International Monetary Fund

Burkina Faso and the IMF

Press Release:
IMF Executive Board Completes First Review Under PRGF Arrangement with Burkina Faso, Approves US$5.5 Million Disbursement, and Increases Access Under the Arrangement
January 8, 2008

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Burkina Faso: Letter of Intent, Memorandum of Economic and Financial Policies and Technical Memorandum of Understanding

December 20, 2007

The following item is a Letter of Intent of the government of Burkina Faso, which describes the policies that Burkina Faso intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Burkina Faso, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.

Burkina Faso: Letter of Intent

Translated from French

Ouagadougou,
December 20, 2007

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
700 19th Street NW
Washington, DC 20431
USA

Mr. Strauss-Kahn:

The government of Burkina Faso has successfully implemented the measures contained in its economic program carried out with the support of the International Monetary Fund through its Poverty Reduction and Growth Facility (PRGF). The program, approved by the IMF Board on April 23, 2007 for an amount equivalent to SDR 6.02 million (10 percent of quota), runs through April 2010.

The attached memorandum of economic and financial policies (MEFP) supplements the one attached to my letter to you dated April 11, 2007. The MEFP attached to that letter established quantitative performance criteria (for end-June 2007) and structural performance criteria (for end-June 2007) for the completion of the first review under the PRGF arrangement.

The quantitative performance criteria for the completion of the first review under the PRGF arrangement were observed. However, we are requesting a waiver of applicability for the two structural performance criteria. For one of them the related measures were put into place, but with a delay, and for the second, the measures will be in place starting in February 2008. On the basis of our overall performance, and on the strength of the policies set forth in the attached memorandum, we request that the IMF complete the first review under the PRGF and disburse the second loan in the amount of SDR 3.51 million.

The cotton crisis and deterioration in Burkina Faso's terms of trade caused by higher world oil prices has considerably weakened our external position. The government is determined to forcefully address these challenges and, to facilitate the adjustment while addressing our additional balance of payments needs, requests an augmentation of access under the PRGF arrangement in an amount equivalent to SDR 9.03 million (15 percent of quota).

The government believes that the policies set forth in the attached MEFP will enable it to meet its program objectives, but is ready to take any other measures that might be necessary to this end. Burkina Faso will consult with the Fund on the adoption of any measures that may be appropriate, and in advance of revisions to the policies contained in the attached Memorandum of Economic and Financial Policies (MEFP), in accordance with the Fund's policies on such consultation. The second review under the PRGF arrangement is expected to be completed no later than end-July 2008 and the third review by end-January 2009.

The government intends to make the contents of this letter and the attached MEFP and Technical Memorandum of Understanding available to the public. Therefore, it authorizes the IMF to post these documents on the IMF website once the Executive Board concludes the review.

Sincerely yours,

/s/

Jean-Baptiste M. P. Compaoré
Minister of Economy and Finance
Commander of the National Order

Attachments: Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding

Burkina Faso: Memorandum of Economic and Financial Policies of the Government for 2007–08

Translated from French

I. Introduction

1. **This memorandum updates Burkina Faso's economic and financial program under the three-year Poverty Reduction and Growth Facility (PRGF) arrangement with the IMF.** The program, which was approved by the IMF's Board of Executive Directors on April 23, 2007, aims at consolidating macroeconomic stability and fostering conditions that can sustain high economic growth and reduce poverty.[1] This memorandum summarizes recent economic developments, reviews performance under the PRGF-supported program, and updates the government's strategy for pursuing its financial and economic policies.

2. **Burkina Faso's macroeconomic performance in 2006 was good.** Economic growth was a resilient 5½, despite low international cotton prices and the strength of the euro, to which the CFA franc is pegged. Inflation fell below the WAEMU convergence criterion of 3 percent. Exports grew strongly, partly because the fall in world cotton prices was not fully passed on to farmers. Imports were higher than expected because of an upward revision in historical petrol imports, leading to higher than envisioned external current account deficits. Fiscal policy loosened as planned, as reflected in the fiscal balance, excluding grants. Revenue collections fell short, but increases in grants partly offset the difference. An adjustment in expenditures resulted in a better-than-expected deficit, including grants. Debt sustainability benefited from MDRI relief, which cut the external debt stock in half.

3. **Limited pass-through of lower world cotton prices to producers caused sizable financial losses among ginning companies.** As a result, SOFITEX—the largest ginning company, which is partly government owned—has been recapitalized to restore its financial health (see below). The recent adoption of a new producer price mechanism linked to changes in world prices is crucial to getting ginning companies back on sustainable footing, but adverse weather conditions, lower prices, and other factors have hurt cotton output.

4. **We have made substantial progress in reforming revenue administration and public financial management, but a large reform agenda must still be accomplished.** In the past two years, we computerized tax and customs administration and set up joint brigades to combat fraud. The former Ministry of Finance and Budget and Ministry of Economy and Development were merged into one, improving policy coordination. There has also been

[1] The program document was published as IMF country report CR07/153 (04/11/2007) on the IMF website (www.imf.org).

progress in computerizing the expenditure system. However, perhaps because of inappropriate prioritization of revenue administration reforms, revenue fell short of expectations and the revenue ratio remains low by both international standards and the WAEMU criteria. Further progress is also needed in other areas.

II. Macroeconomic Framework for 2007 and Program Implementation through September

A. Recent Economic Developments and 2007 Macroeconomic Framework

5. **Recent economic activity is still robust, despite signs of slowing related to difficulties in the cotton sector.** Fiscal stimulus fueled economic activity. In the first half of 2007, total fiscal expenditures increased by over 30 percent year-on-year. Inflation has declined steadily since the second half of 2006 and turned negative in recent months, as food prices have dropped, with the help of good grain harvests in both 2005 and 2006. Meanwhile, nonfood inflation remains moderate, even though the increase in world oil prices was fully passed through to domestic petrol prices.

6. **An abrupt decline in cotton output will reduce GDP growth in 2007.** The 2007/08 output is expected to fall by a third from the already reduced 2006/07 result, from 657,000 tons to 435,000. The decline primarily stems from adverse climate conditions (late rainfall) but also reflects the decline in the producer floor price, which is 12 percent lower than a year ago, delayed payments from the last campaign, and the late announcement of the producer floor price. Given the late start of this season's rains, some producers decided to stop or reduce cotton production and will instead produce maize and, to a lesser extent, sorghum and millet. These crops will mostly be grown for the farmers' own consumption and thus will not enter the formal economy. Bad weather has also reduced expected maize output, and vulnerable farmers may need support (see below). Given these developments, projected growth for 2007 was reduced to 4¼ percent; inflation is expected to be slightly below zero.

B. Program Implementation and Policies for the Rest of 2007

7. **Some fiscal targets for June were narrowly missed.** Government revenues at the end of June fell marginally short by CFAF 2 billion (about 1 percent), while grants exceeded projections by CFAF 8 billion. Expenditures on a commitment basis were higher than expected for goods and services because of one-off expenditures (utility payments, salaries (stemming from a 2006 agreement), and higher-than-expected expenditures resulting from the decentralization program), larger externally financed capital spending, and higher-than-projected expenditure execution rates through June. However, on a payment-order basis, expenditures were lower and end-June performance criterion on the fiscal deficit, including grants (on a payments-order basis), was met. The indicative floor on social expenditures was missed by less than 1 percent because of strong spending pressures related to the recapitalization of SOFITEX, where the amount turned out larger than anticipated—some of the budgetary support for the sector was even moved to 2008.

8. **The deficit target for 2007 will be observed despite lower projected revenues.** Because of lower economic growth and inflation, the nominal year-end revenue target was reduced by CFAF 10 billion; in percent of GDP, the revised revenue target nevertheless represents an increase by one percentage point relative to 2006, exceeding the programmed increase by 0.2 percentage points. To reach the target, we intend to complete the computerization of the large taxpayer office in the tax administration, devote more resources to audit and collection enforcement, and make better use of ASYCUDA and the import valuation database in customs administration. Grants are now projected to be about CFAF 60 billion higher than programmed, mainly because grant-financed projects were implemented faster than expected and some additional budget support grants. Thus, the year-end performance criterion for the deficit, including grants, is projected to be met despite higher expenditures. Most additional spending is foreign-financed capital spending and moderately higher current expenditures, in particular utilities and wages. The projections also include an additional CFAF 8 billion to complete SOFITEX' recapitalization and CFAF 4 billion for the payment of VAT refund arrears.

9. **Parts of the structural reform agenda were delayed**. We adopted a new producer price mechanism for cotton in May, thus meeting the related structural benchmark. We will continue to implement the automatic adjustment mechanism for petroleum products in 2008 despite high international oil prices and delayed implementation in July–November 2007. SINTAX, the tax administration computer system, was modified so that late filers and nonfilers will be automatically notified starting in July (continuous structural performance criterion). However, because of the delayed transmission of the filing information of taxpayers that do not file their declarations with the large taxpayer office (LTO) in Ouagadougou but with local offices, not all late filers received their notification letter on time. Between now and the completion of the interconnection of the computer system, all large taxpayer declarations received by local offices will be faxed to the LTO so computer records are complete and late filers can be notified automatically on time. We are currently reviewing the need for further organizational changes, and the new head of computerization will work to assure the implementation of the notification measure starting after January 31, 2008. Another structural benchmark that went unmet was the prompt payment of VAT refunds. Although a circular was issued that outlined procedures to ensure VAT refunds are paid on time (within 90 days after the refund is requested), communications problems between the agencies involved caused initial delays. As of November 15, 2007, all verified and unverified requests more than 90 days old were paid.

10. **We intend to eliminate the delays in customs administration.** The single customs declaration form was in place in 14 of the 15 computerized customs offices by end-June (missed structural performance criterion). The Bingo office will use the form after it relocates its offices. There were also delays in preparing regulations for noncomputerized offices, which are responsible for less than 6 percent of customs revenues. However, as of November 22, 2007, all customs offices are using the single customs declaration form. We have put in place a computerized customs-specific valuation database in all the computerized

offices (end-September structural benchmark) for use in the customs process. We did not meet the end-September structural benchmark for using the remote access and selectivity modules of the computerized customs system ASYCUDA in Ouagadougou. However, remote access tests for the Ouagadougou rail office with seven brokers were successful. We will use the remote access and selectivity modules in all computerized offices by December 31, 2007.

III. POLICIES FOR 2008

11. **The cotton shock, which could be in part permanent, has hurt exports and debt sustainability; this requires policies to reduce debt and improve competitiveness.** Cotton exports in 2008 are now expected to be CFAF 44 billion lower than previously projected, and represent 37 percent of exports, from 45 percent previously. The fall in cotton exports is partly offset by the start of production in one major gold mine in 2007 and another two in 2008, which should significantly boost gold production and exports. Though we expect cotton production to rebound from 435,000 tons to around 580,000 tons in 2008/09, preliminary results indicate that the baseline path for the net present value (NPV) of the debt-to-exports ratio will increase and almost reach the threshold under the debt sustainability (DSA) framework. Thus, debt distress risk has clearly increased and we are adjusting our policies accordingly. Over time, the most important way to improve our international competitiveness will be structural reforms, but reducing the budget deficit to levels that will stabilize our NPV of debt-to-GDP ratio at low levels is also necessary. A medium-term fiscal adjustment will also raise government savings and thus help reduce the current account deficit and prevent future losses of international reserves. The adjustment should be supported by the estimated $500 million we expect to receive over the next five years from the U.S. Millennium Challenge Account; this increases our capacity to undertake additional capital spending, while reducing the overall fiscal deficit.

A. Fiscal Policy

12. **We will reduce the fiscal deficit for 2008 to reflect the increased risk, but also need to smooth the impact of the cotton shock**. After the last joint Bank-Fund DSA, which changed the risk of debt distress from “low” to “moderate,” the World Bank and the African Development Bank made half their financing to Burkina Faso grants. Normally, such an increase would be used to substantially lower the deficit from the 5.7 percent of GDP originally envisioned for 2008; but the cotton crisis and damages from the 2007 floods require social spending, and lower economic growth will have a negative impact on tax revenues of about CFAF 10 billion (0.3 percent of GDP). Adjusting for this revenue shortfall would reduce economic growth and would require large spending cuts, which could jeopardize progress toward reaching the Millennium Development Goals. Weighing these factors, we intend to aim at a deficit, including grants (on a commitment basis), of CFAF 192 billion (5.4 percent of GDP) to mitigate the negative impact of the shock on the economy.

13. **Revenue policy is aimed at boosting competitiveness while improving tax administration.** We have decided to lower the corporate income tax from 35 to 30 percent for 2008, which should reduce revenues by CFAF 10 billion. We believe that this is necessary to increase private sector investment and help Burkina Faso compete with its neighbors. We also think it will help boost revenues over time as economic growth accelerates and tax evasion decreases. There is also a very small loss in customs revenues expected after the WAEMU-ECOWAS free trade agreements are implemented. Despite these revenue reducing measures, we will be able to increase the revenue-to-GDP ratio by 0.2 percentage points in 2008 through our ambitious revenue administration reform, which will require steadfast application of modern revenue administration principles (see below).

14. **We must prioritize expenditures given our limited resources.** In 2008, we will expand spending in the health and education sectors by expanding coverage in rural areas and providing free textbooks. We intend to increase social expenditures by CFAF 10 billion, more than the increase in current expenditures. Thus, we will keep firm control on current expenditures to allow for greater infrastructure spending. Additional funds for infrastructure will also be available because the 2008 budget does not require further funds for the completion of the SOFITEX recapitalization, which had a cost of CFAF 34 billion in 2007. Also, in 2008, we expect to receive about CFAF 24 billion funding through the U.S. Millennium Challenge Account. Thus, we still expect to be able to increase capital spending by CFAF 17 billion from 2007. We intend to work with the World Bank to make our overall spending more efficient, including through public expenditure reviews and analyses of capital projects.

B. Cotton Sector Reform

15. **Cotton sector reform is progressing.** We have already contributed 75 percent of the required recapitalization of SOFITEX and expect to complete it by the end of 2007 for a combined total of CFAF 34 billion paid by the government. We are working closely with the World Bank and other donors on the restructuring strategy for SOFITEX, and intend to finalize a government decision on its future liberalization by end-December (structural benchmark). We are also working on a strategy to restore the long-term viability of the cotton sector and to reduce government involvement in ginning over time, which is expected to be ready by mid-2008. The creation of a price smoothing fund (*fonds de lissage*) will be finalized by early 2008 with inputs and financial resources from the French Development Agency. We continue to work with cotton sector stakeholders to further improve the operation rules of the fund to ensure it is self-financing under most imaginable scenarios. Moreover, we will ensure that the finances of the fund are fully transparent. Finally, together with the World Bank, we are studying ways to address the impact of the cotton crisis in cotton-growing areas.

C. Fiscal Structural Reform

16. **The structural agenda for 2008 will focus on measures to mobilize more revenue and reinforce PFM**. The recommendations of the Fund technical assistance missions have

been useful for prioritizing our reform agenda in both areas. In the area of tax reform, we are on track to submit the unified tax code to parliament by end-December 2007 (structural benchmark). We now expect the tax policy reform strategy to be approved by cabinet by end-April 2008 (structural benchmark). The thrust of the strategy will be to broaden the tax base for the major taxes, eliminate nuisance taxes, and simplify the system for the taxpayer and tax administration. To meet our ambitious revenue targets for 2009 and beyond, we will submit draft tax policy reform legislation to parliament by end-December 2008 (structural benchmark). We are considering setting up a technical group to work on revenues within the framework of our Strategy for the Strengthening of Public Finances (SRPF) to help move this process forward.

17. **Measures to reform revenue administration will focus on the large taxpayer office (LTO).** The establishment of the LTO has been a major milestone in tax administration reform. The minister of finance has approved the tax administration reform strategy that received inputs from Fund technical assistance. The strategy places most of its emphasis on ensuring that the LTO has the resources and strategic orientation to implement reforms. We will attempt to bring the nonfiler rate for large taxpayers to below 5 percent, from 12 percent in early 2007. Also, we intend to reduce the rate of VAT declarations with a zero or negative tax liability from its current level of 49 percent to less than 20 percent through issue-oriented audits. At the same time, we will ensure verified VAT refund requests are paid promptly and have allocated CFAF 6 billion in the budget to do so. Productivity gains will be reaped from computerization only after all software modules are integrated into the work flow. Given the limited resources for tax administration reform, we are scaling back our plans to decentralize the tax administration and are limiting the resources available to develop the cadastre system, two longer-term reform objectives. We will issue regulations to categorize taxpayers using turnover as the only criterion (i.e., large, medium, and small) with the objective of creating a group of about 500 large and 1,500 medium taxpayers, who would be subject to the regular tax system. By contrast, small taxpayers should be subject to simplified taxation instead of VAT. Implementation of these regulations would constitute a structural benchmark for end-June, 2008. We will also eliminate withholding for large taxpayers and simplify them for medium taxpayers starting in July 2008.

18. **Customs administration reform will concentrate on reducing the direct contact between customs officials and traders to support the fight against fraud.** The ASYCUDA system is designed to reduce this contact, which can easily be compromised, but ASYCUDA is not yet applied systematically by the customs administration. To ensure its use, we will design our selectivity system to assign at least 50 percent of customs declarations to the green and blue channels and will ensure that the cases where the ASYCUDA choice is not adhered to does not exceed 10 percent (structural benchmark end-September 2008). We intend to raise the ratio of declaration assigned to the green and blue channels over time by improving the risk assessment capabilities of the selectivity module. To this end, we will interface the customs valuations database with the ASYCUDA system to improve the valuation aspect of ASYCUDA by end-March 2008. The valuation

data would be used both for customs duty calculation and as an input for the risk assessment in the selectivity module.

19. **PFM measures will be directed to improving budget execution and preparation, and tracking spending.** We are undertaking a study to expedite the processing of payments and eliminate redundancies of controls, which should be finalized by end-September 2008. This will form the basis for an action plan to be implemented over 2008 and 2009 (structural benchmark, end-December 2008). To improve the scope and effectiveness of ex-post controls, we are in the process of fundamentally reforming the existing control framework to rationalize it and make it more effective. The draft laws that are being finalized seek to bring together under a single authority the tasks now accomplished by three separate bodies (the General Inspectorate of the State (*Inspection générale de l'État*), the High Authority for the Coordination of the Fight Against Corruption (*Haute autorité de coordination de la lutte contre la corruption*), and the National Commission for the Fight Against Fraud (*Commission nationale de la lutte contre la fraude*), and extending its jurisdiction to monitoring implementation of the recommendations of inspection missions and to judicial proceedings. Thus, we will study ways to scale up audit activities of this new institution during 2008, and provide it with the corresponding resources in the 2009 budget. We will also develop an action plan for scaled-up audit activities by the new institution by December 2008. To enhance the transparency and the deterrent effect of ex-post controls, we will propose by December 2008 modalities for the publication of audit reports and their recommendations, and the systematic follow up on the recommendations made by these offices. We also plan to increase the reliability of revenue forecasts for budget preparation. This will help improve budget execution by ensuring availability of resources. This concern will be addressed by the technical groups of the steering committee beginning with the 2009 budget process.

20. **Tracking expenditures more closely is a priority.** We have worked to develop a comprehensive system for tracking foreign-financed expenditures (end-December 2007 structural benchmark). The technical development work on the first module, which helps track the mobilization of funds, is expected to be completed before year-end. However, the need for numerous interfaces with other software systems and the overall complexity of the project have delayed the full implementation of all six modules until 2009 at the earliest. We are also working on establishing the interface between the integrated system for the management of wages and salaries (SIGASPE) and the software for general expenditure tracking (CID), with work expected to be completed by December 2008. To improve tracking of poverty-reducing expenditures, we will launch a pilot project applying the functional classification of *GFSM 2001* to poverty-reducing expenditure tracking, which is expected to be operational by end-June 2008 (structural benchmark).

21. **We are taking measures to improve internal and external expenditure controls.** We recently completed the domestic debt audit, which started in 2004 with support from the Swiss Agency for Development and Cooperation as part of the previous PRGF program. The comprehensive inventory shows claims from various government suppliers amounting to

about CFAF 78 billion at December 31, 2006. CFAF 50 billion of these obligations have already been examined, and those recognized have been paid, including the regularization of salary advancements (CFAF 18 billion). Of the CFAF 28 billion claims still under investigation in August 2007, some CFAF 15.4 billion relate to benefit claims on social security agencies (CARFO and CNSS), which will be dealt with according to the conventions relating to these organizations. An amount of CFAF 10.8 billion are contributions to international organizations, which will be analyzed case by case. A detailed report was submitted to the Cabinet to elicit instructions on the treatment of these claims, after verification, and on measures to be implemented to prevent similar situations in the future. One of the objectives of such audits, which are conducted periodically, is to ensure that all government institutions abide by public expenditure processes as prescribed by the instruments in force, and to remind them, if need be, about the obligations of financial controllers. To prevent such obligations from recurring, we intend to have regular meetings between the budget department and the financial controllers of the line ministries, and each party will have to adhere to the requirements of the budget law. In addition, we are considering ways to better define the profile of financial controllers and the organizational structures they oversee to achieve a better budget execution. We also discovered that an oversight in April 2007 led CFAF 3.3 billion to be paid to Libya, counter to the comparability-of-treatment clause under the Paris Club agreements, but no further payments will be made.

D. Other Structural Reforms

22. **As noted in the government's previous letter of intent, we will continue to improve the business environment by combating corruption, streamlining procedures and the licensing of businesses, and enhancing labor market flexibility.** Through our work with the International Finance Corporation (IFC), we are continuing to improve the business climate, especially in the area of access to credit. Significant progress was made in 2007, reflected in Burkina Faso's rating in IFC's latest *Doing Business* report: we introduced specialized commercial chambers, reduced judgment enforcement registration tax from 4 percent to 2 percent, reduced the property transfer and registration fees, and reduced the time to register a company to 23 days. Regarding the labor market, we are working on a revised legislation that will ensure greater flexibility. It is expected to be finalized in 2008. Meanwhile, the ministry of labor adopted specific measures to improve the use of fixed-term contracts in the mining industry. On governance we follow the National Plan of Good Governance (*Plan national de bonne gouvernance*, PNBG), with a specific emphasis on the role of the State in development, the fight against corruption, and improving the legal system. The government's recently launched plan to fight corruption emphasizes the streamlining of governance institutions to increase their efficiency, especially through the creation of a single authority, whose mandate includes both general government supervision and the fight against fraud and corruption. This new authority will have the power to bring suits and will publish its reports. Burkina Faso will be one of eight countries carrying out comprehensive Governance and Anti-Corruption diagnostics with support from the World Bank in 2008.

These diagnostics will focus on identifying the locus and vectors of corruption and will include several sector diagnostics and policy recommendations.

23. **Financial sector reform will take higher priority in the future.** The World Bank's financial sector review, now being finalized, will be a major input in our strategy. The review notes the financial system overall is stable, relatively efficient, and profitable. Also, it shows the bank loan portfolio is higher in quality in Burkina Faso than in the sub-region on average. However, credit ratios have deteriorated some owing to recent troubles in the cotton sector and weaker balance sheets at new banks. As recommended by the World Bank, we are considering steps to strengthen the banking and insurance systems; increase access to finance for the rural sector, housing and small and medium-sized enterprises; and improve the judicial system for credit. Moreover, we will work with the World Bank and Fund staffs on a Financial Sector Assessment Program (FSAP), scheduled to be conducted in the last quarter of 2007 for the WAEMU area and in the first quarter of 2008 for Burkina Faso.

24. **Privatization will continue despite some delays**. Additional government shares in ONATEL will be sold (20 percent through public offering, and 6 percent directly to ONATEL employees) by mid-2008. On the basis of a new electricity law adopted in November 2007, we are working with the World Bank to solicit bids for private management of the national electricity company (SONABEL). In addition, shares of the national oil-importing company (SONHABY) are scheduled to be sold in 2008.

E. Program Monitoring

25. The program will continue to be monitored against the agreed quantitative financial targets (Table 1) and structural performance criteria and benchmarks (Table 2) and through program reviews. The quantitative financial targets for end-December 2007 and end-June 2008 are performance criteria; those for end-March 2008 and end-September 2008 are indicative targets. The second program review is scheduled to be completed by end-July 2008 and the third by end-January 2009. Definitions of all targeted variables and reporting requirements are contained in the attached Technical Memorandum of Understanding (TMU). The definition of the performance criterion on the overall deficit including grants was changed from the payment-order basis (*base ordonnancement*) to the commitment basis (*base engagement*) after September 30, 2007 to facilitate program monitoring.

Table 1. Burkina Faso: Quantitative Performance Criteria and Indicative Targets, 2007–08

(Billions of CFA francs; cumulative from beginning of year)

	2006	2007						2008			
	Dec.	End-Mar.		End-Jun.		End-Sep.	End-Dec.	End-Mar.	End-Jun.	End-Sep.	End-Dec.
	Actual	Prog. 6/	Act.	Prog. 6/	Act.	Prog. 6/	Proj.	Proj.	Proj.	Proj.	Proj.
Performance criteria and indicative targets[1]											
Ceiling on the overall fiscal deficit including grants[2]	140.3	70.0	30.2	80.0	58.5	155.0	215.0	35.0	75.0	105.0	195.0
Ceiling on the amount of new nonconcessional external debt contracted or guaranteed by the government[3, 4]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ceiling on the amount of new external debt of less than one year's maturity contracted or guaranteed by the government[3, 4]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accumulation of domestic payments arrears[3]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accumulation of external payments arrears[3]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Indicative targets											
Government revenue	392.4	95.0	93.7	230.0	228.1	340.0	440.0	100.0	245.0	355.0	475.0
Poverty-reducing social expenditures	173.2	45.0	42.1	95.0	94.3	150.0	203.0	40.0	110.0	160.0	213.0
Maximum upward adjustment of fiscal deficit ceiling including grants due to:											
Shortfall in grants relative to program projections	…	25.0	0.0	25.0	0.0	25.0	25.0	25.0	25.0	25.0	25.0
Excess in concessional loan financing relative to program projections	…	15.0	0.0	15.0	0.0	15.0	15.0	15.0	15.0	15.0	15.0
Memorandum items:											
Grants[5]	846.6	39.5	52.4	110.0	118.4	140.2	238.0	59.1	151.7	234.9	254.8
Concessional loans[5]	133.2	28.7	23.6	69.5	50.3	161.5	122.9	17.0	50.7	102.3	145.7

Sources: Burkinabè authorities; and IMF staff estimates and projections.

1 Performance criteria at the end of June and December 2007 and 2008.
2 The ceiling on the overall fiscal deficit is to be adjusted in line with the TMU definition. Up to September 2007, it is calculated on payment-order basis, and afterwards on a commitment basis.
3 To be observed continuously.
4 Excluding Treasury bills and bonds issued in CFA francs on the regional West African Economic and Monetary Union (WAEMU) market. This ceiling excludes supplier credit with a maturity of one year or less.
5 Includes identified financing only.
6 IMF Country Report No. 07/153, May 9, 2007.

Table 2. Burkina Faso: Structural Conditionality for 2008

Measure	Timing (tentative)	PC / Benchmark
Tax policy		
Cabinet approval of comprehensive tax policy reform strategy (MEFP ¶16).	April 30, 2008	Benchmark (2nd review)
Submission to parliament of a draft 2009 budget that includes tax policy measures consistent with the tax policy reform program (MEFP ¶16).	September 30, 2008	Benchmark (3rd review)
Submit a comprehensive tax policy reform program to parliament (MEFP ¶16).	December 31, 2008	Benchmark (4th review)
Tax administration		
Use Sintax to generate a list of LTO late filers and nonfilers for the main tax categories (VAT, corporate income, tax on income from securities, and tax on income from real estate), and send reminders within a week after the declaration deadline (MEFP ¶10 and ¶17).	February 1, 2008 (start date)	Continuous PC
Harmonize VAT thresholds for large, medium, and small taxpayers and subject small taxpayers to simplified taxation instead of VAT, in line with Fund recommendations (MEFP ¶17).	June 30, 2008	Benchmark (3rd review)
Customs administration		
During the third quarter of 2008, assign at least 50 percent of customs declarations to the green and blue channels and keep the percentage of declarations thus selected but assigned for further controls by individual inspectors to less than 10 percent (MEFP ¶18).	September 30, 2008	Benchmark (3rd review)
Public financial management and governance		
Introduce comprehensive system for tracking of poverty-reducing expenditures (MEFP ¶19).	June 30, 2008	Benchmark (3rd review)
Develop an action plan for improving the effectiveness of ex ante expenditure controls, including elimination of redundant procedures (MEFP ¶19).	December 31, 2008	Benchmark (4th review)

Translated from French

BURKINA FASO: TECHNICAL MEMORANDUM OF UNDERSTANDING

Ouagadougou, December 20, 2007

1. This memorandum defines the quantitative performance criteria and indicative targets for the program supported by the Poverty Reduction and Growth Facility (PRGF) of the International Monetary Fund (IMF). It also sets deadlines for reporting data to Fund staff to facilitate program monitoring.

I. DEFINITIONS

2. For the purposes of this memorandum, the following definitions of "debt," "government," "payments arrears," and "government obligations" will be used:

- **Debt,** as specified in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted by the Executive Board of the IMF on August 24, 2000, will be understood to mean a current, not contingent, liability, created by contract through provision of value in the form of assets (including currency) or services, that requires the obligor to make one or more payments in the form of assets (including currency) or services, at one or more future points in time; these payments being made to discharge principal and interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being:
  - (i) loans, consisting of advances of money to the obligor (e.g., deposits, bonds, obligations, commercial loans, and buyers' credits), who undertakes to repay the funds in the future, and temporary exchanges of assets that are equivalent to fully collateralized loans where the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (e.g., repurchase agreements and official swap arrangements);
  - (ii) suppliers' credits, which are contracts where the supplier lets the obligor defer payments until after the date on which the goods have been delivered or the services provided; and
  - (iii) leases, which are arrangements in which property is provided for the use of the lessee for a specified period, usually shorter than the total expected life of the property, while the lessor retains title to the property. For purposes of this guideline, the debt is the present value at the inception of the lease of all lease payments expected to be made during the period of the agreement, except payments that cover the operation, repair, or maintenance of the property.
  - Treasury bills and bonds issued in CFA francs on the WAEMU (West African Economic and Monetary Union) regional market are included in domestic debt for purposes of this memorandum.

- **Government** is defined as the central government of Burkina Faso and does not include any political subdivision, government-owned entity with a separate legal personality, or the central bank.
- **External payments arrears** are external payments due but unpaid. Domestic arrears are domestic payments due but unpaid after a 90-day grace period, unless the obligation specifies a different grace period.
- **Government obligation** is any financial obligation of the government accepted as such by the government (including any government debt).

II. Quantitative Performance Criteria

3. The numerical values for quantitative performance criteria, indicative targets, and adjusters are set out in Table 1 of the attached Memorandum of Economic and Financial Policies (MEFP).

A. Overall Deficit Including Grants

Definition

4. For the program, the overall deficit including grants is valued on a commitment basis *(base engagement)*. It is defined as the sum of foreign and domestic financing (net) of the government measured from the financing side plus cash basis adjustment. Net foreign financing is the sum of foreign borrowing and debt relief minus amortization. Net domestic financing is the sum of (i) net bank credit to the government, including both net bank credit to the treasury as defined below and other government claims on and debts to national banking institutions; (ii) unredeemed government bills and bonds held outside national commercial banks; and (iii) privatization receipts. Net bank credit to the treasury is the balance of the treasury's claims and debts vis-à-vis national banking institutions. Treasury claims include the cash holdings of the Burkinabè Treasury, deposits with the central bank, deposits with commercial banks, secured obligations, and government deposits with the postal system (CCP). Treasury debt to the banking system includes funding from the central bank (including statutory advances, consolidated advances, IMF financing, and refinancing of secured obligations), government securities held by the central bank, funding from commercial banks (including government securities held by commercial banks), and CNE *(Caisse Nationale d'Épargne Postale)*/CCP securitized deposits. Net bank credit to the government is calculated by the Central Bank of West African States (BCEAO), whose figures are recognized as valid for program purposes. The stock of treasury bills and other government debt, as well as net foreign financing, is calculated by the Ministry of Finance. Cash basis adjustment is the sum of (i) expenditure commitments not-paid *(engagées non-payées)*; and (ii) change in treasury deposits.

5. All these items are valued according to the statement of government budgetary execution established monthly in the central government's financial operations table. This is

prepared by the Permanent Secretariat for the Monitoring of Financial Policies and Programs (SP-PPF), in collaboration with the other directorates of the Ministry of Economy and Finance.

Adjustment

6. The overall deficit including grants is adjusted upward by the amount that grants fall short of what is programmed up to a maximum (see the MEFP, Table 1). It will not be adjusted if grants are higher than programmed.

7. The overall deficit including grants will also be adjusted upward by the amount that concessional loans exceed what is programmed up to a maximum (see the MEFP, Table 1).

Reporting deadlines

8. The ministry in charge of finance will forward data to the IMF on the overall deficit excluding grants within six weeks after the end of each quarter.

B. Nonaccumulation of Domestic Arrears

Definition

9. The government undertakes not to accumulate any new arrears on domestic government obligations. The treasury keeps records of such arrears and records repayments.

Performance criterion

10. The government will not accumulate any arrears on domestic government obligations during the program period. This is a performance criterion, to be observed continuously.

Reporting deadlines

11. Data on balances, accumulation, and repayment of arrears on domestic obligations will be reported within four weeks after the end of each month.

C. Nonaccumulation of External Arrears

Performance criterion

12. The government's external debt is the stock of debt owed or guaranteed by the government. External arrears are external payments due but not paid on the due date. Under the program, the government undertakes not to accumulate arrears on its external debt, except those arising from government debt that is being renegotiated with creditors, including non-Paris Club bilateral creditors. Nonaccumulation of external arrears is a performance criterion, to be observed continuously.

Reporting deadlines

13. Data on outstanding balances, accumulation, and repayment of external arrears will be forwarded within six weeks after the end of each month.

D. Nonconcessional External Debt Contracted or Guaranteed by the Government

Performance criterion

14. The government undertakes not to contract or guarantee any external debt maturing in one year or more that has a grant element of less than 35 percent (calculated using the interest reference rate for borrowed foreign currencies provided by the IMF) beyond the ceiling indicated in the MEFP (Table 1). This performance criterion applies not only to debt as defined in point 9 of the Guidelines (see ¶2), but also to all commitments contracted or guaranteed for which value has not been received. However, it does not apply to treasury bills and bonds issued in CFA francs on the WAEMU regional market. This performance criterion is to be observed continuously.

Reporting deadlines

15. Details on any loan (terms and creditors) to the government or guaranteed by the government must be reported within four weeks of the end of each month.

E. Government Short-Term External Debt

16. The government undertakes not to accumulate or guarantee any new external debt with a contractual maturity of less than one year. This performance criterion applies not only to debt as defined in point 9 of the Guidelines (see ¶2), but also to commitments contracted or guaranteed for which value has not been received. Excluded from this performance criterion are import- and export-related loans and treasury bills and bonds issued in CFA francs on the WAEMU regional market and normal short-term suppliers' credits of one year or less. This performance criterion is to be observed continuously. As of April 1, 2007, the government of Burkina Faso had no short-term external debt.

III. Other Quantitative Indicative Targets

17. The program also includes indicative targets on total government revenue and poverty-reducing social expenditures.

A. Total Government Revenue

Definition

18. Total government revenue is valued on a cash basis. It includes all tax and nontax revenue collected by the Directorate General of Taxation, the Directorate General of

Customs, the Burkinabè Treasury, and revenue collection units at ministries and institutions, and it also includes revenue from treasury checks. VAT refunds are considered as expenditures.

Reporting deadlines

19. Details on total revenue will be sent to IMF staff by the SP-PPF of the Ministry of Finance and Budget within six weeks after the end of each month.

B. Poverty-Reducing Social Expenditures

Definition

20. Poverty-reducing social expenditures are defined by the PRSP priority sector programs designed to accelerate the reduction of poverty. They cover all spending categories for the following ministries: Primary Education and Literacy; Health; Social Action and National Solidarity; Promotion of Women; Labor and Social Security; Employment and Youth; Agriculture, Water and Fishing Resources; Animal Resources; and Environment. They also cover rural roads and HIPC resources for infrastructure spending and for the Justice Ministry and the Ministry of Economy and Development. Until 2006 these expenditures were compiled from budget execution tables and from the special HIPC account. Starting in 2007 they are monitored directly through the budget, as are all HIPC resources.

Reporting deadlines

21. The government will report within six weeks after the end of each month the monthly data on poverty-reducing social expenditures.

IV. Structural Performance Criteria

22. The program incorporates structural performance criteria (see the MEFP, Table 2 in IMF Country Report No. 07/153 (5/09/2007)).

A. Nonfiler Notices

23. The government will use Sintax to generate a list of Large Taxpayer Office (LTO) late filers and nonfilers for the main tax categories and send reminders within a week after the deadline for returns. This performance criterion will be observed on a continuous basis starting after January 31, 2008. A late filer is anyone who files a tax return after the deadline. A nonfiler is anyone in the database who did not file taxes. The main tax categories are the VAT *(TVA)*, the corporate income tax *(BIC)*, the tax on income from securities *(IRVM)*, and the tax on income from real estate *(IRF)*. Declaration deadlines for the main tax categories are set in the tax code. The government will send reminders to at least 98 percent of the late filers and nonfilers.

V. Additional Program-Monitoring Information

A. Public Finance

24. The government will report the following to Fund staff:

- The monthly government flow-of-funds table (TOFE) and the customary appendix tables, to be forwarded within six weeks after the end of each month; if data on actual investment financed by external grants and loans are not available in time, a linear implementation estimate based on the annual projections will be used.
- Complete monthly data on domestic budgetary financing (net bank credit to the government and stock of unredeemed treasury bonds and bills), to be provided within six weeks after the end of each month.
- Quarterly data on implementation of the public investment program, including details on financing sources, to be sent within six weeks after the end of each quarter.
- Quarterly data on external debt stock, external debt service, signing of external loans, and disbursements of external loans, to be sent within six weeks after the end of each quarter.
- Monthly data on prices and the taxation of petroleum products, including (i) prices prevailing during the month; (ii) detailed calculation of the price structure, from the f.o.b.-MED price to the retail price; (iii) volumes purchased and made available for consumption by the petroleum distributor (SONABHY); and (iv) a breakdown of receipts from the taxation of petroleum products—customs duties, tax on petroleum products (TPP), and value-added tax (VAT)—and of subsidies, to be provided within four weeks after the end of each month.
- A monthly statement of the status of accounts with the treasury, classified by major category (administrative services, state enterprises, mixed enterprises, public administrative enterprises, international organizations, private depositors, and others), to be provided within six weeks after the end of each month.
- Quarterly data for the large taxpayer office on (for *TVA, BIC, IRVM, and IRF*) the numbers of:
    - registered taxpayers
    - declarations received on time
    - reminder letters sent to late and nonfilers.
- These quarterly statistics are to be provided within two weeks after the end of each quarter. Similarly, quarterly data on the following are to be sent within 2 weeks of the end of the quarter:
    - total number of customs declarations

- number of declarations selected by channel
- number of declarations by channel subject non-standard treatment.

B. Monetary Sector

25. The government will provide the following information within six weeks after the end of each month:

- the consolidated balance sheet of monetary institutions
- provisional data on the monetary survey (with final data provided ten weeks after the end of each month)
- borrowing and lending interest rates
- customary banking supervision indicators for bank and nonbank financial institutions, if necessary.

C. Balance of Payments

26. The government will report the following to Fund staff:

- any revision of balance of payments data (including services, private transfers, official transfers, and capital transactions), as they occur
- foreign trade statistics compiled by the National Statistics Institute, within three months after the end of the month concerned
- preliminary annual balance of payments data within nine months after the end of the year concerned.

D. Real Sector

27. The government will report the following to Fund staff:

- disaggregated monthly consumer price indices, within two weeks after the end of each month
- provisional national accounts
- any revision of the national accounts.

E. Structural Reforms and Other Data

28. The government will also report the following:

- any study or official report on Burkina Faso's economy, within two weeks after its publication

- any decision, order, law, decree, ordinance, or circular that has economic or financial implications as soon as it is published or at the latest when it enters into force.

Summary of Data Requirements

Type of Data	Tables	Frequency	Reporting Deadline
Real sector	Provisional national accounts	Variable	End of provisional estimate + eight weeks
	Revisions of national accounts	Variable	End of revision + eight weeks
	Disaggregated consumer price index	Monthly	Month's end + two weeks
Public finance	Net treasury and government position at the BCEAO and details of nonbank financing, including the stock of treasury bills and bonds	Monthly	Month's end + six weeks
	Government flow-of-funds table (TOFE) and the customary appendix tables	Monthly	Month's end + six weeks
	Execution of capital budget	Quarterly	End of quarter + six weeks
	Poverty-reducing social expenditures	Monthly	Month's end + six weeks
	Structural of prices for petroleum products	Monthly	Month's end + four weeks
	Status of the deposit accounts with the public treasury, classified by major category	Monthly	Month's end + six weeks
	Statistics of the LTO on tax filings.	Quarterly	End of quarter + two weeks
	Statistics on customs declarations.	Quarterly	End of quarter + four weeks
Monetary and financial data	Monetary survey	Monthly	Month's end + six weeks
	Consolidated balance sheet of monetary institutions	Monthly	Month's end + six weeks
	Borrowing and lending interest rates	Monthly	Month's end + six weeks
	Banking supervision ratios	Quarterly	End of quarter + eight weeks
Balance of payments	Balance of payments	Annual	End of year + nine months
	Trade statistics	Quarterly	End of quarter + eight weeks
	Revised balance of payments data	Variable	When revisions occur
External debt	Outstanding external debt stock, arrears and repayments (if applicable)	Quarterly	End of quarter + six weeks
	Details of all new external borrowing	Quarterly	End of quarter + four weeks