

Burkina Faso: Second Review Under the Poverty Reduction and Growth Facility--Staff Report; and News Brief on the Executive Board Discussion

In the context of the second review of an arrangement under the Poverty Reduction and Growth Facility, the following documents have been released and are included in this package:

- the staff report for the second review under the Poverty Reduction and Growth Facility, prepared by a staff team of the IMF, following discussions that ended on **November 8, 2000**, 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 December 22, 2000.** 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 News Brief summarizing the **views of the Executive Board as expressed during its January 10, 2001, discussion** of the staff report that completed the review.

The document(s) listed below have been or will be separately released.

Letter of Intent by the authorities of the member country*
Memorandum of Economic and Financial Policies by the authorities of the member country*
Technical Memorandum of Understanding*

*Included also in Staff Report.

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BURKINA FASO

**Staff Report for the Second Review Under the Poverty Reduction
and Growth Facility**

Prepared by the African Department

(In consultation with Fiscal, Legal, Monetary and Exchange Affairs,
Policy Development and Review, Statistics, and Treasurer's Department)

Approved by Jean A. P. Clément and Jesús Seade

December 22, 2000

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EXECUTIVE SUMMARY

- Burkina Faso's head of state, Mr. Blaise Compaoré, came to power in October 1987. He was elected President in December 1991 and reelected in multiparty elections in November 1998. A new multiparty government was formed in November 2000. The new Prime Minister, who is also Minister of Economy and Finance, is Mr. Paramanga E. Yonli, seconded by a Deputy Minister for Economy and Finance, Mr. Jean-Baptiste Compaoré. Legislative elections could be held in late 2001.
- Exogenous shocks are estimated to have lowered growth to 4 percent in 2000 from 5.8 percent in 1999. Owing to an abundant availability of foodstuffs, the consumer price index declined. The external current account deficit, including capital grants, is expected to narrow by 1½ percentage points of GDP to 10 percent of GDP, essentially because imports of investment goods are much lower in 2000.
- All the quantitative benchmarks at end-June 2000 were met, except for the program indicator on total primary expenditure, which was exceeded on account of higher-than-programmed transfers and net lending. However, the fiscal situation deteriorated at end-September because of the impact of lower growth, the introduction of WAEMU's Common External Tariff, and cuts made in the excise tax on petroleum products to soften the pass-through of higher international prices; none of the main end-September quantitative benchmarks and indicators were met. The authorities took a number of immediate measures to redress the deterioration of the fiscal stance. Consequently, for the full year, the primary balance is projected at 0.7 percent of GDP below program objectives (excluding HIPC assistance), resulting in a slightly higher recourse to net credit to the government. The allocation of the additional resources obtained in 2000 from the debt reduction under the HIPC Initiative (0.6 percent of GDP) has been included in a supplementary finance law consistent with the social sector programs included in the PRSP.
- There was significant progress in the structural reform program. Further efficiency gains were realized in the cotton sector, a fully computerized public expenditure system became operational, and five state enterprises were liquidated or sold. However, the end-May benchmark on the selection of an investment bank for the privatization of the telecommunications company (ONATEL) is not expected to be met until end-December 2000 because of procedural delays, and the end-June benchmark on the settlement of the cross debts between the postal agency (SONAPOST) and the government was effected in November 2000.

Prospects for 2001

- Real GDP is projected to grow by 6.2 percent on the basis of a rebound in agricultural output. The external current account is expected to widen as a recovery in exports will be more than offset by higher imports, reflecting a revival of externally financed investments.

- The 2001 budget includes the projected HIPC Initiative resources (1.4 percent of GDP) and their specific use, and is in line with original program parameters. A number of revenue measures were adopted, in particular a revision in the taxation of petroleum products, to achieve the revenue-GDP target.
- The structural reform program will focus on the adoption of an automatic pricing policy for petroleum products in line with international prices; the pursuit of the reform of the cotton sector; and completion of the privatization program, in particular ONATEL and the electricity company (SONABEL).
- The government has started to implement its poverty reduction strategy in line with the PRSP. The main focus for 2001 will be on improving the monitoring of the use of resources and their outcomes, and on furthering decentralization policies.

Staff appraisal

- The staff is encouraged by the set of measures undertaken to redress the fiscal deterioration at end-September 2000 and the adoption of a 2001 budget within program parameters. While the reduction in the excise tax on petroleum was justified by the authorities on social and production costs grounds, it should be reversed as soon as international petroleum prices decline within the new price adjustment mechanism.
- To pursue fiscal consolidation, it is important in the years to come that the tax base be broadened and nonessential current outlays—and, in particular, public sector wages—be strictly limited, with the savings redirected toward the domestically financed investment program and social policies.
- The staff welcomes the adoption of an automatic and transparent price adjustment mechanism for petroleum products, the enhancing of the efficiency of the cotton sector, the lowering of the cost of the public utility sector through privatization, deregulation, and adoption of policies at the regional level, the promotion of good governance, and the efforts to improve the environment for private sector activity, including through the expansion of networks of decentralized microfinance institutions.
- The poverty reduction strategy, directed at improving social indicators and reinforcing income generating activities for the more vulnerable groups, should remain the top priority of the new government. The success of this strategy will to a large extent hinge on strengthening the implementation capacity of the administration, especially at the decentralized level, ensuring the timely disbursement of available resources, and improving tracking mechanisms to ensure that resources are used efficiently, so as to achieve the outcome indicators.

I. INTRODUCTION

1. Burkina Faso recorded a solid economic performance in 1996-99, with sustained real GDP growth in the 5 to 6 percent range, subdued inflation, an improved fiscal position, and progress in liberalizing the economy. It is against this background that the program supported by an arrangement under the Enhanced Structural Adjustment Facility (ESAF) was approved in September 1999 (replaced in November 1999 by the Poverty Reduction and Growth Facility, PRGF). The first review under the arrangement was completed on July 10, 2000.¹ At the same time, the IMF and World Bank Boards agreed that Burkina Faso had fulfilled the conditions for reaching the completion point under the original Initiative for Heavily Indebted Poor Countries (HIPC Initiative) and the decision point under the enhanced Initiative. The two Boards found that the poverty reduction strategy paper (PRSP) included a clear strategy to address the numerous challenges facing the Burkinabé economy and a thorough analysis of poverty in Burkina Faso.

2. President Compaoré was reelected in multiparty elections in November 1998. The **political situation** remained tense in 2000, with numerous student strikes, the annulment of the 1999/2000 university year, and the boycott by the opposition parties of the municipal elections in September 2000. To improve the social climate, President Compaoré appointed on November 12 a new government, one-third of which consists of representatives of seven opposition parties, with the former Minister of Civil Service, Paramanga E. Yonli, as the new Prime Minister. Legislative elections are scheduled to be held in late 2001.

3. During the discussions,² **understandings were reached on the elements for the second review under the PRGF and on the policies to be implemented until end-2000 and for 2001.** This was achieved against a background of exogenous shocks that contributed to slower growth, lower government revenue, and a decline in external trade transactions. Overall performance in program implementation was mixed during 2000. All the June

¹ The three-year arrangement was approved on September 10, 1999 in an amount equivalent to SDR 39.12 million (65 percent of quota). A first disbursement, in an amount equivalent to SDR 5.59 million, was effected immediately thereafter, and a second disbursement of SDR 5.59 million was effected following the completion of the first review.

² The discussions were conducted in Ouagadougou in the period October 24-November 8, 2000. The Burkinabé representatives included Mr. Zongo, the Minister of Economy and Finance, and Mr. Zallé, the National Director of the Central Bank of West African States (BCEAO). The mission also met the newly appointed Prime Minister. The staff team comprised Mr. van den Boogaerde (head), Mr. Youm, Mrs. Bertin-Levecq, Mr. Anne, and Ms. Jagatsing, Assistant (all AFR). The mission worked closely with the staff of the World Bank. Mr. Thiam, Advisor to the Executive Director for Burkina Faso, participated in the discussions.

quantitative benchmarks³ were observed, except for the indicator on total primary expenditure, which was exceeded on account of higher-than-programmed transfers to autonomous agencies and net lending. In the structural area, the benchmark for end-May on the selection of an investment bank for the privatization of the telecommunications company (ONATEL) is not expected to be met until end-December 2000 because of procedural delays largely beyond the control of the authorities. The end-June benchmark on the settlement of cross debts between the postal agency (SONAPOST) and the government was observed with a delay in November 2000. The fiscal situation deteriorated in the third quarter of 2000 because of the impact of lower growth, the introduction of the Common External Tariff (CET) of the West African Economic and Monetary Union (WAEMU), and cuts made in the excise tax on petroleum products to soften the pass-through of higher international prices. None of the main end-September quantitative benchmarks and indicators were met.⁴ However, **the authorities have taken a number of measures to redress the deterioration of the fiscal stance**, as detailed in the attached memorandum of economic and financial policies (MEFP) (Appendix I, Attachment I). **The 2001 policy stance is guided by the PRSP objectives:** social spending excluding HIPC assistance was increased in the 2001 budget compared with 2000, and the HIPC assistance expected to become available in 2001 was fully integrated in the budget.

4. As of end-October 2000, Burkina Faso's outstanding use of **Fund resources** amounted to SDR 87 million (equivalent to 144.4 percent of quota). Its relations with the Fund are summarized in Appendix II. The **World Bank** has supported Burkina Faso's reform program since the early 1990s through a number of sector credits, for a total cumulative disbursement through end-October 2000 of US\$101.4 million. A new Country Assistance Strategy was endorsed by the Bank Board on November 30, 2000, and four operations are expected to be approved in fiscal-year 2001. Burkina Faso's relations with the World Bank are summarized in Appendix III. Burkina Faso's **economic and financial**

³ No end-June performance criteria were included in the arrangement. During consultations for the first review under the arrangement, staff reached agreement on phasing and conditions for a third disbursement and second review. However, the letter of intent requesting completion of the first review, the text of the accompanying staff report, and the proposed decision did not include provisions for the agreed upon phasing and conditions for the third disbursement (although tables attached to the letter of intent did). Because the Board approved this decision as proposed, the arrangement does not now provide for a third disbursement or related performance criteria or a related review. Accordingly, the proposed decision for the Board's consideration includes an amendment to provide for the third disbursement and second review (as well as for phasing and conditions for the fourth and fifth disbursements). Because the data corresponding to the conditions noted in the tables to the letter of intent requesting the completion of the first review are known, the Board cannot now establish them as performance criteria.

⁴ The criteria that were met relate to the zero ceiling on nonconcessional borrowing, the nonaccumulation of external arrears, and a reduction in domestic payment arrears.

database is comprehensive, but further work is needed to improve the quality and coverage of statistical information. Statistical issues are discussed in Appendix IV. Finally, a provisional work program for Fund staff is included in Appendix V.

II. PERFORMANCE UNDER THE 2000 PROGRAM

5. **A number of exogenous shocks, including adverse weather conditions, the combined appreciation of the U.S. dollar and the increase in oil prices, and the sharp decline in workers' remittances from Côte d'Ivoire,⁵ contributed to an ebbing in economic activity in 2000, with a particular impact on the poorer segments of the population.** Real GDP growth is expected to reach only 4 percent compared with the 5.7 percent programmed (Table 2). The decline in the investment rate to 24.8 percent of GDP from 27.8 percent in 1999 is expected to narrow the investment-savings gap to 10 percent of GDP. Consumer price inflation is expected to remain slightly negative, owing to an abundant supply of foodstuffs;⁶ this performance will more than offset the limited pass-through of the increase in oil prices. The real effective exchange rate has continued to depreciate. Taking into account the decline in cotton exports and in workers remittances, as well as the much lower imports of capital goods, the external current account deficit (excluding capital grants) is expected to reach 14 percent of GDP in 2000, a slight improvement over the program. Including capital grants, the current account deficit is projected at 10 percent of GDP, 0.2 percent of GDP better than programmed. Taking into account the delay in the disbursement of foreign financing, the overall balance of payments deficit is projected to increase sharply, financed by drawdowns on official reserves. In the HIPC framework, the authorities have contacted non-Paris Club bilateral creditors to seek relief on comparable terms.

A. Fiscal Stance

6. **At end-June 2000, while fiscal revenue slightly exceeded the target and wage outlays were lower than programmed, the program indicator on total primary expenditure was exceeded on account of higher-than-projected transfers to autonomous agencies and net lending.** The latter outcome was due to an emergency loan for the purchase of turbines for electricity generation. However, the end-June benchmark on cumulative change in net credit to the government was met with a comfortable margin, owing to the large privatization proceeds resulting from the sale of two mobile telephone licenses.

⁵ The oil price increase and the drop in workers' remittances are estimated at about 2.5 percent of GDP.

⁶ Cereals are harvested in the fall. Hence, food prices in the first nine months of a given year are determined by the previous year's crop. The decline in prices in January – September 2000 is due to the bumper cereals crop in 1999 and higher imports; with the lower cereals crop in 2000, food prices are expected to increase somewhat in late 2000 and in the first half of 2001.

7. **However, the fiscal situation deteriorated in the third quarter of 2000.** Fiscal revenue at end-September was below target on account of the lower growth, the worse than expected impact of the introduction of WAEMU's common external tariff⁷ and the cut in the excise tax on petroleum products aimed at reducing the pass-through of higher international petroleum prices. Wage outlays were above the target, essentially because of the delay in the implementation of the final step of the civil service reform.⁸ Starting in January 1999, this reform introduced a less compressed salary scale and a new merit-based promotion system. The repositioning of staff in the new salary scale has resulted in an upward adjustment in wages that is larger than initially envisaged. As a result, net credit to the government at end-September was well above the benchmark in the program.

B. Monetary Developments

8. **Monetary policy is conducted at the regional level by the Central Bank of West African States (BCEAO).** The intervention rates of the BCEAO were raised by 75 basis points in June to reflect higher interest rates in the euro zone and to slow the rapid credit expansion in the WAEMU during the first half of the year. In the event, credit to government and to the private sector are projected to increase more rapidly than envisaged on account of slippages in fiscal policy during the third quarter of the year and the delay in repaying the 1999 crop credits caused by low cotton export prices. Overall, and including the decline in international reserves, broad money is expected to increase by only 3.4 percent in 2000 instead of the 6.3 percent programmed.

C. Soundness of the Banking System

9. **The financial situation of the banking system has continued to improve in 2000.** Compliance with the prudential ratios of the regional banking commission has strengthened, with the seven banks observing the risk-adjusted capital adequacy ratio. However, nonperforming loans increased from 1.7 percent of total credit at end-December 1999 to 3.1 percent at end-June 2000. This increase can be traced solely to the deterioration of the loan portfolio of the national agricultural bank (CNCA), related to the poor cotton crop in 1999.⁹ None of the banks meets the risk diversification ratio, given the large share of credit to the cotton sector. Meanwhile, competition among banks has intensified with the entry of

⁷ In particular, a jump in intraregional imports that became virtually dutyfree in 2000, from 41 percent of total imports in 1999 to 55 percent in 2000.

⁸ In the 1999 program, the retroactive salary payments made in the framework of the civil service reform had been reclassified as arrears payments. The 2000 program included a benchmark of a reduction in domestic payment arrears to cover these payments (CFAF 1 billion at end-September 2000 and CFAF 2 billion at end-December 2000); these benchmarks have been met.

⁹ The CNCA has increased its provisioning significantly and is now strengthening its risk management practices with the help of the regional banking commission.

three new banks in the past two years, leading to a significant narrowing of interest rate spreads. **Microfinance** in rural areas is developing rapidly, notably through the network of *caisses populaires*, with the creation of 85 new entities in 1999.

D. Structural Reforms

10. **Most measures were implemented as planned in 2000.** In the **cotton sector**, the producers' representative bodies have been participating actively in the management of the cotton company (SOFITEX) since joining in 1999. The opening of the eastern zone to private operators progressed slowly because of the low cotton prices, but prospects remain favorable. Two cellular telephone licenses were sold to the private sector, and these companies will start operating in early 2001, thereby increasing competition and lowering costs. The computerized **public expenditure system** became operational in 2000, including at the decentralized level, allowing for a much improved budget execution and monitoring. The **civil sector reform** is moving forward, and the merit-based promotion system is expected to be fully operational on January 1, 2001. Progress was also made in the **reform of the judiciary system**, with the restructuring of the Supreme Court of Burkina Faso and the computerization of the court registry offices. The **National Plan for Good Governance** is being implemented, and the audit of the Department of Defense is nearly complete. Concerning the **trade reform**, WAEMU's CET was implemented in full on January 1, 2000, including the elimination of the surtax on wheat flour. In line with the regional protection mechanisms accompanying the CET, a limited number of products became subject to the protection tax¹⁰ and the WTO compatible administratively set customs valuations were applied to some other products. Burkina Faso did not avail itself of the compensatory import levy. Also, it intends to eliminate the surtax on sugar.

11. Significant progress was made on the **privatization** front in 2000. Five state-owned enterprises were liquidated or sold, including the national airline, Air Burkina. However, as mentioned above, there was some lag in the selection of an investment bank for the privatization of ONATEL owing to delays in procedures¹¹ and in the settlement of the cross debts between the postal agency (SONAPOST) and the government, which was effected in November.

¹⁰ This tax is gradually being eliminated over 4 years (1999-2003).

¹¹ A shortlist of potential banks has been established, together with an examination of the technical bids. Having obtained the World Bank's nonobjection, the authorities intend to proceed with the selection of the bank, scheduled to take place before the end of the year.

III. POLICY DISCUSSIONS

A. Economic Prospects

12. **The authorities felt that economic growth in 2000 could be somewhat higher than projected by the staff**, as they estimated that the impact of the exogenous shocks would be less severe than in the staff's projections. The staff noted that Burkina Faso's economy was still vulnerable to variations in terms of trade and to weather conditions. For 2001, the staff concurred with the authorities' projection of a recovery in real GDP growth to just over 6 percent (but somewhat below the originally programmed 6.6 percent), on the basis of a rebound of agricultural output. Given the expected recovery in the investment rate to 25.9 percent of GDP and the maintenance of essentially stable domestic savings, the investment-savings gap is likely to widen to 11.3 percent of GDP. Annual inflation is projected to turn positive at 2 percent, mainly on account of a rise in food prices resulting from the lower crop in 2000.

13. **Indications point to a widening of the external current account deficit in 2001** to about 15.3 percent of GDP, excluding capital grants (11.3 percent of GDP, including grants) (Table 5). The current account deficit is projected to decline in the medium term (2001-03), with exports growing at 8 percent per annum on average, and import growth projected at 5 percent per annum on average. Exports would benefit from the expected growth in cotton production owing to the coming onstream of new cotton production zones and continued improvements in productivity, the expansion of gold extraction because of opening of new mines, and the continued strengthening of the manufacturing sector. The sharp decline in private transfers in 2000 is expected to be partly reversed in 2001, contingent upon a return to normalcy in neighboring Côte d'Ivoire. Overall, and taking into account the resumption in 2001 of nonproject external financial assistance, net official reserves should increase to about ten months of imports, c.i.f.

B. Fiscal Policy

14. **To redress the deterioration in the fiscal stance in the third quarter of 2000, the authorities have taken a number of immediate measures in order to contain the deficit.** The end-September overrun on wages and salaries will be curtailed by year's end as it reflected advance payments of salaries for certain categories of personnel. Meanwhile, outlays on goods and services and transfers will be strictly limited through a freeze on new commitments implemented in mid-November, along with a cut in nonpriority domestically financed investments. Defense expenditures will decline in nominal terms as compared with 1999 and account for 1.6 percent of GDP. Investment spending is expected to be well below the original program mainly because of a significantly smaller disbursement of project grants. On this basis, (excluding the impact of the HIPC initiative resources), the primary balance is projected to show a deficit of 0.3 percent of GDP instead of a programmed surplus of 0.4 percent of GDP (Table 3). The overall deficit (on a cash basis, including grants) is projected to reach 5 percent of GDP instead of 3 percent. This will result in a slightly higher level of domestic credit to the government (1.1 percent of GDP, instead of a programmed 0.5 percent of GDP). The allocation of the additional resources obtained in 2000 from the debt reduction under the HIPC Initiative (US\$13.7 million, or 0.6 percent of GDP) has been included in a supplementary finance law consistent with the programs included in the

poverty reduction strategy paper (PRSP) (Box 1). Also, the payment arrears of local governments and some parastatals to public utility companies were consolidated and securitized, and will be paid off over time by the central government in order to clean up the balance sheets of these companies ahead of their privatization in 2001.

Box 1. Burkina Faso: Sectoral Allocation of HIPC Initiative Resources in the Supplementary Finance Law for 2000 and in the 2001 Finance Law

(In billions of CFA francs, unless otherwise indicated)

Supplementary Finance Law 2000

	Current Expenditure	Investment Expenditure	Total	In Percentage of total
Health	1.50	2.00	3.50	34.1
Education	0.65	3.50	4.15	40.5
Other poverty reduction programs	0.00	2.60	2.60	25.4
Total	2.15	8.10	10.25	--
In percent of total	21.00	79.00	--	100.0

2001 Finance Law

	Current Expenditure	Investment Expenditure	Total	In Percentage of total
Health	4.52	4.86	9.38	37.4
Education	4.41	5.41	9.82	39.1
Other poverty reduction programs	1.77	4.13	5.90	23.5
Total	10.70	14.40	25.10	--
In percent of total	42.63	57.37	--	100.0

Source: Burkinabé authorities.

15. **The objective of the 2001 fiscal policy is to strengthen the budgetary position in order to remain within original program parameters.** In line with this objective, the authorities intend to achieve the original revenue target of 14.4 percent of GDP (from 13.8 percent in 2000) through the adoption of a number of revenue-enhancing measures yielding 0.6 percent of GDP and improving tax administration, as detailed in paragraphs 27 through 29 of the MEFP. These include in particular (i) strengthening the tax-withholding mechanism on imports and purchases from producers and wholesalers creditable against the corporate income tax introduced in 1999; (ii) reforming of real estate taxation, with a view to improving compliance and stimulating the real estate sector; (iii) eliminating the differentiation in the taxation of cigarettes according to origin (domestically produced or imported) while increasing the average duty rate; and (iv) adopting an automatic and transparent monthly adjustment mechanism for petroleum product prices in line with movements in world prices, together with a reform in the taxation of petroleum products in line with regional guidelines.

16. **On the expenditure side, the baseline for current outlays (before HIPC assistance) is now targeted at 12 percent of GDP in 2001, compared with 10.7 percent in the original projections. This increase is due principally to (i) a higher wage base; (ii) higher foreign-interest payments, owing to the appreciation of the U.S. dollar against the CFA franc; and (iii) a provision to settle value-added tax (VAT) refund arrears; also, the government has made a particular effort to increase social expenditure before HIPC assistance compared with 2000. Defense expenditures will remain at the previous year's level of 1.6 percent of GDP. Expected additional resources from the debt reduction under the HIPC Initiative for 2001 (1.4 percent of GDP) have been fully integrated in the 2001 fiscal accounts, resulting in investment outlays being somewhat above the original projections. These outlays have been allocated in line with the programs included in the PRSP. As a result, the overall fiscal balance (cash basis, including grants) is expected to widen to 6.0 percent of GDP in 2001.¹² With the expected higher level of foreign financing,¹³ the domestic bank financing will decline by 0.2 percent of GDP, as originally projected.**

C. Monetary and Banking Policy

17. **Monetary policy, conducted by BCEAO at the regional level, will continue to be guided by the objectives of preserving the peg of the CFA franc to the euro and consolidating official reserves.** Burkina Faso's contribution to these objectives in 2001 will be reflected in an improvement of the foreign asset position and a slight reduction in government borrowing from the banking system. Overall credit expansion is expected to be modest, owing to the early repayment of crop credits to offset the delayed repayment of 2000. Overall, broad money is projected to expand by 7.2 percent in 2001, in line with the nominal GDP growth rate. The Burkinabé authorities will continue to support the regional banking commission's efforts to improve the health of the banking system, in particular by ensuring that banks comply with the new prudential ratios adopted in 2000. It will continue to support the microfinance sector, which represents the only potential access for the poor rural population to credit, while closely monitoring its soundness.

D. Structural Reforms

18. **The structural reform agenda focuses on (i) pursuing the reform of the cotton sector, which will include opening up another zone (center-south) to private sector operators; (ii) continuing the privatization program in coordination with the World Bank; (iii) introducing a plan to reform the petroleum sector; (iv) promoting the private sector; (v) implementing further stages of the civil service reform; (vi) reforming the judiciary; and**

¹² Excluding the HIPC assistance, the overall fiscal deficit would narrow from 5.0 percent of GDP in 2000 to 4.6 percent of GDP in 2001 (see Table 4).

¹³ Including the carry over of a World Bank credit from 2000, a new credit from the African Development Bank, and the HIPC assistance.

(vii) implementing the program of good governance, as described in paragraphs 34 through 36 of the MEFP.

19. **The ongoing privatization program is now close to completion.** Only a few operations, albeit major, remain on the authorities' agenda. For 2001, four companies are earmarked for liquidation or privatization, including ONATEL. The selection of the investment bank to facilitate the ONATEL operation is a prior action. The interconnection of the south of Burkina Faso with the electricity grid of Côte d'Ivoire has been finalized. The gradual return of normalcy in Côte d'Ivoire will allow rapid conclusion of negotiations on a transfer price, which will significantly lower the electricity cost in that region. With the assistance of the World Bank, the regulatory framework of the electricity sector and the scheme for privatizing SONABEL are to be adopted by end-December 2000 (a structural benchmark under the program). Audits and diagnostic studies of the electricity company SONABEL and the petroleum distributor SONABHY will be undertaken in 2001, ahead of their divestitures planned for 2002. Upon completion of these operations, 47 enterprises, representing 86 percent of the government's initial portfolio, will have been liquidated or sold (Table 8). The remaining 20 public enterprises consist mainly of public or social service entities. The government will launch an audit of these enterprises and then decide which ones will be liquidated or privatized.

20. The authorities will implement a **transparent and automatic pricing policy for petroleum products to reflect movements in international prices before end-March 2001.** The promotion of the private sector will be pursued, notably through the simplification of formalities for investment and the creation of enterprises. After launching the merit-based promotion system on January 1, 2001, the main focus of the civil service reform will be on decentralization. Also, the link between the payroll and civil service databases will be finalized before end-June 2001 (a structural benchmark under the program). Further steps will be taken to improve the judiciary through the computerization of court registry offices and the hiring and training of new magistrates, and to implement the National Plan for Good Governance, centered on improving transparency in consultation with civil society. In particular, the audited budget review acts for 1995 through 1998 will be adopted before end-March 2001 (a structural performance criterion under the program).

E. Regional Integration

21. **Regional cooperation is of particular importance for a landlocked country such as Burkina Faso.**¹⁴ Hence, as part of the WAEMU convergence pact, the authorities will submit their medium-term convergence program to the WAEMU Commission and strive to respect the convergence criteria. Burkina Faso is implementing a set of regional reforms on government finance according to the timetable set by WAEMU (Box 2).

¹⁴ For a recent discussion of regional policy issues in the WAEMU area, see "West African Economic and Monetary Union—Recent Developments and Regional Policy Issues in 1999" (SM/00/99, 5/24/00).

Box 2. Regional Integration of Burkina Faso Under WAEMU

The Regional Convergence, Stability, Growth, and Solidarity Pact

This pact, adopted by the Conference of Heads of States of WAEMU in December 1999 as an additional act to the WAEMU Treaty, aims at (i) strengthening convergence of the economies of the member countries; (ii) reinforcing macroeconomic stability; (iii) accelerating economic growth; and (iv) enhancing solidarity among the member countries. The pact is based on the observance by member states of a set of convergence indicators pertaining to the public finances, the real sector, the balance of payments, and common currency. Indicators viewed as essential are known as convergence criteria. There are four primary convergence criteria and four secondary criteria, supplemented by a host of other indicators (*tableau de bord*). The norms established with respect to these criteria have to be met by the target date of 2002. The primary criteria are the following:

- ratio of the basic fiscal balance to nominal GDP (key criterion), which must be in balance or in surplus;
- ratio of outstanding domestic and foreign debt to nominal GDP, which must not exceed 70 percent;
- average annual inflation rate, which should not surpass 3 percent a year; and
- nonaccumulation of domestic and external payment arrears (in the current financial period).

The secondary criteria are as follows:

- ratio of the wage bill to tax revenue, which cannot exceed 35 percent;
- ratio of domestically financed public investment to tax revenue, which must be at least 20 percent;
- ratio of the external current account deficit, excluding grants, to nominal GDP, which cannot exceed 5 percent; and tax-to-GDP ratio, which must be 17 percent or more.

Burkina Faso's compliance with the convergence criteria is as follows

	Ratio	1996	1997	1998	1999	2000 Proj.	2001 Proj.	2002 Proj.	2003 Proj.
(In percent)									
Primary criteria									
Basic fiscal balance / GDP	≥ 0	0.6	-0.5	-0.5	-0.6	-2.1	-2.8	-1.3	-0.4
Inflation (annual average)	≤ 3	6.1	2.3	5.0	-1.1	-0.2	2.0	2.0	2.0
Total debt / GDP	≤ 70	61.0	60.0	59.0	60.0	67.0	58.0	51.0	50.0
Domestic arrears / GDP	≤ 0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External arrears / GDP	≤ 0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Secondary criteria									
Wages / fiscal revenue	≤ 35	43.4	40.7	39.2	37.4	42.4	39.2	35.7	33.4
Domestically financed investment / fiscal revenue	≥ 20	11.3	23.9	25.9	29.8	28.1	35.7	34.0	33.4
Current account deficit, excluding transfers / GDP	≤ 5	-14.7	-13.9	-14.5	-16.0	-14.0	-15.3	-12.1	-10.8
Fiscal revenue / GDP	≥ 17	11.5	12.0	12.1	13.9	12.9	13.5	14.0	14.1

The status of the regional reforms on government finance is as follows:

- **Organic budget law.** Preparations to bring the existing law in conformity with the WAEMU norms have been finalized; the new law is scheduled to be adopted by parliament around March 2001.
- **Public accounting regulations.** Preparations have been finalized; the new regulations should be adopted by decree before year-end 2000.
- **Government chart of accounts.** The new public accounting plan introduced in 1998 is in line with the WAEMU guidelines.
- **Budget classification.** The existing classification is close to the WAEMU norms; full correspondence will be achieved by January 1, 2002.
- **Summary table of fiscal operations (TOFE).** This involves a widening of the coverage compared with the present TOFE; preparations are under way, and the new presentation will be applied as of January 1, 2002.

F. Poverty Reduction

22. **The government has started to implement its poverty reduction strategy in line with its PRSP**, as detailed in paragraphs 37 through 41 of the MEFP. While a midyear analysis did not allow yet for a full assessment of the outcomes,¹⁵ interim progress is encouraging. As of end-June 2000, child vaccination rates set for the year as a whole had nearly been achieved, and even surpassed as regards tuberculosis. Also, the ratio of the cotton producer price to the export price, c.i.f., continued to rise, reaching an estimated 25.7 percent in 2000 compared with only 20 percent in 1998. This improvement is expected to have a favorable effect on poverty reduction in rural areas,¹⁶ in particular if cotton prices improve as expected.

23. A key aspect of the fight against poverty will be to ensure a **close monitoring of the use of the resources and their outcomes and a further implementation of decentralization policies**. Tracking procedures will be put in place, both centrally and locally, to ensure that the funds are disbursed, used as intended, and to monitor the outcomes (Box 3). Decentralization policies include the devolution to rural communities of full responsibility for managing local development, delegation of budgetary authority, and the transfer of responsibilities for a decentralized school management. The monitoring by civil society of the execution of the decentralized budgets will be facilitated by a better dissemination of information, which will also increase participation and control by the beneficiaries.

G. Program Monitoring

24. The program will continue to be monitored quarterly on the basis of the performance criteria, benchmarks, and indicators shown in Table 1 of the MEFP and in the technical memorandum of understanding. Progress under the program for 2001 will be assessed in the context of a third and fourth review under the PRGF arrangement, to be completed no later than June 2001 and December 2001, respectively.

¹⁵ Most social outcome indicators, including those pertaining to the floating conditionality under the enhanced HIPC Initiative, relate to end-December 2000 or end-March 2001.

¹⁶ It is estimated that about 18 percent of the population depends on cotton for a living.

Box 3. Burkina Faso: PRSP—Monitoring of Disbursements and Outcomes

Mobilization and use of HIPC Initiative resources

All the HIPC Initiative resources will be deposited in a special account at the treasury; and its use will be monitored by the Budget Directorate and by the Treasury, and reported in the fiscal accounts. On top of being included in the computerized financial management system, there will be a specific tagging of expenditure financed by the HIPC assistance to be able to report separately on their use for poverty reduction programs.

Funds will be devolved and spent at the local district level. Financial district managers will commit the funds in order to achieve their programs and will establish periodic reports on the utilization of the funds and on the outcomes achieved.

Poverty monitoring and assessment strategy

With respect to consolidation of the existing assessment system, the following actions will be taken:

- Ongoing improvement in analysis will be achieved by consolidating and strengthening already existing surveys and the data derived from routine management of government.
- Future efforts will also be geared to devising and conducting new surveys likely to improve knowledge of priority areas in the PRSP. Moreover, in coming years, execution and impact indicators will become increasingly important.

The status of monitoring indicators in priority sectors is as follows:

- Since 1997, Burkina Faso has been the pilot case on conditionality reform orchestrated by the European Commission. This new approach is mainly geared to enhancing the effectiveness of aid by monitoring programs on the basis of measurable and previously established performance indicators.
- Monitoring PRSP indicators have already been established for the 2000-03 period in the following three areas: budget management; health; and education.

With respect to the monitoring of planned investment in the social areas, the progress of Faso Baara and its many subcontractors, companies building schools, health facilities, and other social infrastructures, will be checked in the field.

In order to follow up on sectoral initiatives, a quarterly report will be published highlighting:

- a general review of the state and locus of poverty;
- progress accomplished under the poverty reduction program; and
- an assessment of bottlenecks and corrective measures to be taken.

IV. STAFF APPRAISAL

25. **After enjoying rapid growth rates for several years, economic developments in 2000 are a reminder of the vulnerability of the Burkinabé economy to weather conditions, terms of trade shocks, and developments in neighboring countries. These developments highlight the need to pursue and accelerate the reform agenda aimed at (i) improving the competitiveness of the economy; (ii) diversifying agricultural production and continuing to strengthen the performance of the key cotton sector; (iii) expanding the tax base and strictly controlling nonpriority expenditure to reduce fiscal imbalances; (iv) introducing a more flexible budgetary framework with various contingency elements on both the revenue and expenditure side; (v) creating an environment fully conducive to private sector development, including through further reform of the public sector and the judiciary,**

and promotion of good governance; and (vi) developing human capital through enhanced provision of key social services and income-generating activities.

26. **The set of measures adopted to reduce the deviation from fiscal targets in the third quarter of 2000 was appropriate, and the staff is confident that the end-December 2000 targets can be met.** Domestic bank financing will be a little higher than programmed because of a shortfall in revenue due to the lower growth and the reduction in the excise tax on petroleum products. The authorities justified the latter by the high cost of thermal electricity, and the impact of higher energy prices on the poor segments of the population. The staff indicated that it should be reversed as soon as international petroleum prices decline.

27. **The 2001 budgetary stance remains within the overall program targets.** The revenue measures in the 2001 budget will further strengthen tax administration, and the adoption of a transparent and automatic price adjustment mechanism for petroleum products will transmit the correct price signals to the economy while safeguarding budgetary revenue. However, to improve the competitiveness of the economy, the challenge for budgetary management over the medium term will be to gradually lower the high tax rates paid by the existing narrow tax base, while significantly broadening the tax base and continuing to improve the tax and customs administration.

28. **It is important that nonessential outlays be strictly contained in the coming years, and the savings redirected toward the domestically financed investment program and the social sectors.** In particular, following the gradual introduction of the merit-based promotion system in the civil service and the decompression of the wage structure—which were associated with relatively large wage increases in 1999 and 2000—a declining wage bill in terms of GDP will be one of the keys to achieving that objective. Moreover, the wage overrun is inconsistent with Burkina Faso's regional commitment to limit the wage bill relative to fiscal revenues. Also, after the final settlement of arrears on utility bills and cross debts with the postal service, the authorities should pursue the policy adopted in 2000 of paying their utility bills on time, while endeavoring to contain such outlays.

29. **The authorities should also endeavor to strengthen the competitiveness of the economy through further privatization and deregulation, in particular for public utilities.** The privatization program is well advanced, and the authorities are encouraged to start formulating a policy for the remaining 20 enterprises in the government portfolio. The delay for procedural reasons in the selection of the investment bank for the privatization of the telecommunications company should be made up by end-December 2000, and the privatization process should be completed by June 2001. The preparation of the regulatory framework for the electricity sector and the strategy for the privatization of the electricity company has required more time than originally envisaged, but the process should be completed by end-December 2000.

30. **The authorities should continue to enhance the domestic environment so as to make it more business friendly, including by reducing bureaucracy and strengthening**

governance. The latter issue is being addressed by the newly introduced computerized expenditure system, which will reduce opportunities for rents through liberalization, and by the application of effective sanctions through the reform of the judiciary. Also, the approval by Parliament of the audited budgets for 1995-98 and the soon to be issued audit of the defense department will improve budgetary accountability. Finally, further progress in financial intermediation will help promote domestic savings, which remains a major challenge. The continued strengthening of the domestic banking system and expansion of networks of decentralized microfinance institutions, on a sound financial basis, remains a major objective in this strategy.

31. **The poverty reduction objectives should remain the top priority of the new government.** Because of the need to prepare the key PRSP action plans directed at improving social indicators and at reinforcing income-generating activities for the more vulnerable groups, the poverty reduction program was gradually put in place during the second half of 2000, but the pace should accelerate with the adoption of the 2000 supplementary finance law. The authorities are aware that the success of the strategy will also hinge on strengthening the implementation capacity of the administration, especially at the decentralized level, and have concentrated their preparatory efforts in this area. This strategy should contribute to a timely disbursement of budgetary allocations and of the resources forthcoming from the HIPC Initiative, and to a reinforcement of controls to ensure that resources are used efficiently and the outcome indicators achieved. It is also important that the special account at the treasury to handle the HIPC assistance be managed in an efficient and transparent manner.

32. **Burkina Faso will continue to face risks, particularly of an exogenous nature, that may hinder the successful implementation of its program.** These include climatic conditions, deteriorating terms of trade, and political developments in neighboring countries, and Burkina Faso will need to be prepared to strengthen its adjustment efforts—in particular, to tighten its fiscal position—if new shocks arise. **Because Burkina Faso remains determined to achieve the program objectives in the macroeconomic, structural, and poverty alleviation areas under the new multiparty government, the staff recommends that the second review under the three-year PRGF arrangement be completed.**

V. PROPOSED DECISION

The following draft decision, which may be adopted by a majority of votes cast, is proposed for adoption by the Executive Board:

1. Burkina Faso has consulted with the Fund in accordance with paragraph 2 (ee) of the three-year arrangement for the Burkina Faso under the Poverty Reduction and Growth Facility (PRGF) (EBS/00/285) and paragraph 6 of the letter dated December 11, 2000 from the Deputy Minister of Finance and Budget of Burkina Faso in order to review program implementation and reach understandings regarding the phasing and conditions for disbursements during the second year of the arrangement.

2. The letter dated December 11, 2000 from the Deputy Minister of Finance and Budget of Burkina Faso, together with its Memorandum of Economic and Financial Policies (the "December 11, 2000 Memorandum"), and the Technical Memorandum of Understanding (the "December 11, 2000 Technical Memorandum"), shall be attached to the three-year PRGF arrangement for Burkina Faso, and the letters dated April 17, 2000, and August 2, 1999 from the Minister of Economy and Finance of Burkina Faso, together with their respective Memorandum of Economic and Financial Policies, shall be read as supplemented and modified by the letter dated December 11, 2000 together with the December 11, 2000 Memorandum and December 11, 2000 Technical Memorandum.

3. Accordingly, the following new provisions shall be added to the three-year PRGF arrangement for Burkina Faso:

a. a new paragraph 1(cc) shall be added to read as follows:

“(cc) During the second year of the arrangement,

(i) the third disbursement under the arrangement, in an amount equivalent to SDR 5.59 million, will be made available on January 10, 2001 or earlier, at the request of Burkina Faso and subject to paragraph 2 below; and

(ii) the fourth disbursement under the arrangement, in an amount equivalent to SDR 5.59 million, will be made available on June 30, 2001 or earlier, at the request of Burkina Faso and subject to paragraph 2 below; and

(iii) the fifth disbursement under the arrangement, in an amount equivalent to SDR 5.59 million, will be made available on December 31, 2001 or earlier, at the request of Burkina Faso and subject to paragraph 2 below;”

b. a new paragraph 1(dd) shall be added to read as follows:

“(dd) The phasing of, and the conditions for, disbursements during the third year of the arrangement shall be established in the context of a review of Burkina Faso’s program with the Trustee, the timing of which shall be determined at the fourth review contemplated in paragraph 2 (dd) below”;

c. a new paragraph 2(aa) shall be added to read as follows:

“(aa)(i) Burkina Faso shall not request the disbursement of the fourth loan referred to in paragraph 1(cc)(ii) above, if the Managing Director of the Trustee finds that the data as of end-December, 2000 indicate that the ceilings

and cumulative net reduction referred to in paragraphs 2(a)(i) and (ii), and 2(c)(i) and (ii) of this arrangement, as specified in Table 1 of the December 11, 2000 Memorandum were not observed, and

(ii) Burkina Faso shall not request the disbursement of the fifth loan referred to in paragraph 1(cc)(iii) above, if the Managing Director of the Trustee finds that the data as of end-June 2001 indicate that the ceilings and cumulative net reduction referred to in paragraphs 2(a)(i) and (ii), and 2(c)(i) and (ii) of this arrangement, as specified in Table 1 of the December 11, 2000 Memorandum were not observed.”

d. a new paragraph 2(bb) shall be added to read as follows:

“(bb)(i) Burkina Faso shall not request the disbursement of the fourth loan referred to in paragraph 1(cc)(ii) above, if the Managing Director of the Trustee finds that Burkina Faso has not carried out its intentions with regard to the structural performance criterion specified in Table 3 of the December 11, 2000 Memorandum and paragraph 18 of the December 11, 2000 Technical Memorandum, and

(ii) Burkina Faso shall not request the disbursement of the fifth loan referred to in paragraph 1(cc)(iii) above, if the Managing Director of the Trustee finds that Burkina Faso has not carried out its intentions with regard to the structural performance criteria specified in Table 3 of the December 11, 2000

Memorandum and paragraphs 19 and 20 of the December 11, 2000 Technical Memorandum;”

(c) a new paragraph 2(ee) shall be added to read as follows:

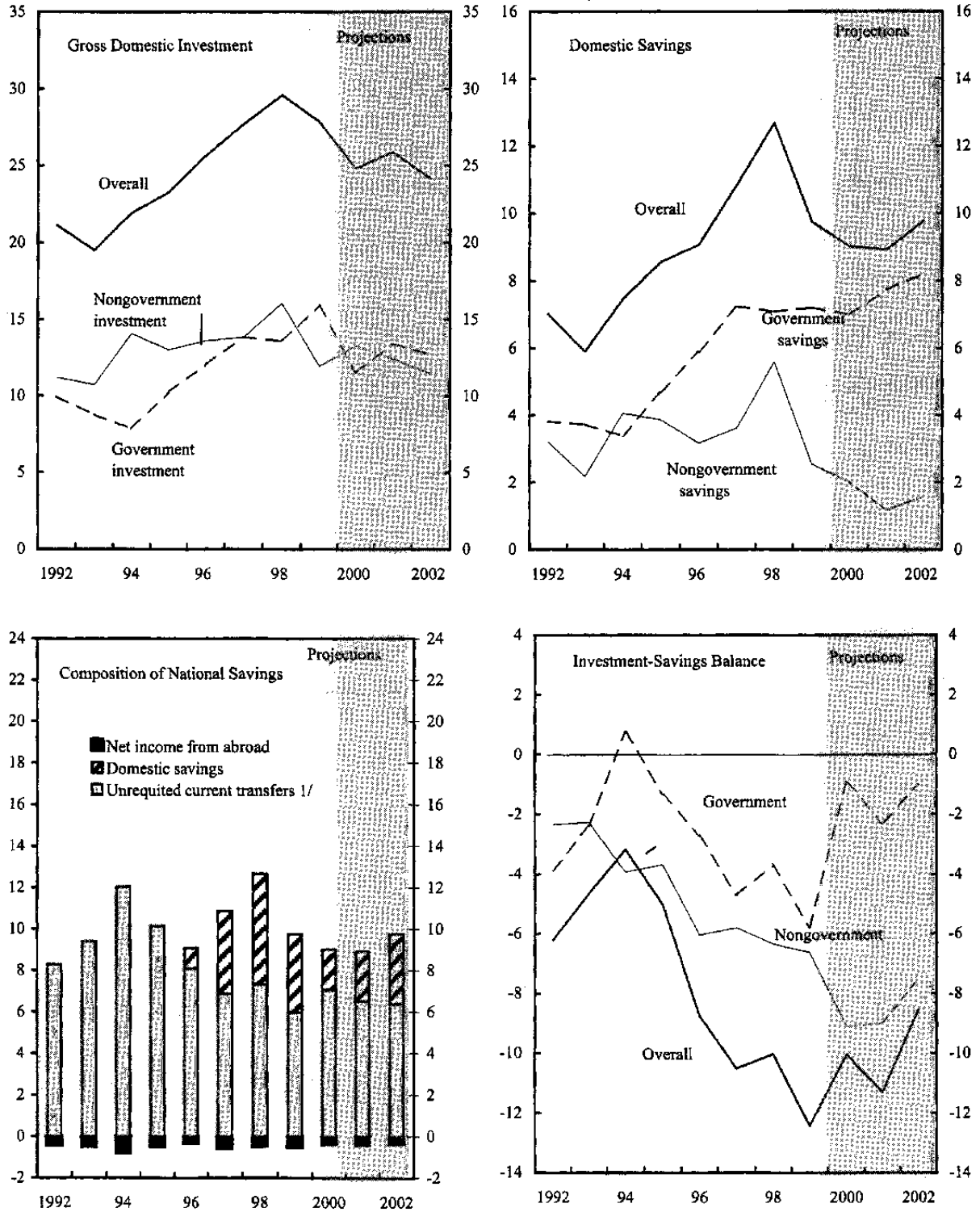
“Burkina Faso shall not request the disbursement of the third, fourth or fifth loans referred to in paragraph 1(cc) above until the Trustee has determined that the second, third or fourth review, respectively, referred to in paragraph 6 of the letter dated December 11, 2000 from the Deputy Minister of Finance and Budget of Burkina Faso has been completed.”

4. The Fund decides that:

(a) the review second contemplated in paragraph 2 (ee) of the three-year PRGF arrangement for Burkina Faso is completed; and

(b) Burkina Faso may request the disbursement of the third loan referred to in paragraph 1(cc)(i) of the three-year PRGF arrangement for Burkina Faso, on the condition that the information provided by Burkina Faso on the implementation of measure number 4 in Table 3 attached to the letter dated April 17, 2000 is accurate.

Figure 1. Burkina Faso: Investment and Savings, 1992-2002
(In percent of GDP)



Sources: Burkinabé authorities; and staff estimates and projections.

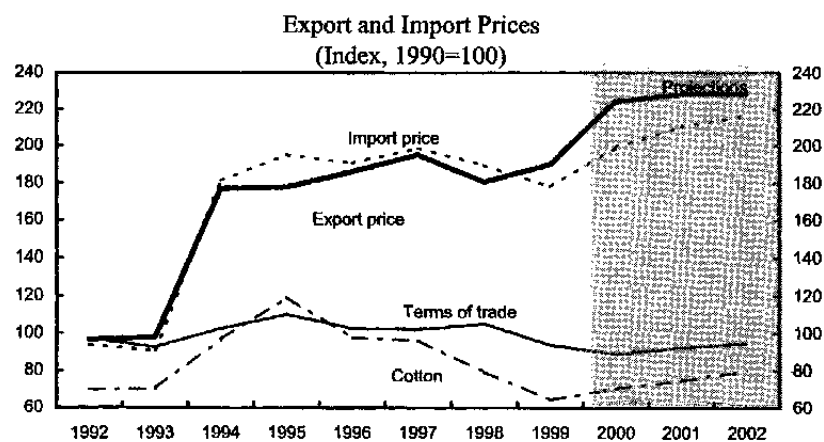
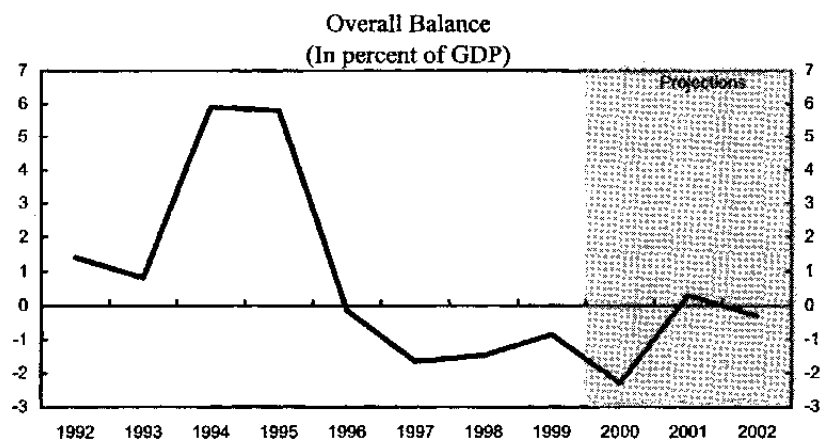
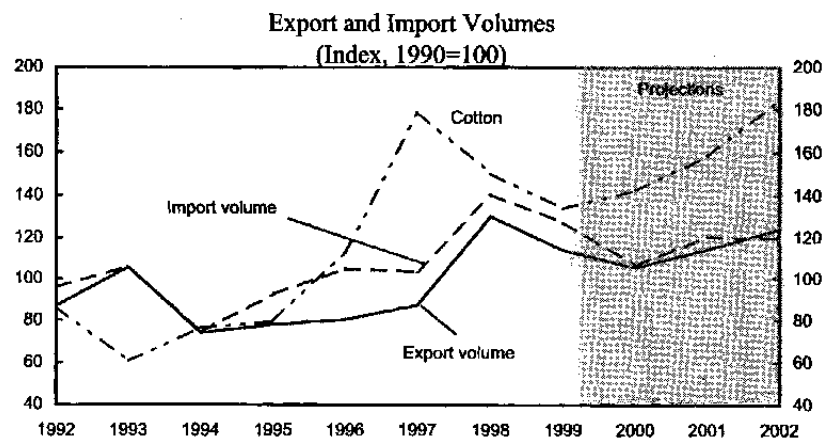
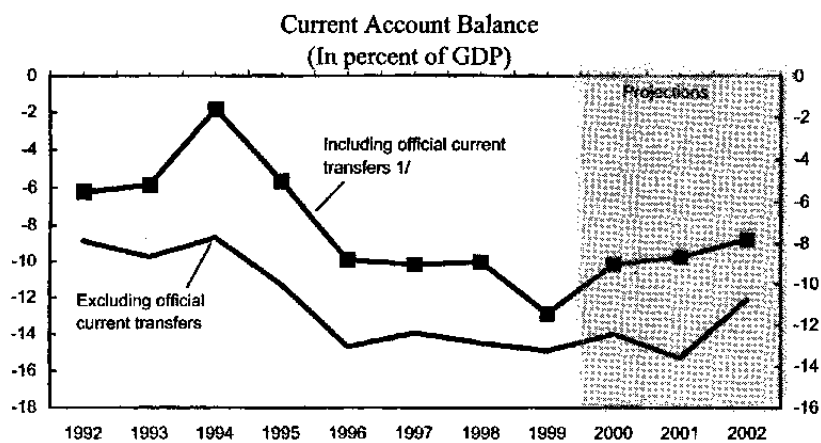
1/ Budgetary grants, technical assistance, workers' remittances, and other transfers, including from nongovernmental organizations.

Figure 2. Burkina Faso: Real and Nominal Effective Exchange Rates, January 1988-September 2000
(Index, 1990=100)



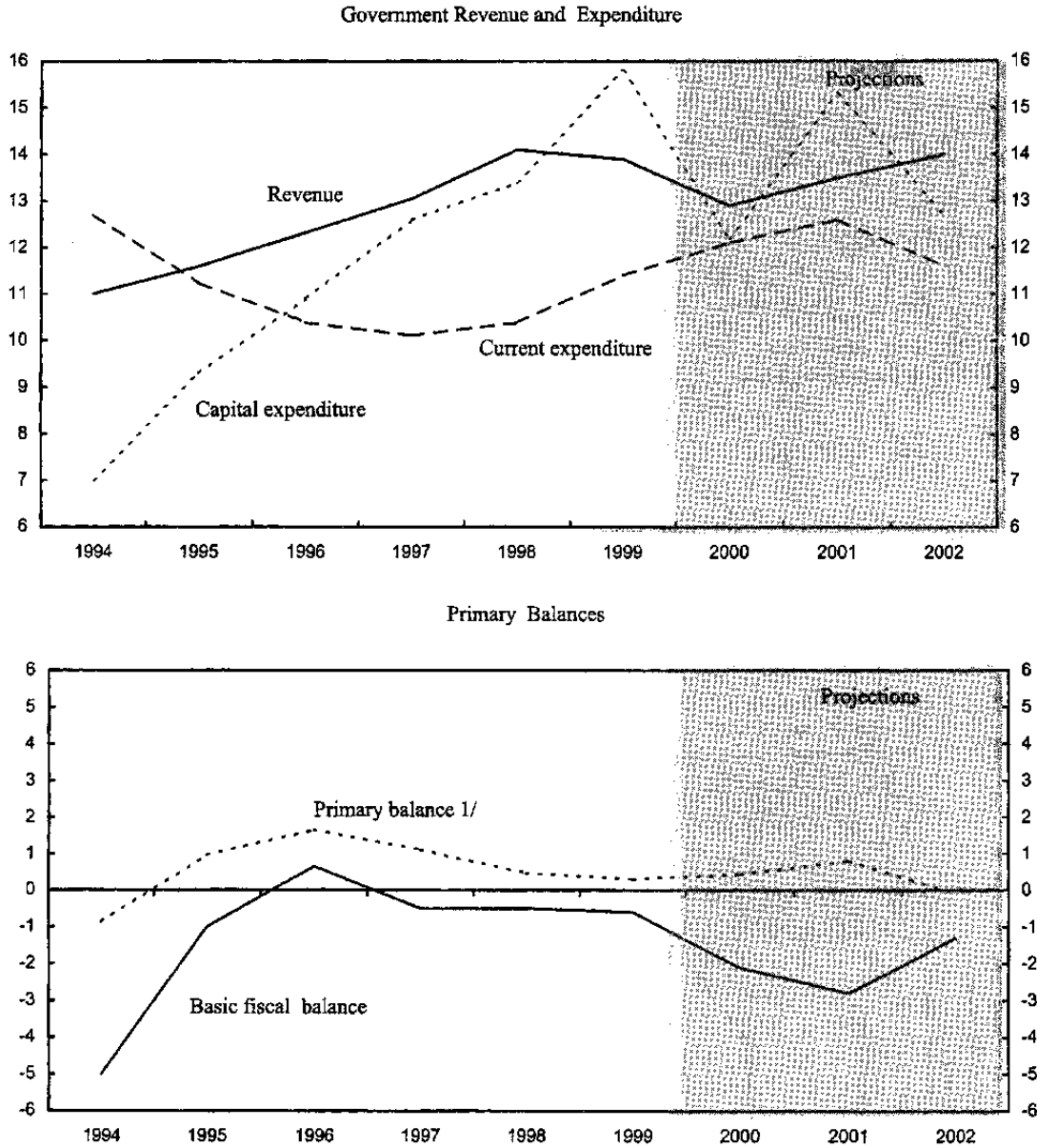
Source: IMF, Information Notice System.

Figure 3. Burkina Faso: External Sector Developments, 1992-2002



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

Figure 4. Burkina Faso: Fiscal Sector Developments, 1994-2002
(In percent of GDP)



Sources: Burkinabè authorities; and staff estimates and projections.

1/ Excluding foreign-financed capital expenditure.

Table 1. Burkina Faso: Fund Position During the Period of the PRGF Arrangement, September 2000 - December 2003

	Outstanding	2000				2001				2002				2003			
	Sep. 30, 2000	Oct.-Dec.	Jan.-Mar.	Apr.-Jun.	Jul.-Sep.	Oct.-Dec.	Jan.-Mar.	Apr.-Jun.	Jul.-Sep.	Oct.-Dec.	Jan.-Mar.	Apr.-Jun.	Jul.-Sep.	Oct.-Dec.			
(In millions of SDRs)																	
Total transactions (net)	0.00	-1.11	4.07	-3.76	4.71	1.16	-0.88	1.16	4.03	-4.44	-2.21	-4.42	-2.21	-4.19			
Disbursements	0.00	...	5.59	...	5.59	5.59	...	5.59	5.58	...	...	...	...	...
Repurchases/repayments	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Repurchases	...	...	...	...	...	...	...	...	...	...	...	...	...	...
ESAF/PRGF repayments	0.00	0.88	1.52	3.54	0.88	4.20	0.88	4.20	1.55	4.20	2.21	4.20	2.21	3.98			
Charges and interest	0.00	0.22	...	0.22	...	0.23	...	0.23	...	0.24	...	0.23	0.00	0.21			
Total Fund credit outstanding 1/	88.72	87.84	91.91	88.37	93.08	94.47	93.59	94.98	99.01	94.81	92.60	88.40	86.19	82.22			
Outstanding purchases	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Under ESAF/PRGF	88.72	87.84	91.91	88.37	93.08	94.47	93.59	94.98	99.02	94.82	92.61	88.41	86.20	82.23			
(In percentage of quota, unless otherwise indicated)																	
Total Fund credit outstanding 1/	147.38	145.91	152.67	146.80	154.62	156.93	155.46	157.77	164.47	157.50	153.82	146.85	143.18	136.57			
Outstanding purchases	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Under ESAF/PRGF	147.38	145.91	152.67	146.80	154.62	156.93	155.46	157.77	164.49	157.51	153.84	146.87	143.19	136.59			
Memorandum item:																	
Quota (in millions of SDRs)	60.20	60.20	60.20	60.20	60.20	60.20	60.20	60.20	60.20	60.20	60.20	60.20	60.20	60.20			

Source: IMF, Treasurer's Department.

1/ End of period.

Table 2. Burkina Faso: Selected Economic and Financial Indicators, 1998-2003

	1998	1999	2000		2001		2002 Proj.	2003 Proj.
			Prog. 1/ Prog.	Rev. Prog.	Prog. 1/ Prog.	Rev. Prog.		
(Annual percentage changes, unless otherwise specified)								
GDP and prices								
GDP at constant prices	6.2	5.8	5.7	4.0	6.6	6.2	6.2	6.8
GDP deflator	3.2	-1.4	2.0	-1.6	2.3	1.0	1.9	1.9
Consumer prices (annual average)	5.0	-1.1	1.5	-0.2	2.0	2.0	2.0	2.0
Consumer prices (end of period)	1.0	0.7	1.5	2.6	2.0	2.0	2.0	2.0
Money and credit								
Net domestic assets (banking system)2/	7.9	7.3	5.4	9.4	...	8.6	3.9	7.4
Credit to the government 2/	0.9	3.0	2.2	5.8	...	-1.0	-1.0	-0.9
Credit to the private sector 2/	3.0	1.2	3.2	5.6	...	1.9	4.8	8.3
Broad money (M2)	1.7	3.1	6.3	3.4	...	7.2	8.2	8.9
Velocity (GDP/M2)	4.0	4.1	4.0	4.1	...	4.1	4.1	4.1
External sector								
Exports (f.o.b.; valued in CFA francs)	42.5	-17.8	2.9	3.6	16.6	14.5	11.5	11.6
Imports (f.o.b.; valued in CFA francs)	25.7	-4.5	3.1	-1.4	8.2	15.2	0.8	4.7
Volume of exports	49.3	-12.5	0.0	-7.5	15.0	8.4	8.4	8.5
Volume of imports	35.8	-9.3	-5.6	-16.4	7.9	13.2	-0.9	4.1
Terms of trade	3.1	-10.8	-5.7	-5.2	1.2	3.8	2.8	2.3
Real effective exchange rate (depreciation -)	4.4	-2.0	...	...	...	...	...	...
(In percent of GDP, unless otherwise specified)								
Gross investment								
Government	29.6	27.8	28.6	24.8	27.0	25.9	24.1	23.6
Nongovernment sector	13.6	15.9	14.3	11.5	13.4	13.4	12.7	11.7
Gross domestic savings	16.0	11.9	14.3	13.3	13.6	12.4	11.5	12.0
Government savings	12.7	9.8	11.7	9.0	12.9	8.9	9.8	10.6
Nongovernment savings	7.1	7.2	6.7	7.0	6.7	7.7	8.2	8.3
Gross national savings	5.6	2.5	5.0	2.0	6.2	1.2	1.6	2.3
	19.6	15.4	18.4	14.8	18.0	14.6	15.6	15.7
Central government finances								
Revenue 3/	14.1	15.0	14.4	13.8	14.0	14.4	14.9	15.1
Domestic current expenditure	10.5	11.4	11.2	12.0	10.7	12.6	11.6	10.9
Overall fiscal balance, excluding grants	-9.8	-12.3	-11.0	-10.6	-9.7	-13.4	-9.2	-7.4
Overall fiscal balance, including grants	-2.9	-3.4	-3.0	-5.6	-4.8	-6.0	-3.0	-2.3
Primary balance (deficit -) 4/	0.5	0.3	0.4	-0.9	0.4	-1.6	-0.1	0.7
Basic balance	-0.5	-0.6	-0.6	-2.0	-0.2	-2.8	-1.3	-0.4
External sector								
Exports of goods and nonfactor services	14.0	11.3	10.9	11.5	14.0	12.2	12.5	12.7
Imports of goods and nonfactor services	30.9	28.4	27.8	27.3	28.0	29.1	26.8	25.8
Current account balance (excluding current official transfers)	-14.5	-14.9	-14.4	-14.0	-11.5	-15.3	-12.1	-10.8
Current account balance (including current official transfers)	-10.0	-11.5	-10.2	-10.0	-9.0	-11.3	-8.1	-7.5
External debt indicators (before HIPC Initiative)								
Debt-service ratio 5/	16.6	24.4	27.1	28.9	16.2	26.3	25.0	23.7
Debt-service ratio 6/	17.8	18.4	20.5	22.0	16.1	20.5	19.5	18.6
Net official reserves (in months of imports)	8.3	9.9	9.5	10.3	8.2	9.7	10.3	9.8
Nominal stock of public debt (millions of U.S dollars) 7/	1,422.0	1,547.3	1,643.1	1,642.5	1,750.0	1,749.0	1,849.3	1,936.8
Nominal stock of public debt in percent of GDP 7/	54.7	63.6	67.1	70.6	59.7	70.9	68.6	65.3
Net present value of public external debt (millions of US dollars) 7/	834.4	900.3	898.3	953.6	...	1,009.1	1,060.2	1,102.2
Net present value of public external debt-to-export ratio 7/ 8/	276	308	285	308	276	286	301	338
Nominal GDP (in billions of CFA francs)	1,522	1,589	1,713	1,627	1,904	1,744	1,887	2,055

Sources: Burkinabè authorities; and staff estimates and projections.

1/ EHS/00/84 (5/15/00).

2/ In percent of beginning-of-period broad money.

3/ From 1998 on, revenue includes taxes paid by contractors on foreign-financed public investments using checks issued by the treasury.

4/ Commitment basis, excluding grants and foreign-financed projects.

5/ In percent of exports of goods and nonfactor services.

6/ Ratio of public external debt service to government revenue, excluding grants.

7/ Before HIPC Initiative relief.

8/ Ratio of debt to three-year average of exports of goods and services.

Table 4. Burkina Faso: Fiscal Impact of the HIPC Initiative, 2000-03

(In billions of CFA francs, unless otherwise specified)

	2000	2001	2002	2003
	Proj.			
1. HIPC Initiative assistance given				
A. Interest due before HIPC Initiative assistance	12.9	17.6	17.4	18.0
B. Interest paid before HIPC Initiative assistance	12.9	17.6	17.4	18.0
C. HIPC Initiative assistance on interest (as a result of stock of debt operation only)	0.0	0.0	0.0	0.0
D. Interest due after HIPC Initiative assistance	12.9	17.6	17.4	18.0
E. Amortization due before HIPC Initiative assistance	34.0	28.3	30.9	31.8
F. Amortization paid before HIPC Initiative assistance	34.0	28.3	30.9	31.8
G. HIPC Initiative assistance on amortization (as a result of stock of debt operation only)	0.0	0.0	0.0	0.0
H. Amortization due after HIPC Initiative assistance	34.0	28.3	30.9	31.8
I. HIPC Initiative assistance provided as grants (to cover debt service due)	0.0	0.0	0.0	0.0
J. HIPC Initiative assistance as exceptional financing (to cover debt service due)	10.3	25.1	25.6	25.9
Total HIPC Initiative assistance (C+G+I+J) ¹	10.3	25.1	25.6	25.9
Total HIPC Initiative assistance (in millions of U.S. dollars) ¹	14.8	34.8	36.1	37.3
Net cash flow to the budget from HIPC Initiative assistance (B+F-(D+H-I-J))	10.3	25.1	25.6	25.9
Memorandum items:				
Other donor flows	158.4	207.8	178.7	162.8
Total net external flows (net external financing less debt service due)	111.5	161.9	130.4	113.0
2. Functional and other poverty reduction government expenditures¹				
Baseline pre-HIPC Initiative assistance expenditure projections	52.8	58.7	63.5	69.1
Post-HIPC Initiative assistance expenditure projections	63.1	83.8	89.1	95.0
Memorandum items:				
Tax revenue (in percent of GDP)	12.9	13.5	14.0	14.1
Overall fiscal balance before HIPC Initiative assistance (in percent of GDP)	-5.2	-4.6	-1.6	-1.0
Overall fiscal balance after HIPC Initiative assistance (in percent of GDP)	-5.8	-6.0	-3.0	-2.3

Sources: Burkinabé authorities; and Fund staff projections.

¹Excludes foreign-financed investment.

Table 5. Burkina Faso: Balance of Payments, 1998-2003

	1998	1999	2000	2001	2002	2003
	Proj.					
(In billions of CFA francs)						
Exports, f.o.b.	190.5	156.5	162.1	185.7	207.1	231.2
<i>Of which:</i> cotton	120.9	83.6	82.9	99.0	110.5	123.4
gold	9.5	9.2	11.2	12.8	16.2	20.5
Imports, f.o.b.	-374.2	-357.4	-352.6	-406.1	-403.0	-421.8
<i>Of which:</i> capital goods	-114.5	-127.2	-97.8	-127.2	-105.8	-102.0
Trade balance	-183.8	-201.0	-190.5	-220.4	-196.0	-190.7
Services and income (net)	-80.5	-79.3	-72.2	-86.8	-85.8	-89.9
Services	-73.5	-71.5	-66.3	-75.4	-74.9	-77.5
Income	-7.0	-7.8	-5.9	-11.4	-10.9	-12.4
<i>Of which:</i> interest payments	-10.2	-11.4	-12.9	-17.6	-17.4	-18.0
budget	-10.2	-10.4	-10.6	-15.3	-15.6	-16.2
Current transfers (net)	111.5	98.0	99.4	110.0	128.4	127.0
Private	43.9	44.0	35.0	39.6	52.5	59.5
<i>Of which:</i> workers' remittances (gross)	54.4	51.0	36.1	39.3	50.5	55.2
Official	67.6	54.0	64.4	70.5	75.8	67.5
<i>Of which:</i> budgetary	19.6	23.7	19.2	26.1	29.1	20.0
Current account (deficit= -)	-152.8	-182.3	-163.4	-197.2	-153.3	-153.6
Excluding current official transfers	-220.4	-236.3	-227.7	-267.7	-229.2	-221.1
Capital transfers	89.5	117.4	60.8	101.5	87.0	85.0
Project grants	84.1	117.4	60.8	101.5	87.0	85.0
Other capital transfers	5.4	0.0	0.0	0.0	0.0	0.0
Financial operations	32.4	55.9	66.0	101.6	59.8	50.4
Official capital	46.1	54.9	44.4	89.6	46.7	36.0
Disbursements	69.6	84.0	78.4	81.8	62.6	57.8
Project loans	56.3	67.9	78.4	81.8	62.6	57.8
Program loans	13.3	16.1	0.0	34.5	15.0	10.0
Amortization	-23.5	-29.1	-34.0	-28.3	-30.9	-31.8
<i>Of which:</i> budget	-20.0	-26.3	-30.5	-26.0	-29.0	-30.1
Private capital 1/	-13.7	1.0	21.6	12.0	13.1	14.4
Errors and omissions	7.8	-6.9	0.0	0.0	0.0	0.0
Overall balance	-23.2	-15.9	-36.6	5.9	-6.6	-18.2
Financing	23.2	15.9	36.6	-5.9	6.6	18.2
Net foreign assets	20.3	11.7	21.7	-30.6	-18.7	-6.9
Net official reserves	12.9	21.2	21.7	-30.6	-18.7	-6.9
Gross official reserves	4.1	14.2	23.5	-31.6	-19.0	-0.2
IMF (net)	8.8	7.0	-1.8	1.0	0.3	-6.8
Use of resources	10.5	10.3	5.4	10.9	10.9	5.4
Repayments	-1.7	-3.3	-7.2	-9.9	-10.6	-12.2
Net foreign assets, commercial banks	7.4	-9.5	0.0	0.0	0.0	0.0
Change in arrears (reduction= -)	0.0	0.0	0.0	0.0	0.0	0.0
Debt relief	0.0	0.0	10.5	24.7	25.3	25.1
Debt under discussion 2/	2.8	4.2	4.4	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:	(In percentage of GDP, unless otherwise indicated)					
Trade balance (deficit= -)	-12.1	-12.7	-11.7	-12.6	-10.4	-9.3
Cotton export volume (thousand metric tons)	138.9	114.7	108.5	118.6	124.6	131.5
Current account (deficit= -)	-10.0	-11.5	-10.0	-11.3	-8.1	-7.5
Excluding current official transfers	-14.5	-14.9	-14.0	-15.3	-12.1	-10.8
Overall balance (deficit= -)	-1.5	-1.0	-2.3	0.3	-0.3	-0.9
Debt service	2.3	2.8	3.3	3.2	3.1	3.0
Total debt-service ratio 3/	16.6	24.4	28.9	26.3	25.0	23.7
Gross international reserves (in billions of CFA francs)	307.1	348.5	355.5	387.1	406.2	406.4
In months of imported goods, c.i.f.	8.3	9.9	10.3	9.7	10.3	9.8
Net official reserves (BCEAO)	121.5	100.3	78.6	220.3	239.0	245.9
GDP at current prices (in billions of CFA francs)	1,522	1,589	1,627	1,744	1,887	2,055

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

1/ Including portfolio and direct investments.

2/ Contentious debt in negotiation with non-Paris Club creditors.

3/ In percent of export of goods and nonfactor services.

Table 6. Burkina Faso: Monetary Survey, 1997-2003

	1997	1998	1999			2000					2001	2002	2003
	Dec.	Dec.	June	Sep.	Dec. Actual	March Prel.	June Prel.	Sep. Prel.	Dec. Orig. Prog.	Dec. Prog.	Proj.	Proj.	Proj.
(En milliards de FCFA)													
Net foreign assets	203.1	183.2	188.1	170.3	171.4	190.6	159.7	158.3	181.5	149.7	180.3	199.0	205.9
Central Bank of West African States (BCEAO)	133.3	120.8	101.0	84.3	99.5	97.7	71.8	70.2	104.3	77.8	108.4	127.1	134.0
Assets	206.4	210.1	200.9	192.3	192.2	192.0	175.7	178.5	201.8	168.7	200.3	219.3	219.5
Liabilities	-73.1	-89.3	-99.9	-107.9	-92.7	-94.3	-103.9	-108.3	-97.6	-90.9	-91.9	-92.2	-85.5
Commercial banks 1/	69.8	62.4	87.1	86.0	71.9	92.9	87.9	88.2	77.2	71.9	71.9	71.9	71.9
Net domestic assets	177.1	206.1	259.0	256.3	233.6	255.3	270.2	259.9	260.1	270.0	268.6	285.3	319.8
Net domestic credit	204.7	217.3	260.1	268.4	233.5	280.5	277.8	276.1	259.9	277.6	281.2	297.9	332.4
Net credit to government 2/	35.5	37.1	67.4	79.1	48.6	65.5	70.4	74.1	59.2	71.0	66.9	61.8	56.7
Treasury 3/	87.8	92.9	121.8	135.6	105.1	118.2	124.4	131.8	112.3	123.8	119.7	115.0	110.2
BCEAO	50.6	45.9	76.0	88.3	60.4	74.1	81.0	89.6	70.5	82.0	81.2	79.8	78.3
Commercial banks 3/	37.3	47.0	45.9	47.3	44.7	44.1	43.5	42.2	41.8	41.8	38.5	35.2	31.9
Other central government	-52.3	-55.8	-54.5	-56.5	-56.5	-52.7	-54.1	-57.6	-53.1	-52.8	-52.8	-53.2	-53.5
Of which: proj. deposits	-26.9	-24.9	-24.9	-24.9	-24.9	-24.9	-24.9	-24.9	-24.9	-21.8	-22.0	-22.0	-22.0
Credit to the econo.	169.1	180.2	192.8	189.3	184.9	215.0	207.4	202.0	200.8	206.6	214.3	236.1	275.7
Of which: crop credit	17.6	21.0	37.5	30.0	16.3	39.0	29.5	16.0	17.1	17.6	19.4	23.5	25.6
Other items (net)	-27.6	-11.2	-1.1	-12.2	0.2	-25.2	-7.6	-16.2	0.2	-7.6	-12.6	-12.6	-12.6
Broad money	370.6	376.9	429.7	409.3	388.6	426.6	415.0	403.7	426.7	401.9	430.9	466.1	507.4
Of which: currency in circulation	169.3	165.0	154.3	149.4	142.6	144.3	135.8	136.8	158.5	136.8	146.4	158.4	172.5
Medium- and long-term liabilities of commercial banks	2.1	4.7	9.6	9.5	8.5	11.5	5.9	5.6	7.1	8.8	8.8	8.8	8.8
SDR allocation	7.5	7.6	7.9	7.9	7.9	7.9	9.0	9.0	7.9	9.0	9.2	9.4	9.6
(Changes in percent of beginning-of-period broad money, unless otherwise specified)													
Memorandum items:													
Net foreign assets	-7.1	-4.9	0.8	-3.9	-1.4	2.8	-5.2	-5.5	0.9	-5.6	7.6	4.3	1.5
Net domestic assets	21.4	7.8	14.0	13.3	7.3	5.6	9.4	6.8	5.4	9.4	-0.3	3.9	7.4
Net credit to government 2/ 3/	9.0	0.4	8.0	11.2	3.0	4.4	5.6	6.6	2.2	5.8	-1.0	-1.2	-1.1
Credit to the economy	16.6	3.0	3.3	2.4	1.2	7.7	5.8	4.4	3.2	5.6	1.9	5.1	8.5
(anual percentage change)	46.8	6.6	7.0	5.1	2.6	16.3	12.2	9.2	6.8	11.7	3.7	10.2	16.8
Money supply	14.2	1.7	14.0	8.6	3.1	9.8	6.8	3.9	6.3	3.4	7.2	8.2	8.9
(En milliards de FCFA)													
Net domestic assets, central bank	58.9	65.5	75.3	87.8	60.6	75.3	85.3	87.1	73.1	84.4	70.8	76.6	83.4

Sources: Burkinabè authorities; and staff estimates and projections.

1/ Excluding foreign assets of the Post Office.

2/ In 1997, the change in net credit to government includes revaluation of IMF liabilities equivalent to CFAF 5.6 billion.

3/ In 1998, the change in net credit to the treasury differs from the amount indicated in the government finance table because it includes the assumption by the government, in the second quarter, of a CFAF 7.1 billion debt due by the private sector to commercial banks related to public work executed in previous years.

4/ In 1999, the change in the advance of the commercial banks to the Treasury differ from the amount recorded in the Government Operations table by an amount of CFAF 0.5 billion, as the banks have not recorded in

Table 7. Burkina Faso: Income and Social Indicators

Item	Unit of Measure	Latest Single Year				1996	1997	1998
		1975-79	1980-85	1993	1990-95			
Population	Thousands	6,202	7,881	...	10,377	10,688	11,009	11,339
Population growth rate	Annual average in percent	2.1	2.6	...	2.9	3.0	3.0	3.0
Total fertility rate	Birth per woman	7.0	7.5	6.9	6.9	6.9	...	...
Urban		...	...	...	...	...	...	...
Rural		...	...	...	...	...	...	...
Poverty and equity								
National poverty line	CFA francs	...	...	...	41,099	...	...	72,690
National head count index	Percent of population	...	...	...	44.5	...	...	45.3
Urban		...	...	...	10.4	...	...	15.9
Rural		...	...	...	51.1	...	...	50.7
GDP per capita	U.S. dollars	150	180	...	231	237	217	229
Share of income or consumption								
Lowest quintile	Percent of income	...	...	...	5	...	...	...
Highest quintile	Percent income	...	...	...	56	...	...	...
Gini coefficient		...	...	...	0.63	...	...	...
Social indicators								
Gross primary school enrollment rate								
Total	Percent of school-age group	16.0	29.0	...	38.0	38.9	40.0	40.9
Male	Percent of school-age group	21.0	36.0	...	47.0	46.3	47.3	48.0
Female	Percent of school-age group	12.0	21.0	...	30.0	27.8	32.2	34.0
Access to safe water								
Total	Percent of population	25.0	35.0	65.0	65.0	78.0	...	...
Urban	Percent of population	...	...	93.4	93.4	...	...	...
Rural	Percent of population	...	...	58.1	58.1	...	...	...
Access to adequate sanitation								
Total	Percent of population	...	...	...	...	...	...	...
Urban		...	...	18.1	18.1	...	...	18.0
Rural		...	...	55.3	55.3	...	...	...
Rural		...	...	9.1	9.1	...	...	...
Child (under-5) malnutrition rate	Percent of age group							
Height for age 1/		...	48.5	29.4	29.4	...	...	...
Weight for age (emaciation)		...	...	13.3	13.3	...	...	...
Life expectancy at birth	Years	41.1	44.9	52.0	52.0	52.2	51.2	52.4
Infant mortality rate	Per 1,000 live births	137.0	117.0	93.7	93.7	98.0	...	105.0
Under-5 mortality rate	Per 1,000 live births	...	...	214.0	214.0	...	...	219.0
Adult mortality	Per 1,000 population	24.6	19.9	...	18.1	...	...	16.4
Birth assisted	Percent	...	...	41.5	32.9	26.9	...	27.0
Maternal mortality rate	Per 100,000 live births	...	600.0	566.0	939.0	930.0	...	930.0
HIV prevalence	Percent of population	...	...	...	...	...	...	7.0
Medical personnel availability								
Doctor		...	...	...	1/28,673	1/29,815	1/29,589	1/23,308
Midwife		...	...	...	1/23,316	1/29,897	1/25,563	1/25,090

Sources: World Bank *Social Indicators of Development*, 1996; and World Bank and IMF staff estimates.

1/ Percent of children in age group for which the weight-to-age ratio is less than -2 standard deviations below the reference sample mean.

Table 8. Burkina Faso: Privatization Program

Enterprises	Sector	Percentage Cap. Held by Govt.	Capital	Cap. Held by Govt.	Percentage of total	Govt.'s Residual Share	Type of Sale	Date of Transfer	Sale Price
I. 1991-98									
1 SOBBRA	Brewing	...	NA			...	Merger /acquisition	1992	Merger /acquisition
2 BRAKINA	Brewing	9.43	2,530,020,000	238,580,886	0.23	0.00	Sale of shares	21-May-92	262,487,500
3 SBMC	Tanning	48.99	699,000,000	342,440,100	0.33	0.00	Sale of shares	1-Jun-92	37,323,456
4 SBPC	Leather and skins	50.00	1,000,000,000	500,000,000	0.49	0.00	Sale of shares	30-Jun-92	10,287,900
5 SIFA	Motorcycles	32.00	822,478,800	263,193,216	0.26	25.00	Sale of shares	9-Mar-93	71,500,000
6 SOBCA	Automobile loans	100.00	500,000,000	500,000,000	0.49	18.55	Capital increase	29-Mar-93	Capital increase
7 SONAR	Insurance	52.08	480,000,000	249,984,000	0.24	25.00	Sale of shares	9-Sep-93	360,875,000
8 ZAMA-PUBLICITE	Advertising	100.00	133,400,000	133,400,000	0.13	25.00	Sale of shares	30-Sep-93	102,454,000
9 FASO-PLAST	Plastics	34.60	681,400,000	235,764,400	0.23	7.00	Sale of shares	2-Nov-93	301,720,000
10 GMB	Flour milling	68.77	865,140,000	594,956,778	0.58	25.00	Sale of shares	26-Nov-93	681,750,000
11 CIMAT	Cement	73.32	2,103,300,000	1,542,139,560	1.50	22.80	Sale of shares	28-Dec-93	1,299,120,000
12 SONAPHARM	Pharmaceutical products	52.00	400,000,000	208,000,000	0.20	8.42	Sale of shares	10-Aug-94	215,650,000
13 SCFB	Rail transport	...	3,375,000,000		...	...	Operating concession	12-Dec-94	Operating concession
14 FLEX FASO	Fruits	95.00	317,830,000	301,938,500	0.29	25.23	Sale of shares	25-Mar-95	160,000,000
15 SHSB-CITEC	Oils / soaps	43.00	3,445,000,000	1,481,350,000	1.44	0.00	Installment purchase	1-Jun-95	Installment purchase
16 BURKINA & SHELL	Hydrocarbon	51.00	253,980,000	129,529,800	0.13	25.00	Sale of shares	30-Jun-95	825,500,000
17 CSPPA	Local products	100.00	25,000,000	25,000,000	0.02	0.00	Liquidation	1996	--
18 FASO YAAR	General commerce	71.54	2,209,000,000	1,580,318,600	1.54	0.00	Liquidation	1996	--
19 RNTC-X9	Urban transport	100.00	1,100,000,000	1,100,000,000	1.07	25.00	Operating concession	30-Jun-96	Concession
20 FASO-TOURS	Passenger transport	38.00	NA		...	0.00	Sale of shares for symbolic FI	23-Jul-96	1 Franc
21 SINAC	Shoes	100.00	200,000,000	200,000,000	0.19	0.00	Liquidation	1997	--
22 SOFIVAR	Agribusiness	76.67	300,000,000	230,010,000	0.22	0.00	Liquidation	1998	--
23 SOBEMA	Enabel	30.00	200,000,000	100,000,000	0.10	0.00	Liquidation	1998	--
24 ONAVET	Veterinary products	100.00	772,740,110	772,740,110	0.75	0.00	Liquidation	1998	--
25 CNA	Agricultural equipment	100.00	533,000,000	533,000,000	0.52	0.00	Liquidation	1998	--
26 SOSUCO	Refined sugar	82.36	6,031,050,000	4,967,172,780	4.83	30.36	Sale of shares	31-Jul-98	4,402,000,000
27 SOPAL	Distilling	93.93	582,920,000	547,536,756	0.53	7.86	Sale of shares	31-Jul-98	753,000,000
28 FEED-LOT	Meat	100.00	NA		...	...	Transferred to MESSRS	...	--
29 FRUICEMA	Fruits and vegetables	100.00	NA		...	...	Ident	...	--
30 MACEHOU	Fruits and vegetables	...	NA		...	...	Returned to owner	...	--
Total				16,777,055,486	16.32				-9,483,667,856
II. 1999									
31 SNTB	Transit	46.00	390,000,000	179,400,000	0.17	12.00	Sale of shares	Mar-99	398,970,000
32 INB	Printing	100.00	440,000,000	440,000,000	0.43	18.00	Sale of shares	Apr-99	325,000,000
33 SONACOR	Rice ginning	90.80	600,000,000	544,800,000	0.53	0.00	Liquidation	Jun-99	--
34 COMIKI	Mining	100.00	NA		...	0.00	Liquidation	Jun-99	--
35 SONACAB	Tiles	58.82	365,500,000	214,987,100	0.21	0.00	Liquidation	1999	--
Total				1,379,187,100	1.34				723,970,000
III. 2000									
36 SAVANA	Fruit juices	94.02	103,795,820	97,588,830	0.09	0.00	Liquidation	Feb-00	--
37 SLM	Renting	99.92	817,800,000	817,145,760	0.80	5.00	Sale of shares	Jul-00	1,084,019,200
38 SOCOGIB	Real estate	36.84	1,842,600,000	678,813,840	0.66	0.00	Sale of shares	Dec-00	--
39 AIR BURKINA	Aviation	99.75	35,000,000	34,912,500	0.03	...	Capital increase	Dec-00	--
Total				1,628,460,930	1.58				1,084,019,200
IV. Enterprises currently under privatization									
40 SONACIB	Cinema	82.16	350,000,000	287,560,000	0.28	...	...	...	...
41 FASO FANI	Textiles	71.27	1,626,170,000	1,158,971,359	1.13	...	...	...	...
42 CNEA	Agricultural equipment	100.00	1,500,000,000	1,500,000,000	1.46	...	...	...	...
43 ONATEL	Telecommunication	100.00	12,000,000,000	12,000,000,000	11.68	...	...	...	12,000,000,000 1/
44 SHG	Hotels	100.00	2,154,510,000	2,154,510,000	2.10	...	...	...	...
45 AIRPORTS	Airports	100.00	NA		...	...	...	...	...
46 SONABEL	Electricity	100.00	48,097,071,777	48,097,071,777	46.79	...	...	...	...
47 SONABHY	Petroleum products	100.00	3,000,000,000	3,000,000,000	2.92	...	...	...	...
Total				68,198,113,136	66.35				12,000,000,000 1/
Total (I+ II + III + IV)				87,982,816,652	85.60				

Table 8. Burkina Faso: Privatization Program (concluded)

Enterprises	Sector	Percentage Cap. Held by Govt.	Capital	Cap. Held by Govt.	Percentage of total	Govt.'s Residual Share	Type of Sale	Date of Transfer	Sale Price
V. Residual government portfolio									
48 ONEA	Water	100.00	3,080,000,000	3,080,000,000	3.00	...			
49 SONAPOST	Postal services/savings bank	100.00	2,590,000,000	2,590,000,000	2.52	...			
50 CNSS	Social security/insurance	100.00		0	...	...	
51 CARFO	Civil service pensions	100.00		0	...	...	
52 CBMP	Gold	100.00	550,000,000	550,000,000	0.54	...			
53 CGP 2/	Stabilization of rice prices	100.00		0	...	...	
54 LONAB	Lottery	100.00	1,000,000,000	1,000,000,000	0.97	...			
55 SONAGESS	Management of buffer food stocks	100.00	200,000,000	200,000,000	0.19	...			
56 MEDIFA	Pharmaceutical	100.00	400,000,000	400,000,000	0.39	...			
57 ONBAH	Dams/irrigation	100.00	800,000,000	800,000,000	0.78	...			
58 ONPF	Wells and drilling	100.00	1,156,270,000	1,156,270,000	1.12	...			
59 SIBAM	Arms	72.00	40,000,000	28,800,000	0.03	...			
60 BUMIGEB	Mining	100.00	900,000,000	900,000,000	0.88	...			
61 CCVA	Automobile - technical visits	100.00	300,000,000	300,000,000	0.29	...			
62 CENATRIN	Computer and data processing	100.00	183,819,000	183,819,000	0.18	...			
63 HOTEL INDEPENDANCE	Hotels	100.00	828,000,000	828,000,000	0.81	...			
64 HOTEL SILMANDE	Hotels	91.00	1,600,000,000	1,456,000,000	1.42	...			
65 LNBTP	Construction/ public works	100.00	318,000,000	318,000,000	0.31	...			
66 SONATUR	Construction/ public works	100.00	10,000,000	10,000,000	0.01	...			
67 SOPAFER	Rail transport	100.00	1,000,000,000	1,000,000,000	0.97	...			
Total				14,800,889,000	14.40				
Grand Total (I + II + III + IV + V)				102,783,705,652	100.00				

Source: Burkinabe authorities

1/ Sale of cellular phone licenses in early 2000

2/ The company's activities are to be redefined

Ouagadougou, December 11, 2000

Mr. Horst Köhler
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. Köhler:

1. On behalf of the government of Burkina Faso, and in the context of the second review of the program supported by an arrangement under the Poverty Reduction and Growth Facility (PRGF) approved by the Executive Board of the International Monetary Fund on September 10, 1999, I am pleased to send to you the memorandum of economic and financial policies for 2000/01. The memorandum describes progress made in implementing the program in 2000, updated targets for the rest of 2000 and for 2001, and the policies to be implemented to achieve these targets.
2. The 2000 program was implemented in a context of lower growth, owing to exogenous factors, notably a drought that led to a drop in agricultural output, the sharp increase in oil prices, and the instability in some countries in the subregion. Nonetheless, the quantitative benchmarks and indicators for end-June 2000 were met, with the exception of the indicator on the level of primary expenditure, which was breached because the rapid rate of commitment of government expenditure resulted in overruns on transfers to autonomous agencies and net lending. On the structural side, (i) compliance with the structural benchmark on the selection of an investment bank to prepare the privatization of ONATEL was delayed from end-May to end-December 2000 for procedural reasons; and (ii) the structural benchmark on the settlement of cross debts between the post office and the government was met with a four-month delay in November 2000.
3. The decline in economic growth, together with cuts in petroleum taxation to offset part of the significant increases in international prices, resulted in lower fiscal revenue at end-September 2000. In the event, none of the main quantitative benchmarks for end-September 2000 were observed (except those relating to not contracting nonconcessional loans, reducing domestic arrears, and not accumulating external arrears). These developments were also partly due to the improvement in budget execution, including through the setup of a fully computerized and integrated expenditure framework.
4. Faced with this situation, the government adopted a number of emergency measures to redress the deterioration of the fiscal stance, and the 2001 budget is within the original program parameters. The government remains resolved to implement all the reforms and measures contained in the program. It considers that the policies and measures described in the memorandum are appropriate to achieve its program objectives, but it will take any other measures that may prove necessary for this purpose.

5. As described in the memorandum, resources freed in 2000 from debt-service relief after reaching the completion point under the original Heavily Indebted Poor Countries (HIPC) Initiative, and interim financing obtained under the enhanced HIPC Initiative, have been allocated to the priority poverty reduction programs outlined in the poverty reduction strategy paper (PRSP) through the adoption of a supplementary budget law on November 2000. The government remains firmly committed to stepping up its efforts in this area and to reaching the completion point under the enhanced HIPC Initiative in the spring of 2001, as planned.

6. The government solicits the continued support of the International Monetary Fund to help it meet its program objectives, including through the conclusion of the second review under the PRGF. In any event, the Fund will, together with the government of Burkina Faso, complete a third review of the program supported by the PRGF by June 30, 2001 and a fourth review of the program by December 31, 2001, so as to monitor progress made in its implementation.

Sincerely yours,

/s/

Jean-Baptiste Compaoré
Deputy Minister to the Prime Minister,
in charge of Finances and the Budget
Ministry of Economy and Finance
Ouagadougou, Burkina Faso

Attachments: Memorandum of Economic and Financial Policies for 2000/01 and Technical Memorandum of Understanding.

BURKINA FASO

Memorandum of Economic and Financial Policies for 2000/01

December 11, 2000

I. IMPLEMENTATION OF THE PROGRAM DURING THE FIRST NINE MONTHS OF 2000

7. Despite an unfavorable macroeconomic environment, which led to a slowdown in growth, Burkina Faso resolutely pursued the implementation of its program for 2000 supported by the Poverty Reduction and Growth Facility, as described in the memorandum of economic and financial policies of April 17, 2000. The government also started implementing the poverty reduction program laid out in its poverty reduction strategy paper (PRSP), including through a supplementary budget for 2000. This budget allocates to priority programs the savings on debt service obtained after reaching the completion point under the original Heavily Indebted Poor Countries (HIPC) Initiative and the interim financing received under the enhanced HIPC Initiative.

8. The combined effect of a decline in cottonseed production in 1999/2000, a depressed cereal harvest owing to the drought in the northern part of the country, a sharp increase in oil prices, and a drop in workers' remittances of Burkinabé residents abroad brought down real GDP growth in 2000. The consumer price index fell on a year-on-year basis by 0.9 percent in September 2000, reflecting weak demand and lower prices for foodstuffs, which offset some price increases resulting from higher oil prices.

9. At end-June 2000, revenue and expenditure were somewhat above target, and there was a significant increase in deposits of autonomous agencies at the treasury. All the quantitative benchmarks and indicators for end-June were met, except for the indicator on the level of primary expenditure, which was breached because of the rapid rate of commitments, including overruns on transfers to autonomous agencies and net lending (the latter consisting essentially of an emergency transaction for the purchase of electric generators). On the structural side, compliance with the end-May structural benchmark on the recruitment of an investment bank to handle the call for bids for the privatization of the telecommunications company (ONATEL) was delayed until end-December 2000, basically for procedural reasons outside the government's control; also, compliance with the structural benchmark on the final settlement of the cross debts between the post office (SONAPOST) and government was delayed, owing to the need to reconcile the data through end-June 2000. These debts were settled by the signing of an agreement on November 8, 2000.

10. The combination of the slowdown in growth and in consumption, worse than expected impact of the introduction of the WAEMU's Common External Tariff, and the cuts in taxation of petroleum products to soften domestically the impact of higher oil prices lowered tax revenues at end-September 2000 to CFAF 152 billion, slightly below the program target. While the corporate income tax (BIC) exceeded the target, on account of the

increase in taxable profits of enterprises in 1999 and the new withholding tax introduced in January 2000, revenues from the value-added tax (VAT), consumption taxes, and customs duties remained below target. Owing to the rapid rate of commitments, primary expenditure reached CFAF 170.2 billion, significantly above the program target. Wage and salary outlays exceeded the target by approximately CFAF 6 billion, because of the payment of the full-year endowment to two ministries and of about CFAF 2.5 billion in retroactive wages related to the delay in the implementation of the final step of the civil service reform.¹ Expenditure commitments for goods and services and transfers were also higher than programmed, and net lending exceeded the target, owing mainly to the emergency transaction for the purchase of electric generators mentioned above.

11. As a result, there was a primary deficit (excluding foreign-financed investment expenditure) of CFAF 18 billion at end-September 2000, compared with a programmed slight surplus. Also, notwithstanding the sale of two cellular telephony licenses that generated more than CFAF 12 billion in revenues, substantially exceeding anticipated privatization proceeds, net recourse to bank credit by the government totaled CFAF 27.3 billion at end-September, significantly above the target of CFAF 8.6 billion. Owing to these developments, none of the quantitative benchmarks and indicators for end-September could be met, except for the nonaccumulation of nonconcessional debt, the nonaccumulation of external arrears, and the settlement of domestic arrears. On top of the slowdown in growth, these unfavorable trends reflect seasonal effects and the sustained effort of the government to step up the level of expenditure commitments.

12. The **money supply** grew by 3.9 percent between end-December 1999 and end-September 2000. The expansion of credit to the economy, while slowing considerably in the third quarter, remained strong, primarily because of the delay in the repayment of crop credits. Following the increase in euro interest rates and rapid growth in credit to the economy in the monetary zone in June 2000, the central bank raised its key rates by $\frac{3}{4}$ of 1 percentage point to 6.50 percent for the discount rate and 6 percent for the repurchase rate. Also, competition among banks increased as a result of the entry into the market of three new banks during the past two years, leading to a narrowing of interest rate spreads.

13. Although still at low levels, nonperforming loans increased from 1.7 percent of total loans at end-December 1999 to 3.15 percent at end-June 2000. This deterioration was mainly due to the National Agricultural Bank (CNCA), which was hit by the poor cotton harvest in 1999 and saw its capital position deteriorate substantially at end-June 2000. This bank has adopted a policy of restructuring and diversifying its loans to improve its portfolio. More generally, compliance with the West African Monetary Union (WAMU) prudential ratios

¹ In the 1999 program, the retroactive salary payment made in the framework of the civil service reform was reclassified as arrears payments. The 2000 program included a benchmark of domestic payments arrears to cover these payments (CFAF 1 billion at end-September, and CFAF 2 billion at end-December); these benchmarks have been met.

improved between December 1999 and June 2000. All of the seven banks making up the sector complied with the capital adequacy ratio at end-June. However, the banks continue not to comply with the risk diversification ratio because of the weight of the cotton sector in the Burkinabé economy. There was further progress in the development of microfinance institutions (the network of credit unions and others) with the creation of 85 new structures in 1999. However, despite the current keen interest in this sector, microfinance remains concentrated in a small number of medium-sized and large structures.

II. OBJECTIVES AND POLICIES FOR THE REMAINDER OF 2000

14. **Real GDP growth** is now estimated at 4 percent in 2000, as against an initial forecast of 5.7 percent. The lackluster agricultural performance, in particular, is expected to lower the primary sector growth to 2.6 percent. The secondary sector has been buoyed by good performance in manufacturing, construction, and public works. Industrial activity has been stimulated in particular by the start-up of new cotton processing plants (spinning and waste reclamation) and investments in the brewing industry. Activity in the tertiary sector is projected to rise by about 4 percent. Consumer prices are projected to decline by an annual average of 0.2 percent for 2000, and the GDP deflator by 1.6 percent. On the use side, a significant drop in public investment is expected, owing mainly to the limited mobilization of external assistance, but private investment is projected at 13.3 percent of GDP, compared with 11.9 percent of GDP in 1999.

15. **Exports** are projected to grow by 3.6 percent in value terms, with the decline of cotton exports offset by a rebound of exports of manufactured goods. A slight drop in imports is expected. The resulting improvement in the trade balance is, however, partly offset by a significant drop in workers' remittances. The current account deficit, excluding capital grants, is estimated at 14 percent of GDP in 2000, compared with 14.9 percent of GDP in 1999. Capital grants included, the current account deficit is projected at 10 percent of GDP in 2000, slightly better than the program target. Nonetheless, the projected low levels of budgetary assistance will lead to a larger overall deficit and a decline in official reserves estimated at about CFAF 22 billion.

16. **The objective of fiscal policy for the remaining few months of 2000 is to correct the deviation of the fiscal stance at end-September through the adoption of a number of measures to curtail expenditure. Revenue** is forecast at approximately CFAF 225 billion for the full year, or 13.8 percent of GDP, compared with a target of 14.4 percent of GDP. Domestic **expenditure** for 2000 will be kept below program projections. The overrun on wages and salaries at end-September will be curtailed as it reflected advance payment of salaries for certain categories of personnel. The overrun on the program target will be limited to CFAF 2.2 billion (0.1 percent of GDP) by year-end, mainly due to the above-mentioned payment of retroactive wages (CFAF 3 billion for the year). The last step of the civil service reform was delayed because of unanticipated difficulties in introducing the interconnections between the payroll and the civil service databases, which should now be finalized by June 2001. The overruns on expenditure on goods and services and transfers at end-September will be reversed by year-end as these outlays will be strictly limited to the

programmed budgetary appropriations, through a freeze on new commitments implemented in mid-November. At the same time, the government will implement an immediate cut of CFAF 4.5 billion in commitments on domestically financed investments while protecting the priority sectors. On a commitment basis, the share of expenditures (excluding external financing and use of HIPC Initiative resources) allocated to the health and education sectors in 2000 will total 12.4 percent and 16.9 percent, respectively, slightly exceeding the program targets (Table 2). Domestically financed investment outlays are projected to be below the programmed level, owing in particular to the lower level of foreign financing.

17. Excluding the use of the HIPC Initiative resources, the **primary deficit** is targeted at CFAF 5 billion in 2000, compared with a programmed surplus of CFAF 7.4 billion (a differential equivalent to 0.7 percent of GDP). The downward revision in the level of disbursement of project grants will lead to a significant drop in foreign-financed investment expenditure. The overall deficit (on a commitment basis, excluding grants) should narrow to CFAF 162 billion (9.9 percent of GDP), below the programmed level of 11 percent of GDP. Including grants, however, the overall deficit (cash basis) is projected at CFAF 77.1 billion (4.7 percent of GDP), compared with a programmed deficit of CFAF 56 billion. This will result in a slightly higher than initially anticipated recourse to bank financing. As a result, the revised performance criterion on the change in net bank credit to the government for December 2000 was set at CFAF 18.7 billion (1.1 percent of GDP).

18. Resources made available in 2000 through debt-service relief under the **HIPC Initiative** are estimated at CFAF 10.3 billion. They have been allocated to the priority poverty reduction programs outlined in the PRSP through a supplementary budget law adopted on November 29, 2000. The outlays are expected to be fully committed by February 28, 2001.

19. The government ensured a prompt payment of its water, electricity, and telephone bills in 2000 and does not expect to incur payment delays in this area before year's end. It also consolidated all remaining amounts owed by the government and its constituent parts, particularly the local governments, to these utilities for a total of CFAF 21.9 billion, which will be securitized by December 31, 2000. Also, with a four-month delay compared with the program timetable, an agreement was signed with the post office (SONAPOST) on November 8, 2000 for the payment of the remaining balance owed by the government (about CFAF 2.9 billion) after the offsetting of cross debts.

20. The **money supply** is projected to grow by about 3.4 percent in 2000. Domestic credit is expected to increase by about 19 percent as a result of the rise in net credit to the treasury of CFAF 20.9 billion (5.4 percent of the beginning-of-period money stock), and in credit to the economy of about 12 percent. After delays in the first half of the year, the repayment of crop credits was proceeding normally at end-September. Official exchange reserves are projected to decline by about CFAF 22 billion for the year, but Burkina Faso's contribution to the foreign assets of the Central Bank of West African States (BCEAO) remains quite comfortable.

21. In the area of **structural reforms**, substantial progress was made in the **privatization** program in 2000. The tomato juice and concentrate production company (SAVANA) was liquidated in February 2000. The equipment rental company (SLM) was sold in July. The call for bids for the privatization of the railroad hotels company (SHG) was launched in November 2000. The property management and construction company (SOCOGIB) was sold to the Social Security Fund. The national airline (Air Burkina) was sold to a strategic partner, which is expected to take over operations in early 2001. Likewise, a consultant is being recruited to facilitate the privatization of the management of Ouagadougou and Bobo-Dioulasso airports. Finally, the restructuring of the postal checking system and savings bank (CCP/CNE) is close to finalization.

22. In the context of the liberalization of the **telecommunications** sector, two mobile cellular telephony licenses were awarded to private operators in the spring of 2000. The privatization of ONATEL is being pursued, although with some lag in the original timetable. The provisional audit report was submitted on schedule. An analysis of the technical bids for the recruitment of an investment bank to assist the government with the privatization was completed. Having received the World Bank's notice of no objection, the government will do everything in its power to find financing and recruit the investment bank by December 31, 2000. Completion of this recruitment is a prior action under the program. Also, as scheduled, the Council of Ministers will adopt by December 2000 the letter of development policy of the **energy sector**, which includes the regulatory framework for the electricity sector and SONABEL's privatization scheme (this constitutes a structural benchmark under the program).

23. Concerning the **reform of the cotton sector**, the producers' organizations are assuming an active role in the management of SOFITEX, and the possibility of transferring an even larger portion of the company's capital to them is being reviewed. The opening of the eastern zone to new producers has met with limited success so far, owing to the prevailing low prices, but the outlook remains good. As soon as circumstances permit, SOFITEX will sell the ginning plant in this zone. The government also plans to open the central-southern zone, where SOFITEX has two ginning plants, to private operators. As a result of its efforts to contain expenses, including subcontracting almost all transport to the private sector, SOFITEX has been able to balance its books for the 1999/2000 crop year.

24. The fully computerized **integrated public bookkeeping system** was launched early in 2000. It includes the regional treasury offices, and allows for a streamlined budget execution and improved control mechanisms. The **National Good Governance Plan** adopted in 1998 is gradually being implemented, in particular with the setup in October 2000 of the Executive Secretariat and forums for consultations among the government, the private sector, and civil society. In this connection, the audited budget acts (*lois de règlement*) for 1995 to 1998, which are being finalized, will be adopted by March 2001; this constitutes a performance criterion under the program. Progress was made in reforming the **judiciary** in 2000. Institutionally, the Supreme Court was broken up into four entities (Council of State, Constitutional Court, Audit Office, and Court of Cassation); the Ouagadougou court registry

offices were computerized; and computerization of criminal procedures has also been completed, while that of civil procedures is in progress.

III. OBJECTIVES AND POLICIES FOR 2001

25. **Following the downturn in 2000, an economic recovery is expected in 2001**, the early signs of which are already perceptible in late 2000. This recovery is based on a predicted rise in cotton output and prices, and an upturn in cereal production. Overall, agricultural output is projected to increase by 8 percent. Public investment should rebound, and value added in the secondary and tertiary sectors could increase by 7.4 percent and 4.8 percent, respectively. As a result, real GDP is projected to grow by 6.2 percent, slightly below the initially anticipated 6.6 percent. The recovery in the agricultural sector should continue to dampen prices for foodstuffs, and as a result inflation should not exceed an annual average of 2 percent.

26. As regards the **balance of payments**, a strong upsurge in exports is expected in 2001, owing to the anticipated recovery in the cotton sector and the continued upswing in the manufacturing sector. Imports are also expected to grow, reflecting a revival of externally financed investment. The current account deficit, excluding capital grants, should increase to 15.3 percent of GDP in 2001 (11.3 percent, including grants), compared with 14 percent in 2000. Despite the expected continued low level of workers' remittances, significant external support will result in an increase in official reserves estimated at CFAF 30 billion. In the medium term, the external current account deficit should show a declining trend, mainly owing to the coming onstream of new cotton production zones and the expected upturn in cotton prices.

27. **The objective of the 2001 fiscal policy is to strengthen the budgetary position in order to reverse the poor performance in 2000 and to revert to the originally programmed objective of reducing domestic bank financing.** In line with these objectives, the government adopted a number of new tax measures in the context of the 2001 budget law, expected to yield 0.6 percent of GDP and to improve tax administration:

- The withholding tax² will be deferred until goods of industrial units leave the bonded warehouses.
- For social reasons, the rate for the withholding tax² on cola nuts is being lowered from 2 percent to 1 percent.

² In 1999, as a measure to improve the taxation of the informal sector, the government introduced a withholding tax on imports or purchases from wholesalers creditable against the income tax.

- The rate for the withholding tax² is being lowered from 5 percent to 1 percent for entrepreneurs in the public works and construction sectors, which should lead to better taxpayer compliance (because of retention, very little was collected at the higher rate in 2000).
- In line with the harmonization of domestic taxation in the West African Economic and Monetary Union (WAEMU), and in compliance with the requirements of the Code of the Interafrican Conference on Insurance Markets (CIMA Code), the tax rate on fire insurance contracts is being lowered from 30 percent to 20 percent.
- To increase compliance in the area of real estate taxes, the system of taxation based on income considered on a contract-by-contract basis is being reintroduced; the tax schedule is being revised downward; and the exemption applied to income from new construction is being increased from 25 percent to 30 percent. To cover the shortfall, measures have been taken to annualize the tax payments.
- To comply with the WAEMU directive on the harmonization of excise duties, differentiated excise duties on tobacco products based on imports or locally produced tobacco will be abolished. The new rates differentiate by type of product: 17 percent for low-end products and 22 percent for high-end products. This represents a significant increase in average duties.

28. Moreover, the government has decided to eliminate the surtax on sugar, to bring its legislation in line with the temporary protection measures under WAEMU's common external tariff (CET). To increase returns, it plans to return the collection of the tourism development tax from the tourism agency to the tax authorities. Also, to shorten the frequent delays in commitments, the government will strictly enforce compliance with the annual budget cycle for investment expenditure.

29. The sharp increase in petroleum prices in 2000 revealed the weakness of the existing mechanism for setting the prices and taxation of petroleum products. Hence, the government has decided to change the system of taxation of these products by December 31, 2000 and also plans to introduce a monthly automatic and transparent adjustment of retail prices in line with international prices by March 31, 2001. The current system of import duties, based on notional values, a single tax on petroleum products (TUPP), and cross-subsidization among products, will be replaced, in line with the WAEMU guidelines, by the CET, which will be based on transaction values, and a specific excise tax (tax on petroleum products—TPP) set once a year, all subject to the VAT at the normal rate. Existing subsidies will henceforth be budgeted as expenditures, with those on fuel deliveries for electricity generation to SONABEL classified as transfers, and those of butane gas as social expenditure.

30. Taking the above measures into account, the outlook for public finances for 2001, including the HIPC Initiative resources (CFAF 25.1 billion, or 1.4 percent of GDP) and their use, is generally in line with the program objectives. Total revenue is projected at CFAF 251 billion, or 14.4 percent of GDP, in line with the program. Current expenditure is

budgeted at CFAF 220 billion (12.6 percent of GDP). The wage bill is expected to increase by 3.8 percent, in line with the normal wage drift. Current transfers are budgeted at a relatively high level, mainly because of a provision of more than CFAF 5 billion in VAT refunds owed to SOFITEX. The government will pursue its policy initiated in 2000 of promptly paying its water, electricity, and telephone bills and will incur no further arrears in this area. As a result, the basic deficit³ is projected at CFAF 50 billion (2.8 percent of GDP), compared with 2 percent of GDP in 2000, and the overall deficit (on a commitment basis, excluding grants) at 13.4 percent of GDP, compared with a deficit of 10.6 percent of GDP in 2000. Including grants, the overall deficit (cash basis) is projected at 6.0 percent of GDP, compared with a deficit adjusted for HIPC Initiative expenditure of 4.6 percent of GDP in the original program. However, the anticipated mobilization of significant amounts of project and program lending and of the HIPC Initiative resources will make it possible to abide by the original program projection of a slight decline in net credit to the banking system.

31. Given the importance of **regional integration** for a landlocked economy such as Burkina Faso, the government will do the utmost to abide by WAEMU regulations. In particular, it will endeavor to ensure compliance with the convergence criteria by end-2002. As two convergence criteria (the ratio of tax receipts to GDP and the ratio of external current accounts (excluding grants) to GDP) are unlikely to be met by that date, the authorities are committed to implementing the necessary policies to abide by these criteria as soon as possible. Also, having already achieved significant progress in this area, the government will continue to amend its national legislation to respect WAEMU's five directives on tax administration.

32. The monetary policy conducted by the BCEAO will continue to be targeted at improving the net foreign asset position of the zone and maintaining an inflation rate compatible with that of the anchor currency. The expansion of the **money supply** in 2001 is projected at about 7.2 percent, in line with the nominal GDP growth rate; a relatively modest increase in credit to the economy is also expected. As indicated above, Burkina Faso will make a positive contribution to the foreign assets of the WAMU. The targets for end-March and end-June 2001 for net bank credit to the government are presented in Table 1 attached. In addition, efforts to strengthen the banking system will continue, especially by increasing the capital of banks, which will endeavor to respect the new prudential ratios established by the WAMU.

33. **Statistical data.** As part of the national strategy on statistical data, the government will continue to improve the quality of the national accounts and other economic statistics. After some delays, the final national accounts for 1994 through 1998 will be published before year's end. Likewise, the harmonization along WAEMU guidelines of the industrial

³ In compliance with WAEMU guidelines, the basic balance (defined as total revenues, excluding grants, less total expenditures excluding foreign-financed investment expenditure) will become the main tracking indicator from 2001 onward.

production index will be completed in 2001. This new index will take account of the results of the most recent industrial and commercial survey, which was conducted in March 1998.

34. The **privatization** program will be pursued in 2001. The national film company (SONACIB) was placed under provisional administration pending its liquidation. The textile company (FASO FANI) is also under provisional administration pending a decision on its fate before end-2001. The privatization of the national agricultural equipment center (CNEA) will be revisited after its merger with APICOMA. The privatization of ONATEL should be completed by end-June 2001. In accordance with the strategy defined in cooperation with the World Bank, the program for the privatization of SONABEL and the opening of the capital of SONABHY to private investors will be pursued in two phases, namely an audit followed by a diagnostic study and evaluation of assets, to be carried out jointly in 2001 before their respective privatizations planned for end-2002. At the end of these operations, 47 enterprises, representing 86 percent of the government's initial portfolio, will have been liquidated or sold. The remaining 20 public enterprises consist mainly of public or social services entities. Based on an audit report examining the financial state of these 20 enterprises, the government will take appropriate decisions.

35. **Reform of the civil service** is ongoing, and the new merit-based promotion system will start up as planned on January 1, 2001. During the coming two years, the administrative structure will be further reformed to standardize the central and decentralized structures of the government and increase productivity. Particular emphasis will be placed on policies on decentralization and delegation of authority, including the need to transfer human resources.

36. The government will continue its efforts to create an environment favoring the development of the **private sector**, notably through the setup of an "entrepreneur house," the continued modernization of the consular chamber, and the simplification of formalities linked to investments and the creation of enterprises. The considerable efforts that have been made to strengthen the **judicial system** will be pursued, with a view to providing a more secure environment for investments and promoting good governance. With the necessary structures in place, the implementation of the **national good governance plan** should be accelerated, especially by providing support to the legal and institutional reforms of government structures, civil society organizations, and the promotion of the private sector.

IV. POVERTY REDUCTION AND SOCIAL SECTORS

37. In June 2000, the government presented its poverty reduction strategy through its poverty reduction strategy paper (PRSP). This strategy aims to achieve a number of fundamental objectives: (i) to accelerate growth on an equitable basis; (ii) to guarantee access to basic social services for the poor; (iii) to promote job opportunities and income-generating activities for underprivileged segments of the population; and (iv) to promote good governance. The government's efforts in this area continue to yield positive results: notably, child vaccination targets set for the end of the year had nearly been achieved as of end-June 2000, and even surpassed as regards tuberculosis. Also, the government has adopted ambitious targets to be achieved in 2001 (Table 2).

38. The Executive Boards of the International Monetary Fund and World Bank examined in June – July 2000 the authorities' strategy as outlined in the PRSP. However, the relatively long time needed to finalize the rescheduling agreements under the HIPC Initiative delayed the adoption of the supplementary budget law and ensuing allocation of resources to priority sectors until November 29, 2000. Nevertheless, to comply with the timetable for reaching the completion point under the enhanced HIPC Initiative, the government will do everything it can to accelerate the commitment of these expenditures.

39. The government decided to manage the use of the HIPC Initiative resources through a special account opened with the treasury. This will, inter alia, allow the carry forward of outstanding balances to the following fiscal year. In addition, to release funds in a timely fashion, annual allocations resulting from debt-service relief will be committed in their entirety at the start of each year. Tracking procedures will be put in place quickly, both centrally and in the regions, to ensure that funds are used properly in the context of the program and to monitor the outcomes. In addition, the government will endeavor to eliminate the past delays in the commitment of budgetary appropriations in the health and education sectors.

40. During the start-up phase of the program, implementation of the strategy on a decentralized basis is one of the main challenges faced by the government. The National Soil Management Program (PNGT2), supported by the World Bank, promotes the increased devolution to rural communities of full responsibility for managing local development, particularly the natural resources that constitute the essential productive base for the people. Also a special effort is being made, notably for the social sectors, to expand the delegation of budgetary authority, which allows districts to manage funds through the devolution of appropriations to them.

41. The government is pursuing the implementation of the other measures of the PRSP. For the **health sector**, in addition to the delegation of authority that allows sanitary districts to manage budgetary appropriations, a pilot program has been implemented in the framework of the health and nutrition program supported by the World Bank. The latter involves, for all the health districts, the provision of resources on the basis of a signed contract, with progress indicators defined in advance. An assessment of this experiment, currently under way, will make it possible to better assess its strengths and weaknesses and to institutionalize the process. In the area of **education**, the recruitment of teachers in line with the overall civil service reform is being pursued, and the transfer of responsibilities for a decentralized school management is ongoing, as are the education reforms aimed at lowering repetition rates.

Table 1. Burkina Faso — Quantitative Performance Criteria, Benchmarks, and Indicators for the First and Second Year Program
Under the Poverty Reduction and Growth Facility, 1999-2001

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

	Stock Dec. 1999 Actual	2000						2001			
		End-March	End-June	End-September	End-Dec	End-March	End-June	End-Sep.	End-Dec.		
		Actual	Benchm. Actual	Benchm. Actual	Prel. Perf. Crit.	Projections	Projections	Projections	Projections		
Performance criteria and benchmarks 1/											
Ceiling on cumulative change in net bank credit to government	105.1	13.7	23.2	19.3	8.6	26.7	18.7	-1.0	-2.4	-3.4	-4.1
Adjusted ceiling for shortfall in external resources		0.0	27.2		16.7						
Ceiling on the cumulative amount of new nonconcessional borrowing contracted or guaranteed by the government 2/	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 3/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cumulative net reduction in domestic payments arrears 4/	8.3	0.0	0.0	0.0	1.0	2.5	3.0	0.0	0.0	0.0	0.0
Accumulation of external payments arrears 2/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Indicators 1/											
Current government revenue 5/	213.6	38.4	96.6	99.3	159.2	152.0	211.2	42.4	105.7	165.2	227.8
Expenditure on wages and salaries	82.6	22.5	44.5	44.0	64.7	70.9	88.7	23.7	46.6	71.5	92.1
Total primary expenditure 6/	208.5	44.1	97.6	108.1	143.5	170.2	226.5	...	...	...	...
Current expenditure 7/	180.6	42.4	...	98.9	...	153.3	195.3	50.8	105.0	166.3	220.5
Adjustment factors 1/ 8/											
Balance of payments assistance	42.2	0.0	5.0	0.0	12.0	3.9	19.2	18.0	26.0	48.6	60.6
Adjustment lending (excluding IMF)	16.1	0.0	0.0	0.0	0.0	0.0	0.0	15.0	23.0	34.5	34.5
Adjustment grants	23.7	0.0	5.0	0.0	12.0	3.9	19.2	3.0	3.0	14.1	26.1
Debt relief 9/	2.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Sources: Burkinabe authorities; and staff estimates and projections.

1/ As defined in the Technical Memorandum of Understanding

2/ To be observed on a continuous basis

3/ Excluding normal import-related credits.

4/ For 1999, includes retroactive wage adjustments and non budgetized outlays for water, electricity and phone consumption. For 2000, includes retroactive wage adjustments.

5/ Excluding revenue collected through treasury checks.

6/ Excluding the tax component paid on public investment projects. For December 2000, includes the use of HIPC Initiative resources.

7/ Including restructuring expenditures

8/ For 2000 and 2001, the limits on net credit to government are to be adjusted upward by the amount of the shortfall in balance of payments assistance (excluding debt relief under the HIPC Initiative); for 2000, these adjustments are limited to a maximum of CFAF 4 billion by end-June, CFAF 10 billion by end-September, and CFAF 12 billion by end-December; for 2001, the adjustor for a shortfall in external assistance is limited to a maximum of CFAF 4 billion by end-March, CFAF 7 billion by end-June, CFAF 12 billion by end-September, and CFAF 20 billion by end-December.

9/ Excluding HIPC Initiative debt relief

Table 2. Social Development Performance Indicators, 1996-2000

Objectives and Policies	Indicators	Targets and Results									
		Health									
Improve primary health care quality and coverage		1996	1997	1998	1999	2000	2001				
		Actual	Target	Actual	Target	Actual	Target	Prel.	Target		
Increase public expenditure on health	Share of budget expenditure on health										
	Including foreign-financed investment 1/ 2/	11.4	10.5	11.0	11.0	11.1	12.0	10.9	12.0		
	Excluding foreign-financed investment and interest expenditures 1/ 2/ 3/ 4/	11.3	(12.0)	11.9	(12.6)	12.2	(13.1)	13.9	(12.4) 12.4		
Reallocate budgetary spending to health districts	Health budgets established at district level	Target by 1998			Done						
Provide adequate staffing of local health centers (CSPS)	Share of CSPS' meeting minimal staffing norms (three agents) 1/	...	...	57	...	60	...	60	65	75
Provide regular supplies of essential drugs to CSPS	Share of CSPS with essential drugs 1/	60	70	85	80	84	100	92	100	100	
Increase utilization rates in CSPS	New cases/inhabitants/year	0.21	...	0.20	...	0.21	...	0.23	0.24	0.25	
	Urban	0.37	0.40	0.60	0.50	0.70	0.60	...	0.7	0.80	
	Rural	0.18	0.20	...	0.30	...	0.40	...	0.5	0.60	
Strengthen child vaccination programs	Share of infants (0-11 months) vaccinated 1/										
	BCG 5/	53	70	46	80	52	85	60	70	75* 80	
	DCT/polio 6/	37	60	28	70	31	75	42	50	49* 60	
	Measles	55	70	33	75	38	80	53	55	54* 60	
	Yellow fever	28	70	27	75	33	80	50	55	52* 60	
	* End of June data										
		Education									
Improve coverage, equity, and quality of basic education		1995/96	1996/97	1997/98	1998/99	1999/2000	00/01				
		Est.	Est. Actual	Target Actual	Target Actual	Target Actual	Target Prel.	Obj.			
Increase public spending on basic education	Share of budget expenditure on basic education										
	Including foreign-financed investment 1/ 2/ 7/		8.8	9.0	10.1	11.2	11.5	11.5	13.0	11.7	
	Excluding foreign-financed investment and interest expenditures 1/ 2/ 4/ 7/		(14.6)	14.5	(14.3)	15.8	(13.0)	14.2	(15.0)	16.9	
Expand capacity of primary school system	Gross enrollment ratio 1/		40.0	38.4	42.0	39.5	44.7	40.5	46.0	42	47.8
	New admissions in first grade (in thousands)		149	139	189	141	229	154	270	165	
Recruit primary school teachers locally	Local recruitment plan ready Pilot implementation started		In August 1998 (target June 1998) In October 1998, as targeted								
Promote girls' education	Girls' primary school gross enrollment ratio 1/		30.0	31.1	33.0	32.4	35.0	33.6	38.0	34	40.3
Reduce regional disparities in access to primary education	Spread in provincial primary school enrollment ratios 1/		75.0	73.3	73.0	64.4	71.0	57.8	69.0	53.0	67.0
Improve quality and efficiency of primary education	Repetition rate 1/ At least one book for two pupils (French and math) for 1999		18	17	17	17	16	18	14	17	13.75
			Done								
Source: Burkinabé authorities											

1/ In percent.

2/ On a commitment basis, excluding external debt service.

3/ Not part of identified HIPC targets.

4/ Data in parenthesis indicate budget appropriations.

5/ Tuberculosis.

6/ Diphtheria, cholera, and tetanus/polio.

7/ Budgetary data refer to initial year of school year.

Table 3. Burkina Faso: Structural Benchmarks and Performance
Criteria for the 2000-01 Program

Measures	Date	Status
1. Select the investment bank that will bring ONATEL to the point of sale.	End-May 2000	Delayed (scheduled for December 2000)
2. Finalization of settlement of cross debts between the postal agency (SONAPOST) and the government.	End-June 2000	Delayed (Finalized November 8, 2000)
3. Reform of petroleum products taxation in compliance with WAEMU norms. ¹	End-December 2000	
4. Adoption by the Council of Ministers of the letter of development policy of the energy sector including the regulatory framework for the electricity sector and the plan for the privatization of SONABEL.	End-December 2000	
5. Introduction of an automatic domestic price setting mechanisms of petroleum product reflecting movements in international prices. ¹	End-March 2001	
6. Adoption of audited budget acts (<i>Lois de Règlement</i>) from 1995 to 1998. ¹	End-March 2001	
7. Finalization of the interconnection of the payroll and civil service databases.	End-June 2001	

¹Performance criterion.

INTERNATIONAL MONETARY FUND

BURKINA FASO

Technical Memorandum of Understanding

December 11, 2000

1. This memorandum provides the definitions of the performance criteria and benchmarks of the program supported under the Poverty Reduction and Growth Facility (PRGF) of the International Monetary Fund (IMF). It also sets out the data-reporting requirements for monitoring the program.

I. DEFINITION OF TERMS

2. For the purpose of this memorandum, the following definitions of “debt,” “government,” “payment arrears,” and “government obligation” 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, 2000,¹ **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, debentures, commercial loans, and buyers’ credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers’ credits, that is, contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are 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 period(s) of time which are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the

¹ See EBS/00/128, 6/30/00: “Limits on External Debt on Borrowing in Fund Arrangements – Proposed Changes in Coverage of Debt Limits.”

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

- **Government** is defined as the government of Burkina Faso and does not include any political subdivision or central bank or any government-owned entity with a separate legal personality.
- **External payment arrears** are external payments due but unpaid. **Domestic payment arrears** under the program for 2000 include domestic payments that are due on account of retroactive wages under the civil service reform (transition to a new wage structure) but unpaid. They also include domestic payments due (following the expiration of a grace period of 60 days, 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 recorded as such by the government (including any government debt).

II. QUANTITATIVE PERFORMANCE CRITERIA

A. Cumulative Change on Net Bank Credit to Government

Definition

3. **Net bank credit to the government** for the purposes of the program is defined as the balance of the Burkinabé Treasury's claims and debts vis-à-vis national banking institutions. Treasury claims include the cash holdings of the Burkinabé Treasury, deposits with the central bank, deposits with commercial banks, and secured obligations. Treasury debt to the banking system includes funding from the central bank (essentially 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 deposits with the postal checking system.

4. Government securities held outside the Burkinabé banking system are not included in the net bank credit to the government.

5. Net bank credit to the government is calculated by the Central Bank of West African States (BCEAO), whose figures are those deemed valid within the context of the program.

6. As of December 31, 1999, the net government position thus defined was CFAF 105.1 billion. At end-June 2000, the cumulative change on net bank credit to government so defined was CFAF 19.3 billion.

Performance criterion/benchmark

7. The ceiling on the cumulative change on net bank credit to the government is set at CFAF 18.7 billion as of December 31, 2000. This ceiling is a performance criterion. The stock of net bank credit to the government is programmed at CFAF 123.8 billion at end-December 2000. The ceiling on the cumulative change on net bank credit to the government is projected at minus CFAF 1 billion at March 31, 2001, minus CFAF 2.4 billion at June 30, 2001, minus CFAF 3.4 billion at September 30, 2001, and at minus CFAF 4.1 billion at December 31, 2001. These numbers will be set as benchmarks for end-March 2001, and as performance criteria for end-June 2001 during the third review under the program, and as benchmarks for end-September 2001 and as performance criteria for end-December 2001 during the fourth review under the program.

Adjustments to performance criteria/benchmarks

8. **This ceiling on the cumulative change on the net bank credit to the government position vis-à-vis the banking system** will be subject to adjustments if disbursements of external budgetary assistance, including traditional debt relief—but excluding the assistance to be provided under the Initiative for Heavily Indebted Poor Countries (HIPC Initiative)—exceed or fall short of program forecasts. In the event of excess disbursements at the end of each quarter (end-December 2000, end-March 2001, end-June 2001, end-September 2001, and end-December 2001), the ceiling will be adjusted downward pro tanto by the amount of the excess disbursements. In contrast, if at the end of each quarter disbursements are less than the programmed amounts, the ceiling will be raised pro tanto by the amount of the shortfalls up to the limits (on a noncumulative basis) of a maximum of CFAF 12 billion at end-December 2000, a maximum of CFAF 4 billion at end-March 2001, a maximum of CFAF 7 billion at end-June 2001, a maximum of CFAF 12 billion at end-September 2001, and a maximum of CFAF 20 billion at end-December 2001. Regarding the HIPC Initiative assistance granted to Burkina Faso, the debt-service savings will be transferred to a special account at the treasury to provide allocations for poverty reduction programs in line with the poverty reduction strategy paper (PRSP), as specified in the supplementary finance law for 2000 and the 2001 finance law.

Reporting requirement

9. Detailed data on the net government position will be provided monthly within six weeks following the end of each month.

B. Reduction of Domestic Payment Arrears on Government Obligations

Definition

10. **Domestic payment arrears** on government obligations are reduced through the payment of these obligations as defined under paragraph 2 above. The government undertakes not to accumulate any new domestic payment arrears on government obligations on a net basis. The treasury keeps and updates the inventory of domestic payment arrears on government obligations and maintains records of their repayments.

Performance criteria

11. The government undertakes to reduce domestic payment arrears on retroactive wage payments by CFAF 3 billion for calendar-year 2000, and will not accumulate any further domestic payment arrears on government obligations in 2001. The payment is a performance criterion for end-December 2000, and the nonaccumulation is a benchmark for end-March 2001 and a performance criterion for end-June 2001.

Reporting requirement

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

C. Reduction of External Payment Arrears

Performance criterion

13. **Government debt** is outstanding debt owned or guaranteed by the government. Under the program, the government undertakes not to accumulate external payment arrears on government debt, with the exception of external payment arrears arising from government debt being renegotiated with creditors, including Paris Club creditors. The nonaccumulation of external payment arrears on government debt is a performance criterion to be observed continuously.

Reporting requirement

14. Data on the outstanding balance, accumulation, and repayment of external payment arrears will be provided monthly within four weeks following the end of each month.

D. External Nonconcessional Loans Contracted or Guaranteed by the Government of Burkina Faso

Performance criterion

15. The government will not contract or guarantee external debt with original maturity of one year or more with a grant element of less than 35 percent (calculated using the reference interest rates corresponding to the loan currency as supplied 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 on August 24, 2000,² but also to commitments contracted or guaranteed for which value has not been received. However, this performance criterion does not apply to financing provided by the Fund.

Reporting requirement

16. Details on any external government debt will be provided monthly within four weeks following the end of each month. The same requirement applies to guarantees extended by the central government.

E. Short-Term External Debt of the Central Government

Performance criterion

17. The government will not contract or guarantee external debt with original 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 on August 24, 2000, but also to commitments contracted or guaranteed for which value has not been received. Excluded from this performance criterion are short-term, import-related trade credits. As at September 30, 2000, the government of Burkina Faso had no short-term external debt obligations.

F. Structural Performance Criteria

Performance criteria

18. There will be a reform of the taxation on petroleum products by **December 31, 2000** that will include (i) a customs duty applying the common external tariff (CET) rates of the WAEMU based on the valuation of petroleum imports at their actual import value (and not according to administratively set values); (ii) a specific tax (tax on petroleum products), positive or nil, which will be adopted by the parliament for every product; and (iii) a value-added tax (VAT) in accordance with the standards of the WAEMU on VAT. Any subsidy that the Burkinabé authorities would set up, either on products supplied to the electricity company (SONABEL) for the production of electricity or on butane gas, should be explicitly recorded under government expenditure and budgeted as such.

19. An automatic, transparent monthly system for setting retail prices of petroleum products and of butane gas to reflect changes in international prices and exchange rates will be implemented by **March 31, 2001**. The new pricing system, to be reviewed by the World Bank and the Fund, will be based monthly on the average of the FOB-MED prices prevailing from the first to the twenty-fifth day of the preceding month, converted into CFA francs at the average CFA francs-U.S. dollar exchange rate prevailing during the same period and raised by the transportation cost and the applicable taxation.

² See paragraph 2 above.

20. The adoption of the audited budget review acts (lois de règlement) for the years 1995 through 1998 constitutes a structural performance criterion at **end-March 2001**.

Reporting requirement

21. Data on the taxation of the petroleum sector will be provided monthly within four weeks following the end of each month, including (i) the price structure prevailing during the month; (ii) the detailed calculation of the price structure, going from the FOB-MED price to the retail price; (iii) the volumes purchased and supplied to the domestic market 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 VAT—and of subsidies.

III. QUANTITATIVE BENCHMARKS

22. The program also includes quantitative benchmarks on current government revenue, the civil service wage bill, and total current expenditure.

23. Current government revenue is defined as tax revenue, plus nontax revenue, excluding the revenue collected through treasury checks.

24. Total current expenditure is defined as the difference between total budgetary expenditure, on one hand, and total capital expenditure and net lending, on the other. Capital expenditure is defined as the sum of investment spending identified as such in the national budget and foreign financed investment outlays.

25. This information will be provided to the IMF monthly within four weeks following the end of each month.

IV. STRUCTURAL BENCHMARKS

26. The program also includes two structural benchmarks: the adoption by the Council of Ministers of the letter of development policy of the energy sector including the regulatory framework for the electricity sector and the plan for the privatization of SONABEL is a benchmark at end-December 2000; and the finalization of the interconnection between the payroll and civil service databases is a benchmark at end-June 2001.

V. ADDITIONAL INFORMATION FOR PROGRAM-MONITORING PURPOSES

A. Public Finances

27. The government will report to IMF staff the following:

- a monthly table of government financial operations (TOFE) and the 13 customary appendix tables, to be provided monthly within three weeks (provisional version) and within six weeks (final version) following the end of each month; if the data on actual public investment financed by external grants and loans are not available in time, a linear estimate based on the annual projection will be adopted;

- complete monthly data on domestic budgetary financing, to be provided within six weeks following the end of each month;
- quarterly data on implementation of the public investment program, including details on financing sources, to be provided quarterly within six weeks following the end of each quarter;
- monthly data on debt service, to be provided within four weeks following the end of each month; and
- monthly data on the resources and use of the treasury's special account created for the use of the resources from the debt service savings under the HIPC Initiative, to be provided monthly within six weeks following the end of each month.

B. Monetary Sector

28. The government will provide the following information within eight weeks following the end of each month:

- the consolidated balance sheet of monetary institutions and, as appropriate, balance sheets of selected individual banks;
- the monetary survey, six weeks after the end of each month for provisional data, and ten weeks after the end of each month for final data;
- borrowing and lending interest rates; and
- customary banking supervision indicators for bank and nonbank financial institutions—as needed, indicators for individual institutions may also be provided.

C. Balance of Payments

29. The government will provide the following information:

- any revision to balance of payments data (including services, private transfers, official transfers, and capital transactions) whenever they occur; and
- preliminary annual balance of payments data, within nine months following the end of the year concerned.

D. Real Sector

30. The government will provide the following information:

- disaggregated monthly consumer price indexes, monthly within two weeks following the end of each month;
- provisional national accounts, no later than six months after the end of the year; and
- any revision in the national accounts.

E. Structural Reforms and Other Data

31. The government will provide 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.

F. Summary of Main Data Requirements

Type of Data	Tables	Frequency	Reporting Lag
Real sector	Provisional national accounts	Annual	Six months after year's end
	Revisions of national accounts	Ad hoc	Eight weeks following revision
Public finances	Disaggregated consumer price index	Monthly	End of month + two weeks
	Net treasury position with the central bank	Monthly	End of month + six weeks
	Table of government financial operations (TOFE) and the 13 usual appendix tables	Monthly	End of month + three weeks (provisional) End of month + six weeks (final)
	Execution of investment budget	Quarterly	End of quarter + six weeks
	Petroleum product pricing formula, tax receipts on petroleum products, and subsidies paid	Monthly	End of month + four weeks
	Status of the Special Status account at the treasury handling the use of the resources from the HIPC Initiative	Monthly	End of month + six weeks
Monetary and financial data	Monetary survey	Monthly	End of month + six weeks (provisional) End of month + ten weeks (final)
	Consolidated balance sheet of monetary institutions and, as needed, balance sheets of individual banks	Monthly	End of month + eight weeks
	Borrowing and lending interest rates	Monthly	End of month + eight weeks
	Banking supervision ratios	Quarterly	End of quarter + eight weeks
	Balance of payments	Annual	End of year + nine months
External debt	Revised balance of payments data	Ad hoc	When revisions occur
	Outstanding external payment arrears and repayments (if applicable)	Monthly	End of month + six weeks
	Details of new external borrowing	Monthly	End of month + six weeks

Burkina Faso: Relations with the Fund

(As of October 31, 2000)

I. Membership Status: Joined: 05/02/63; Article VIII

II. General Resources Account:	SDR Million	%Quota
Quota	60.20	100.0
Fund Holdings of Currency	52.99	88.0
Reserve position in Fund	7.22	12.0

III. SDR Department:	SDR Million	%Allocation
Net cumulative allocation	9.41	100.0
Holdings	0.37	4.0

IV. Outstanding Purchases and Loans:	SDR Million	%Quota
Structural Adjustment Facility (SAF) arrangements	0.63	1.0
Enhanced Structural Adjustment Facility (ESAF)/ Poverty Reduction and Growth Facility (PRGF) arrangements	86.32	143.4

V. Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	09/10/1999	09/09/2002	39.12	11.18
ESAF	06/14/1996	09/09/1999	39.78	39.78
ESAF	03/31/93	05/30/1996	53.04	44.20

VI. Projected Obligations to Fund: (SDR Million; based on existing use of resources and present holdings of SDRs):

	Overdue	Forthcoming				
	<u>10/31/2000</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Principal		0.9	10.1	10.8	12.6	13.5
Charges/interest		0.3	0.8	0.8	0.7	0.7
Total		1.2	10.9	11.6	13.3	14.2

Burkina Faso: Relations with the Fund (continued)

VII. 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 655.95. The exchange rate on November 28, 2000 was CFAF 952.5=SDR 1. The exchange and trade system is free of restrictions on payments and transfers on current international transactions.

VIII. Article IV Consultations

Burkina Faso is on the standard 12-month consultation cycle. The 2000 Article IV discussions and the first review under the Poverty Reduction and Growth Facility (PRGF) were held during the period February 9-23, 2000 in Ouagadougou. The staff report (EBS/00/84; 5/15/00) and the recent economic developments paper (SM/00/115; 6/13/00) were considered by the Executive Board on July 10, 2000.

IX. Technical Assistance

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

<u>Department</u>	<u>Type of Assistance</u>	<u>Time of Delivery</u>	<u>Purpose</u>
FAD impact	Staff	October 6-17, 1997	Assessing the fiscal 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 administrations.
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.

Burkina Faso: Relations with the Fund (concluded)

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.
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X. Resident Representative

The post of Resident Representative was recently opened. Mr Robert Franco took up the post in early December 2000.

Burkina Faso: Relations with the World Bank Group

(As of October 31, 2000)

Since the beginning of the structural reforms in the early 1990s, the World Bank has approved, in addition to project support, two structural adjustment credits, an economic recovery credit, an agricultural sector adjustment credit, a transport adjustment credit, and an economic management reform credit. The current portfolio amounts to commitments of US\$186 million, of which US\$85 million is undisbursed. It includes a number of projects aimed at accelerating the provision of social services, with one project in the education sector, one in health/nutrition, one in population/AIDs control, and one in urban environment. Other projects are geared to improving agriculture (as AG services and Private Irrigation), and building up capacity in the mining sector (see table). Forty-eight IDA credits for an amount of US\$749 million are closed. There are no MIGA operations in Burkina Faso.

Implementation issues in structural adjustment and other credits

The economic reform operation (US\$15 million) was approved in November 1998 and disbursed before end-1998 in one tranche. The third structural adjustment credit (SAC III) (US\$25 million) was approved in December 1999 and disbursed a few days thereafter in one tranche.

New credits

A new Country Assistance Strategy (CAS) was presented to the Board on November 30, 2000. Four operations are expected to be approved in fiscal-year 2001: a community-based rural development project, an HIV/AIDS response operation, a water supply operation, and an adjustment credit.

Statement of IDA Credits

(In millions of U.S. dollars)

Credit Number	Fiscal Year	Sector	IDA	Undisbursed
C25950-BF	1994	Health/Nutrition	29.2	4.2
C26190-BF	1994	Population/AIDS Control	26.3	4.8
C27280-BF	1995	Urban Environment	37.0	12.4
CN0070-BF	1997	Post-Primary Education	26.0	16.1
CN0290-BF	1997	Mining Capacity Building	21.4	15.5
C29740-BF	1998	AG Services II	41.3	28.2
C31610-BF	1999	Private Irrigation	5.2	3.8
Total (number of credits: 7)			186.4	85.0
48 credits closed			748.9	0.0

Source: World Bank.

Burkina Faso: Statistical Issues

Real sector

While the general framework of the national accounts is rather complete, there are substantial problems with the source data for the national accounts at current prices and the price statistics used as deflators. In particular, the industrial production index should be updated to include new industrial units. Also, the procedure to collect information on private investment and services should be improved. In addition, the national accounts suffer from methodological problems. To overcome these problems, additional resources are being provided to the National Institute of Statistics and Demography (INSD), which will be converted into an autonomous institution in 2000.

The base year of the constant-price national accounts estimates has been updated from 1979 to 1985, resulting in revisions in the data from 1985 to 1989. The final 1989-93 national accounts were published in June 1998. With external assistance, the INSD is planning to draw up the 1994-97 national accounts, and the preliminary accounts for 1998 in 2000. The index of industrial production is also under review, within the framework of a program harmonized at the level of the West African Economic and Monetary Union (WAEMU); a new industrial census, taken in March 1998, will be used in the construction of the new index.

A new consumer price index was published in 1998, based on a survey taken in the context of a regional project financed by the European Union and France. The coverage of this index will gradually be extended to include markets outside Ouagadougou.

A new household survey has been completed in 1999 that provides detailed information on the incidence of poverty and expenditure patterns.

Government finance

The detailed data published in the forthcoming 2000 *Government Finance Statistics (GFS) Yearbook* cover only 1984-93. All reported data have limited coverage and relate only to budget operations and capital expenditures financed through grants (no data are reported on extrabudgetary and social security operations, as well as on operations financed by foreign loans), and the *GFS Yearbook* data lack much of the required detail. The compilation of GFS is constrained by a lack of coordination among fiscal agencies, which has a negative impact on the reliability and timeliness of these data.

Burkina Faso: Statistical Issues

Monetary accounts

Preliminary monetary data for Burkina Faso are prepared by the national agency of the Central Bank of West African States (BCEAO) and released officially by the headquarters of the BCEAO with a lag of two to three months. A new accounting system for commercial banks was introduced by the BCEAO on January 1, 1996. Most of the problems that appear in the monetary statistics for Burkina Faso are not specific to that country but concern all countries of the WAEMU.¹ 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 money and banking statistics mission visited the BCEAO in August 1997, investigated these problems, and reviewed with the authorities several measures that would contribute to reducing the delay. The BCEAO is working on additional measures to accelerate the sorting operations in order to resolve this problem.

A second problem has been the slower-than-expected implementation of the new accounting system by banks since its introduction in 1996. These delays contribute importantly to the lag in reporting monetary statistics. The August 1997 STA mission that visited the BCEAO recommended that timing targets for reducing delays in producing the principal report forms be established. The situation has improved recently, and data for the monetary authorities and deposit money banks have been provided to STA through August 2000. While there has been a recent reduction in the lag in reporting monetary data to STA, among others—and this appears to reflect in part an acceleration in this phase of statistical production—there is scope for further improvement.

A monetary and financial statistics mission is schedule to visit the headquarters of the BCEAO in 2001. The mission will review the procedures for collecting and compiling monetary statistics, and address the outstanding methodological issues that concern the member countries of the WAEMU.

Balance of payments

The BCEAO is responsible for completing the balance of payments statement and has significantly improved over the past few years the data consistency. The technical assistance of STA (Statistical Advisor from July 1996 through July 1999) contributed to the reporting of balance of payments data in the framework of the *Balance of Payments Manual* (Fifth Edition) for 1996, 1997, and 1998. Regarding trade data, the customs computer system (SYDONIA) was upgraded in 1999, and its installation in all main border customs houses is being completed; this should allow a better monitoring of import data and should complete

¹ Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo.

the coverage of informal trade. The further improvement of services and transfers (especially workers' remittances) coverage is clearly linked to the intensification of the contacts with reporting bodies; this implies that the authorities' commitment to strengthen the human and technical resources should be confirmed.

Concerning the financial account, the foreign assets of the private nonbanking sector are still weakly covered, especially assets of WAEMU residents, which are assessed through Bank for International Settlement (BIS) data. The organization of annual exhaustive surveys for the reporting of foreign direct investment transactions in Burkina Faso is still in a very 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*).

The follow-up mission at the BCEAO (April 17-28, 2000) highlighted improvements in released data: early in 2000, Burkina Faso approved a balance of payments final statement for 1998 and is due to disseminate the statement for 1999 before the end of 2000. However, the mission pointed out serious shortages in human and technical resources that were devoted to implementation of the resident advisor's recommendations.

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: Survey of Reporting of Main Statistical Indicators

(As of December 18, 2000)

	Exchange Rates	International Reserves	Reserve/ Base Money	Central Bank Balance Sheet	Broad Money	Interest Rates 1/	Consumer Price Index	Exports/ Imports 2/	Current Account Balance	Overall Government Balance	GDP/GNP 3/	External Debt
Date of latest Observation	11/30/00	Oct. 2000	Oct. 2000	Oct. 2000	Oct. 2000	Oct. 2000	Oct. 2000	Dec. 1999	Dec. 1999	Sep. 2000	1999	Oct. 2000
Date received	12/1/00	Oct. 2000	Oct. 2000	Oct. 2000	Oct. 2000	Oct. 2000	Oct. 2000	Oct. 2000	Oct. 2000	Oct. 2000	Oct. 2000	Oct. 2000
Frequency of data	Daily	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Annual	Monthly	Annually	Annual
Frequency of reporting	Daily	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Quarterly	Annually	Monthly	Annually	Annually
Source of data 4/	EIS/TRE	BCEAO	BCEAO	BCEAO	BCEAO	BCEAO	BCEAO	BCEAO	BCEAO	Ministry of Finance	Ministry of Finance	Ministry of Finance
Mode of reporting	On-line	Staff	Staff	Staff	Staff	Staff	Electronic	Electronic	Staff	Staff	Staff	Staff
Confidentiality	No	5/	5/	5/	5/	No	No	5/	5/	5/	5/	5/
Frequency of publication	Daily	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Annually	Annually	Monthly	Annually	Annually

1/ Up-to-date data available upon request from BCEAO; also updated regularly in press.

2/ Customs data available monthly in conjunction with fiscal data.

3/ Revised periodically during year.

4/ EIS = IMF, Economic Information System; TRE = IMF, Treasurer's Department; BCEAO = Central Bank of West African States.

5/ Preliminary use for staff only; actual data unrestricted.

Burkina Faso: Tentative Work Program under the PRGF Arrangement, 2000-02

Date	Action	Disbursement
July 10, 2000	Executive Board conclusion of the 2000 Article IV consultation, approval of the first review under the PRGF arrangement, completion point for the original HIPC Initiative, second decision point for the enhanced HIPC Initiative, and consideration of the PRSP and its assessment	SDR 5.59 million
October 24 –November 8, 2000	Mission on the second review under the PRGF arrangement and on the negotiation of the second year of the PRGF arrangement	
End-December 2000	Performance criteria test date	
January 10, 2000	Executive Board consideration of the second review under the PRGF arrangement	SDR 5.59 million
April 2001	Mission on the third review under the PRGF arrangement, discussions under the 2001 Article IV consultation, and possible completion point under the enhanced HIPC Initiative	
June 2001	Executive Board discussion of the 2001 Article IV consultation and the third review under the PRGF arrangement	SDR 5.59 million
End-June 2001	Performance criteria test date	
September 2001	Mission on the fourth review of the PRGF arrangement, including negotiation of the third year of the PRGF arrangement	
December 2001	Executive Board consideration of the fourth review of the PRGF arrangement	SDR 5.59 million
End-December, 2001	Performance criteria test date	
February 2002	Mission on the fifth review under the PRGF arrangement and discussions under the 2002 Article IV consultation	
April 2002	Executive Board discussion of the 2002 Article IV Consultation and the fifth review under the PRGF arrangement	SDR 5.59 million
End-June 2002	Performance criteria test date	
August 2002	Sixth review under the PRGF arrangement and final disbursement	SDR 5.58 million
September 2002	Arrangement expires	

NEWS  BRIEF

FOR IMMEDIATE RELEASE

News Brief No. 01/3
FOR IMMEDIATE RELEASE
January 10, 2001

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

**IMF Completes Second Review of Burkina Faso Program and
Approves US\$ 7 Million Loan**

The Executive Board of the International Monetary Fund (IMF) today completed the second review for Burkina Faso under a program supported by a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF)¹. The completion of this review enables the release of a further loan of SDR 5.59 million (about US\$ 7 million) from the IMF, which brings total disbursements under the PRGF-supported program to an amount equivalent to SDR 16.77 million (about US\$ 22 million).

After the Executive Board's discussion on Burkina Faso, Stanley Fischer, First Deputy Managing Director and Acting Chairman made the following statement:

"During the first year of the PRGF-supported program, Burkina Faso was hit by a number of exogenous shocks, including adverse weather

¹ On November 22, 1999, the IMF's concessional facility for low-income countries, the Enhanced Structural Adjustment Facility (ESAF), was replaced by the Poverty Reduction and Growth Facility (PRGF), and its purposes were redefined. It was intended that PRGF-supported programs will in time be based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners, and articulated in a Poverty Reduction Strategy Paper (PRSP). This is intended to ensure that each PRGF-supported program is consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty. In the case of Burkina Faso, a full Poverty Reduction Strategy Paper was prepared and endorsed by the Executive Boards of the IMF and the World Bank in July 2000. 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.

conditions, the increase in import prices, particularly of oil products, and a sharp decline in workers' remittances. These shocks caused a slowdown in economic activity, lower government revenues and a decline in external trade.

"Meanwhile, structural reforms have been implemented broadly as planned, the ongoing privatization program is approaching completion, and the financial situation of the banking system has continued to improve in 2000.

"The fiscal situation deteriorated in the third quarter of 2000 on account of lower growth, the stronger than expected impact of WAEMU's common external tariff in reducing revenue from trade, and a cut in the excise tax on petroleum products. The authorities have taken a number of measures to curtail expenditure in order to contain the deficit.

"The Burkinabé economy is expected to recover in 2001. Real GDP is projected to grow by around 6 percent on the basis of a rebound in agricultural output. On the fiscal side, a number of revenue measures were adopted in order to achieve the programmed revenue and overall deficit targets. The 2001 policy stance is guided by the objectives of the Poverty Reduction Strategy Paper. Accordingly, social spending excluding HIPC assistance was increased in the 2001 budget compared with 2000, and the HIPC assistance expected to become available in 2001 was fully integrated in the budget.

"The main challenge is to move ahead with the reform program, so as to create the conditions for sustainable and equitable growth and durable poverty reduction. The structural reform agenda will focus on the adoption of an automatic pricing policy for petroleum products in line with international prices; pursuit of the reform of the cotton sector; and completion of the privatization program," Mr. Fischer said.