Letter of Intent

MINISTRY OF ECONOMY
AND FINANCE

GENERAL SECRETARIAT

DIRECTORATE GENERAL
OF COOPERATION

Ouagadougou, June 17, 2014

N°2014/002524/MEF/SG/DGCOOP

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

Subject: Letter of Intent and Memorandum of Economic and Financial Policies

Madame Managing Director,

The government of Burkina Faso has continued to implement the measures established in its economic program supported by the three-year arrangement under the Extended Credit Facility (ECF) of the International Monetary Fund (IMF) for the period 2013-2016. The seventh and final review of our economic and financial program for 2010-2013, which ended on December 31, 2013, was approved by the IMF Board of Directors on December 18 2013, allowing for a disbursement of 3,225 million SDRs or about CFAF 2,372 billion.

The attached Memorandum of Economic and Financial Policies (MEFP) examines program performance at end-December 2013 and presents the policies that the government intends to pursue in the year ahead. It also explains the country's balance of payments needs and its reform efforts to preserve macroeconomic stability, and strengthen the foundation for sustained and inclusive growth in line with the objectives of the Strategy for Accelerated Growth and Sustained Development (SCADD).

Program implementation in 2013 took place in an environment marked by less buoyant economic activity than in 2012, mainly due to static production in agriculture. Domestic revenue mobilization totaled CFAF 1,117.4 billion at end-December 2013, up 11.9 percent from 2012. The tax to GDP ratio was 16.7 percent, within 0.3 percentage points of the WAEMU norm. The budget deficit, including grants, amounted to 3.5 percent of GDP taking account of the expenditure effects of the implementation of social safety net measures and actions to promote job creation. Over the course of 2013, the government continued to implement the SCADD to strengthen the economy's resilience to various shocks while promoting inclusive growth and poverty reduction.

In terms of program performance, the end-December performance criterion for net domestic financing was not met and a waiver is requested. Net domestic financing amounted to 2.2 percent of GDP against an adjusted target of 1.8 percent of GDP, due to the use of proceeds from the issuance of government securities to balance the shortfall in domestic revenues, delayed budget support, and to meet expenditure needs. The indicative target for revenue collection was not met, mainly due to lower mining profits from falling international gold prices and the government's decision to forego part of its share of the tax on petroleum products. The indicative target on poverty-reducing expenditures was missed by a minor amount at end-December 2013, but by a wider margin as of end-March 2014. Execution of new social transfers spending should result in a marked improvement in performance over the rest of 2014.

To ensure that targets are met in 2014, more cautious revenue forecasts have been maintained, with specific reforms to further strengthen revenue administration. After disappointing first quarter revenue collection, the government has decided to restore its full share of taxes on petroleum products. Moreover, it will look carefully at the timing of budget support disbursements and domestic debt issuance for the remainder of the year.

The eight structural benchmarks agreed to under the program for end-January and end-March 2014 were all met on time.

In March 2014, the Cabinet approved an increase in spending of CFAF 110 billion, mainly for an increase in the wage bill, additional social transfers, and new voter registration. To ensure this additional spending does not jeopardize the sustainability of the public finances, additional resources and offsetting spending adjustments have been identified to contain the nominal deficit in line with agreed program targets. These changes in spending authority were reflected in a draft supplemental budget law that was submitted by the government to the National Assembly on June 7.

In aggregate, these measures aim on one hand to preserve spending in the social sectors (health, education, and youth employment, in particular) and also to make savings on operating expenses, certain current transfer items, and domestically-financed capital spending projects whose implementation can be deferred based on their state of readiness, which should serve to strengthen investment execution. Also, with the implementation of measures aimed at boosting job creation, income generation, and access to financing, the government believes the package will have a positive impact on inclusive growth, which will contribute to the consolidation of national solidarity and the preservation of social stability.

In light of our commitment to preserving macroeconomic stability and based on the policies set out in the attached MEFP, we request that the IMF conclude the first review under the ECF arrangement enabling a disbursement in the amount of SDR 2.55 million, grant a waiver for the missed performance criterion, modify the performance criterion on net domestic financing, and increase the ceiling on the continuous performance criterion on nonconcessional external debt from CFA 135.9 billion to CFA 150 billion (an increase of 0.2 percent of GDP).

The government believes that the policies set forth in the attached MEFP are adequate to achieve the objectives of its program, but it will take any further measures that may become appropriate for this purpose. The government will consult with the IMF on the adoption of these measures, and in advance of revisions to the policies contained in the MEFP, in accordance with applicable IMF policies on such consultation.

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 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
Commandeur de l'Ordre National

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

Attachment I. Memorandum of Economic and Financial Policies 2013–16

1. This Memorandum of Economic and Financial Policies (MEFP) provides an update on the implementation of the arrangement supported by the International Monetary Fund (IMF) under the Extended Credit Facility (ECF) from 2013–2016. The purpose of the ECF-supported program is to maintain macroeconomic stability and lay a firmer foundation for sustained and inclusive growth in accordance with the objectives of the Strategy for Accelerated Growth and Durable Development (SCADD). This memorandum describes recent economic trends and takes stock of the quantitative criteria and structural benchmarks at end-December 2013, end-January 2014, and end-March 2014. It also outlines the macroeconomic framework and the structural benchmarks for the remainder of 2014.

RECENT ECONOMIC TRENDS

2. Economic activity was less robust in 2013 with a growth rate of 6.6 percent, compared to 9.0 percent in 2012. This relative slowdown is due mainly to the primary sector, particularly the drop in food crop production. GDP growth in 2013 was sustained primarily by the secondary and tertiary sectors which grew at 7.9 and 6.6 percent respectively.

3. Within the tertiary sector, there was an increase of 7.7 percent in the output of non-market services, attributable to the effects of measures taken by the government in September 2013 regarding government employee allowances, job creation for youth and women, and the improvement of social safety nets for vulnerable segments of the population. Another contributing factor was the 5.8 percent rise in market services output, boosted by the hosting of a number of international events—the Panafrican Film and Television Festival of Ouagadougou (FESPACO) and the International Tourism and Hotel Trade Fair of Ouagadougou (SITHO)—and stepping up promotion of "destination Burkina Faso."

4. As regards the primary sector, its contribution amounted to a mere 0.9 percentage points of GDP growth in 2013, compared to 4.6 points in 2012 (growth of 3.4 percent compared to 18.7 percent in 2012). The decline in cereal production (0.6 percent, due to less favorable rainfall despite grants for inputs and equipment, and larger areas sown) was offset by a solid growth performance in the cash crop agricultural subsector (14.9 percent), cotton production (7.0 percent), and other cash crops (22.0 percent).

5. Annual inflation stood at 0.1 percent at end-December 2013, compared to 1.6 percent at the same time in 2012. The implementation of government measures, such as the sale of cereals at subsidized prices in areas with shortages, price controls on consumer products, and the opening of special outlets supporting food security policy by selling at lower-than-market prices (*boutiques témoins*), combined with a good 2012/2013 crop year, helped keep average inflation at 0.5 percent, well below the community standard, compared to 3.8 percent in 2012. At end-January 2014, overall consumer prices dropped 0.8 percent compared to December 2013 as a result of lower food and beverage prices, among other factors.

6. Foreign trade was marked by a sharp rise in imports compared to exports. Imports of goods and services were up 5.3 percent from CFAF 1978.2 billion in 2012 to CFAF 2083.9 billion in 2013, due in large part to imports of capital goods and the oil bill. Exports fell by 1.8 percent

from CFAF 1491.1 billion in 2012 to CFAF 1463.6 billion in 2013, owing mainly to gold prices. The current account deficit was 7.0 of GDP compared to 4.5 percent of GDP in 2012, a decrease of 2.5 percentage points.

7. At end-December 2013, private sector credit rose by 26.3 percent on an annual basis. The money supply was bolstered entirely by deposits, growing 11.3 percent. Net foreign assets fell 21.2 percent in 2013, mainly because of substantial import requirements from some large gold mines and delay of a budget support disbursement from the World Bank. In addition, in spite of stricter control of the repatriation of export revenues by the authorities, some large banks did not comply with the requirements to transfer assets to the BCEAO. A BCEAO committee was created to improve monitoring of compliance with this requirement

8. Revenue mobilization grew by another 11.9 percent in 2013 from CFAF 999.0 billion at end-December 2012 to CFAF 1117.4 billion at end-December 2013. This increase was brought about by the government's continued efforts to modernize tax administration, implement the collection unit approach, broaden the tax base, raise awareness of tax compliance among economic actors, and foster efforts to combat evasion, forgery, and corruption. This performance is also attributable to the many actions taken by the authorities in 2013, the use of a special tax on transactions related to mining stocks, the application of Value-Added Tax (VAT) on imports of operational mining companies and companies that signed contracts with the government, and the continued streamlining of customs clearance procedures. Tax mobilization was 16.7 percent of GDP, close to the WAEMU criterion. At end-March 2014, CFAF 237.2 billion in revenues was mobilized, compared to CFAF 259.7 billion over the same period in 2013, a contraction of 8.7 percent.

9. Grants stood at CFAF 324.4 billion at end-December 2013 compared to CFAF 277.5 billion in 2012, an increase of 16.9 percent despite a delay in the World Bank budget support disbursement of CFAF 24.1 billion, which arrived in January 2014. These program grants were complemented by project-related assistance that reached CFAF 205.2 billion, up 83.9 percent compared to end-2012.

10. Execution of total expenditure and net lending stood at CFAF 1652.7 billion at end-December 2013 compared to CFAF 1460.8 billion in 2012. Total expenditure for 2013 was 27.8 percent of GDP, including the counterpart in capital transfers to SONABHY securities sold to commercial banks and SONAPOST, for a total of CFAF 38.3 billion.

11. Domestically financed capital expenditure (including capital transfers) reached 10.0 percent of GDP at end-2013 (CFAF 592.7 billion) in line with revised budget projections and compared to the 7.8 percent forecast during the seventh review. Externally financed capital expenditure, however, posted weak performance at 4.5 percent of GDP. At end-March 2014, public spending amounted to CFAF 266.7 billion compared to CFAF 316.7 billion at the same time in 2013.

12. The budget deficit (grants included) at end-December 2013 was 3.5 percent of GDP compared to 3.3 percent in 2012. Allowing for a cash adjustment of 0.9 percent of GDP, the budget deficit was financed through net external financing and net domestic financing totaling 2.7 percent of GDP.

13. Budget execution performance was not up to standard in the first quarter of 2014.This outcome can be explained in part by weak execution of transfer payments. Revenues in the first

quarter were also below target (CFAF 237.2 billion compared to a target of CFAF 268.7 billion). In any case, the government anticipates an improvement in budget execution in the coming quarters with the initial effects of the implementation of the social measures. It also expects an improved revenue performance, due on one hand to the restoration of fuel excise taxes, and also to the implementation of reforms relative to satellite tracking of merchandise imports and the new system of valuation for used vehicles to improve customs revenue.

PROGRAM PERFORMANCE

14. Most program quantitative targets for end-December 2013 and end-March 2014 were met. However, the end-December 2013 domestic financing ceiling was missed by 0.3 percent of GDP. This outcome led the government to request a waiver for the non-achievement of this objective. The non-observance was due to issuance of government securities in the amount of CFAF 121.6 billion, which was used to make up for a delayed World Bank disbursement, lower than expected revenues and an acceleration in investment spending in the last quarter of 2013. The indicative ceiling on the deficit was respected due to an upward adjustment in response to the shortfall in the disbursement of CFAF 48 billion in program loans and grants. Under execution of the budget meant that both the NDF and deficit targets were met by a large margin at end-March 2014.

15. Indicative targets for revenues were not achieved at end-December 2013 and end-March 2014, due to slower growth and the government's decision to forego part of the tax on petroleum products (TPP) to support SONABHY.

16. The target on poverty-reducing spending at end-December 2013 was missed by a minor amount. Preliminary data for end-March 2014 also show under-execution, which should be corrected with the new social transfers underway.

17. Limits on accrual of new external and domestic arrears and on nonconcessional external debt were respected. The government entered into new agreements on new nonconcessional loans at end-December 2013 to finance large investment projects, as follows: (i) construction of Donsin airport with the ECOWAS Bank for Investment and Development (EBID) (CFAF 5 billion) and the Islamic Development Bank (IDB) (CFAF 50 billion); and (ii) paving of the Dédougou-Tougan highway under a contract signed with the IDB in January 2014 for CFAF 28,206 billion. Under these contracts, the total amount of the nominal limit used is CFAF 83,206 billion.

18. Structural benchmarks for end-January and end-March 2014 were completed:

- *Launch of the tax information cross-checking module in GERIF:* To improve information sharing between the tax and customs authorities, the tax information cross-checking module in the Tax Information Cross-Checking Management (GERIF) software application was completed and its functionality enhanced. Roll-out of the software began at two pilot sites in January 2013 and continued at other sites thereafter. The country's two major tax centres, which collect at least 90 percent of DGI revenues, started using the software fully in the fourth quarter of 2013.
- *Update of forecasts on the 2013–2016 financial situation of the SOFITEX business plan based on FY 2012 results*: This exercise has been carried out and the results have been approved by the Board of Directors. The update helped the company increase its equity from CFAF 11,2 billion in the initial plan to CFAF 16,2 billion.

- *Adoption by the SONAPOST Board of Directors of a strategy to improve the quality of financial service offered:* A new five-year strategy was adopted by the SONAPOST Board of Directors to expand access and improve the quality of postal financial services. Implementation of this strategy will ultimately help prepare the creation of a postal bank.
- *Finalization of the SONABEL financial model and production of new forecasts on the 2014–16 financial situation, with various scenarios:* The structure of this new financial model was validated in December 2013 and the results confirm the software's capability to run financial simulations to determine the profit-and-loss accounts and the management ratios over a given period, on the basis of realistic assumptions.
- *Begin using the interconnection between the DGI and DGD to facilitate information sharing* through an automatic update of the IFU (single tax identification number) database in ASYCUDA++. The interconnection was achieved through CIR/RESINA. Tests are being performed within DGI on suspended IFU numbers in the DGI database following automatic deactivation in ASYCUDA.
- *Put in place a committee responsible for coordinating implementation of the computerization initiative and make it operational*. The committee was created and held its first meeting on March 4, 2014, to adopt its annual agenda.
- *Revise the law establishing the budget and its implementing decrees to take into account the findings of the workshop on procedural reform and the responsibilities of all participants in the expenditure chain.* The government submitted the draft law to the National Assembly, which was passed on January 24, 2014.
- *Align the gold production databases and audit mining production statistics monthly.* The 2012 and 2013 mining production data have been harmonized. Going forward, a committee has been established to audit mining production statistics on a monthly basis.

IMPLEMENTATION OF THE STRATEGY FOR ACCELERATED GROWTH AND DURABLE DEVELOPMENT (SCADD)

19. Government policies in 2013 were guided and implemented in keeping with the Strategy for Accelerated Growth and Durable Development (SCADD) with a view to consolidating gains and making further progress in achieving development objectives. At end-December 2013, the annual performance assessment for the 2014 preview of the SCADD reported that indicator targets were reached at a rate of 63.2 percent.

20. Measures are being adopted to strengthen regional and sectoral capacity to improve implementation over the period 2014–16 including developing the Bagré growth pole, more use of public-private partnerships, improving the population's access to energy, and increasing the competitiveness of the private sector by improving the business climate and promoting more capacity for structural transformation. Implementation of the "Bagré growth hub" pilot project continued through a public-private partnership forged in order to send a strong signal to potential investors as to the safeguards surrounding the project. To this end, a semi-state company was created with a capital of CFAF 1 billion, 38 percent of which is held by the private sector. Moreover, in terms of strengthening human capital, there are plans to bring staffing of public health facilities up to required levels and to put in place a universal health insurance system, to extend social protection to the population at large and broaden Burkinabè's access to a minimum of quality healthcare. It is also planned to broaden the implementation of reforms in

the education system, most visibly through building new classrooms, renovating schools, and hiring about 5,000 new teachers per year.

21. In the pursuit of pro-poor growth, actions were taken to improve social safety nets by creating labor-intensive jobs (HIMO). For this and other social purposes, a supplemental budget law authorizing additional spending of 1 percent of GDP (CFAF 64 billion) was enacted in October 2013. Other areas covered by this measure included the provision of investment and settling-in loans for financing self-employment of young graduates, strengthening the university infrastructure and improving social safety nets for the most vulnerable.

MEDIUM-TERM MACROECONOMIC FRAMEWORK

22. The forecasts for 2014–15 are leaning toward continued economic growth of 6.7 to 6.8 percent, assuming rainfall is normal and gold and cotton prices remain relatively stable. This growth would be driven in part by the implementation of quickly-impacting government measures in the agricultural and livestock sectors, and the launch of the Bagré growth pole operational phase. Gold production in 2014 is expected to increase by 4 percent compared to 2013, owing mainly to the entry into full production of certain mines and the expansion of one gold mine. If rainfall is more favorable than expected, the growth rate is expected to rise above 7 percent.

23. Moreover, to strengthen the resilience of the economy against various shocks while promoting inclusive growth and poverty reduction, the government plans to continue to develop growth hubs, implement arrangements under the National Rural Sector Program and the action plan for food security, and approve a draft law on universal health insurance. Four new growth poles will be established: two agricultural centers in Sourou and Samendeni, a mining center in the Sahel, and a center for tourism in the east of the country. Establishing these centers of commerce will help: (i) increase agro-pastoral and fisheries production; (ii) develop exports; (iii) match development of infrastructure and critical services with industrial development needs; and (iv) direct national and foreign investments toward establishing a better framework to support small and medium-sized enterprises. These expected results should boost economic growth in the selected centers, and help spread the effects across the whole of the local, regional, and national economy.

24. The government will continue to implement social measures, notably through controlled consumer product prices, by keeping special outlets open. Other specific measures are intended to help the most vulnerable groups in society, the young unemployed and women's groups. Subject to favorable rainfall and the continuation of these government measures, the rate of inflation should be around 2 percent in 2014–2015, below the community standard of 3 percent.

25. Terms of trade are expected to worsen in 2014, leading to a deterioration in the trade deficit. In the medium term, the terms of trade and the trade deficit are expected to improve, even if the current account deficit remains fairly high (owing to the statistical revision of gold production data in 2012). Despite a drop in net foreign assets, the money supply is expected to continue to grow faster than nominal GDP, reflecting stronger growth of private-sector credit offset by lower banking system financing of the government.

FISCAL POLICY FOR THE REMAINDER OF 2014

26. The 2014 budget seeks to foster sustained, but more inclusive, growth. Growth should be better distributed and address social concerns in a tangible manner, as a result of social measures aimed at job creation and improving living conditions, especially for the most vulnerable. Thus, the budget is built around the following strategic platforms: (i) strengthening the pillars of growth; (ii) consolidating social gains; (iii) promoting local, economic, civic and administrative governance; and (iv) stepping up national defense and internal security.

27. To consolidate the social measures taken by the Cabinet in September 2013 to improve living conditions, the government took further action on March 24, 2014. These actions stem from the evaluation of the previously implemented measures conducted during an assessment workshop on January 17, 2014. The workshop revealed genuine popular support for these measures, based on their contribution to easing social tensions, particularly in rural areas. The measures include raising public sector workers' wages, improving the social safety net for vulnerable segments of the population, creating jobs and income, and providing access to staple goods.

28. The total cost of the additional expenditure is 2.6 percent of GDP, and includes the following:

- Payroll, which increased by 0.6 percent of GDP after allowances were raised using a new salary scale that had been discussed with the social partners (while streamlining the number of allowance categories from 26 to 5). The housing allowances for all government employees and public institutions were raised as of January 1, 2014.
- The continuation of social measures initiated in September 2013 totaling 0.6 percent of GDP. These measures include:
  - ➢ support for the most vulnerable segments of the population, which will make a difference for more than 11,000 people (orphans, street children, the elderly, people with disabilities);
  - ➢ creation of labor-intensive jobs, which will help roughly 20,000 people (waste recycling workers, health care contract workers, research assistants, training for housekeeping staff, labor market integration assistance for young professionals, recruitment of staff for regional authorities);
  - ➢ increased access to financing (female entrepreneurship, informal sector associations, small and medium enterprises) by establishing a special counter providing a line of credit and a fund dedicated exclusively to loan guarantees for female entrepreneurship;
  - ➢ easier access to staple goods through efforts to build up the special retail outlets;
  - ➢ academic measures by enhancing university infrastructure, boosting student enrollment, and raising scholarship amounts;
- Other small expenditures associated with updates to the electoral register for future elections and with the security situation in Mali.

29. To keep the deficit unchanged at 3.1 percent of GDP, the government identified compensating measures in the form of cuts to non-priority spending, including operating

expenses (acquisition of certain capital and material assets as well as overhead costs), current transfer spending, and some investment spending that has become less of a priority in 2014 given the state of readiness of these investments. These measures were incorporated into a draft supplementary budget that was submitted to the National Assembly on June 7.

30. The reallocation of expenditures according to the new supplementary budget compared to the initial budget will have a positive effect on inclusive growth because it will direct additional resources to growth-enhancing social spending (particularly health, education, and youth employment), while reprioritizing investment spending to maintain projects that are the most growth-enhancing and ready to execute.

31. Projections for program performance on the whole are in line with the targets set upon program approval. The deficit target for the year remains unchanged. The revenue projection is slightly lower, in keeping with more conservative estimates on performance, offset by the gains that will be achieved through the collection of the TPP and the introduction of standardized invoicing. The net domestic financing target is the same as at the time of program approval, less additional financing expected from the World Bank and the African Development Bank.

32. In order to improve budget execution, the government will pursue in 2014 the operationalisation of verification units and their extension into other ministerial departments, improvement of the procurement process, and reconcile the physical and financial execution of the budget, more specifically as part of delegated project management. It will also pursue the decentralization and delegation of spending, particularly through easing payroll processing by extending processing units from the Payroll and General Pay Office Directorate to other departments, and digitizing administrative documents to improve expenditure execution times.

Government financing of publicly-owned enterprises

33. In 2013, the government provided certain publicly-owned enterprises with assistance to absorb past debts or ongoing operational losses. To this end, it provided SONABHY with CFAF 26 billion in direct subsidies, and SONABEL with CFAF 12 billion in balancing subsidies, in addition to CFAF 11 billion in oil subsidies. Given the current and accumulated operating losses posted by these two publicly-owned enterprises, the overall financial support from the government in 2013 accounted for close to 10 percent of budget expenditure, and about a third of the total value of energy sales. Moreover, the government transferred CFAF 30.3 billion to BAGREPOLE, a semi-public company, as a fixed financial contribution under the agreement reached between the company and the government for 2013.

34. For 2014, government transfers to publicly-owned enterprises were revised to CFAF 48 billion. Additional expenditure in the amount of CFAF 15.7 billion was written into the 2014 draft supplementary budget. Of this amount, CFAF 12 billion is dedicated to SONABEL and 3.7 billion to SONABHY, in addition to the initial amount for capital loss, bringing the total to CFAF 8 billion.

35. The government plans to conduct an external audit of SONABEL and SONABHY to clearly identify the subsidy needs of these companies in the medium term (new structural benchmark). Depending on the results of the audit, different, more specific options could be explored to control costs in the medium term.

Mining sector

36. With a view to refocusing the actions to optimize the contribution that mines make to the national economy and to make them true drivers of development, the government undertook to revise the mining code and mining investor guide. The draft law adopted by the government was introduced in the National Assembly in September 2013 and then withdrawn for further consultation with industry players regarding some of the points of contention. The revision process is underway and the draft law should again be submitted to the National Assembly during the fall parliamentary session. The government will ensure that this new draft law, which draws on the recommendations made following several IMF technical assistance missions, is consistent with applicable best practices and compares to mining codes already in force in the subregion.

37. This issue is one of critical importance for the future development of the economy as the investment needed to boost infrastructure and fund development projects will be financed in large part from the tax revenues generated from the ongoing expansion of the mining sector. For the longer term, the government recognizes the need to improve the management and use of natural resource revenues through exploring options for the application of an appropriate fiscal rule, defined within the regional context.

38. Burkina Faso joined the Initiative for Transparency in the Extractive Industries (EITI) in 2008 and was granted "compliant country" status on February 27, 2013. The country is expected to undergo an evaluation in 2016 of the efforts it has made to maintain this status. To meet the requirements for this exercise, it prepared its third report on the reconciliation of payments from mining companies to the government and the revenues collected by the government from these companies for 2011. The fourth report is currently being prepared and will cover the 2012 financial year. To help make future preparation of EITI reports more successful, the EITI-BF Steering Committee organized a national training workshop on the EITI Standard from March 24-28, 2014, for all individuals involved in gathering information for the production of Burkina Faso's EITI reports. Moreover, the government is continuing consultations with mining sector stakeholders to improve and accelerate transparency in mining in order to clean up industrial operations, including small-scale or artisanal mining, and to ensure an adequate level of mining revenues to fund the development projects needed to translate the natural resource boom into significant improvements in living conditions. A company called "Société de participation minière du Burkina Faso" was created to value the assets held by the government in mining companies, as was a national board for securing mining sites to keep mining facilities and investments safe.

Debt policy

39. The government will continue to update and implement the medium-term debt management strategy (2014–16), which sets out the guidelines and criteria for external and domestic debt and which provides a framework for debt policy over the next three years. The main objectives of this strategy are as follows: (i) meet the government's financing and payment obligation needs at the lowest possible cost in the long term; (ii) maintain risks at an adequate level, and (iii) achieve the other objectives of the authorities, such as financial market development.

40. The main policy thrusts are as follows: (i) minimize the cost of debt while maintaining risk at its current level; (ii) maintain its participation in the regional financial market; and (iii) continue to use nonconcessional resources to finance high-return or structuring projects.

41. To this end, the government of Burkina Faso will continue its current strategy of using highly concessional resources to finance the needs of its economy. External financing denominated in euros will be given preference due to the low exchange rate risk it poses.

42. Through its participation in the regional financial market, the government plans to diversify its financing sources, reduce its dependence on external financing, and contribute to the development of the financial market.

43. As part of the current program, the government is requesting that the ceiling for nonconcessional financing be increased from CFAF 135.9 billion to CFAF 150.0 billion. Structuring projects for road, hydroagricultural, and business infrastructure have already been identified which justify this increase.

STRUCTURAL REFORMS FOR THE REMAINDER OF 2014

Shorter public expenditure execution timeframes

44. With respect to the budget, a number of major reforms will be implemented to further reduce the time required for executing public spending. With the coming into force of amending law no. 06/AN of January 24, 2003, which now entrusts the payment authorizing officer (*ordonnateur*) with validating the expenditure according to normal procedures, the time needed for executing public spending should become shorter. Moreover, this reform led to the reorganization of the IT system, particularly the Integrated Expenditure Chain (*Circuit Intégré de la Dépense* – CID), by making it possible for computer-based expenditure validation by the payment authorizing officer to automatically lead to the issuance of the payment order.

45. Another major reform is digitizing content. This reform will be monitored particularly closely with the formal establishment of a committee responsible for overseeing the implementation of the process through the issuance of a joint order signed by the Minister of Finance and the Minister responsible for the Development of the Digital Economy.

46. As regards investment spending, the committee responsible for monitoring expenditure associated with development projects and programs, established by order no. 2013-0070/MEF/SG/DGB of June 27, 2013, will continue its activities in 2014 with a view to contributing to better execution of investment spending.

Improved information sharing

47. The government will continue to roll out the tax information cross-checking module in GERIF at other DGI sites to ensure its optimal use in improving information sharing with the DGD. Furthermore, to ensure harmonized mining production data, a committee created for this purpose will meet regularly.

Product diversification

48. As part of product diversification, the government plans to develop niche products in specific markets. Products likely to make up these niches include shea, nutsedge, and soybean.

Energy

49. To encourage the production and use of solar energy, import exemptions for solar equipment will be maintained. In addition, to improve its management, its governance, and supply to its customers, SONABEL intends to develop a new strategic plan for 2014–18 based on recommendations and action plans arising from technical assistance financed by the World Bank. A new contract will also be drawn up between SONABEL and the government before the end of 2014.

PROGRAM ARRANGEMENTS

50. The government intends to take all necessary steps to achieve the targets and meet the criteria agreed upon with IMF staff, as presented in tables 1 and 2 of this memorandum. The program will be reviewed in accordance with the Technical Memorandum of Understanding (TMU), which sets out the quantitative performance criteria and requirements for reporting data to IMF staff. The second and third program reviews are expected to take place in September 2014 and March 2015, or shortly thereafter.

Table 1. Burkina Faso: Quantitative Performance Criteria and Indicative Targets
December 2013–March 2015

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

	2013				2014										2015
	Dec.				Mar.[4]				Jun.		Sept.[4]		Dec.		Mar.[4]
	Prog.	Adj.	Act.		Prog.	Adj.	Prel.		Prog.	Rev. Prog.	Prog.	Rev. Prog.	Prog.	Rev. Prog.	Prog.
Quantitative Performance Criteria															
Ceiling on net domestic financing of government[1]	56.7	110.0	128.0	Not met	115.0	115.0	-1.9	Met	95.9	67.9	128.0	75.0	109.6	74.4	55.0
Ceiling on the amount of new nonconcessional external debt contracted or guaranteed by government[2, 3]	135.9	135.9	55.0	Met	135.9	135.9	83.2	Met	135.9	150.0	135.9	150.0	135.9	150.0	150.0
Accumulation of external arrears[2]	0.0	0.0	0.0	Met	0.0	0.0	0.0	Met	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Indicative targets															
Ceiling on the overall fiscal deficit including grants	193.3	258.3	210.8	Met	100.9	92.5	-32.5	Met	125.8	125.8	125.8	169.1	197.7	197.7	79.4
Floor on Government revenue	1147.9	...	1117.4	Not met	268.7	...	237.2	Not met	583.2	593.8	863.4	884.3	1242.5	1238.3	276.8
Floor on Poverty-reducing social expenditures[5]	417.9	...	415.0	Not met	115.5	...	63.3	Not met	231.0	244.7	346.5	367.1	462.0	489.5	117.5
Accumulation of new domestic arrears[2]	0.0	...	0.0	Met	0.0	...	0.0	Met	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. The ceiling on net domestic financing is to be adjusted in line with the TMU definition. Prospective sales of public enterprise bonds are included in the targets here.

[2] To be observed continuously.

[3] The limit is not tied to specific projects.

[4] Indicative Target, except for continuous performance criteria.

[5] 90 percent of budget amount.

Table 2. Burkina Faso: Structural Benchmarks			
Measures	**Rationale**	**Evidence**	**Date**
Submit to the Cabinet a report with recommendations to improve the quality of investment expenditure **(DGB)**	Improve the quality of investment expenditure	Cabinet Report	September 2014
Conduct a study to identify options for strengthening the price smoothing fund (*fonds de lissage*) and putting it on a financially sustainable basis **(SP/SFCL)**	Put the price smoothing fund on a more financially sustainable basis	Study report	September 2014
Have the Board of Directors adopt an action plan to implement the option selected for improving the quality of financial services provided by SONAPOST **(SONAPOST)**	Improve access to financial services	Board of Directors decision	December 2014
Update SOFITEX's business plan by taking into account all the new assumptions, and submit the update to the Board of Directors for approval **(SOFITEX)**	Update financial situation forecasts	Board of Directors decision	December 2014
Conduct a study on the viability of production and import options to take into account new developments in the energy sector at the national and subregional level **(SONABEL)**	Identify the best option for production to meet demand at a lower cost	Study report	December 2014
Implement a satellite tracking system for goods in transit **(DGD)**	Combat fraud and improve revenue collection	Note on system implementation	December 2014
Initiate the process to update the base year used by the INSD for the production of national accounts **(INSD)**	Produce national accounts using an updated base	Status report on process initiation	December 2014
Conduct an external audit of SONABHY and SONABEL, under the supervision of the higher authority for government supervision	Better grasp of the effectiveness of subsidies and financial management of audited companies	Audit report,	November 2014

Attachment II. Technical Memorandum of Understanding

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) from 2014 to 2016. It also sets the framework and deadlines for the submission of data to IMF staff for assessment of program implementation.

CONDITIONALITY

1. The quantitative performance criteria and indicative targets for end-March 2014, end-September 2014, and end-December 2014 are provided in Table 1 of the MEFP. The structural benchmarks set forth in the program are presented in Table 2 of the MEFP.

DEFINITIONS

2. **Government.** Unless otherwise indicated, the term "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 table detailing the financial operations of the state (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 by Executive Board Decision No. 14416-(09/91), 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.[1] The discount rate used is 5.0 percent.

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 that receive government transfers, 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.

[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.

[1] The calculation of concessionality takes account of all aspects of the loan agreement, including maturity, grace period, payment schedule, upfront commissions, and management fees.

QUANTITATIVE PERFORMANCE CRITERIA

7. The revised quantitative performance criteria proposed for 2014 are as follows: (i) a ceiling on net domestic financing as defined below in paragraph 10; (ii) a ceiling on the contracting or guarantee of nonconcessional external debt by the government, as defined in paragraphs 4 to 7, and (iii) a ceiling on the non-accumulation of payment arrears on external debt service.

A. Net Domestic Financing

8. 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 domestic banking institutions (claims associated with IMF disbursements are included); (ii) the stock of unredeemed government bills and bonds held outside domestic 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 domestic 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 table detailing the financial operations of the state, prepared by the Ministry of Economy and Finance.

Adjustment

9. The cumulative ceiling on net domestic financing will be adjusted upward in the amount by which external program support, excluding project grants and project loans, falls short of the projected amount, up to a maximum of CFAF 65 billion. The shortfall will be calculated by reference to the projections in Table 1 below. The ceiling will not be adjusted downward if the external program assistance is higher than programmed.

Table 1. Burkina Faso: Projected External Program Assistance (Cumulative, CFAF billions)

	End-June 2014	End-September 2014	End-December 2014
Grants and loans	120.1	144.1	180.2

10. If the value of government bonds issued for the benefit of public enterprises, and sold to commercial banks by them, falls short of projections, the cumulative ceiling on net domestic financing will be adjusted downward in the amount equivalent to the difference between projected and actual figures. The difference will be calculated by reference to the projections in Table 2 below. The ceiling will not be adjusted upward if the value of the bond sales is higher than programmed.

Table 2. Burkina Faso: Projected Sales of Government Bonds to Commercial Banks by Public Enterprises (Cumulative, CFAF billions)

	End-June 2014	End-September 2014	End-December 2014
	31.0	31.0	31.0

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

B. Nonconcessional External Debt Contracted or Guaranteed by the Government

Performance criterion

12. The government commits not to contract or guarantee any nonconcessional external debt beyond the ceiling indicated in MEFP Table 1. This performance criterion applies to external debt as defined in paragraph 7 of this memorandum. It uses the concept of concessionality as defined in paragraph 6 of this memorandum. This performance criterion also applies to any private debt guaranteed by the government that constitutes a contingent government liability as defined in paragraphs 4 to 7 of this memorandum. In addition, this criterion applies to public enterprises that receive government transfers, 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, to ordinary short-term credit from suppliers, or to IMF loans. This commitment is a performance criterion to be observed continuously. It is measured on a cumulative basis from the IMF Executive Board's date of approval of the ECF, and no adjustment factor will apply.

Reporting deadlines

13. 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.

C. Non-accumulation of New External Payment Arrears

Performance criterion

14. 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 new external arrears by the government is a performance criterion, to be observed continuously.

Reporting deadlines

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

OTHER QUANTITATIVE INDICATIVE TARGETS

16. The program also includes indicative targets for the overall deficit (commitment basis, grants included) as defined in paragraph 19 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 the 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 external borrowing less amortization. Government net domestic financing is defined in paragraphs 10–11 above. The cash basis adjustment is defined as the sum of: (i) the total change in unauthorized expenditure commitments, (ii) the change in pending bills, and (iii) the change in Treasury deposits.

Adjustment

18. The ceiling on the overall fiscal deficit, including grants, will be adjusted upward in the amount by which external program grants falls short of the projected amount, up to a maximum of CFAF 65 billion. The shortfall will be calculated by reference to the projections in Table 3 below. The ceiling will not be adjusted downward in the event that actual external program assistance is higher than programmed.

19. The ceiling on the overall fiscal deficit, including grants, will be adjusted downward in the amount equivalent to the difference between projected and actual project loans if the actual figures are lower than projected. The overall fiscal deficit, including grants, will be adjusted upward in the amount equivalent to the difference between projected and actual project loans if the actual figures are higher than projected. The difference in the amount will be calculated by reference to the projections in Table 3 below.

Table 3. Burkina Faso: Projected External Program Grants and Project Loans (Cumulative, CFAF billions)			
	End-June 2014	End-September 2014	End-December 2014
Grants	84.6	108.6	126.9
Project loans	14.0	35.0	97.4

20. If the value of government bonds, issued for the benefit of public enterprises, and sold to commercial banks by them, falls short of projections, the cumulative ceiling on net domestic financing will be adjusted downward of the amount equivalent to the difference between projected and actual figures. The difference will be calculated by reference to the projections in Table 2 above. The ceiling will not be adjusted upward if the value of the bond sales is higher than programmed.

B. 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.

C. Poverty-Reducing Social Expenditures Definition

22. Poverty-reducing social expenditures are defined as the expenditures supporting the priority programs identified in the Accelerated Growth and Sustainable Development Strategy (SCADD) to accelerate the achievement of poverty reduction objectives. Such expenditures cover all spending categories for the following ministries: Promotion of Women and Gender Issues; Health; Social Action and National Solidarity; National Education and Literacy; Agriculture and Food Security; Animal Resources; Environment and Sustainable Development; Youth, Professional Training and Employment including the labor and social security components of Civil Service, Labor, and Social Security; Water, Hydraulic Improvements, and Sanitation. They also cover spending on rural roads and Heavily Indebted Poor Countries (HIPC) initiative (Category 5) for Infrastructure, Integration, and Transport; and HIPC expenditures only for Communication; Justice and Human Rights; Economy and Finance; and Mines, Quarries, and Energy ministries. Added to this is the allocation under section 98 “transfers to subnational governments” from Health, Agriculture and Food Security as well as National Education and Literacy. 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.

D. Non-accumulation of Domestic Payment Arrears

Definition

23. The government will not accumulate payment arrears on domestic obligations during the program period. This is an indicative target. Under the program, domestic payment arrears arise when actual payment is made more than 90 days after liability is incurred for an undisputed debt to a third party, except in cases where the terms and conditions of the transaction stipulate a longer period. In the case of debt service, arrears arise 30 days after the due date. Payments are deemed to be in arrears according to the following definition:

- Debt unpaid for more than 30 days after the due date stipulated in the agreement between the parties (creditor/debtor).
- Unpaid wages or pensions 90 days after their due date.
- Payments for services rendered received by the supplier more than 90 days after processing of the supporting documents submitted by the supplier.

E. Additional Information for Program Monitoring

24. To enable IMF staff to assess program performance, the government agrees to submit the following data, in paper format and/or MSC Excel electronic files, consistent with the frequency and deadlines specified below.

Table 4. Burkina Faso: Summary of Data Reporting Requirements

Information	Institution Responsible	Data Frequency	Reporting Frequency
Public Finance			
The table detailing the financial operations of the state (TOFE) and the customary appendix tables; (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)	MEF	Monthly	6 weeks
Domestic financing of the budget (net bank credit to the government and stock of unredeemed treasury bonds and bills)	MEF/BCEAO	Monthly	6 weeks
Data on implementation of the public investment program, including details on sources of financing	MEF	Quarterly	6 weeks
The stock of external debt, external debt service, external debt contracted, and external debt payment	MEF	Quarterly	6 weeks
Poverty-reducing social expenditures in Table form	MEF	Monthly	6 weeks
Petroleum product prices, consumption, and taxes, including: (i) the price structure for the month concerned; (ii) detailed calculation of the price structure, from the f.o.b. price to the retail price; (iii) volumes purchased and distributed for consumption by the petroleum distributor (SONABHY); with a distinction made between retail and industry sales; and (iv) a breakdown of tax revenue from petroleum products— customs duties, tax on petroleum products (TPP), and value-added tax (VAT)—and unpaid subsidies	MEF	Monthly	4 weeks
A monthly statement of the accounts with the treasury, broken out by major category (administrative services, state enterprises, public administrative enterprises, international organizations, private depositors, and others)	MEF	Monthly	6 weeks

Table 4. Burkina Faso: Summary of Data Reporting Requirements (concluded)

Monetary Sector			
The consolidated balance sheet of monetary institutions	National Directorate of the BCEAO	Monthly	6 weeks
The monetary survey: provisional data	BCEAO	Monthly	6 weeks
The monetary survey: final data	BCEAO	Monthly	10 weeks
Interest rates on lending and borrowing	BCEAO	Monthly	6 weeks
The standard bank supervision indicators for banks and nonbank financial institutions	BCEAO	Monthly	6 weeks
Balance of Payments			
Preliminary annual balance of payments data	BCEAO	Annual	9 months
Foreign trade statistics	INSD/BCEAO	Monthly	3 months
Any revision of balance of payments data (including services, private transfers, official transfers, and capital flows)	BCEAO	As they occur	2 weeks
Real Sector			
Provisional national accounts; and any revision thereto	MEF	Annual	2 weeks
Disaggregated monthly consumer price indices	MEF	Monthly	2 weeks
Structural Reforms and Other Data			
Any study or official report on Burkina Faso's economy, on the date published, or the date of entry into force.	MEF		2 weeks
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.	MEF		2 weeks