International Monetary Fund

Burkina Faso and the IMF

Press Release:
IMF Executive Board Completes Third Review Under ECF Arrangement for Burkina Faso and Approves US$9.95 Million Disbursement
December 21, 2011

Country's Policy Intentions Documents

E-Mail Notification
Subscribe or Modify your subscription

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

December 7, 2011

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.

LETTER OF INTENT

Ouagadougou, December 7, 2011

Christine Lagarde
Managing Director,
International Monetary Fund
700 19th Street NW
WASHINGTON, DC 20431 (USA)

Dear Mrs. Lagarde:

1. The government of Burkina Faso remains determined to address the country's developmental challenges, as reflected in the ambitious goals set in the PRPS.

2. Despite a difficult social and regional environment in the first half of the year, the government maintained the course for economic policies, while taking mitigating measures to address the impact of the exogenous shocks. Despite these shocks, however, economic prospects for 2011 and 2012 are promising. Economic growth is expected to be in line with projections for both years, while inflationary pressures should be moderate. Nonetheless, the government is committed to fiscal discipline to consolidate recent progress in fiscal sustainability, and support macroeconomic stability.

3. The government maintained sound policies, and implemented its economic and financial program supported by the IMF under the Extended Credit Facility in a satisfactory manner. As a result, at end-June 2011, all quantitative performance criteria, and all indicative targets, except for the one on poverty reducing spending were met and, most structural reforms measures were implemented. Furthermore, as indicated in the attached MEFP, the government maintains its resolve on reform implementation and prudent fiscal management. Therefore, it is convinced that program objectives for end-December 2011 are reachable, as reflected in the 2011 supplementary budget, in the case of fiscal objectives.

4. The draft budget for 2012 is consistent with the programmed fiscal targets. It calls for continued revenue mobilization efforts and prudent expenditure management. In particular, the government intends to increase capital and pro-poor expenditure to support its growth and poverty reduction objectives, and to ensure that the wage policy remains consistent with medium-term fiscal sustainability. In this vein, the agreement reached with labor unions on November 29, 2011 is fully consistent with this objective. As a result, the overall fiscal deficit budgeted for 2012 stands at 3 percent of GDP, down from 3.9 percent of GDP in 2011.

5. The government is convinced that the economic and financial policies presented in the attached Memorandum of Economic and Financial Policies (MEFP) support the achievement of medium-term objectives, and in particular, those set under our ECF–supported program. It is determined to take any additional measures that may become

necessary to reach the objectives. Should such measures become necessary, the government will consult with the IMF before their adoption, and before any revision to policies outlined in the MEFP, in accordance with the Fund's policies on such consultation. Furthermore, the government will provide the IMF with information on policy and reform implementation, as agreed under the attached Technical Memorandum of Understanding, or upon request.

6. In view of the strong program performance and policy commitments outlined in the MEFP attached to this letter, the government of Burkina Faso requests the completion of the third ECF review, and the fourth 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

ATTACHMENT I

MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES FOR 2011–12

DECEMBER 7, 2011

I. Introduction

1. The economic and financial program of Burkina Faso, supported by the International Monetary Fund (IMF) under the Extended Credit Facility (ECF) is intended to consolidate macroeconomic stability, enhance growth prospects, and step up the fight against poverty, in line with the objectives of the Strategy for Accelerated Growth and Sustained Development (SCADD). This memorandum of economic and financial policies taking stock of the program's implementation as of end-June 2011, and outlines economic policies and reforms that the government intends to undertake to achieve the objectives set in its economic and financial program for the remainder of 2011 and 2012. It supplements the Letter of Intent from the Minister of Economy and Finance, as well as the Memorandum of Economic and Financial Policies of June 28, 2011.

II. Recent Economic Developments and Program Implementation at end-June 2011

A. Recent Economic Developments

2. Economic activity was affected by social unrest during the first half of 2011. Nonetheless, economic growth is expected to stand at 5.6 percent, supported primarily by continued dynamism in the mining sector and the recovery of cotton production. The mining sector should benefit from the expected expansion in production, projected at 21.3 percent, and the coming on stream of a manganese mine, with a projected production of 60,000 tons. The production of cottonseed should rise by 21.7 percent for the 2010/11 crop year. This increase is partly due to the continued support to producers and the increasing use of genetically-modified cottonseeds. As for consumer prices, annual average inflation is projected at 1.4 percent, well below the 3 percent WAEMU convergence criterion, reflecting essentially the impact of a good harvest from the 2009/10 crop year, and the favorable outlook for the 2010/2011 food crop.

3. The external position of Burkina Faso should improve in 2011. Net capital inflows, particularly in the form of budgetary assistance and the CFAF 30 billion in foreign assistance expected under the Millennium Challenge Account, should offset the projected deficit on the current account (excluding grants) and support a sharp improvement in the overall balance of payments, compared to 2010.

4. Money supply was up by 6.1 percent in June 2011 compared with end-December 2010. The increase was essentially due to rise in credit to the private sector, as well as a significant use of bank financing by the Treasury, caused in part by the low disbursement rate of budgetary support at end-June. The increase in net credit to the government and in

credit to the economy thus contributed to a rise in net domestic assets, which more than offset the decline in net foreign assets.

5. The financial system remains sound overall. The majority of banks continues to uphold prudential standards and are sufficiently capitalized according to the new regional rules. Moreover, they have remained active on the regional bond market and were not adversely affected by the post-election crisis in Côte d'Ivoire at the beginning of the year.

6. On the fiscal front, performance on the revenue side was strong at end-June 2011, while there were some weaknesses on expenditure execution. Revenues were in fact 11.4 percent higher than anticipated, thanks to measures to strengthen the revenue collection units and make them more accountable. Expenditure execution was weaker than expected, reflecting delays in the procurement process which, combined with the impact of social unrest, had an adverse impact on both investment and social spending in the first six months of the year. The midterm implementation review of the 2011 budget produced a number of recommendations that are expected to improve the execution rate for capital expenditure in the context of a new supplementary budget for 2011, submitted to the National Assembly in September. Budget execution during the first half of 2011 revealed the need for further adjustments to the budgetary closeout framework introduced in 2010, in order to ensure closer adherence to the budget calendar.

B. Results of Program Implementation

7. The majority of program objectives for end-June were met. The total revenue floor of CFAF 347.6 billion was exceeded by 11.4 percent, as revenue topped 387.3 billion. Moreover, thanks to ongoing efforts to ensure closer monitoring of businesses, the large taxpayer non-filer rate was 2.3 percent compared to a program target of 5 percent for end-June: 2 percent for the VAT, 5 percent for the *IUTS* (tax on wage income) and 2 percent for the *IMF* (minimum tax on businesses)—with a taxpayer follow-up rate of 100 percent. The performance criteria on overall budget deficit set at CFA 91 billion was met despite the shortfall in budgetary assistance experienced at end-June. However, social spending fell short of objectives, in part because of delays in the execution of capital expenditures. The government maintained a prudent foreign borrowing policy: it neither contracted nor guaranteed debt on non-concessional terms. Nor did it accumulate domestic payment arrears.

8. Most structural measures set for end-June 2011 were met (see Table 1 below). These include in particular the completion of the audit of finance and administration units (DAFs); implementation of the integrated external financing system; and completion of the study on mechanisms for financing the price-smoothing fund. The recommendations from that study were used to establish a new system for setting producer prices as of the 2011/12 cotton year. However, the study on the inputs fund was completed after the scheduled date of end-June 2011 because of data collection problems.

9. With respect to fiscal reforms, the following measures were taken:

- As part of the antifraud campaign, two scanners were purchased for the customs offices at Ouagadougou (road) and Bobo Dioulasso (station) and a startup test was conducted at Ouagadougou. Corrective maintenance, preparation of an operating procedures manual, and a public information and awareness campaign are on course for implementation by the end of the year. However, the ORBUS customs preclearance system will be deployed late, as it took longer than expected to obtain the consent of the principal financing partner supporting this component of customs facilitation reforms.

- For reducing payment times, a Council of Ministers adopted a decree on July 27, 2011 instituting budget expenditure verification units in line ministries and institutions. Arrangements are now in place to make five verification units operational on a pilot basis.

- The Technical Secretariat of the Budget Execution and Cash Management Monitoring Committee is now responsible for validating the data in the government flow-of-funds table (TOFE) before its submission to the Committee, which meets monthly. This step will further strengthen the reliability of data in the TOFE and reduce the time taken to complete it.

10. There has been significant progress in preparations for the transition to a results-based budgeting framework by 2017, as recommended by WAEMU. The principal steps taken in 2010 related to: (i) adoption of a conceptual memorandum by the Council of Ministers; (ii) organization of stakeholder awareness campaigns, including in the regions; and (iii) development of a methodological guide on the preparation of program budgets. That document was used as the basis for preparing program budgets for the seven pilot ministries in 2010.

11. With respect to internalizing WAEMU fiscal directives, a work schedule was adopted in January 2011 and three subcommittees finalized drafts of the following texts: (i) preliminary draft law on the transparency code, (ii) preliminary draft budget law, (iii) draft decree issuing general regulations on government accounting, (iv) draft decree establishing the legal regime applicable to government accounting officers, and (v) draft decree establishing the TOFE. These texts are expected to be validated by end-2011 and introduced for adoption by the National Assembly.

12. Measures to strengthen debt management capacity were pursued, including the following:

- Preparation of an action plan to address the vulnerabilities noted in the Debt Management Performance Assessment (DEMPA) prepared by the World Bank during the March 2011 mission.

- Inclusion of a risk analysis in the annual indebtedness strategy for 2012. However, there is still a need to strengthen risk analysis capabilities, and a request has been made to the IMF Institute for an on-site training course for selected staff.

- Training for staff involved in introducing the Integrated External Finance System.

- To facilitate use of the borrowing and debt management procedures manual adopted in 2009, training sessions were held for 63 officers during June 2011.

13. The authorities pursued reforms in the cotton sector. Actions to strengthen the management of SOFITEX were furthered, and the main recommendations from the study on the price-smoothing fund were implemented. The study on the inputs fund is expected by end-October 2011. The authorities have also begun work on an action plan to implement the strategy for reducing the government's stake in SOFITEX.

14. With respect to the financial sector development strategy, the following actions were taken: (i) a note was prepared outlining the strategy for restructuring the postal services including the overhaul of the information system, an improvement in the reliability of the postal financial services files, and a review of the organizational structure of SONAPOST; (ii) systematic and regular supervision was established for insurance companies and brokerage firms and the list of insurance agents and brokers was updated by the Insurance Directorate; and (iii) a workshop was held to validate the new microfinance development strategy in October 2011.

15. Progress was made with regard to implementation of a new pricing mechanism for petroleum products. The provisional report from the study was examined in March 2011 by a consulting firm, which provided guidance for finalizing the study in June 2011 during a validation workshop. The final report will be submitted to the Council of Ministers for review and adoption so that the new system can be implemented by end-December 2011.

III. Economic Policies for 2011–12

A. Macroeconomic Framework

16. The government intends to pursue strategies and actions to support growth and reduce poverty, in the context of the SCADD. For 2012, economic growth is projected at 5.8 percent, average inflation at around 2 percent, and the external current account deficit at 6.9 percent.

17. To achieve these objectives, the government will focus on: (i) vigorous pursuit of steps to strengthen fiscal progress to date, in terms both of revenue mobilization and of expenditure and cash management; (ii) implementation of structural reforms; and (iii) strengthening of social policy; and (iv) implementation of the measures and programs planned in the SCADD.

B. Fiscal Policy

18. Fiscal policy will focus on maintaining growth by boosting public investment and supporting private sector investment within a sustainable macroeconomic and financial framework. In 2011, the overall fiscal deficit (on a commitments basis, excluding grants) is projected at 10.9 percent of GDP, slightly up from 2010, despite higher revenues. The deficit will be financed by budgetary assistance from the country's development partners within the general framework for the organization of budget support, expected disbursements from the IMF, and a bond issue on the WAEMU market.

19. Revenue is projected at 16.2 percent of GDP in 2012, compared to 15.8 percent of GDP in 2011. This increase reflects the recovery in economic activity, continued organizational improvements in the revenue collecting units, implementation of the new tax provisions adopted in 2010, and higher international gold prices. Non-tax revenue collection will also benefit for the payment of telecommunication revenue for the fourth mobile telephone license.

20. Total expenditure and net lending should amount to 26.1 percent of GDP in 2012 compared to 26.7 percent of GDP in 2011. Expenditure control remains an important objective of the government. Thus, nominal increase in spending would be modest, while reflecting the objective of supporting economic recovery. In this context, while spending for priority sectors would rise, current expenditure would drop from 13.5 percent of GDP in 2011 to 12.8 percent of GDP in 2012.

21. Capital expenditure is projected to rise to 13.5 percent of GDP in 2012, to support the economic recovery and achieve the growth objectives in the SCADD. Expenditure priority areas would be: (i) boosting support for rural development, including rehabilitation of dams and reservoirs; (ii) improving the areas surrounding the dams to make more farmland available; (iii) developing economic infrastructure; (iv) intensifying efforts to fight poverty; and (v) promoting employment and reducing unemployment, particularly among young people and women.

22. Regarding the wage bill, the government intends to respond to claims from labor union following the social unrest earlier this year, to increase purchasing power for civil servants. Nonetheless, the government plans to address these demands while ensuring that the wage policy remains consistent with medium-term fiscal sustainability objectives. Therefore, the government plans to accelerate civil service reforms programmed for 2012, and to take additional measures aimed at reducing inequities in the compensation system for civil servants. Some of the measures will have a financial impact that will increase the wage bill from 6 percent of GDP in 2011 to 6.3 percent of GDP in 2012. Nonetheless, the real impact could be lower because of savings expected from civil service reforms in 2011–12. Moreover, the government believes that the planned reforms would strengthen the wage policy and make the merit-based promotion system more efficient. More generally, a better control on the size of the civil service through the setting up of biometrics card, and merit-based promotion would contribute to a deceleration in the

wage bill over the medium term. The key measures programmed for 2011–12 are the following:

- The extension in the last quarter of 2011 of the housing and advising allowances to civil servants that did not benefit from these allowances at end-June 2011.

- Clearance of late payments in promotions granted during 2009–2010 and timely payment of 2011 promotions, in 2011.

- Increase of the base salary by 5% in 2012.

- Preparation of a diagnostic study on the compensation system by end-December 2012 (**Structural benchmark**); and the launching of the civil service census in December 2011. Results from the census would lead to the harmonization of the payroll system and the civil service roster, and the efficient setting up of the biometrics card for civil servants.

C. Borrowing Policy and Debt Management

23. The government is committed to a prudent borrowing policy in order to avoid over-indebtedness, while mobilizing significant resources to finance growth. It intends to pursue its policy of relying on grants and concessional loans to meet its financing needs.

24. Efforts to strengthen the government's debt management capacity will continue in 2011–12. In particular, steps will be taken to correct the shortcomings noted by the World Bank DEMPA mission of March 2011, with particular emphasis on developing a medium-term debt management strategy, for which the government intends to request technical assistance from the IMF and the World Bank, improving debt auditing, and holding training activities.

D. Social Policy

25. With respect to efforts to support the most vulnerable groups, and more generally to fight poverty, social spending is anticipated to amount to 7 percent of GDP in 2012. The following actions are planned for 2012:

- Strengthening of the social safety nets, in particular the school lunches program and obstetrical care.

- Launch of an ambitious employment program for young people and women, funded with CFAF 10 billion and supported by several technical and financial partners.

- Implementation of priority items in the action plan for the national social protection policy (PNPS) now in preparation. A national forum to validate the proposed PNPS is planned for November 2011.

E. Implementation of the SCADD

26. The 2011–2013 performance matrix for the SCADD adopted on September 30, 2011, calls for:

- Launching the work on sources of growth. In this context, the government plans to begin implementation of the pilot Bagré growth project; adopt a law to develop public-private partnerships, adopt an inputs strategy to support agricultural productivity; carry out the technical work on national backbone infrastructure to speed the introduction of information and communication technologies; manage the industrial zones of Ouagadougou and Bobo-Dioulasso sustainably; and adopt a new mining code and regulations.

- Consolidating human capital. The government plans to expedite the implementation of the program for construction of school and health infrastructure, as well as measures to match training and employment opportunities through the development of technical education and vocational training.

IV. Structural Reforms for 2011–12

A. Financial Sector

27. In the financial sector, the government plans to deepen reforms by further implementing the financial sector development strategy. To this end, the government will seek to establish a framework conducive to greater competition among financial sector participants; to promote the insurance sector, while pursuing activities underway in the CNSS to strengthen its solvency over the medium and long term; to improve access to financing in rural areas and for small and medium-sized enterprises; to boost financing for housing and access to ownership; and to improve the legal and judicial framework essential to the financial system and its stability.

28. To improve SME access to financial services, the government will promote the microfinance sector by strengthening its institutional framework. It also plans to adopt and implement, by December 2011, the new microfinance development strategy and its action plan.

B. Public Finance Reforms

29. Efforts to improve expenditure management will be pursued. Particular emphasis will be placed on further reducing payment times, stricter monitoring of the expenditure system in the line ministries, and implementation of the recommendations from the audits of the financial administration directorates. The following measures are planned by end-September 2012:

- Benchmarking of new functionalities in the expenditure system to shorten payment times.

- Option for computerized rejection of irregular supplier submissions when the grounds for rejection are attributable to the supplier.

- Introduction of acknowledgment of receipt to make staff more accountable for meeting timeliness standards.

- In order to ensure timely processing, expenditure verifications (*liquidations*) not processed within a certain time limit by appropriations managers will be automatically abandoned.

30. In order to strengthen capital budget execution and improve the business environment, a meeting will be held in November 2011 with all persons involved in government procurement procedures to identify ways of improving those procedures. The government also intends to continue the practice of advance planning for procurement, to train the members of procurement sub-commissions, and to step up the monitoring of procurement plans.

31. In preparation for the transition to results-based budgeting, all ministries and institutions will be expected to define their programs in 2011, consistent with the SCADD and the Millennium Development Goals. Burkina Faso intends to respect the Community target of moving to results-based budgeting by 2017. In this context, the medium-term expenditure framework will remain a very important tool for meeting the objectives of the SCADD.

V. Program Monitoring

32. The authorities intend to take all measures necessary to achieve the objectives and benchmarks agreed with IMF staff, as presented in Tables 1and 2 of this memorandum. The program will be monitored in accordance with the Technical Memorandum of Understanding, which defines quantitative performance criteria and requirements for data reporting to IMF staff. The program will be reviewed twice yearly. For the duration of the program, the government undertakes not: (i) to introduce restrictions on payments and transfers under current international transactions or tighten any such restrictions without prior consultation with the IMF; (ii) to introduce or modify multiple currency practices; (iii) to conclude bilateral payment agreements incompatible with the provisions of Article VIII of the IMF Articles of Agreement; or (iv) to introduce restrictions on imports for balance of payments purposes.

33. Program reviews: the conclusion of the fourth program review, scheduled for June 15, 2012, is conditional upon the observance of performance criteria for December 31, 2011; the conclusion of the fifth program review, scheduled for December 15, 2012, is conditional upon the observance of performance criteria for June 30, 2012; and the conclusion of the sixth program review, scheduled for May 31, 2013, is conditional upon the observance of performance criteria for December 30, 2012.

Table 1. Burkina Faso: Quantitative Performance Criteria and Indicative Targets, 2012

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

	2011	2012			
	Proj.	Mar. [5]	Jun. [6]	Sep. [5]	Dec. [6]
		Proj.	Proj.	Proj.	Proj.
Performance criteria and benchmarks					
Ceiling on the overall fiscal deficit including grants [1]	184.6	51.6	91.1	122.8	154.0
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
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
Accumulation of external arrears [2]	0.0	0.0	0.0	0.0	0.0
Indicative targets					
Government revenue	744.7	168.3	349.5	521.7	826.0
Poverty-reducing social expenditures	314.4	84.6	176.9	280.7	384.6
Large taxpayer non-filer rate (percent) [4]	5.0	5.0	5.0	5.0	5.0
Accumulation of domestic arrears	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
Excess in concessional loan financing relative to program projections	15.0	15.0	15.0	15.0	15.0
Adjustment factors					
Shortfall in grants relative to program projections	0.0	0.0	0.0	0.0	0.0
Excess in concessional loan financing relative to program projections	0.0	0.0	0.0	0.0	0.0
Memorandum items:					
Basic primary balance (cash basis)	-217.6	-36.8	-89.1	-148.9	-126.9
Grants	328.9	35.0	124.7	291.9	350.6
Concessional loans	164.6	17.5	35.0	87.5	140.0

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.

[5] Indicative target.

[6] Performance criteria.

Table 2. Structural Benchmarks, July 2011 - June 2012	
Measures	**Date**
Public financial management	
Implement a new pricing and taxation system for petroleum products.	End-Dec. 2011 (New date - 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)
Installation of units in charge of expenditure control in five departments.	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 (Fifth review)
Prepare a study on the compensation system	End-Dec. 2012 (Sixth Review)
Cotton sector	
Prepare a strategy for the gradual reduction of state participation in the capital structure of SOFITEX.	End-June 2012 (Fifth review)
Financial sector	
Implement the microfinance strategy.	End-Dec. 2011 (New date - Fourth review)
Prepare a strategy to enhance the quality of financial services offered by the SONAPOST.	End-June 2012 (Fifth review)

ATTACHMENT II

TECHNICAL MEMORANDUM OF UNDERSTANDING

Ouagadougou, December 7, 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. **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.

---

[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.

II. Quantitative Performance Criteria

8. 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

9. 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.

10. 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

11. 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.

12. 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

13. 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

14. 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

15. 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

16. The government undertakes not to contract or guarantee any non-concessional external debt beyond the ceiling indicated in the MEFP (Table 1). This performance criterion applies to debt as defined in paragraph 3 and to external debt as defined in paragraph 6 of this TMU; and it uses the definition of debt concessionality as defined in paragraph 5 of the same document. This performance criterion also applies 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, local governments, and other official entities (including administrative, professional, and scientific and technical public agencies) 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. It is measured on a cumulative basis from the time of approval of the ECF by the Executive Board. No adjuster will be applied to this criterion.

Reporting deadlines

17. 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

18. 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

19. 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 5 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

20. 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

21. 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

22. 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

23. 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

24. 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

25. 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

26. 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

27. 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

28. 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

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

V. Additional Program Monitoring Information

A. Public Finance

30. 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

31. 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

32. 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

33. 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

34. 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.