Guinea-Bissau holds the ultimate authority over public external debt contracts and guarantees, as by law, each such contract needs to be approved by the National Assembly as part of the annual budget. The WAEMU Directive No. 5 which has been signed into law in Guinea-Bissau, requires that the budget includes a 10 percent allocation of the amount guaranteed (Article 31, Directiva No. 5/97/CM/UEMOA). The President, subsequent to the Assembly's decision, promulgates the resulting law.

The exclusive authority of the MoF to contract financial obligations for the state covers also loan guarantees. The legal framework given by the budget law meets therefore the minimum requirements for this indicator. However, the law does not include debt management objectives and the other requirements that would be required for a higher score.

[4] Article 31 of the WAEMU Directive No. 5/97 on proceedings for the Finance Laws, as well as on the operations and execution of the public budget.

DPI-2 MANAGERIAL STRUCTURE

Dimension	Score
1. The managerial structure for central government borrowings and debt-related transactions	C
2. The managerial structure for preparation and issuance of central government loan guarantees	N/R

Several entities within the MoF are responsible for domestic and external public debt management, including planning, negotiating, signing, and monitoring. In addition, the local office of the regional Central Bank (BCEAO) has the responsibility for all tasks related to domestic debt issuance.

The Service Directorate of Public Debt (Direcção do Serviço da Dívida Publica, SDP), which is part of the Treasury (Direcção-Geral do Tesouro), is responsible for all back-office tasks related to external debt, including keeping the database, initiating debt service payments and providing debt service projections to other units within the government. SDP also keeps information on domestic debt, but the management is presently concentrated in the Treasury and the BCEAO. The SDP is involved in the contracting and execution of new loans but primary responsibility for those tasks lies with the Ministry of the Economy and Planning. The Treasurer General is responsible for cash management and the management of credits from the state (such as on-lending).

Line ministers often initiate the contact with creditors for externally funded projects, possibly with support and involvement of the Ministry of Planning and Economics (MPE), who bears the responsibility for the strategic outlook on the country's economic development. Once negotiations with creditors start, the Minister of Finance takes the lead, assisted by the respective line ministry and the MPE. The MPE and the SDP jointly verify whether the concessionality requirements and other debt objectives (ability to pay) are met. The MoF team might draw on the technical expertise of the BCEAO in this regard. The MPE also provides an assessment of the credit's overall consistency with the government's Poverty Reduction Strategy. After reaching an agreement on the terms and conditions of the contract, the MoF consults its legal committee and proceeds to present the loan agreement to the Council of Ministers (CoM). After approval by the CoM, the Minister of Finance signs the agreement and sends the documents together with the Attorney General's legal opinion on the specific loan agreement to the National Assembly for final approval (ratification). After the Assembly's ratification of the contract the President promulgates the National Assembly's resolution. Hereafter the SDP receives a copy or the original loan contract. The contract is also published in the official government bulletin containing all government decisions.

Regarding the issuance of domestic debt the process is initiated by the General Directorate for the Treasury of the MoF in coordination with the Budget Department. In line with WAEMU principles, the size of domestic debt issuance is based on the treasury's short term cash flow needs and expected revenues. The Central Bank, which is the resident affiliate office of the BCEAO, is responsible for the issuance of Treasury Bills (T-Bills), the review of the overall amount, and the placing of the bills in the regional market

Guinea-Bissau meets the minimum requirements for the first dimension of this indicator as the units involved in debt management coordinate sufficiently for central government borrowings and debt-related transactions for both external and domestic debt. Guinea-Bissau does not have a specific regime for granting and managing public guarantees, which would include the ex-ante assessment of contingent liabilities/risks involved and a regime for collaterizing and monitoring guarantees. Current policies are guided by a preference to avoid any guarantee for the government. Therefore, we do not rate the second dimension of this indicator.[5]

DPI-3 DEBT MANAGEMENT STRATEGY

Dimension	Score
1. The quality of the debt management strategy document	D
2. The decision-making process, updating and publication of the debt management strategy	N/R

There exists no explicit debt management strategy in Guinea-Bissau.[6] The country's limited capacity to service its debt currently allows Guinea-Bissau only very few external financing sources, essentially limited to accessing financing offered by the IMF, the World Bank and the African Development Bank.[7] Therefore, the nucleus of the current implicit strategy is guided by the country's present situation of debt distress and the arrangement under the IMF-supported program, allowing the country to contract debt only on highly concessional terms. The implicit domestic strategy was to obtain urgent

5 Should the authorities decide to issue guarantees, then this indicator should be regarded as a D, given the insufficient current managerial structure for guarantees in Guinea-Bissau.

6 The full implementation of the above mentioned WAEMU regulation no. 9 requires the country to formulate a strategy.

7 See Joint IMF/IDA Debt Sustainability Analysis for Guinea-Bissau, May 20, 2009.

short term funding to bridge delays in external assistance. However, Guinea-Bissau is not able anymore to access the WAEMU market because of the repayment problems of the last T-bill issuance.

Therefore, the government does not meet the minimum requirements for this indicator and the second dimension cannot be assessed.

DPI-4 EVALUATION OF DEBT MANAGEMENT OPERATIONS

Dimension	Score
1. Level of disclosure—in an annual report or its equivalent—of government DeM activities, central government debt, evaluation of outcomes against stated objectives, and compliance with the government's debt management strategy	D

The SDP produces on a monthly basis outstanding debt stock data, which is shared in the Ministry with the budget unit and is part of a seminal budget execution report. This report, however, is only distributed and used within the government. In the absence of a formal debt management strategy, these debt reports are mainly quantitative and lack a normative or policy oriented frame of reference, making an actual assessment of debt policies against stated policy objectives very difficult.

In addition, there is no specific report on government DeM activities and public debt provided to the National Assembly. The annual budget law contains some information on debt outstanding, but the information is incomplete. Therefore, Guinea-Bissau does not meet the minimum requirements for this indicator.

DPI-5 AUDIT

Dimension	Score
1. Frequency of internal and external audit of central government debt management activities, policies and operations, as well as publication of external audit reports	D
2. Degree of commitment to address the outcomes from internal and external audits	N/R
Overall Score	D

Two entities perform audits in Guinea-Bissau. The MoF's General Finance Inspectorate (Inspecção-Geral de Finanças, IGF) has the right to control and verify at any moment and anywhere the working of the public service, including public and semi-public enterprises, development projects, etc (Article 8 of the IGF Law - Decreto Lei No. 2/97). The work of IGF is based on an annual program of activities approved by the MoF and contains on average 15 inspections per year. Furthermore, IGF provides information and supports the work of the Supreme Audit Institution.

The IGF is explicitly mandated to also verify the use of public funds at the Treasury-General of the MoF, which incorporates the SDP. The IGF has conducted inspection of expenditures and revenues in the past, and samples of reports exist. However, IGF has not specifically inspected debt management operations.

The Tribunal de Contas (TdC), the supreme government accounting office responsible for external audits, is an independent entity with the mandate to audit any state activity. The TdC is explicitly mandated to control the use of externally obtained financing (Article 12, Decreto Lei No. 7/92). The TdC decides autonomously on its work program, which includes typically around five inspections/audits per year. However, audits are often not finalized due to the lack of adequate resources to carry out its mission. An audit of the public debt administration has not been performed up to now. Audits of the MoF have been undertaken in the past but none has been finalized and published.

Neither the internal nor the external auditors have performed an audit of DeM activities as of today. Therefore, the country does not fulfill the minimum requirements for the first dimension of this indicator and the second dimension cannot be assessed.

COORDINATION WITH MACROECONOMIC POLICIES

DPI-6 COORDINATION WITH FISCAL POLICY

Dimension	Score
1. Coordination with fiscal policy through the provision of accurate and timely forecasts on total debt and debt service under different scenarios	C
2. Availability of key fiscal variables and/or an analysis of debt sustainability, and the frequency with which debt sustainability analysis is undertaken	D

The SDP prepares and submits forecasts on external and domestic debt service to the Budget Directorate (DNO) as part of the annual budget preparation process. The forecasts are made for the coming budget year. No medium term framework exists in Guinea-Bissau in which the information on debt payments could be embedded beyond the one year horizon. The forecast is a simple imputation of scheduled debt service and does not include sensitivity or scenario analysis. The country therefore scores a C for the first dimension of this indicator.

If needed, the SDP can obtain projection on macroeconomic variables from the MPE. However, the government does not produce a debt sustainability analysis (DSA). DSAs are produced by the World Bank and the IMF, with supporting inputs from the MoF.

In light of these considerations, Guinea-Bissau does not meet the minimum requirements for the second dimension of this indicator.

DPI-7 COORDINATION WITH MONETARY POLICY

Dimension	Score
1. Degree of formal separation of monetary policy operations from DeM operations.	A
2. Coordination with monetary policy implementation through information sharing on debt transactions and government's current and future cash flows	A
3. Extent of a limit to direct access of resources from the Central Bank	A

The BCEAO acts as the Central Bank agent for the Government of Guinea-Bissau. BCEAO undertakes transactions for both monetary policy purposes and for government debt management purposes as an agent for the WAEMU member countries. For Guinea-Bissau, BCEAO has issued twice Treasury Bills (T-Bills) to banks operating in the WAEMU area. BCEAO informs market participants on whether issuances are done in its role as an agent for a member country or whether they are done for the purpose of monetary policy. The agency agreement between BCEAO and the WAEMU member countries is publicly available on BCEAO's webpage. The first dimension of this indicator is, therefore, rated with an A.

Monetary policy transactions are based on liquidity forecasts prepared by the Central Bank. The Treasury provides input for these forecasts in the form of debt service and foreign currency disbursement forecasts, as well as forecasts of the cash flows on the Treasury Account. Cash flow forecasts from the Treasury are undertaken on a daily basis, for one week ahead. The Central Bank also performs daily forecasts with a two week horizon of the government cash flows for liquidity management purposes. There are a number of regular meetings between the MoF and the Central Bank, including high level policy meetings and weekly technical meetings on cash flow issues. Given the weekly sharing of information on debt transactions and government cash flows, the requirements for a score of A for the second dimensions of this indicator are satisfied.

The BCEAO's Council of Ministers banned in 2002 direct credit from the central bank for all UEMOA member countries.[8] The absence of any recourse to central-bank financing satisfies the requirements for a score of A for the third dimension.

BORROWING AND RELATED FINANCING ACTIVITIES

DPI-8 DOMESTIC BORROWING

Dimension	Score
1. The extent to which market-based mechanisms are used to issue debt, the publication of a borrowing plan for T-Bills and T-Bonds, and the preparation of an annual plan for aggregate amount of local currency borrowing in the domestic market, divided between the wholesale and retail markets.	D
2. The availability and quality of documented procedures for local currency borrowing in the domestic market	B

BCEAO has issued twice Treasury Bills for Guinea-Bissau to cover short-term treasury needs but has not issued treasury bonds. The first T-Bill issuance amounting to about FCFA4.5 billion was undertaken in 2005. The amount was repaid in 2006 with the 2nd T-Bill issuance, totaling FCFA7.2 billion, which remains outstanding.[9]

Within the reform of the finance mechanism of the Treasury of the WAEMU member states and the establishment of a regional market for public debt, the BCEAO established in 2001 new procedures for the issuance of titles within the WAEMU. Since then BCEAO acts as a DeM agent, advising the government on accessing the domestic market and issuing securities on behalf of the Treasury. The formalized and harmonized WAEMU procedures for issuance of public debt titles are well established and known by market participants.

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[8] To avoid a substitution of central bank advances with credits from the banking sector, they also established a ceiling on direct government borrowings from the banking sector of 20 percent of revenues.

[9] The holders of the T-bills are commercial banks in the WAEMU region to which Guinea-Bissau also has FCFA7.2 billion in short-term commercial debt in arrears outstanding. Total debt (arrears) outstanding to the banking sector amounts, therefore, to FCFA14.4 billion (40 percent of revenues excluding grants).

Debt issuances are supposed to be based on a yearly borrowing plan that the DGT submits to the BCEAO. The DGT and the BCEAO agree on the terms and conditions for the securities and prepare emission prospectus, which are published in local and regional journals and newspapers at least two weeks prior to the operation (for most WAEMU countries this information is not available on the BCEAO web-page). BCEAO organizes the auctions and informs the participants about the outcome of the auction through the same information channels. However, Guinea-Bissau is currently not issuing in the WAEMU market as the country has not repaid its last T-Bill issuance.

In summary, Guinea-Bissau has used market-based instruments to access the domestic WAMEU market since access to Central Bank advances was eliminated in 2002. However, access to domestic borrowing is neither based on a provisional treasury plan nor on a formalized debt management strategy and market participants only learn about planned issuances two weeks before the date. The country, therefore, does not fulfill the minimum requirements for the first dimension of this indicator.

The procedures to access domestic borrowing are put in place by WAEMU and followed by all member states. BCEAO's website contains detailed information on terms and conditions, borrowing procedures and criteria to access the primary market, but not on the projected amount of borrowing, which results in a rating of B for the second dimension.

DPI-9 EXTERNAL BORROWING

Dimension	Score
1. Degree of assessment of the most beneficial/cost-effective borrowing terms and conditions (lender or source of funds, currency, interest rate and maturity)	D
2. Availability and quality of documented procedures for borrowing in foreign markets	D
3. Availability and degree of involvement of legal advisors	C

Due to the weak financial situation of the country, the government is not in a position to choose among financing sources. As a result, a borrowing plan is not established or used. The government, therefore, scores D for the first dimension of this indicator.

The government does not have documented procedures for external borrowing. The MoF is the only entity allowed to enter financial engagements for the state and, therefore, leads negotiations even in the cases when line ministries initiated contact with donors. Before signature, the MoF involves the 'juridical cabinet' for legal questions and the SDP to check on financial terms of the loans, especially in terms of sufficient degree of concessionality. After the negotiations, the SDP stores the original loan contracts for the MoF. Ministers sometimes keep the original loan contracts but in these cases the SDP receives a copy. The SDP then opens a new file using these loan agreements.

In summary, the processes for external borrowing follow standard practices and the SDP prepares the term sheet just after the negotiations. However, as these procedures are not based on a procedural manual, the score for this dimension of the indicator is a D.

The MoF gets legal advice from the cabinet of legal advisors during the negotiations. However, legal advisors are only involved before concluding the negotiating process and the country scores a C for the third dimension of this indicator.

DPI-10 LOAN GUARANTEES, ON-LENDING AND DEBT-RELATED TRANSACTIONS

Dimension	Score
1. Availability and quality of documented policies and procedures for approval and issuance of central government loan guarantees	N/R
2. Availability and quality of documented policies and procedures for on-lending of borrowed funds	D
3. Availability of a debt management system with functionalities for handling derivatives, as well as availability and quality of documented procedures for the use of derivatives	N/R

The government has not issued any guarantees since 1997 and encourages the use of organizations like MIGA or FAGACE for issuing guarantees for project financing. The first dimension of this indicator is, therefore, not rated.[10]

On-lending has been used to finance investments for the port of Bissau and the state telecom company. The modalities for the on-lent funds are in general the same as the ones from the original loan and it is the SDP that is responsible for the management of on-lent funds. However, Guinea-Bissau does not have specific documented policies and procedures for on-lending of borrowed funds, which would guide conditions, procedures

[10] Should the authorities decide to issue guarantees, then this indicator should be regarded as a D, given that Guinea-Bissau has no regulation in place that would provide guidance for loan guarantees.

and modalities.[11] Therefore, the country does not meet the minimum requirements for the second dimension of this indicator.

Guinea-Bissau has not used derivates and the third dimension is not rated.

CASH FLOW FORECASTING AND CASH BALANCE MANAGEMENT

DPI-11 CASH FLOW FORECASTING AND CASH BALANCE MANAGEMENT

Dimension	Score
1. Effectiveness of forecasting the aggregate level of cash balances in government bank accounts	D
2. Effectiveness of managing the aggregate cash balance in government bank account(s), including the integration with the domestic debt borrowing program	D

The Government's cash management is guided by a forecast of cash needs, which is formulated at the beginning of the year. The plan has a 12-month horizon and is updated monthly. In practice, however, the Treasury is not in a situation to follow the formalized cash plan due to the shortage of revenues. The government is accumulating external and internal arrears but is committed to pay salaries of public servants and to service debt obligations to the three multilateral creditors mentioned above. As a result decisions on expenditures are taken on a day-to-day basis by the Minister of Finance considering the level of revenues available and urgent expenditures.

As cash flow forecasting is de facto not done, the government does not meet the minimum requirement for the first dimension of this indicator.

The Treasury manages its cash flow through the current account of the Treasury at the BCEAO and various bank accounts in commercial banks. In addition, some Ministries, like the Ministry for Fishery, use commercial bank accounts to collect revenues and make payments for the operations of the Ministry. As a result, a part of the non-fiscal revenues escapes the control of the Treasury, who has no control over overall balances. Similarly, externally funded projects use project-specific accounts in commercial banks.

[11] Implementation of WAEMU regulation no. 9, which establishes formal rules and procedures for loan guarantees and on-lending, would allow the government to perform much better under the first two dimensions of this indicator.

The account of the Treasury at the Central Bank is reconciled on a daily basis. The account earns a fixed 3 percent interest instead of the market rate and the low levels of excess funds, if any, do not permit investment in the regional financial market or repayment of the outstanding T-bills but are held as a precautionary balance.

In summary, the government does not meet the minimum requirements for the second dimension of this indicator as the Treasury has no control over the overall balances and cash in excess of the target is not managed.

DPI-12 DEBT ADMINISTRATION AND DATA SECURITY

Dimension	Score
1. Availability and quality of documented procedures for the processing of debt service	D
2. Availability and quality of documented procedures for debt data recording and validation, as well as storing of agreements and debt administration records	D
3. Availability and quality of documented procedures for controlling access to the central government debt recording/management system and payment system	D
4. Frequency and off-site, secure storage of debt recording/management system back-ups	D

There are no procedures manuals for any of the tasks described in the various dimensions of this indicator. In addition, the procedures that are currently followed other than the ones for processing of debt service (dimension #1) do not satisfy the minimum requirements of this indicator.

The technical staff of the SDP is responsible for preparing payments on external debt service. When a payment notice from a creditor is received, the staff compares it against forecasts in their system. A payment order is then prepared in the currency of commitment and forwarded to the treasury two weeks before the due date. Four persons have the authority to sign the payment order. These are the Minister of Finance, the Secretary of State of the Treasury, the Treasurer, and the Director of the Treasury. Of these, two have to sign the payment order before it is forwarded to the central bank. Upon execution of the payment, the central bank informs the Treasury. Within a delay of a few days, the SDP obtains the payment information and enters it into the system. The process is generally adequate and would allow for payments by the due date. Nevertheless, payments are often delayed due to an insufficient balance. In addition, there are no manuals describing the procedure for processing. The first dimension of this indicator is therefore rated with a D.

All debt records are processed twice, first manually on paper and then electronically in excel. The current software does not include an automatic dual signatory check or an input/authorization feature. Loan agreements are stored at the SDP and copies (scanned or physical) do not exist. A fire in this part of the MoF would destroy the electronic versions as well as all original loan agreements.

The SDP reconciles its payment forecasts with payment orders from creditors. However, regular reconciliations of all outstanding loans are not performed, partly because not all creditors respond to SDP's requests. In light of these considerations and the absence of documented procedures, the second dimension of this indicator is rated with a D.

The central government debt recording system is currently based on excel sheets. There are no documented procedures for controlling access and no back-ups are taken at the moment, which implies a D for the last two dimension of this indicator.

DPI-13 SEGREGATION OF DUTIES, STAFF CAPACITY AND BUSINESS CONTINUITY

Dimension	Score
1. Segregation of duties for some key functions, as well as the presence of a risk-monitoring and compliance function	D
2. Staff capacity and human resource management	D
3. Presence of an operational risk management plan, including business continuity and disaster-recovery arrangements	D

Most of the tasks that the SDP performs at the moment are in the domain of a back-office, like updating the debt database, initiating debt service payments and providing debt service projections to other units within the government. In addition, the SDP is involved in loan negotiation as it is responsible to assess the concessionality of new loans. Nevertheless, the authority to negotiate and contract on behalf of the central government lies with the Minister of Finance and the MPE. There is, therefore, an organizational separation between the debt managers that participate in loan negotiations, and the ones that conduct debt recording and debt service payments. However, in Guinea-Bissau there is no separation of the staff of the debt office that is responsible for payments and those that records the payments. At present, there is no unit in the government that performs traditional middle office tasks, such as risk analysis, risk monitoring, or compliance.

BCEAO's Market Department, which is responsible for issuing T-Bills, is organized along a traditional front-, back-, and middle-office model, with the individual entities performing the expected tasks.

Due to insufficient separation of tasks within the SDP and the absence of risk monitoring and compliance, the minimum requirements for the first dimension are not met.

In addition to the director and his assistant, the SDP has a staff of 6 professionals, three responsible for external debt, and three for domestic debt. The formal education and the training that the staff has received on-the-job are sufficient for the tasks that the SDP performs at the moment. However, there are no formal job descriptions and the SDP would need more and better trained staff to perform more analytical work and middle-office tasks. Therefore, the minimum requirements for the second dimension are not met. The BCEAO is better staffed, both in terms of the number and training of its staff.

The government does not have any business-continuity or disaster recovery plan. Therefore, the minimum requirements for the third dimension are not met.

DEBT RECORDS AND REPORTING

DPI-14 DEBT RECORDS

Dimension	Score
1. Completeness and timeliness of central government debt records	D
2. Complete and up-to-date records of all holders of government securities in a secure registry system	A

The SDP has a complete set of external debt records but is not aware of outstanding loan guarantees. Term sheets for new loans are prepared using the underlying loan agreement and the debt database is updated based on payment notices that the SDP receives a few days after the payment has been executed. However, the way disbursements are processed at present often leads to delays in accurately recording the amounts outstanding and disbursed. The project implementation unit initiates disbursements through the MoF but information about the actual disbursement is not always shared with the MoF. As a result, in some cases the SDP learns about disbursement from information sent to SDP by the creditor, or through subsequent payment advises, which sometimes take longer than the 3 months needed to meet the minimum requirement for the first dimension.

As in other countries that form part of the WAMEU, the BCEAO administers the registry systems of all holders of government securities. The registry system is secure, up-to-date and subject to annual audits, which implies a score of A for the second dimension of the indicator.

DPI-15 DEBT REPORTING

Dimension	Score
1. Meeting statutory and contractual reporting requirements of central government debt to all domestic and external entities	C

2. Meeting statutory and contractual reporting requirements for total nonfinancial public sector debt and loan guarantees to all domestic and external entities	N/R
3. Quality and timeliness of the publication of a debt statistical bulletin (or its equivalent) covering central government debt	D

The World Bank and the IMF are the only external institutions that require reports of central government debt. Both the IMF and the World Bank do not report problems with debt data reporting.

In addition, the SDP provides inputs for the report that the National Committee of Economic Policy submits to the BCEAO as part of the mandatory quarterly reporting requirements of all the member states. BCEAO uses this information to monitor the economic and debt situation in Guinea-Bissau and did not report any problems. Thus, the minimum requirements for the first indicator are met.

The above-mentioned institutions require only reporting of external debt, the second indicator is thus not rated.

The government does not prepare a statistical bulletin. The score for the last dimension is, therefore a D.

4. CONCLUSIONS AND NEXT STEPS

Guinea-Bissau meets or exceeds the minimum requirements set out in the DeMPA methodology in 10 out of 29 dimensions (6 N/R).

Although this report identifies a number of weaknesses, it is important to emphasize the evolution of debt management operations in Guinea-Bissau, and place the ratings in the context of an ongoing reform programs. For instance, UNCTAD is in the process of installing the specialized debt management software DMFAS, which will improve some of the issues discussed under operational risk management.

There are other areas where selective interventions could lead to meeting the minimum requirements. For instance, the records on central government debt (DPI-14, dimension #1) would improve if the line ministries would notify the SDP in time about disbursements. Timely information about disbursements would also improve the coordination with fiscal policy (DPI-6, dimension #1).

The areas where the Government nonetheless currently fails to meet the minimum requirements for effective performance underline the critical importance of maintaining and strengthening the reform momentum. Although this assessment does not contain recommendations or specific proposals for reform, one goal of the DeMPA methodology is to provide the analytical background for a comprehensive reform program developed in partnership among the authorities, their technical and financial partners, and providers of technical assistance in the area of debt management.

Furthermore, it should be noted that the WAEMU is pursuing strong efforts to foster reforms in its member countries. Most notably, a reform program that would lead to full implementation of the requirements for WAMEU Regulation N° 9 would considerably strengthen debt management functions, including the legal framework, the managerial structure and the coordination of debt management and economic policy.

ANNEX 1 – UEMOA REGULATION N° 9

Being a member of the WAEMU, Guinea-Bissau agreed to apply the regulations of the Union, including Regulation N° 09/2007/CM/UEMOA[12] concerning public debt policy and management. The regulation establishes for member countries a joint framework of standards and best practices for the contracting and management of public external and domestic debt, as well as for the issuance and management of state guarantees, and will have important effects on debt management once it is fully implemented. Guinea-Bissau has co-signed the regulation and has prepared for incorporating its obligation into national law. Accordingly, Guinea-Bissau will be required to:

(i) develop a debt management strategy along WAEMU established criteria, which has to be attached to the finance law;

(ii) establish a clear institutional approach towards contracting and administering public debt allowing for clearly assigned responsibilities for each administrative entity involved in public debt contraction and management;

(iii) publish at least once a year information on the debt stock, its structure and cost; and an assessment of whether the results of public debt (and guarantees) incurred have met the objectives outlined in the debt management strategy;

(iv) maintain the quality of debt information ensuring availability and access to debt data; and

(v) undertake external and internal audit of activities, policies, and procedures of debt management.

Regulation no. 9 also has important implications for loan guarantees as it requires of member countries:

(i) that the debt management strategy includes a yearly threshold for both debt and loan-guarantees;

(ii) that all issued guarantees are consistent with debt management objectives and macro-economic policies;

[12] http://www.uemoa.int/actualite/2007/CM04072007/Règlement%2009-2007-CM-UEMOA%20portant%20cadre%20référence%20politique%20d'endettement.pdf

(iii) that the government cannot guarantee loans that have less generous terms and conditions than the debt that the government contracts, except under special circumstances; and

(iv) that a single authority within the government is responsible for contracting debt and issuing guarantees following formal procedures.

Each WAEMU member has furthermore committed to establish a National Committee for Public Debt (NCPD), comprising all national entities generally involved in public debt contraction and administration. The work of the NCPD is meant to be supported by a technical committee, ensuring coordination of all stakeholders, including the Central Bank, central development aid units as well as the administration responsible for implementing the national poverty reduction strategy. The draft decree for the NCPD has been finalized in Guinea-Bissau by the Ministry of Finance but still needs to be approved by the Minister of Finance and the Council of Ministers. Only after approval, Guinea-Bissau's commitment toward the WAEMU *Regulation no. 9* and its standards becomes operational.

ANNEX 2 – LIST OF MEETINGS

Ministry of Finance

Romão Varela	Budget Department Head
Carlos Andrade	Principal Technical Adviser
Leonel Mané	Tax Revenue Department Head
Gino Mendes	Treasury Department Head
Gabriela Fernandes	Secretary of State for Treasury
Fernando Correia	Debt Department Head
Oscar Cunha	Prevision and conjuncture Department
Evaristo Gomes Pereira	Prevision and conjuncture Department
Adáo Jata	Prevision and conjuncture Department
Totas Joáo Correia	Prevision and conjuncture Department
Carlos A. Sanha	Prevision and conjuncture Department
Elisio Gomes Ga	Economist
Romao Varela	Budget Department Head

Carfa Embalo	Economist
Cesar Fernandes	Treasurer General, Directorate General of Treasury
Rustico Estève	Advisor, Directorate General of Treasury
Carlos Gomes	Technical Assistant, Directorate General of Treasury

Ministry of Economy, Planning

Fernando Dias	Secretary of State for Planning
Vasco Da Silva	Planning Department Head
Fortes B. Injai	Economist
Justino Fernandes	IT
Jose Biai	Economist

BCEAO

João Alage M. Fadia	National Director
Adrião Spencer Carvalho	Deputy Director of the Agency
Lassana Sambu	Controller
Degol Mendes	Department Head
Cheikh Sall	Department Head
Francisco Fernandes	Accountant

Donors

Luca Monge Roffarello	Economist, UNDP
Edorh Hugues	Chief of Mission, BOAD
Zé Alves-Pereira	Economist, European Commission
Pablo Arnal	Representative Spanish Cooperation

General Finance Inspectorate

Tomasia Manjulu	Auditor
Mamadu Sani	Auditor

Supreme Audit Institution

Santino B Namone	Lawyer
Rui Jaudi	Lawyer

N’Famara N’Ghabo	Economist
Soad Selva Carrungo	
Amadeu Correia	Accountant
Quintimo Gomes Ba	Lawyer