

EBS/00/246
Supplement 1

CONFIDENTIAL

December 21, 2000

To: Members of the Executive Board

From: The Secretary

Subject: **Guinea-Bissau—Poverty Reduction and Growth Facility—Three-Year Arrangement**

Attached for the records of Executive Directors is the text of the three-year arrangement for Guinea-Bissau under the Poverty Reduction and Growth Facility, as agreed at Executive Board Meeting 00/125 (12/15/00).

Att: (1)

Other Distribution:
Department Heads

Guinea-Bissau—Three-Year Arrangement Under the Poverty Reduction and Growth Facility

Attached hereto (see EBS/00/228, 11/14/00) is a letter (“the Letter”), with an annexed Memorandum of Economic and Financial Policy (“the Memorandum”) and Technical Memorandum of Understanding (“the Technical Memorandum”), dated November 13, 2000, from the Prime Minister and the Minister of Finance of Guinea-Bissau requesting from the International Monetary Fund, as Trustee of the Poverty Reduction and Growth Facility Trust (“the Trustee”), a three-year arrangement under the Poverty Reduction and Growth Facility, and setting forth:

(a) the objectives and policies of the program that the authorities of Guinea-Bissau intend to pursue during the three-year period of the arrangement;

(b) the objectives, policies and measures that the authorities of Guinea-Bissau intend to pursue during the first year of the arrangement; and

(c) understandings of Guinea-Bissau with the Trustee regarding reviews that will be made of progress in realizing the objectives of the program and of the policies and measures that the authorities of Guinea-Bissau will pursue for the second and third years of the arrangement.

To support these objectives and policies, the Trustee grants the requested three-year arrangement in accordance with the following provisions, and subject to the provisions applying to assistance under the Poverty Reduction and Growth Facility Trust.

1. (a) For a period of three years from December 15, 2000, Guinea-Bissau will have the right to obtain loan disbursements from the Trustee in a total amount equivalent to SDR 14.2 million, subject to the availability of resources in the Poverty Reduction and Growth Facility Trust.

(b) Disbursements under this arrangement shall not exceed the equivalent of SDR **8.12 million** until December 31, 2001 and the equivalent of SDR **11.16 million** until December 31, 2002.

(c) During the first year of the arrangement:

- (i) the first disbursement, in an amount equivalent to SDR **5.08 million**, will be available on December 15, 2000, at the request of Guinea-Bissau;
- (ii) the second disbursement, in an amount equivalent to SDR **1.52 million** will be available on May 31, 2001, at the request of Guinea-Bissau and subject to paragraph 2 below; and

- (iii) the third disbursement, in an amount equivalent to SDR **1.52 million**, will be available on November 30, 2001, at the request of Guinea-Bissau and subject to paragraph 2 below.

(d) The right of Guinea-Bissau to request disbursements during the second and third years of this arrangement shall be subject to such phasing and conditions as shall be determined. The phasing of, and conditions for, disbursements during the second year of this arrangement shall be determined in the context of a review of Guinea-Bissau program with the Trustee, the timing of which shall be established at the first review contemplated in paragraph 2(d) of this arrangement.

2. Guinea-Bissau will not request the second or third disbursement specified in paragraphs 1(c)(ii) and 1(c)(iii) above:

(a) If the Managing Director of the Trustee finds that, with respect to the second disbursement, the data as of December 31, 2000 and, with respect to the third disbursement, the data as of June 30, 2001, indicate that:

- (i) the ceiling on the cumulative change in net credit to the government from the banking system, or
- (ii) the ceiling on contracting or guaranteeing of nonconcessional external debt with original maturity of more than one year and up to fifteen years by the government, or
- (iii) the ceiling on contracting or guaranteeing of nonconcessional external debt with original maturity of one year or less by the government, or
- (iv) the primary current budgetary balance of the government,

specified in Table 2 of the Memorandum and in Section I, Items A, B, C and D of the Technical Memorandum was not observed; or

(b) If the Managing Director of the Trustee finds:

with respect to the second disbursement, that Guinea-Bissau has not carried out its intentions with respect to the adoption by the Cabinet of Ministers of an action plan for the BIGB by December 31, 2000 as specified in paragraph 39 and Table 2 of the Memorandum; or

(c) If, at any time during the period of the arrangement, Guinea-Bissau has:

- (i) imposed or intensified restrictions on payments and transfers for current international transactions, or

- (ii) introduced or modified multiple currency practices, or
- (iii) concluded bilateral payments agreements that are inconsistent with Article VIII, or
- (iv) imposed or intensified import restrictions for balance of payments reasons, or
- (v) incurred any new external payments arrears by the government; or

(d) Until the Trustee has determined, with regard to the second disbursement, that the first review of Guinea-Bissau's program scheduled for completion on or before May 30, 2001 and referred to in paragraph 4 of the Letter has been completed and, with regard to the third disbursement, that the second program review scheduled for completion on or before November 29, 2001 and referred to in paragraph 4 of the Letter has been completed.

When Guinea-Bissau is prevented from requesting disbursements under this arrangement because of this paragraph 2, such disbursements may be made available only after consultation has taken place between the Trustee and Guinea-Bissau and understandings have been reached regarding the circumstances in which Guinea-Bissau may request the disbursements.

3. In accordance with paragraph 4 of the Letter, Guinea-Bissau will provide the Trustee with such information as the Trustee requests in connection with the progress of Guinea-Bissau in implementing the policies and reaching the objectives of the program supported by this arrangement.

4. During the period of this arrangement, Guinea-Bissau shall consult with the Trustee on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing Director of the Trustee requests such a consultation. Moreover, after the period of this arrangement and while Guinea-Bissau has outstanding financial obligations to the Trustee arising from loan disbursements under this arrangement, Guinea-Bissau will consult with the Trustee from time to time, at the initiative of the Government or whenever the Managing Director of the Trustee requests consultation on Guinea-Bissau's economic and financial policies. These consultations may include correspondence and visits of officials of the Trustee to Guinea-Bissau or of representatives of Guinea-Bissau to the Trustee.