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Burkina Faso: 2005 Article IV Consultation, Fourth Review Under the Poverty Reduction and Growth Facility Arrangement, and Request for Waiver of Performance Criterion—Staff Report; Public Information Notice and Press Release on the Executive Board Discussion; and Statement by the Executive Director for Burkina Faso

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of a combined discussion of the 2005 Article IV consultation with Burkina Faso and fourth review under the Poverty Reduction and Growth Facility arrangement, and request for a waiver of a performance criterion, the following documents have been released and are included in this package:

- the staff report for the combined 2005 Article IV consultation, fourth review under the Poverty Reduction and Growth Facility arrangement, and request for waiver of performance criterion, prepared by a staff team of the IMF, following discussions that ended on June 9, 2005, with the officials of Burkina Faso on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on August 23, 2005. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a Public Information Notice (PIN) and Press Release, summarizing the views of the Executive Board as expressed during its September 7, 2005, discussion of the staff report on issues related to the Article IV consultation and the IMF arrangement, respectively.

- a statement by the Executive Director for Burkina Faso.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Burkina Faso*
Memorandum of Economic and Financial Policies by the authorities of Burkina Faso*
Selected Issues Paper and Statistical Appendix
Technical Memorandum of Understanding*
*May also be included in Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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BURKINA FASO

Staff Report for the 2005 Article IV Consultation, Fourth Review Under the Poverty Reduction and Growth Facility Arrangement, and Request for Waiver of Performance Criterion

Prepared by the African Department

(In consultation with the Finance, Fiscal Affairs, Legal, Money and Financial Systems, Policy Development and Review, and Statistics Departments)

Approved by Thomas Krueger and Mark Plant

August 23, 2005

Discussions on the 2005 Article IV consultation and the fourth review under the Poverty Reduction and Growth Facility (PRGF) arrangement were held in Ouagadougou during May 24-June 9. The mission team comprised Mr. Rogers (head), Mr. Geiregat, Mr. Gudmundsson, and Ms. Barkbu (EP) (all AFR). The mission was assisted by Mr. Zejan, the Fund's Resident Representative. Mr. Seck (World Bank) attended the meetings as well.

The mission met with President Compaoré; Prime Minister Paramanga Ernest Yonli; Minister of Finance and Budget, Mr. Compaoré; National Director of the central bank, Mr. Zallé; and other senior officials and representatives of the private sector, civil society, and the press.

Executive Directors approved an arrangement under the PRGF on June 11, 2003, in the amount of SDR 24.08 million (40 percent of quota). The first review was concluded on March 19, 2004, and the second and third reviews were concluded on February 2, 2005. Upon completion of the fourth review, a disbursement in the amount of SDR 3.44 million would become available.

Program performance under the PRGF-supported program was broadly satisfactory, notwithstanding the nonobservance of one performance criterion. In the attached letter, the government reports on recent developments and sets forth economic objectives and policies through 2006, and requests a waiver for the nonobservance of the performance criterion for March 2005 pertaining to net domestic borrowing (Appendix I).

Burkina Faso is a member of the West African Economic and Monetary Union (WAEMU) and shares a common fixed exchange rate and common external tariff with other members. Monetary and exchange rate policies are conducted at the regional level by the Central Bank of West African States (BCEAO). Burkina Faso has accepted the obligations under Article VIII and maintains an exchange system free of restrictions on payments and transfers for current international transactions. Relations with the Fund and the World Bank are summarized in Appendices II and III, respectively, statistical issues are covered in Appendix IV, and the debt sustainability analysis (DSA) is presented in Appendix V.

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EXECUTIVE SUMMARY

Burkina Faso's economic and policy performance in 2004 was strong. Growth remained robust and inflation was low. The fiscal deficit widened, as programmed, as expenditures on priority poverty programs increased. Despite the widening of the fiscal deficit, the external current account deficit shrank as cotton exports reached a record high. Planned structural reforms in the areas of tax and customs administration and fiscal transparency were fully implemented. In addition, the cotton sector was liberalized with the establishment of the first wholly private-owned cotton ginning companies.

Economic growth prospects have weakened for 2005 following a sharp deterioration in the external terms of trade, which have reached a 25-year low. Real GDP growth is projected to slow, inflation to increase, and the fiscal and external current account deficits are projected to rise. For the cotton companies, given the fall in cotton prices in world markets, some financial losses are projected for 2005. Growth in the medium term should increase with a gradual improvement in the terms of trade and the implementation of structural reforms.

The 2005 budget strikes an appropriate balance between the needs for fiscal restraint and additional spending in support of the Millennium Development Goals. The budget allows for the first wage increase since 1997 and additional recruitments of teachers and health workers. The deficit is nearly covered by net external financing, but given the mix between grants and loans, external debt indicators are projected to deteriorate temporarily. Structural reforms focus on tax and customs administration, fiscal transparency, and enhancing competitiveness.

The outlook is subject to important risks. Foremost among them is uncertainty surrounding developments in world cotton and crude oil prices, as well as the euro-dollar exchange rates. Presidential elections are scheduled for November 2005 and could give rise to additional expenditure pressures. Finally, regional drought conditions and locust infestation could spread.

The PRGF-supported program is broadly on track. The fiscal deficit was smaller than programmed in the first quarter of 2005, but the quantitative performance criterion pertaining to net domestic borrowing by the government was not observed because some expenditure authorizations made late in 2004 did not clear the payments system until early 2005. All other quantitative and structural performance criteria were observed. The staff and authorities believe that the fiscal targets for 2005 set at the end of 2004 remain appropriate and achievable.

The staff supports the authorities' request for the completion of the fourth review and for a waiver for the nonobservance of one performance criterion.

I. Introduction and Background

1. **Burkina Faso is among the world's poorest countries**. Nearly half the population lives on less than € 0.30 cents per day and the country is ranked 175th out of 177 countries in the UNDP's Human Development Index.[1] About four-fifths of the population live in rural areas and engage in largely rain-fed, unmechanized, subsistence agricultural or pastoral activities (including livestock, forestry and fishing), accounting for about 40 percent of GDP. Like other Sahelian countries, Burkina Faso suffers from drought and desertification, overgrazing, soil degradation, and deforestation.

Gross Domestic Product (GDP) per Capita and Human Development Index (HDI) in Burkina Faso and Other WAEMU Countries

	HDI Rank 1/ (2002)	Nominal GDP per Capita In U.S. dollars (2004)	Growth of Real GDP per Capita Annual Average(1995–2004)
Togo	143	375	-0.4
Senegal	157	733	2.0
Benin	161	565	1.8
Côte d'Ivoire	163	852	-1.1
Guinea Bissau	172	208	-2.2
Mali	174	404	2.3
Burkina Faso	**175**	**412** 2/	**3.8**
Niger	176	258	0.1
Memorandum Item:			
Sub-Saharan Africa		732	1.4

Sources: UN Human Development Report, 2004; and IMF.

1/ Rank out of 177 countries.
2/ Ranked 153rd out of 179 countries.

2. **Despite these challenges, the economy has responded well to the government's economic reform program**. Real GDP growth has averaged over 6 percent per year since 1994, among the highest in Sub-Saharan Africa—reflecting broad-based growth, including strong growth in agriculture and livestock activities—and the exchange rate peg has contained inflation. Macroeconomic management has been strengthened and structural reforms have resulted in a more flexible, market-based economy. The poverty headcount based on household surveys declined by 8 percentage points between 1998 and 2003 (to about 45 percent) and the UN Human Development Index improved. Nonetheless, social indicators remain low and some of the Millennium Development Goals (MDGs) seem difficult to reach.

3. **Increasing fiscal revenue has been a persistent challenge for the authorities**. This problem was accentuated by the revenue loss arising from the adoption of the WAEMU common external tariff (CET) in 2000. Notwithstanding some progress since then, revenue remains low by regional standards. In combination with relatively high spending levels, this has resulted in sizable fiscal and external current account deficits.

[1] See "Burkina Faso—Poverty Reduction Strategy Paper" (IMF Country Report No. 05/338, 4/18/05) for a detailed poverty analysis.

Comparative Indicators for Burkina Faso, WAEMU, and Sub-Saharan Africa, 1995–2004 1/

	Average. 1995–2003	Est. 2004
	(Annual percentage change)	
Real GDP growth		
Burkina Faso	6.5	4.6
WAEMU	4.0	2.5
SSA	3.6	5.0
Average inflation		
Burkina Faso	3.2	-0.4
WAEMU	3.7	0.4
SSA	18.5	9.1
	(In percent of GDP)	
Total revenue (excluding grants)		
Burkina Faso	11.5	12.8
WAEMU	15.6	16.2
SSA	21.3	23.3
Total expenditure and net lending		
Burkina Faso	20.9	21.4
WAEMU	20.2	21.2
SSA	25.5	25.1
Fiscal balance (excluding grants)		
Burkina Faso	-9.4	-8.6
WAEMU	-4.5	-5.0
SSA	-4.1	-1.9
Current account balance (excluding official grants)		
Burkina Faso	-12.5	-10.7
WAEMU	-6.5	-4.8
SSA	-3.8	-2.7
Net foreign financing 2/		
Burkina Faso	9.8	8.8
WAEMU	4.3	2.5

Source: African Department database (WETA) and Burkina country database, IMF.

1/ WAEMU comprises Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo; SSA refers to sub-Saharan Africa, excluding Mauritania, Somalia and Djibouti.

2/ Net foreign financing = grants+new borrowing-amortization+debt relief

4. **The government has been successful in finding donor funding to cover most of its financing needs, but much of this has been in the form of loans, putting pressure on external debt dynamics**. Large borrowing in the 1990s led to a debt overhang, which was eliminated when Burkina Faso reached the completion point under the enhanced HIPC Initiative in 2002. All debt sustainability indicators were below the policy-dependent indicative thresholds at end-2004. Nonetheless, assuring external debt sustainability in the future will remain a challenge (see below).

Burkina and Other HIPC Post-Completion Countries Compared, 2004

	Ratio of Net Present Value of Debt to:		Ratio of Debt service to:		
	Exports	Revenue	Exports	Revenue	GDP
WAEMU countries					
Benin	154.0	119.0	6.0	4.6	0.8
Burkina Faso	**183.1**	**141.5**	**4.9**	**3.8**	**0.5**
Mali	129.0	218.0	5.9	10.0	1.6
Niger	145.0	217.5	4.6	6.9	0.7
Senegal	125.6	181.4	6.9	10.0	1.9
Other African countries					
Ethiopia 1/	132.2	129.5	3.9	3.8	0.7
Ghana	89.6	139.5	3.6	5.6	1.3
Madagascar	202.1	532.6	4.4	11.6	1.4
Mozambique	84.0	205.9	4.5	11.0	1.4
Rwanda	337.1	248.8	9.7	7.2	1.0
Tanzania 1/	124.7	200.7	4.2	6.8	0.8
Uganda 1/	212.4	240.9	10.0	11.3	1.4
Zambia	140.0	260.7	20.0	37.2	6.8

Source: AFR database (WETA) and AFR Country Briefs, IMF.

1/ Ratios are for fiscal year 2004/05.

5. **Burkina Faso's track record of implementing Fund policy advice has generally been positive**. Burkina Faso has had five Fund arrangements since 1991, including four under the PRGF (Box 1). To date, all reviews under the PRGF arrangements have been completed, except for the first in 1993, and the authorities have implemented all structural reforms covered by Fund conditionality, albeit sometimes with delays.

6. **Presidential elections are scheduled for November 2005.** President Compaoré is running against 12 candidates from the opposition parties and multiple voting rounds are possible. Municipal elections are scheduled for February 2006. Regional security concerns continue to disrupt supply lines, raising transport costs and reducing access to a traditional export market.

Box 1. Fund Relations

The last Article IV Consultation was concluded on June 11, 2003. Executive Directors commended the authorities for their sound economic policies and progress in structural reforms. They stressed the need to achieve a competitive economy, capable of delivering sustained economic growth and faster improvements in social indicators. Upon completion of the third PRGF review, Directors noted the challenge posed by the deterioration in the external terms of trade and the worsening external debt indicators. They welcomed the financing of the fiscal deficit in 2005 with net donor flows in the form of grants, debt relief and highly concessional borrowing, but encouraged the authorities to strengthen tax administration and resist additional spending pressures during an election year.

Burkina Faso has been receptive to the Fund's policy advice, as demonstrated by satisfactory implementation of four successive PRGF-supported programs. The authorities' policies have contributed to a strengthening of macroeconomic stability and sustained GDP growth over the past ten years, despite exogenous shocks. Notwithstanding some delays linked at times to limited administrative capacity, the authorities have made considerable progress in the area of structural reforms. Their reforms have been geared at liberalizing the country's trade regime, removing price controls, and opening the economy to greater private sector participation, improving budget execution and monitoring, reforming the civil service, and strengthening the tax and revenue administrations. While the authorities have successfully reformed the cotton sector to increase its competitiveness, faster progress will be needed in the energy and telecommunications sectors, where high costs remain a key obstacle to economic diversification and competitiveness.

II. Recent Economic Developments and Program Performance

7. **GDP growth is estimated to have slowed to 4.6 percent in 2004 following a year of exceptionally high growth linked to record crop production**. Agricultural output fell, reflecting a sharp decline in cereal production from record levels, which more than offset the increase in cotton production. While cereal supplies are generally adequate to meet domestic demand, production fell to critically low levels in some

Selected Macroeconomic Indicators, 2001–05

	2001	2002	2003	Est. 2004	Proj. 2005
Real GDP (annual percent change)	6.7	5.2	8.0	4.6	3.5
Agriculture	27.0	1.1	12.9	-9.3	4.5
Non-agriculture	2.0	5.9	6.1	7.2	2.9
Inflation (average, annual percent change)	4.9	2.3	2.0	-0.5	4.0
Government revenue (in percent of GDP)	10.9	11.4	12.1	12.8	13.3
Overall fiscal balance (including grants, in percent of GDP)	-3.9	-4.8	-2.9	-4.3	-4.3
Current account balance (including grants, in percent of GDP)	-10.2	-9.1	-8.6	-7.8	-8.7
Terms of trade (annual percent change)	10.9	-14.6	-0.8	2.3	-26.0
Debt-service-to-exports ratio 1/	13.6	14.3	11.0	8.1	9.3

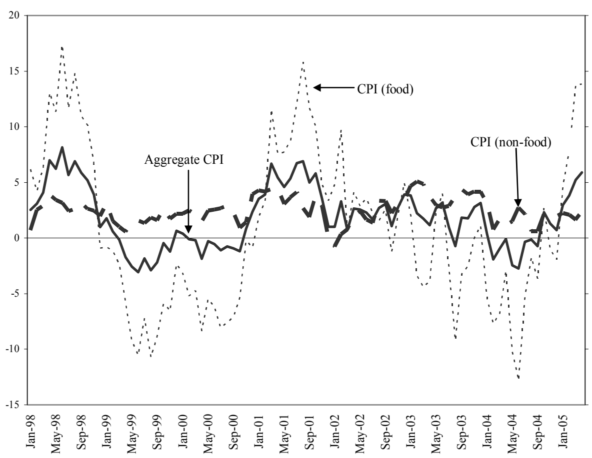
Source: Burkinabè authorities.

1/ After enhanced HIPC Initiative assistance, including topping up.

northern provinces because of drought and locust infestation. The government is working closely with the World Food Program and the Food and Agriculture Organization to move supplies from surplus to deficit regions, and has indicated that the situation is under control.

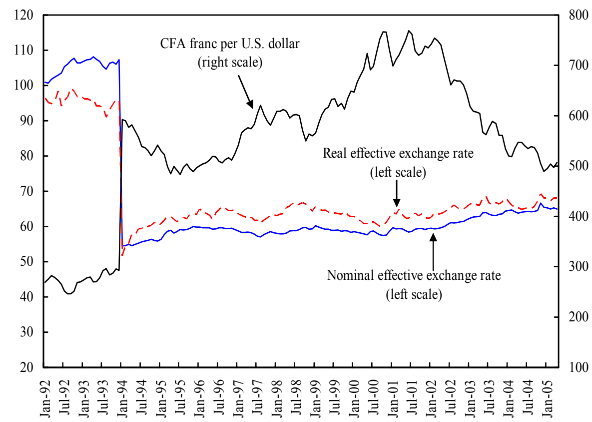
8. **Following a period of deflation in the first half of 2004, inflation increased to 8.8 percent by June 2005 (12-month change), reflecting the rebound in food prices from the five-year low reached in 2004**. Nonfood inflation has remained low, despite an increase in fuel costs. The real effective exchange rate depreciated moderately in 2004, as the decline in consumer prices during the year offset the appreciation of the euro, to which the CFA franc is tied.

Figure 1. Burkina Faso: CPI Inflation Rates, Monthly, 1998–2005
(Percent change from 12 months earlier)



Source: Burkinabè authorities.

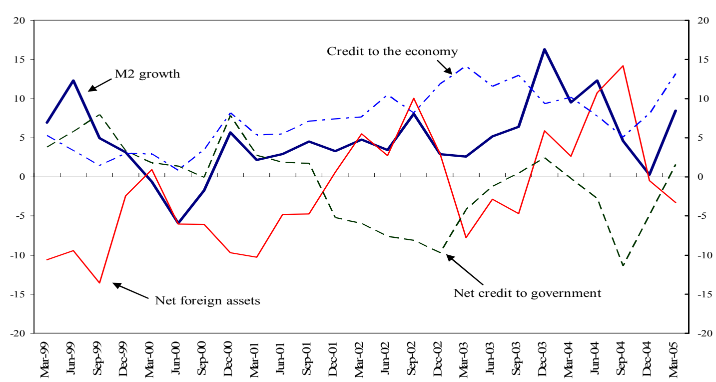
Figure 2. Burkina Faso: Selected Nominal and Real Exchange Rates, Monthly, January 1992–April 2005
(1990 = 100)



Source: IMF (Information Notice System)

9. **Monetary developments in 2004 were characterized by slow growth in money demand and a rapid expansion in domestic credit to the economy**. Credit to the economy expanded by about 12 percent, primarily to finance investment projects in the cotton, hotel and energy sectors. Broad money growth rebounded sharply during the first quarter of 2005, but the pace of credit expansion increased as well, including for the financing of the cotton campaign. Consequently, net foreign assets of the banking system continued to decline. To stem the rate of credit expansion,

Figure 3. Burkina Faso: Contribution to Money Growth, Quarterly, 1999–2005
(Year-on-year, in percent)

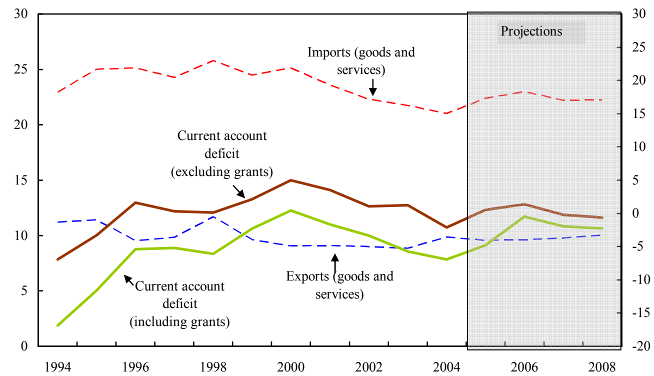


Source: Burkinabè authorities, and Fund staff estimates.

the BCEAO raised reserve requirements in Burkina Faso from 3 to 7 percent in June 2005.[2]

10. **The external current account deficit (excluding official transfers) shrank to 10.7 percent of GDP in 2004, as improvements in private sector savings offset the increase in the fiscal deficit**. Cotton exports increased sharply due to both volume and price effects, as virtually all the cotton crop was sold before world cotton prices began to decline. This improvement was sufficient to offset the impact of higher world oil prices.

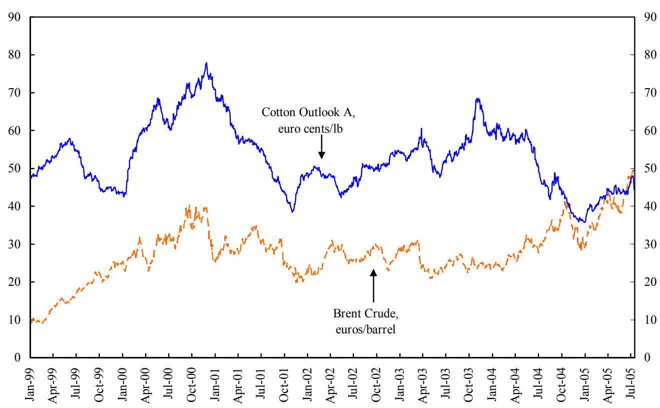
Figure 4. Burkina Faso: Exports, Imports and Current Account Balance, 1994–2008
(In percent of GDP)



Source: Burkinabè authorities, and Fund staff estimates.

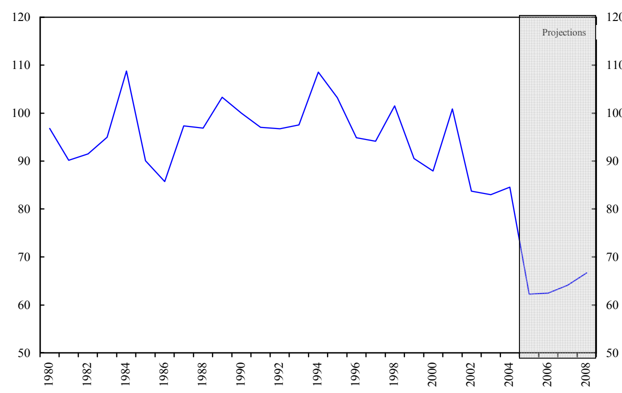
11. **The external terms of trade began deteriorating sharply in the second half of 2004 and have reached a 25-year low**. World cotton prices (measured in euros, to which the CFA franc is pegged) fell to a record low by end-2004. Although rebounding somewhat since then, they remain low by historical standards and world oil prices have continued to increase. While cotton prices are forecast to continue rising in the medium term, the average price for the 2006-08 period is projected to remain lower than in 2004,[3] and well below the 30-year average.

Figure 5. Burkina Faso: Cotton and Oil Prices, Daily, January 1, 1999–July 15, 2005
(In euros)



Source: Thomson Datastream.

Figure 6. Burkina Faso: Terms of Trade, 1980–2008
(1990 = 100)



Source: Burkinabè authorities, and Fund staff estimates.

[2] Reserve requirements were also raised in Benin and Niger.

[3] World Economic Outlook.

III. Report on the Discussions

12. **The discussions focused on the three main macroeconomic challenges facing Burkina Faso:** (i) establishing the conditions for the resumption of high rates of economic growth in the aftermath of the terms of trade shock; (ii) increasing public spending to implement the poverty reduction strategy without undermining debt sustainability; and (iii) enhancing external competitiveness in the context of the fixed exchange rate regime.

A. Economic Outlook and Growth Strategy

13. **The staff and authorities agreed that the growth projection underpinning the 2005 program (3.5 percent) remained broadly appropriate, although their assessments of the risks differed**. The mission noted that the terms of trade shock for 2005 was projected to be worse than envisaged earlier and that downside risks to economic growth had increased. The authorities were generally more optimistic, noting that cotton production was substantially larger than had been projected and that the economy had demonstrated its resilience to external shocks in the wake of the conflict in Côte d'Ivoire. Average inflation for 2005 is projected to rise to about 4 percent for the year, based on price developments through June and expectations of normal weather conditions for the remainder of the year.

14. **The authorities' medium-term growth strategy focuses on maintaining a stable macroeconomic environment and implementing policies to diversify the economy and increase productivity**. Given the large number of people who live in rural areas, the authorities consider the development of rural infrastructure, agricultural diversification, and enhanced agricultural productivity as crucial to poverty reduction. The accompanying selected issues paper finds that there is considerable potential to diversify agricultural production, and that important measures have been implemented to exploit that potential; however, low mechanization, inadequate infrastructure, and the land tenure system are likely to remain significant challenges to diversification in the medium term. The authorities noted that their structural reform program attempts to address these concerns (see below). They emphasized that their diversification strategy would benefit from the elimination of agricultural subsidies in industrialized countries.

15. **A review of long-term growth trends served as a benchmark for the discussions of near and medium-term growth prospects (Box 2)**. With a modest improvement in the terms of trade over the medium term, the continued implementation of structural reforms, and further improvements in infrastructure, real GDP growth could rise to about 6½ percent by 2008, in line with the 10-year trend. This would be somewhat higher than the 5 percent estimated by the World Bank to be necessary for the authorities to achieve their goal of reducing the incidence of poverty to about 30 percent by 2015.[4]

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[4] Burkina Faso has no poverty baseline for 1990 by which to assess concretely progress to the MDG pertaining to halving that rate of poverty by 2015. In addition, Burkina Faso, in consultation with the World Bank, has defined the poverty line at € 0.30 cents per day. The World Bank has accepted the authorities' target as being at least as ambitious as the MDG target.

Box 2. Burkina Faso: Economic Growth Prospects

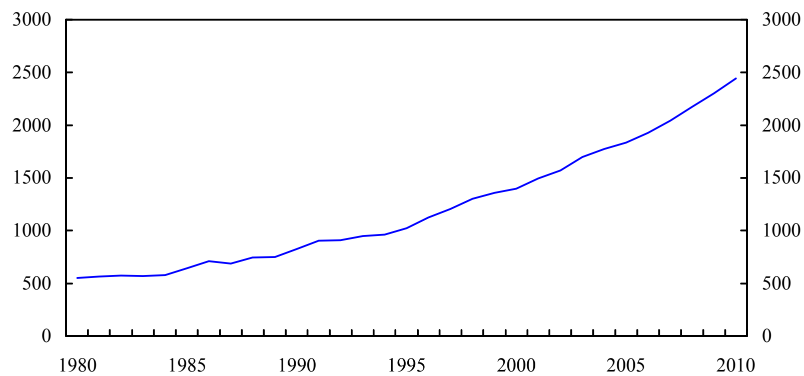
Following a year of exceptionally high growth (8 percent) in 2003, real GDP growth slowed to 4.6 percent in 2004 as output moved towards trend levels. The output gap was positive but shrinking in 2004.

The adverse terms of trade shock dampens Burkina Faso's medium-term growth prospects. Output is expected to fall below trend in 2005, as illustrated below for a projected growth rate of 3.5 percent.

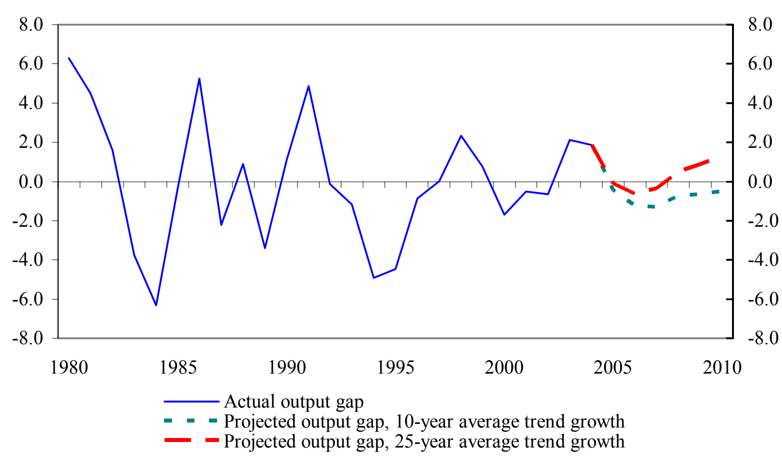
Output is expected to return to trend in the long run. Growth is projected to increase from 5 percent in 2006 to 6½ percent in 2008. Trend growth averaged around 5.6 percent during last 25 years, but has picked up to 6 percent during the last decade. Projected growth rates would be nearly sufficient to eliminate the negative output gap by 2008 on the basis of the 10-year trend.

Higher trend growth rates could be achieved by the authorities' strategy to enhance competitiveness and to diversify agricultural activities. Productivity growth, through investments in new equipment and in education, would improve competitiveness. Agricultural diversification would render Burkina Faso less vulnerable to fluctuations in cotton prices.

GDP in Constant Prices, Actual and Projected, 1980–2010
(In billions of CFA)



GDP Output Gap, Actual and Projected, 1980–2010
(In percentages)



Source: Burkinabè authorities; and Fund staff estimates.

[1] Trend output was obtained by using a Hodrick-Prescott filter. The Epanechnikov kernel yields similar results

B. Fiscal Policy and Debt Sustainability

16. **Fiscal policy was expansionary in 2004.** The fiscal deficit, excluding grants, increased to 8.6 percent of GDP in 2004, which was smaller than programmed. Revenue was on target, rising by more than one-half percent of GDP, and expenditure was lower than targeted. The deficit was fully financed from external sources, including grants amounting to 4.4 percent of GDP, and all quantitative and structural indicative targets for end-December were observed.

Burkina Faso: Consolidated Operations of the Central Government, 2002–06

(In percent of GDP; unless otherwise specified)

	2002	2003	2004		2005
	Est.	Est.	Prog. 1/	Est.	Proj.
Revenue	11.4	12.1	12.8	12.8	13.3
Expenditure and net lending	21.4	20.3	22.1	21.4	22.9
Overall balance (excluding grants)	-10.0	-8.2	-9.3	-8.6	-9.6
Net external financing	9.3	8.7	9.8	8.8	9.4
Of which: grants	5.2	5.3	4.9	4.4	5.4
net loans	3.2	2.3	3.7	3.5	2.6
debt relief	0.9	1.0	1.2	0.9	1.4
Domestic financing	-1.0	0.3	0.5	-0.4	0.6
Cash basis adjustment	1.7	-0.6	-1.0	0.3	-0.4
Financing gap	0.0	0.0	0.0	0.0	0.0

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

1/ IMF Country Report No. 05/95, December 22, 2004.

17. **The staff and the authorities agreed that the fiscal targets for 2005 remained appropriate**. The fiscal stance was tighter than programmed in the first quarter, as both revenue and expenditure were lower than projected. Nonetheless, there was an overrun in domestic financing (see below). The authorities explained that revenue was weaker than anticipated because of the nonpayment of compensation by WAEMU related to the tariff reform of 2000 and delays in registering tax receipts following the computerization of procedures at the tax directorate.[5] Revenue has subsequently picked up and performance through May indicates that the annual target of 13.3 percent of GDP remains attainable. Expenditure authorizations in the first quarter were lower than planned because of the delayed start of budgetary operations linked to the installation of new expenditure tracking software. This problem has been resolved. Expenditures will be slightly higher than envisaged earlier because of additional donor budget support (amounting to about 0.2 percent of GDP). The mission advised against using the additional resources on expenditures that would lock in future commitments. The authorities indicated that they would increase outlays on materials, equipment, rural roads, and other capital projects. The budget contains provisions for emergency food relief, which the authorities have been using to respond to food shortages in drought-affected regions. The mission encouraged the authorities to monitor the situation closely, in cooperation with external partners, and to ensure that additional resources be made available should the need arise. Concerning other expenditure areas, the authorities indicated that adequate provisions were made in the budget for the financing of the November presidential elections, and underscored their commitment to resist election-related spending pressures. The overall fiscal deficit excluding grants will rise to 9.6 percent of GDP, all of which is financed by net donor flows.

[5] The authorities indicated that the WAEMU has not been able to pay full compensation for shortfalls linked to the implementation of the CET. The shortfall amounted to CFAF 5.3 billion during the first quarter of 2005. Payments are to be phased out at end-2005, and discussions are underway to determine how to settle outstanding amounts.

18. **The authorities' revenue strategy focuses on strengthening tax and customs administration and broadening the tax base to avoid increasing the fiscal burden on existing tax payers**. No increase in tax rates is currently envisaged. Key measures undertaken in 2004 included the establishment of the large taxpayer division and the computerization of customs offices. In the first quarter of 2005, the authorities introduced a new single taxpayer identification number and centralized tax collection responsibilities. Future actions include the completion of a taxpayer census, the establishment of a joint tax-customs brigade to conduct comprehensive audits of tax payers, measures to reduce smuggling, and the introduction of an integrated revenue system. The mission and authorities agreed that on the basis of these reforms the revenue yield could continue to increase on the order of ½ percent of GDP per year on average, broadly in line with the experience since 2000. This would bring revenues in line with the WAEMU convergence criterion by 2015.

19. **The authorities' draft medium-term expenditure framework (MTEF) for 2006-08 envisages a leveling off of expenditures at about 24½ percent of GDP next year**. The increase would be mostly for additional capital spending and, to a lesser extent, non-wage priority social outlays. About two-thirds of the draft capital budget is for rural feeder roads, education, health, and water management. The wage bill would remain at about 5 percent of GDP, sufficient to allow for further recruitments of teachers and health workers. The authorities were not willing to commit to a staff recommendation to decrease the fuel subsidy to SONABEL (the state-owned electricity utility) in 2006, which amounts to about 0.6 percent of GDP (roughly equal to external debt service). They noted that the tariff increase necessary to accomplish this in the context of current world oil prices could be overly disruptive to markets and household budgets, already badly affected by the surge in domestic fuel prices. Based on the revenue outlook, this MTEF would cause the fiscal deficit (excluding grants) to rise to 10½ percent of GDP in 2006 and then to gradually decline to 10 percent by 2008. The strategy envisages donors financing most of the deficit.

20. **The increase in the fiscal deficit presents the authorities with two challenges**. The first is to obtain the necessary external financing. Average external financing for the 2006-08 MTEF would need to be some 50 percent higher than the average of 2000-04. The authorities have identified sources covering most of the needs for 2006 (amounting to about 9½ percent of GDP). The second challenge is to obtain financing on terms compatible with external debt sustainability. On this count the indications are mixed. The authorities recognized the importance of ensuring external debt sustainability, but indicated that this needed to be weighed against the need to increase expenditures in support of the MDGs.

21. **The baseline scenario of the DSA indicates that most debt indicators would remain below the policy-dependent indicative thresholds under the authorities' draft MTEF (Fig. 7).**[6] The various bound tests yield similar results. The ratio that breaches its indicative threshold is that of the net present value of debt to exports. While a source of some concern, it should be viewed in the context of Burkina Faso's belonging to a currency union with access to a shared pool of international reserves. While all ratios would deteriorate moderately during the medium-term, they would begin improving before 2015. This is also the case for most of the bound tests. The accompanying selected economic issues paper analyzes the fiscal adjustment and grant-loan mix of external financing that would be required to achieve a more rapid reduction in debt indicators, and examines the relationship between world interest rates and debt sustainability.

Macroeconomic Assumptions of Debt Sustainability Analysis
(In percent of GDP, unless otherwise indicated)

	1995-04	2005	2006-08	2008	2009-25	2025
Real GDP (percentage change)	6.3	3.5	5.8	6.5	6.0	6.0
Implicit deflator of GDP (percentage change)	2.2	1.7	2.1	2.2	2.1	2.1
Revenues	11.6	13.3	14.4	14.7	17.4	18.0
Expenditures	20.4	22.7	24.5	24.6	24.7	24.8
Deficit (excluding grants)	-8.8	-9.4	-10.2	-9.9	-7.3	-6.8
Foreign financing (net)		9.2	10.1	9.9	7.3	6.8
Grants		5.4	5.9	5.8	4.3	4.0
Loans		4.3	4.9	4.8	3.5	3.3
Exports	9.8	9.6	9.8	10.0	12.4	12.8
Real exports (percentage change)	8.9	22.5	6.7	8.0	6.8	5.5
Cotton	17.4	28.2	6.8	7.7	7.1	5.0
Other	1.3	9.6	6.6	8.8	6.5	7.5
Current account (excl. grants)	-12.6	-12.3	-12.1	-11.6	-6.5	-5.2

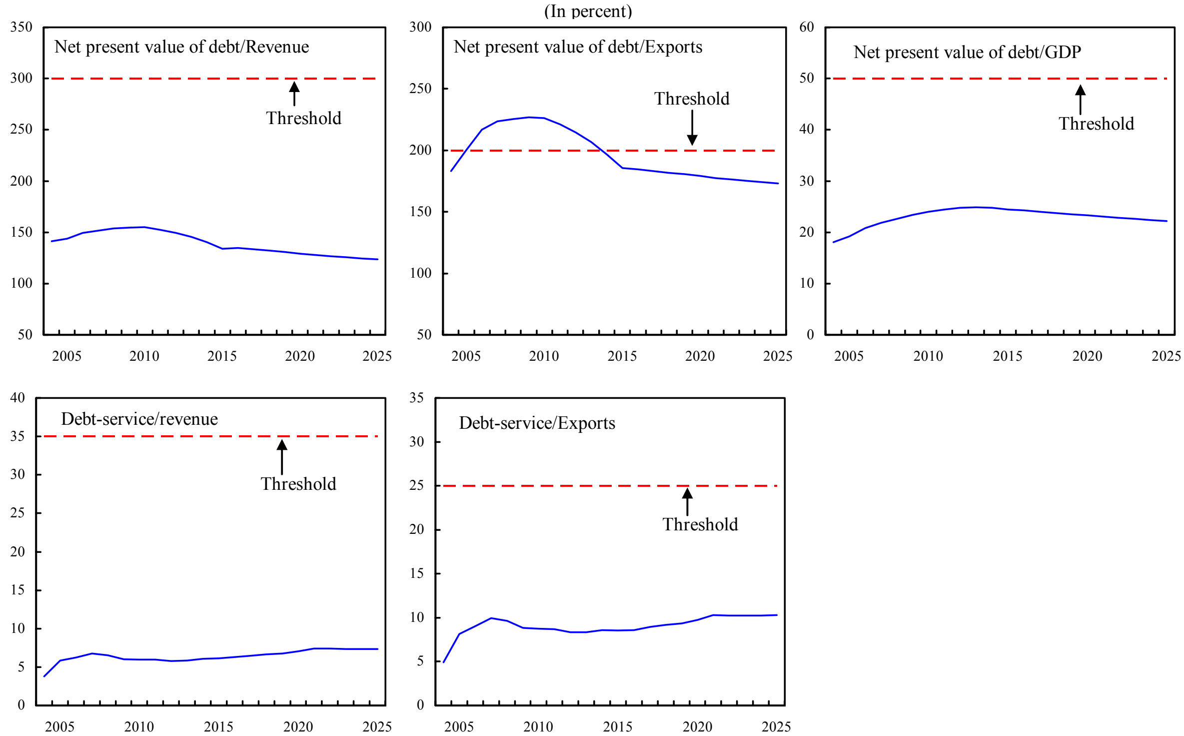
22. **The authorities are taking measures to increase absorptive capacity to help ensure that the proposed scaling up of expenditures would be effective**. Donor procedures for releasing budget support have been harmonized, easing the administrative burden on the government. However, no such harmonization has been achieved for project financing. The capacity of the economy to meet the government's demand for goods and services has occasionally been insufficient, leading to delays in project implementation. The authorities are addressing these constraints through programs to support small and medium-sized enterprises engaged in construction and other services, and reforms in the area of public procurement.

C. Cotton Sector Issues

23. **Cotton is the dominant cash crop in Burkina Faso, accounting for 70 percent of merchandise exports and employing an estimated fifth of the population**. The sector is largely private, with the government owning a minority share of the largest of three ginning companies, two of which were created in 2004 as part of the sector reform strategy. The producer price consists of two parts; a floor price of CFAF 175 per kilo, which is set in the context of the *Interprofessional Agreement* between growers and ginning companies, and a

[6] Burkina Faso is in the first quintile of the World Bank's country policy and institutional assessment (CPIA) rating, and its policy-dependent thresholds are therefore higher than those for countries with lower ratings.

Figure 7. Burkina Faso: Selected debt-sustainability Indicators, (Baseline Scenario), 2004–2025
(In percent)



Source: Burkinabè authorities and IMF–World Bank staff estimates.

ristourne (or bonus), which is based on the profits of the previous year. The *ristourne* was set at 35 CFAF per kilo in mid-2004, before the world cotton price began to fall, resulting in a record high producer price. Cotton production in the 2004/05 campaign also reached record high and gross payments to cotton farmers increased by nearly 50 percent. Against the background of the decline in world cotton prices, farmers and ginning companies agreed that no ristourne will be paid in 2005/06, resulting in a 17 percent decline in the producer price.

24. **While the outlook for ginning companies has improved recently, financial losses are still projected for 2005.** At world prices and exchange rates of June 2005, and incorporating average prices for sales already made, the staff projects losses on the order of one-third percent of GDP, compared with one percent projected in the last staff report. However, the companies were more pessimistic regarding the price they would receive for their cotton, projecting losses at about one percent of GDP. The companies also noted that the impact of low world cotton price had been exacerbated by the appreciation of the euro, which they argued had eroded competitiveness.

25. **The government reiterated its policy of allowing the cotton companies and farmers to find their own solution to low world prices without direct government financial support to cover losses**. The government would continue to support the sector through donor-funded projects to improve infrastructure, enhance productivity, and undertake research. In addition, the 2005 budget contains a small amount (CFAF 3 billion) to help offset the impact of higher fertilizer prices on farmers' costs arising from the disruption

of supply routes through Côte d'Ivoire. The mission advised against raising the fertilizer subsidy in response to the rising world price, noting that the subsidy was meant to provide temporary relief while companies found alternative supply routes, and not to insulate farmers from changing world prices. Furthermore, the mission noted that with farmers' record incomes from the 2004/05 campaign, it was difficult to justify additional income support, especially given the other demands on government resources. It was thus agreed to keep the subsidy at the current level.

D. Financial Sector Issues

26. **Monetary policy is conducted at the regional level by the BCEAO with the objective of sustaining price stability through the exchange rate peg**. Credit to the economy is projected to slow during the second half of 2005 in response to the increase in reserve requirements noted earlier. However, given the need for some domestic bank financing for fiscal operations, overall domestic credit would continue to expand and net foreign assets of the banking system are projected to decline in 2005. In the medium term, with a gradual reduction in domestic borrowing by the government, the banking system should be able to rebuild net foreign assets in the while providing for an adequate expansion of credit to the economy.

27. **The monetary authorities indicated that the banking system is basically sound**. All but one of the eight commercial banks met the minimum risk-weighted capital requirement at end-2004. After rising during 2004, the ratio of non-performing loans to total loans fell during the first quarter of 2005. Compliance with the other prudential ratios is mixed, notably those applying to loan concentration risk and portfolio quality. Concentration risk stems from the existence of a few relatively large borrowers, including in the cotton sector. Commercial banks hold some open positions vis-à-vis the cotton sector, as loans are secured by cotton inventories. However, with the recent rebound in world prices, and the other assets of the cotton companies, the banks indicated that the risk was manageable.

28. **The authorities continue to push ahead with reforms to improve financial intermediation and strengthen credit services for small and medium-sized enterprises (SMEs)**. Bank representatives indicated that constraints for financial development, particularly for lending to SMEs, include insufficient long-term sources of funding, difficulties in obtaining and realizing guarantees, and the low quality of loan applications. The recently established *Maison de l'Entreprise* is helping SMEs with accounting and administrative procedures. However, the national strategy for microfinance continues to be subject to delays. The government intends to establish a housing bank as a minority shareholder in partnership with private sector participants. The staff recommended against the government's proposal to take an initial 100 percent share in the bank, but to wait until all partners were ready to pay in their shares simultaneously.

E. External Policies and Regional Integration

29. **The authorities continue to have difficulties obtaining debt relief from non-Paris Club bilateral creditors**. Agreements were signed with Kuwait and Saudi Arabia, but none have been signed with Algeria, China, Côte d'Ivoire, Libya, or Taiwan Province of China, despite the authorities' repeated efforts. The authorities indicated that the terms of the Kuwait agreement were comparable with those of Paris Club creditors at the time of the completion point, but that those of Saudi Arabia were not.

30. **Trade reform in Burkina Faso is pursued in the context of the WAEMU**. Tariff reform was largely completed with the adoption of the WAEMU CET and Burkina Faso has an unweighted average import duty of 14.6 percent that includes a 5 percent degressive protection tax (TDP).[7] The mission encouraged the authorities to phase out the TDP by the end of 2005 as scheduled. They indicated that the issue would be taken up in the context of regional discussions that will take place by end-2005. The mission also recommended eliminating the special import authorization for sugar that requires government approval for importing a minimum quantity. The authorities indicated the approval was pro forma and since it did not set an upper limit on imports, it does not constitute a quantitative restriction, and indicated that its purpose was to curtail the smuggling of sugar. The mission encouraged the authorities to address concerns about smuggling through enhanced customs control and they agreed to review the practice before the 2006 budget is submitted to the National Assembly.

31. **The authorities view regional trade integration as fundamental to export diversification and indicated their support for removing the remaining barriers to intra-regional trade**. Other WAEMU countries are the principal markets for non-cotton exports, mostly livestock and food crops. While all WAEMU countries produce

Indicators of Potential Intra-regional Trade, 2004

	Burkina as a share of WAEMU (In percent)
Population	15.6
GDP	11.9
Total non-cotton exports by Burkina Faso over total Non-oil imports by WAEMU	1.1
Intra-regional trade as a share of total trade 1/	2.0

Source: African Department database (WETA), IMF.

1/ Calculated as Burkina's exports to WAEMU divided by WAEMU's imports from each other.

[7] The TDP (*taxe dégressive de protection*) was established by the WAEMU in July 1999 to help member countries cope with the lower external tariffs resulting from the implementation of the CET in 2000. The tax is levied on imports of products competing with local products. The rate of the tax declined every year between 1999 and 2002. Since 2002, the minimum and maximum rates have been 2½ percent and 5 percent, respectively. The TDP was supposed to be phased out by end-2002, but has been extended twice.

similar products, there is some scope for exploiting comparative advantage and Burkina Faso's small size relative to the union as a whole indicates a potential for increasing its share of intra-regional trade.

F. Competitiveness, Structural Reforms, and Governance

32. **The staff expressed concerns regarding competitiveness in light of the failure of the real exchange rate to depreciate in the face of the deterioration in the terms of trade**. While there was agreement that the cotton sector is not competitive with the current constellation of world prices and exchange rates, the authorities were confident that the combination of a gradual increase in cotton prices and continued structural reforms would be adequate to address these concerns. The authorities are preparing the energy and telecommunications sectors for increased private sector participation and the National Assembly recently approved a law amending the legal and regulatory framework of the power sector, though more work with development partners is needed to make it operational. While the authorities recognized the need for cost-based tariffs in the power sector, they were not willing to accept the staff's recommendation to move toward an automatic electricity tariff mechanism. Competitiveness will also be enhanced through public investments in the rural road and irrigation systems. The latter would support agricultural diversification and help reduce dependence on rainfall, thereby reducing the volatility of income and prices (Box 3). A review of the land tenure system, which is currently based on traditional rights that inhibit land improvement and access to credit, is underway.

Box 3. Volatility of Economic Growth

Real GDP growth in Burkina Faso is volatile, and much of the volatility can be explained by agricultural output. This volatility is of particular concern to populations in rural areas, which represent close to 90 percent of people living below the poverty threshold, and whose resources are barely sufficient to meet their basic consumption needs. Agricultural output constitutes between 20 and 25 percent of total output and is highly volatile because of its dependence on rainfall. The standard deviation of the growth rate of agricultural output is 14 percent. This volatility transmits to GDP, as can be seen from the high correlation coefficient of 0.7 in the table below. Volatility in output can to a much smaller extent be explained by volatility in non-agricultural output, even though it constitutes more than ¾ of aggregate output.

Correlation matrix of volatility, 1985-2004

	GDP	Agriculture	Non-agriculture
GDP	1	0.70	0.26
Agriculture	0.70	1	-0.51
Non-agriculture	0.26	-0.51	1

33. **Fiscal transparency and combating corruption are key components of the government's poverty reduction strategy**. Members of the Finance Committee of the National Assembly expressed their broad satisfaction with the budget preparation and approval process, noting the high degree of cooperation with the Council of Ministers. The government has also improved the timeliness of the submission of audited accounts and the budget law to the National Assembly, which has strengthened the policy review process and the national debate on economic priorities. As detailed in the issues paper, the authorities are continuing to improve governance and further the fight against corruption. The government recently approved a national strategy for good governance, and the four most egregious cases of alleged corruption identified by the High Authority for the Coordination of the Fight against Corruption have been forwarded to the tribunals and are under investigation.

G. Statistical Issues

34. **Economic and financial statistics are generally sufficient for purposes of program monitoring, but weaknesses inhibit the quality and timeliness of macroeconomic analysis and planning**. The official national accounts have been finalized only through 1999. In addition, the lack of high-frequency data hinders the timely and accurate assessment of the effectiveness of policies and external debt data are subject to errors and revisions. The authorities are taking steps to address some of these problems. Staffing constraints at the National Institute of Statistics and Demographics will be eased with a near doubling of the number of statisticians by end 2006. They also intend to develop a plan to strengthen their capacity to monitor and analyze external debt statistics by end of 2005 in the context of a broader framework for monitoring external financing. Work will begin soon on the 2006 census and household survey, and the authorities intend to launch a village data collection program focusing on agricultural production, livestock, and social indicators. Coverage of the consumer price index, which is limited to Ouagadougou, will be extended nation-wide in 2006.

H. Program Issues

35. **The authorities describe policy implementation under the program in 2005 and specify policies through 2006 in the attached Letter of Intent**. The fiscal stance was tighter than programmed in the first quarter of 2005. The end-March 2005 performance criterion on domestic borrowing was missed because some expenditure authorizations made late in 2004 (consistent with the program) did not clear the payments system until early 2005. However, cumulative domestic borrowing from the beginning of 2004 through end-March 2005 was lower than programmed, and on this basis the authorities are requesting a waiver. Fiscal reforms are proceeding on schedule and all structural indicative targets and performance criteria for end-March 2005 were observed. The current program expires on August 15, 2006; the fifth review will be based on quantitative and structural performance criteria through end-September 2005, and the final review will be based on quantitative performance criteria through March 2006 and structural performance criteria through May 2006. The authorities wish to discuss the possibility of a new Fund-supported program in the context of discussions for the fifth program review. An ex-post assessment of

prolonged engagement with the Fund will be required ahead of any successor PRGF arrangement.

IV. Macroeconomic and Program Risks

36. **The macroeconomic outlook is subject to a number of risks**. The main near-term risk stems from the weak terms of trade. Losses in the cotton sector may put companies under severe financial stress, leading to weaker investments in the sector, slowing improvements in productivity and undermining medium and long-term growth prospects. There is also a risk that spending pressures will rise in the run up to presidential elections in November 2005. In addition, the country remains vulnerable to drought and the locust infestation spread.

V. Staff Appraisal

37. **Economic and policy performance were generally strong in 2004**. The decline in economic growth reflected a return of agricultural production to more normal levels following record harvests. Inflation remained low and most program objectives were realized. The government made notable progress in strengthening tax and customs administration, which have been instrumental in improving revenue performance and sustaining macroeconomic stability. Fiscal transparency and accountability have also improved, strengthening the national debate on economic priorities and policies.

38. **The Burkinabè authorities now face three major challenges**. First, to establish the conditions for high rates of economic growth in the context of an unfavorable external environment. Second, to increase public expenditure in support of the poverty reduction strategy without undermining external debt sustainability. The solutions to these challenges are mutually supportive. Higher rates of economic growth would increase revenues and help limit the need for foreign borrowing, while increased spending on rural infrastructure, education and health, would enhance Burkina Faso's economic growth prospects. Finally, the authorities need to accelerate the pace of structural reforms to restore high rates of economic growth.

39. **The authorities' fiscal targets for 2005 remain appropriate and achievable**. The easing of fiscal policy to smooth the adjustment to the terms of trade shock is appropriate given the need to push ahead with poverty-reducing expenditures. The 2005 budget is entirely financed with donor grants and highly concessional loans, which are crucial to ensuring debt sustainability.

40. **The draft medium-term expenditure framework, which reflects the authorities' desire to make more rapid progress toward the MDGs, would pose a moderate risk to external debt sustainability**. The staff considers the risk to be acceptable in light of the substantial expenditure needs facing the country and given that most indicators would remain below the policy-dependent indicative thresholds. However, the findings from the DSA underscore the need for the authorities to continue their efforts in improving debt-service

capacity, notably by fostering the growth of exports. The staff urges the authorities to proceed with their expenditure plans only if adequate financing on appropriately concessional terms can be obtained, to ensure that the benefits of past debt relief are not unwound by new unsustainable borrowing. In the same vein, the staff urges the authorities to continue negotiating to obtain full HIPC debt relief from its non Paris Club creditors.

41. **Fiscal reforms correctly include steps to raise revenue through improvements in tax and customs administration**. The completion of the computerization of the major customs offices and the introduction of a new single taxpayer identification number were important achievements in this regard. The envisaged taxpayer census and the establishment of the joint tax-customs brigade will help to broaden the tax base and improve tax compliance.

42. **Other structural reforms appropriately focus on enhancing economic competitiveness**. Progress in this area is urgent given the sharp decline in the external terms of trade. Pushing ahead with utility reform is especially important, as this will establish the conditions for expanding and improving the quality of services, which will help reduce production costs elsewhere in the economy. The mission urges the authorities to work toward an automatic electricity tariff adjustment mechanism to ensure the financial viability of the sector while eliminating the need for budgetary support to cover sector losses.

43. **The government has made notable progress regarding fiscal transparency and in combating corruption**. The timeliness of submitting audited government accounts to the National Assembly has improved and the government has followed up on the report of the High Authority on the Coordination of the Fight against Corruption. The government's approval of a national strategy for good governance should lay the groundwork for a comprehensive approach to improving economic governance and reducing corruption.

44. **The government's policy with respect to the cotton sector has served the sector and the economy well**. The sector has grown rapidly during the past 10 years, has generally been profitable, and has shown substantial resilience to external shocks in the past. Financial prospects for the ginning companies have improved with the rebound in world cotton prices in the first half of 2005, but the possibility of losses remains.

45. **The banking sector, based on available information, appears sound and adequately provisioned to withstand the recent price shocks**. The recent decline in the ratio of non-performing loans to total loans is a welcome development. The staff urges the authorities to monitor banks closely as the 2004/05 cotton campaign comes to a close and the loans to the cotton companies fall due.

46. **The timeliness and quality of economic and financial data need to be improved**. Plans to strengthen the National Institute of Statistics and Demographics are welcome and the authorities are encouraged to provide adequate budgetary resources. The authorities should also take measures to improve the quality of external debt data to ensure that the debt implications of fiscal policy can be quickly and accurately assessed.

47. **The authorities' economic strategy adequately addresses the key risks to the economic outlook and PRGF-supported program**. Donors have indicated their willingness to support structural reforms and other productivity-enhancing programs in the cotton sector. The government has demonstrated its commitment to responsible expenditure management and indicated that it will reallocate resources from non-priority programs should additional spending for the elections prove necessary. While droughts and (to a lesser extent) locusts contribute to highly volatile food production and prices, the economy has demonstrated the ability to rebound quickly from these shocks in the past.

48. **Performance under the PRGF-supported program has been broadly satisfactory**. The fiscal stance during the first quarter of 2005 was tighter than programmed and the nonobservance of the performance criterion pertaining to domestic borrowing by the government was minor and temporary. Against this background, and on the basis of policies set forth in the authorities' Letter of Intent, the staff recommends that their request for a waiver be granted and that the fourth review under the PRGF arrangement be completed.

49. It is proposed that the next Article IV consultation take place in accordance with the July 15, 2002 Executive Board decision on consultation cycles.

Table 1. Burkina Faso: Selected Economic and Financial Indicators, 2001–06

	2001	2002	2003	2004		2005		2006	
	Est.	Est.	Est.	Prog. 1/	Est.	Prog. 1/	Est.	Prog. 1/	Proj.
				(Annual percentage change; unless otherwise specified)					
GDP and prices									
GDP at constant prices	6.7	5.2	8.0	4.8	4.6	3.5	3.5	4.3	4.8
GDP deflator	5.5	3.3	1.5	3.5	3.3	1.8	1.7	1.8	2.2
Consumer prices (annual average)	4.7	2.3	2.0	-0.8	-0.4	1.8	4.0	2.0	2.0
Consumer prices (end of period)	1.0	3.9	3.2	0.0	0.7	2.0	2.0	2.0	2.0
Money and credit									
Net domestic assets (banking system) 2/	2.7	0.0	10.4	6.5	0.8	8.2	8.2	4.5	7.4
Credit to the government 2/	-5.2	-9.7	2.4	1.9	-4.9	2.9	4.8	2.4	5.1
Credit to the private sector 2/	7.4	11.9	9.4	7.6	8.1	5.3	3.4	2.1	2.3
Broad money (M2)	3.3	2.9	16.3	8.5	0.3	5.4	5.3	6.2	7.1
Velocity (GDP/M2)	4.9	5.2	4.9	4.9	5.3	4.9	5.3	4.9	5.3
External sector									
Exports (f.o.b.; valued in CFA francs)	11.9	4.3	9.1	24.4	23.3	-7.5	1.4	1.5	8.5
Imports (f.o.b.; valued in CFA francs)	6.2	2.5	-0.7	17.8	4.9	6.8	13.1	3.1	10.6
Terms of trade	14.8	-17.0	-0.8	-2.7	1.8	-11.6	-26.4	1.3	0.3
Real effective exchange rate (– = depreciation)	3.3	2.1	3.8	...	-1.1	...	...	...	...
				(In percent of GDP; unless otherwise indicated)					
Gross investment	18.5	17.5	17.0	18.6	18.6	19.0	19.5	20.1	20.8
Government	8.0	7.1	6.3	7.8	7.7	7.7	7.8	8.3	9.5
Nongovernment sector	10.4	10.4	10.7	10.8	10.8	11.4	11.7	11.9	11.2
Gross domestic savings	4.0	4.2	4.1	6.6	7.4	6.1	6.6	7.2	7.4
Government savings	2.8	2.8	4.1	4.7	4.9	4.9	4.5	5.2	5.0
Nongovernment savings	1.1	1.3	0.0	1.9	2.6	1.1	2.1	2.0	2.4
Gross national savings	0.2	2.5	4.8	10.0	10.7	7.9	10.4	8.7	9.0
Central government finances									
Current revenue	10.9	11.4	12.1	12.8	12.8	13.3	13.3	14.0	14.0
Of which: Tax revenue	10.2	10.6	10.8	11.8	11.8	12.3	12.3	13.0	13.0
Total expenditure	21.8	21.4	20.3	22.1	21.4	22.6	22.9	23.7	24.7
Of which: Current expenditure	10.4	11.4	10.4	11.0	10.6	11.8	12.1	12.1	12.5
Overall fiscal balance, excluding grants	-10.9	-10.0	-8.2	-9.3	-8.6	-9.3	-9.6	-9.7	-10.7
Overall fiscal balance, including grants	-3.9	-4.8	-2.9	-4.4	-4.3	-5.8	-4.3	-4.3	-7.3
External sector									
Exports of goods and services	9.1	9.0	8.9	9.9	9.9	8.9	9.6	8.6	9.6
Imports of goods and services	23.6	22.3	21.7	21.9	21.0	21.9	22.4	21.5	23.1
Current account balance (excluding current official transfers)	-14.1	-12.6	-12.7	-11.6	-10.7	-12.5	-12.3	-12.5	-12.8
Current account balance (including current official transfers)	-11.0	-10.0	-8.6	-8.6	-7.8	-11.1	-9.1	-11.4	-11.8
Nominal GDP (in billions of CFA francs)	2,096	2,277	2,494	2,706	2,696	2,851	2,838	3,028	3,039

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

1/ IMF Country Report No. 05/95, December 22, 2004.
2/ In percent of beginning-of-period broad money.

Table 2. Burkina Faso: Consolidated Operations of the Central Government, 2001–08

	2001 Est.	2002 Est.	2003 Est.	2004 Prog. 1/	2004 Est.	2005 Prog. 1/	2005 Proj.	2006 Prog. 1/	2006 Prel. Proj.	2007 Prel. Proj.	2008 Prel. Proj.
	(In billions of CFA francs)										
Total revenue and grants 2/	376.3	378.1	434.6	479.3	462.2	477.9	529.9	585.8	527.8	577.7	632.8
Revenue 2/	228.0	259.4	301.2	345.6	344.8	377.9	377.9	424.5	425.9	473.7	526.8
Tax revenue	213.2	240.9	270.4	319.3	318.6	349.9	349.9	392.6	394.9	438.8	489.4
Income and profits	56.1	61.7	67.2	79.0	72.8	86.0	86.0	104.2	94.0	96.3	108.2
Domestic goods and services	111.8	130.2	147.2	179.8	177.3	195.6	195.6	218.8	220.4	245.1	272.9
International trade	39.2	42.4	44.1	52.6	57.3	57.0	57.0	59.7	66.4	82.6	91.9
Other	6.2	6.6	11.8	7.9	11.1	11.3	11.3	9.8	14.0	14.8	16.3
Nontax revenue	14.8	18.6	30.9	26.3	26.3	28.0	28.0	31.9	31.0	35.0	37.5
Grants	148.3	118.6	133.3	133.7	117.3	100.0	152.0	161.2	101.9	104.0	106.0
Project	121.1	88.7	61.8	84.8	70.3	93.3	93.3	161.2	101.9	104.0	106.0
Program	27.2	29.9	71.6	48.8	47.1	6.7	58.7	0.0	0.0	0.0	0.0
Expenditure and net lending 3/	457.5	486.4	507.0	597.5	577.0	643.0	650.8	716.8	750.9	807.7	881.5
Current expenditures	218.8	258.9	259.6	297.1	284.5	337.6	342.4	365.9	379.8	412.1	448.9
Wages and salaries	98.2	103.0	112.5	118.1	119.0	140.7	140.7	139.5	154.5	165.8	176.4
Goods and services	40.5	62.5	58.8	70.4	62.9	76.8	76.8	100.1	90.8	100.7	109.5
Other expenditure	0.0	5.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest payments	17.5	16.8	16.8	18.7	19.1	17.8	19.5	17.0	17.8	17.7	18.1
Domestic	5.0	3.9	5.2	8.0	6.4	7.3	7.3	6.7	6.7	7.2	8.2
External	12.5	12.9	11.6	10.7	12.7	10.5	12.2	10.3	11.1	10.5	9.9
Current transfers	60.1	70.1	70.3	87.4	83.4	99.8	99.8	107.4	114.7	125.8	142.6
Safety net and other expenditures	2.6	1.5	1.2	2.5	0.0	2.5	5.6	2.0	2.0	2.1	2.3
Investment expenditure	240.5	230.3	223.9	303.4	297.8	312.4	315.4	357.8	378.1	396.6	433.6
Domestically financed	63.5	86.7	89.5	128.5	147.3	132.0	135.0	176.8	183.0	186.3	218.0
Externally financed	177.1	143.5	134.4	174.8	150.5	180.4	180.4	181.0	195.1	210.3	215.6
Net lending	-1.9	-2.7	23.5	-3.0	-5.4	-7.0	-7.0	-7.0	-7.0	-1.0	-1.0
Overall balance	-81.2	-108.3	-72.4	-118.3	-114.8	-165.1	-120.9	-131.0	-223.1	-230.0	-248.7
Excluding grants	-229.5	-226.9	-205.7	-252.0	-232.2	-265.1	-272.9	-292.2	-325.0	-334.0	-354.7
Financing	81.0	110.1	73.2	118.3	117.5	83.9	120.9	5.5	85.0	88.1	90.1
Foreign	88.4	94.1	83.0	132.3	118.8	85.0	113.6	13.4	79.2	88.1	90.1
Drawings	115.5	100.8	84.7	132.9	119.9	87.1	122.3	19.8	93.2	106.3	109.6
Project loans	56.0	54.8	72.6	90.0	79.8	87.1	87.1	19.8	93.2	106.3	109.6
Adjustment aid	33.1	46.0	12.1	42.9	40.1	0.0	35.3	0.0	0.0	0.0	0.0
Amortization	-27.1	-27.4	-26.3	-32.6	-26.2	-33.0	-48.3	-31.3	-43.1	-40.0	-39.9
Debt relief	26.5	20.8	24.7	32.0	25.1	30.9	39.5	24.8	29.1	21.8	20.4
Domestic financing	-7.4	-23.8	6.3	13.0	-9.7	8.9	17.3	-0.8	12.8	0.0	0.0
Bank financing	-11.9	-43.9	10.4	9.8	-24.6	15.7	24.1	14.0	27.6	0.0	0.0
Central bank	-9.4	-36.4	5.4	7.7	-28.8	13.1	21.4	10.0	23.6	0.0	0.0
Commercial banks	-2.5	-7.5	5.0	2.1	4.1	2.7	2.7	4.0	4.0	0.0	0.0
Nonbank financing	4.4	20.1	-4.1	3.2	14.9	-6.8	-6.8	-14.8	-14.8	0.0	0.0
Cash basis adjustment	-1.5	39.7	-16.1	-27.0	8.5	-10.0	-10.0	-7.0	-7.0	0.0	0.0
Change in payments arrears	0.0	-3.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditures authorized but not paid 4/	14.8	12.3	0.9	-15.0	7.4	3.0	3.0	3.0	3.0	0.0	0.0
Stock of payment orders not executed	0.0	0.0	4.0	-4.0	1.4	0.0	0.0	0.0	0.0	0.0	0.0
Change in treasury commitments	5.5	30.6	-20.9	-8.0	-0.3	-13.0	-13.0	-10.0	-10.0	0.0	0.0
Errors and omissions	1.6	-1.8	-0.8	0.0	-2.7	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	81.2	0.0	125.5	138.2	141.9	158.6
Identified possible financing	...	...	...	...	...	81.2	0.0	...	104.8	77.8	58.7
Of which: grants	...	...	...	...	...	37.3	0.0	...	47.2	47.2	28.1
loans	...	...	...	...	...	43.9	0.0	...	57.6	30.6	30.6
Residual financing gap	...	...	...	...	...	0.0	0.0	...	33.4	64.1	99.9
Memorandum items:											
Poverty-reducing social expenditures	80.4	108.9	116.6	157.4	145.0	160.5	174.3	175.0	...	...	...
Of which: education	35.1	42.7	47.9	58.9	56.9	66.6	68.0	72.6	...	...	...
health	27.3	38.5	37.9	50.3	48.1	52.9	58.1	57.7	...	...	...
Poverty-reducing social expenditures excluding HIPC resources			86.8	103.4	101.5	128.6	128.3	...	...	...	...
	(In percent of GDP, unless otherwise specified)										
Revenue		11.4	12.1	12.8	12.8	13.3	13.3	14.0	14.0	14.4	14.7
Expenditure and net lending	21.8	21.4	20.3	22.1	21.4	22.6	22.9	23.7	24.7	24.5	24.6
Current expenditure	10.4	11.4	10.4	11.0	10.6	11.8	12.1	12.1	12.5	12.5	12.5
Capital expenditure	11.5	10.1	9.0	11.2	11.0	11.0	11.1	11.8	12.4	12.1	12.1
Overall balance (excluding grants)	-10.9	-10.0	-8.2	-9.3	-8.6	-9.3	-9.6	-9.7	-10.7	-10.1	-9.9
External financing	12.6	9.3	8.7	9.8	8.8	6.5	9.4	5.8	6.0	5.8	5.5
Of which: grants	7.1	5.2	5.3	4.9	4.4	3.5	5.4	5.3	3.4	3.2	3.0
net loans	4.2	3.2	2.3	3.7	3.5	1.9	2.6	-0.4	1.6	2.0	1.9
debt relief	1.3	0.9	1.0	1.2	0.9	1.1	1.4	0.8	1.0	0.7	0.6
Domestic financing	-0.4	-1.0	0.3	0.5	-0.4	0.3	0.6	0.0	0.4	0.0	0.0
Cash basis adjustment	-0.1	1.7	-0.6	-1.0	0.3	-0.4	-0.4	-0.2	-0.2	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	2.8	0.0	4.1	4.5	4.3	4.4
Identified possible financing	...	...	...	...	...	2.8	0.0	...	3.4	2.4	1.6
Of which : grants	...	...	...	...	...	1.3	0.0	...	1.6	1.4	0.8
loans	...	...	...	...	...	1.5	0.0	...	1.9	0.9	0.9
Errors and omissions	0.1	-0.1	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
GDP (in billions of CFA francs)	2,096	2,277	2,494	2,706	2,696	2,851	2,838	3,028	3,039	3,291	3,582
External financing and financing gap	12.6	9.3	8.7	9.8	8.8	9.3	9.4	9.9	10.5	10.1	9.9

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

1/ IMF Country Report No. 05/95, December 22, 2004.
2/ Revenue includes taxes on goods and services paid during the execution of public investment projects using checks issued by the treasury.
3/ On an authorization basis and including the tax component of the public investment projects, which is paid by the treasury.
4/ Float during the year. Decline of stock of expenditure committed but not paid : (-).

Table 3. Burkina Faso: Monetary Survey, 2001–06

	2001	2002	2003	2004						2005		2006	2007	2008
	Dec.	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.
	Est.	Est.	Est.	Est.	Est.	Est.	Prog. 1/	Rev. Prog. 2/	Est.	Prog. 2/	Proj.	Proj.	Proj.	Proj.
	(In billions of CFA francs)													
Net foreign assets	128.1	140.5	166.2	129.0	173.0	198.8	131.5	176.5	163.8	161.0	148.8	146.9	170.7	204.8
Central Bank of West African States (BCEAO)	76.5	80.9	128.4	77.3	109.0	149.3	86.3	138.7	121.5	125.6	106.5	104.6	128.5	162.5
Assets	194.0	190.1	226.2	174.6	198.9	238.7	178.7	223.5	207.8	209.3	191.7	187.3	201.9	227.1
Liabilities	117.5	109.2	97.8	97.2	89.9	89.3	92.4	84.9	86.2	83.7	85.2	82.7	73.4	64.6
Commercial banks	51.6	59.6	37.8	51.7	64.0	49.5	45.1	37.8	42.3	35.4	42.3	42.3	42.3	42.3
Net domestic assets	296.2	296.2	341.7	376.9	335.2	306.6	382.7	374.7	345.6	419.7	387.5	427.3	451.0	472.0
Net domestic credit	308.4	317.7	369.2	407.6	378.5	349.0	416.2	417.7	385.3	462.7	427.2	467.0	490.7	511.7
Net credit to government	58.8	17.7	28.3	34.3	31.5	-1.0	58.8	38.0	3.4	53.8	28.1	55.7	55.7	55.7
Treasury	101.9	73.0	83.2	91.6	86.2	54.3	101.7	92.9	57.4	108.7	81.5	109.2	109.2	109.2
BCEAO	74.2	36.3	41.2	54.1	57.7	16.9	46.1	48.8	14.9	61.9	36.4	60.0	60.0	60.0
Commercial banks	27.7	36.7	42.0	37.5	28.5	37.3	55.7	44.1	42.4	46.8	45.1	49.1	49.1	49.1
Other central government	-43.1	-55.3	-54.9	-57.4	-54.7	-55.3	-43.0	-54.9	-54.0	-54.9	-53.5	-53.5	-53.5	-53.5
Of which: project deposits	-25.2	-43.6	-78.9	-84.3	-86.1	-89.5	-36.4	-76.1	-86.4	-76.1	86.4	86.4	86.4	86.4
Credit to the economy	249.6	300.0	340.9	373.3	347.1	350.0	357.4	379.7	381.9	408.9	399.1	411.3	435.0	456.0
Of which: crop credit	38.3	47.6	40.0	65.0	50.0	0.0	43.5	40.0	15.0	43.2	15.7	16.2	17.2	18.1
Other items (net)	-12.2	-21.5	-27.5	-30.7	-43.3	-42.4	-33.5	-43.0	-39.7	-43.0	-39.7	-39.7	-39.7	-39.7
Broad money	424.4	436.7	507.9	505.9	508.2	505.4	514.2	551.2	509.4	580.6	536.3	574.2	621.8	676.8
Of which : bank deposits	267.4	311.8	367.9	393.2	392.7	396.0	449.4	433.4	399.4	458.4	422.2	454.4	494.7	541.4
	(Annual changes in percent of stock of M2 of 12 months earlier, unless otherwise specified)													
Memorandum items:														
Net foreign assets	0.6	2.9	5.9	2.6	10.7	14.2	-6.8	2.0	-0.5	-2.8	-2.9	-0.4	4.2	5.5
Net domestic assets	2.7	0.0	10.4	6.9	1.6	-9.6	8.1	6.5	0.8	8.2	8.2	7.4	4.1	3.4
Net credit to government	-5.2	-9.7	2.4	-0.2	-2.8	-11.4	6.0	1.9	-4.9	2.9	4.8	5.1	0.0	0.0
Credit to the economy	7.4	11.9	9.4	10.2	7.8	5.1	3.2	7.6	8.1	5.3	3.4	2.3	4.1	3.4
(annual percentage change)	13.9	20.2	13.7	14.4	11.3	7.5	4.8	11.4	12.0	7.7	4.5	3.1	5.8	4.8
Money supply	3.3	2.9	16.3	9.5	12.3	4.6	1.2	8.5	0.3	5.4	5.3	7.1	8.3	8.8
Of which : bank deposits	6.8	10.5	12.9	13.6	12.0	6.7	16.0	12.9	6.2	4.5	4.5	6.0	7.0	7.5
Currency velocity (GDP/broad money)	4.9	5.2	4.9	5.3	5.3	5.3	5.1	4.9	5.3	4.9	5.3	5.3	5.3	5.3

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

1/ IMF Country Report No. 04/95, March 5, 2004
2/ IMF Country Report No. 05/95, December 22, 2004

Table 4. Burkina Faso: Balance of Payments, 2001–08

	2001	2002	2003	2004		2005		2006		2007	2008
	Est.	Est.	Est.	Prog. 2/	Est.	Prog. 2/	Proj.	Prog. 2/	Proj.	Proj.	Proj.
	(In billions of CFA francs)										
Exports, f.o.b.	163.8	170.8	186.3	231.7	229.7	214.4	232.8	217.7	252.6	277.7	311.0
Of which: cotton	96.0	97.4	119.9	163.4	158.8	141.2	156.6	142.2	173.0	192.8	218.4
Imports, f.o.b.	-391.5	-401.3	-398.3	-469.2	-417.8	-500.9	-472.6	-516.2	-522.8	-543.8	-592.8
Of which: petroleum products	-67.9	-71.0	-78.0	-102.7	-90.0	-119.2	-125.5	-113.5	-143.7	-149.4	-162.8
Trade balance	-227.7	-230.5	-212.0	-237.5	-188.1	-286.5	-239.8	-298.5	-270.2	-266.2	-281.8
Services and income (net)	-93.9	-87.2	-123.8	-96.1	-127.5	-91.4	-141.5	-100.3	-153.7	-159.4	-171.8
Services	-76.0	-72.5	-108.9	-87.5	-112.0	-82.8	-124.5	-91.9	-137.5	-143.6	-156.3
Income	-17.9	-14.7	-14.9	-8.6	-15.5	-8.5	-17.0	-8.4	-16.2	-15.8	-15.4
Current transfers (net)	90.8	90.1	122.5	100.4	104.3	60.7	122.6	54.7	66.4	69.1	71.8
Private	25.8	29.8	18.1	20.0	26.0	21.7	31.9	21.4	33.5	35.2	36.9
Official	65.0	60.3	104.3	80.4	78.3	39.0	90.7	33.3	32.9	33.9	34.9
Current account (– = deficit)	-230.9	-227.7	-213.4	-233.3	-211.4	-317.1	-258.7	-344.1	-357.5	-356.4	-381.7
Excluding current official transfers	-295.9	-288.0	-317.7	-313.7	-289.6	-356.2	-349.4	-377.4	-390.4	-390.3	-416.6
Capital transfers	152.5	112.7	90.4	120.7	99.2	128.3	136.9	190.3	135.3	130.3	131.1
Project grants	121.1	88.7	61.8	84.8	70.3	93.3	93.3	161.2	101.9	104.0	106.0
Other capital transfers	31.5	24.0	28.6	35.9	29.0	34.9	43.6	29.1	33.4	26.3	25.1
Of which: HIPC Initiative	26.5	20.8	24.7	32.0	25.1	30.9	39.5	24.8	29.1	21.8	20.4
Financial operations	78.4	98.8	79.9	122.8	119.7	92.2	106.6	23.4	82.1	108.1	126.1
Official capital	61.9	73.1	57.4	100.3	87.1	54.1	84.3	-11.5	59.4	77.2	80.1
Disbursements	89.1	100.8	84.7	132.9	119.9	87.1	122.3	19.8	93.2	106.3	109.6
Project loans	56.0	54.8	72.6	90.0	79.8	87.1	87.1	19.8	93.2	106.3	109.6
Program loans	33.1	46.0	12.1	42.9	40.1	0.0	35.3	0.0	0.0	0.0	0.0
Amortization	-27.2	-27.7	-27.3	-32.6	-32.8	-33.0	-33.0	-31.3	-31.3	-28.5	-29.2
Private capital 3/	16.5	25.7	22.5	32.5	32.5	43.0	22.3	39.8	22.7	30.9	46.0
Errors and omissions	2.3	28.6	68.8	0.0	-10.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	2.4	12.4	25.7	10.3	-2.4	-96.7	-15.2	-130.4	-140.1	-118.0	-124.5
Financing	-2.4	-12.4	-25.7	-10.4	2.4	15.5	15.0	9.9	1.9	-45.7	-34.1
Net foreign assets	-2.4	-12.4	-25.7	-10.4	2.4	15.5	15.0	9.9	1.9	-23.9	-34.1
Net official reserves 4/	-22.5	-4.4	-47.5	-10.4	6.9	13.1	15.0	9.9	1.9	-23.9	-34.1
Of which: gross official reserves	-22.7	3.9	-36.1	-2.6	18.5	-14.2	16.1	7.4	4.4	-14.6	-25.2
IMF (net)	6.2	0.3	-7.4	-8.0	-7.8	-0.5	-1.1	-7.9	-2.5	-9.3	-8.8
Net foreign assets, commercial banks	20.1	-8.0	21.8	0.0	-4.5	-2.4	0.0	0.0	0.0	0.0	0.0
Change in arrears (– = reduction)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap 6/	0.0	0.0	0.0	0.1	0.0	81.2	0.2	120.5	138.2	141.9	158.6
Identified possible financing	...	...	...	...	...	81.2	0.0	...	...	...	...
Residual financing gap	...	...	...	...	...	0.0	0.2	...	...	...	...
Memorandum items:	(In percent of GDP; unless otherwise indicated)										
Trade balance (– = deficit)	-10.9	-10.1	-8.5	-8.8	-7.0	-10.0	-8.4	-9.9	-8.9	-8.1	-7.9
Cotton export volume (thousands of metric tons)	113.3	154.7	169.1	203.0	203.3	238.8	260.7	253.9	273.7	294.6	317.3
Current account (– = deficit)	-11.0	-10.0	-8.6	-8.6	-7.8	-11.1	-9.1	-11.4	-11.8	-10.8	-10.7
Excluding current official transfers	-14.1	-12.6	-12.7	-11.6	-10.7	-12.5	-12.3	-12.5	-12.8	-11.9	-11.6
Overall balance (– = deficit)	0.1	0.5	1.0	0.4	-0.1	-3.4	-0.5	-4.3	-4.6	-3.6	-3.5
Total debt-service ratio after HIPC 7/	13.6	14.7	12.1	8.2	12.0	8.6	8.3	9.5	9.1	8.6	7.4
Gross international reserves (in billions of CFA francs)	194.0	190.1	226.2	223.5	207.8	209.3	191.7	216.7	187.3	201.9	227.1
In months of imports of goods and services	4.7	4.5	5.0	4.1	4.4	3.6	3.6	3.7	3.2	3.3	3.4
GDP at current prices (in billions of CFA francs)	2,096	2,277	2,494	2,706	2,696	2,851	2,838	3,028	3,039	3,291	3,582

Sources: Central Bank of West African States (BCEAO); and Fund staff estimates and projections.

1/ IMF Country Report No. 04/95, March 5, 2004.
2/ IMF Country Report No. 05/95, December 22, 2004.
3/ Includes portfolio investment and foreign direct investment.
4/ In 2004, does not include the increase in liabilities owing to possible IMF disbursements.
5/ In 2004, IMF financing is included in the financing gap.
6/ Includes IMF financing in 2004.
7/ In percent of exports of goods and services.

Table 5. Burkina Faso: Selected Millennium Development Goals

	1990	1994	1995	1997	2000	2001	2002	2003
Eradicate extreme poverty and hunger	(2015 target = halve 1990 US$1 a day poverty and malnutrition rates)							
Population below US$1 a day (percent)	..	62.7	..	44.8	..	..	..	..
Povert headcount, national (percent of population)	..	44.5	45.3	..	..	..	..	..
Poverty gap ratio at US$1 a day (incidence x depth of poverty)	..	27.5	..	14.4	..	..	..	..
Percentage share of income or consumption held by poorest 20 percent	..	..	..	4.5	..	..	..	..
Prevalence of underweight in children (under 5 years of age)	..	32.7	32.7	..	34.3	34.3	..	37.7
Population below minimum level of dietary energy consumption (percent)	22.0	..	18.0	19.0	..	17.0	..	19.0
Achieve universal primary education	(2015 target = net enrollment to 100)							
Net primary enrollment ratio (percent of relevant age group)	26.2	..	30.8	33.5	35.0	35.0	..	36.2
Primary completion rate, total (percent of relevant age group)	19.0	18.0	..	24.0	28.0	..	..	29.0
Proportion of pupils starting grade 1 who reach grade 5	69.7	..	75.1	68.3	63.7	63.7	..	..
Youth literacy rate (percent ages 15–24)	24.9	28.5	29.5	19.4	..	..	..	..
Promote gender equality and empower women	(2015 target = education ratio to 100)							
Ratio of girls to boys in primary and secondary education (percent)	60.7	..	62.6	66.8	69.7	69.7	..	72.2
Ratio of young literate females to males (percent ages 15–24)	39.1	43.7	44.7	54.9	..	..	..	..
Share of women employed in the nonagricultrual sector (percent)	12.5	12.9	..	13.3	13.7	..	..	14.0
Proportion of seats held by women in national parliament (percent)	..	..	4.0	4.0	8.0	..	..	12.0
Reduce child mortality	(2015 target = reduce 1990 under 5 mortality by two-thirds)							
Under 5 mortality rate (per 1,000)	210.0	207.0	207.0	..	207.0	207.0	207.0	207.0
Infant mortality rate (per 1,000 live births)	118.0	110.0	110.0	..	107.0	107.0	107.0	107.0
Immunization, measles (percent of children ages 12-23 months)	79.0	45.0	43.0	41.0	59.0	46.0	46.0	76.0
Improve maternal health	(2015 target = reduce 1990 maternal mortality by three-fourths)							
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..		...			1,000.0	..	..
Births attended by skilled health staff (percent of total)	..	41.5	41.5	..	31.0	31.0	..	..
Combat HIV/AIDS, malaria, and other diseases	(2015 target = halt, and begin to reverse, AIDS, etc.)							
Prevalence of HIV, total (percent ages 15–24)	..	..	..	..	4.2	..	..	1.8
Contraceptive prevalence rate (percent of women ages 15–49)	..	7.7	7.7	11.9	..	..	..	14.0
Number of children orphaned by HIV/AIDS (in thousands)	..	..	..	..	240.0	270.0	..	260.0
Incidence of tuberculosis (per 100,000 people)	147.3	151.9	..	155.5	159.1	197.0	157.1	162.8
Tuberculosis cases detected under DOTS (percent)	..	10.8	6.0	15.3	18.9	15.0	18.1	18.5
Ensure environmental sustainability	(2015 target = various)							
Forest area (percent of total land area)	26.5	..	..	..	25.9	25.9	..	..
Nationally protected areas (percent of total land area)	..	..	10.5	..	..	10.4	10.4	11.5
GDP per unit of energy use (PPP U.S. dollar per kg oil equivalent)	..	..	..	..	..	..	..	..
CO_2 emissions (metric tons per capita)	0.1	0.1	0.1	0.1	0.1	0.1	..	..
Access to an improved water source (percent of population)	39.0	..	..	..	..	42.0	..	51.0
Access to improved sanitation (percent of population)	13.0	..	..	..	..	29.0	..	12.0
Access to secure tenure (percent of population)	..	..	..	..	..	..	..	..
Develop a Global Partnership for Development	(2015 target = various)							
Aid per capita (current US dollars)	37.3	44.4	..	35.2	29.8	..	..	37.2
Debt service (percent of exports)	8.0	15.0	..	18.0	23.0	..	..	13.0
Unemployment, youth female (percent of female labor force ages 15-24)	..	..	..	..	..	..	..	..
Unemployment, youth male (percent of male labor force ages 15-24)	..	..	..	..	..	..	..	..
Unemployment, youth total (percent of total labor force ages 15–24)	..	..	..	..	..	..	..	..
Fixed line and mobile telephones (per 1,000 people)	1.8	2.7	3.0	3.6	6.9	8.8	12.9	23.9
Internet users (per 1,000 people)	..	..	..	0.2	0.8	..	..	3.9
Personal computers (per 1,000 people)	0.1	0.2	0.3	0.8	1.3	1.5	1.6	2.1
General indicators								
Population (million)	8.9	9.8	10.0	10.5	11.3	11.6	11.8	12.1
Gross national income, Atlas method (current billion U.S. dollars)	2.9	2.3	2.4	2.8	2.8	2.8	2.9	3.6
GNI per capita, Atlas method (current U.S. dollars)	330.0	230.0	240.0	270.0	250.0	240.0	250.0	300.0
Adult literacy rate (percent of people ages 15 and over)	16.3	19.1	19.8	12.8	..	..	..	..
Total fertility rate (births per woman)	7.0	..	6.8	6.8	..	6.5	6.3	6.2
Life expectancy at birth (years)	45.4	..	45.3	45.5	44.9	44.2	42.9	42.8
Trade (percent of GDP)	35.6	37.1	39.5	35.6	34.4	32.7	30.9	31.9

Source: World Development Indicators database, April 2005.

Table 6. Burkina Faso: IMF Credit Position and Projected Payments to the IMF, 2005–15 1/

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
	(In millions of SDRs, unless otherwise indicated)										
Fund credit, net charges	-1.8	-3.6	-12.4	-11.7	-9.7	-8.9	-8.9	-6.6	-4.5	-3.8	-2.8
Poverty Reduction and Growth Facility (PRGF) disbursements (+)	10.3	6.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PRGF repayments (-)	-11.7	-10.1	-12.1	-11.5	-9.5	-8.8	-8.8	-6.5	-4.5	-3.8	-2.8
PRGF charges and interest (-)	-0.4	-0.4	-0.3	-0.3	-0.2	-0.2	-0.1	-0.1	0.0	0.0	0.0
Quota	60.2	60.2	60.2	60.2	60.2	60.2	60.2	60.2	60.2	60.2	60.2
Exchange rate: CFA francs per SDR (period average)	771.3	776.8	776.8	776.3	775.3	773.9	773.9	773.9	773.9	773.9	773.9
	(In billions of CFA francs, unless otherwise indicated)										
Exports of goods and services	271.3	293.1	321.7	359.0	399.7	445.7	502.4	567.0	640.7	725.0	821.4
Tax revenue	349.9	394.9	438.8	489.4	544.8	606.6	680.4	763.2	852.4	956.4	1073.0
GDP	2,838.1	3,038.9	3,290.7	3,582.0	3,876.6	4,195.5	4,540.6	4,914.1	5,318.4	5,755.9	6,229.3
Outstanding Fund credit, end of period											
In millions of SDRs	72.4	69.2	57.1	45.6	36.1	27.3	18.5	12.0	7.6	3.8	1.0
In billions of CFA francs	55.9	53.8	44.4	35.4	28.0	21.2	14.3	9.3	5.9	2.9	0.8
In percent of quota	120.3	115.0	94.9	75.8	60.0	45.4	30.8	20.0	12.6	6.3	1.7
Debt service to the Fund											
In millions of SDRs	12.1	10.4	12.4	11.7	9.7	8.9	8.9	6.6	4.5	3.8	2.8
In billions of CFA francs	9.3	8.1	9.7	9.1	7.5	6.9	6.9	5.1	3.5	2.9	2.1
In percent of exports of goods and services	3.4	2.8	3.0	2.5	1.9	1.6	1.4	0.9	0.5	0.4	0.3
In percent of tax revenue	2.7	2.1	2.2	1.9	1.4	1.1	1.0	0.7	0.4	0.3	0.2
In percent of GDP	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.1	0.1	0.1	0.0

Sources: IMF, Finance Department

1/ Assumes 3 disbursements in 2005 and 2 disbursements in 2006 of SDR 3.44 million each.

Ouagadougou, August 16, 2005

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
Washington DC 20431

Dear Mr. de Rato:

1. The government of Burkina Faso is implementing a program of macroeconomic and structural reforms for the period 2003-06 with the support of the International Monetary Fund (IMF). An arrangement under the Poverty Reduction and Growth Facility (PRGF), for an amount equivalent to SDR 24.08 million (40 percent of quota), was approved by the IMF Board on June 11, 2003. The program expires in August 2006.

2. The attached memorandum of economic and financial policies (MEFP) supplements the one attached to my letter to you dated December 20, 2004. The supplemental MEFP describes progress under the 2005 program and sets forth the broad objectives and policies for 2006 and the medium term. The policies for 2005 set forth in the previous MEFP remain appropriate, and we do not envisage a need for new measures.

3. The economic program for 2005 remains on track. For technical reasons, the performance criterion for end-March 2005 pertaining to net domestic borrowing by the government was not observed, because some expenditure authorizations made late in 2004, in line with the program, did not clear the payments system until early 2005. As a result, the ceiling was exceeded by a small amount of FCAF 0.3 billion. For this reason, we are asking for a waiver of the nonobservance of this performance criterion. All other performance criteria were observed. On the basis of this performance, and on the strength of the policies set forth in the attached memorandum, the government requests that the IMF complete the fourth review under the PRGF and disburse the fifth loan in the amount of SDR 3.44 million.

4. The government believes that the policies set out in the MEFP are adequate to achieve the program objectives; However, it stands ready to take any further measures that may prove necessary. The government of Burkina Faso will continue to provide the staff of the IMF with the information required to properly evaluate Burkina Faso's progress in executing the policies contained in the attached MEFP. It will also continue to consult with the IMF on its economic and financial policies, in accordance with the provisions and practices of the Fund governing such consultations.

Sincerely yours,

/s/

Jean-Baptiste Compaoré
Minister of Finance and Budget
Officer of the National Order
Ouagadougou, Burkina Faso

BURKINA FASO

Memorandum of Economic and Financial Policies of the Government of Burkina Faso for 2005-06

RECENT ECONOMIC DEVELOPMENTS AND PROSPECTS FOR 2005

1. Economic and program performance during 2004 was generally favorable, despite a sharp deterioration in Burkina Faso's external terms of trade during the second half of the year. Real GDP is estimated to have grown by 4.6 percent, following a year of exceptionally high growth associated with a record cereal harvest. Production of seed cotton increased by 31 percent in 2004 to a record level. Ample food stocks led to a reduction in food prices and helped keep overall inflation low, despite an increase in transport costs linked to rising world oil prices. The overall fiscal deficit (both including and excluding grants) was smaller than programmed because of restrained non-priority expenditures; while outlays on priority poverty-reducing programs were lower than programmed, they increased by 25 percent compared to 2003. The combined effects of declining world cotton prices and rising world oil prices contributed to an overall balance of payments deficit.

2. The current outlook for 2005 is not appreciably different from the one set out in the government's previous MEFP. World cotton prices rebounded by about 16 percent during the first four months of this year (measured in CFA francs), but they remain low by historical standards and world oil prices have increased sharply. Thus, Burkina Faso's external terms of trade are still projected to reach a 25-year low. Against this background, we are maintaining the projections of real GDP growth in 2005 at 3.5 percent. Inflation reached 7.2 percent in May (12-month change), reflecting the return of food prices to trend, as well as the impact of rising world oil prices. Food price inflation should soon ease with normal weather conditions and world oil prices are projected to stabilize around recent levels. On this basis, overall inflation is projected to average about 4 percent for the year as a whole, while core inflation (excluding food and beverages) should average about 2¼ percent.

3. The fiscal stance was tighter than programmed in the first quarter, despite a temporary shortfall in cash revenue. The revenue shortfall had two causes: (i) the non-payment of compensation related to the tariff reform of 2000 by the West African Economic and Monetary Union; and (ii) delays in registering tax receipts following the computerization of procedures at the tax directorate. Tax collection procedures have been normalized and revenue collection through May indicates that the revenue target for the year as whole remains appropriate. Expenditure authorizations were slower than expected because of the delayed start of budgetary operations linked to the installation of a new version of the expenditure tracking software integrating a new nomenclature for streamlined documentation requirements. The new expenditure controls are now fully operational and aggregate expenditures are proceeding in line with the program. While we will adhere to the overall programmed expenditure ceiling for 2005, we intend to reallocate expenditures from non-priority areas toward transfers to autonomous public institutions. In line with the program

adjustor pertaining to excess balance of payments assistance, we are in the process of identifying priority social programs that could effectively absorb the extra CFAF 6.1 billion in budget support for which we have received assurances in 2005. Improvements in tax and customs administration have been proceeding as scheduled and all structural performance criteria and benchmarks for end-March were observed (Table 4).

4. The outlook for the cotton sector has improved somewhat since the end of 2004, but the situation remains difficult. Cotton producers received CFAF 210 per kilo of seed cotton for the 2004/05 harvest (including a ristourne of CFAF 35 per kilo), an historical high. Gross payments to cotton farmers increased by 48 percent during the 2004/05 campaign to CFAF 130 billion (also a record high). Cotton ginning companies and the farmers association recently confirmed the producer price for the 2005/06 season at CFAF 175 per kilo for seed cotton and agreed that no ristourne would be paid. As noted in our previous MEFP, the cotton sector in Burkina Faso is largely private, with the government owning a minority share in one of three companies, and the interprofessional agreement between the farmers association and other shareholders in the cotton companies has served the sector well. If cotton companies incur financial losses because of the recent decline in world cotton prices, shareholders would be expected to find an internal solution. For its part, the government provided for a fertilizer subsidy in the 2005 budget to help the sector adjust to the increase transport costs associated with the disruption in normal supply routes because of regional security disturbances. The government will also continue to support the cotton sector by actively seeking donor assistance to accelerate improvements in competitiveness and diversification. We will also continue to push for the removal of cotton subsidies by industrialized countries.

5. We are continuing to strengthen our efforts to improve governance and fight corruption. The four most egregious cases of alleged corruption documented in the 2003 report of the High Authority for the Coordination of the Fight Against Corruption have been forwarded to the tribunals and are being investigated. In total, the Ministry of Justice is conducting six investigations of fraud involving public funds. The High Authority also drafted the National Strategy to Fight Corruption, which was discussed with civil society in a workshop in December 2004. This strategy is part of the broader National Strategy for Good Governance, an updated version of which was adopted by the Council of Ministers in July 2005.

6. We have continued to make progress in implementing structural reforms to support private-sector led economic growth, principally through our privatization program, regulatory reform, and reducing bureaucratic barriers to private investment. In March 2005, the Council of Ministers approved a new strategy for privatizing the national telecommunications company (ONATEL) under which a majority of shares will be sold to a qualified private operator. The National Assembly approved a new law in May that amends the legal and regulatory framework for the power sector. Bids were received to perform the audits of SONABEL and SONABHY and are currently being evaluated. In May, the Council of Ministers approved the creation of a center for business registration that consolidates and

simplifies administrative requirements (including the reduction of administrative fees) for establishing businesses. A center of arbitration was created to expedite the resolution of labor disputes. We have decided to postpone the adoption of the strategy for the microfinance sector in order to benefit from a mission of high-level experts to analyze the experience of the sector in other countries, and from the results of discussions at the sub-regional level being held by the BCEAO.

The PRSP and Medium-Term Macroeconomic Framework for 2006-07

7. The government recently published its poverty reduction strategy paper (PRSP) for 2004-06, as well as the priority action plan (PAP). The PRSP is founded on four pillars: (i) accelerating broad-based economic growth; (ii) promoting access to basic social services by the poor; (iii) increasing employment and income-generating activities for the poor; and (iv) promoting good governance. While the PRSP is revised every three years, the PAP is updated annually and incorporates the rolling three-year medium-term expenditure framework (MTEF), which aligns public expenditures with the objectives of the PRSP. In this context, we are preparing the 2006-08 MTEF to be included in the 2005 PAP.

8. The medium-term macroeconomic framework, which will underpin the updated MTEF, will reflect a gradual improvement in Burkina Faso's economic growth prospects and the continued implementation of sound macroeconomic policies. We envisage real GDP growth rising to about 6-7 percent in 2008. The exchange rate peg, together with low world inflation and normal rainfall, would contain inflation between 2 and 3 percent. Reducing external debt vulnerability is a key component of sustaining high rates of economic growth and ensuring that debt service does not divert an increasing share of scarce fiscal resources from poverty-reducing programs. Consistent with this policy, we will be seeking levels of grant financing consistent with a gradual decline in the overall fiscal deficit including grants, and give high priority to highly concessional loans. This strategy will also help reduce pressure on the external current account and allow Burkina Faso to play a role in maintaining adequate international reserves at the BCEAO. The medium-term economic framework will be finalized by end 2005.

9. Real GDP growth in 2006 is currently projected at 5.0 percent and inflation at 2 percent. On the basis of continued improvements in tax and customs administration and the inherent buoyancy of the tax structure, we anticipate that fiscal revenue will increase to about 14 percent of GDP. We are currently projecting the wage bill to rise on the order of 10 percent to CFAF 155 billion, primarily reflecting the expansion of educational opportunities, especially for girls, which will entail hiring more teachers. Continuing the policy of waiving school fees for girls and increasing outlays on other priority social programs, notably in the areas of health and rural infrastructure, would push total expenditure and net lending to about 750 billion, amounting to about 24½ percent of GDP. The overall deficit, excluding grants, would be nearly covered by net external flows. Total budget support would need to rise to about CFAF 140 billion, of which we have identified about CFAF 105 billion. In the context of consultations with our development partners, we will stress the need to maximize the share of grants in the total financing package in order to

ensure that our poverty reduction strategy is consistent with external debt sustainability in the medium term. If sufficient resources cannot be obtained on appropriate terms, we would need to revise the proposed expenditure levels downward, undermining the attainment of the Millennium Development Goals.

10. Structural reforms will continue to focus on enhancing tax and customs revenues, improving budget execution and transparency, finalizing the privatization of key utilities, providing support to enhance agricultural productivity and diversification, and combat corruption. In the area of fiscal reforms, we will put in place a fully operational Joint Brigade of the Tax and Customs Directorates with an annual work program for 2006 by end-December 2005. In addition, by end-March 2006, the Joint Brigade will conclude at least six joint audits and submit its report and recommendations for follow-up actions to the Minister of Finance and the Budget. We will also complete the taxpayer census in Ouagadougou and Bobo-Dioulasso and submit to the Minister of Finance by May 15, 2006 a report that will include the list of taxpayers and their taxpayer identification number. These three measures would constitute structural performance criteria under the program. We also intend to strengthen customs controls to reduce smuggling and to implement a new computerized revenue management system in 2006. Other key structural reforms include: (i) the establishment of an autonomous regulatory agency for the electricity sector and the issuance of a tender for the selection of a private operator for the management of SONABEL (the electricity utility) before end-June 2006; (ii) the issuance of bidding documents for private sector participation in the capital of SONABHY (the oil importing company) before end-June 2006, and the sale of a minority stake by the end of 2006; and (iii) privatization of ONATEL (telecommunications) by the end of 2006. A key medium-term objective for the development of the energy sector is to eliminate the need for the subsidization of fuel. However, there may be a need to maintain the subsidy to SONABEL in 2006 if the world price of oil does not retreat from its current high level. This would only be done in the context of other reforms set forth in our sector strategy recently agreed with development partners.

PROGRAM MONITORING

11. To monitor progress in implementing our program, the government has established quantitative and structural performance criteria for March 2006 and indicative targets for end-June (Tables 3 and 4). The program includes an adjuster on domestic financing for deviations in external debt service relative to program projections. In addition, domestic financing will be adjusted upward for a shortfall in budget support, up to a maximum of CFAF 50 billion. The program allows the government to spend budget support in excess of projected amounts on priority social programs, up to a maximum of CFAF 25 billion.

12. We expect to complete the fifth review under the program by end-February 2006 on the basis of results at end-September 2005, and the sixth review by August 15, 2006 on the basis of results at end-March 2006. We also wish to discuss the possibility of a new program supported by the International Monetary Fund in the context of discussions for the fifth program review.

Table 1. Burkina Faso: Quantitative Performance Criteria and Indicative Targets for the Program Under the Poverty Reduction and Growth Facility Arrangement, 2004

(In billions of CFA francs; cumulative from beginning of year)

	2003	2004											
	Dec.	End-Mar.			End-Jun.			End-Sep.			End-Dec.		
	Est.	Prog.	Prog. Adj. 1/	Est.	Indicative Target	Indicative Target Adj. 1/	Est.	Prog.	Prog. Adj. 1/	Est.	Indicative Target	Indicative Target Adj. 1/	Est.
Performance criteria and indicative targets 2/													
Ceiling on cumulative change in net domestic financing to government 3/	6.3	17.3	23.2	8.3	21.2	24.3	-2.8	3.1	7.2	-27.9	19.7	15.5	-9.7
Ceiling on the cumulative amount of new nonconcessional external debt contracted or guaranteed by the government 4/ 5/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which: less than one year's maturity 4/ 5/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accumulation of domestic payments arrears 5/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accumulation of external payments arrears 5/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Indicators													
Government revenue	301.2	70.7	70.7	73.9	162.4	162.4	174.6	248.8	248.8	253.0	345.6	345.6	344.8
Current expenditure	259.6	72.2	72.2	67.1	148.8	148.8	133.6	225.5	225.5	212.6	300.7	300.7	284.5
Expenditure on wages and salaries	112.5	28.3	28.3	27.7	58.5	58.5	57.9	88.6	88.6	89.9	118.1	118.1	119.0
Basic balance 6/ 7/	-71.4	-26.8	-26.8	-8.9	-40.0	-40.0	-22.4	-58.3	-58.3	-57.0	-77.1	-77.1	-81.7
Change in the stock of expenditure authorized but without payment orders 7/	0.9	2.0	2.0	-17.2	2.6	2.6	-3.9	-12.3	-12.3	8.0	-15.0	-15.0	7.4
Adjustment factors													
Balance of payments assistance	83.6	15.3	...	9.3	26.7	...	23.6	78.4	...	74.2	83.0	...	87.2
Adjustment lending (excluding IMF)	12.1	0.0	...	7.7	8.1	...	7.7	43.4	...	40.1	43.4	...	40.1
Adjustment grants	71.6	15.3	...	1.6	18.6	...	15.9	35.0	...	34.1	39.6	...	47.1

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

1/ Target on net domestic financing adjusted to reflect the excess or shortfall in balance of payments assistance.
2/ Performance criteria at end-March and end-September 2004.
3/ For 2004, the ceiling on the cumulative change in net domestic financing is to be adjusted upward (downward) by the amount of shortfall (surplus) in balance of payments assistance (excluding debt relief under the HIPC Initiative). At end- March 2004, the adjustment is limited to a maximum of CFAF 10 billion, to a maximum of CFAF 15 billion at end-June 2004, to a maximum of CFAF 45 billion at end-September 2004, and to a maximum of CFAF 50 billion at end-December 2004.
4/ Excluding treasury notes and bonds issued in CFA francs on the regional West African and Economic Monetary Union (WAEMU) market. From end-June 2004, this ceiling excludes supplier credits with a maturity of one year or less.
5/ To be observed on a continuous basis.
6/ Revenue (excluding grants) minus expenditure, excluding foreign-financed investment outlays and net lending.
7/ Including HIPC Initiative expenditure.

Table 2. Burkina Faso: Quantitative Performance Criteria and Indicative Targets for the Program
Under the Poverty Reduction and Growth Facility Arrangement, 2005
(In billions of CFA francs; cumulative from beginning of year)

	2004	2005					
	Dec.	End-March			End-June	End-Sep.	End-Dec.
	Est.	Prog. 1/	Prog. 1/ Adj. 2/	Est.	Prog. 1/	Prog. 1/	Prog. 1/
Performance criteria and indicative targets 3/							
Ceiling on cumulative change in net domestic financing to government 4/	-9.7	20.8	26.9	27.2	25.3	4.2	8.9
Ceiling on the cumulative amount of new nonconcessional external debt contracted or guaranteed by the government 5/ 6/	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which: less than one year's maturity 5/ 6/	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accumulation of domestic payments arrears 6/	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accumulation of external payments arrears 6/	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Indicative targets							
Government revenue	344.8	77.3	77.3	71.9	177.6	272.1	377.9
Current expenditure	284.5	81.0	81.0	68.0	167.1	253.2	337.6
Expenditure on wages and salaries	119.0	33.8	33.8	34.7	69.7	105.6	140.7
Basic balance 7/ 8/	-81.7	-23.2	-23.2	-10.8	-38.8	-56.4	-84.7
Change in the stock of expenditure authorized but without payment orders 8/	7.4	0.0	0.0	-23.1	1.0	6.0	3.0
Adjustment factors							
Balance of payments assistance	89.8	12.2	...	6.1	23.7	67.8	93.2
Adjustment lending	42.8	10.5	...	2.6	10.5	45.0	49.3
Adjustment grants	47.1	1.7	...	3.5	13.2	22.9	43.9
Debt service after HIPC relief	13.9	3.2	...	3.2	10.6	17.2	12.6

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

1/ IMF Country Report No. 05/95, December 22, 2004.
2/ Target on net domestic financing adjusted to reflect the excess or shortfall in balance of payments assistance and deviations in external debt service compared to program projections.
3/ Performance criteria at end-March and end-September 2005.
4/ For 2005, the ceiling on the cumulative change in net domestic financing is to be adjusted upward (downward) by the amount of shortfall (surplus) in balance of payments assistance. The downward adjustment does not apply to the first CFAF 25 billion in excess balance of payments support, provided that additional spending is for priority social programs. At end-December 2005, the adjustment is limited to a maximum of CFAF 50 billion.
5/ Excluding treasury notes and bonds issued in CFA francs on the regional West African and Economic Monetary Union (WAEMU) market. This ceiling excludes supplier credits with a maturity of one year or less.
6/ To be observed on a continuous basis.
7/ Revenue (excluding grants) minus expenditure, excluding foreign-financed investment outlays and net lending.
8/ Including HIPC Initiative expenditure.

Table 3. Burkina Faso: Quantitative Performance Criteria and Indicative Targets for the Program Under the Poverty Reduction and Growth Facility Arrangement, 2006
(In billions of CFA francs; cumulative from beginning of year)

	2005	2006			
	Dec. Proj.	End-Mar.	End-Jun.	End-Sep.	End-Dec.
Performance criteria and indicative targets 1/					
Ceiling on cumulative change in net domestic financing to government 2/	17.3	14.8	7.6	19.5	12.8
Ceiling on the cumulative amount of new nonconcessional external debt contracted or guaranteed by the government 3/ 4/	0.0	0.0	0.0	0.0	0.0
Of which: less than one year's maturity 3/ 4/	0.0	0.0	0.0	0.0	0.0
Accumulation of domestic payments arrears 4/	0.0	0.0	0.0	0.0	0.0
Accumulation of external payments arrears 4/	0.0	0.0	0.0	0.0	0.0
Indicative targets					
Government revenue	377.9	87.7	210.2	310.1	425.9
Current expenditure	342.4	91.2	188.0	284.9	379.8
Expenditure on wages and salaries	140.7	37.1	76.5	115.9	154.5
Basic balance 5/ 6/	-92.5	-23.7	-51.2	-95.8	-129.9
Change in the stock of expenditure authorized but without payment orders 6/	3.0	-7.0	-2.0	1.0	3.0
Adjustment factors					
Balance of payments assistance 7/	99.2	24.0	58.3	95.1	110.1
Adjustment lending	40.5	2.7	18.8	52.1	62.9
Adjustment grants	58.7	21.3	39.5	43.0	47.2
Debt service after HIPC relief	21.0	6.0	12.5	18.9	25.2

Sources: Burkinabè authorities; and staff estimates and projections.

1/ Performance criteria at end-March 2006.
2/ For 2006, the ceiling on the cumulative change in net domestic financing is to be adjusted upward (downward) by the amount of shortfall (surplus) in balance of payments assistance. The downward adjustment does not apply to the first CFAF 25 billion in excess balance of payments support, provided that additional spending is for priority social programs. At end-December 2006, the adjustment is limited to a maximum of CFAF 50 billion.
3/ Excluding treasury notes and bonds issued in CFA francs on the regional West African and Economic Monetary Union (WAEMU) market. This ceiling excludes supplier credits with a maturity of one year or less.
4/ To be observed on a continuous basis.
5/ Revenue (excluding grants) minus expenditure, excluding foreign-financed investment outlays and net lending.
6/ Including HIPC Initiative expenditure.
7/ Includes identified financing only.

Table 4. Burkina Faso: Structural Performance Criteria and Benchmarks for the Program in 2005-06

	Measures	Dates
1.	Production by the Tax Directorate of monthly outcomes and quarterly progress reports on the 10 management indicators for three computerized offices (DGE, Kadiogo I, Houet I).	From end-March 2005 Observed
2.	Introduction of a new taxpayer identification system based on a revised single taxpayer identification number (TIN). 1/	End-March 2005 Observed
3.	Transfer of collection of the RSI tax (régime simplifié d'imposition) from the Treasury Directorate to the Tax Directorate. 1/	End-March 2005 Observed
4.	Submission to the Auditor General Office of the 2003 general balance sheets of the Central Accountant of the Treasury, the General Spending Accountant, and the General Revenue Accountant.	End-March 2005 Observed
5.	Adoption by the Customs Directorate of instructions for customs valuation, and transmission to the pre-inspection company of customs data allowing for the reconciliation of the pre-inspection and declared values of imports.	End-June 2005
6.	Submission to the Auditor General Office of the 2004 general balance sheets of the Central Accountant of the Treasury, the General Spending Accountant, and the General Revenue Accountant.	End-September 2005
7.	Submission to the Auditor General Office of the 2004 draft annual budget act. 1/	End-September 2005
8.	Implementation by the Large Taxpayer Division (DGE) of fiscal controls of at least 60 companies.	End-September 2005
9.	Establishment by the Customs Directorate of a special unit to monitor the use of imports benefiting from fiscal exonerations. 1/	End-September 2005
10.	Launch by the Tax Directorate of a comprehensive census of large and medium-sized enterprises in Ouagadougou and Bobo-Dioulasso and publication of a report on the status of its implementation.	End-December 2005
11.	Establishment of a fully operational Joint Brigade of the Tax and Customs Directorates with an annual work program for 2006. 1/	End-December 2005
12.	Submission to the Minister of Finance of a report on the six joint audits of the Joint Brigade of the Tax and Customs Directorates. 1/	End-March 2006
13.	Completion of the taxpayer census in Ouagadougou and Bobo-Dioulasso, and submission to the Minister of Finance of an implementation report. 1/	15 May, 2006
14.	Implementation of the automatic price structure adjustment mechanism for petroleum products in relation to costs.	Continuous

[1] Performance criterion.

BURKINA FASO

Technical Memorandum of Understanding

Ouagadougou, August 16, 2005

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

DEFINITIONS

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

- As specified in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted by the Executive Board of the IMF on August 24, 2000, debt will be understood to mean a current, that is, not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows: (i) loans, that is, advances of money to obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, obligations, commercial loans, and buyers’ credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers’ credits, that is, contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods have been delivered or the services provided; and (iii) leases, that is, arrangements under which property is provided that the lessee has the right to use for one or more specified periods of time, which are usually shorter than the total expected life of the property, while the lessor retains the title to the property. For the purpose of this guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement, excluding those payments that cover the operation, repair, or maintenance of the property. Treasury bills and bonds issued in CFA francs on the West African Economic and Monetary Union (WAEMU) regional market, are included in domestic debt for the purposes of this memorandum.
- Government is defined as the central government of Burkina Faso and does not include any political subdivision, government-owned entity, or central bank having a separate legal personality.

- External payments arrears are external payments due but unpaid. Domestic payments arrears under the 2005-06 program are domestic payments due (following the expiration of a 90-day grace period, except where the obligation provides for a specific grace period, in which case that grace period will apply) but unpaid.

- Government obligation is any financial obligation of the government accepted as such by the government (including any government debt).

QUANTITATIVE PERFORMANCE CRITERIA

Cumulative Change in Net Domestic Financing to the Government

Definition

3. Under the 2005-06 program, net domestic financing of the government is defined as the sum of (i) net bank credit to the government, including both the net bank credit to the treasury as defined below, and other government claims and debts vis-à-vis national banking institutions; (ii) the unredeemed stock of government bills and bonds held outside national commercial banks; and (iii) privatization receipts.

4. Net bank credit to the treasury is defined as 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 the commercial banks, secured obligations, and government deposits with the postal system (CCP). Treasury debt to the banking system includes funding from the central bank (including statutory advances, consolidated advances, IMF financing, and refinancing of secured obligations), government securities held by the central bank, funding from commercial banks (including government securities held by commercial banks), and Caisse Nationale d'Épargne Postale (CNE)/CCP securitized deposits.

5. Net bank credit to the government is calculated by the Central Bank of West African States (BCEAO), whose figures are deemed valid within the context of the program. The stock of treasury bills and other government debt is calculated by the Ministry of Finance.

6. At end-March 2005, net domestic financing of the government was CFAF 27.2 billion, made up of CFAF 39.8 billion in changes in net bank credit to the government and CFAF -12.6 billion in nonbank financing.

Quantitative performance criterion/indicative targets

7. The ceiling on the cumulative change (from January 1, 2005 onward) in net domestic financing of the government is set at CFAF 25.3 billion at June 30, 2005, and CFAF 4.2 billion at September 30, 2005. These ceilings represent an indicative target at end-June 2005 and a performance criterion at end-September 2005. The ceiling is programmed at CFAF 8,9 billion at December 31, 2005 and (from January 1, 2006 onward) at CFAF 14.8 billion at March 31, 2006. These figures will be re-examined and set as an

indicative target at end-December 2005 and a performance criterion at end-March 2006 during the fifth program review.

Adjustment

8. The ceilings on the cumulative change in net domestic financing to the government will be subject to adjustment when actual disbursements differ from program forecasts of external budgetary assistance. When disbursements exceed forecasts, the ceilings will be adjusted downward by the amount of excess disbursements, with the exception of up to a maximum of CFAF 25 billion in expenditure for priority social programs. In contrast, when disbursements fall short of forecasts, the ceilings will be adjusted upward by the amount of the shortfall. However, upward adjustments of ceilings are limited to a maximum of CFAF 50 billion at end-December 2005 and CFAF 50 billion at end-December 2006. In addition, the ceiling will be adjusted for deviations in external debt service relative to program projections.

Reporting deadlines

9. Data on net bank credit to the government will be forwarded monthly to the IMF by BCEAO staff, and those on the stock of government bills and other government debt by the Ministry of Finance within six weeks following the end of each month.

Nonaccumulation of Domestic Payments Arrears

Definition

10. The government undertakes not to accumulate any new domestic payments arrears on government obligations. The treasury keeps records of domestic payments arrears on government obligations and records pertinent repayments.

Performance criterion

11. The government will not accumulate any domestic payments arrears on government obligations in 2005 and 2006. Said nonaccumulation of domestic payments arrears is a performance criterion, to be observed continuously.

Reporting deadlines

12. Data on outstanding balances, accumulation, and repayment of domestic arrears on government obligations will be reported monthly within four weeks following the end of each month.

Nonaccumulation of External Payments Arrears

Performance criterion

13. The government’s external debt is the stock of debt owed or guaranteed by the government. External payments arrears are external payments due but unpaid on the due

date. Under the program, the government undertakes not to accumulate external payments arrears on its debt, with the exception of external payments arrears arising from government debt being renegotiated with external creditors, including non-Paris Club bilateral creditors and multilateral creditors participating under the enhanced HIPC Initiative. Nonaccumulation of external payments arrears is a performance criterion, to be observed continuously.

Reporting deadlines

14. Data on outstanding balances, accumulation, and repayment of external payments arrears will be forwarded monthly within four weeks following the end of each month.

Nonconcessional External Debt Contracted or Guaranteed by the Government of Burkina Faso

Performance criterion

15. The government undertakes not to contract or guarantee any external debt maturing in one year or more with a grant element of less than 35 percent (calculated using the interest reference rate for borrowed foreign currencies provided by the IMF). This performance criterion applies not only to debt as defined in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt, adopted by the IMF's Executive Board on August 24, 2000,[1] but also to all commitments contracted or guaranteed for which value has not been received. However, this performance criterion does not apply to treasury bills and bonds issued in CFA francs on the WAEMU regional market. This commitment is a performance criterion, to be observed continuously.

Reporting deadlines

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

Government Short-Term External Debt

17. The government undertakes not to accumulate or guarantee any new external debt with a contractual maturity of less than one year. This performance criterion applies not only to debt as defined in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt, adopted by the IMF's Executive Board on August 24, 2000, but also to commitments contracted or guaranteed for which value has not been received. Excluded from this performance criterion are import- and export-related loans and treasury bills and bonds issued in CFA francs on the WAEMU regional market and normal short term suppliers' credits of one year or less. This obligation is a performance criterion to be observed

[1] See para. 2.

continuously. As of March 31, 2005, the government of Burkina Faso had no short-term external debt.

Other Quantitative Indicative Targets

18. The program also includes indicative targets on the basic balance of the government budget, total government revenue, current expenditure, the government's wage bill, and expenditure committed but not authorized.

Definitions

19. The basic balance of government financial operations is defined as the difference between total government revenue (excluding grants and the proceeds of privatization) and total government expenditure and net lending, excluding foreign-financed investment and net lending. It is valued according to the statement of government budgetary execution, which is established monthly in the central government's financial operations table prepared by the Permanent Secretariat for the Monitoring of Financial Policies and Programs (SP-PPF), in collaboration with the other directorates of the Ministry of Finance and Budget.

20. 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 the revenue collection units at ministries and institutions, and it includes revenue from treasury checks.

21. Expenditure is valued on a commitment basis, including expenditure financed from HIPC Initiative funds. It includes current expenditure and capital expenditure financed by the Treasury.

22. Current expenditure is defined as the difference between total expenditure (including expenditure financed from HIPC Initiative resources) and capital expenditure and net lending. It is made up of the wage bill, expenditure on goods and services, interest on the debt (domestic and external), transfers, subsidies, and other current expenditure.

23. The wage bill is defined as the entire government payroll (on a commitment basis), including wages and benefits for all permanent and temporary civilian and military personnel, and the wage bill paid out of HIPC Initiative funds.

24. Expenditure committed for which a payment order has not been issued (DENM) is defined as all expenditure proposed for commitment that has been certified by the financial comptroller (including HIPC Initiative expenditure) but for which the payment authorization (*mandat*) has not been issued and forwarded to the treasury. Its stock is valued according to the statement of government budgetary execution, which is established monthly in the central government's financial operations table prepared by the SP-PPF, in collaboration with the other directorates of the Ministry of Finance and Budget.

25. At end-March 2005, the basic deficit was valued at CFAF 10.8 billion, made up of CFAF 71.9 billion in government revenue and CFAF 82.7 billion in expenditure, excluding foreign-financed investments. Total revenue was made up of the following:

- tax revenue (customs, Directorate General of Taxation): CFAF 68.0 billion; and
- nontax revenue, including capital revenue: CFAF 3.9 billion.

Expenditure, excluding foreign-financed investment, was made up of the following:

Expenditure Category	Amount (In billions of CFA francs)
Current Expenditure	68.0
Wage bill	34.7
Goods and services	11.4
Interest on debt (domestic and foreign)	4.3
Transfers and subsidies	17.5
Other	0.0
Capital expenditure financed by treasury	19.6
Capital expenditure financed from HIPC funds	0.8

26. The stock of DENMs was valued at CFAF 23.6 billion at end-September 2004.

Other quantitative indicative targets

27. The ceiling for the cumulative basic deficit (from January 1, 2005 onward) of government financial operations is established at CFAF 38.8 billion at June 30, 2005 and at CFAF 56.4 billion at September 30, 2005. These ceilings are indicative targets at end-June 2005 and end-September 2005. The ceiling is projected at CFAF 84.7 billion at December 31, 2005 and (from January 1, 2006 onward) at CFAF 23.7 billion at March 31, 2006. These figures will be reexamined and established as indicative targets during the fifth program review.

28. The floor for total government revenue (cumulative from January 1, 2005 onward) is set at CFAF 177.6 billion at June 30, 2005 and at CFAF 272.1 billion at September 30, 2005. These floors are end-June 2005 and end-September 2005 indicative targets. The floor is projected at CFAF 377.9 billion at December 31, 2005 and (from January 1, 2006 onward) at CFAF 87.7 billion at March 31, 2006. These figures will be reexamined and established as indicative targets during the fifth program review.

29. The respective ceilings for current expenditure and the wage bill (cumulative from January 1, 2005 onward) are established at CFAF 167.1 billion and CFAF 69.7 billion, respectively, at June 30, 2005, and at CFAF 253.2 billion and CFAF 105.6 billion, respectively, at September 30, 2005. These ceilings are end-June 2005 and end-September 2005 indicative targets. They are projected, respectively, at CFAF 337.6 billion and CFAF 140.7 billion at December 31, 2005, and (from January 1, 2006 onward) at

CFAF 91.2 billion and CFAF 37.1 billion at March 31, 2006. These figures will be reexamined and established as indicative targets during the fifth program review.

30. The ceiling for the cumulative increase (from January 1, 2005 onward) in the stock of DENMs is set at CFAF 1.0 billion at June 30, 2005, and at CFAF 6.0 billion at September 30, 2005. These ceilings are end-June 2005 and end-September 2005 indicative targets. The ceiling for the cumulative increase in the stock of DENMs is projected at CFAF 3.0 billion at December 31, 2005, and the floor for the cumulative reduction (from January 1, 2006 onward) is projected at CFAF 7.0 billion at March 31, 2006. These figures will be reexamined and established as indicative targets during the fifth program review.

Reporting deadlines

31. Details on the basic balance of the government budget, total revenue, current expenditure, the wage bill, and the DENMs will be sent monthly to IMF staff by the SP-PPF of the Ministry of Finance and Budget within six weeks following the end of each month.

Additional Information for Program-Monitoring Purposes

Public Finance

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

- a monthly government flow-of-funds table (TOFE) and the 13 customary appendix tables, to be forwarded monthly within six weeks following the end of each month; if the data on actual investment financed by external grants and loans are not available in time, a linear implementation estimate based on the annual projections will be adopted;

- complete monthly data on domestic budgetary financing (net bank credit to the government and stock of unredeemed treasury bonds and bills), to be provided monthly within six weeks following the end of each month;

- quarterly data on implementation of the public investment program, including details on financing sources. These data will be sent quarterly within six weeks following the end of each quarter;

- monthly data on external debt stock and service, to be sent within four weeks following the end of each month;

- monthly data on prices and the taxation of petroleum products, including (i) the price structure prevailing during the month; (ii) the detailed calculation of the price structure, from the f.o.b.-MED price to the retail price; (iii) the volumes purchased and made available for consumption by the petroleum distributor (SONABHY); and (iv) the breakdown of receipts from the taxation of petroleum products—customs duties, tax on petroleum products (TPP), and value-added tax

(VAT)—and of subsidies, to be provided within four weeks following the end of each month; and

- the status of accounts with the treasury, classified by major category (administrative services, state enterprises, mixed enterprises, public administrative enterprises, international organizations, private depositors, and others), and to be provided monthly within four weeks following the end of each month.

Monetary Sector

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

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

Balance of Payments

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

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

Real Sector

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

- disaggregated monthly consumer price indices, within two weeks following the end of each month;
- provisional national accounts, within six months after the end of the year; and
- any revision of the national accounts.

Structural Reforms and Other Data

36. The government will report the following information:

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

- any decision, order, law, decree, ordinance, or circular with economic or financial implications, upon its publication or, at the latest, when it enters into force.

HIPC Initiative

37. The government will report monthly, within three weeks following the end of each month, monthly data on resources, uses, and balances in the special account established at the BCEAO for the use of resources generated by a reduced debt burden under the HIPC Initiative.

Summary of Data Requirements

Type of Data	Tables	Frequency	Reporting Deadline
Real sector	Provisional national accounts	Annual	Year's end + six months
	Revisions of national accounts	Variable	End of revision + eight weeks
	Disaggregated consumer price index	Monthly	Month's end + two weeks
Public finance	Net treasury and government position at the BCEAO and details of nonbank financing, including the stock of treasury bills and bonds	Monthly	Month's end + six weeks
	Government flow-of-funds table (TOFE) and the 13 customary appendix tables	Monthly	Month's end + six weeks
	Execution of capital budget	Quarterly	End of quarter +six weeks
	Petroleum product pricing formula, tax receipts on petroleum products, and subsidies paid	Monthly	Month's end + four weeks
	Status of the deposit accounts with the public treasury, classified by major category	Monthly	Month's end + four weeks
Monetary and financial data	Monetary survey	Monthly	Month's end +six weeks
	Consolidated balance sheet of monetary institutions	Monthly	Month's end + six weeks
	Borrowing and lending interest rates	Monthly	Month's end + six weeks
	Banking supervision ratios	Quarterly	End of quarter + eight weeks
Balance of payments	Balance of payments	Annual	End of year + nine months
	Revised balance of payments data	Variable	When revisions occur
External debt	Outstanding external arrears and repayments (if applicable)	Monthly	Month's end + four weeks
	Details of all new external borrowing	Monthly	Month's end + four weeks
HIPC Initiative	Statement of special account at the BCEAO, that receives resources generated by the HIPC Initiative and tracks their use	Monthly	Month's end + three weeks

Burkina Faso: Relations with the Fund

(As of June 30, 2005)

I. Membership Status: Joined: May 2, 1963; accepted Article VIII on June 1996

II. General Resources Account:	**SDR Million**	**In percent of quota**
Quota	60.20	100.00
Fund holdings of currency	52. 88	87.84
Reserve position in Fund	7.32	12.17
Holdings Exchange Rate		

III. SDR Department:	**SDR Million**	**In percent of allocation**
Net cumulative allocation	9.41	100.00
Holdings	0.05	0.53

IV. Outstanding Purchases and Loans:	**SDR Million**	**In percent of quota**
Enhanced Structural Adjustment Facility (ESAF)/Poverty Reduction and Growth Facility (PRGF) arrangements	74.42	123.62

V. Latest Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	Jun. 11, 2003	Aug. 15, 2006	24.08	13.76
PRGF	Sep. 10, 1999	Dec. 09, 2002	39.12	39.12
PRGF	Jun. 14, 1996	Sep. 09, 1999	39.78	39.78

VI. Projected Payments to Fund (without HIPC Assistance)
(SDR Million; based on existing use of resources and present holdings of SDRs):

		Forthcoming			
	2005	2006	2007	2008	2009
Principal	5.42	10.09	12.12	11.48	9.52
Charges/interest	0.30	0.56	0.50	0.44	0.39
Total	5.72	10.64	12.62	11.93	9.91

Projected Payments to Fund (with Board-approved HIPC Assistance)
(SDR Million; based on existing use of resources and present holdings of SDRs):

		Forthcoming			
	2005	2006	2007	2008	2008
Principal	1.17	7.07	10.71	11.48	9.52
Charges/interest	0.30	0.56	0. 50	0.44	0.39
Total	1.47	7.63	11.21	11.93	9.91

VII. Implementation of HIPC Initiative:

	Original Framework	Enhanced Framework	Total
I. Commitment of HIPC assistance			
Decision point date	Sep. 1997	Jul. 2000	
Assistance committed			
by all creditors (US$ Million)[1]	229.00	324.15	
Of which: IMF assistance (US$ million)	21.70	35.88	
(SDR equivalent in millions)	16.30	27.67	
Completion point date	Jul. 2000	Apr. 2002	
II. Disbursement of IMF assistance (SDR Million)			
Assistance disbursed to the member	16.30	27.67	43.97
Interim assistance	0.0	4.15	4.15
Completion point balance	16.30	23.52	39.82
Additional disbursement of interest income [2]	0.0	2.01	2.01
Total disbursements	16.30	29.68	45.98

VIII. Safeguards Assessments:

The Central Bank of the West African States (BCEAO) is the common central bank of the west African states, which includes Burkina Faso. An on-site safeguards assessment of the BCEAO was completed in March 2002 and proposed specific remedies to alleviate vulnerabilities that were identified by staff. Although Fund staff and BCEAO authorities disagreed on the initial modalities of the recommendations, the following specific understandings were subsequently reached regarding the key remedies. An updated safeguards assessment of the BCEAO is underway.

[1] Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence, these two amounts can not be added.

[2] Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

Financial reporting framework. Fund staff recommended that the BCEAO formally adopt International Accounting Standards (IAS) and publish a complete set of financial statements, including detailed explanatory notes. It was agreed between the BCEAO and Fund staff that the **BCEAO will strive to improve its financial and accounting reporting by aligning its practices with those recommended by IAS**, as adopted internationally by other central banks.

Internal controls system. The staff noted that the absence of oversight of the bank's governance, financial reporting, and internal control practices by an entity external to the management of the BCEAO represented a significant risk. It was agreed between the BCEAO and Fund staff that, after seeking the opinion of the external auditor (Commissaire Contrôleur), BCEAO staff will propose to the BCEAO Board of Directors that it adopt a resolution whereby **the external auditor will be required to apprise the Board of Directors, during its annual review and approval of the financial statements, of the state and quality of internal controls within the bank.**

Based on the 2001 financial statements, the staff noted that the BCEAO has improved the explanatory notes to the financial statements and further changes are scheduled for the next fiscal year, with a view toward a graduate alignment with IAS accounting to the extent applicable to central banks by 2005. The external auditor has apprised the Board of Directors of the BCEAO of the quality of internal controls in June 2003, and the financial statements for the year 2001 were published on the bank's website. The staff will continue its follow up on the progress of the BCEAO in implementing the proposed recommendations as part of the ongoing safeguards monitoring process."

IX. Exchange Rate Arrangement:

Starting on January 1, 1999, Burkina Faso's currency, the CFA franc, has been pegged to the euro at the rate of €1=CFAF 655.957. The exchange rate as of May 3, 2005 was CFAF 770.7=SDR 1. The exchange and trade system is free of restrictions on the making of payments and transfers on current international transactions.

X. Article IV Consultations:

The periodicity of Burkina Faso's Article IV consultation is set in accordance with the July 15, 2002 Executive Board Decision on consultation cycles. The 2003 Article IV consultation and discussions on a new three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) were held during the period February 17—March 7, 2003 in Ouagadougou. The staff report (IMF Country Report No. 03/197; 5/28/03) and the Statistical Annex (IMF Country Report No. 03/198; 5/29/03) were considered by the Executive Board on June 11, 2003.

XI. ROSC/AAP:

An FAD mission visited Ouagadougou during May 7-18, 2001 to assist the authorities undertake a draft fiscal module of a Report on the Observance of Standards and Codes (ROSC). The final report, which was issued in July 2002, found that Burkina Faso was making good progress in a number of areas to increase the transparency and accountability of government. But additional efforts are needed to bring a number of improvements to the point of implementation, particularly with regard to expenditure tracking at the local level and external audit functions. Initial discussions indicated that the authorities were in broad agreement with the mission assessment. On July 31, 2002, the authorities formally adopted an action plan based on the recommendations of the final ROSC.

The team, jointly with World Bank staff, also discussed a HIPC Initiative Assessment and Action Plan (AAP) with the authorities. The aim was to assess the capacity of the public expenditure management system to track poverty-reducing public expenditures under the HIPC Initiative and the need for technical assistance to enhance that capacity. The mission secured the officials' agreement with the jointly prepared preliminary assessment; identified the main needs for technical assistance on upgrading the capacity to track such expenditures; and drew up a draft outline action plan. This plan identifies the main needs for further technical assistance to improve tracking of poverty-reducing expenditures. The AAP has been endorsed by the authorities.

XII. Technical Assistance:

Significant technical assistance has been provided since 1989, more recently especially in the fiscal area:

Department	Type of Assistance	Time of Delivery	Purpose
FAD	Staff	October 6-17, 1997	Assessing the fiscal impact of the common external tariff (CET) and regional integration and defining policies to offset revenue losses.
FAD	Staff	November 20–30, 1998	Assessing implementation of the 1997 mission recommendations, and proposing complementary reforms to strengthen the fiscal and customs administration.
FAD	Staff	February 11–25, 1999	Assisting in upgrading the computer system used for large taxpayers and following up on the implementation of previously recommended measures.
FAD	Staff	December 4–11, 1999	Monitoring the upgrading of the computer system used for large taxpayers; reviewing the establishment of a withholding system for business taxes; reviewing the system of treasury refunds of taxes due on foreign-financed projects; and proposing modalities for eliminating value-added tax exemptions on investments.
FAD	Staff	May 7–18, 2001	Assisting in completion of the fiscal module of the ROSC, and drafting on assessment of action plan on the capacity of the public expenditure management system to track and report on the uses of HIPC Initiative assistance and all poverty-reducing expenditures.
STA	Staff	Since April 2002	Assisting West African Economic and Monetary Union (WAEMU) countries in improving government finance statistics (GFS).
FAD	Staff	March 6–17, 2003	Reviewing the status of implementation of previous FAD recommendations and developing a program of measures to further improve the effectiveness of the

Department	Type of Assistance	Time of Delivery	Purpose
			tax and customs administration.
STA	Staff	May 8–21, 2003	Assist in completing the data module of the ROSC, assessing the quality and timeliness of macroeconomic data, and helping draft an action plan to ensure the timely disclosure and improve the quality of data.
AFRITAC	STA Advisor	December 8–19, 2003	Help MOF improve GFS, expand the scope of the TOFE, and train staff (first of three scheduled missions).
AFRITAC	PEM Advisor	January 19–30, 2004	Assess the computerized system for expenditure management regarding external financing.
AFRITAC	Customs Advisor	February 7–14, 2004	Review the status of implementation of previous FAD recommendations.
AFRITAC	Tax Advisor	February 18–25, 2004	Review the status of implementation of previous FAD recommendations (first of three scheduled missions).
AFRITAC	STA Advisor	March 29–April 2, 2004	Help MOF improve GFS, expand the scope of the TOFE, and train staff (second of three scheduled missions).
AFRITAC	Short-term expert	April 26-30, 2004	Develop an action plan to mobilize taxpayer registry and central database creation and management.
AFRITAC	Tax Advisor	April 28–May 1, 2004	Review the status of implementation of previous FAD recommendations (second of three scheduled missions).
AFRITAC	Custom Advisor	August 23–27, 2004	Review the status of implementation of previous FAD recommendations, and help use ASYCUDA.

Department	Type of Assistance	Time of Delivery	Purpose
AFRITAC	Debt Advisor	September 13–24, 2004	Assess public debt data recording and reporting. Monitor progress in establishing domestic primary markets for government securities and develop secondary market.
AFRITAC	Tax Advisor	October 4-9, 2004	Review the status of implementation of previous FAD recommendations (third of three scheduled missions).
AFRITAC	Tax Advisor	February 7-11, 2005	Review the progress made on : (1) the setup of the Large Taxpayer Unit and the Medium Taxpayers Office; (2) the steps to strengthen the fiscal control; and (3) the corporate registry reform.
AFRITAC	Customs Advisor	February 14-18, 2005	Provide assistance to control transit merchandises in the country and travelers at Ouagadougou airport
AFRITAC	Customs, short-term Expert	February 14-23, 2005	Implement customs valuation code and establish a database for indicative import prices
AFRITAC	Microfinance Advisor	March 21-25, 2005	Assess the TA need of the Cellule responsible of the supervision of microfinance institutions and prepare a capacity-building program.
AFRITAC	Short-term Expert	April 18-29, 2005	Training of auditors of the Tax administration.
AFRITAC	STA Advisor	June 27-July 5, 2005	Assist in setting up database for the TOFE (first or two scheduled missions) and expand further the scope of the TOFE (last of three scheduled missions).
AFRITAC	Customs Advisor	July 10-15, 2005	Strengthen capacity to fight fraud at customs

XIII. **Resident Representative:**

Mr. Mario Zejan took up the post of Resident Representative in March 2004.

BURKINA FASO: Relations with the World Bank Group

(As of July 15, 2005)

Partnership in Burkina Faso's Development Strategy

1. **Government's development strategy**. The government of Burkina Faso outlined its development strategy in a revised PRSP (PRSP-2) adopted by the Council of Ministers on October 27, 2004, along with a Priority Action Program (PAP). The PAP translates strategic direction into sequenced actions and strengthens results-based monitoring and evaluation of the PRSP. The revised PRSP and accompanying PAP were presented to World Bank and IMF Board on May 3, 2005. PRSP-2 reaffirms the four interrelated pillars as identified in the first PRSP, namely: (i) accelerating broad-based growth; (ii) promoting access to social services; (iii) increasing employment and income-generating activities for the poor; and (iv) promoting good governance.

2. **Partnership with the Fund**. The Fund has supported Burkina Faso under three arrangements under the Poverty Reduction and Growth Facility between 1993 and 2002, and the authorities are currently receiving support under a fourth PRGF arrangement covering 2003-06. The first review of the latter arrangement was completed in March 2004, and the second and third reviews were completed in February 2005.

3. The Fund takes the lead in the policy dialogue on macroeconomic policies and monitors macroeconomic performance through quantitative performance criteria. In addition, it has established structural performance criteria in the areas of tax policy, financial transparency and good governance, and trade policy. The Bank is supporting the implementation of the PRSP in the areas of public finance management, good governance, decentralization, health, education, and cotton reform through a series of poverty reduction support credits (PRSC), complemented with a portfolio of specific projects to address issues relating to HIV/AIDS, basic education, infrastructure investments in transport, water and urban areas, rural development, private sector development, and statistical capacity building.

The FY06-09 Country Assistance Strategy

4. **Lessons from past support to Burkina**. The 2000 Country Assistance Strategy (CAS) Completion Report concludes that development outcomes in FY01-05 were satisfactory, as was Bank performance in supporting implementation of the strategy. Key lessons from the past CAS have shaped the strategy for FY06-09. First, strong country commitment and consistent policy reform have succeeded in creating an environment more conducive to growth. Second, a more aggressive approach to economic diversification and administrative decentralization will be required in order to accelerate growth and make it more inclusive. Third, the CAS needs to do more to support strengthening of national capacity and country systems, in order to get better results and sustain them. Finally, IDA and other external partners must use the next few years to

translate principles of harmonization into reality, in order to reduce the burden of aid management for Burkina.

5. **The FY06-09 CAS** was discussed by the Bank's Board on June 28, 2005. This CAS supports the pillars of the revised CSLP with analytic work, technical advice, on-going operations and new financing. It is built around a results framework that explicitly defines the assumed causal links between IDA-supported activities, direct outcomes of these activities and the country's higher-level development outcomes. IDA will seek to contribute to the following outcomes:

- **Accelerated and shared growth**. IDA will support enhanced regional integration, expanded and diversified export earnings, an improved investment climate, decentralized urban development to promote urban-rural linkages, and economic infrastructure needed to reduce factor costs and stimulate private sector investment and growth.

- **Improved access to basic social services**. IDA will continue to support access to basic education and improved quality of teaching, expanded coverage of basic health care and HIV/AIDS prevention and treatment and increased access to clean water and sanitation, particularly in urban areas. IDA will also provide technical input for better targeting of social protection to the most vulnerable groups.

- **Increased employment and income opportunities for the poor**. A two-pronged approach will focus, first, on the labor market and employment strategy for urban workers. Second, IDA will support efforts to reduce risk, increase revenues, upgrade economic and market infrastructure and enhance women's opportunities in rural areas, along with promoting community-based land and natural resource management for sustainable development.

- **Better governance with greater decentralization**. Governance affects the achievement of development outcomes across all strategic pillars and sectors. Efforts to enhance governance and accountability will be integral to all IDA-supported activities. Particular emphasis will be placed on supporting a more efficient judiciary, promoting public resource management and increased decentralization and strengthening local capacity and participation in public policy decisions.

6. The PRSP-2 provides the framework in which the FY06-09 CAS can contribute to Burkina Faso's development objectives. Given the country context, recent progress and medium-term prospects, the main challenges for Burkina in the upcoming CAS period can be summarized as follows: (i) maintaining commitment to reform despite less favorable conditions for growth; (ii) overcoming long-standing obstacles to economic diversification; (iii) improving the efficiency of public spending for social services, water and sanitation; (iii) decentralizing development to enhance pro-poor growth; and (iv) creating a public sector interface that inspires private sector confidence.

Assessment of Country Policies

7. In close collaboration with the Burkinabè authorities, IDA has undertaken substantial analytical work over the past five years to assess key social, structural, and sectoral development policies and to identify policy and institutional reform priorities for poverty reduction. IDA has relied on a combination of the PRSP and its annual progress reports, a second priority poverty survey and two poverty profiles, sectoral policy notes, and informal papers on specific issues, such as constraints in growth and competitiveness, or the dynamics of poverty and income inequality. IDA has also helped the Burkinabè authorities carry out analytical work in key sectors (education, health, rural development, energy, transport, and private sector development) and assisted with the preparation of a comprehensive economic study on long-term sources of growth and competitiveness in 2001. IDA completed a public expenditure review in June 2004 and a Poverty Assessment in July 2004; a Population Sector Work in April 2005 and a Country Procurement Assessment Report (CPAR) in June 2005. IDA will continue to support preparation and dissemination of participatory analytical work in the FY06-09 period linked to strategic priorities. Areas of particular emphasis in the next few years will include private sector development (Investment Climate Assessment, Financial Sector Review, Integrated Trade Framework and Labor Market Study), sequencing of decentralization, and understanding and addressing persistent malnutrition.

The Bank Portfolio and Proposed Lending Pipeline

8. The Bank's cumulative commitments to Burkina Faso as of July 15, 2005 amount to US$1,578,635 million equivalent for 75 operations, comprising 69 IDA credits and 6 IDA grants.

9. The **current portfolio** amounts to IDA commitments of US$465 million, of which US$379.2 million is undisbursed. Two GEF Projects also complement the IDA portfolio for a commitment amount of US$12 million, of which $4.0 million has been disbursed. IDA's portfolio in Burkina Faso is as follows:

- The **PRSC-5** approved on May 3, 2005 for US$46.1 million equivalent in credit and US$13.9 million equivalent in grant will support the implementation of PRSP-2 and its accompanying PAP. Under the growth and employment objectives, PRSC-5 will support reforms in the cotton, rural, telecommunication and energy sectors, as well as in the labor market, to lower factor costs, increase productivity and favor new investments. PRSC-5 will also support policies in the education, health, social protection, and water sectors with the objectives to improve access and improve service quality. Lastly, PRSC-5 will support measures to strengthen budget formulation, execution, procurement, and control, as well as public sector performance, decentralization, and environmental management.

- In the **agriculture** sector, the community-based rural development program (US$66.7 million equivalent, FY01) aims at reducing poverty and promoting sustainable development in rural areas. Its first phase provides for building local capacity to plan and implement rural development projects, accelerating the pace of public transfers for decentralized rural development, and supporting implementation of the country's decentralization framework.

- To support **human resource development**, three operations are being implemented. In **education**, a basic education operation (US$32.6 million equivalent) was approved in January 2002. The project provides support for the government's ten-year basic education program, which will be implemented in three phases, the first of which covers the period 2001-05. The main development objective of Phase I of the ten-year program is to lay the foundation for accelerating the development of basic education, while ensuring adequate quality and financial sustainability. The Bank also assists the country with the implementation of a new development learning center (US$2.5 million equivalent, FY03) for distance-learning activities that will give the Burkinabè access to the latest research worldwide. A **HIV/AIDS** disaster response project (US$22 million equivalent, FY02) underpins the implementation of the government's 2001-04 medium-term HIV/AIDS/STIs strategic plan, which has been endorsed by the country's technical and financial partners. A US$5 million supplemental grant has been approved on May 3, 2005 to complete the activities of the original operation. In addition, the multi-country *HIV/AIDS Treatment Acceleration Program* (TAP), approved in June 2004, includes US$18 million for Burkina, to scale up treatment through strengthening the response of associations of persons living with HIV/AIDS and the Ministry of Health.

- A **water supply** project (US$70 million equivalent, FY01) aims at increasing access to adequate and reliable potable water in Ouagadougou through expanded distribution and tertiary water networks and improved urban water sub-sector management.

- A technical assistance credit for **private sector development** (Competitiveness and Enterprise Development Project, US$30.7 equivalent, FY03) provides support to implement the privatization program; improve the quality, access, and cost of telecommunications, and promote the development of a strong indigenous private sector in Burkina Faso through a streamlined business environment and well-targeted financial and non-financial services to small and medium-sized enterprises.

- The Bank approved a **transport sector** project in April 2003 for US$92.1 million equivalent. The project concentrates on rural roads as the rural economy is the main source of income and employment for 80 percent of the population.

- A **statistical capacity building** credit for US$10 million equivalent was approved in March 2004. The project aims at improving policy decision-making, based on timely and accurate quantitative and qualitative information, that help monitor progress towards national development goals, including the PRSP goals and the MDGs.

- A **power sector development** project, US$63 million equivalent, was approved in November 2004, with the aim to increase power supply through domestic generation and investment in sub-regional inter-connectors for increased electricity imports.

10. The Bank's **proposed lending** program for the FY06-09 period will consist of: (i) one programmatic development lending operation per fiscal year; (ii) support to the agriculture sector through an intensification and market diversification project and its follow-up project, and the second phase of the community-based rural development program; (iii) a rural energy project which will aim at increasing access to infrastructure services, especially for rural communities; (iv) a capacity building project to support the decentralization agenda; and (v) a Health/HIV/AIDS and an education sector-wide programs. In addition, Burkina will participate in regional projects to improve infrastructure networks and increase agricultural productivity.[11]

Bank–Fund Collaboration in Specific Areas

11. **Cotton sector and energy sector.** The Bank and Fund staffs jointly follow developments in the cotton sector because of its importance for macroeconomic aggregates and rural incomes. The Fund staff focuses on the overall financial management of the cotton sector in order to limit spillover effects for government finances and the banking sector. The Bank staff is accompanying the government's structural reform agenda in the sector under a series of PRSCs. These reforms aim at creating a more competitive environment. The reforms have contributed over the past decade to bought spun-off units from the former monopoly enterprise, prudent financial management and the increased involvement of producer organizations in decision-making processes, including the setting of producer prices.

12. **Public finance management and good governance**. The Bank and the Fund closely collaborate in supporting the government's reforms in the area of public finance management and good governance. Important elements of the reform program are enshrined in the government's own action plan for the improvement of budget management and incorporate the main recommendations of the HIPC Assessment and Action Plan prepared jointly by Bank and Fund staff and the Country Financial Accountability Assessment (CFAA). Recently, the Bank's PRSCs supported the establishment of a functioning Auditor General Office, resumption of regular submissions of budget audit laws to the Auditor General Office and the National Assembly, and revisions of procurement laws and regulations. The Bank's PRSC series is also supporting extensions of the computerized expenditure circuit to deconcentrate budget execution and, together with sector-specific projects, is assisting with the preparation for the political decentralization. The PRGF-supported program included measures to ensure the effectiveness of the Auditor General Office, and the Fund has given technical assistance in the area of tax and customs administration. Both the Bank

[11] A regional aviation project, a regional transit facilitation project, a West Africa power pool project and a West African agricultural productivity program.

and Fund staffs have followed jointly the government's anticorruption policies, including the creation of the High Authority to Fight Corruption. The Fund is focusing its support under the PRGF on tax administration and tax reform issues while the Bank is supporting expenditure management and control reform under the PRSCs.

13. **Promotion of private sector activity**. Given the importance of private sector development for accelerating growth, the Bank and Fund staffs take a close common interest in policies that foster competition, as well as privatization. The Fund focuses on trade policies and monitors the financial performance of public enterprises. The Bank has taken the lead in assisting with the privatization of the energy and telecommunications sectors and removing administrative obstacles to the creation of enterprises and private investment. IFC and MIGA have intensified their support for private sector investment in Burkina in the past year.

Statement of IDA Credits/Grants

As of July 15, 2005 (In millions of U.S. dollars)

Credit/Grant Number	Fiscal Year	Sector	IDA	Undisbursed
C34360-BF	2001	Community-Based Rural Dev.	66.7	28.1
C34760-BF	2001	Ouagadougou Water Supply	70.0	58.2
C35570-BF	2002	HIV/AIDS Disaster Response	22.0	4.1
C35970-BF	2002	Basic Education	32.6	24.4
C51242-BF	2002	Partnership for Nat. Eco/System	7.5	3.9
C37070-BF	2003	Development Learning Center	2.3	1.5
C37330/H0220	2003	Competitiveness & Ent. Dev.	30.7	29.8
C37450/H0320	2003	Transport Sector	92.1	87.6
C38780-BF	2004	Statistical Capacity Bldg	10.0	9.3
C53855-BF	2004	Sahel Inter lowland	4.5	4.1
G29867-BF	2005	Power Sector Dev.	63.0	63.3
H1510	2005	Administration Capacity Building	7.0	6.7
H1580	2005	PRSC-5	60.0	58.2
H1600	2005	MAP Supplemental	5.0	5.0
	2005	WA Locust	3.0	3.0
Total (number of credits/grants: 17)			465.0	387.2

Source: World Bank.

For additional information, please contact A. David Craig, Country Director, Tel. (202) 473-2589 or Abdoulaye Seck, Senior Country Economist, Tel. (202) 473-4508.

CAS Annex B8 - Burkina Faso
Operations Portfolio (IBRD/IDA and Grants)
As Of Date 07/20/2005

Closed Projects **55**

IBRD/IDA *	
Total Disbursed (Activ	110.22
of which has be	0.00
Total Disbursed (Close	1,125.28
of which has be	246.26
Total Disbursed (Activ	1,235.50
of which has be	246.26
Total Undisbursed (Ac	371.25
Total Undisbursed (Cl	0.00
Total Undisbursed (Ac	371.25

Active Projects

Project ID	Project Name	Last PSR Supervision Rating: Development Objectives	Last PSR Supervision Rating: Implementation Progress	Fiscal Year	Original Amount in US$ Millions: IDA	GRANT	Undisb.
P035673	BF:COMMUNITY-BASED RURAL I	S	S	2001	66.7		28.1
P000306	BF OUAGADOUGOU WATER SUF	S	S	2001	70.0		58.2
P071433	BF-HIV/AIDS Disaster Response AI	MS	MS	2002	22.0		4.1
	BF-HIV/AIDS Suppl. (FY05)			2005	5.0		5.0
P000309	BF-Basic Edu Sec SIL (FY02)	MS	MU	2002	32.6		24.4
P052400	BF-GEF Nat Res Mgmt Prtnrshp AF	S	S	2002		7.5	3.9
P076159	AFTKL: BF Dev. Learning Center -	MS	MS	2003	2.3		1.5
P071443	BF-Competitiveness & Enterprise D	S	S	2003	30.7		29.8
P074030	BF-Transport Sec SIM (FY03)	S	S	2003	92.1		87.6
P085230	BF-STATCAP SIL	MU	MU	2004	10.0		9.3
P070871	BF: Sahel Int Lowland Ecosystem M	S	S	2004		4.5	4.1
P078596	BF Administrative Capacity Building	S	S	2005	7.0		6.7
P078995	BF PRSC 5	#	#	2005	60.0		58.2
P069126	BF Power Sector Development Proj	S	S	2005	63.6		63.3
	BF WA Locust			2005	3.0		3.0
Overall Result					465.0	12	387.2

Burkina Faso: Statistical Issues

1. Burkina Faso has participated in the General Data Dissemination System (GDDS) since December 2001 and its metadata are posted on the Dissemination Standards Bulletin Board (DSBB). The metadata have not been updated since June 2001. Following the conversion of the National Institute of Statistics and Demography (INSD) into an autonomous agency, its allocations in human and material resources were significantly raised in the 2002 budget.

2. Burkina Faso has received technical assistance under the government finance statistics component of the regional GDDS project (funded by Japan) for member countries of the West African Economic and Monetary Union (WAEMU)[12]. A data module ROSC mission visited Burkina Faso in May 2003.

Real sector

3. Serious problems have been identified both in the area of national accounts and price statistics. The INSD compiles the **national accounts** following the harmonized WAEMU guidelines, which are globally in line with the *1993 SNA*. Annual data are available on estimates of GDP by economic activity (19 industries) and by expenditure categories at current and constant (1985) prices, as well as by institutional sector accounts, a general table of transactions and an overall balance of goods and services.

4. The quality of the national accounts estimates is impaired by the scarcity of suitable data sources and by deficiencies in statistical practices. In particular, the informal sector is not properly captured, with estimates derived from the limited informal sector surveys conducted in 1989 and 1996. With regard to administrative data, most of the medium and small enterprises belonging to the "modern sector" fall short of submitting accounting statements or tax declarations, although they are recorded in the directory of industrial and commercial enterprises. Other deficiencies emerging from GDDS work on metadata are the residual estimation of private household consumption in the absence of an adequate framework to validate data (i.e., supply-use tables), and the use of an outdated base year (1985) for constant price estimates. Plans for improvement under the GDDS include a survey of the informal sector and the compilation of a health satellite account requested by the Ministry of Health. The final 1993–1997 national accounts were published in 2001.

5. The **consumer price index** compiled by the INSD follows the methodology of the harmonized index adopted by the WAEMU member countries. The index covers only expenditures by households living in the capital. Further restrictions are the exclusion of non-African households, various types of purchased goods and services, as well as the services of owner-occupied dwellings. The weight for the item "food, beverages, and tobacco" (33.9 percent of the total) is very low in comparison with neighboring countries. A possible explanation is that the survey from which the weights are taken did not cover a full

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[12] Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo.

year. There are plans—dependent on finding appropriate funding—to update the weights. The base year for the index is 1996. If a product is unavailable, its price is presumed to remain unchanged for a period of up to three months. This is in conformity with the WAEMU methodology, but best practices would impute a price change for these items on the basis of the prices recorded for closely related products. The software package (CHAPO) used for calculating the consumer price index needs some improvement. There do not seem to be other major problems concerning the index, whose periodicity and timeliness meet SDDS requirements. The index is published by the INSD and is also available on the websites of the BCEAO and AFRISTAT.

6. The authorities do not compile a **producer price index** or wholesale price index. According to Burkina Faso's plans for improvement posted on the DSBB, the development of these indices is not envisaged even for the medium term.

Government finance

7. Annual data are published in the *International Financial Statistics (IFS)* through 2004. No detailed monthly or quarterly data have been reported to STA. The *Government Finance Statistics (GFS) Yearbook* database contains data that cover only 1984-93. These data were compiled in accordance with *GFSM 1986* methodology and have limited details and coverage. The data relate only to budget operations and capital expenditure financed through grants. No data are reported on extrabudgetary and social security operations, or on operations from foreign financing. The compilation of *GFS* is constrained by a lack of coordination among fiscal agencies, which could have a negative impact on the reliability and timeliness of these data.

Monetary and financial statistics

8. Preliminary monetary data for Burkina Faso are prepared by the national agency of the Central Bank of West African States (BCEAO) and released officially with a lag of two to three months. Most of the problems in the monetary statistics are not specific to Burkina Faso, but concern all member countries of the WAEMU. One statistical problem arises from the difficulties the BCEAO has encountered in estimating currency in circulation in each WAEMU member country because of the large backlog of unsorted banknotes held by the central bank in its various national agencies. A second problem has been the slower-than-expected implementation of the new accounting system by banks since its introduction on January 1, 1996. These delays contribute substantially to the lag in reporting monetary statistics.

9. Following technical assistance, although the BCEAO implemented additional measures to accelerate the bank note sorting operations in order to expedite the reporting of monetary statistics, the underlying problem was not resolved. Among other consequences of this problem, broad money, net foreign assets and other monetary indicators have undergone substantial revisions following the completion of the note-sorting exercise. In fact, the African Department and the Statistics Department noted recently the issue of these revisions

in three member countries in a joint STA/AFR letter of March 11, 2005. No response has been received to date.

10. A follow-up monetary and financial statistics mission visited the headquarters of the BCEAO in May 2001. The mission reviewed the procedures for collecting and compiling monetary statistics, and addressed the outstanding methodological issues that concerned all the member countries of the WAEMU. The authorities agreed on an action plan for the implementation of the *Monetary and Financial Statistics Manual* (*MFSM*) and on the introduction of an area-wide page for the WAEMU in the *IFS,* which subsequently took place in January 2003. The mission discussed the provision of future technical assistance in monetary statistics for the region.

11. Following the recommendations of the 2001 monetary and financial statistics mission, a regional seminar on monetary and financial statistics was organized by the BCEAO in Dakar during April 22-25, 2003. Participants agreed to set up a working group of representatives from the national agencies and various departments of the BCEAO's headquarters; the working group will follow up on the seminar's recommendations to foster implementation of the *MFSM*. In particular, a BCEAO-sponsored workshop in Dakar on the classification and sectorization of units in the nonfinancial public sector is scheduled for late 2005. This workshop will build on the cross-cutting recommendations made by the ROSC and multi-sector mission to several of the WAEMU member countries (Senegal, Mali, Burkina Faso, and Niger).

Balance of payments

12. Since December 1998, the responsibility for compiling and disseminating balance of payments statistics has been formally assigned to the BCEAO through area-wide legislation adopted by the WAEMU member countries. The national agency of the BCEAO is responsible for completing and disseminating the balance of payments statement, while the BCEAO headquarters delineates the methodology and calculates the international reserves managed on behalf of the participating countries. Data consistency has significantly improved over the past few years, with a full transition to the *Balance of Payments Manual,* fifth edition *(BPM5)*, improved sourcing methods, and the training of staff. This improvement was supported by technical assistance provided by STA (a Statistical Advisor was posted at the BCEAO headquarters in Dakar from July 1996 through July 1999) and contributed to the reporting of better yearly balance of payments data in the framework of the *BPM5* for the period 1996-99. This improvement, coupled with the backward revision of data from 1988 onward, has created a consistent series of annual balance of payments statistics. The BCEAO national agency disseminates balance of payments statistics with a seven-month lag, and annual international investment position data with an eighteen-month lag, in full consistency with the recommendations of the GDDS guidelines. Regarding trade data, the customs computer system (SYDONIA) was upgraded in 1999, and its installation in the main border customs offices is complete; this allows for a better monitoring of import data and should improve the coverage of informal trade. The further improvement of services and transfers (especially workers' remittances) coverage is clearly linked to the future intensification of the contacts with reporting bodies. The ROSC mission that visited Niamey

in 2004 found that the response rate for the survey among industrial and commercial enterprises was only 40 percent; this implies that the authorities' commitment to strengthen the human and technical resources should be enhanced.

13. Concerning the financial account, the foreign assets of the private nonbanking sector are still not well covered, especially the assets of WAEMU residents, which are obtained through the Bank for International Settlements (BIS) data. The organization of annual surveys for the reporting of foreign direct investment transactions in Burkina Faso is still at a preliminary stage. The BCEAO authorities have indicated that they are looking forward to integrating two additional sources aimed at improving the quality of the balance of payments reports: the regional stock exchange transactions, and the firms' balance sheet database (*centrale des bilans*). They have also indicated that quarterly data derived from banking settlement reports will soon be used to assess the existing information. In addition, the BCEAO has recently implemented a compilation system allowing commercial banks to report data on payments involving nonresidents. The balance of payments compilers receive payments statements every ten days; however, the information is not used in the compilation of the annual balance of payments statements, but rather to support data quality controls and to provide early information to the BCEAO authorities.

14. The computer debt-management system software, SYGADE, developed by the United Nations Conference on Trade and Development (UNCTAD), was introduced in 1999 and is fully operational. Information on debt disbursement has also been fully integrated with the expenditure-monitoring system.

Burkina Faso: Table of Common Indicators Required for Surveillance
As of May 5, 2005

	Date of latest observation	Date received	Frequency of data[6]	Frequency of reporting[6]	Frequency of publication[6]	Memo Items: Data Quality – Methodological soundness[7]	Memo Items: Data Quality Accuracy and reliability[8]
Exchange Rates	Apr 2005	5/02/05	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]							
Reserve/Base Money	Mar 2005	05/11/05	M	M	M	LO, LO, LNO, O	LO, O, O, O, O
Broad Money	Mar 2005	05/11/05	M	M	M		
Central Bank Balance Sheet	Mar 2005	05/11/05	M	M	M		
Consolidated Balance Sheet of the Banking System	Mar 2005	05/11/05	M	M	M		
Interest Rates[2]	Mar 2005	4/08/05	M	M	M		
Consumer Price Index	Feb 2005	Apr 2005	M	M	M	O, LNO, O, O	LNO, O, O, O, NA
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]						O, LO, O, O	O, LO, O, O, LNO
Revenue, Expenditure, Balance and Composition of Financing[3] – Central Government	Mar 2005	05/11/05					
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Dec 2004	05/11/05					
External Current Account Balance	Dec 2003	11/02/04				O, O, O, O	LO, O, LO, O, O
Exports and Imports of Goods and Services	Dec 2003	11/02/04					
GDP/GNP	2004	Apr 2005	A	A	A	LO, LNO, LNO, LO	LNO, LNO, LO, LO, LNO
Gross External Debt	Dec 2004	05/11/05	A	A	A		

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).
[7] Reflects the assessment provided in the data ROSC published in March 2004 and based on the findings of the mission that took place in May 2003 for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning (respectively) concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), or not available (NA).
[8] Same as footnote 7, except referring to international standards concerning (respectively) source data, statistical techniques, assessment and validation of source data, assessment and validation of intermediate data and statistical outputs, and revision studies.

Burkina Faso: Debt Sustainability Analysis

1. This appendix assesses the sustainability of Burkina Faso's external public debt using the Debt Sustainability Analysis (DSA) template for low-income countries. The DSA was conducted jointly by Fund and Bank staff and included a loan-by-loan reconciliation of the multilateral debt data. The macroeconomic scenario underlying this DSA is summarized in Box 2 of the appendix. Based on the analysis of the baseline scenario and several alternative scenarios, the staffs have come to the view that the country faces a moderate risk of debt distress.

Burkina Faso's debt situation at end-2004

2. The focus of the DSA is on Burkina Faso's external debt situation. While significant in the past, domestic debt has declined rapidly in recent years in part because of requirements by the West African Economic and Monetary Union – to which Burkina Faso belongs – to phase out indebtedness to the common central bank. In 2005, domestic debt represents only 5 percent of GDP, and it is projected to decline further over the medium term.

3. Burkina Faso's external debt stock net of HIPC debt relief stood at USD 1.75 billion at end-2004.[13] Multilateral creditors accounted for 72.6 percent of this debt, including IDA (49.2 percent), the African Development Bank (18.1 percent) and the IMF (5.3 percent). Most of the bilateral debt is held by non-Paris Club members, some of whom have not yet started providing their share of debt relief.

4. In April 2002, Burkina Faso reached the completion point under the Enhanced HIPC Initiative. At the time, it was judged that exogenous factors outside of the government's control (such as falling cotton prices) had contributed to a significant deterioration of Burkina Faso's debt outlook and the country became the first HIPC to obtain an additional topping-up under the HIPC Initiative. At end-2004, Burkina Faso's debt situation looked more optimistic than had been projected at the completion point (Box 1). Despite adverse exchange rate movements and higher than anticipated new borrowing, at end-2004, the country had an NPV of debt-to-exports ratio that was lower than the one projected at the completion point.

5. The latest World Bank's Country Policy and Institutional Assessment (CPIA) ranks Burkina Faso as a 'strong performer'. Indicative debt-burden thresholds for countries in this category are an NPV of debt-to-exports of 200 percent; to GDP of 50 percent; and to

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[13] The debt stock net of obtained HIPC debt service relief is used to measure the existing debt burden of the country. The actual debt outstanding reported by the country and the creditors was USD2.1 billion at end-2004. The two numbers differ because HIPC debt relief is provided only in part as a reduction of the debt stock. Most creditors provide relief in the form of grants to help cover debt service obligations for a limited period or in the form of a debt rescheduling.

revenues of 300 percent; and debt service ratios to exports and to revenues of 25 and 35 percent, respectively.

Box 1. Burkina Faso: Decomposition of the Difference Between the End-2004 NPV of Debt-to-Exports Ratio Under the New Debt Sustainability Framework (DSF) and the Estimate at the Completion Point (CP)
(in percentage points)

NPV of debt-to-exports ratio for end-2004 projected at time of completion point 1/	192.52	Changes due to methodology 2/	Changes due to economic variables
(i) Parameters used to calculate NPV of debt	24.95		
Exchange Rate	26.56	33.36	(6.80)
Discount rate	(1.61)	(35.93)	34.32
(ii) New borrowing	7.43		
Volume	5.85		
Concessionality	1.58		
(iii) Exports	(71.54)	(18.41)	(53.13)
(iv) Residual 2/	48.56		
NPV of debt-to-exports ratio at end-2004 as of DSF 3/	183.11		

1/ The difference between the NPV of debt-to-exports ratio as of the DSF and the NPV of debt-to-exports ratio as projected at the CP equals the sum of lines (i), (ii), (iii) and (iv).
2/ Impact of using the WEO exchange rate projections and a 5 percent discount rate, as well as current year exports (as under the DSF methodology), instead of end-2004 exchange rates and currency-specific CIRR and a three-year backward looking average for exports (as under the HIPC methodology).
3/ The residual captures any accumulation of arrears, the non-delivery of HIPC assistance or changes in the time profile of assistance as well as weaknesses in the underlying bilateral data.

6. To assess the risk for future debt distress, the staffs have developed a baseline scenario and several stress tests that are compared against the indicative thresholds. The debt service numbers underlying the analysis reflect any debt relief still to be delivered after 2004. Sections B and C discuss the underlying assumptions and present the results of the analysis, and section D concludes.

The Baseline Scenario

7. The baseline scenario is developed for 2005–25. The medium-term assumptions for 2005–08 are covered in the Staff Report. The main assumptions for the subsequent years are summarized in Box 2.

Box 2. Baseline Assumptions

The baseline scenario is developed for 2005-2025. The medium-term assumptions for 2005-2008 are covered in the staff report. For the subsequent years, the main assumptions are the following:

- Annual real GDP growth is 6 percent. This is in line with the average growth rate over the past 15 years and also reflects gains from sustained efforts to improve private sector development and reduce government involvement in the economy;
- Average inflation as measured by the implicit deflator of GDP is 2.1 percent, owing to the peg of the currency to the euro;
- The revenue to GDP ratio is projected to rise gradually from 13.9 percent in 2005 to 18 Percent by 2016 and stays constant afterwards, reflecting the gradual convergence of the tax revenue ratio to the 17 percent WAEMU norm owing to rising incomes and improved tax collection;
- The expenditure to GDP ratio reaches 24.6 percent of GDP by 2008 from 21.4 percent in 2005, reflecting efforts of the authorities to make progress towards meeting the Millennium Development Goals (MDGs), and afterwards remains constant as a share of GDP.
- Cotton exports, which in 2004 were almost 70 percent of total exports, are projected to grow at 10 percent annually in real terms during 2009–15 and at 5 percent thereafter. These growth rates are more conservative than the five and ten year historical averages, which were 13 and 17 percent respectively. Growth will come from increasing the cotton growing areas and from productivity gains, notably from using better crop varieties and increasing the use of fertilizers.
- Non-cotton exports are assumed to grow at 5 percent in real terms annually during 2009–15 and at 7.5 percent thereafter. The authorities have identified non-cotton exports as a key sector for increasing economic diversification, and recent reforms in the mining sector and ongoing efforts such as building a fruit and vegetables terminal support this strategy.
- The export projections and the assumption that imports grow on average 7.4 percent annually over 2008–25 (slightly less than nominal GDP growth) lead to a gradual improvement of the current account deficit excluding grants relative to GDP, from 11.7 percent in 2008 to 4.9 percent by 2025.
- Finally, the baseline scenario assumes that the grant share of the total external financing need is 57 percent and 54 percent for 2005 and 2006 respectively, calculated from information provided by the authorities. From 2007 onwards, the grant component is projected to remain at 55 percent, which is more conservative than the ten year historic average (60.4 percent).

8. Under the baseline scenario, all but one of the external debt indicators maintain a stable path for the entire projection period and remain well below their respective thresholds (Table 1a). Only the NPV of debt-to-exports ratio breaches its indicative threshold over the medium term, but improves again in the long term. Between 2005 and 2013, the ratio averages 218 percent before falling below 200 percent in 2014. The medium-term deterioration in the NPV of debt-to-exports ratio is due to several factors, including the medium-term run-up in expenditures (from 21.4 percent of GDP in 2004 to 24.6 percent in 2006).

9. The deterioration in the ratio is compounded by the relatively weak export growth in the short term, which in dollar terms is projected to grow by 5½ percent on average in 2005-06 compared to an average growth of 25 percent in 2002-04. Other debt burden indicators such as the debt service ratios and the NPV of debt-to-GDP and revenue ratios remain stable over the projection period. Until 2025, the NPV of debt-to-GDP ratio is projected to average 23 percent, and Burkina Faso would spend on average 9 percent of its export proceeds or 7 percent of its total revenues on the payment of debt service.

Sensitivity Analysis

10. The sensitivity analysis shows that, again with the exception of the NPV of debt-to-exports ratio, the indicators remain below their respective indicative thresholds, even under stress (Table 1b). The projections for the NPV of debt-to-exports ratio and the debt service ratios are most vulnerable to the following three standard scenarios: (i) should export projections remain subdued and grow at one standard deviation below historical levels, (ii) in the event of a combined shock or (iii) if the terms of financing available to the country worsen (bound tests B2 and B5 and scenario A2 in Table 1b respectively). The staffs performed an additional scenario that assumes that the authorities achieve only half of the projected increase in the revenue-to-GDP target 2015 (Table 1c). Under this scenario, should the authorities not be able to compensate the lower revenues with expenditure cuts or a higher grant share of their financing, the various debt ratios would not improve over the long run, and the NPV of debt-to-exports ratio would remain above 200 percent over the entire projection period. Finally, under the standard historical scenario (scenario A1, Table 1b), all indicators exhibit a sharp upward trend in the outer years of the projection period. The main reason for the worsening of the indicators compared to the baseline is that the historical scenario assumes that the non-interest current account remains at 8.9 percent of GDP leading to a stark increase in new borrowing.[14]

[14] The historical scenario also does not take into account the forward-looking export price projections from the latest WEO.

Staff Assessment

11. The findings from Debt Sustainability Analysis lead the staffs to conclude that while Burkina Faso's debt dynamics are sustainable, the country faces a moderate risk of debt distress. The debt situation is deemed sustainable because, with the exception of the NPV of debt-to-exports ratio, all debt indicators remain well below the policy-contingent indicative thresholds, both under the baseline and under the alternative scenarios. The NPV of debt-to-exports ratio breaches the indicative threshold for some years under the baseline before improving gradually in the outer years of the projection period. Taken as a whole, the staffs do not view the temporary breach of that threshold as indicative of a fundamental debt problem.

12. However, the results from the alternative scenarios underscore the need for the authorities to continue to implement their program of sound macroeconomic policies and reforms, including towards achieving higher export growth and other growth-enhancing measures. The alternative revenue scenario highlights the importance of maintaining efforts to improve revenue collection. Those factors, combined with unwavering resolve to attract financing at favorable terms—preferably through grants—would help Burkina Faso in achieving progress towards the MDGs (as reflected in the ambitious medium-term expenditure program) while containing the risks to external debt sustainability.

Table 1a. Burkina Faso: External Debt Sustainability Framework, Baseline Scenario, 2002-2025 1/
(In percent of GDP, unless otherwise indicated)

	Actual	Historical Average 6/	Standard Deviation 6/	Estimate	Projections								
	2004			2005	2006	2007	2008	2009	2010	2005-10 Average	2015	2025	2011-25 Average
External debt (nominal) 1/	**34.3**			**34.8**	**37.3**	**38.7**	**39.6**	**40.5**	**41.1**	**38.7**	**40.1**	**35.1**	38.4
Change in external debt	-8.6			0.5	2.6	1.4	0.9	0.9	0.6	1.1	-0.8	-0.4	-0.4
Identified net debt-creating flows	0.7			6.8	10.2	8.5	8.0	6.4	5.7	7.6	2.8	2.6	3.2
Non-interest current account deficit	**7.6**	**8.9**	**2.8**	**8.9**	**11.5**	**10.6**	**10.4**	**8.6**	**7.9**	9.6	**4.9**	**4.4**	5.1
Deficit in balance of goods and services	11.1			12.8	13.4	12.5	12.2	11.8	11.3	12.3	7.9	6.7	7.9
Exports	9.9			9.6	9.6	9.8	10.0	10.3	10.6	10.0	13.2	12.8	12.7
Imports	21.0			22.4	23.0	22.2	22.3	22.1	21.9	22.3	21.1	19.5	20.6
Net current transfers (negative = inflow)	-3.9	-5.5	2.2	-4.3	-2.2	-2.1	-2.0	-3.2	-3.4	-2.9	-2.9	-2.1	-2.7
Other current account flows (negative = net inflow)	0.3			0.3	0.3	0.2	0.1	0.1	0.0	0.2	-0.1	-0.2	-0.1
Net FDI (negative = inflow)	**-0.4**	**-0.4**	**0.2**	**-0.4**	**-0.3**	**-0.3**	**-0.3**	**-0.3**	**-0.3**	-0.3	**-0.1**	**-0.1**	-0.1
Endogenous debt dynamics 2/	**-6.5**			**-1.7**	**-1.0**	**-1.8**	**-2.1**	**-1.9**	**-2.0**	-1.7	**-1.9**	**-1.6**	-1.8
Denominator: 1+g+ρ+gρ	1.2			1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Contribution from nominal interest rate	0.3			0.3	0.2	0.3	0.3	0.3	0.3	0.3	0.4	0.3	0.4
Contribution from real GDP growth	-5.4			-2.0	-1.2	-2.0	-2.3	-2.2	-2.3	-2.0	-2.3	-2.0	-2.2
Contribution from price and exchange rate changes	-1.4			…	…	…	…	…	…	...	…	…	
Residual (3-4) 3/	**-9.3**			**-6.2**	**-7.6**	**-7.1**	**-7.1**	**-5.6**	**-5.1**	-6.4	**-3.6**	**-3.0**	-3.6
o/w exceptional financing	-0.5			-0.7	-0.5	-0.3	-0.3	-0.3	-0.2	-0.4	-0.1	0.0	-0.1
NPV of external debt 4/	18.1			19.2	20.9	21.9	22.6	23.4	24.0	22.0	24.5	22.2	23.7
In percent of exports	183.1			200.5	216.9	223.6	225.6	226.8	226.0	219.9	185.6	173.1	187.3
In percent of revenues	141.5			143.9	149.3	151.8	153.7	154.9	154.9	151.4	133.8	123.6	129.3
Debt service-to-exports ratio (in percent)	4.9			8.1	9.1	9.9	9.6	8.8	8.7	9.1	8.5	10.3	9.3
Debt service-to-revenues ratio (in percent)	3.8			5.8	6.2	6.8	6.6	6.0	6.0	6.2	6.1	7.3	6.9
Total gross financing need (millions of U.S. dollars)	393.4			512.0	703.8	709.0	759.5	689.5	691.7	677.6	702.7	1,472.4	964.4
Non-interest current account deficit that stabilizes debt ratio	16.2			8.3	8.9	9.2	9.5	7.8	7.3	8.5	5.7	4.8	5.5
Key macroeconomic assumptions													
Real GDP growth (in percent)	15.0	7.3	11.6	6.3	3.7	5.9	6.6	6.1	6.1	5.8	6.0	6.0	6.0
GDP deflator in US dollar terms (change in percent)	3.3	2.2	3.2	1.7	2.2	2.1	2.2	2.1	2.1	2.1	2.1	2.1	2.1
Effective interest rate (percent) 5/	0.7	0.4	0.4	0.8	0.7	0.7	0.8	0.8	0.9	0.8	1.0	1.1	1.0
Growth of exports of G&S (US dollar terms, in percent)	32.5	9.5	21.1	4.6	6.6	9.8	11.7	11.4	11.6	9.3	13.3	8.0	9.6
Growth of imports of G&S (US dollar terms, in percent)	14.9	9.1	15.7	15.2	8.8	4.4	9.1	7.5	7.5	8.7	7.4	7.4	7.4
Grant element of new public sector borrowing (in percent)	...	...	...	44.9	45.4	46.1	46.1	46.3	46.4	45.9	49.0	44.2	46.5
Memorandum item:													
Nominal GDP (millions of US dollars)	5,110			5,525	5,850	6,323	6,888	7,461	8,083		12,001	26,458	

Source: Staff simulations.

1/ Includes public external debt.
2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.
3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
4/ Assumes that NPV of private sector debt is equivalent to its face value.
5/ Current-year interest payments devided by previous period debt stock.
6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 1b. Burkina Faso: Sensitivity Analyses for Key Indicators of Public External Debt, 2005-25
(In percent)

	Estimate	Projections						
	2005	2006	2007	2008	2009	2010	2015	2025
NPV of debt-to-GDP ratio								
Baseline	19.2	20.9	21.9	22.6	23.4	24.0	24.5	22.2
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2006-25 1/	19.2	18.8	18.7	18.6	19.4	20.5	27.2	38.9
A2. New public sector loans on less favorable terms in 2006-25 2/	19.2	22.1	24.3	26.1	27.9	29.4	33.0	34.6
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2006-07	19.2	22.6	26.2	27.2	28.1	28.8	29.4	26.7
B2. Export value growth at historical average minus one standard deviation in 2006-07 3/	19.2	21.8	24.5	25.2	25.8	26.4	26.2	22.8
B3. US dollar GDP deflator at historical average minus one standard deviation in 2006-07	19.2	21.5	23.3	24.1	24.9	25.6	26.0	23.7
B4. Net non-debt creating flows at historical average minus one standard deviation in 2006-07 4/	19.2	20.0	20.1	20.9	21.8	22.5	23.4	21.9
B5. Combination of B1-B4 using one-half standard deviation shocks	19.2	20.7	22.7	23.6	24.5	25.3	26.1	24.2
B6. One-time 30 percent nominal depreciation relative to the baseline in 2006 5/	19.2	29.5	30.9	32.0	33.1	34.0	34.6	31.5
NPV of debt-to-exports ratio								
Baseline	200.5	216.9	223.6	225.6	226.8	226.0	185.6	173.1
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2006-25 1/	200.5	195.1	190.8	185.6	188.5	193.0	206.5	303.0
A2. New public sector loans on less favorable terms in 2006-25 2/	200.5	229.8	248.3	260.4	270.2	276.6	250.7	269.2
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2006-07	200.5	216.9	223.6	225.6	226.8	226.0	185.6	173.1
B2. Export value growth at historical average minus one standard deviation in 2006-07 3/	200.5	272.8	375.5	375.7	375.0	371.4	297.2	266.2
B3. US dollar GDP deflator at historical average minus one standard deviation in 2006-07	200.5	216.9	223.6	225.6	226.8	226.0	185.6	173.1
B4. Net non-debt creating flows at historical average minus one standard deviation in 2006-07 4/	200.5	207.9	205.7	209.0	211.2	211.5	177.2	170.1
B5. Combination of B1-B4 using one-half standard deviation shocks	200.5	223.5	252.8	256.2	258.4	258.4	215.1	204.5
B6. One-time 30 percent nominal depreciation relative to the baseline in 2006 5/	200.5	216.9	223.6	225.6	226.8	226.0	185.6	173.1
Debt service-to-exports ratio								
Baseline	8.1	9.1	9.9	9.6	8.8	8.7	8.5	10.3
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2006-25 1/	8.1	8.8	9.2	8.7	7.7	7.6	7.2	13.8
A2. New public sector loans on less favorable terms in 2006-25 2/	8.1	9.1	10.5	11.0	10.9	11.0	11.8	16.2
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2006-07	8.1	9.1	9.9	9.6	8.8	8.7	8.5	10.3
B2. Export value growth at historical average minus one standard deviation in 2006-07 3/	8.1	10.9	15.2	15.2	13.9	13.7	14.2	16.1
B3. US dollar GDP deflator at historical average minus one standard deviation in 2006-07	8.1	9.1	9.9	9.6	8.8	8.7	8.5	10.3
B4. Net non-debt creating flows at historical average minus one standard deviation in 2006-07 4/	8.1	9.1	9.8	9.3	8.5	8.5	7.9	10.0
B5. Combination of B1-B4 using one-half standard deviation shocks	8.1	9.8	11.7	11.3	10.3	10.2	9.7	12.0
B6. One-time 30 percent nominal depreciation relative to the baseline in 2006 5/	8.1	9.1	9.9	9.6	8.8	8.7	8.5	10.3
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	44.8	44.8	44.8	44.8	44.8	44.8	44.8	44.8

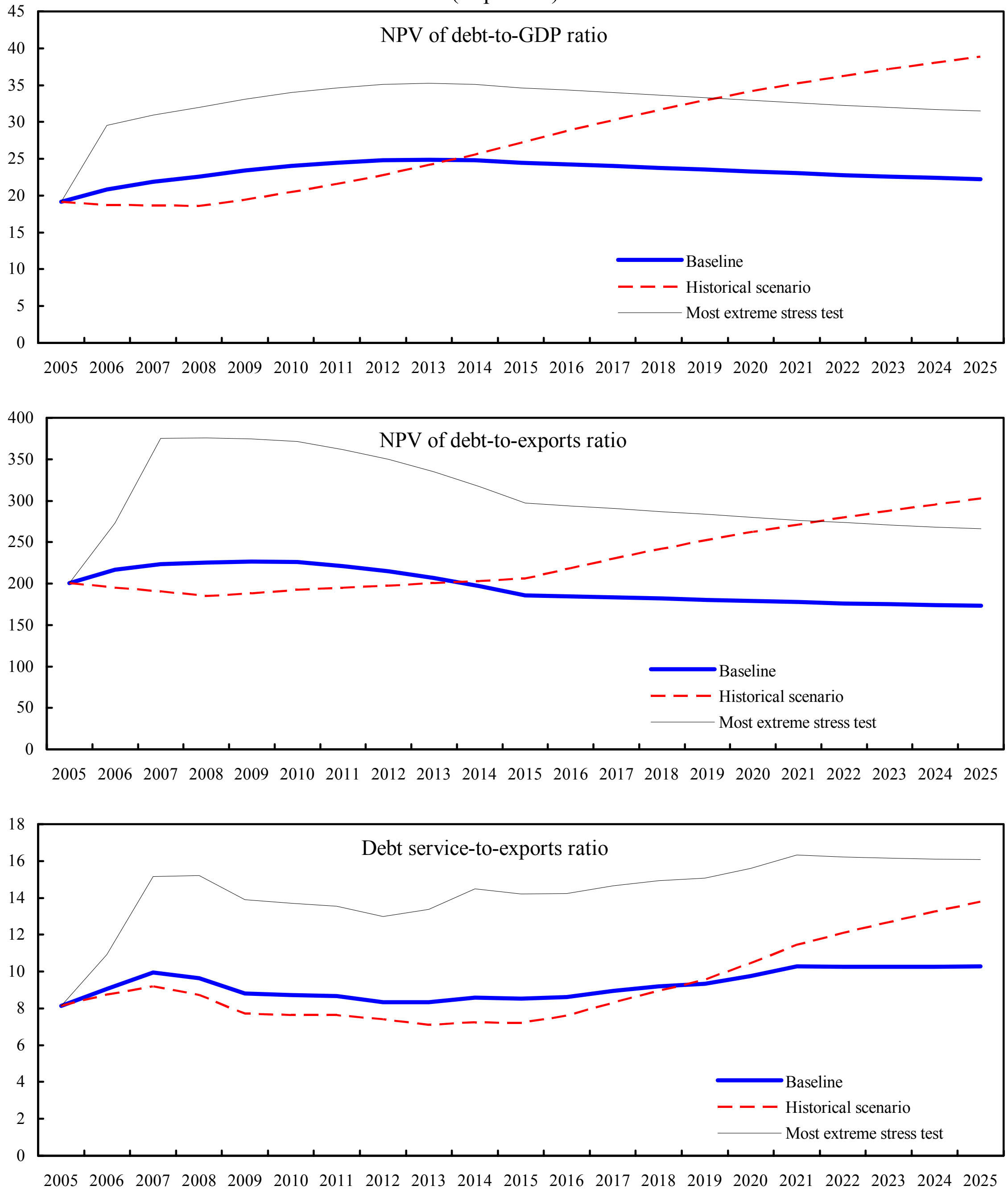
Source: Staff projections and simulations.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 1c. Burkina Faso: Alternative Revenue Scenario for Key Indicators of Public External Debt, 2005-25
(In percent)

	Estimate	Projections						
	2005	2006	2007	2008	2009	2010	2015	2025
Baseline								
Revenue-to-GDP ratio	13.3	14.0	14.4	14.7	15.1	15.5	18.3	18.0
Debt-to-GDP ratio	34.8	37.3	38.7	39.6	40.5	41.1	40.1	35.1
NPV of debt-to-GDP ratio	19.2	20.9	21.9	22.6	23.4	24.0	24.5	22.2
NPV of debt-to-exports ratio	200.5	216.9	223.6	225.6	226.8	226.0	185.6	173.1
NPV of debt-to-revenues ratio	143.9	149.3	151.8	153.7	154.9	154.9	133.8	123.6
Debt service-to-exports ratio	8.1	9.1	9.9	9.6	8.8	8.7	8.5	10.3
Debt service-to-revenues ratio	5.8	6.2	6.8	6.6	6.0	6.0	6.1	7.3
Alternative Scenario: Smaller Revenue Improvement over 2005-2025								
Revenue-to-GDP ratio	13.3	13.6	13.8	14.1	14.3	14.6	15.8	15.8
Debt-to-GDP ratio	34.8	37.8	39.3	40.5	41.7	42.6	44.8	43.9
NPV of debt-to-GDP ratio	19.2	21.1	22.3	23.2	24.2	25.1	27.7	28.7
NPV of debt-to-exports ratio	200.5	219.7	228.1	231.6	234.6	235.9	210.5	223.3
NPV of debt-to-revenues ratio	143.9	155.9	161.4	165.1	169.0	172.1	175.6	181.6
Debt service-to-exports ratio	8.1	9.1	10.0	9.8	9.0	8.9	9.3	13.2
Debt service-to-revenues ratio	5.8	6.4	7.1	7.0	6.5	6.5	7.8	10.7

Figure 1. Burkina Faso: Indicators of Public External Debt
Under Alternative Scenarios, 2005-2025
(In percent)



Source: Staff projections and simulations.

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

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September 12, 2005

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Fourth Review Under Burkina Faso's PRGF Arrangement and Approves US$5.1 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) has completed the fourth review of Burkina Faso's economic performance under a SDR 24.08 million (about US$35.7 million) Poverty Reduction and Growth Facility (PRGF) arrangement (see Press Release No. 03/82). The completion of the review enables the release of a further SDR 3.44 million (about US$5.1 million), which will bring the total amount drawn under the arrangement to SDR 17.2 million (about US$25.5 million).

In completing the review, the Executive Board granted a waiver of the nonobservance of the end-March 2005 quantitative performance criterion on the cumulative change in net domestic financing to the government.

Following the Executive Board's discussion of Burkina Faso, on September 7, 2005, Anne O. Krueger, First Deputy Managing Director and Acting Chair, stated:

"The authorities of Burkina Faso are to be commended for their sound macroeconomic policies and their progress toward the Millennium Development Goals. Economic performance in 2004 was relatively strong, despite the adverse external shocks that emerged in the second half of the year, notably the sharp decline in world cotton prices and the increase in world oil prices. Economic growth remained robust, inflation was low, and all fiscal targets were met.

"The sharp decline in Burkina Faso's terms of trade has reduced economic growth prospects for 2005, and presents the authorities with substantial challenges. The authorities' program strikes an appropriate balance between the need for fiscal restraint in the face of this shock and the need to push ahead with priority expenditures in support of the poverty reduction strategy. Revenues have been in line with the authorities' target and expenditures have remained oriented toward key social services, notably health and education, as well as growth and productivity-enhancing capital investments.

"The authorities are implementing reforms to broaden the tax base and strengthen tax administration, in order to boost tax revenue further. Progress with other structural reforms to enhance external competitiveness is urgently needed. A priority in this area is the power sector, where the authorities should move toward pricing based on cost recovery. This will reduce the need for budgetary subsidies, thereby freeing up resources for priority poverty-reducing programs. Pushing ahead with the power sector investment program will help reduce costs, improve the quality of service, and enhance competitiveness of the economy.

"The authorities are making progress in strengthening governance, as evidenced by the follow up to the report of the High Authority on the Coordination of the Fight Against Corruption, including the approval of the National Strategy for Good Governance. These efforts will be bolstered with the forthcoming approval of a comprehensive strategy for combating corruption.

"The government's policy with respect to the mostly private cotton sector has generally served the sector and economy well. The government has encouraged producers to find their own solution to the recent decline in world cotton prices without recourse to budget subsidies. With the assistance of its development partners, the government will continue to support the sector through projects to improve infrastructure, enhance productivity, and conduct research.

"The authorities' draft medium-term expenditure framework envisages a scaling up of outlays to accelerate progress toward the MDGs. The authorities are encouraged to proceed with these expenditures only if financing can be obtained on terms consistent with long-term debt sustainability. In this context, it will be necessary to attract external financing on highly concessional terms, preferably in the form of grants," Ms. Krueger said.

The PRGF is the IMF's concessional facility for low-income countries. PRGF-supported programs are based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners and articulated in the Poverty Reduction Strategy Paper (PRSP). This is intended to ensure that PRGF-supported programs are consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty. PRGF loans carry an annual interest rate of 0.5 percent and are repayable over 10 years with a 5½-year grace period on principal payments.

Statement by Damian Ondo Mañe, Executive Director for Burkina Faso
September 7, 2005

On behalf of my authorities, I would like to thank Management and the staff for their policy advice and their appreciable work on Burkina as reflected in the set of well-written papers before us today. I also wish to convey to Executive Directors my authorities' appreciation of their contribution to Fund's assistance in Burkina Faso.

Key quantitative objectives of Burkina Faso's PRSP comprise the MDGs and those set forth under the New Partnership for Africa's Development (NEPAD). These include, among others, the achievement of an average real growth rate of 7 percent per year during the period 2004-2006. For 2004, the growth objective was set under the assumption of a favorable external environment. Regrettably, recent adverse developments in oil and cotton prices constituted a major impediment to meeting this objective. In addition, other factors identified in recent studies sponsored by the government played a similar role as well, including limited human capital, poor infrastructure, low access to international markets, and weak capacities. Consequently, real GDP growth slowed down, but reached a still robust estimate of about 4.6 percent in 2004 against the backdrop of adverse climatic conditions and pricing developments in the cotton and oil markets.

Despite the sharp deterioration of the terms of trade, down to a 25-year low, the external current account deficit declined by 2 percentage points of GDP from 12.7 percent to 10.7 percent. In parallel, non-food inflation remained subdued, notwithstanding the oil price shock. Despite recent inflationist pressures fueled by food price increases, the rate of inflation is estimated to have been a single digit number as of last June.

On the structural front, the report is fairly indicative of the Burkina's exceptional track record of implementing Fund policy advice when staff notes that "To date, all reviews under the four PRGF arrangements have been completed, except for the first in 1993, and the authorities have implemented all structural reforms covered by Fund conditionality, albeit sometimes with delays." The significant efforts made in privatizing the cotton sector translated into the current situation where the government is now only a minority shareholder of one the ginning companies. Tax and customs administration as well as budget execution and transparency were also among the key focuses of structural reforms. At the same time, major reforms were implemented in the energy and telecommunications sectors.

In this Board meeting, my authorities are hopeful that Executive Directors will continue to accord their support for the country's policies and reform agenda. In this vein, my authorities are requesting a waiver of nonobservance of the performance criterion for March 2005 pertaining to net domestic borrowing by the government. The nonobservance of this performance criterion, rightly viewed by the staff as minor and temporary, was simply due to technical difficulties that resulted in some expenditure authorizations made late in 2004 to clear the payment system only early this year.

PROSPECTS AND FUTURE CHALLENGES

Although real GDP growth slowed down since last year after exceeding 6 percent in average over the past decade, it is projected to increase gradually toward this level in the short to medium-term.

By then, Burkina Faso could face major difficulties, including the current food shortage. This situation arose from the precarious climatic conditions that prevailed last year in the country and resulted in a sharp decline in cereal production. The government welcomes the assistance provided by the World Food Program and the Food and Agriculture Organization in coping with this situation. To avoid the resurgence of this problem in the future, an action plan has been developed by the authorities to boost cereal production and promote irrigation and harvesting equipment, and develop rural infrastructure. Success in implementing this plan may not be ensured if Burkina Faso—and other countries in the region facing similar circumstances—fails to benefit from a special treatment by the Fund and the donor community that would help the authorities mobilize the necessary financing. While such a treatment could materialize into higher donor financing, concerns over debt sustainability expressed below entail that any assistance provided takes preferably the form of grants or concessional financing.

Fiscal Policy and Reforms

The authorities intend to maintain in the period ahead a prudent fiscal policy, and increased focus will be put on reducing the government debt burden. On the revenue side, the authorities are determined to meet the challenge of increasing fiscal revenue. In this regard, they are determined to enhance the coordination of tax and customs administrations and finalize the taxpayer census. While making increased efforts to enhance revenue mobilization, they plan to work on reducing the tax burden levied on private operators with a view to fostering private sector development and improving economic competitiveness.

On the expenditure side, the authorities are aware of the need to preserve priority social expenditures in the face of adverse exogenous shocks. As noted by the staff, the authorities are carrying actions to increase the absorptive capacity of the economy in order to ensure the effectiveness of envisaged scaling-up of capital spending and priority social outlays. My authorities wish a rapid and timely attainment of the MDGs, which requires that significant social expenditure needs be met. Necessary actions will be taken in this direction, while taking into account the need to maintain debt sustainability in the context of fiscal restraint. Public expenditure reviews will be conducted systematically in order to increase the effectiveness of public outlays.

Monetary Policy and Financial Sector Reform

Prudent monetary policy will continue to be implemented by the BCEAO at the regional level. The key monetary objective of ensuring price stability will remain unchanged. Strengthening the financial sector remains a key objective of Burkina Faso's poverty reduction strategy. The banking system is sound as reflected by the broadly satisfactory compliance with prudential ratios.

The authorities plan to devise a comprehensive strategy in the area of microfinance, which is a critical component of the poverty reduction strategy. Key among the principles on which the microfinance strategy will be built upon is the design of an incentive mechanism to boost investment of part of commercial banks' liquidity in the microfinance institutions. However, the timing for the adoption of this strategy will be set so as to take into account the outcome of the discussions organized by the BCEAO on the topic as well as the findings of a team of high-level experts analyzing the experience of other countries in this sector.

Maintaining debt sustainability

My authorities are appreciative of the actions taken by the Paris Club and multilateral creditors, which led to a topping-up in the context of the HIPC Initiative. They call now on non-Paris Club bilateral creditors to grant them debt relief. The Burkinabè government intends to maintain its external debt at sustainable levels. However, given the external shocks experienced by the economy, its domestic revenues may prove to be short of the amount needed to fully finance the Priority Action Plan to implement the PRSP in the period ahead. Under these conditions, the authorities are hopeful that additional donor assistance would be materialized into the form of grants or concessional financing. In view of the recent experience, mobilizing such grants and concessional assistance proves to be increasingly difficult. This situation leaves the authorities with no choice but to contract donor funding in the form of loans, which could undermine in the long run the hardly-achieved debt sustainability. In this context, my Burkinabè authorities are hopeful that the recent G8 debt cancellation proposal will be promptly made operational.

Making progress in Good Governance

The inclusion of good governance among the four pillars of the PRSP is an illustration of the high level of attention paid by the authorities to this issue. As announced in my statement during last February's Executive Board discussion on the second and third reviews under the PRGF, a national strategy to combat corruption and an action plan to implement it have been prepared by the High Authority to Coordinate the Fight Against Corruption after broad consultation with various stakeholders. In addition to raising awareness about the costs of corruption, the strategy and the action plan formulate various recommendations, including those listed in the Selected Issues Paper: revisions of the Penal Code, introduction of a law against corruption, strengthening of enforcement agencies, and enhanced coordination between public agencies. Progress made in good governance also includes the improved fiscal transparency and accountability, particularly with the more systematic and regular submission of audit accounts and the budget law to the National Assembly.

Addressing issues pertaining to the cotton sector

While on the rise, cotton prices remain far below their average over the past three decade as noted by the staff. Cotton companies are expected to cope with the financial implications of the declining world cotton prices. However, the authorities also intend to mobilize donor assistance with the aim at assisting the cotton sector in increasing productivity, particularly through infrastructure building and advanced research. Whenever appropriate, they will ensure continued structural reforms in this sector. They hope that donor willingness to support structural reforms in the sector will translate into concrete actions.

Nevertheless, even though the authorities are aware of the need to enhance competitiveness, they are of the view that a key challenge facing this sector relates to the agricultural subsidies provided by industrial countries to their cotton farmers. For this reason, they call on the elimination of these policies. In this context, my authorities look forward to the successful completion of the Doha Round trade negotiations in end-2005.

Diversifying the Economy and Enhancing Competitiveness

The authorities' awareness of the need for economic diversification and enhanced competitiveness is reflected by the fact that these issues constitute some of the key themes around which the structural agenda is built. In this respect, many actions have been implemented thus far, including, but not limited to, the improvement of the business climate, infrastructure building, and the reform of the energy and telecommunications sectors. In the period ahead, the authorities intend to continue tackling the issues of economic diversification and competitiveness with the same level of determination as in the past.

Among other objectives, progress made on diversifying the economy—particularly agricultural production—will help cope with the fluctuations in cotton prices and the effects of adverse climatic conditions, considered by the staff as one of the risks to the economic outlook. Other exogenous risks continue to make it difficult to make decisive progress in implementing this agenda. As the staff points out in the Selected Issues paper, the authorities are implementing various activities aimed at ensuring economic diversification. The impact of most of these actions is multidimensional in that these could contribute to ensuring economic diversification as well as enhancing competitiveness.

In particular, the increasing crude oil price constitutes a major impediment to lowering significantly the high costs in the energy sector, which remain in staff's view a key obstacle to economic diversification and competitiveness. The authorities will continue to do their utmost efforts to cope successfully with this oil price shock. Most likely, however, collective actions by both oil-exporting and importing countries seem to be the key for overcoming this major source of global imbalances.

In the telecommunications sector, the authorities are hopeful that the new strategy for privatizing the national telecommunications company recently approved by the government will help lowering the high costs reported by the staff in this sector. Simplifying administrative procedures for opening businesses is also in the agenda of the authorities. In this regard, work currently underway after the approval of creation of a center for business registration looks promising.

Furthermore, the planned and ongoing implementation of other measures will be key in meeting the stated objective of economic diversification. These measures include, but are not limited to those aimed at ensuring: (i) agricultural diversification; (ii) rural development; (iii) a gradual reform of the land tenure system; (iv) the implementation of the abovementioned microfinance strategy, which will be a big step towards improving access to credit; (v) transport infrastructure development needed for boosting private sector activity, and increasing trade with neighboring countries.

Conclusion

My authorities would like to benefit from a new partnership with the donor community based on regular and open policy dialogue. In this perspective, they are keen to ensure national ownership of the development strategy and policies, along with their monitoring and evaluation. Meeting this objective will require that the country receive adequate technical and financial donor assistance. However, this requires, in turn, that both the authorities and the donor community make the necessary efforts to increase the currently low absorption capacity for externally financed projects, which results in the effective disbursement of only about 70 percent of the resources committed by donors. As noted above, the authorities are already taking actions to increase the absorptive capacity so as to ensure the effectiveness of additional public expenditure. On their part, donors could contribute effectively to this effort by making aid disbursement procedures less cumbersome. In this process, the authorities also hope that there will be a gradual shift from project aid to budgetary support to correct the sub-optimal situation that prevailed recently, including during the period 2000–03 where budget support accounted for less than 40 percent of total external financing, while project aid exceeds 60 percent of the total.

In light of the above, my authorities request a waiver of nonobservance of the performance criterion for March 2005 pertaining to net domestic borrowing by the government and the completion of the fourth review under the PRGF.

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Public Information Notice
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IMF Executive Board Concludes 2005 Article IV Consultation with Burkina Faso

On September 8, 2005, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Burkina Faso.[1]

Background

Over the past decade, Burkina Faso has maintained an average real GDP growth rate of over 6 percent annually, and inflation has been contained. Structural reforms and stability-oriented macroeconomic policies have strengthened the market-orientation of the economy and improved its flexibility. The gains from the economic reforms have resulted in improvements in social indicators, with household surveys indicating that the headcount poverty index declined by 8 percentage points between 1998 and 2003. Nevertheless, Burkina Faso continues to rank among the poorest countries in the world, and reaching the Millennium Development Goals poses major challenges.

Following a year of exceptional growth performance, GDP growth moderated to 4.6 percent in 2004. Despite an increase in cotton production, overall agricultural production fell due to a decline in cereal production from record highs in 2003. Average consumer prices decreased by 0.4 percent, but inflation has since picked up as food prices have rebounded from their five-year lows. Nonfood inflation has

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

been contained, in spite of higher oil prices. Slow growth in money demand and rapid expansion of medium and long-term credit to the economy resulted in a decline of net foreign assets of the banking system. Credit expansion has continued at a strong pace during the first part of 2005 and net foreign assets of the banking system have declined further. Consequently, the regional central bank (BCEAO) has raised reserve requirements to stem the pace of credit expansion.

Revenue improvements of one-half percent of GDP and expenditures that were lower than projected helped contain the fiscal deficit (excluding grants) to 8.6 percent of GDP in 2004, which was lower–than-targeted in the authorities' program. The deficit was fully financed by external means, with grants accounting for over half of the deficit financing.

The external current account deficit (excluding transfers) exceeded 10 percent of GDP in 2004. Cotton exports, which account for about two-thirds of total exports, increased sharply as most of the crop was sold in early 2004 before world prices began to decline. This more than offset the impact of higher oil prices and the trade deficit narrowed in 2004. In the second half of the year, the external terms of trade deteriorated sharply to reach a 25-year low by year-end. Notwithstanding some recovery in cotton prices during the first half of 2005, the terms of trade remain near their historical low and the external trade and current account deficits are expected to widen significantly in 2005.

Ongoing structural reforms include steps to improve revenue performance, as revenues are still low by regional standards, with measures focused on broadening the tax base and improving tax compliance. Revenues performance is also benefiting from the computerization of the major customs offices and the introduction of a new single taxpayer identification number. In other areas, structural reforms are aimed at improving competitiveness. This includes public investments in rural roads and irrigation systems, which could facilitate agricultural diversification and reduce volatility in incomes and prices. The legal and regulatory framework of the power sector has been amended, and the authorities are preparing the energy and telecommunications sector for increased private sector participation.

Executive Board Assessment

Executive Directors commended the Burkinabè authorities for their long track record of implementing sound macroeconomic policies and structural reforms. These reforms have resulted in a more flexible and market-based economy that has helped achieve high rates of economic growth and reduce the incidence of poverty. Nevertheless, Directors noted that substantial challenges remain, especially in light of the decline in world cotton prices and the increase in world oil prices that have dampened economic growth prospects for 2005. Continued implementation of pro-growth macroeconomic policies, diversification of the economy, and structural reforms will be necessary to establish the conditions for a resumption of robust economic growth and to accelerate progress toward the Millennium Development Goals (MDGs).

Directors agreed that an easing of fiscal policy in 2004 and 2005 was appropriate in light of the need to smooth the adjustment to the adverse terms of trade shocks while continuing to make progress towards the MDGs. They considered that the fiscal targets for 2005 remain appropriate, and welcomed the continued orientation of expenditures toward key social services, notably health and education, as well as growth and productivity-enhancing capital investments.

Directors noted the importance of further increasing fiscal revenues over the medium term—a core WAEMU convergence requirement—as these remain low relative to GDP. They welcomed the advances made in tax administration that have already contributed to an increase in revenues by about half a percentage point of GDP annually since 2000. Directors noted the progress in implementing structural measures to broaden the tax base and improve tax compliance—including most recently the establishment of the large taxpayer division, the centralization of tax collection responsibilities, and the introduction of a new single taxpayer identification number—and looked forward to the completion of the taxpayer census and the creation of the joint tax-customs brigade to conduct comprehensive tax audits. They agreed that these measures would help establish the foundation for further improvement in revenue performance without increasing the burden on existing taxpayers. Directors urged the authorities to identify further measures to reach the WAEMU revenue convergence criterion before 2015.

Directors urged the authorities to proceed with their medium-term expenditure plans only if financing could be obtained on terms consistent with long-term debt sustainability, in order to ensure that the benefits of debt relief under the HIPC Initiative are not unwound by new unsustainable borrowing. In this context, Directors underscored the importance of obtaining external financing on highly concessional terms, preferably in the form of grants, and stressed the need for non-Paris Club bilateral creditors to offer HIPC debt relief to Burkina Faso. They welcomed the recent streamlining of budget support among development partners and measures to improve absorptive capacity.

Directors noted the importance of allowing domestic prices to reflect changes in world prices, and commended the authorities for implementing the automatic price adjustment mechanism for domestic petroleum products. They called for a move toward a cost-recovery-based electricity pricing mechanism to further enhance price flexibility and allow for a phasing out of the subsidy to the state-owned electricity utility. This would free up much needed resources for priority poverty-reducing expenditures.
Directors also welcomed the policy of allowing the cotton sector, which is mostly private, to find its own solution to difficulties arising from low world cotton prices, while the government continues to implement structural reforms to enhance productivity in the sector.

Directors expressed some concern about overall competitiveness in light of the deterioration in the external terms of trade. They supported the emphasis on measures to diversify the economy, enhance productivity, and improve the business environment.

In light of Burkina Faso's high dependence on agricultural production, Directors encouraged the authorities to push ahead with their land reform agenda. They welcomed the decision to maintain the fertilizer subsidy at its current level, and encouraged the authorities to phase out the subsidy as alternative supply routes are found and as the regional situation stabilizes. Directors also welcomed the decision to prepare the energy and telecommunications sectors for increased private sector participation, and encouraged the authorities to make the recent amendments to the legal and regulatory framework of the power sector operational. Directors agreed that increasing regional trade integration would help achieve the authorities' objectives of export diversification.

Directors observed that the banking system is generally sound. They welcomed the decline in non-performing loans in the banking sector in the first quarter of this year, but noted the mixed compliance with other prudential ratios, which calls for close monitoring of the sector. They commended the establishment of the agency to assist small and medium enterprises with accounting and administrative procedures, and urge the authorities to address delays surrounding the national strategy for microfinance. They agreed that the government should not assume an initial 100 percent share in the housing bank, as planned, but should move forward once partners are prepared to pay their respective shares.

Directors welcomed progress in improving fiscal transparency and governance, noting the improvement in the timeliness of submitting audited government accounts to the National Assembly and the follow up to the report of the High Authority on the Coordination of the Fight Against Corruption. They welcomed the approval of the national strategy for good governance and looked forward to the comprehensive strategy on combating corruption.

Directors commended the authorities for improving the monitoring of their poverty reduction strategy, implementation of which shows encouraging results. The authorities' management of donor coordination and harmonization is also an important step forward to strengthen aid efficiency.

Directors welcomed the plan to strengthen the National Institute of Statistics and Demographics and urged its speedy implementation to improve the timeliness and quality of economic and financial data. Directors also encouraged the authorities to improve the quality of external debt data, as these are a necessary component in evaluating the implications of fiscal policy.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case. The staff report for the Article IV consultation with Burkino Faso may be made available at a later stage if the authorities consent.

Burkina Faso: Selected Economic Indicators

	2001	2002	2003	2004	2005
	(Annual percentage change)				
GDP and prices					
GDP at constant prices	6.7	5.2	8.0	4.6	3.5
Consumer prices (annual average)	4.7	2.3	2.0	-0.4	4.0
	(In percent of GDP)				
Central government finances					
Current revenue	10.9	11.4	12.1	12.8	13.3
Total expenditure	20.3	20.3	20.3	21.4	22.9
Overall fiscal balance, including grants	-3.9	-4.8	-2.9	-4.3	-4.3
External sector					
Exports of goods and services	9.1	9.0	8.9	9.9	9.6
Imports of goods and services	23.6	22.3	21.7	21.0	22.4
Current account balance, including current official transfers	-11.0	-10.0	-8.6	-7.8	-9.1

Sources: Burkinabè authorities; and IMF staff estimates.