International Monetary Fund

Burkina Faso and the IMF

Press Release:
IMF Executive Board Completes Fourth Review Under Extended Credit Facility Arrangement for Burkina Faso and Approves US$46.1 Million Disbursement
June 8, 2012

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

May 24, 2012

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, May 24, 2012

Madame Christine Lagarde
Managing Director
International Monetary Fund
700 19th St., N.W.
Washington, D.C.

Madame Managing Director:

The government of Burkina Faso has continued to implement the measures foreseen in its economic program supported by the IMF Extended Credit Facility (ECF) arrangement.

The program implementation took place in an environment marked by social unrest during the first half of 2011, low rainfall, and the international economic and financial crisis, leading to a marked deceleration in growth. Despite the difficult context, the government implemented its economic and financial program satisfactorily, in keeping with its commitments under the December 7, 2011 Memorandum of Economic and Financial Policies (MEFP). The attached MEFP supplements these documents.

All of the quantitative performance criteria for the completion of the fourth review of the ECF program were met. Most of the structural reforms agreed for end-December 2011 were implemented, and all quantitative criteria were achieved with the exception of the indicative target for social expenditures, which represented 94 percent of the target level. In light of these results and based on the policies set out in the attached MEFP, we request that the IMF conclude the fourth review of the program under the ECF arrangement, and issue the fifth disbursement totaling SDR 6.45 million.

In 2012, the government intends to vigorously pursue implementation of the Accelerated Growth and Sustainable Development Strategy (SCADD) to strengthen the economy's resilience to various shocks while promoting inclusive growth and poverty reduction. However, the food crisis brought on by the lack of rainfall, the assistance to refugees fleeing conflicts in the subregion—currently estimated at about 57,000 individuals with over 120,000 head of cattle—and increased international oil prices have considerably weakened our financial position.

The government of Burkina Faso is determined to overcome these challenges in close cooperation with its technical and financial partners, as set out in the attached MEFP. In this regard, the government intends to pursue the implementation of reforms supported by the ECF, particularly the reforms to mobilize domestic revenue and strengthen public financial management, while implementing the priority public investments identified in the SCADD.

In order to facilitate the adjustment and address significant additional financing needs without jeopardizing the objectives of the SCADD, the government requests increased access under the ECF arrangement in an amount equivalent to 60 percent of its quota share, or SDR 36.12 million, and that SDR 24.08 million of this amount be disbursed upon the completion of the fourth review.

The government believes that the measures presented in the MEFP will serve to achieve the economic and social objectives of its program. It is determined nonetheless to take any further measures that may prove necessary to this end. The government will consult with the IMF before adopting such measures, and in any event before modifying the measures provided in the MEFP, in accordance with applicable IMF policies. Furthermore, the government will provide the IMF with information on implementation of the agreed measures and program execution, as provided in the attached revised Technical Memorandum of Understanding or at the request of the IMF.

As in the past, the government agrees to the publication of this letter, the attachments hereto, and the related IMF staff report upon approval by the IMF Executive Board.

Very truly yours,

/s/

Lucien Marie Noël Bembamba
Officier de l'Ordre National

Attachments: 2012–2013 Memorandum of Economic and Financial Policies
Revised Technical Memorandum of Understanding

ATTACHMENT I

MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES FOR 2012-2013

I. INTRODUCTION

1. This memorandum updates Burkina Faso's economic and financial program in the context of the three-year arrangement concluded with the IMF under the Extended Credit Facility (ECF). It presents recent economic developments, the results achieved during the second half of 2011, and the outlook for the period 2012-2013. The arrangement, which was approved by the IMF Executive Board on June 14, 2010, aims to consolidate macroeconomic stability, improve prospects for growth, and intensify efforts to reduce poverty. This memorandum updates and supplements the memorandum of December 7, 2011.

II. RECENT ECONOMIC DEVELOPMENTS AND RESULTS OF PROGRAM IMPLEMENTATION AT END-DECEMBER 2011

A. Recent Economic Developments

2. **In a subregional and national context of inadequate rainfall, the growth of the Burkinabè economy slowed in 2011**. According to estimates, real GDP growth was 4.2 percent compared to 7.9 percent in 2010, reflecting weak grain production which was not offset in full by the recovery of cotton production and strong mining production:

- Gold production increased from 23.07 tons in 2010 to 32.6 tons in 2011, or an increase of over 41 percent.

- In the agriculture sector, grain production, estimated at 3,666,405 tons, declined by 19.6 percent from the previous season due to unfavorable climate conditions that diminished the impact of the government's actions in the past three years to improve the productivity of the sector. These included: (i) providing agricultural producers with equipment and improved seeds; (ii) increasing the use of organic fertilizers; (iii) training, organization, and advisory services for farm households.

- The production of seed cotton recovered in 2011, increasing to 414,500 tons from 335,398 tons in 2010. The increase is attributable to the increase in planted areas and an improvement in yields in the order of 6 percent over the previous crop year.

- Tertiary sector activities, which expanded by 5.2 percent, benefited from official events organized in 2010 such as the Ouagadougou International Tourism and Hotel Trade Show (SITHO) and the Ouagadougou Pan African Film Festival (FESPACO).

3. **Consumer prices increased overall relative to 2010, although inflation remained below the WAEMU standard of 3 percent.** The annual average inflation rate was

2.7 percent compared to -0.6 percent the previous year, essentially reflecting the sharp rise in the price of cereal products at year end.

4. **The current account improved in 2011**. The effect of strong international gold and cotton prices mitigated the impact of the continued rise in international oil prices. The current account balance in 2011 improved by 1.1 percent of GDP compared to 2010.

5. **The money supply increased by 12.8 percent compared to end-December 2010, reflecting increased net foreign assets and credit to the private sector**. With the buoyancy of the secondary and tertiary sectors, credit to the economy increased by 23.5 percent compared to end-December 2010.

6. **The financial sector remains sound**. The net rate of bank portfolio deterioration improved moderately, from 3.72 percent in 2010 to 2.96 percent in 2011. The government, through the Burkinabè Economic and Social Development Fund (FBDES), supported the effort of certain financial institutions in the transition to compliance with the West African Monetary Union (WAMU) decision on increasing banks' minimum capital.

7. **The fiscal position further improved in 2011 following strong revenue mobilization and improved control of spending despite the social unrest during the first half of the year**. With regard to revenue, measures to increase the accountability of collection units and monitor those units more closely generated 11.5 percent more revenue than planned. Total revenue increased by 0.9 percentage points of GDP, from 15.6 percent in 2010 to 16.5 percent of GDP in 2011. Tax revenue increased to 14.5 percent of GDP. This performance includes the one-off collection of corporate tax with no deduction of pre-payments, as 2011 was the first year the tax went into effect. Without this factor, the tax burden represented approximately 13.8 percent of GDP. The rising price of gold also boosted revenue. With regard to expenditure, execution remained relatively low, given delays in executing contracts following the social unrest of the first half of 2011. Total expenditure and net lending came to 24.3 percent of GDP compared to 24.6 percent of GDP in 2010.

8. **The overall budget deficit (cash basis, including grants) came to 2.2 percent of GDP in 2011 compared to 4.6 percent in 2010**. The deficit was financed primarily by external resources in the amount of CFAF 129.1 billion (2.7 percent of GDP). IMF financing under the Extended Credit Facility totaled CFAF 9.7 billion. Also, a bond issue on the regional market in 2011 raised CFAF 59.1 billion, which was recorded in January 2012.

B. Results of Program Implementation

9. Program implementation was satisfactory. All the performance criteria at end-December 2011 were achieved: (i) the total deficit, as defined in the November 17, 2010 technical memorandum of understanding, stood at CFAF 117.6 billion compared to an adjusted ceiling of CFAF 211.1 billion; (ii) the government did not contract or guarantee

external debt under nonconcessional terms; (iii) the government did not contract or guarantee short-term foreign debt; and (iv) no payment arrears were accumulated on external debt.

10. **In regard to the quantitative indicators, nearly all the objectives were achieved or exceeded**: (i) the minimum total revenue of CFAF 711.7 billion was exceeded by 11.5 percent, with performance of CFAF 793.6 billion; (ii) the large taxpayer non-filer rate of 3 percent was below the 5 percent anticipated; (iii) no payment arrears were accumulated on domestic debt; (iv) social expenditure fell short of the indicative target with performance of CFAF 298.2 billion compared to the minimum of CFAF 314.4 billion, largely attributable to a lag in mobilizing resources for the fast-track education initiative (FTI). However, the execution rate for social expenditure was over 94 percent, confirming that the government effectively secured priority poverty-reducing expenditures while undertaking actions to address the social crisis.

11. **Most of the structural benchmarks identified for the fourth review were achieved:**

- The Council of Ministers adopted the new petroleum pricing mechanism on April 4, 2012 (benchmark for end-December 2011). That decision necessitated outreach and training activities on the determination of petroleum prices and dialogue with the social partners. An ad hoc adjustment in retail prices was implemented on March 31, 2012 with an increase of CFAF 50 for each petroleum product. This adjustment level proved fully consistent with the new mechanism. These decisions served to maintain the viability of the Burkinabè National Society of Hydrocarbons (SONABHY) and the security of the country's oil supply while reducing the budget pressures caused by petroleum subsidies. SONABHY is also involved in the sustained efforts to rationalize its operating costs.

- Efforts to crack down on fraud resulted in the installation of two scanners at the Ouaga road customs offices and the Bobo train station, but the start of operations of the Bobo scanner has been temporarily delayed by technical problems.

- The implementation of the ORBUS system, subsequently named the Virtual Import/Export Operations Information System (SYLVIE), to facilitate customs operations and prevent fraud commenced with the launch of work in December 2011. The process of procuring the necessary hardware is under way, and user training to make the system operational will take place in early 2013.

- In order to expand access to financial products for a large proportion of the population, the government adopted a new microfinance development strategy and 2012–2016 action plan in January 2012 to improve access to financial services.

- In the context of the inclusive dialogue organized to resolve the 2011 social crisis and the measures agreed to appease the social movements, the government, in accordance with measures provided in the previous memorandum, paid for housing and hardship allowances to officials who had not received them since December 2011. Also, payments reflecting 2010 and 2011 promotions and the 5 percent salary increase began in January

2012. The other measures aimed at furthering the update and validation of payroll records were put into effect, in particular: (i) the production of a monthly list by each ministry identifying personnel who have separated or are on temporary leave, in order to determine compensation; (ii) automatic determination of salaries based on electronic records validated in the Integrated Government Personnel Salary Administration System (SIGASPE); and (iii) the elimination or adjustment of allowances during monthly audits conducted while processing payroll files.

12. **In March 2012, the government launched the biometric census of civil servants**, which it expects to complete in December 2012. The effort will: (i) update the individual employee files; (ii) control staffing; (iii) control the payroll file; (iv) allow each employee to monitor his or her career through a secure, interactive automated link; (v) modernize personnel management; (vi) help prevent individuals from holding multiple positions or receiving pay for services not performed. This operation will facilitate interconnection of the validated biometric file with the current account during the first quarter 2013.

13. **In the area of debt management, capacity-building activities are being conducted to correct weaknesses noted by the March 2011 World Bank DeMPA mission.** These include: (i) risk management training in March 2012 with assistance from AFRITAC West; (ii) training on the SYGADE system to improve cash flow forecasts and the management of cash balances; and (iii) compliance with the deadlines for publishing public debt information. The preparation of a medium-term debt strategy is planned following the technical assistance anticipated from the World Bank and the IMF.

14. **In regard to public finance management, a number of actions were taken to rationalize the chain of expenditure and reduce expenditure payment times:** (i) the establishment of auditing units in five ministries to verify expenditure executed towards budget allocation (structural benchmark, end-March 2012) to facilitate the authorization, financial control, and payment of expenditures in these ministries; (ii) the introduction of the capability to automatically reject irregular transactions in the expenditure cycle if the causes are attributable to suppliers; (iii), the creation of a system to verify receipt of documents among actors in the public expenditure cycle in order to strengthen accountability with regards to established processing times; and (iv) the cancellation of validation request acknowledgments and draft validations if not processed by credit administrators within a certain period of time, also to enforce the processing deadlines. .

15. **Efforts continued to prepare for the transition to program budgeting**, which seeks to facilitate more effective integration of performance-driven management with budget management and better align the budget with the priorities for the SCADD. In fact, the sector strategies or policies of ministries and institutions were broken out into programs to enable them to use program budgets, an action plan was prepared, and performance indicators set up. In the context of improving stakeholders' expertise in program budgeting tools, the ministries also received training in preparing the annual performance plan (PAP).

III. Economic and Financial Policies for 2012-2013

A. Macroeconomic Framework

16. **The government intends to continue implementation of the reforms needed in the context of the SCADD to increase the pace of growth and reduce poverty.** It is aware that the context for program implementation in 2012 will be difficult amid the food crisis, rising oil and grain prices, and the massive influx of refugees from the conflict in northern Mali, accompanied by their livestock.

17. **Despite exogenous shocks, a 7 percent growth rate and moderate inflation are forecast for 2012.** The increased growth will be driven essentially by the anticipated recovery of agriculture sector performance, sustained by the measures identified in the SCADD to improve production. Cotton fiber exports are expected to increase by over 32 percent as a result of continued improvement in yields and the sustained rise in the producer price, which should provide a strong incentive to plant cotton. Cereal production is expected to recover by over 12 percent in 2012 and allow inflation to be contained at levels compatible with the community standard of 3 percent. The recent buoyancy of the mining and services sectors will continue. The pace of implementing the key measures of the SCADD, if accelerated, could lead to more robust growth. The government is aware that any delay in implementing those measures would have adverse consequences for growth.

B. Fiscal Policy

18. **Fiscal policy reflects several exogenous and exceptional factors.** These include outlays to respond to the food crisis and humanitarian needs arising from the massive influx of refugees from the Malian conflict. The number of refugees is estimated at 56,700 and could increase many times over. The government has prepared an operational plan providing for CFAF 112.3 billion in support to populations vulnerable to the food crisis. The plan provides for four implementation phases; the first phase of mitigating the crisis was executed from January to March, 2012 at a provisional cost of CFAF 20.9 billion. The second phase of mitigation and response will be executed from April to June, 2012 for CFAF 34.5 billion. The third phase, known as "response to the crisis" will be implemented from July to September, 2012 at a cost of CFAF 48.8 million. The fourth phase, which addresses recovery and rehabilitation, will be deployed from October to December, 2012 at a cost of CFAF 8.1 billion. Having undertaken the initial humanitarian actions for the Malian refugees, the government hopes that the international community will quickly step in and provide substantial support in covering the refugee assistance plan, estimated at CFAF 13 billion. The government calls on the support of the technical and financial partners, coordinated through the United Nations system, and plans to revise the 2012 budget to cover the relevant phases of the operations described above.

19. **While enacting measures to strengthen resilience to exogenous shocks, the government intends to continue efforts to strengthen fiscal performance in order to**

continue to provide substantial fiscal headroom for the public investments to support more rapid growth in the context of implementing the SCADD. In 2012, the allocation of budget resources will focus primarily on: (i) strengthening support to the rural development sector, in particular rehabilitating damaged dams and reservoirs and developing areas around dams to increase the availability of arable land with irrigation; (ii) developing economic infrastructures, including rural roads to support agriculture; (iii) promoting employment and reducing unemployment among youths and women through support for job placement after training for youths and providing women with technologies; and (iv) ensuring the security of populations and investments.

20. **Total expenditure and net lending will amount to CFAF 1,419.4 billion, representing 26.7 percent of GDP.** Efforts to control spending through continued measures to rationalize operating expenditures will remain one of the government's key concerns. Expenses will include the cost of combined municipal and legislative elections slated for December 2012, including the introduction of biometrics in voter registration, for a total of approximately CFAF 30 billion. The government also decided to support SONABHY in restoring its financial position following steep losses resulting from the rise in petroleum prices. To this end, a transfer of CFAF 15.5 billion will be made in 2012, combined with securitization of the remaining losses of CFAF 38.3 billion over 10 years. The government also intends to continue preparations for the process of awarding contracts, and will offer preference to investment projects with growth potential that are aligned with SCADD priorities.

21. **Budget revenue is expected to increase in 2012 to CFAF 858.7 billion, equivalent to 16.1 percent of GDP.** Revenue will benefit from the recovery of economic activity and the effect of continued enhancement of the revenue-collecting agencies' organizational structure with the addition of collection units. For the Directorate General of Taxes (DGI), efforts will focus on (i) the tax census in six urban communes; (ii) data validation for the outstanding tax liabilities file and stepped-up efforts to clear them; (ii) continued outreach, information, and communication activities to foster a sense of civic responsibility in regard to taxes, and (iv) increased coverage of tax audits. For the Directorate General of Customs (DGD), the emphasis will be on improving the inspection mechanism for mining sector operations with the preparation of the standard protocol for installation of customs posts at mining sites.

22. **The overall budget deficit (commitment basis, excluding grants) is projected at 10.5 percent of GDP.** The majority of the deficit will be financed by budget support from Burkina Faso's development partners coordinated under the General Framework for Budget Support (CGAB). The overall budget deficit (cash basis, including grants) is projected at 3.8 percent of GDP, and will be financed by the disbursements anticipated from the IMF, loans for specific investment projects, the proceeds of the 2011 bond issue disbursed in 2012, and a planned bond issue on the regional market for a net total of CFAF 30 billion. In order

to cover the full amount of costs related to exogenous shocks, additional financing of CFAF 55.7 billion will be required to cover residual needs.

23. **The strategic framework and choices for the 2013 budget will be based on the priorities established in the SCADD.** In view of resource constraints, the government's interventions must be prioritized in order to maximize outcomes. The priority sectors identified for 2013, in which budget resources could be optimized with greatest effect, fall into three categories: (i) the production sector, particularly agriculture, livestock farming, and fish production; (ii) the sector supporting production, in which the priorities will be transportation infrastructure, energy, and the promotion of SMIs/SMEs; and (iii) the social sectors, particularly health, education, employment, and social protection. This approach in no way implies an abandonment or neglect of actions that were to support the country's development in general. It thus represents a prioritization of those sectors in which the government will focus its action in an effort to identify better pillars and foundations for development.

24. **The government's intention to achieve strong, sustained growth with a multiplier effect on revenue calls for massive investment in the productive sectors such as agriculture, livestock farming, and fish production,** in which Burkina Faso has comparative advantages, not only to sustain growth but also to ensure food self-sufficiency for a population whose largest component is rural. To build a modern, diversified agricultural system that is less vulnerable to climate shocks and generates jobs, the government's interventions will address the following priorities:

- *managing water resources* through increased hydro-agricultural development and development of low-lying river basins with the construction of new dams meeting appropriate standards, water wells for produce farmers, and continued appropriate rehabilitation of existing dams;

- *strengthening linkages between agricultural research and production* through the production and distribution of improved seeds and inputs and the development of adapted, effectively operational cultivation techniques (soil and climate);

- *agricultural mechanization* by promoting the rational introduction of agricultural machinery in large cultivation spaces organized as cooperatives or collective fields (plows, cultivators, motor pumps, tractors, and post-harvest equipment);

- *advice to, and support and organization of, stakeholders* to enable them to make better use of technology packages and produce higher yields; and

- *developing an agro-industry with greater potential* by providing adapted technologies to process agricultural commodities so as to adapt to the conditions of international competition and satisfy domestic demand.

25. **Robust growth also calls for infrastructure supporting production, with emphasis on quality and quantity of transportation infrastructure, increased energy coverage at lower costs, and SME/SMI promotion.** In 2013, then, the government's priorities will be geared toward:

- developing specialized business areas to promote enterprise development;
- supporting the creation of SME/SMI consortia to better integrate them into the production-processing-marketing chain;
- improving the business climate and supporting institutions by reducing the cost of factors (especially energy) and strengthening the institutional and legal framework, including strengthening commercial courts;
- promoting appropriate financing for SMEs/SMIs by providing banking services in closer proximity, developing mechanisms to promote customer loyalty, and securing bank deposits, with support through adapted tax measures;
- promoting new financing tools such as financial leasing or similar products to encourage the creation and growth of SMEs and microenterprises in priority sectors and areas, particularly rural areas, with the main stakeholders.

26. **A healthy, educated work force is also indispensable to enhance wealth creation and ensure the effectiveness of development operations**, which is the reason for the choice as to the health and education sectors. The issue of employment is important in view of the extent of underemployment and unemployment. In regard to education, the efforts made to implement the 10-year education development plan yielded satisfactory results with respect to supply and quality in the basic education sector. The primary school gross enrollment ratio was 80.7 percent in 2011 compared to 77.6 percent in 2010, while the primary school completion rate rose from 52.1 percent in 2010 to 58.2 percent in 2011, a leap of six points. The rate of births attended by skilled personnel improved, indicating progress in efforts to reduce maternal mortality. Within the health districts, the rate increased from 73.5 percent in 2010 to 76.3 percent in 2011. The government launched a special job creation program for youths and women in February 2012, which is intended to generate 54,209 jobs and 10,000 occupations, and train an average of 45,100 young urban and rural graduates per year.

27. **The significance of exogenous shocks (various crises, floods, etc.) and collateral effects call for closer consideration of aspects relating to social protections.** The government will implement the national social protection policy, which was prepared through a participatory process based on an assessment of the Burkinabè social environment, which is characterized by a disturbing degree of income poverty; a young population with multiple needs in terms of health, education, and employment; and a largely illiterate population (70 percent). This situation, combined with exogenous shocks (food crisis, energy, finance, debt, floods) is not conducive to preserving the social peace needed for the development to which Burkina Faso aspires. The government, aware of this reality, implemented targeted strategies over the past decade to promote access to basic social services and jobs for disadvantaged populations. The social safety net strategies essentially involve cash transfers, transfers in kind, subsidies, exemptions, and labor-intensive schemes.

While these efforts have yielded progress, important challenges remain. To address them, the government will focus on improving access to basic social services for the needy, in particular:

- support for school enrollment and health for children of disadvantaged households;
- conditional food support for disadvantaged households;
- support for the empowerment of disadvantaged households;
- improved access to health care for children under age five and pregnant women;
- improved coverage of medical emergencies; and
- expedited implementation of universal provision of health services in the formal and informal sectors.

28. **The mining sector developed rapidly in the past three years, and the government accordingly decided to revise the mining code and implementing regulations.** The revision is intended to improve the management of mining permits and the environment surrounding mining sites, and harmonize Burkinabè policy with regional mining policies to ensure that effective, transparent management of the mining sector generates substantial resources that can be leveraged to finance the ambitious programs of the SCADD. The government has requested technical assistance from its partners including the World Bank and IMF to strengthen management capacities in the sector.

29. **To finance its priorities sustainably over the medium term, the government will continue its determined efforts to create the necessary fiscal headroom.** To this end, it will continue improving tax administration, in particular the performance of the medium-sized enterprise and land tax divisions. It will sustain the ongoing efforts to control operating expenditures, including the implementation of measures to reduce water, electricity, and telephone consumption.

Balance of payments and external debt

30. The current account balance is expected to deteriorate in 2012 in response to high levels of imports anticipated in view of the food crisis, the influx of refugees, higher petroleum costs, and the acquisition of capital goods. Export receipts should increase by 18.4 percent, primarily reflecting the continued rise in cotton and gold prices. However, the current account deficit (excluding grants) is expected to increase to 7.9 percent of GDP. The overall balance of payments is projected at 1.0 percent of GDP, with a residual requirement of CFAF 54.4 billion.

31. The external outlook over the medium term is expected to remain stable, with growth driven by an increasingly substantial contribution from the mining sector. This sector should soon witness diversification as manganese and zinc mines come into production.

32. **The government remains committed to maintaining a prudent external debt policy in order to ensure the sustainability of external debt.** To this end, it will continue

to seek support from Burkina Faso's development partners in order to cover the majority of its financing needs through grants. It will also ensure that loans are contracted under concessional terms, as defined in the Technical Memorandum of Understanding accompanying this memorandum. However, in light of the profile of available loan resources, the government intends to conduct discussions to finance certain profitable projects at non-concessional borrowing rates. To strengthen its mechanism for preparing its public investment program, the government created a national project preparation fund that will strengthen both quality and diligence in preparing project documents.

C. Structural Policies and Measures

33. The government will sustain and consolidate progress to date in implementing the measures programmed for end-December 2012, as presented in the December 7, 2011 memorandum. Also, building on the measures implemented in 2011, it will undertake other reforms in key areas expected to contribute to the achievement of the program objectives. The overall objective by 2015 is to "achieve strong, sustained, quality growth, that generates multiplier effects in terms of increasing revenue and improved living conditions for the population, while upholding the principle of sustainable development".

34. With regard to reducing payment times, decree 2011-734/PRES/PM/MEF of October 7, 2011 creating a verification unit for government budget expenditures was implemented through the adoption of ministerial and interministerial decisions instituting verification units at the Ministry of National Education, the Ministry of Economy and Finance, the Ministry of Agriculture and Hydraulic Resources, the Ministry of Health, the Ministry of Infrastructure and Integration, and the Ministry of Public Administration, Labor, and Social Security. This measure, which was a structural benchmark for end-March 2012, was observed and will drastically reduce the rejection rate in the expenditure cycle and therefore payment times. The verification units should become fully operational during the second half of 2012.

35. In addition, with respect to public finance, the efforts to improve the collection and management of revenue will continue. The DGI revenue management software (SINTAX), which modernized the formerly manual collection process, will be implemented in three tax directorates of Bobo-Dioulasso by end-June 2012 (new structural benchmark). Also, to optimize information sharing between the DGI and DGD, the tax information cross-checking module will be developed in the context of the project to improve SINTAX functionalities. The module will provide an effective tool to combat tax evasion and fraud by reducing the amounts certain taxpayers are tempted to conceal. In parallel, as a medium-term effort in the context of implementing its IT master plan, the DGI plans to acquire a new revenue management application (SIGTAS). A feasibility study will be conducted for this purpose by end-2012.

36. The operational phase of the SYLVIE project, which interconnects all parties involved in customs clearance operations in the context of facilitation and preventing smuggling, should advance significantly with the acquisition of the pilot software application by end-June 2012 and hardware to conduct tests in December 2012 (structural benchmark). The SYLVIE platform, which is expected to become available in March 2013, will increase the country's competitiveness by improving the business climate in terms of cross-border trade facilitation (export and import), an area considered weak in the Doing Business assessment, and attract more foreign direct investment.

37. To further the preparation of the study on the civil service compensation system and complete it for submission to the Council of Ministers by March 2013 (structural benchmark), the joint committee responsible for directing the study is being established and will prepare a concept paper and terms of reference. The study will assess the current compensation system in Burkina Faso and make recommendations to rationalize it. Further, the government intends to undertake and complete the administrative census and biometric enrollment of public servants by the December 2012 (structural benchmark). It is expected that the verified biometric database and the integrated personnel and payroll management system (SIGASPE) will be interconnected to improve control of civil service pay.

38. The directorate of public debt is awaiting mobilization of the technical assistance needed to prepare a medium-term debt strategy by end-December 2012 (structural benchmark). The directorate will also organize a training session on the debt sustainability framework in order to begin conducting regular debt sustainability analyses.

39. In the cotton sector, an overall strategy has already been prepared to gradually reduce the government's stake in SOFITEX (structural benchmark for June 2012). However, the cotton sector is undergoing rapid expansion in view of increased international prices, and SOFITEX's financial position is therefore expected to further improve in 2012, resulting in better offers. The process of divesting the government's majority stake in SOFITEX would then continue with an update of the company's financial assessment and the recruitment of an investment bank to support the preparation of the divestment strategy (structural benchmark for March 2013).

40. In the context of implementing the financial sector strategy, the government plans to implement the action plan for the national microfinance strategy (PA/SNMF 2012-2016). The approach will consist of creating two separate structures: an entity responsible for supervision/control, and the permanent secretariat responsible for promoting and developing the microfinance sector (SPS/PMF). The steering committee will adopt an annual work plan and execute delegated project management (MOD) contracts with private and public operators prior to end-June 2012 (structural benchmark). The three MODs or execution agencies to be designated initially are the Directorate of Microfinance (the future DSC/SFD), the Professional Association of Decentralized Financial Systems (APSFD/BF), and the Maison de l'Entreprise du Burkina Faso (MEBF).

41. The government will also continue preparing the strategy to improve the quality of financial services offered by the national postal service (SONAPOST). This structural benchmark, initially set for end-June 2012, is being postponed to end-December 2012 in light of the time required to complete the basic studies recommended to ensure that the strategy is credible and relevant.

Program monitoring

42. The authorities intend to closely monitor the implementation of their economic and financial program. In order to ensure the program's success, they intend to take any measures that prove necessary to achieve the quantitative targets and structural benchmarks agreed with IMF staff, as presented in Tables 1 and 2 of this memorandum. Program monitoring will be conducted in accordance with the revised Technical Memorandum of Understanding, which defines the quantitative performance criteria and the requirements for regular data reporting to IMF staff.

43. Throughout the program term, the Burkinabè government will refrain from (i) introducing restrictions on payments and transfers for current transactions, or tightening such restrictions without prior consultation with the IMF; (ii) introducing or modifying multiple exchange-rate practices; (iii) concluding bilateral payment agreements inconsistent with the provisions of Article VIII of the IMF Articles of Agreement; or (iv) introducing restrictions on imports for balance of payments purposes.

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

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

	2012							
	Mar. [6]		Jun.		Sep. [6]		Dec.	
	Prog. [7]	Prog.	Prog. [7]	Prog.	Prog. [7]	Prog.	Prog. [7]	Prog.
Quantitative Performance Criteria								
Ceiling on net domestic financing of central government[1]	…	35.0	…	68.4	…	75.3	…	89.8
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	0.0	0.0
Accumulation of external arrears [2]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Indicative targets								
Ceiling on the overall fiscal deficit including grants [4]	51.6	63.0	91.1	116.0	122.8	142.7	154.0	185.2
Government revenue	168.3	184.5	349.5	428.8	521.7	614.5	826.0	858.7
Poverty-reducing social expenditures[5]	84.6	77.5	176.9	162.0	280.7	257.0	384.6	352.1
Accumulation of new domestic arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

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

[1] Including on-lending of prospective IMF disbursements and including a bond of CFAF 59.1 billion that was issued in 2011 and recorded in 2012. The ceiling on net domestic financing is to be adjusted in line with the TMU definition.

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

[5] 90 percent of budget amount.

[6] Indicative target.

[7] Third ECF Review.

Table 2. Structural Benchmarks, January 2012–March 2013		
Measure	**Rationale**	**Completion Date**
Fiscal management		
Implement the Directorate General of Taxes (DGI) revenue management application (SINTAX) in three tax directorates of Bobo-Dioulasso (¶ 35)	Strengthening tax administration	June 2012
Develop and implement the tax information management and cross-checking module to optimize information sharing between the DGI and the Directorate General of Customs (DGD) (¶ 35)	Strengthening tax administration through limiting fraud.	December 2012
Purchase the SYLVIE pilot software and test it internally with Ouagadougou stakeholders in preparation for nationwide deployment of SYLVIE (¶ 36).	Strengthening customs administration through streamlining customs procedures.	December 2012
Civil service		
Submit the conclusions of the study of the civil service compensation scheme to the Council of Ministers (¶ 37).	To streamline compensation schemes to control wage bill and improve service delivery.	March 2013
Conduct and complete the administrative census and biometric enrollment of civil servants (¶ 37)	Control wage bill through limiting fraud and improve service delivery.	December 2012
Debt management		
Submit a medium-term debt strategy to the National Public Debt Committee (¶ 38)	Strengthen debt management capacity.	December 2012

Cotton sector		
Prepare a strategy to gradually reduce the government's stake in the capital of SOFITEX (¶ 39)	Reduce market distortions and public stake.	June 2012
Continue the process of divesting the government's holdings in SOFITEX by: • updating the financial position assessment • recruiting an investment bank to support the strategy to sell the government's stake (¶ 39)	Eliminate market distortions and reduce public stake.	March 2013
Financial sector		
Execute delegated project management (MOD) contracts with private and public operators for implementation of the national microfinance strategy action plan (¶ 40)	Deepen access to financial services	June 2012
Prepare the strategy to improve the quality of financial services offered by the national postal service (SONAPOST) and submit it to the SONAPOST board of directors (¶ 41)	Deepen access to financial services	December 2012

ATTACHMENT II

TECHNICAL MEMORANDUM OF UNDERSTANDING

Ouagadougou, May 2012

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

I. DEFINITIONS

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

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

4. **Debt guarantees.** For the purposes of the relevant performance criteria, a government debt guarantee means an explicit legal obligation to service a debt in the event of nonpayment by the borrower (through payment in cash or in kind).

5. **Debt concessionality.** For the purposes of the relevant performance criteria, a debt is considered concessional if it includes a grant element of at least 35 percent.[1] The present value (PV) of debt at the time it is contracted is calculated by discounting the borrower's future debt service payments on the 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

[1] The following page of the IMF website provides a tool to calculate the grant element of a wide range of financing packages: http://www.imf.org/external/np/pdr/conc/calculator.

[2] The calculation of concessionality takes all aspects of the loan agreement into consideration, including maturity, grace period, repayment schedule, upfront fees, and management fees.

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

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 performance criteria, external debt is defined as debt contracted or serviced in a currency other than the CFA franc. This definition also applies to debt among WAEMU countries. The relevant performance criteria apply to the external debt of the government, public enterprises, and other public entities in which the government holds more than 50 percent of the capital, and any private debt for which the government has extended guarantees that constitute a contingent liability for the government.

7. **Reporting requirements.** The government will promptly inform IMF staff when new external debt is contracted or guaranteed, including the applicable terms, within a maximum of two weeks after signature of the contract.

II. Quantitative Performance Criteria

8. The quantitative performance criteria proposed for June and December 2012 relate to: (i) net domestic financing as defined in paragraph 9; (ii) the contracting or guarantee of nonconcessional external debt, as defined in section 1; and (iii) the nonaccumulation of payment arrears on external debt service. The amounts provided in the program for September 2012 and March 2013 are benchmarks

A. Net Domestic Financing

9. For the purposes of the relevant performance criteria, net domestic financing is defined as the sum of (i) net bank credit to the government, including net bank credit to the treasury as defined below and other government claims and debts vis-à-vis the national banking institutions (including on-lending of IMF disbursements); (ii) the stock of unredeemed government bills and bonds held outside national commercial banks; (iii) privatization receipts; and other government claims and debts vis-à-vis national nonbank institutions. 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 in postal checking accounts (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 securitized deposits of the national postal savings fund (CNE/CCP). Net bank credit to the government is calculated based on information provided by the Central Bank of West African States (BCEAO), whose figures are deemed valid for program purposes. The foregoing items are calculated based on the government budget execution report presented each month in the government financial operations table prepared by the Ministry of Economy and Finance.

Adjustment

10. The cumulative ceiling on net domestic financing for end-June 2012 and end-December 2012 will be adjusted upward in the amount by which external program support, excluding grants and project loans, falls short of the projected amount, up to a maximum of CFAF 53 billion. The shortfall in external program assistance (grants and loans) will be calculated in reference to the projections in Table 1 below. The ceiling will not be adjusted downward in the event the external program assistance is higher than programmed.

Table 1: External Program Assistance (cumulative, CFAF billions)

	End-March 2012	End-June 2012	End-September 2012	End-December 2012
Grants and loans	7.5	59.7	152.1	160.5

11. The Ministry of Economy and Finance will forward data on net domestic financing to the IMF within six weeks after the end of each quarter.

B. Non Accumulation of External Payment Arrears

Performance criterion

12. External payment arrears are external payments due but unpaid. Under the program the government agrees not to accumulate external payment arrears on its debt except arrears arising from obligations being renegotiated with external creditors, including bilateral non-Paris Club creditors. Nonaccumulation of external arrears is a performance criterion, to be observed continuously.

Reporting deadlines

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

C. Nonconcessional External Debt Contracted or Guaranteed by the Government

Performance criterion

14. The government undertakes not to contract or guarantee any nonconcessional external debt beyond the ceiling indicated in MEFP Table 1. This performance criterion applies external debt as defined in paragraph 6 of this memorandum. It utilizes the concept of concessionality as defined in paragraph 5 of this memorandum. This performance criterion also applies to any private debt guaranteed by the government that constitutes a contingent government debt as defined in section I of this memorandum. In addition, this criterion applies to public enterprises, local governments, and other public sector entities (including public administrative, professional, scientific and technical agencies) unless excluded in MEFP Table 1. However, this performance criterion will not apply to Treasury bills and bonds issued in CFA francs on the WAEMU regional market, or to normal short term supplier credits. This commitment is a performance criterion to be observed continuously. It is measured on a cumulative basis from the IMF Executive Board's approval of the ECF, and no adjustment factor will apply.

Reporting deadlines

15. Details on any loan (terms and creditors) contracted by the government must be reported within four weeks of the end of each month. The same requirement applies to guarantees extended by the government.

III. Other Quantitative Indicative Targets

16. The program also includes indicative targets for the overall deficit (commitment basis, grants included) as defined in paragraph 17 below; total government revenue; poverty-reducing social expenditures, and nonaccumulation of domestic payment arrears.

A. Overall Deficit Including Grants

Definition

17. For the program, the overall deficit including grants is valued on a commitment basis. It is defined as sum of the government's net foreign and domestic financing, measured from the financing side, plus a cash basis adjustment. Net foreign financing is the sum of new foreign borrowing less amortization. Government net domestic financing is defined as the sum of: (i) net bank credit to the government, including the sum of net bank credit to the Treasury as defined below and other government claims and debts vis-à-vis national banking institutions; (ii) the stock of unredeemed government bills and bonds held outside national commercial banks; and (iii) privatization receipts. Net bank credit to the treasury is defined as the balance of treasury claims and debts vis-à-vis national bank institutions. Treasury claims include cash holdings of the Burkinabè Treasury, central bank deposits, deposits with commercial banks, secured obligations, and government deposits in postal service checking

accounts (CCP). Treasury debt to the banking system includes central bank funding (including statutory advances, consolidated advances, IMF financing, and refinancing of secured obligations), government securities held by the central bank, commercial bank funding (including government securities held by commercial banks), and securitized deposits of the national postal savings fund (CNE/CCP). Net bank credit to the government is calculated by the Central Bank of West African States (BCEAO), whose figures are deemed valid for program purposes. The stock of Treasury bills and bonds and net government external financing is calculated by the Ministry of Economy and Finance. The cash basis adjustment is defined as the sum of: (i) all unpaid expenditure commitments and (ii) the change in treasury deposits.

18. The foregoing items are calculated based on the government budget execution report presented each month in the government financial operations table prepared by the Ministry of Economy and Finance.

Adjustment

19. The overall deficit including grants will be adjusted upward in the amount by which grants fall short of the programmed amount, up to a maximum of CFAF 25 billion. It will not be adjusted if grants are higher than programmed. The shortfall will be calculated in reference to the projections in Table 2 below.

20. The overall deficit including grants will also be adjusted upward in the amount by which concessional loans exceed the programmed amount, up to a maximum of CFAF 15 billion. The surplus will be calculated in reference to the projections in Table 2 below.

Table 2: External Budgetary Assistance (cumulative, CFAF billions)

	End-March 2012	End-June 2012	End-September 2012	End-December 2012
Grants (program and project)	47.9	154.0	300.2	376.0
Loans	33.2	58.0	82.9	116.1

Reporting deadlines

21. 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. 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. The Ministry of Finance and Budget will forward details on total revenue to the IMF within six weeks after the end of each month.

C. Poverty-Reducing Social Expenditures

Definition

24. Poverty-reducing social expenditures are defined as the expenditures of sectors sponsoring the priority programs identified in the Accelerated Growth and Sustainable Development Strategy (SCADD) to accelerate the achievement of poverty reduction objectives. The expenditures cover all spending categories for the following ministries: Primary Education; Health; Social Action and National Solidarity; Promotion of Women; Civil Servants, Labor, and Social Security (includes only the expenditures related to labor and social security); Youth, Professional Training, and Employment; Agriculture and Water; Animal Resources; and Environment and Sustainable Development. They also cover rural roads and Heavily Indebted Poor Countries (HIPC) initiative (Category 5) for infrastructures, and HIPC expenditures only for the Ministries of Communication; Mines, Extractive Industries, and Energy; Justice; and the Ministry of Economy and Finance. These expenditures are monitored directly through the budget, and the indicative threshold for the program will be 90 percent of the amount established by the budget authority.

Reporting deadlines

25. The government will forward monthly data on poverty-reducing social expenditures within six weeks after the end of each month. It will also submit the poverty-reducing expenditure execution report each quarter.

D. Non-accumulation of Domestic Payment Arrears

Definition

26. The government will not accumulate payment arrears on domestic 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.

V. Additional Information for Program Monitoring

A. Public Finance

28. The government will forward the following data to IMF staff in MS Excel format:

- The monthly government financial operations 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 estimate of execution 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 the stock of external debt, external debt service, external debt contracted, and external debt repayment, to be sent within six weeks after the end of each quarter;
- Monthly data in table format on the monitoring of social poverty-reducing expenditures, to be submitted at the same intervals provided above for the TOFE;
- Monthly data on petroleum product prices and taxes, including:

  (i) the price structure for the month concerned;

  (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 tax revenue from petroleum products—customs duties, tax on petroleum products (TPP), and value-added tax (VAT)—and subsidies paid; to be provided within four weeks after the end of each month;
- A monthly statement of the accounts with the treasury, broken out by major category (administrative services, state enterprises, joint public-private enterprises, public administrative enterprises, international organizations, private depositors, and others), to be provided within six weeks after the end of each month.

B. Monetary Sector

29. Within six weeks after the end of each month, the government will forward:

- the consolidate balance sheet of monetary institutions;
- the monetary survey, within six weeks after the end of the month for provisional data, and within ten weeks after the end of each month for final data;
- the lending and borrowing interest rates;
- the standard bank supervision indicators for banks and nonbank financial institutions, if necessary.

C. Balance of Payments

30. The government will transmit the following to IMF 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

31. The government will transmit the following to IMF 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

32. The government will transmit the following to IMF staff:

- Any study or official report on Burkina Faso's economy, within two weeks after publication thereof; and
- Any decision, order, law, decree, ordinance, or circular having economic or financial implications, on the date published, or no later than the date of entry into force.