

Debt Management Performance Assessment (DeMPA)



Guinea

May 2018

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 14 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>

| | |
|---|----|
| EXECUTIVE SUMMARY | 6 |
| BACKGROUND AND GOVERNMENT DEBT | 8 |
| 2.1 Economic background | 8 |
| 2.2 Public debt stock and composition | 9 |
| 2.3 Donor coordination and support to public debt management reforms | 10 |
| DEBT MANAGEMENT PERFORMANCE ASSESSMENT (DEMPA) | 12 |
| 3.1 DeMPA Methodology | 12 |
| 3.2 Summary of Performance Assessment | 13 |
| PERFORMANCE INDICATOR ASSESSMENT | 14 |
| 4.1. Governance and Debt Management Strategy | 14 |
| DPI-1 Legal Framework | 14 |
| DPI-2 Managerial Structure | 16 |
| DPI-3 Debt Management Strategy | 19 |
| DPI-4 Evaluation of Debt Management Operations | 20 |
| DPI-5 Audit | 21 |
| 4.2 Coordination with Macroeconomic Policies | 22 |
| DPI-6 Coordination with Fiscal Policy | 22 |
| DPI-7 Coordination with Monetary Policy | 25 |
| 4.3. Borrowing and Related Financing Activities | 28 |
| DPI-8 Domestic Borrowing | 28 |
| DPI-9 External Borrowing | 31 |
| DPI-10 Guarantees, On-lending and Debt-related Transactions | 32 |
| 4.4. Cash Flow Forecasting and Cash Balance Management | 34 |
| DPI-11 Cash Flow Forecasting and Cash Balance Management | 34 |
| 4.5. Debt Recording and Operational Risk Management | 36 |
| DPI-12 Debt Administration and Data Security | 36 |
| DPI-13 Segregation of Duties, Staff Capacity, and Business Continuity | 37 |
| DPI-14 Debt Records | 40 |
| ANNEX 1: MEETINGS HELD DURING THE DEMPA MISSION | 42 |
| ANNEX II: LIST OF MEETING PARTICIPANTS | 43 |

List of Tables

| | |
|--|----|
| Table 1 Key Macroeconomic Indicators 2013-2017 | 8 |
| Table 2 External Debt Service Forecasts and Actual 2015-2018..... | 23 |
| Table 3 Domestic Debt Service Forecasts and Actual 2015-2017..... | 23 |
| Table 4 Revenues and Expenditures 2016-2018: forecast errors above 20 percent..... | 35 |

List of Figures

| | |
|--|----|
| Figure 1 Public Debt 2010-2017, percentage of GDP | 9 |
| Figure 2 Public Debt Outstanding by Creditor as at end 2017..... | 10 |
| Figure 3 Organigram of the Debt Management Functions..... | 18 |
| Figure 4 Revenues and Expenditures 2016-2018: forecast errors, in percent..... | 34 |

Glossary

| | |
|--------|---|
| AFD | French Development Agency |
| BCRG | Central Bank of Guinea |
| CACT | Technical support unit of the Treasury Committee |
| CDC | Court of Auditors |
| CNDP | National Public Debt Committee |
| CODI | Domestic Debt Clearance Committee |
| CTCM | Technical Committee for the Macroeconomic Framework |
| DeMPA | Debt Management Performance Assessment |
| DMS | Debt Management Strategy |
| DNB | National Directorate for Budget |
| DNDAPD | National Directorate for Debt and Official Development Assistance |
| DNIP | National Directorate for Public Investment |
| DNPEIP | National Directorate for State Property and Private Investments |
| DNPSC | National Directorate for Planning, Strategy and Cooperation |
| DNTCP | National Directorate for Treasury and Public Accounting |
| DPI | Debt Performance Indicator |
| DSA | Debt sustainability analysis |
| EU | European Union |
| FG | Guinean franc |
| GTN | Country working group of the CNDP |
| HR | Human Resources |
| IGE | General State Inspectorate |
| IGF | General Finance Inspectorate |
| IMF | International Monetary Fund |
| LORF | Organic law on public finance |
| MB | Ministry of Budget |
| MEF | Ministry of Economy and Finance |
| MPCI | Ministry of planning and international cooperation |
| MSEGUI | Simulation model of the Guinean economy |
| PIP | Public Investment Program |
| PNDES | National Plan for Economic and Social Development |
| PREFIP | Public Finance Reforms Plan |
| PPP | Public Private Partnership |
| PV | Present Value |
| TRM | Securities for monetary policy objectives |
| WB | World Bank |

Executive Summary

A World Bank (WB) mission undertook an assessment of the government's debt management (DeM) capacity and institutions in Guinea during May 16-25, 2018¹, as per the request of the Ministry of Economy and Finance (MEF). The objective of the mission was to assess the DeM strengths and areas in need of reform through the application of the 2015 Debt Management Performance Assessment (DeMPA) methodology. This is the second evaluation for Guinea; the first DeMPA was undertaken in 2008.

The DeMPA methodology provides a comprehensive set of indicators spanning the full range of DeM functions and used for in-depth analysis of the quality of government debt management functions and institutions. The results of the DeMPA evaluation help the central government authority to take stock of the current DeM situation, assess quality of undertaken reforms and design medium term reforms' plan.

Since the first DeMPA in 2008, considerable progress has been accomplished. Debt management has been strengthened with the approval of solid legal frameworks (e.g. 2012 organic law on public finance; forthcoming national debt policy) and the reinforcement of debt management operations (e.g. market-based issuance practices for domestic debt; introduction of the T-bills calendar). However, these improvements have not always impacted the DeMPA scores, as the partial implementation of some reforms or the absence of key elements do not allow to meet the minimum requirements in the related areas of assessment. Priorities for improvement include assuring full compliance with the existing regulatory framework (e.g. production of a debt management strategy and annual borrowing plan; reporting to national assembly); further streamlining the governance framework; acquiring a modern debt recording system; strengthening debt analysis and publications.

The key elements of the current debt management framework and pending areas for reforms are presented below:

| Strengths | Areas for Improvement |
|--|--|
| <i>Governance and Strategy Development</i> | |
| <ul style="list-style-type: none">• The organic law (2012) centralizes borrowing and issuance of guarantees within the MEF;• Clear delegation of powers within the MEF through ministerial orders;• Cross-ministerial work supported by committees, although not all of them currently operational;• Operational manual in place;• Staff from DNDAPD periodically trained; | <ul style="list-style-type: none">• Strengthen legal framework by defining purposes of external borrowing and requirements for strategy development;• Improve the implementation of the legal framework by ensuring that committees are operational;• Update, publish and approve the debt management strategy – with a focus on cost/risk trade-offs; |

¹ The mission was comprised of Diego Rivetti (WB), Marie-Hélène Le Manchec and Joanne Perez (WB consultants).

| Strengths | Areas for Improvement |
|---|--|
| | <ul style="list-style-type: none"> • Draft a statistical bulletin and expand the section on debt in the annual report. |
| <i>Coordination with macroeconomic and monetary policies</i> | |
| <ul style="list-style-type: none"> • Reliable external debt service forecasts; • Technical committee for the macroeconomic framework operative; • Production of comprehensive macroeconomic reports; • Effective information sharing between the Government and the BCRG. | <ul style="list-style-type: none"> • Ensure the legal separation with monetary policies; • Respect limits on BCRG statutory advances; • Improve domestic debt service forecasts; • Produce DSA on a regular basis. |
| <i>Borrowings and Related Activities</i> | |
| <ul style="list-style-type: none"> • Well-documented and market-based issuance practices for domestic debt; • T-bills monthly issuance calendar produced for the quarter ahead; • Involvement of legal advisers in the external debt negotiation process; • Assessment of the major loan impact on solvency and liquidity indicators. | <ul style="list-style-type: none"> • Strengthen capacities on domestic debt in DNDAPD; • Reinforce coordination between Treasury and DNDAPD; • Strengthen and regularize investor relations; • T-bills issuance plan should not be based only on treasury objectives, but also consider their different yield to maturity. |
| <i>Cash Flow Forecasting and Cash Balance Management</i> | |
| <ul style="list-style-type: none"> • Treasury attempts to smoothen the cash-flow balance using T-bills. | <ul style="list-style-type: none"> • Adjust the T-bills calendar on a weekly basis according to forecast needs; • Operationalize the single treasury account. |
| <i>Debt Records and Operational Risk Management</i> | |
| <ul style="list-style-type: none"> • Debt data -although not comprehensive- are up-to-date; • 2-person authorization is in place around processing and authorizing payments; • Modern domestic securities registry. | <ul style="list-style-type: none"> • Adopt debt recording system to strengthen debt recording (reflecting all financial terms in the debt database) and limit operational risk; • Periodical back-up of the debt database; • Draft guidelines for operational risk management; • Create a comprehensive debt database (domestic + external). |

Background and Government Debt

2.1 Economic Background

The Guinean economy is recovering well from two recent major shocks: the Ebola epidemic in 2014–2015 and a decline in commodity prices after 2015. After slowing in 2014–2015 to an average of 3.6 percent, growth reached 10.4 percent in 2016, supported by a recovery in mining, good agricultural performance and more reliable electricity supply. The mining sector accounted for more than half the growth rate, supported by the expansion of bauxite and alumina production and increased demand. The growth momentum is expected to continue with real growth reaching 5.8 percent in 2018 and averaging approximately 5 ½ percent over the medium term, driven by strong performance in mining, construction, and scaled-up investments in infrastructure. Risks to these projections are balanced, with downside potential from socio-political tensions, delays in projects and reform implementation, and upside potential from faster-than-expected mining production capacity coming on stream.

Table 1 Key Macroeconomic Indicators 2013–2017

| | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|-------|-------|-------|-------|-------|
| Real GDP growth (annual, %) | 3.9 | 3.7 | 3.8 | 10.5 | 8.2 |
| GDP (current USD, billion) | 7.6 | 8.4 | 8.7 | 9.2 | 9.9 |
| GDP per capita (current USD) | 726 | 744 | 727 | 701 | 825 |
| GNI per capita, Atlas method (current USD) | 640 | 680 | 690 | 720 | 820 |
| Inflation, consumer prices (annual, %) | 11.9 | 9.7 | 8.2 | 8.2 | 8.9 |
| External debt (nominal, % of GDP) | 22.2 | 25.9 | 20.2 | 21.0 | 19.8 |
| Overall fiscal balance (% of GDP) | -3.9 | -3.2 | -6.9 | -0.1 | -2.1 |
| Current account balance (% of GDP) | -17.6 | -19.4 | -32.1 | -25.2 | -22.4 |

Note: 2017 figures are estimates.

Data Source: Guinean authorities, IMF and WB staff estimates.

After years of fiscal mismanagement and debt accumulation, macroeconomic reforms were undertaken under the effort to reach the Highly-Indebted Poor Country (HIPC) completion point in September 2012. This led to significant reductions of its external debt level and servicing cost. Debt servicing payments amounted to over 4 percent of GDP in 2008, but have fallen to below 1 percent of GDP since 2013. The Government has used the borrowing space to finance large investments in roads and energy, such as the Kaleta hydroelectric dam, which has gradually increased its debt stock. Guarantees by the central bank in 2014–2015 to local and foreign banks to pre-finance public investment projects have also increased the debt stock.

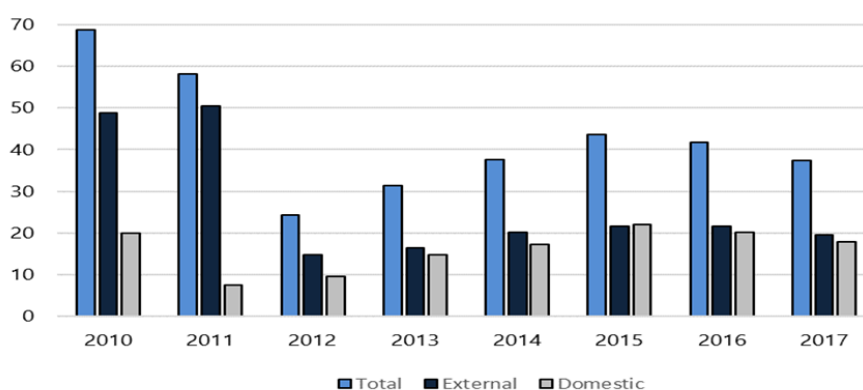
To keep the economy on an even keel and to maintain debt sustainability, the authorities undertook a major fiscal consolidation. The overall deficit was reduced from 6.8 percent of GDP in 2015 to just 0.1 percent in 2016, and then increased to 2.1% in 2017. Overall, the macroeconomic policies adopted in response to the Ebola outbreak facilitated the necessary adjustments and led to macroeconomic stabilization and growth recovery. The Government made progress in reforming the exchange rate mechanism, reducing financial sector vulnerabilities, and strengthening fiscal management.

To support its 2016-2020 Plan for Economic and Social Development (PNDES), Guinea held a Consultative Group with donors and private sector investors to mobilize external financing in November 2017, during which the multiyear PIP was unveiled. Guinea succeeded in catalyzing over US\$21 billion worth of financial commitments by the donors.

2.2 Debt stock and composition

Guinea's total public debt gradually increased following achievement of the completion point in 2012 (figure 1) - reflecting the need to finance increasing public investment - and has stabilized in the last 3 years. Total public debt amounted to US\$3.8 billion (37.8 percent of GDP) at end 2017.

Figure 1: Public Debt 2010-2017, percentage of GDP



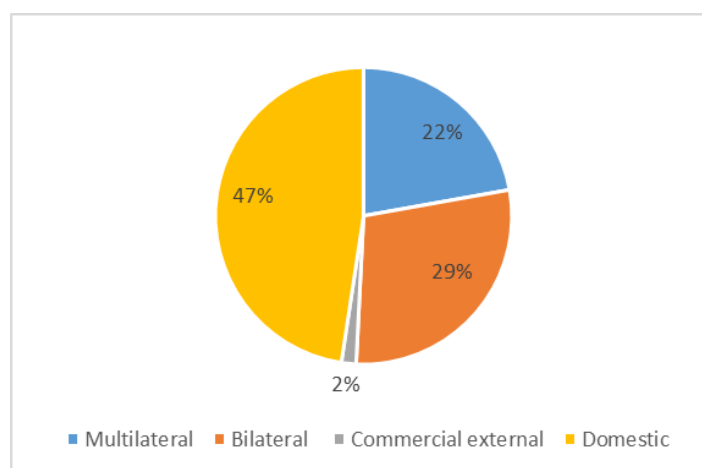
Data source: Guinean authorities.

The debt portfolio is almost equally split between external and domestic. On the external side, approximately 54 percent of its stock is due to official bilateral creditors, mostly Non-Paris Club, while 42 percent is owed to multilateral creditors and 4 percent to commercial creditors.

Domestic government debt in Guinea is largely non-marketable, as the T-bills and two 3-year bonds outstanding merely account for 21 percent of the domestic debt stock. Guinea continues to hold US\$678 million (38 percent of the domestic debt stock) in *dette conventionnée*, which is the result of the consolidation of central bank advances accumulated prior to 2013. This is scheduled to be repaid over 40 years starting in 2023. The remaining sources of domestic debt are: BCRG debt, which calls for amortization of more recent BCRG advances over six years beginning in 2015; debt assumed from the petroleum sector (Star oil, UMS, K Energies/EDG et KAM); and arrears to domestic suppliers (3 percent of GDP), for which a clearance strategy is being implemented².

² An external audit of the arrears accumulated in the period 1982-2013 placed the net stock at GNF 1,956 bn, comprising 1028 individual claims from 352 creditors. GNF 1,158 bn (59%) could be validated against records or receipts. Notwithstanding the audit, according to the 2017 Activity Report the full extent of the consolidated arrears

Figure 2: Public Debt Outstanding by Creditor as at end 2017



Source: Guinean authorities, WB elaboration

The results of the latest Debt Sustainability Analysis (DSA) show that Guinea faces a moderate risk of external debt distress³. Under the IMF program, Guinea has followed a strategy of borrowing at concessional terms to date. However, given constraints in securing sufficient concessional resources for infrastructure projects, Guinea also mobilized a US\$1.2 billion (13 percent of GDP) non-concessional loan, with the commitment to cap additional non-concessional borrowing to a maximum of US\$650 million (6 percent of GDP) during 2017–20 in order to preserve debt sustainability.

2.3 Donor Coordination and Support to Public Debt Management Reforms

In the framework of the *Plan de Refomes des Finances Publiques* (PREFIP), the *Cellule Technique de Suivi des Programmes* is the unit charged with managing the implementation of reforms at the MEF, in strict coordination with the donors. The main activities carried out to date are the following: i) elaboration of the public debt policy; ii) drafting of the debt procedures manual; iii) the setting up of the National Public Debt Committee (CNDP) and its technical sub-committees; iv) elaboration of a capacity building plan. The European Union (EU)– led by the French Development Agency (AFD)– is at the forefront in funding the reforms in debt management, including the design and implementation of an arrears’ clearance strategy.

remains unclear. A Domestic Debt Clearance Committee (CODI) was established in December 2016, with representation from the DNDAPD, the MB, the President’s Office and the Prime Minister office. Its task is to supervise a 5-year repayment plan, starting with small creditors (less than GFN 5 billion). GFN 43 billion was repaid in 2017 according to the 2017 MEF Activity Report, with a further GFN 58 billion repayments in process.

³ All external debt burden indicators under the baseline scenario lie below their policy-dependent thresholds. However, stress tests suggest that debt vulnerabilities have increased owing to external debt accumulation related to financing of critical infrastructure projects.

A number of Institutions (WB, IMF/AFRITAC, ADB and US Treasury) are involved in the provision of TA and training in debt management. Recent initiatives focused on the formulation of a DSA and a medium-term debt management strategy; and development of the domestic debt market.

Debt Management Performance Assessment (DeMPA)

3.1 DeMPA Methodology

The DeMPA 2015 methodology comprises a set of 14 DPIs, which encompass the complete spectrum of government 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, the performance indicators do stipulate a minimum level that should be met. Consequently, if the assessment shows that the minimum requirements are not met, this clearly indicates an area requiring attention and priority for reform.

The DeMPA focuses on central government DeM 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 portfolio, including implicit contingent liabilities (such as liabilities of the pension system) or the debt of State Owned Enterprises (SOEs), if these are not guaranteed by the central government. The central government is nonetheless responsible for managing its contingent liabilities and thus for ensuring supervision of public debt and guaranteed public sector debt (which is part of the DSA). The DeMPA evaluates this under the following indicators: DPI-1 “Legal Framework,” DPI-6 “Coordination with Fiscal Policy,” and DPI-10 “Loan Guarantees, On-Lending, and Derivatives.”

The DeMPA is largely modeled after the Public Expenditure and Financial Accountability (PEFA) Performance Indicators. While the latter cover broad aspects of public financing, the DeMPA focuses exclusively on central government DeM in a greater level of detail than do PEFA indicators. The points of convergence between these tools lie in the areas of the recording of cash balances, DeM, and guarantees. There are strong links between PEFA indicators for audit and fiscal planning and DeMPA indicators for audit and coordination with macroeconomic policies.

The scoring methodology assesses each dimension and assigns a score of A, B, or C, based on a list of criteria. If the minimum requirements for a score of C are not met, the dimension is assigned a score of D. A score of C indicates that the minimum requirements considered necessary for effective DeM performance have been met. A score of D, however, indicates that the minimum requirements have not been met, that specific measures are necessary to correct the deficiencies, and that unsatisfactory performance is noted.

The A score reflects sound practice for the dimension of the performance indicator, corresponding to the best practice level, while a B score is a mid-range score that falls between good practices and the minimum requirements.

In some situations, a dimension is not scored because the activity in the dimension has not actually been carried out (for example, derivatives are not used), in which case the term N/A (not applicable) is assigned to the dimension. The lack of information or even insufficient information makes it difficult or even impossible to assess a dimension, in which case the designation N/R (not rated) is assigned.

When the criteria for a score require that certain legislative provisions, regulations, or procedures be in place, the latter must not only have been approved or signed but must also have been implemented. If that is not the case, these provisions, regulations, or procedures are considered non-existent, and cannot be considered in the DeM assessment or in the DeMPA scoring. The same principle also applies when the DMS, even if it has been drafted, has not been followed or updated.

3.2 Summary of Performance Assessment⁴

| Performance Indicator | | Score 2008 | Score 2018 |
|-----------------------|--|------------|------------|
| DPI-1 | 1. Legal Framework | D | D |
| DPI-2 | 1. Managerial Structure: Borrowing and Debt-Related Transactions | D | D |
| | 2. Managerial Structure: Loan Guarantees | D | D |
| DPI-3 | 1. DMS: Quality of Content | D | D |
| | 2. DMS: Decision-Making Process | D | N/R |
| DPI-4 | 1. Debt Reporting and Evaluation: Debt Statistical Bulletin | C | D |
| | 2. Debt Reporting and Evaluation: Reporting to Parliament or Congress | N/R | D |
| DPI-5 | 1. Audit: Frequency and Comprehensiveness | D | D |
| | 2. Audit: Appropriate Response | N/R | N/A |
| DPI-6 | 1. Fiscal Policy: Provision and Quality of Debt-Service Forecasts | C | D |
| | 2. Fiscal Policy: Availability and Quality of Information on Key Macro Variables and DSA | D | D |
| DPI-7 | 1. Monetary Policy: Clarity of Separation between DeM and Monetary Policy Operations | A | D |
| | 2. Monetary Policy: Regularity of Information Sharing | C | B |
| | 3. Monetary Policy: Limited Access to Central Bank Financing | N/R | D |
| DPI-8 | 1. Domestic Borrowing: Market-Based Mechanisms and Preparation and Publication of a Borrowing Plan | D | D |
| | 2. Domestic Borrowing: Availability and Quality of Documented Procedures | D | C |
| DPI-9 | 1. External Borrowing: Borrowing Plan and Assessment of Costs and Terms | C | D |
| | 2. External Borrowing: Availability of Documented Procedures | D | D |
| | 3. External Borrowing: Involvement of Legal Advisers | D | C |
| DPI-10 | 1. Loan Guarantees: Availability and Quality of Documented Policies and Procedures | D | C |
| | 2. On-lending: Availability and Quality of Documented Policies and Procedures | D | D |
| | 3. Derivatives: Availability and Quality of Documented Policies and Procedures | N/R | N/A |
| DPI-11 | 1. Effective Cash Flow Forecasting | D | D |
| | 2. Effective Cash Balance Management | D | D |
| DPI-12 | 1. Debt Administration: Availability and Quality of Documented Procedures for Debt Service | D | C |
| | 2. Debt Administration: Availability and Quality of Documented Procedures for Data Recording and Storage | D | D |
| | 3. Data Security: Availability and Quality of Documented Procedures for Data Recording and System and Access Control | D | D |
| | 4. Data Security: Frequency of Back-Ups and Security of Storage | D | D |
| DPI-13 | 1. Segregation of key Staff Duties | D | D |
| | 2. Staff Capacity and Human Resource Management | D | C |
| | 3. Operational Risk Management, Business Continuity, and Disaster Recovery Plans | D | D |
| DPI-14 | 1. Debt Records: Completeness and Timeliness | D | D |
| | 2. Debt Records: Registry System | D | A |

⁴ The DeMPA methodology was revised in 2015, and not all indicators are directly comparable between 2009 and 2018.

Performance Indicator Assessment

4.1. Governance and Debt Management Strategy

DPI-1 Legal Framework

| Dimension | Score |
|--|----------|
| 1. Existence, coverage, and content of the legal framework | D |

Requirement for minimum compliance: *The legislation (primary and secondary) provides clear authorization to borrow and to issue new debt, to undertake debt-related transactions (where applicable), and to issue loan guarantees (where applicable), all on behalf of the central government. In addition, the primary legislation specifies the purposes for which the executive branch of government can borrow.*

Primary Legislation⁵

The legal framework for debt management in Guinea is embodied within the overall framework for public finances and derives from the 2010 Constitution (Article 73). This specifies that annual Public Finance Laws will determine expenditure and revenue targets for each year, in accordance with the terms and conditions laid out in an organic law. The annual budget must be voted by the National Assembly following a report from the Court of Public Accounts (*Cour des comptes*).

The organic law (LORF), introduced in 2013, applies to all public bodies including central and regional governments, local authorities, public administrative institutions and social protection organizations. The LORF determines the broad authority for public borrowing and sets the terms and conditions for the Finance Laws that ratify the annual budgets and financing plans. The LORF also assigns sole authority to the Minister of Finance for approving loans (Article 44) and guarantees (Article 45) to public bodies according to the terms and conditions specified in the Finance Law. The organizational framework and procedures are elaborated in DPI 10.

The main Article of the LORF for debt management is Article 4, which assigns exclusive authority to the Minister of Finance to engage the State in borrowing from international creditors. All financing agreements with international creditors must be approved by the Minister, and lenders are obliged to inform the Minister of Finance of any financial contribution made to the public administration or to the realization of projects

⁵ The legal framework for public finances in Guinea follows a hierarchical structure, at the pinnacle of which is the 2010 Constitution setting the rules and procedures by which the National Assembly must legislate. The second level of the hierarchy is the Organic Law on Public Finance (*Loi Organique Relative aux Lois de Finances- LORF*), followed by the annual Finance Laws (*Lois de Finance*). Organic and ordinary laws are instruments of primary legislation. They are voted by the National Assembly and enacted by the President of the Republic following an opinion from the Constitutional Court. Secondary legislation is contained in government decrees (*décrets*) and ministerial orders (*arrêtés*). Decrees are the highest act of the executive branch of government. They are signed by the Council of Ministers and the President of the Republic but are not voted in the National Assembly. They specify the rules through which the laws are to be implemented. Decrees are completed by ministerial orders which assign roles and responsibilities to different functions. Circulars and directives are not part of the legislative framework but provide the operating rules and procedures within Ministries, Directorates and Divisions.

and activities of public interest. No Minister or other public official may accept or receive funding from international donors without the prior approval of the Minister of Finance. Each financing proposal is voted upon in the National Assembly, supported by a legal opinion issued by the Constitutional Court, signed by the Minister and enacted by Presidential Decree.

The explicit power to issue domestic debt is contained within the annual Finance Law. Article 6 of the 2018 Law authorizes the Minister of Finance to contract specified amounts of new borrowing (which includes the planned net annual change in the T-bill stock) for the purposes of financing the budget deficit, to make amortization payments, to reduce the debt owed to the banks and non-banks and to reduce domestic arrears.

Article 47.5 of the LORF rules that all borrowing and treasury financing operations required to meet gross financing needs must be approved within the Finance Law. To this end, a provisional treasury plan detailing sources and uses of financing must be annexed to the annual Finance Law.

Article 41 of the LORF identifies the sources of financing to meet the government's gross cash needs. These include medium and long-term borrowings within a net debt ceiling determined in the annual Finance Law. Article 41 also rules that only financing for which the terms and conditions are known with certainty can be included in the Finance Law. This is intended to prohibit speculative borrowing.

The State can engage in borrowing not previously approved within the Finance Law only if this is part of a special budget (*Budget d'Affectation Speciale*) assigned to a specific project. In this case, Article 36 of the LORF rules that the financing for the project e.g. from an international creditor, should be approved by the National Assembly and ring-fenced from the general budget.

According to Article 49, annexes to the Finance Law must include a summary of debt outstanding by type, creditor and maturity, accompanied by a debt management strategy (DMS). There must also be a detailed summary of the expected loans from international creditors, including amounts, objectives and budgetary impact.

The LORF (Article 53) requires submission to the National Assembly of an annual performance report detailing the execution of the previous Finance Law by each economic sector including debt management, and comparing the outcomes observed against the objectives specified.

Article 43 of the LORF requires all public bodies to transfer balances to the accounts of the Public Treasury within the Ministry Finance. The balances on these account at the Central Bank of Guinea (BCRG), must not be negative and public bodies must not receive any direct or indirect credit from the BCRG (Article 72). The same article also assigns responsibility to the BCRG for the issuance, conversion and repayment of government debt under the terms of an Accord signed by the Governor and the Minister of Finance.

While the governance framework is relatively comprehensive, one identified weakness is that it does not state the specific objectives or purposes for external borrowing, as required by sound practice. In addition, it has not yet been fully implemented. This is particularly pertinent to a number of the important annexes to the annual Finance Laws, specified in Article 49 of the LORF. These include detailed external borrowing plans by creditor and budget impact, as well as the provision of a debt management strategy. Neither of these documents are currently produced. Further, the Committees have been established but have yet to convene. A 5-year grace period was accorded in 2012 for the implementation of the LORF, 2018 being the deadline for compliance.

This Dimension is judged not to have met the minimum requirement for a scoring of C owing to the absence of specific borrowing purposes in primary legislation for external debt and to the fact that elements of the framework have yet to be implemented. The D score is unchanged from 2008 DeMPA, while recognizing

that in the intervening period, considerable progress to strengthen the governance framework has been achieved, although compliance with the framework remains an issue to be addressed.

DPI-2 Managerial Structure

| Dimension | Score |
|---|----------|
| 1. The managerial structure for central government borrowings and debt-related transactions. | D |
| 2. The managerial structure for preparation and issuance of central government loan guarantees. | D |

Dimension 1

Requirement for minimum compliance (C): *Borrowings and debt-related transactions are undertaken either by the principal DeM entity or, if there is no principal DeM entity, by DeM entities that regularly exchange debt information and closely coordinate their respective activities through formal institutional mechanisms.*

The roles and responsibilities for managing public debt within the executive branch of government are established by Decrees and Ministerial orders. These allocate specific responsibility to individual Directorates and Divisions within the Ministries of Finance, National Plan and Budget.

The lead directorate for debt management is the National Directorate for Debt and Public Development Aid (DNDAPD), although broad responsibilities are distributed across other directorates within the Ministry of Economy and Finance (MEF), including the National Treasury and Public Accounts (DNTCP) and the National Directorate of Portfolio and Private Investment (DNPEIP). The National Directorate of Public Investments (DNIP), within the Ministry of the Plan and International Cooperation (MPCI) also shares responsibility for external debt, in a role that was described as the interface between the government and international creditors. Back office responsibilities for the payment and settlement of debt obligations fall to the DNTCP, in collaboration with BCRG as banker to the government. In accordance with Article 72 of the LORF, BCRG is also the fiscal agent of the government, having responsibility for the issuance, conversion and repayment of government debt, which includes running the T-bill auctions and managing the domestic debt registry. The role of BCRG in the management of public debt is covered by an MoU with the MEF.

The management of domestic and external debt falls under the remit of the MEF and specifically the DNDAPD. The DNDAPD is tasked with elaborating, coordinating and implementing policies and strategies related to the management of external and domestic public debt; ensuring the government is provided the tools and objectives with which to assess external debt propositions, as well as for domestic debt and state guarantees: ensuring continued dialogue with international lenders in order to identify potential sources of financing; in cooperation with the sectoral ministries, organizing meetings with international creditors; coordinating the renegotiation of loans; reviewing compliance with terms and conditions over the life of a loan; managing the public debt portfolio; and assuring the competency of technical staff via a continuous program of training.

To fulfill its duties the DNDAPD is divided into support services (e.g. HR, IT, audit, etc.) and 4 main technical divisions: analysis of aid and research of funding sources; aid management; external debt; and domestic debt.

The External Debt Division is responsible for matching a project with a potential source of financing, following a funding request via the Minister of Finance from the relevant sectoral Minister. The External Debt manager must ensure that the loan meets the requirement for 35% concessionality. This analysis stage precedes and conditions the approval for the sectoral Minister to begin negotiations with the international lender. The External Debt manager is also tasked with organizing and participating in these negotiations.

DNDAPD is not the only Directorate involved in mobilizing external loans. The National Directorate of Public Investments DNIP, previously part of the MEF now attached to the MPCl, is also actively involved. As part of the Ministry responsible for the 5 year National Plan for Economic and Social Development (PNDES), its role is to liaise directly between the sectoral Ministry sponsoring the investment project and the international lender, without necessarily passing via the DNDAPD. Hence there is potential for some overlap with the role of the External Debt manager and indeed, in some cases, may create the potential for circumventing the documented loan approval process. This potential overlapping of duties and responsibilities has been augmented with the transfer of DNIP from the MEF to the MPCl.

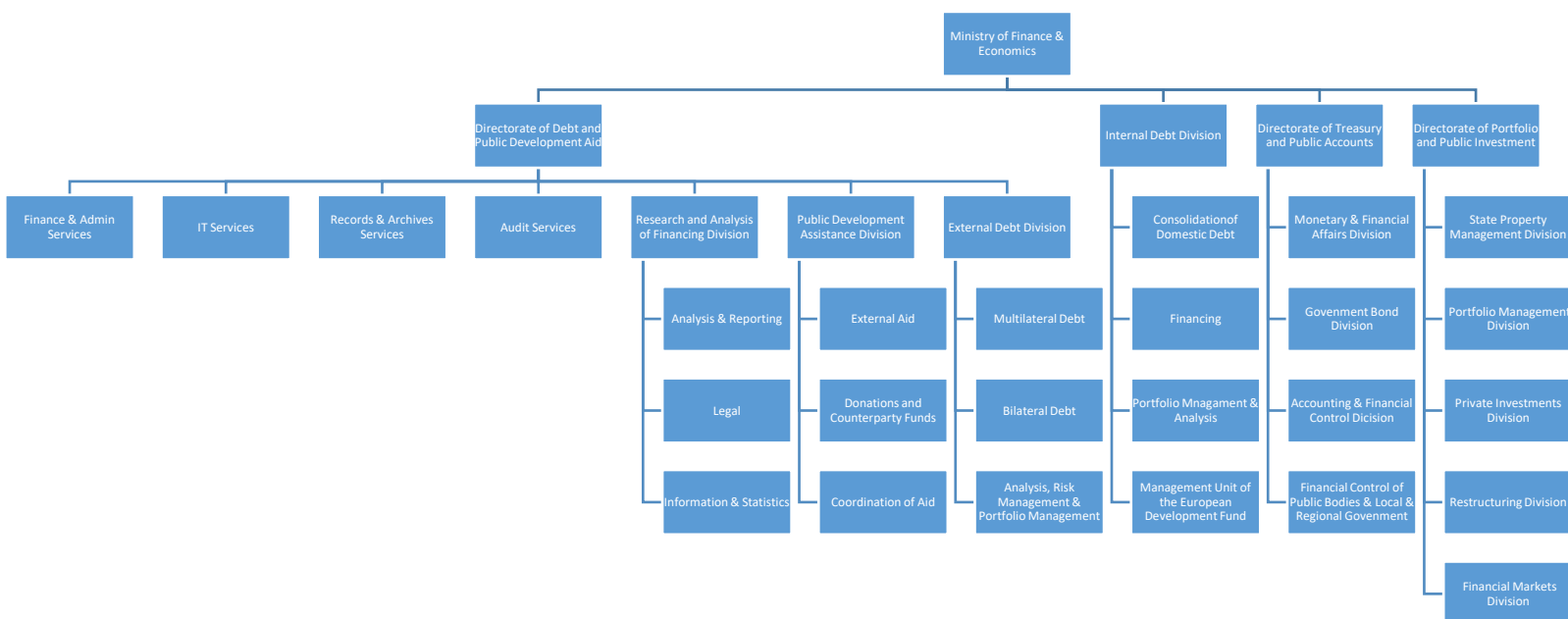
On the domestic debt side too there is overlap of duties and responsibilities owing to a heavily fragmented debt management structure. The Domestic Debt Division is tasked with managing the domestic debt portfolio, which includes the potential to agree medium and long-term loans in national currency and to issue medium and long-term bonds to meet the government's financing needs. In 2015 and 2017 it was responsible for the introduction of medium term bonds with a retail bias, in collaboration with and on the advice of a lead syndicate bank, as a means of diversifying domestic financing resources. Within the same Ministry the DNTCP is also authorized to issue short, medium and long-term securities, in collaboration with the Ministry of the Budget (MB), to meet the government's short-term financing needs. It is also examining the possibility of auctioning medium term securities. This has the potential to blur the lines of responsibility and to generate potential conflict in borrowing objectives, as the Treasury seeks to meet its short-term borrowing needs at lowest cost while the Domestic Debt Division of the DNDAPD seeks to widen the investor base and to develop the domestic bond market as a means of funding at lowest cost over the medium to long term.

Further the DNDAPD does not have a formal role in the development of the T-bill issuance plan. This may lead to costly and inefficient outcomes if the plan is developed solely on the basis of the Treasury short term funding needs and does not factor in the relative cost as well as the rollover risk of the different maturity T-bills.

In practice, however, coordination and information sharing mitigates some of these potential risks. The fora for exchanging ideas and information on market conditions and funding needs between the Domestic Debt Division, the Treasury and the BCRG are technical committees. These include the CNDP and the Treasury Committee, established by Presidential Decree and each with their supporting technical sub-committees and working groups. The role of the committees is to coordinate the management of public debt and treasury services across the different stakeholder Ministries and Directorates and to supervise the elaboration and implementation of national debt policies and strategies. The sharing of responsibilities for debt management between Ministries and Directorates nonetheless fragments information flow, can lead to duplication of roles and to confusion as to where ultimate responsibility for operational decisions lies.

Further, the recently created CNDP, its technical committee and its working group are meant to assure coordination of debt policy, and to discuss both the DSA and medium-term DMS. However, to date neither the committee nor the sub-committees have actually been convened.

Figure 3: Organigram of the Debt Management Functions at MEF.



The absence of clear lines of responsibility for both external and domestic debt and the overlapping responsibilities of a number of directorates mean that the minimum requirements of this dimension have not been met. The notation of D is unchanged from the 2008 DeMPA.

Dimension 2

Requirement for minimum compliance (C): *If applicable, loan guarantees are prepared and issued by one or more government entities that regularly exchange information and closely coordinate their respective activities through formal mechanisms, both between themselves and with the DeM entity or entities.*

The responsibility for issuing government guarantees is clearly designated in the LORF (Article 45) and the implementing decree and lies with the MEF. The Ministerial Order 5916 further delegated the strategy for approving loan guarantees to DNDAPD. However, Ministerial Order 5916 does not distinguish the roles and responsibilities for managing guarantees from those for managing loans. Nor does it assign specific responsibilities for guarantees to a division within the DNDAPD. Instead, this divisional responsibility has been acknowledged implicitly by the elaboration of a complete set of procedures for the analysis of loan guarantees in the DNDAPD Procedures manual.

However, the manual is a recent document and its application has not been tested yet. These procedures were not applied for the most recent government guarantees issued to commercial banks and arranged on

behalf of the government by the BCRG in 2015 (now expired). Similarly, there is no evidence that the monitoring procedures are applied to 2 outstanding guarantees on AFD loans.

In light of above, the minimum requirements of this Dimension have not been met. The score of D is unchanged from that of the 2008 DeMPA

DPI-3 Debt Management Strategy

| Dimension | Score |
|--|------------|
| 1. The quality of the DeM strategy document | D |
| 2. The decision-making process and publication of the DeM strategy | N/R |

Dimension 1

Requirement for minimum compliance (C): A medium-term DMS is in place covering all existing and projected central government debt, based on the DeM objectives. The strategy is expressed at least as guidelines for the preferred direction of evolution of specific indicators for interest rate, refinancing, and foreign currency risks. In addition, if applicable, the strategy document contains a description of measures aimed at supporting domestic debt market development.

The LORF requires a DMS to be annexed to the annual Finance Law. According to the framework, this requirement should be fulfilled at the latest in the 2019 Finance Law.

The CNDP, its Technical Committee and the Working Group were established to develop a National Debt Policy that would develop the principles to guide a medium term DMS. A policy document has since been drafted with the help of an external consultant but awaits formal approval. It is uncertain whether the debt policy will be approved in time to inform a DMS in the current year and there are no current plans to produce a formal strategy document.

Following a WB/IMF TA mission, the DNDAP applied the MTDS model to the Guinean data in 2015, but the resulting document remains in draft form and the exercise has not been repeated. The implicit strategy followed so far by the government - and confirmed by the debt policy set out in the IMF-support program - is to maximize the recourse to concessional financing and gradually clear domestic arrears.

Since there no DMS is in place, the minimum requirement for this dimension is not met, scoring D. This is unchanged compared to the previous DeMPA.

Dimension 2

Requirement for minimum compliance (C): The strategy proposal is prepared by the principal DeM entity or, if there is no principal DeM entity, jointly by the DeM entities. The views of the central bank are obtained; the strategy is formally approved; and the strategy is made publicly available, including through publication on official website(s) and in print media.

As mentioned in the previous dimension, the first attempt of DMS is an internal document, still in draft form. The document has not been circulated and discussed with the BCRG, and there is no evidence of its outputs being used to inform external debt plans, which remain donor driven. On the domestic debt side,

the issuance strategy is driven by expected cash needs, with no formal analysis of cost or risk being used to inform the issuances.

In the absence of a formal DMS, this dimension is rated as N/R, compared to a D in the previous DeMPA.

DPI-4 Evaluation of Debt Management Operations

| Dimension | Score |
|---|--------------|
| 1. Quality and timeliness of the publication of a debt statistical bulletin (or its equivalent) covering central government debt, loan guarantees, and debt-related operations. | D |
| 2. The presentation and content of an annual evaluation report to the parliament or congress on DeM activities and general performance. | D |

Dimension 1

Requirement for minimum compliance (C): A debt statistical bulletin (or its equivalent), with the main categories listed in the “Rationale and background” section of this DPI (with the exception of the basic risk measures of the debt portfolio), is published annually, with debt data that are not more than six months old at the date of publication.

Data on public debt is currently found in two publications : i) the MEF annual Activity Report, published on its website, the debt section of which contains data on the current debt stock and the performance of each debt management activity against the goals set in the previous budget ; ii) a quarterly budget execution report compiled by the MB for the National Assembly, published on the MB’s website, containing high level data on the domestic and external debt stocks, and debt service payments for the previous quarter. A quarterly debt statistical report has also been prepared by the DNDAPD, but has yet to be published.

The MEF Activity Reports contain data on the outstanding stock of external and domestic debt by creditor type. Principal and interest payments by instrument for the past two years are also presented and compared against the forecast assumptions used in the elaboration of the Finance Law. For external debt there is also a description of each loan contracted in the previous two years alongside a description of the projects they finance. The description of loan contracts includes lender, amount, currency, grace period, project, beneficiary and grant element. However, the document does not contain statistics on debt stocks by currency, interest rates and maturity. For domestic debt, net issuance of T- bills is also compared against the assumptions underlying the Finance Law. The latest Report was published in April 2018, containing data for December 2017.

The quarterly Budget Execution Report is submitted to the National Assembly during the month following the end of the quarter. A summary table of the Financial Operations of the State, is compiled by the Budget Directorate (DNB) using data prepared by the DNDAPD. This compares outturn quarterly debt interest charges with charges in the Budget Plan, and the realized external and internal financing totals with those forecast in the Treasury plan.

These reports - while raising the transparency on the debt portfolio - are missing key data and hence fall short of the minimum requirement. This Dimension was rated C under the previous DeMPA. The change reflects the higher granularity of reporting required in the current DeMPA methodology.

Dimension 2

Requirement for minimum compliance (C): A report (or section of a wider report) providing details of outstanding government debt and DeM operations is submitted annually to the parliament or congress and is also made publicly available.

Despite the LORF requirement, no specific report on debt is submitted to the National Assembly with the aim of ensuring government's accountability on DeM activities. As mentioned in the previous dimension, the quarterly budget execution report containing data on borrowing and payment of interest is submitted to the National Assembly but there is insufficient detail on the composition of the debt stock and no evaluation of DeM operations. Therefore, the score given to this dimension is D. This Dimension was not rated under the previous DeMPA.

DPI-5 Audit

| Dimension | Score |
|--|------------|
| 1. Frequency of financial audits, compliance audits, and performance audits of the central government as well as publication of the external audit reports | D |
| 2. Degree of commitment to address the outcomes from internal and external audits | N/A |

Dimension 1

Requirements for minimum compliance (C): An external financial audit of DeM transactions is undertaken annually. External compliance audits have been conducted in the past two years. Audit reports are publicly available within six months of completion of the audit.

The Court of Auditors (*Cour des Comptes* -CDC) is an independent public entity with reporting responsibilities to the National Assembly. It was created in the framework of the 2013 organic law to replace the *Chambre des Comptes*, which was reporting to the President of the Republic. The CDC has the authority to conduct all types of external ex-post audit, including financial, compliance and performance audits of any public entity at central and local government level, as well as contractors and other organizations receiving funds from the government. The recruitment of staff, started in 2016, is complete and the CDC now counts 33 magistrates. The CDC has the authority to conduct audit (both financial and performance) on debt, although it has not done so yet due to its recent reorganization, delays in recruitments, and the lack of procedures specific to the audit of debt.

Two entities are involved in the internal audit: the General State Inspectorate (IGE)⁶ - under the authority of the President of the Republic - and the General Finance Inspectorate (IGF)⁷ - under the authority of the MEF. IGE and the IGF exercise control functions aimed primarily at detecting mismanagement of public funds: IGE's mission is the control and inspection of the management of all public services, local authorities, public enterprises and institutions and public development programs and projects; IGF is responsible, inter alia, for the supervision of authorizing officers and public accountants. Their reports are shared with the

⁶ The IGE is in the process of restructuring and its texts are being redesigned. It is currently governed by the decree D/2012/124/ PRG/SGG of November 08, 2012.

⁷ The IGF is governed by the decree D /2013/N° 007 /PRG/SGG of 13 January 2013.

CDC in order to inform CDC's workplan and avoid overlapping activities. A consultative body (the "permanent framework of consultation of the control bodies") has been set up decree⁸, but it is not yet operational.

Most of the CDC, IGE and IGF's staffs are currently receiving training under the project "*Renforcement des Corps de Contrôle*" (RECOR), funded by the EU and AFD.

Despite the recent positive development, current auditing practices do not allow for a C grade in the first dimension, as no audit has been undertaken to date. The overall score given to this indicator is therefore "D", which is the same as in the previous DeMPA.

Dimension 2

Requirements for minimum compliance (C): *The relevant decision makers produce a management response to address the outcomes of the internal and external audits of government DeM activities.*

The second dimension assesses the degree of commitment to address the outcomes from internal and external audits. In the absence of audit reports on debt, dimension 2 is not applicable, N/A. This is effectively the same score as given in the last DeMPA assessment which was not rated, N/R.⁹

4.2 Coordination with Macroeconomic Policies

DPI-6 Coordination with Fiscal Policy

| Dimension | Score |
|--|----------|
| Dimension 1: Support of fiscal policy makers through the provision of accurate and timely forecasts on total central government debt service under different scenarios | D |
| Dimension 2: Availability of key macro variables, an analysis of debt sustainability, and the frequency with which it is undertaken | D |

Dimension 1

Requirement for minimum compliance (C): *As part of the yearly budget preparation, forecasts are provided on total central government–debt service.*

The MPCFI produces medium-term macroeconomic forecasts that are used by the MB for the preparation of budget planning and forecasts. It develops the public investment program (PIP) and follows its implementation. The MB prepares the budget, coordinates the formulation of the budgetary framework documents, and monitors budget execution.

The LORF and the Decree of 2014/222 on financial governance regulate the annual budget preparation process. The Council of Ministers discusses and approves the medium term macroeconomic, budgetary and

⁸ D/2012/123/ PRG/SGG of November 08, 2012.

⁹ The change in score is due to amendments in the 2015 DeMPA methodology.

the expenditure frameworks, and sets up the budgetary priorities. The Minister of Budget sends a budget circular to all ministries that initiates the budget preparation process, and lays down the schedule for the process. By the end of the first quarter the MB organizes a seminar on the medium-term expenditure framework during which the macroeconomic framework and key assumptions are shared (e.g. the \$/ FG exchange rate). The MPCCI sends the programming of investment expenditure in a separate circular.

As regards to specific responsibilities, the DNDAPD is asked to submit information on expected external financing and debt service forecasts to the DNB. The document specifies that in addition to debt service projections, the DNDAPD must transmit also the stock of external debt, new commitments, expected amounts drawn down, and any data related to expected rescheduling, cancellation and debt relief. On this basis, the DNDAPD prepares debt service forecasts on existing stock of debt and estimated disbursements. For large projects, the external debt division contacts the project officers to gather information on the evolution of the projects and the estimated drawings for the next fiscal year. No sensitivity analysis is conducted, and no buffer for exchange rate fluctuations is calculated and integrated in the debt service projections.

According to the budget director, the DNDAPD is a key element in the budget preparation process, is a member of the arbitrage committees, and submits total debt service forecasts on time (i.e. in compliance with the approved budget preparation calendar). The DNB is also satisfied with the quality and completeness of the information provided.

As shown in Table 2, the external debt service forecasts for the 2015-2018 period (only the first four months of 2018 are considered) were reasonably accurate. The difference between forecast and actual total debt service was, on average, below 10 percent over the past three years (with the forecast exceeding the outturn), with the exception of the interest payments in 2017. The inaccuracy of the latter forecast was driven entirely by one US\$1.2 billion non-concessional loan, for which the DNDAPD expected the contract to be finalized and drawings to start in 2017.¹⁰ Given the size and the non-concessional nature of the loan, the resulting disbursements and interest payments in 2017 were expected to be significant. The mission considered that this single observation should not be allowed to overshadow the overall quality of the external debt service forecasts.

Table 2 External Debt Service Forecasts and Actual 2015 – 2018^{1/} (millions of U.S. dollar; unless otherwise indicated)

| | 2015 | | | 2016 | | | 2017 | | | Jan-April 2018 | | |
|-----------|-------|------|----------|-------|------|----------|-------|------|----------|----------------|------|----------|
| | Proj. | Act. | Dev. (%) | Proj. | Act. | Dev. (%) | Proj. | Act. | Dev. (%) | Proj. | Act. | Dev. (%) |
| Principal | 41.9 | 40.2 | -4.2 | 28.0 | 26.8 | -4.4 | 25.6 | 23.6 | -7.6 | 22.9 | 20.8 | -9.5 |
| Interest | 16.3 | 14.9 | -8.6 | 34.3 | 32.5 | -5.1 | 37.9 | 21.2 | -44.1 | 11.8 | 12.2 | 3.4 |
| Total | 58.2 | 55.0 | -5.4 | 62.3 | 59.4 | -4.8 | 63.4 | 44.8 | -29.4 | 34.8 | 33.0 | -5.1 |

1/ The debt service excludes debt relief provided under the Debt Reduction-Development Contract (C2D) of AFD.
Sources: MEF; and WB calculations

As for domestic debt, the mission elected to analyze only the deviations between forecast and outturns for debt service of marketable debt and the debt owed to the central bank related to the consolidated advances

¹⁰ The DNDAPD was expected the conclusion of the negotiations for the financing of the construction of the Souapiti dam, which had started since 2015. This is a very large project covered through a Public-Private Partnership (PPP) financing structure (the first PPP in Guinea).

accumulated prior to 2013 and 2015.¹¹ As indicated in Table 3, differences are notable. The forecast error on total domestic debt payments increases over the years and disaggregated data point to major discrepancies, with no interest payment projected at all in the 2017 budget. Further, the cost of debt servicing appeared to be greater than expected for 2016 and 2017, which contributed to deteriorating the overall quality and credibility of the budget.

Table 3 Domestic Debt Service Forecasts and Actual 2015 – 2017^{1/} (billions of FG; unless otherwise indicated)

| | 2015 | | | 2016 | | | 2017 | | |
|---------------------------------|-------|-------|----------|-------|---------|----------|-------|-------|----------|
| | Proj. | Act. | Dev. (%) | Proj. | Act. | Dev. (%) | Proj. | Act. | Dev. (%) |
| Principal | 0.0 | 0.0 | ... | 0.0 | 467.1 | ... | 115.0 | 396.1 | 244.5 |
| Marketable debt | 0.0 | 0.0 | ... | 0.0 | 183.3 | ... | 115.0 | 183.3 | 59.4 |
| 2013-2015 consolidated advances | 0.0 | 0.0 | ... | 0.0 | 283.7 | ... | 0.0 | 212.8 | ... |
| Interest | 414.9 | 336.1 | -19.0 | 349.9 | 543.7 | 55.4 | 0.0 | 166.7 | ... |
| Marketable debt | 218.8 | 140.0 | -36.0 | 0.0 | 324.8 | ... | 0.0 | 22.0 | ... |
| 2013-2015 consolidated advances | 196.1 | 196.1 | 0.0 | 349.9 | 218.9 | -37.4 | 0.0 | 144.7 | ... |
| Total | 414.9 | 336.1 | -19.0 | 349.9 | 1,010.7 | 188.8 | 115.0 | 562.9 | 389.4 |

Sources: MEF; and WB calculations

As part of the government's annual budget preparation, debt service forecasts are provided in a timely manner. While the forecast error for external debt service is within the reasonably reliable range, the deviations for domestic debt are large. The score for Dimension 1 is D. It is downgraded compared to the earlier DeMPA evaluation for which the analysis of debt service projections was less comprehensive.

Dimension 2

Requirement for minimum compliance (C): Key macro variables (actual outcomes and forecasts) and a DSA that has been undertaken by the government within the past three years are shared with the principal DeM entity (or DeM entities).

As mentioned above, the MPCCI prepares regularly medium-term macroeconomic forecasts (covering a five-year period). The responsibility lies with the National Directorate for Planning, Strategy and Cooperation (DNPSC). These forecasts are prepared based on a macroeconomic model (*modèle de simulation pour l'économie guinéenne* – MSEGUI). Projections include a baseline scenario and two alternative scenarios modeling a low and high case. The Technical Committee for the Macroeconomic Framework (CTCM)¹²-created in December 2016 and recently operationalized with a first meeting taking place in March 2018¹³-validates the forecasts. Based on the results of MSEGUI, the DNPSC produces reports on the medium-term macroeconomic framework. A first comprehensive report was produced in September 2017, followed by a second in March 2018, which constitutes the basis for the 2019 budget preparation.

According to the Order 2014/057, the CNDP and its committee must analyze the sustainability of public debt and finance (Article 4) and approve the DSA prepared and submitted by the country working group

¹¹ Actual payments on other domestic debt are affected greatly by the fiscal regulation applied throughout the year and the limited availability of cash, which are factors beyond the control of the DNDAPD.

¹² The Committee includes members from various structures, such as tax administration, customs, budget, debt, public investment, the statistical office, agriculture, mines, public works, and BCRG.

¹³ The CTCM is operational thanks to the financial support of UNDP, which covers both logistic cost and the per-diem of the members.

(GTN) (Article 7). According to the Order 2015/6530, the GTN—headed by the Director of the DNDAPD—is responsible for the elaboration of the DSA (Article 3). The legislation does not indicate the expected frequency for the production of DSAs.

The GTN, which includes staff from the structures involved in debt management¹⁴, received a EU-funded training in August 2015, during which it produced a DSA using the Debt Sustainability Framework and their own data. The mission received a copy of the analysis. Following the training, the DNDAPD has been using the template to analyze the impact of large projects on the solvency and liquidity indicators, notably the infrastructure projects associated with non-concessional financing (e.g. the construction of the Souapiti dam).

In the aftermath of the elaboration of the PNDES and prior to the Consultation Group meeting in Paris in November 2017, in 2016 the DNPSC also prepared a simplified DSA. This was with a view to analyzing the impact of the implementation of the investment plan in collaboration with the DNDAPD. The DSA examined mainly the levels and trajectories of solvency and liquidity indicators under the baseline assumptions. The mission did not receive a copy of this analysis.

The availability of key macroeconomic variables, the completion of a DSA by the Government within the past three years, and the involvement of DNDAPD in the process are positive developments. However, the preparation of a DSA is not yet an element of the budget preparation process. The dimension scores D. This dimension's assessment has remained unchanged compared to the 2008 DeMPA.

DPI-7 Coordination with Monetary Policy

| Dimension | Score |
|---|----------|
| Dimension 1: Clarity of separation between monetary policy operations and DeM transactions | D |
| Dimension 2: Coordination with the central bank through regular information sharing on current and future debt transactions and the central government's cash flows | B |
| Dimension 3: Extent of the limit of direct access to financial resources from the central bank | D |

Dimensions 1

Requirement for minimum compliance (C): *Monetary policy operations are kept formally separate from DeM transactions insofar as the central bank carries out DeM transactions as an agent of the central government. In addition, the central bank keeps the government and the market informed when transactions are undertaken for monetary policy purposes and when it transacts in the market as an agent on behalf of the central government.*

As a fiscal agent for the Government, the BCRG issues T-Bills (*bons*) and T-Bonds (*obligations*) for financing government expenditures (DPI 8 describes the issuance process).

The National Directorate for Treasury and Public Accounting (DNTCP) of the MEF is responsible for setting volumes for T-bill and T-bond issuance.

¹⁴ The Structures include the DNDAPD, the BCGR, the MPCI, DNTCP, DNB, and the National Directorate for Economic Studies and Forecast.

Formally, the fiscal agency role of the BCRG is defined in its 2017 Statutes¹⁵ (Article 35) and the Directive of 2017/075. The Statute (whose 2017 version is not yet uploaded on the website due to IT issues) stipulates that subject to a request from the MEF, the BCRG undertakes the following activities:

- Manages the issuance, placement, and management (i.e., by maintaining the registry and processing the payments) of short-term T-bills and medium-and long-term securities subscribed by account holders listed in the BCRG's books for themselves or on behalf of their customers;
- Manages the payment of coupons to the bearer and the redemption of the securities that are presented at its counters by registered account holders provided that the Public Treasury constitutes the necessary provisions beforehand; and
- Assists the Minister of Finance in negotiating external loan agreements for the account of the State or with its guarantee.

The BCRG may also issue short-term securities called "*Titres de Régulation Monétaire* (TRM) for monetary policy purposes with maturity of 7, 14, 91, 182 and 365 days. As confirmed by local banks, the nature of these securities is clear to investors, because of their different coding and different dates of issuances.

The BCRG has not issued TRM for the past one-year and a half. When the need to mop up liquidity arises, it favors adjusting the Banks' reserve requirements (reduced in March 2017 from 18 to 16 percent).

While the separation between monetary policy operations and debt management transactions appears to be clear from the side of the BCRG and the market, it is blurred from the MEF's side. Indeed, the Order 2011/6868 on the attributes and organization of the DNTCP allows it to participate in the elaboration of budgetary, monetary, and financial policies. This ability to influence interest rates creates a potential conflict of interest for the DNTCP as issuer of interest-bearing securities.

Although the fiscal agency role of the BCRG is clearly established in its Statutes and its bilateral agreement with the MEF, allowing the DNTCP to participate in the elaboration of monetary policies does not secure the full independence of the central bank. As a result, the minimum requirement is not met. The dimension scores D. The 2009 DeMPA scored A on that dimension, but it was conducted prior to the 2011 Order.

Dimension 2

Requirement for minimum compliance (C): *When relevant for monetary policy implementation, there is at least monthly information sharing on current and future debt transactions and central government cash flows with the central bank.*

The MEF has regular formal and informal information exchange with the BCRG.

There are monthly coordination meetings between the MEF and the BCRG at the management level, called the Treasury Committee (Order 2010/0932)¹⁶, and weekly coordination meetings on Friday morning at the

¹⁵ The new BCRG law aimed at reducing fiscal dominance in the relation between the Government and the central bank following the issuance of BCRG guarantees on behalf of the Government.

¹⁶ The Treasury Committee is headed by the Prime Minister, and includes the Minister of Finance, the vice-President, the Minister of Budget, the Minister of Mines, Secretary General of the Presidency, the Governor of the BCRG, the Director for Treasury, the Director of Cabinet in the office of the President, and two advisors to the President.

technical level (Order 2017/060), called the CACT. The weekly meeting gathers all the structures involved in the planning and execution of revenues and expenditures and the management of liquidity¹⁷.

The Treasury Department prepares an annual cash-flow plan organized by month. This plan was attached to the 2018 budget law for the first time. It updates the quarterly cash-flow plan based on spending commitments and financing resources transmitted by the DNB and the debt service forecasts provided by the DNDAPD. The Treasury Committee analyzes the proposed plan, proceeds to arbitration of spending commitments, should it be necessary, and validates it. The Treasury Department finalizes a quarterly domestic auction calendar organized by month, and submits to the BCRG for coordination and publication purposes.

The Technical support group for TC, which meets every week, analyzes the outcome of the preceding week, proposes corrective actions if needed, and revises the cash flow plan for the coming week. Any revisions made have also an impact for the remaining weeks of the month. In the context of these meetings, the DNDAPD provides possible revisions to the debt service forecasts. As the amount of expenditures (notably, domestically-financed investment expenditure) is the adjustment variable, there is no unexpected surge in borrowing that can disrupt the achievement of monetary policy objectives.

The BCRG confirmed that the information provided by the MEF is of good quality, and allows them to prepare their own liquidity forecast.

In summary, the practice of weekly liquidity management meetings is an effective coordination mechanism to support monetary policy implementation. The second dimension scores B. The downgrade of the rate relative to the 2008 DeMPA (which was A) is only a reflection of a change in the 2015 methodology. The latter imposes that the exchange of information takes place on a daily basis for an “A”, as opposed to a weekly basis in the previous DeMPA.

Dimension 3

Requirement for minimum compliance (C): Access to financing from the Central Bank has a ceiling limit imposed by legislation

The access of the Government to BCRG temporary financing is defined in BCRG Statutes. According to Article 36, the limit on advances is 5 percent of the annual average of three previous years of fiscal revenues, excluding grants, for a maximum length of 92 days. This rule is occasionally in violation. The MEF and the BCRG are expected to sign a memorandum of understanding shortly, in which the MEF expresses its strong commitment to respecting the rule.

It has also to be noted that the LORF prohibits that the BCRG provides any form of direct or indirect financing to the Government (Article 72). However, its implementing decree indicates that the BCRG may provide short-term financing, contradicting the governing law.

Given that the Government exceeds the limit of BCRG advances permissible under its Statutes, the score for this dimension is D. The score relative to the 2008 DeMPA remains unchanged.

¹⁷ It is headed by the Chief advisor to the Minister of Finance, and includes the advisor to the Prime Minister, the vice-President, the Treasury Director, the Director for the monetary and credit policies at the BCRG and National directors for the budget, the debt, the collection departments, the financial control, and the investments.

4.3. 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 preparation of an annual plan for the aggregate amount of borrowing in the domestic market, divided between the wholesale and retail markets; and the publication of a borrowing calendar for wholesale securities | D |
| 2. The availability and quality of documented procedures for borrowing in the domestic market and interactions with market participants | C |

Dimension 1

Requirement for minimum compliance (C): *The central government raises funds domestically using market-based instruments to fund the projected borrowing requirement. An annual borrowing plan for the projected aggregate amount of domestic borrowing—divided between the wholesale and retail markets and other sources—is prepared. In addition, a borrowing calendar that contains issue dates and instruments for wholesale securities for the following month is prepared and published at least one week ahead of the start of the month.*

According to the 2017 Annual Activity Report of the MEF, marketable debt in the form of government bonds and bills comprised approximately 25% of total domestic debt (excluding arrears) at the end of 2017 with an outstanding stock of GFN 3,776 bn. (approximately USD 377 million). The large majority of securities outstanding are in the form of Treasury bills (GFN 3,070 bn) although the Government has recently issued two 3-year fixed rate amortizing bonds, targeted principally at the retail sector. The first bond, issued in July 2015 raised GFN 550 bn, while the second in April 2017 raised GFN 500 bn. The bonds were syndicated through five arranging banks, including a lead arranger, and marketed to investors as borrowing to support the maintenance of the electricity and road networks. Insurance companies, small business, micro-finance institutions and individuals participated in the sales, mobilizing new sources of finance for the government.

The majority of government bills are sold by weekly auctions managed by the BCRG, the major participants of which are the 15 commercial banks. Auctions are conducted electronically in the form of multiple-price, sealed-bid. Monthly instructions from the Treasury to the BCRG specify the amounts of 28-, 91-, 182 – and 364-day bills to be issued, subject to the Treasury’s current and future cash needs. Monthly totals are converted into weekly issuance plans by the BCRG to reflect liquidity conditions, the discussions at the monthly Treasury Committee and weekly updates of the Technical support groups (as described in DPI 7). The auction is announced to bidders¹⁸ each Monday, specifying the amount on offer per instrument. The bidding window opens at 09:00 and closes at 15:00 (14:30 during Ramadan) each Wednesday. At the auction close the bids are allocated automatically within the auction system using a rule of lowest to highest bid yield until the amounts on offer are filled. Any unfilled demand for a Treasury Bill is rolled forward to the next auction. Auction results are made available to participants automatically within the auction system shortly after the close.

Planned annual net issuance of T-bills is published in the annual budget. The annual Treasury Plan, the first of which was annexed to the 2018 Budget, also provides a monthly borrowing schedule disaggregated into

¹⁸ Only the banks that have access to the BCRG auction system, can bid directly.

planned gross and net issuance of T-bills. The indicative totals may change as a result of variations in the underlying budget against target and variability in the Treasury's short-term cash needs. An indicative calendar of planned monthly issuance for each T-bill maturity is then updated for the quarter ahead and published on the MEF website. Precise auction amounts per instrument, the auction timing and the system of bidding are published in a notice on the BCRG website 2 days in advance of the auction, as well as emailed by BCRG to auction participants.

With regards to marketable debt, the minimum conditions for Dimension 1 are considered to have been met, as Treasury bills are sold through competitive auctions at which the government is a price taker, while bonds are sold through syndications in which the government accepts the volume bid, subject to a pre-announced coupon. Also the publication in 2018 of the annual Treasury borrowing plan detailing monthly gross and net T-bill issuance meets the minimum criteria. However, marketable debt represents only 25% of total domestic borrowing. The majority represents arrears and borrowing from the central bank for which there is neither plan nor transparency. In consequence the rating is D, unchanged from a D in the 2008 DeMPA.

Dimension 2

Requirement for minimum compliance (C): *Borrowing procedures for all domestic borrowing as well as terms and conditions and criteria for access to the primary wholesale market and retail market are provided in print media or on the central government or the central bank web sites.*

The second dimension assesses the availability and content of documented borrowing procedures in the domestic market, to ensure transparency of the terms and conditions of government issuance.

Comprehensive details of the Treasury-bill program, including instrument characteristics bidding rules, market conventions and settlement procedures are published in Instruction 075/DGCC/DPMC/2017 that has been circulated by the BCRG to market participants (publication on the BCRG website has been delayed due to IT issues).

Borrowing procedures for the 3 year bonds issued by the Government in 2015 and 2017 fall under the governance and supervision of the BCRG. Instruction 51 (2015) details the content of the public Prospectus for investors, as well as the requirement to appoint a financial institution to lead a syndicate tasked with placing the bonds with investors.

At the highest ratings, Dimension 2 also covers interaction with market participants, who would regularly be consulted on the direction of the program and the development of the domestic market. The DNDAPD has recently reached out to banks and investors in the context of its medium-term bond issuance, though it is judged premature to conclude that regular contact with investors has been sustained.

Prior to the introduction of electronic auctions, the BCRG met the commercial bank investors in T-bills regularly, as they came to physically deposit their sealed auction bids. Now the BCRG Governor and directors meet bank directors quarterly to discuss a wide range of issues relating to monetary policy, credit conditions and balance sheet though public debt issuance is not specifically on the agenda.

The minimum conditions for Dimension 2 are considered to have been met owing to the public availability of borrowing procedures and the terms and conditions of sale for both auctions and bond syndications, score C. The higher scores are not judged to have been met as there is no annual or quarterly schedule of meetings

to exchange views with investors on borrowing plans and the domestic market. The recommended score of C compares with the D in the 2008 DeMPA.

DPI-9 External Borrowing

| Dimension | Score |
|--|----------|
| 1. Documented assessment of the most beneficial or cost-effective borrowing terms and conditions (lender or source of funds, currency, interest rate, and maturity) and a borrowing plan | D |
| 2. Availability and quality of documented procedures for external borrowings | D |
| 3. Availability and degree of involvement of legal advisers before signing of the loan contract | C |

Dimension 1

Requirements for minimum compliance (C): A yearly borrowing plan for external borrowing is prepared and assessments of the most beneficial or cost-effective terms and conditions for external borrowing that are obtainable from potential creditors and markets are conducted annually.

Most of external borrowing is directed towards funding public investment projects, and the PIP is the tool used to mobilize resources. Most projects are related to social and infrastructure development, which accounted for 63 percent of external borrowing in 2016 and nearly 90 percent¹⁹ of the total external borrowing in 2017. In addition, the IMF, the WB, the EU, and France provide or have recently provided budget support. The totality of the financial resources committed from these sources should close the budget financing gaps until 2020.

The priority of debt management is to maximize concessional borrowing and to limit the recourse to non-concessional borrowing, subject to a predetermined cumulative amount of US\$650 million²⁰ until 2020, to finance specific infrastructure projects (i.e. four projects that have already been identified).²¹ The Government is borrowing exclusively from multilateral and bilateral sources, and financing options remain limited. During the Consultative Group meeting, donors express their interest for specific areas and projects. The Government has not issued yet in the international capital markets, and does not plan to do so in the medium term.

As mentioned under DPI-2, the MPCPI is responsible for the formulation the economic development plan of the government (the PNDES). The PNDES has been transposed into a National Investment Plan, and translated into medium-term and an annual Public Investment Programs (PIP). The PIP is a rolling triennial program attached to the budget law. The National Directorate for Public Investment (DNIP) within the MP is in charge for the coordination of all projects and project related-financing, and the centralization of all related information. It is currently working on the 2019-2021 PIP.

¹⁹ Source: Guinea 2017 Debt Statistical Bulletin, Page 3 (forthcoming).

²⁰ The amount excludes the US\$1.2 billion non-concessional loan for the construction of the Souapiti dam.

²¹ Projects included the rehabilitation of the RN1 national road, the rehabilitation of the road system in Conakry, the construction of the Lisan-Fomi-Kankan electricity transmission line; and rehabilitation of the university.

When a line ministry or the MPCCI has identified a possible source of financing for the implementation of a specific project, they submit a funding request to the DNDAPD. This request features the financial conditions, as well as feasibility and the environmental impact studies. The DNDAPD assesses the rate of concessionality of the proposed terms²² and the impact of the resulting debt service on total debt service, and reviews the feasibility and the environmental impact studies. For large projects, it also analyzes the impact of the debt and the resulting debt service on the solvency and liquidity indicators using the DSA model. If the rate of concessionality fails to meet the requirement of 35 percent, the financing is rejected²³, unless the projects falls within the category of projects that can be financed by non-concessional terms. If the terms appear to be more expensive than normally provided by the creditor, the DNDAPD engages with the creditors to negotiate the terms of the loan. Upon confirmation of the terms by the creditor, the DNDAPD analyzes the suspensive conditions related to the first drawing. Once satisfied with the proposed terms, it drafts a technical note to advise the Minister of Finance.

An annual external borrowing plan, including the planned disbursements for the fiscal year, should be prepared and annexed to the budget law (as required by the LORF, Article 49). Currently no such plan is produced although, according to the DNB, the DNIP has both a list of investment projects and the associated financing and should be able to prepare a plan.

Although the public financial environment is constrained (i.e. concessional financing driven by a consultation framework in which most of the terms of donors are given and not subject to negotiation), and the DNDAPD may not be in a position to negotiate greater concessional financing, the methodology requires the country authorities to assess the most beneficial borrowing terms. The absence of an annual external borrowing plan poses an additional obstacle to meeting the minimum requirement for dimension 1. Therefore, this dimension scores D. The rating has been downgraded in respect to the 2008 DeMPA when the annual borrowing plan used to be prepared by the Budget Investment Committee.

Dimension 2

Requirements for minimum compliance (C): Adequate and readily accessible internal documented procedures exist for all external borrowings, including from international capital markets, and contain the requirement to enter all financial terms of the loan transaction into the debt recording system within three weeks of signing.

The process for negotiating and signing external loans is well established. The DNDAPD acts as the head of the negotiation team, except for three creditors for which the Legal Services of the MEF acts as the head (see dimension 3 of this indicator). Once there is agreement in principle on a specific loan between the donor and the Government, a delegation for the loan negotiation is established, and may include staff from the MPCCI and the line ministry. For budget support, the delegation will comprise of members of the MEF and MB.

Staff involved appears experienced and familiar with all elements of the process. The procedure manual details very well the different stages of the borrowing process, the staff involved in the process and the tasks they are expected to complete within a timeframe It indicates—among other elements—that all financial terms of the loan transaction must be recorded (page 90). In practice, loans are entered into the

²² The principle related to the concessionality rate is embedded in the criteria set under the IMF program.

²³ The DMO shared with the mission several refusal letters signed by the Minister of Finance.

debt database no more than two weeks after being signed, even if the National Assembly has not yet ratified them; however some of the key information is not recorded, including commission fees.

The formulation of a procedure manual is a welcoming development. However, despite its implementation, all the terms of the loans are not recorded. Thus Dimension 2 does not meet the minimum requirement, and scores D. There is no change in the evaluation of this indicator compared to 2008 DeMPA report.

Dimension 3

Requirements for minimum compliance (C): Legal advisers approve all clauses of the legal agreements before concluding the negotiation process.

The Legal Unit of the MEF is involved in all loan negotiations, and provides a legal opinion for all draft loan agreements. The legal opinion is a confirmation that the loan terms are in line with the governing rules and regulations of Guinea. The process is the same whether the loan is project-related or budget support. The advisor writes a note covering the legal aspect of the draft loan agreement, and is attached to the technical note prepared by the DNDAPD. The memorandum is forwarded to the Minister of Finance for review before the loan negotiation process is concluded, and the loan agreement signed. The loan agreement is sent to the National Assembly for validation and to the Constitutional Court for the issuance of a compliance notice. The President then issues a Decree for ratification and promulgates the loan agreement as a law.

For draft loans negotiated with the WB, the EU and the AFD, the legal advisor joins the negotiations at the beginning of the process. For the negotiations with the WB, he acts as the head of the negotiation team, while for the EU and the AFD, his presence from the first stage of the negotiation process follows a request from both donors. For other loan agreements, the DNDAPD acts as the head of the negotiation team, and the legal advisor intervenes towards the end of the process. This is also due to the fact that draft loan agreements have so far been relatively standard.

The Legal Unit participates systematically in all loan negotiation processes, but towards the end of the process for some of the loans. Therefore, the practice meets the minimum requirements, and the score for dimension 3 is C. A higher score would require that legal advisers be consulted systematically during all stages of the negotiation. This is a better score than that given in the 2008 DeMPA, reflecting an improvement in this area.

DPI-10 Guarantees, On-lending and Debt-related Transactions

| Dimension | Score |
|--|-------|
| 1. Availability and quality of documented policies and procedures for approval and issuance of the loan guarantees | C |
| 2. Availability and quality of documented policies and procedures for on-lending of borrowed funds | D |
| 3. Availability of a DeM system with functionalities for handling derivatives and availability and quality of documented procedures for the use of derivatives | N/A |

A new law 2016/075 on financial governance of public institutions does not allow public enterprises to borrow or issue debt obligations (Article 65)²⁴.

Dimension 1

Requirement for minimum compliance (C): *There are documented policies and procedures for the approval and issuance of loan guarantees.*

The LORF and the implementing decree 2013/015 governs the issuance of guarantees (Articles 45 and 41, respectively). It specifies that guarantees must be authorized by Decree signed by the Minister of Finance, within a limit set out in the budget law, after consultation of a committee comprised of the Governor of the BCRG, the line ministry, and the President of the public finance commission of the National Assembly. When the guarantee is granted, a budget expenditure corresponding to the amount of the guarantee is to be charged to the budget of the Minister of Finance. The LORF fixes the maximum term of loans at 10 years, and specifies that the rate of interest charged must not be lower than the cost to the government of borrowing at a similar maturity. Guarantees must be of maximum maturity 5 years.

The manual of procedures guides also the procedures and processes related to guarantees, in particular the approval and issuance of guarantees (pages 102-104); monitoring of disbursements (page 104), the evolution of the project to be implemented and the repayments of the loan (pages 104-107). When examining the request for a guarantee, the procedure requires that the credit risk be analyzed, especially by assessing the economic and financial performance of the potential beneficiary, as well as its expected financial resources. However, the manual fails to indicate how these assessments should be conducted, and does not require that the risk credit be monitored and a fee covering the credit risk be applied (including the methodology to derive the fee).

The Government has two guarantees outstanding, for the clearance and rescheduling of arrears accumulated by the Guinean Electricity Company (*société guinéenne d'électricité*) and the Guinean Water Company (*société guinéenne des eaux*) vis-à-vis the AFD, granted prior to the decree 2013/015.

Despite the presence of the above described policies and procedures, the arrangement of government guarantees by the BCRG to commercial banks in 2015²⁵ contradicts them. As a result, this Dimension is rated D, which reflects the same score as in 2008.

Dimension 2

Requirement for minimum compliance (C): *There are documented policies and procedures for the approval and lending of borrowed funds.*

²⁴ Public enterprises are allowed to manage their cash flow and use short-term financing instruments provided by commercial banks upon prior consent from the CNDP (Article 66). For any other financing beyond 12 months of maturity—regardless of the purpose or the creditor—must be authorized by the CNDP based on a report prepared by the Minister of Finance (Article 67). Public institutions may benefit from loans and guarantees from the State (Article 68).

²⁵ BCRG issued guarantees during 2014 and 2015 to local and foreign banks on behalf of 12 local and foreign private companies executing public works contracts to help them secure commercial bank loans. The total value of the contracts was equivalent to 15 percent of GDP, of which 85 percent benefited from BCRG guarantee. However, the selection process of the beneficiaries lacked transparency, and part of the guarantees were later restructured or cancelled.

The 2013 implementing Decree of the LORF on General regulation on budget management and public accounting indicates that on-lending activities are discontinued in favor of guarantees.

Two on-lent loans – in favor of the Autonomous Port of Conakry and the SOGEAC (the company which manages the airport of Conakry) - are still on the books of the central government. The DNPEIP of the MEF is responsible for monitoring their debt service and payments, and analyzes regularly the financial situation of these two SOEs. Considered as revenue for the central government, there is a specific budget line for the recording of the payments due.

This Dimension is rated N/A. On-lending activities are prohibited by law. Compared to the 2009 DeMPA, the different rating is due to the introduction of the LORF.

Dimension 3

Requirement for minimum compliance (C): *There is a DeM system with functionalities for handling derivatives. In addition, there are documented procedures for the use of derivative transactions.*

Financial derivatives are not used, and the dimension is not applicable, N/A. This the same rating as in the 2009 DeMPA.

4.4. 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. Decision of a proper cash balance (liquidity buffer) and effectiveness of managing this cash balance in government bank accounts (including the integration with any domestic debt borrowing program, if required) | D |

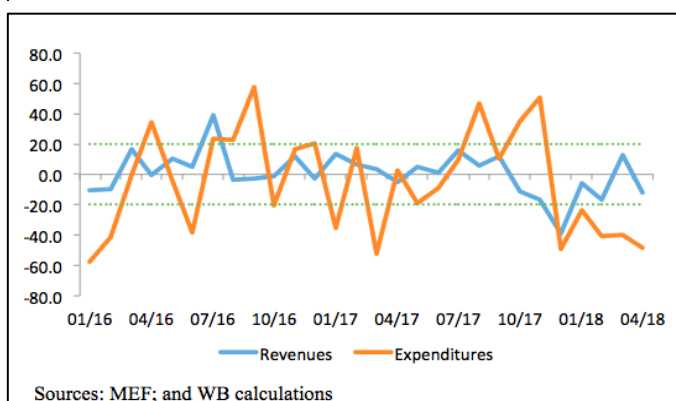
Dimension 1

Requirement for minimum compliance (C): *Reasonably reliable monthly aggregate forecasts of cash inflows and outflows and cash balances on central government bank accounts are produced for the budget year and are made available to the DeM entity. In addition, the cash balance forecast is updated monthly.*

The DNTCP of MEF is responsible for the formulation of the treasury management policy, the elaboration of, and control over cash flow plans (Order 2011/6868).

The DNTCP prepares a monthly cash flow plan for the budget year in line with the budget law and the annual auction calendar. The cash flow plan was attached to the 2018 budget law for the first time. The plan takes into account the seasonality of revenues and expenditure.

Figure 4: Forecast errors for revenues and expenditures, 2016-2018, in percent



The DNTCP updates the cash flow plan, which is submitted to the approval of the Treasury Committee. It is then organized in weeks. An updated weekly plan—prepared by the DNTCP based on most recent data on expected inflows and outflows of cash provided by the DNB (revenues, expenditure, and budget support) and the DNDAPD (debt service)—is discussed and validated during the weekly meeting of the CACT (see DPI-7).²⁶ The DNTCP is responsible for its implementation. It follows closely the cash balance on a daily basis, and communicates it to the Minister of Finance at the end-of-the-day. In the absence of an effective system, the DNTCP manages cash forecasting in Excel files.

Table 4: Forecast errors above 20 percent

| | 2016.0 | 2017 | 2018 | Average |
|------------------------|--------|------|-------|---------|
| Revenue | 8.3 | 8.3 | 0.0 | 5.6 |
| Expenditure | 75.0 | 66.7 | 100.0 | 75.0 |
| Number of observations | 12.0 | 12.0 | 4.0 | ... |

Sources: MEF; and WB calculations.

As shown in Table 4 and Figure 4, forecast errors for expenditures are very large and volatile considering data for the years of 2016, 2017 and the first four months of 2018. With a standard deviation of 35%, forecast errors for expenditures range from -58 percent (January 2016) to +58 percent (September 2016). In addition, 21 forecast errors for expenditures out of a total of 28 observations exceeded 20 percent, equivalent to 75 percent of the sample, against 6 percent for revenues during the same period. This demonstrates that budget execution is difficult, and there is better control over revenues than expenditures.

The roots of the problems are diverse. The budget in place is not realistic. Procurement budgets are often underestimated. There is unpredictability in some payments as there is insufficient control over expenditure commitments and the emergence of large unexpected expenditures (which is against the LORF).

The DNTCP is often faced with cash shortage. Expenditures are delayed leading to the accumulation of domestic payments arrears, or advances from BCRG are used beyond the legal limit. In both cases, it leads to the accumulation of non-negotiable debt. The cash balance is continuously in a deficit position.

The quarterly calendar for T-bill issuance - established prior to the start of the quarter and submitted to the BCRG for publication - is not revised at the weekly meeting of the CACT.

The DNTCP centralizes the balances of the Treasury accounts daily. It has information on all the account balances of the key accountants for revenues (from the “*receveur central du trésor*”) and expenditures (from the “*payeur général du trésor*”). These key accounts feed the Treasury Single Account (TSA) on a daily basis. However, the TSA is not yet fully operational (which does not comply with Article 43 of the LORF). All the government accounts do not yet feed the TSA. The DNTCP has, nevertheless, an e-connection granting a direct access to all its accounts held at the BCRG.

Monthly aggregate forecasts of expenditures are not reliable, thereby affecting the forecasts of the cash balances. Both the operationalization of the TSA and a weekly revision of the T-bill issuances will provide the DNTCP room for maneuver, and help it greatly in smoothing out payments.

This Dimension scores D, and remains unchanged compared to the 2008 DeMPA.

Dimension 2

Requirement for minimum compliance (C): *Issuance of short-term instruments is planned according to the forecast of monthly cash balances. In addition, the central government manages its surplus cash (that*

²⁶ The cash flow plans are established net of externally-financed capital expenditures.

is, cash in excess of the target) through investment in the market in line with appropriate credit risk limits or with the central bank at market-related rates.

The DNTCP does not have either an active cash management framework and or an investment plan for the excessive cash balance (the cash balance position is continuously in a deficit position, which also contradicts Article 43 of the LORF). In the same vein, there is no explicit cash balance target set by the Government; the strategy being to cover the committed expenditures rather than constituting deposits. Implicitly however, DNB creates a safety cushion by inflating monthly expenditures by 2 percent.

The minimum requirements for the second dimension are not met. This Dimension scores D, as prevailed in the 2008 DeMPA.

4.5. Debt Recording and Operational Risk Management

DPI-12 Debt Administration and Data Security

| Dimension | Score |
|---|-------|
| 1. Availability and quality of documented procedures for the processing of debt-related payments | C |
| 2. Availability and quality of documented procedures for debt and transaction data recording and validation, as well as storage of agreements and debt administration records | D |
| 3. Availability and quality of documented procedures for controlling access to the central government's debt data recording and management system and audit trail | D |
| 4. Frequency and off-site, secure storage of debt recording and management system backups | D |

Requirement for minimum compliance: *There is an adequate and readily accessible procedures manual for the processing of debt service payments which requires that (a) all payment notifications be checked with internal records before payments are made, (b) internal payment orders be subject to a minimum two-person authorization process, and (c) the payments be made by the due date.*

The recently approved procedures manual represents a commendable improvement in public debt management, as it sets out the steps, staff responsible, and description of each action in the loan cycle such as capturing disbursements, processing of debt service payments and debt payment validation. In particular, the procedures (page 99) ensure that (a) all payment notifications are checked with internal records before payments are made, (b) internal payment orders are subject to a process that requires two-person authorization (*chef de section* and *chef de division*, with the involvement of the Head of DNDAPD in case of inconsistencies) before being sent to the Treasury and (c) the payments be made by the due date. These procedures are followed by the DNDAPD and no delays in payments have occurred in the last years.

As for the marketable domestic debt, payments are made through the RTGS system (real time gross settlement system), following well established procedures.

In light of the above, a score “C” is assigned for this dimension, which is an improvement on that in the 2008 DeMPA. Since internal payment orders are not prepared electronically, and the procedures manual is formally reviewed at least every second year, this rating cannot be higher.

Dimension 2

Requirement for minimum compliance: *There are readily accessible procedures manuals for debt data recording and validation, as well as for storage of agreements and debt administration records, which require that (a) accuracy of debt data entries be separately checked before the entries are deemed to be completed; (b) debt data be constantly validated against received payment notifications; (c) all original, signed copies of loan and derivative agreements be stored and filed in a secure location where the documents are protected from incidents such as theft, fire, flood or other incidents that may damage or destroy any of these records; and (d) all debt administration records be kept in a secure filing system.*

The procedure manual does not contain specific guidelines as for debt data recording or data accuracy verification. It does require the loan agreements to be filed - though this is not systematically done by the DNDAPD which has only part of the documents available - but not scanned and stored on a server.

The offices of the MEF are not subject to security checks and controlled access and – although the DNDAPD staff can lock their rooms and cabinets - this is considered insufficient to ensure that all original loan/on lending agreements and debt administration records are kept in a secure filing system to protect from incidents such as theft, fire, flood or other incidents that may damage or destroy any of these records.

The external debt database is an Excel file saved on the PC of the Head of the External division, who shares it with his staff for updates and validation, while personally maintaining the “master” version. This creates an evident operational risk, related to version control, presence of multiple databases and exposure to possible file corruption.

Because of this and the lack of secure facilities, the minimum requirements for Dimension 2 are not met, and therefore scoring a “D”, which is same score as for the 2008 DeMPA.

Dimension 3

Requirement for minimum compliance: *There are documented procedures for controlling access to the central government’s debt recording and management system.*

The level of security attached to the current debt recording arrangements is very weak, resulting in serious risk of manipulation or loss of debt records.

The Head of the External debt division is “de facto” the system administrator, as he keeps the “master” copy of the Excel debt files and performs activities such as validation, generation of reports, corrections and updates when other staff in the area are absent. The Excel file containing the debt database is often circulated through flash-drives and access is not password-protected. Only the computers containing the files are protected by passwords, but the file is often saved also in private laptops.

The process of assigning, modifying, and approving user rights is not documented. No audit trails – showing who has accessed the system, the time they accessed it and the activities performed - are available, or any official back-up of the “master” database is performed

In consideration of the above, the minimum requirements for Dimension 3 are not met, and therefore scoring a “D”, which is same score as for the 2008 DeMPA.

Dimension 4

Requirement for minimum compliance: *Debt recording and management system backups are made at least once per month and stored in a separate secure location where they are protected from incidents such as theft, fire, flood or other incidents that may damage or destroy any of these back-ups.*

According to the DeMPA, debt recording and management system backups should be made frequently and backups should be stored in a separate and secure location.

No backup is in place for the debt records. The database is only saved on an “ad-hoc” basis on staff PC or personal laptops by the Head of External Division. The process of taking the back-ups home is not considered to secure storage and ensure protection from incidents such as theft, fire, flood or other incidents that may damage or destroy any of these back-ups. This can be achieved by storing offsite in a secure data center or in a locked safe. The minimum requirements for Dimension 4 are not met and therefore scoring a D, which is same score as for the 2008 DeMPA.

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 | C |
| 3. Presence of an operational risk management plan, including business continuity and disaster recovery arrangements | D |

Dimension 1

Requirement for minimum compliance: *There is clear separation between the debt managers with the authority to negotiate and contract, those responsible for arranging payment, and those responsible for recording and accounting for these transactions. The staff members entering data and checking data entries in the debt recording system are different as well as to ensure that there is a separate risk monitoring and compliance function.*

As the DeMPA stipulates, segregation of duties is one of the most important parts of an effective internal control system for any financial activity. Strong operational controls and well-articulated responsibilities for staff members will reduce the risk of errors, policy breaches, and fraudulent behavior. These can potentially lead to significant losses to the government and tarnish the reputation of not only of the DNDAPD, but the whole government.

An embryonal organizational separation between the authority to negotiate public debt and responsibility for transaction accounting is in place, since the former is usually conducted by the head of the DNDAPD, whilst the back-office staff are responsible for debt recording. However, the Head of External Division is sometimes involved in loan negotiations, and validates or overwrite debt records.

A clearer separation of duties is achieved at the payment level: when the creditor’s notice is received, payments are initiated by the back-office staff responsible for that specific creditor, and the head of the External Debt Division validates the payment request before sending it to the Treasury.

There is no staff in charge of compliance monitoring. Its primary function should be to monitor whether all government DeM operations are (a) within the authorities and limits set by government policies, (b) in compliance with statutory and contractual obligations, and (c) within the risk parameters included in the approved debt strategy, once this is approved.

Since a principle of segregation of duties is not fully applied in debt negotiation, recording and payment, the minimum requirements for Dimension 1 are not met, therefore scoring a D, which is the same score as in the 2008 DeMPA.

Dimension 2

Requirement for minimum compliance: *There are sufficient and adequately trained staff members with formal job descriptions that are reviewed and updated periodically.*

There are currently 62 staff working in DNDAPD and their number is expected to rise to 80 within the coming years. The DNDAPD staff currently comprises: 1 Director General, 1 Deputy Director General, 4 Heads of Divisions, 8 Heads of Service (e.g. HR, IT, audit, etc.), 1 coordinator of the team in charge of *Fonds Européenne de Développement*, 1 Head of the Administration, 38 officials and support staff.

The Ministry of Public Administration (*Ministère de la Fonction Publique*) recruits public servants and allocates them to the different Ministries. The Human Resources Dept. of the MEF distributes them to the different Directions within the MEF.

The salaries of public officials are not competitive in the market and may jeopardize the recruitment of experienced and knowledgeable staff. Departures to the private sector are not frequent, but the turn-over within the MEF is quite significant. The Head of DNDAPD is informed about the reallocation of its staff only ex-post and has to replace them by selecting MEF personal without permanent assignment or recruiting staff from other Directorates.

An annual training plan is developed by a Service of the Human Resources responding to the Ministry, but its implementation is constrained by the limited budget allocated. An agreement is in place with ENARES (*Ecole Nationale des Régies Financières*) in Burkina Faso for long term training programs. Technical assistance and regular training (national and regional workshops) are provided by IMF/AFRITAC, WB and US Treasury.

The procedures manual contains formal job descriptions. There is no Code of Conduct on Ethics and Conflict of Interest specific for DNDAPD staff, although a code of conduct is applicable to all public servants and enforced by the Discipline Conseils (the first level is at the line Ministry, the second – for more severe breaches - is at the Ministry of Public Administration)

The assessment concludes that -despite the dispersion and potential overlapping of functions– the DNDAPD has sufficient staff that have been adequately trained given the assistance provided by donors. Therefore, a score “C” is assigned for this dimension, which is a better score the one given in the 2008 DeMPA, reflecting the improvements in this area. Given the lack of a code-of conduct and conflict-of-interest guidelines, this rating cannot be higher.

Dimension 3

Requirement for minimum compliance: *There is a written business-continuity and disaster-recovery plan.*

As no plan for business continuity and disaster recovery has been prepared for DNDAPD (or MEF), the minimum requirements for the third dimension are not met and the score is “D” as in the last DeMPA exercise.

DPI-14 Debt Records

| Dimension | Score |
|--|-------|
| 1. Completeness and timeliness of central government records on its debt, loan guarantees, and debt-related transactions | D |
| 2. Complete and up-to-date records of all holders of government securities in a secure registry system, if applicable | A |

Dimension 1

Requirement for minimum compliance: *There are complete debt records within a three-month lag for central government domestic, external, and guaranteed debt, as well as all debt-related transactions, including past debt relief and debt restructuring.*

The Commonwealth Secretariat Debt Recording and Management System (CS-DRMS) was installed in 2008 but discontinued in 2015, due to installation problems when the MEF server were replaced, and lack of IT maintenance. The update of the system has not been requested so far for lack of funding and because the most recent version of CS-DRMS is not translated into French. Consideration is given to adopting the Debt Management and Financial Analysis System (DMFAS), provided by UNCTAD. In the meantime, the DNDAPD is relying entirely on Excel spreadsheets for the recording of external debt. This does not correspond to best practices, particularly when the portfolio is composed of a significant number of instruments (180 active), resulting in time-consuming manual data-handling and related operational risks.

The Excel spreadsheets contain the outstanding amounts and the financial terms for each external loan, with monthly and yearly projections. However, useful reports like loans’ amortization tables or a comprehensive schedule of daily repayments are not available to the DNDAPD. Outstanding amounts are updated manually against payments and disbursement notices from the creditors. No audit is in place.

This arrangement not only expose the DNDAPD to operational risk, but also make it difficult to produce historical statistics, as debt records are continuously updated. This is proved by the significant delays in submitting the templates for the WB’s Debt Recording System. Analytical exercises are also jeopardized by the absence of a single database for the whole debt portfolio (external and domestic).

Given the lack of a comprehensive debt recording system (external, domestic and guarantees), the minimum requirements for the third dimension are not met and the score is “D” as in the last DeMPA exercise. Additional constraints are related to the limited reporting facilities and the absence of some key data-entry information (e.g. loan amortization table).

Dimension 2

Requirement for minimum compliance: *The registry system has up-to-date and secure records of all holders of government securities.*

The BCRG manages the domestic securities through an electronic central depository system (CDS - “*Depositaire Centrale de Titres*”), installed in 2016 thanks to a BAD project. Bills and bonds (starting from the second issuance in 2015) are automatically paid at maturity using an RTGS (Real Time Gross Settlement) system that automates front to back processing, from bid collection, allocation of successful bids, preparation of the announcement of results, purchase confirmations, payment, and securities settlement. At the end of every auction, Treasury is immediately credited and participating Banks are debited on their account at the BCRG

In the absence of a secondary market, securities can be discounted at the Central bank or commercial banks. Thanks to the CDS, BCRG has an up-to-date and secure records of the custodian institutions holding government securities. These entities provide regular statistics on the securities’ final holders to the BCRG for statistical reporting purposes.

BCRG operations and CDS records are audited both internally by the risk management and audit unit (every quarter) – and externally by KPMG (every semester).

In light of the above, all the condition for an A rating (i.e. securities dematerialized and kept in a central registry that has up-to-date and secure records of all holders of government debt; audit of internal controls and management of operation risk every two years) are met.

Annex 1: Meetings held during the DeMPA mission

| Wednesday 16 May 2018 | |
|-----------------------|--|
| 9h30-11h00 | Briefing Mission DeMPA |
| 11h-30-12h30 | Direction Nationale de la Gestion de la Dette et de l'Aide Publique au Développement |
| 14h30-16h00 | Direction Nationale du Trésor et de la Comptabilité Publique |
| 16h00-17h00 | Direction Nationale des études économiques et de la prévision |
| Thursday 17 May 2018 | |
| 9h00-10h 00 | Direction Nationale du contrôle Financier |
| 10h30-12h30 | Inspection Générale des Finances |
| 13h30-14h30 | Ministere du Plan |
| 15h00 -16h00 | Direction Nationale des Investissements Publics |
| Friday 18 May 2018 | |
| 9h30-10h30 | BCRG |
| 11h30-12h30 | Cour des Comptes |
| 13h30 16h00 | Ministere du Budget - Direction Nationale du Budget |
| Monday 21 May 2018 | |
| 9H-30-12h00 | Cellule Technique de Suivi des Programmes |
| 13h.30 -15h00 | Conseiller juridique |
| Tuesday 22 May 2018 | |
| 9h00 – 11h00 | Direction Nationale de la Gestion de la Dette et de l'Aide Publique au Développement (DND) (follow-up) |
| 11h30 - 13h30 | Societe Generale |
| 14H30 – 16h00 | Ministere du Plan |
| Wednesday 23 May 2018 | |
| 9h00 – 11h00 | BNP Paribas |
| 11h30 - 13h30 | BCRG - Adjudications |
| 14h30 – 16h00 | Direction Nationale du Trésor et de la Comptabilité Publique (follow-up) |
| 16h00-17h00 | Direction Nationale de la Gestion de la Dette et de l'Aide Publique au Développement (follow-up) |
| Thursday 24 May 2018 | |
| 9h 00-10 h00 | Ministere du Budget - Direction Nationale du Budget (follow-up) |
| 10h00 – 11h30 | Meeting with donors |
| 15h -17h30 | Wrap-up meeting |

Annex II: List of Meeting Participants

| Name | Title | Email |
|--|--|----------------------------------|
| <i>Ministère de l'Economie et des Finances</i> | | |
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