International Monetary Fund

Burkina Faso and the IMF

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July 15, 2011

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

June 28, 2011

LETTER OF INTENT

Ouagadougou, June 28, 2011

John Lipsky
Acting Managing Director,
International Monetary Fund
700 19th Street NW
WASHINGTON, DC 20431 (USA)

Dear Mr. Lipsky:

1. The government of Burkina Faso is committed to implementing sound policies and reforms to address Burkina Faso's developmental challenges. The government is also determined to take the necessary actions to achieve the objectives defined in its new PRSP called "Strategy for Accelerated Growth and Sustainable Development" (SCADD), adopted in December 2010.

2. Government policies in 2010 were sound and supportive of economic objectives. In particular, investment in infrastructure increased significantly to support economic recovery and productivity gains in the private sector, while maintaining a prudent fiscal policy stance. For 2011, however, economic prospects could be tamed by inflationary pressures that could emerge from exogenous shocks, including the surge in global food and oil prices, further social unrest, and spillover effects from the crisis in Cote d'Ivoire earlier in the year. Under the circumstances, the government remains vigilant in the execution of the budget and stands ready to take any corrective measures that may be deemed necessary to safeguard macroeconomic stability.

3. The government's medium-term objectives are aligned with the SCADD. To safeguard the attainment of the SCADD's objectives, we will focus on five key areas: (i) increasing the diversification of the productive base; (ii) enhancing absorptive capacity and the quality of public investment; (iii) increasing investment in the energy sector to support private sector activity; (iv) closing the infrastructure gap through better prioritization in investment; and (v) improving the business environment further through continued structural reforms. Our ambition is to accelerate the building of a foundation for a robust, double-digit economic growth before 2015 through decisive actions in these key areas; and to intensify poverty reduction actions.

4. Following the recent social unrest in the country, the government took correctives measures at the political level, as well as the necessary social measures to safeguard the return to peace in the country. These measures were taken while ensuring that the macroeconomic framework under the ECF-supported program, as agreed with IMF staff was

preserved, particularly in the fiscal area. As a result, the 2011 draft Budget adopted by the National Assembly is consistent with our goal to preserve medium-term fiscal and debt sustainability. Nonetheless, these events, as well as exogenous shocks that affected the economy in the first half of this year, are expected to generate additional expenditure and possible revenue shortfall, compared with the original program projections for 2011, resulting in a higher than anticipated budget deficit. Consequently, the government is requesting that the performance criterion on the overall budget deficit for end-June and end-December 2011 be modified as reflected in the MEFP, to account for these developments.

5. The government is convinced that the economic and financial policies presented in the attached Memorandum of Economic and Financial Policies (MEFP) will help achieve the objectives set under our ECF–supported program. Nonetheless, the government is determined to take any additional measures that may become necessary to reach the objectives. The government will consult with the IMF before adopting such measures, and prior to any revision to policies outlined in the MEFP, in accordance with IMF policies on such consultation. Furthermore, the government will provide the IMF with information on policy and reform implementation, as agreed on under the attached Technical Memorandum of Understanding, or upon request.

6. Despite a difficult environment in the second half of 2010, marked by regional uncertainties, the government implemented its economic and financial program supported by the IMF under the Extended Credit Facility in a satisfactory manner. As a result, at end-December 2010, all quantitative and structural targets under the program were met. On this basis, and in view of our policy commitments in the attached MEFP, the government of Burkina Faso requests the completion of the second ECF review, and the third disbursement totaling SDR 6.45 million.

7. As was the case in the past, the government authorizes the IMF to publish this letter of Intent and its attachments, as well as the staff report, upon approval by the IMF Executive Board.

Sincerely yours,

/s/

Lucien Marie Noël BEMBAMBA
Minister of Economy and Finance
Officier de l'Ordre National

Attachments: Memorandum of Economic and Financial Policies, 2011–12
Technical Memorandum of Understanding

APPENDIX I—ATTACHMENT 1

MEMORANDUM ON ECONOMIC AND FINANCIAL POLICIES FOR 2011–12

I. INTRODUCTION

1. This memorandum updates Burkina Faso's economic and financial program in connection with the implementation of the three-year economic and financial program supported by the IMF under the Extended Credit Facility (ECF). It reviews recent developments in the economy and performance under the program during the second half of 2010, and assesses the outlook for 2011–12. The objectives of the program, approved by the IMF Executive Board on June 14, 2010, are to consolidate macroeconomic stability, and enhance growth prospects as well as the fight against poverty. This memorandum updates and supplements those of May 31, 2010 and of November 17, 2010. Economic policies presented in this memorandum are consistent with the objectives of the new PRSP (Strategy for Accelerated Growth and Sustained Development–SCADD), which was adopted by the government in December 2010.

II. RECENT ECONOMIC DEVELOPMENTS AND PROGRAM IMPLEMENTATION AT END-DECEMBER 2010

A. Recent Economic Developments

2. **In a regional context marked by uncertainty, the Burkinabè economy recovered its trend growth of the past decade.** Real GDP growth is estimated at 7.9 percent for 2010, compared with 3.2 percent in 2009. Although all sectors contributed to this growth, it was largely driven by the agricultural and mining sectors.

- **In the agricultural sector, cereal production, estimated at 4,560,574 tons, increased by 26 percent** over the previous crop year, mostly because of more favorable weather conditions and the impact of government measures in recent years to improve agricultural productivity. These measures included (i) supplying farming equipments to enhanced-seed producers; (ii) increasing the use of organic fertilizers; and (iii) training, organizing, and providing technical support for more than 5,000 farming households. The emergency program for food and nutritional security, launched in 2010 with support from the European Union also supported agricultural production through measures to improve the quality and increase production of seeds.

- **Gold production increased from 12.1 tons in 2009 to 23. 7 tons in 2010, representing an increase of more than 90 percent**. In addition to the four mines already in production (Mana, Youga, Kalsaka, and Taparko), the Inata and Essakane mines came on-stream in April and October 2010, respectively.

- **However, cottonseed production fell by 6 percent, from 361,991 tons in 2009 to 338,000 tons in 2010**. This decline was unexpected, given the rise in the producer price (from CFAF 160 per kg to CFAF 182 per kg), the continuation of measures promoting increased and appropriate use of inputs, and the payment of a bonus. It was mainly due to delayed rainfall and inefficient use of fertilizers. These conditions affected the production of genetically modified cotton in particular, which represents 60 percent of total surfaces.

- **Tertiary sector activities were up by 3.7 percent, boosted by several major events in 2010,** including the Ouagadougou International Artisan Exhibition (SIAO), the Ouagadougou International Tourism and Hotel Trade Show (SITHO), the National Culture Week (SNC), and the celebration of the 50th anniversary of Burkina Faso's independence.

3. **Consumer prices remained relatively stable compared with 2009.** The average annual inflation rate was -0.6 percent, compared with 2.6 percent for the previous year. Contributing factors included strong growth in agricultural production, which slowed down the rise in food prices, the freeze of retail petroleum prices, and lower mobile telephone rates.

4. **The external position improved in 2010**. Imports rose sharply, driven by the expansion of mining activities and the need to rebuild the infrastructure damaged by the September 2009 and July 2010 floods. Yet, the current account improved thanks to significantly higher exports, reflecting substantial increases in gold production and prices and the higher price of cotton. The current account deficit (including grants) narrowed from 4.2 percent of GDP the previous year to 3.5 percent of GDP in 2010, a stronger result than projected.

5. **Money supply was up by 19.1 percent, compared with end-December 2009**, reflecting a substantial increase in the net foreign assets of the banking system. With the economic expansion, credit to the economy increased by 8.9 percent, compared with end-December 2009, with a large increase in credit to the services sector.

6. **Public finances continued to improve in 2010 as a result of continued efforts to raise revenue and effectively monitor spending.** Revenue measures included the following actions by the tax department: (i) revamping the database of large and medium-size taxpayers; (ii) improving automated management of nonfilers and non-payers; and (iii) cross-checking data from files pertaining to income tax. With regard to customs department, measures to improve revenue collection included: (i) the strengthening of controls; (ii) the simplifying of customs clearance procedures; (iii) automating transit processes; and (iv) increasing the number of inspections by the pre-shipment inspection company. Overall, the authorities’ approach to make revenue collecting units accountable adopted in 2009 continued to produce good results. Revenue increased from 13.7 percent of GDP in 2009 to 15.6 percent in 2010. Tax revenue increased by 14.4 percent to CFAF 565.74 billion,

exceeding program projections. Nontax revenue increased by 157 percent, reflecting the 10-year renewals of mobile telephone licenses for a total of CFAF 61.8 billion.

7. **Expenditure increased to 25.7 percent of GDP in 2010, compared with 24.4 percent in 2009**. This increase reflects measures taken by the government to support the economic recovery after the 2009 downturn, owing to the global financial and economic crisis. Current spending stood at 12.2 percent of GDP, a decline from 2009 owing to a modest reduction in the wage bill and in goods and services expenditure, combined with stable transfers. Investment expenditure totaled 12.2 percent of GDP, compared with 11.6 percent in 2009, reflecting the rehabilitation of infrastructure destroyed or damaged by the 2009 and 2010 floods, and the construction of new infrastructure to celebrate the 50th anniversary of Burkina Faso's independence.

8. **On the reduction of payment arrears audited at end-December 2008**, the outstanding balance at end-2009, for which payment was programmed for 2010, stood at CFAF 6.2 billion. The payment could not be made as planned, because the reconciliation work with the National Social Security Fund (CNSS) took longer than anticipated.

9. **The overall budget deficit (cash basis, including grants) represented 4.6 percent of GDP in 2010, compared with 2.4 percent in 2009.** It was financed primarily by external resources and the issuance of bonds in the regional market. IMF financing under the ECF amounted to CFAF 10.7 billion.

B. Results of Program Implementation in 2010

10. **Program implementation was satisfactory**. All quantitative performance criteria (Table 1) at end-December 2010 were met: (i) the overall deficit as defined in the November 17, 2010, Technical Memorandum of Understanding totaled CFAF 232.4 billion, below the adjusted ceiling of CFAF 246.8 billion; (ii) the government did not contract or guarantee new nonconcessional external debt; (iii) the government did not contract or guarantee new short-term external debt; and (iv) the government did not accumulate any arrears on external debt. All indicative targets were met or exceeded: (i) the minimum total revenue of CFAF 667.9 billion was exceeded with an actual collection of CFAF 681.3 billion; (ii) the benchmark for social spending was outperformed with an actual execution of CFAF 297 billion, compared to the floor of CFAF 274.5 billion; (iii) the large taxpayer nonfiler rate was reduced to 3 percent, below the 5 percent target; and (iv) the government accumulated no domestic payment arrears.

11. **All structural benchmarks for the second program review were achieved (Table 2):** (i) computerization and connection of the Bingo and Cinkansé offices to the single customs server is now complete. However, some final arrangements remain to be carried out by the WAEMU to allow operations at the Cinkansé joint border post to begin; these include the interconnection of the Togolese and Burkinabè customs services systems, and the harmonization of procedures and the transit management system; (ii) the government

conducted a study of the pricing and taxation of petroleum products to improve the petroleum pricing mechanism; (iii) efforts to enhance the effectiveness of the civil service and compensation policy resulted in the comprehensive application of the merit-based promotion system; (iv) regarding the restructuring of the *Banque Commerciale du Burkina,* the two principal shareholders agreed at the October 2010 board meeting to pay their respective shares of the capital increase, in accordance with new regional capital adequacy requirements; and (v) SOFITEX prepared its five-year business plan for 2010–2014.

12. **To strengthen debt management capacity, a World Bank mission conducted an assessment of debt management performance at the government's request in March 2011,** using the Debt Management Performance Assessment (DEMPA) tool. In addition, new regulations issued by the Minister of Economy and Finance will help clarify the roles and responsibilities of all external-financing parties. Recommendations from the DEMPA mission will help define needed reforms for the period ahead.

13. **The process of harmonizing national law with WAEMU directives on public finances began** by strengthening national experts' capacities and updating user guides for the directives, supervised by the WAEMU Commission to ensure a smooth harmonization. Based on the action plan for this harmonization, three working groups were created and began work in January 2011.

14. **Reforms in the cotton sector continued in a more favorable context owing to the increase in the international price of cotton.** The government signed an agreement with SOFITEX for the repayment of its debts to the domestic banking system, thereby consolidating its financial position. It also began the process of re-allocating the cotton cultivated area between ginning companies. This process is aimed at increasing cottonseed production for the two smaller ginneries to increase their viability. In particular, the government offered to transfer the Koudougou production area operated by SOFITEX to *Faso Coton*. The area proposed for transfer includes two ginning plants. In addition, studies on the financing mechanisms for the price-smoothing and inputs funds were conducted, and will be finalized during two workshops to be organized in coming months. Moreover, climate risk insurance for the cotton sector is also being studied.

15. **Regarding the implementation of the financial sector development strategy**, despite continued problems with its funding, several measures were completed: (i) the government and the Central Bank of West African States (BCEAO) organized information and outreach activities to promote access to banking services; (ii) an organizational and functional audit of the Directorate of Insurance was conducted and its recommendations were forwarded to the authorities; (iii) a number of activities were carried out to disseminate and implement the new legal provisions concerning the Decentralized Financial System (SFD), including providing stakeholders with pamphlets on the new SFD law adopted in 2009; organizing an annual information workshop in July 2010 for stakeholders and in March 2011 for regional government authorities; publishing a list of licensed decentralized financial

institutions (SFD) in November 2010; and organizing 139 SFD inspection missions. Also, the assessment of contribution arrears to the CNSS established the amount payable by the government to the Fund at CFAF 2.3 billion, which is programmed to be settled in 2011.

16. **In 2010–11, efforts to divest the government's holdings in the productive sector focused on two measures**: negotiations with the International Finance Corporation (IFC) to divest part of the government's holdings in *Banque de l'Habitat du Burkina Faso* (BHBF) resulted in the transfer of 6 percent of the capital of BHBF to the IFC; and the motor vehicle inspection service (CCVA) was privatized.

17. **There was progress in meeting conditions under the Extractive Industries Transparency Initiative (EITI).** The main actions taken in 2010 were**:** (i) a website was developed for the EITI Secretariat (www.itie-bf.gov.bf); (ii) informational, communication, and outreach activities were arranged for representatives of the administration, mining companies, and civil society organizations, as well as for translators from the areas bordering the mining sites; and (iii) the first data reconciliation report was prepared.

18. **In accordance with the second pillar of the poverty reduction strategy regarding promoting access to basic social services and social protection, the government continued implementing reforms approved in the education and health sectors**. In the education sector, efforts to implement the 10-year educational development plan produced satisfactory results in supply and quality of basic education: (i) the number of students increased from 1,906,275 in 2008/2009 to 2,047,630 students in 2009/2010; (ii) the ratio of books to students increased to 1.1 for reading and 1.0 for mathematics during the 2009/2010 school year. To consolidate these efforts, key institutional changes were implemented by the government, with the creation of the Ministry of National Education and Literacy (MENA), which effectively extended basic education to the first cycle of secondary school. In post-primary and secondary education, the government is committed to finalizing the school districting map. To increase health care coverage, the government implemented measures to construct and equip healthcare centers; recruit healthcare personnel; and increase vaccination coverage. In addition in 2010, the percentage of local healthcare centers' meeting personnel standards was 84.3 percent, indicating better quality services for the population. The percentage of births attended by qualified personnel was 75.3 percent compared with an annual target of 72 percent. To improve the performance of the national social protection system and develop a coherent strategy of effective social safety nets for vulnerable population groups, the government, with support from its partners, is committed to developing a social protection strategy that will strengthen the government's capacity to design, implement, monitor, and evaluate pro-poor programs.

C. The Accelerated Growth and Sustainable Development Strategy (SCADD)

19. **In December 2010, the government adopted a new Poverty Reduction and Growth Strategy Paper called Strategy for Accelerated Growth and Sustainable Development** (SCADD) for 2011–15, which replaces the poverty reduction strategy implemented during 2000–10. The SCADD will now serve as the basis for the government's medium-term economic policies and objectives and is therefore the reference framework for all development interventions. Its implementation will allow a more effective fight against poverty and will strengthen the dialogue between the government and all stakeholders.

20. **The SCADD was prepared following an extensive consultation process**. Consultations were conducted at five levels: sector and thematic consultations; regional consultations; consultation with private sector and civil society stakeholders; consultation with government institutions; and national conferences.

21. **The main objective under the SCADD is to achieve a strong, diversified, and sustained economic growth,** based on sustainable management of natural resources which produces multiplier effects in terms of increasing the population's income and improving its quality of life. To achieve this objective, the government intends to (i) intensify measures aimed at supporting the diversification of the production base; (ii) significantly improve the absorptive capacity for and quality of public investment; (iii) increase investment in the energy sector to support private sector activity; (iv) give priority to infrastructure investments; and (v) continue structural reforms, especially those needed to improve the business climate. It is expected that these measures will boost growth to an average of 10 percent during the SCADD implementation period.

22. **In addition to accelerating growth, the specific objectives of the SCADD are also to make progress toward the Millennium Development Goals (MDG) by 2015.** Priority areas will be (i) eradicate extreme poverty and hunger; (ii) achieve universal primary education; (iii) promote gender equality and empower women; (iv) improve citizens' health by reducing the under-5 child mortality rate; (v) improve maternal health; (vi) combat HIV/AIDS, malaria, and other diseases; and (vii) ensure environmental sustainability.

23. **The SCADD is based on the following four pillars:**

- *Pillar 1: Developing the engines of accelerated growth*. This pillar will identify the sectors and locations to be supported in the production of high value-added goods and services: regional centers, manufacturing industry, agribusiness, culture and tourism, and the environment.

- *Pillar 2: Consolidating human capital and promoting social protection*. Significant progress was made during the last ten years in valuing human capital and strengthening social protection. This area remains vital for the country, as it embarks on a new phase in its development, to join the ranks of emerging and prosperous nations. Accordingly, the government will focus on income generating opportunities and job creation, the development of education and training, health—especially women's health, social protection, demographic issues, urban development, and access to basic social services in general.

- *Pillar 3: Strengthening governance*. The government is determined to improve economic, political, administrative, and local governance.

- *Pillar 4: Addressing cross-cutting priorities in development policies and programs*. The success of the SCADD will depend on addressing cross-cutting issues such as gender, population, the environment, and regional development. Accordingly, these issues will be considered and addressed in policy dialogue at all levels and in the process of formulating sector policies and programs.

24. **The satisfactory implementation of the SCADD and the achievement of the objectives established for 2011–15 are subject to certain risks** for which the government will prepare mitigating measures. These risks involve essentially: (i) uncertainties about available financing; (ii) the economy's vulnerability to natural disasters; (iii) lack of capacity and commitments from stakeholders on needed actions; and (iv) the economy's vulnerability regional and international economic developments.

III. Medium-Term Macroeconomic Framework

25. **The medium-term macroeconomic framework intends to support the SCADD's objectives**. Under the central scenario: (i) growth should reach 6.5 percent by 2015; (ii) inflation will remain modest, in line with regional convergence criteria; and (iii) the external position will improve, with the external current account deficit reaching 5.6 percent of GDP in 2015. The growth and investment projections under the central scenario are less ambitious then under the SCADD, reflecting existing impediments to growth, and some of the risks linked to the implementation of the SCADD, particularly the time needed for the strategy's effects on growth to materialize.

IV. Economic and Financial Policies for 2011

A. Macroeconomic Framework

26. **The government will maintain efforts to support fiscal consolidation, strengthen social policies, and pursue the reforms necessary to increase the pace of growth and reduce poverty**. The government is aware that program implementation in 2011 will take place in a difficult context marked by higher petroleum and food prices and the impact of postelection crisis in Côte d'Ivoire in early 2011, which negatively affected the Burkinabè economy. Therefore, the government has adopted measures to contain the impact of these shocks on public finance and the most vulnerable groups of the population. The economy has also been affected by the social turmoil that took place during the first part of the year.

27. **The objectives for the 2011 framework are**

- **Real growth of 5.2 percent**. This rate is set slightly below the original program projections of 5.5 percent, mostly because of the potential impact of exogenous shocks. In particular, the crisis in Côte d'Ivoire has affected energy supply and activities of companies that stopped production because of shortages of inputs and raw materials imported from Côte d'Ivoire.

- **Average inflation of close to 3 percent**. Despite the anticipated positive effect of a good harvest in 2011, inflationary pressures will be exacerbated by the impact of the Ivoirian crisis on production costs, particularly transportation costs, and by imported inflation.

- **An external current account deficit of 5.8 percent of GDP**. This is less optimistic than the 2010 estimates, reflecting the impact of projected higher oil prices and, to a lesser extent, lower exports growth.

B. Fiscal Policy

28. **Fiscal policy will aim to support the macroeconomic stability required for accelerated growth and sustainable development**. Accordingly, reforms aiming to increase revenue and contain expenditure will be pursued and intensified.

29. **The government drafted a supplementary budget for 2011 that takes account of the institutional changes implemented in April 2011 following the social unrest and the impact of exogenous shocks in 2011**. Under the supplementary budget, which was adopted by the National Assembly in May, the budget deficit (commitment basis, including grants) would amount to 3.4 percent of GDP, an improvement from 2010, mainly owing to a substantial increase in external budgetary assistance.

30. **Revenue mobilization will continue to be supported by the measures presented in the November 17, 2010, Memorandum of Economic and Financial Policies**. Revenue will increase through the implementation of tax measures adopted in 2010, notably the entry into force of the corporate income tax; the installation of two scanners at the Ouagadougou and Bobo Dioulasso customs posts to improve valuation of imported goods by December 2011 (**Structural Benchmark**); the implementation of other administrative measures, including continued computerization of tax offices; and the intensification of joint inspections by the customs and tax administrations. Despite the positive impact of these factors, however, revenue could be lower than originally projected because of the impact of the social unrest and exogenous shocks. Accordingly, fiscal revenue is projected at CFAF 711.7 billion, equivalent to 15.1 percent of GDP.

31. **Total expenditure and net lending is expected to reach CFAF 1,207.9 billion**. It is higher than originally anticipated owing to the following factors:

- Higher current spending, in particular the wage bill and transfers. Regarding the wage bill, the increase essentially reflects the regularization of administrative decisions on recruitment and promotion in the civil service, and the impact of measures announced after the social unrest in early 2011. The higher budget allocations for transfers reflect the impact of the 2011 exogenous shocks: (i) increased subsidies for petroleum products to SONABEL for electricity production and for butane gas (the latter being considered of social importance), to mitigate the impact of higher international oil prices on the company financial situation; (ii) increased transfers to SONABHY consistent with the continued freeze in the adjustment of petroleum products retail prices; and (iii) some of the financial cost of measures taken the authorities to ensure the return to peace in the country by meeting some of the claims made by protestors. Key measures taken in this respect include: a three-month freeze in the retail price for rice, sugar, and cooking oil; a 10 percent reduction on the tax on salaries; the extension of low-interest loans to businesses that suffered damages during the lootings; and compensation to private owners for rehabilitation of their properties destroyed by protestors.

- Higher investment spending. Using a portion of the additional budgetary assistance, this increased spending seeks to support growth as laid out in the SCADD, particularly through investment in infrastructure. Special investment projects planned for 2011 will cover those aiming at increasing energy supply, including solar-powered rural electrification; expanding programs based on multifunctional platforms and programs to provide technology to women for income-generating activities; improving agricultural, sanitation, and health equipment; providing sanitation equipment to improve the quality of public hospitals; extending administrative support, including for government entities; and establishing research funds for major projects and disaster management. Higher capital spending will also finance the leasing of generators to increase SONABEL's production, thereby compensating the lack of electricity supply from Côte d'Ivoire during January-May 2011; and cover higher cost for projects caused by increased oil prices and the expected rise in import prices.

32. **The overall budget deficit (cash basis, excluding grants) is projected at 11.1 percent of GDP**. It will be financed with budget support from Burkina Faso's development partners, and the issuance of debt on the regional market. Aware of the uncertainties surrounding 2011, the government has been vigilant in executing the 2011 budget, and agrees to revise spending downward, notably capital expenditure, or to reallocated budgetary appropriations between line ministries to compensate for any shortfall in budget resources, in order to avoid accumulating domestic payment arrears, that would adversely affect economic activity and the banking system. Such actions would take place, if needed, through a second supplementary budget in the second half of the year.

C. Balance of Payments and External Debt

33. **In 2011, export receipts are expected to increase by 51.2 percent, primarily as a result of the sharp rise in the export prices of cotton and gold**. However, the current account deficit (including grants) is expected to widen to 4.9 percent of GDP owing to the anticipated rise in prices of oil and several food products. The overall balance of payments is projected at a surplus of CFAF 30.8 billion, reflecting a significant increase in other financial flows expected in 2011.

34. **The government remains committed to maintaining a prudent external borrowing policy to ensure the sustainability of external debt**. To this end, it will continue to request support from Burkina Faso's development partners to ensure that most of its financing needs are covered with grants. It will also ensure that future loans will be contracted under concessional terms as defined in the Technical Memorandum of Understanding attached to this memorandum.

35. **Measures to strengthen external debt management in 2011–12 will essentially follow recommendations of the March 2011 World Bank debt management performance assessment mission (DEMPA)**. Additional reform measures for 2011–12 will include (i) improving the medium-term borrowing strategy, (ii) developing a debt-issuance strategy for the WAEMU bond market, (iii) conducting an external audit of debt management practices, and (iv) implementing the integrated external-financing system by end-June 2011 (**Structural Benchmark**). Training activities will be organized in 2011 to facilitate the use of the procedures manual adopted in 2009.

D. Policies and Structural Measures

36. **The government will continue to consolidate progress toward implementing measures programmed for end-June and end-December 2011, as presented in the November 17, 2010 memorandum** and in Table 2. Building on measures completed in 2010, the government will also initiate reforms in areas expected to support the achievement of program objectives.

37. **Regarding public finances, efforts to improve budget procedures and cash management will continue**. The new framework for the monthly Treasury cash flow management plan will be refined to present expenditure according to priority. The authorities also plan to complete the audits of expenditure commitment systems in line ministries by end-June 2011 (**Structural Benchmark**) and to implement recommendations from the audits. In addition, a committee will be set up to coordinate the preparation of budget execution data, and efforts to reduce delays in payments will continue, including through the introduction of verification units in five pilot line ministries by March 2012 (**Structural Benchmark**).

38. **Regarding the reform of the civil service management and compensation policy, preparatory work for the civil service census will continue**. The civil service census and the harmonization of the payroll and civil service system are expected to be finalized by December 2011 (**Structural Benchmark**). Building on the outcome of the census, the authorities plan to issue biometric identification cards to civil servants in three pilot institutions and ministries by June 2012 (**Structural Benchmark**). This experimental phase will provide lessons to be used for the extension of the system. Also, implementation of the merit-based promotion policy will continue.

39. **The authorities are aware of the high cost for the budget of subsidies to petroleum products, and are committed to adopt a new pricing system.** Taking into account financing constraints and pressing social needs, the authorities believe that a new pricing system that would allow a pass-through of fluctuations in the international oil price would help contain the level of subsidies to petroleum products, and benefit SONABHY financial situation. Based on the study completed at end-2010, the authorities plan to adopt and implement such a system by December 2011 (**Structural Benchmark**), instead of June 2011 as originally anticipated.

40. **In the cotton sector, the rehabilitation of SOFITEX will continue through implementation of internal measures to reduce costs and improve risk management**. The study on revision of the price-smoothing mechanism conducted in 2010–11 was validated on March 25, 2011. The new system was used to assess the final adjustment (*décompte*) for the 2010/2011 crop year, which determined a producer price of CFAF 210/kg of cottonseed and purchase price of CFAF 245/kg of cottonseed for the 2011/2012 crop year. The preliminary report of the inputs fund study was completed at end-April 2011. Based on the outcome of the two studies, new mechanisms will be agreed upon between stakeholders in the cotton sector by end-June 2011 (**Structural Benchmark**). The exclusivity arrangement for the three cotton-producing areas will expire in 2012, and discussions will be initiated with stakeholders to reach a new agreement in advance of this date. Based on this new framework to be defined for the sector, and in view of progress made in rehabilitating SOFITEX, the government plans to prepare a strategy to reduce its stake in SOFITEX by end-June 2012 (**Structural Benchmark**).

41. **Regarding developing pillars of growth as defined in the SCADD**, the government is in the process of launching the Bagré pilot growth pole in the country's Central East Region. In March 2011, the government adopted a strategy to promote Public-Private Partnerships (PPP), notably to increase private sector participation in public investment programs. The action plan for the strategy's implementation, including the definition of the legal and institutional framework will be prepared in coming months.

42. **The government intends to continue and intensify the implementation of the financial sector strategy,** while continuing efforts to raise the funds needed to properly implement the strategy. Two actions are planned for 2011–12: the implementation of the new

strategy for microfinance development by end-June 2011 (**Structural benchmark**), and the preparation of a strategy to enhance the quality of financial services offered by SONAPOST by end-June 2012 (**Structural benchmark**).

E. Program Monitoring

43. **The authorities intend to closely monitor the implementation of their economic and financial program**. To ensure the success of the program, they intend to take the necessary steps to reach the quantitative and structural targets agreed upon with IMF staff and presented in Tables 1 and 2 of this memorandum. In monitoring program implementation, the authorities plan to follow the Technical Memorandum of Understanding, which defines quantitative performance criteria and requirements for data transmission to IMF staff.

44. **Throughout the program, the Burkinabè government will not** (i) introduce restrictions on payments and transfers under current transactions or tighten any such restrictions without prior consultation with the IMF; (ii) introduce or modify multiple currency practices; (iii) conclude bilateral payment agreements incompatible with the provisions of Article VIII of the IMF Articles of Agreement; or (iv) introduce restrictions on imports for balance of payments' controls.

45. **The second review of the ECF-supported program is expected to be concluded no later than July 15, 2011, and the third review no later than December 15, 2011**.

Table 1. Burkina Faso: Quantitative Performance Criteria and Indicative Targets, 2011

(CFAF billions, cumulative from beginning of year; unless otherwise indicated)

	2010		2011			
	Dec.		Mar. [5]	Jun. [6]	Sep. [5]	Dec. [6]
	Prog. [7]	Est.	Prog.	Prog.	Prog.	Prog.
Performance criteria and benchmarks						
Ceiling on the overall fiscal deficit including grants [1]	217.8	232.4	73.0	91.0	178.3	186.1
Ceiling on the amount of new nonconcessional external debt contracted or guaranteed by the government [2, 3]	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 [2, 3]	0.0	0.0	0.0	0.0	0.0	0.0
Accumulation of external arrears [2]	0.0	0.0	0.0	0.0	0.0	0.0
Indicative targets						
Government revenue	667.9	681.3	142.8	347.6	508.2	711.7
Poverty-reducing social expenditures	274.5	297.2	69.2	144.6	229.5	314.4
Large taxpayer non-filer rate [4]	5.0	1.9	5.0	5.0	5.0	5.0
Accumulation of domestic arrears	0.0	0.0	0.0	0.0	0.0	0.0
Maximum upward adjustment of deficit ceiling including grants due to:						
Shortfall in grants relative to program projections	25.0	25.0	25.0	25.0	25.0	25.0
Excess in concessional loan financing relative to program projections	15.0	3.9	15.0	15.0	15.0	15.0
Adjustment factors						
Shortfall in grants relative to program projections	-7.5	73.6	0.0	0.0	0.0	0.0
Excess in concessional loan financing relative to program projections	5.3	3.9	0.0	0.0	0.0	0.0
Memorandum items:						
Basic primary balance (cash basis)	-213.6	-172.6	-50.6	-147.3	-196.9	-218.7
Grants	272.6	198.9	19.9	137.2	195.2	330.0
Concessional loans	161.5	165.4	41.2	41.2	82.3	164.6

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

[1] The ceiling on the overall fiscal deficit is to be adjusted in line with the TMU definition. It is calculated on a commitment basis.

[2] To be observed continuously.

[3] 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.

[4] Applies to average over respective quarter. The value for 2010 corresponds to the fourth quarter.

[5] Indicative target.

[6] Performance criteria.

[7] CR 10/361.

Table 2. Structural Benchmarks, 2011–12

Measures	Date
Public Financial Management	
Prepare an audit of expenditure commitment systems in line ministries.	End-June 2011 (Third review)
Implement a new pricing and taxation system for petroleum products.	End-Dec. 2011 (New date) (Third review)
Implement the external financing integrated system.	End-June. 2011 (Fourth review)
Set up a one stop window for customs clearance.	End-Dec. 2011 (Fourth review)
Set up an electronic system to improve merchandise valuation in two customs posts.	End-Dec. 2011 (Fourth review)
Install units in charge of expenditure control in five line ministries.	End-March 2012 (Fifth review)
Public Service	
Complete the civil service survey and harmonize the payroll and the civil service roster.	End-Dec. 2011 (Fourth review)
Implement the biometric card for civil servants in three pilot institutions.	End-June 2012 (Sixth Review)
Cotton Sector	
Adopt recommendations from the studies on financing mechanisms for the price-smoothing fund, and for the inputs fund, and develop an action plan for implementing the new mechanisms.	End-June 2011 (Third review)
Prepare a strategy for the gradual reduction of state participation in the capital structure of SOFITEX.	End-June 2012 (Sixth Review)
Financial Sector	
Implement the microfinance strategy.	End-June 2011 (Third review)
Prepare a strategy to enhance the quality of financial services offered by the SONAPOST.	End-June 2012 (Sixth Review)

ATTACHMENT II—TECHNICAL MEMORANDUM OF UNDERSTANDING

Ouagadougou, June 28, 2011

1. This technical memorandum of understanding (TMU) defines the quantitative performance criteria and indicative targets, as well as structural benchmarks to assess performance under the program supported by the Extended Credit Facility (ECF). It also sets deadlines for data reporting.

I. DEFINITIONS

2. **Government**. Unless otherwise indicated, "government" means the central administration of Burkina Faso and does not include any local administration, the central bank, or any other public or government-owned entity with autonomous legal personality not included in the government flow-of-funds table (TOFE).

3. **Definition of debt**. For the purposes of the relevant assessment criteria, the definition of debt is set out in Executive Board Decision No.6230-(79/140), Point 9, as revised on August 31, 2009 (Decision No. 14416-(09/91)).

a) the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

    i. loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);
    ii. suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and
    iii. leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the 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 excluding those payments that

cover the operation, repair or maintenance of the property.

b) Under the definition of debt above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

4. **Debt guarantees**. For the purposes of the relevant assessment criteria, the guarantee of a debt arises from any explicit legal obligation of the government to service a debt in the event of nonpayment by the debtor (involving payments in cash or in kind).

5. **Debt concessionality**. For the purposes of the relevant assessment criteria, a debt is considered concessional if it includes a grant element of at least 35 percent;[1] the grant element is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt.[2] The discount rates used for this purpose are the currency specific commercial interest reference rates (CIRRs), published by OECD.[3] For debt with a maturity of at least 15 years, the ten-year-average CIRR is used to calculate the PV of debt and, hence, its grant element. For debt with a maturity of less than 15 years, the six-month average CIRR is used. The margins for differing repayment periods (0.75 percent for repayment periods of less than 15 years, 1 percent for 15 to 19 years, 1.15 percent for 20 to 29 years, and 1.25 percent for 30 years or more) are added to the ten-year and six-month CIRR averages.

6. **External debt**. For the purposes of the relevant assessment criteria, external debt is defined as debt borrowed or serviced in a currency other than the CFA franc. This definition also applies to debt among WAEMU countries.

7. **Debt-related assessment criteria**. The relevant assessment criteria apply to the contracting and guaranteeing of new non-concessional external debt by the government, public enterprises, and other official entities unless excluded in the MEFP (Table 1). The criteria apply to debt and commitments contracted or guaranteed for which value has not yet been received. The criteria also apply to private debt for which official guarantees have been extended and which, therefore, constitute a contingent liability of the government. The

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[1] The following reference on the IMF website creates a link to a tool that allows for the calculation of the grant element of a broad range of financing packages: http://www.imf.org/external/np/pdr/conc/calculator.

[2] The calculation of concessionality will take into account all aspects of the debt agreement, including maturity, grace period, payment schedule, upfront commissions, and management fees.

[3] For debts in foreign currencies for which the OECD does not calculate a CIRR, calculation of the grant element should be based on the composite CIRR (weighted average) of the currencies in the SDR basket.

assessment criteria are measured on a cumulative basis from the time of approval of the ECF by the Executive Board. ACs will be monitored on a continuous basis. No adjuster will be applied to these criteria.

8. **Reporting requirements**. The government will report any new external borrowing and its terms to Fund staff as soon as external debt is contracted or guaranteed by the government, but no later than within two weeks of such external debt being contracted or guaranteed.

II. Quantitative Performance Criteria

9. Quantitative performance criteria are proposed for June and December 2011 for the overall deficit (commitment basis, including grants) as defined in paragraph 4; contracting or guaranteeing of non-concessional and short-term external debt as specified below in this paragraph; and accumulation of external arrears. Programmed amounts for March and September 2011 are benchmarks. The following performance criteria will be monitored on a continuous basis: (i) the contracting or guaranteeing of new non-concessional external debt by the government, public enterprises and other official sector entities unless excluded in Tables 1 of the Memorandum of Economic and Financial Policies (MEFP), as well as private debt for which official guarantees have been extended and which, therefore constitute a contingent liability of the government; (ii) the contracting or guaranteeing of new short-term external debt; and (iii) the accumulation of arrears on the external debt service of the government.

A. Overall Deficit Including Grants

Definition

10. For the program, the overall deficit including grants is valued on a commitment basis *(base engagement)*. It is 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 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 nonpayées)*; and (ii) change in treasury deposits.

11. 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 departments of the Ministry of Economy and Finance.

Adjustment

12. The overall deficit including grants is adjusted upward by the amount that grants fall short of what is programmed up to a maximum of CFAF 25 billion (see the MEFP Table 1). It will not be adjusted if grants are higher than programmed.

13. The overall deficit including grants will also be adjusted upward by the amount that concessional loans exceed what is programmed up to a maximum of CFAF 15 billion (see the MEFP Table 1).

Reporting deadlines

14. The Ministry of Economy and 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 External Arrears

Performance criterion

15. 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 being renegotiated with creditors, including non-Paris Club bilateral creditors. Nonaccumulation of external arrears is a performance criterion, to be observed continuously.

Reporting deadlines

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

C. Nonconcessional External Debt Contracted or Guaranteed by the Government

Performance criterion

17. 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 Executive Board Decision No. 6230-(79/140), as subsequently amended, including by Executive Board Decision No. 14416-(09/91), effective December 1, 2009, but also to commitments contracted or guaranteed (including lease-purchase contracts) for which no value have been received. This criterion also applies to the guaranteeing of private sector debt by the government, which consequently constitutes a contingent liability of the government, as defined in section I of this memorandum. In addition, this criterion applies to public enterprises and other official entities unless excluded in the MEFP (Table 1). External debt excludes Treasury bills and bonds issued in CFA francs on the WAEMU regional market. This performance criterion is to be observed continuously.

Reporting deadlines

18. 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. The same requirement applies to guarantees granted by the government.

D. Government Short-Term External Debt

19. The definitions in paragraph 11 also apply to this performance criterion. Short-term external debt is debt with a contractual term of less than one year. Import- and export-related loans, Treasury bills issued in CFA francs on the WAEMU regional market, normal short-term supplier credits, and debt relief operations are not covered by this performance criterion.

Performance criterion

20. In the context of the program, the government undertakes not to contract or guarantee short-term nonconcessional external debt. The definition of nonconcessional in paragraph 3b applies here. The government also undertakes not to contract or guarantee any short-term external debt without having first determined its concessionality with IMF staff. This performance criterion is to be observed continuously. As of September 30, 2010, the government of Burkina Faso had no short-term external debt.

III. OTHER QUANTITATIVE INDICATIVE TARGETS

21. The program also includes indicative targets on total government revenue, poverty-reducing social expenditures, accumulation of domestic payment arrears, and large taxpayer nonfiler rates.

A. Total Government Revenue

Definition

22. 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. It also includes revenue from treasury checks.

Reporting deadlines

23. 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

24. 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 and Living Conditions. They also cover rural roads and HIPC resources (Category 5) for infrastructure spending and HIPC expenditures only for the Justice Ministry and the Ministry of Economy and Development. These expenditures are monitored directly through the budget.

Reporting deadlines

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

C. Nonaccumulation of Domestic Payment Arrears

Definition

26. The government will not accumulate any arrears on domestic government obligations during the program period. This is a benchmark to be observed continuously.

Reporting deadlines

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

D. Large Taxpayer Nonfiler Rate

Definition

28. The large taxpayer nonfiler rate is the ratio of late and nonfilers in the Large Taxpayer Office (LTO) relative to the total number of taxpayers obligated to file in LTO. 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)*, and the tax on wage income (IUTS). Filing deadlines for the main tax categories are set in the tax code.

Reporting deadlines

29. The government will report within two weeks after the end of each quarter the total number of late and nonfilers as well as the total number of taxpayers obligated to file in LTO for the main tax categories.

IV. Structural Benchmarks

30. The program incorporates structural benchmarks (see the MEFP Table 2).

V. Additional Program Monitoring Information

A. Public Finance

31. 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 in the table on the monitoring of poverty-reducing expenditures that will be submitted with the same transmission delay as for the above-defined TOFE table;

- Monthly data on prices and 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, IUTS*) the numbers of: register taxpayers, statements received, and reminder letters sent to late and non filers; and

- 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 two weeks of the end of the quarter: total number of customs statements, number of statements selected by channel, and number of statements by channel subject to non-standard treatment.

B. Monetary Sector

32. 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 provided six weeks after the end of each month (with final data provided ten weeks after the end of each month);
- Borrowing and lending interest rates; and
- Customary banking supervision indicators for bank and nonbank financial institutions, if necessary.

C. Balance of Payments

33. 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; and
- Preliminary annual balance of payments data within nine months after the end of the year concerned.

D. Real Sector

34. 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; and
- Any revision of the national accounts.

E. Structural Reforms and Other Data

35. The government will also report the following:

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