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Burkina Faso: Second and Third Reviews Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Requests for Waiver of Nonobservance of Performance Criteria and Extension of Commitment Period—Staff Report; Press Releases on the Executive Board Discussion; and Statement by the Executive Director for Burkina Faso

In the context of the second and third reviews under the three-year arrangement under the Poverty Reduction and Growth Facility and requests for a waiver of nonobservance of performance criteria and extension of commitment period with Burkina Faso, the following documents have been released and are included in this package:

- the staff paper for the second and third reviews under the three-year arrangement under the Poverty Reduction and Growth Facility and requests for waiver of nonobservance of performance criteria and extension of commitment period, prepared by a staff team of the IMF, following discussions that ended on November 22, 2004, 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 21, 2004. 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.

- Press Releases summarizing the views of the Executive Board as expressed during its February 2, 2005 discussion of the staff report that completed the requests and reviews.

- a statement by the Executive Director for Burkina Faso.

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

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

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

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

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BURKINA FASO

Second and Third Reviews Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Requests for Waiver of Nonobservance of Performance Criteria and Extension of Commitment Period

Prepared by the African Department

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

Approved by Thomas Krueger and Anthony Boote

December 21, 2004

PRGF arrangement. A three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) for SDR 24.08 million (40 percent of quota) was approved on June 11, 2003. The first review was completed on March 19, 2004. Executive Directors commended the authorities for the good performance of the economy, and progress made in enhancing fiscal transparency and governance. They encouraged the authorities to improve tax collection and contain government expenditure, and underscored the importance of enhancing competitiveness and reducing aid dependency. Burkina Faso has accepted the obligations under Article VIII.

Missions: Discussions for the second review were held in Ouagadougou during June 3–16, 2004, and those for the third review during November 6–22, 2004. The staff team (all AFR) comprised Mr. Rogers (head), and Messrs. MacFarlan, Gudmundsson, Williams, and Wane for the June mission, and Messrs. Rogers, Gudmundsson, and Geiregat for the November mission. The missions were assisted by Mr. Zejan (resident representative). World Bank staff also participated in the discussions.

Regional and political developments. The intensification of the crisis in Côte d'Ivoire has once again interrupted supply lines. Presidential elections are scheduled for late 2005.

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Executive Summary

Recent developments and prospects

Macroeconomic performance was good during the first nine months of 2004, but economic prospects have weakened in the wake of adverse terms of trade shocks. Real GDP is estimated to grow at 4.8 percent and inflation remains low. However, record lows for cotton prices and record highs for oil prices are expected to slow growth in 2005 and weaken the balance of payments.

While all quantitative performance criteria were met, two structural criteria were not observed—but the authorities have taken corrective actions. Notwithstanding some delays, the authorities are moving ahead with efforts to open the economy to private sector involvement, and the first wholly private–owned cotton ginning companies were established in September 2004.

Economic policies for the period ahead

The program objectives for the remainder of 2004 are achievable, but the macroeconomic framework for 2005 has been revised in light of the worsening external environment.

- The authorities stressed that market mechanisms for the determination of cotton prices should be allowed to function as in the past. Similarly, there was agreement to allow for the pass-through of world oil prices to consumers—with some well-targeted support for the neediest segments of the population.

- Fiscal policy for 2005 aims at preserving social sector outlays while ensuring that the external debt burden falls. The 2005 budget holds the fiscal deficit constant at 9.3 percent of GDP, and provides for some expenditure to smooth the adjustment process. The 2005 program is fully financed and strikes a balance between fiscal restraint in the face of high external debt and the need to push ahead with priority social expenditures. Timely implementation of revenue-enhancing reforms will be essential.

- Monetary policy will continue to be conducted at the regional level by the BCEAO with the objective of maintaining price stability. While the balance of payments is projected to record a deficit, reserves would remain at a comfortable four months of imports.

- Structural reforms are key to achieving higher rates of economic growth and sustained poverty reduction, and the authorities place particular emphasis on reforms in the public utilities. Progress has been made in strengthening fiscal transparency, but more work is needed to combat corruption.

- Important risks to the 2005 program relate to developments in the external terms of trade, which could result in more adverse growth and financial impacts than currently projected.

Staff supports the authorities' request for completion of the second and third reviews, waivers for the nonobservance of two structural performance criteria, and the extension of the program period.

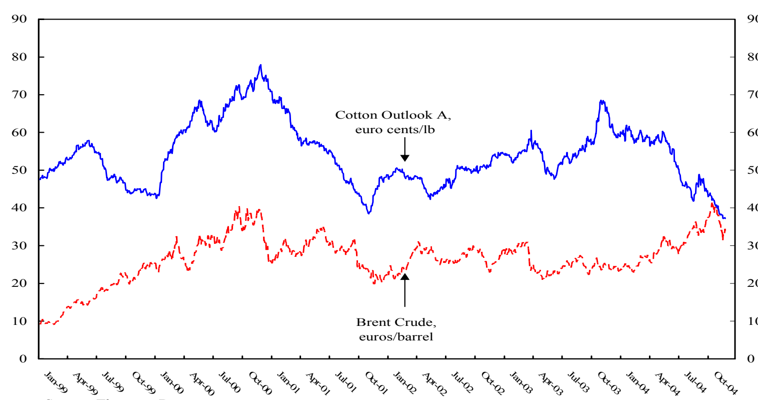
I. Introduction

1. **This report covers both the second and third reviews of the arrangement under the Poverty Reduction and Growth Facility**. A mission visited Ouagadougou in June 2004 to hold discussions for the second review. The Board meeting had been scheduled for November; however, Burkina Faso's external terms of trade deteriorated substantially in the interim. Consequently, the macroeconomic framework that had been agreed for 2005 needed to be revised and appropriate policy responses to the deterioration needed be agreed before the second review could be completed. A mission returned to Ouagadougou in November 2004 to conclude discussions for the second review and, simultaneously, conduct those for the third review.

II. Recent Economic Developments and Program Performance in 2004

2. **Burkina Faso is suffering from a number of adverse exogenous shocks**. World cotton prices (measured in euros, to which the CFA franc is pegged) have reached record lows and world oil prices have reached record highs (Figure 1), drought and locusts have adversely affected agricultural production in some northern provinces, and the recent intensification of the Ivorien crisis has once again disrupted supply lines.

Figure 1. Burkina Faso: Cotton and Oil Prices, Daily,
January 1,1999–November 24, 2004
(In euros)



Source: Thomson Datastream

3. **Economic performance and macroeconomic policy under the 2004 program have been good, despite these shocks, and all quantitative performance criteria for the second and third reviews have been observed.**[1] Real GDP growth is projected to slow to 4.8 percent, reflecting a return of agricultural production to trend following the record cotton

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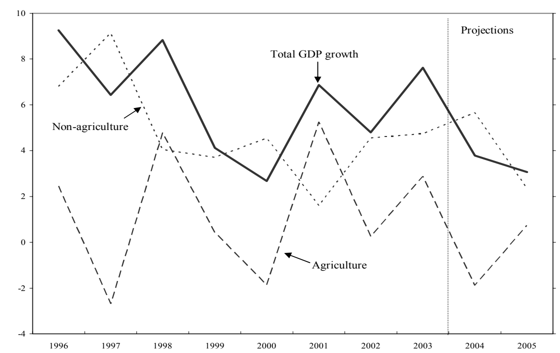
[1] The continuous performance criterion on nonconcessional debt was not observed just prior to the first review, as described in the "Report on Noncomplying Disbursement and Recommendation for Waiver of Nonobservance of Performance Criterion."

and cereal harvests of 2003 (Table 1 and Figure 2).[2] Strong economic growth in nonagricultural sectors has been fueled by domestic demand arising from the high incomes derived from last year's agricultural harvest. The impact of last year's bumper cereal

Selected Economic Indicators, 1997–2004				
	1997–2002	2003	2004	
	Average	Est.	Prog.	Proj.
	(Annual percentage change)			
GDP at constant prices	5.3	8.0	5.2	4.8
Consumer prices (annual average)	2.2	2.0	1.9	-0.8
Terms of trade	1.6	-0.7	4.3	-2.7
	(In percent of GDP)			
Overall fiscal balance, including grants	-3.5	-2.9	-4.9	-4.4
Current account balance, including transfers	-10.1	-6.9	-9.3	-8.6
Balance of payments overall balance	-0.9	1.0	0.0	0.4

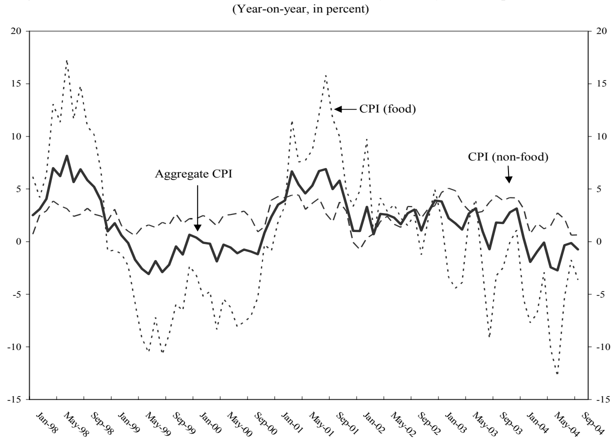
Figure 2. Burkina Faso: Contribution to GDP Growth, 1996–2005



Source: Burkinabè authorities, and Fund Staff estimates.

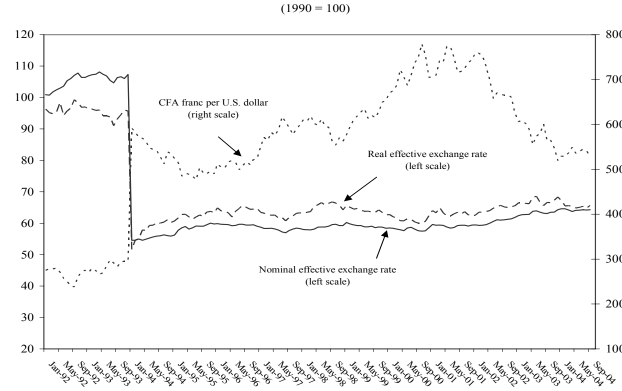
harvest resulted in a decline in food prices through September (Figures 3 and 4) and the overall CPI fell by 0.7 percent during the 12 months ending September. The impact of rising world oil prices has, however, pushed up domestic gasoline prices and transportation costs. This effect, however, has been somewhat mitigated by the recent appreciation of the euro, to which the CFA franc is pegged.

Figure 3. Burkina Faso: Consumer Price Inflation, Monthly, January 1998–September 2004
(Year-on-year, in percent)



Source: Burkinabè authorities.

Figure 4. Burkina Faso: Selected Nominal and Real Exchange Rates, Monthly, January 1992–September 2004
(1990 = 100)



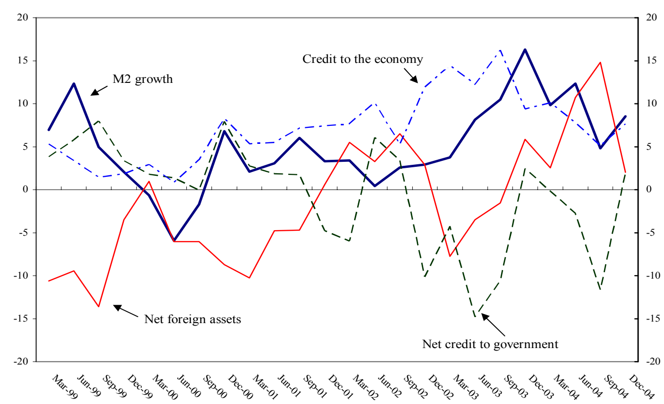
Source: IMF (Information Notice System)

[2]Cotton production has not yet been affected by the decline in world prices. The guaranteed producer price for cotton was agreed in the first half of 2004, and planting occurred in May/June, before world prices began to decline. All agricultural production is recorded in the national accounts in the year harvest commences, but most of the output is marketed in the following year.

4. **Fiscal policy through September 2004 was moderately tighter than programmed.** Total revenue (Table 2) was slightly higher than targeted, up 15 percent relative to the same period in 2003, reflecting high corporate incomes of the previous year, and robust economic growth in the nonagricultural sectors this year.[3] Total expenditure and net lending were moderately lower than programmed because of more restrained transfers to administrative institutions and municipalities, and lower expenditures on goods and services. Expenditure restraint has been achieved in part because of new procedures to ensure that commitment authorizations (*engagements*) are in line with revenues.[4] Following a sharp decline in the first three months of the year, the stock of commitment authorizations not executed (*dépenses engagées non mandatées*—DENMs) had increased at end-September, primarily because authorizations for spending on priority social capital programs exceeded implementation rates. Against this background, domestic borrowing by the government was much lower than programmed. The National Assembly approved a supplementary budget for 2004 that reallocated nonpriority social expenditures for the purchase of a replacement presidential aircraft (0.1 percent of GDP) and to cover costs associated with the summits of the African Union and francophone countries (0.2 percent of GDP), which Burkina Faso hosted.

5. **Broad money grew by about 5 percent during the 12 months ending September, and the balance of payments recorded a sizable surplus (Table 3 and Figure 5).** Against the background of lower-than-programmed government borrowing and moderate growth in credit to the economy, net foreign assets of the banking system (including those of the regional central bank—the BCEAO) increased much more rapidly than projected. The level of international reserves at end-September

Figure 5. Burkina Faso: Contribution to Money Growth, Annual, 1999–2004
(Year-on-year, in percent)



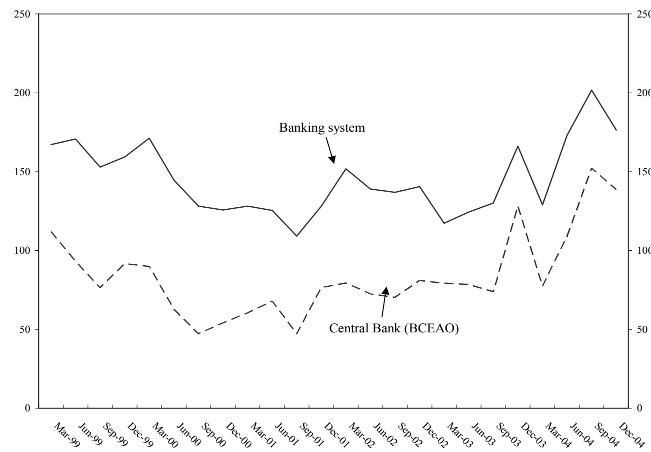
Source: Burkinabè authorities, and Fund Staff estimates.

[3] Corporate income taxes are paid on the previous year's income, which was exceptionally good in the cotton sector. Revenues were higher than projected even though Burkina Faso was not paid the CFAF 8 billion (0.4 percent of GDP) it is owed by the West African Economic and Monetary Union for compensation for shortfalls in the preferential community tax (*taxes préférentielles communautaires*).

[4] Expenditures in Burkina Faso are recorded on an *engagement* basis. This is an authorization to spend, issued by the Treasury to spending ministries. The actual government commitment to pay a provider of goods or services arises only after their delivery in accordance with the contract has been confirmed (*liquidation*). After this, the Treasury issues an *ordonnancement*, leading to a payment order. The authorities intend to begin recording expenditures on an *ordonnancement* basis in 2006.

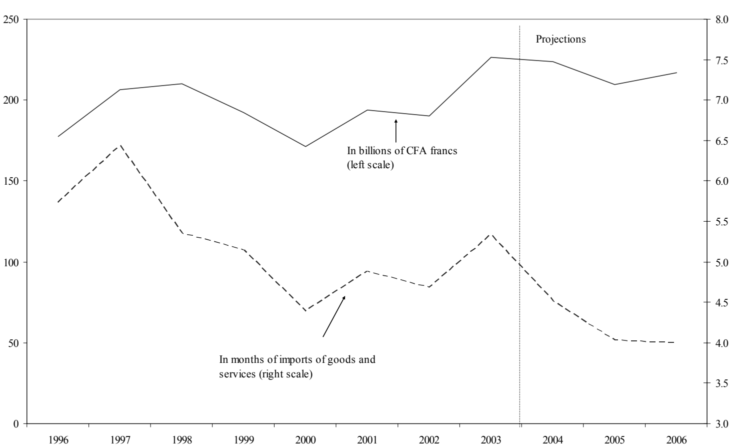
was about CFAF 60 billion (2¼ percent of GDP) above the program projection (Figures 6 and 7). This reflects strong exports during the first half of the year before the external environment began deteriorating. The current deficit, however, is expected to widen in the fourth quarter of 2004 on the basis of the usual acceleration of the public investment program toward the end of the year, and the impact of higher world oil prices.

Figure 6. Burkina Faso: Net Foreign Assets of the Banking System, Quarterly, March 1999–December 2004
(In billions of CFA francs)



Source: Burkinabè authorities.

Figure 7. Burkina Faso: Contribution to the International Reserves of the Central Bank (BCEAO), 1996-2004



Source: Burkinabè authorities, and Fund Staff estimates.

6. **Progress on structural reforms was mixed and two structural performance criteria were not observed**. The installation of the SYDONIA (++) system was completed in only five of the ten targeted customs offices by end-March, and the 2002 audited budget act was submitted to the National Assembly six weeks after the end-April test date. The SYDONIA ++ system was introduced in four other offices by end-November, and its implementation in the tenth office is a prior action for concluding the second and third reviews. The authorities suspended the monthly adjustment of domestic petroleum prices for

the month of October, thereby not observing the related continuous indicative target under the program.

7. **Important reforms were undertaken in the cotton and electricity sectors, and in labor market legislation**. SOFITEX,[5] heretofore the partially government-owned cotton monopsony, sold ginning facilities and signed concession agreements with two private companies in September 2004. This has resulted in the first wholly private-owned cotton ginning and marketing companies in Burkina Faso. The authorities increased electricity tariffs by 10 percent on October 1, 2004 (for the first time since 1994) in the context of a sector reform strategy that is being supported by the World Bank and other development partners. This will mitigate the impact of the recent increase in world oil prices on SONABEL (the government-owned electricity utility) and will help unlock additional donor-funded investment in the sector. The National Assembly approved a new labor code in September 2004 that makes the rules governing labor contracts more flexible and streamlines procedures for out-of-court settlements of labor disputes.

III. Report on the Discussions

8. **The discussions focused on policies to preserve macroeconomic stability and pro-poor growth in the face of a deteriorating external environment, mindful of the need to ensure debt sustainability**. The mission and authorities agreed that the program objectives and policies for the remainder of 2004 were achievable and appropriate, but that the macroeconomic framework and the budget for 2005 needed to be revised in light of the deterioration in the external terms of trade. The authorities' program for 2005 is set out in the attached letter of intent (LOI, Appendix I) and memorandum of economic and financial policies (MEFP, Appendix I, Attachment 1). The authorities have issued a revised PRSP for 2004–06 and are updating the underlying medium-term expenditure framework in light of recent developments.

A. Cotton, Petroleum, and Electricity Pricing Policy

9. **Policy discussions centered on the issues of cotton, petroleum product, and electricity pricing**. There was general agreement that world price developments had to play a critical signaling role for domestic producers and consumers, arguing for a full pass-through of the change in world prices to producers and consumers. However, given the potential poverty implications of the very large changes in world prices—and mindful of the high volatility of these prices—discussions also covered how rapidly the pass-through to

[5] SOFITEX is owned by member farmers (30 percent), government (35 percent), a foreign firm (34 percent), and local banks (1 percent). SOFITEX has not received any subsidies in the past from the government in support of the producer price of cotton. A small subsidy (about 0.1 percent of GDP) was paid to cotton farmers in 2003 and 2004 to help cope with the impact of the Ivorien crisis on input costs.

domestic prices should occur, and the possible implications for the fiscal deficit and the balance of payments.

10. **Discussions on the cotton sector focused on two issues: (i) financing the losses that the ginning companies could incur on the current crop, and (ii) the government's position regarding the producer price for the next crop (2005/06)**.[6] There was some disagreement about the potential magnitude of financial losses in the cotton sector. SOFITEX indicated that it expected to realize losses of about CFAF 5 billion (0.2 percent of GDP), based on a marginal price of about CFAF 610 per kilo. The staff estimated that the losses to SOFITEX alone could be on the order of CFAF 20 billion (0.7 percent of GDP) and that losses of the other two companies could be 0.2 percent of GDP, based on recent offers in the range of CFAF 525 per kilo.[7] Nonetheless, the companies and the authorities were confident that potential losses could be financed without recourse to any budgetary subsidy.[8]

11. **The mission urged the authorities, as minority shareholder of the largest of the three cotton companies, to push for a reduction in the guaranteed producer price of cotton for the next campaign, planting of which will begin in May/June 2005**. The mission estimated that at the current producer price, company losses on the next crop could amount to about CFAF 25 billion (0.9 percent of GDP). The authorities noted that the cotton sector is largely private and that the producer price is the result of negotiations between the farmers' association and the ginning companies (of which the farmers are shareholders). While the authorities clearly have an input into the negotiations, they did not want to undermine what is essentially a private-sector decision. Furthermore, they indicated that it was too early to negotiate a new producer price, as world cotton prices could rebound in the coming months. The mission and the authorities therefore agreed that the market mechanism should be allowed to function as it has in the past.

12. **The authorities reinstated the automatic mechanism for determining domestic petroleum prices in November and committed to not lowering applicable taxes**. They indicated that they suspended the mechanism for the month of October to take stock of the

[6] See paragraphs 8 and 9 of the MEFP for descriptions of the organization of the cotton sector and the setting of the producer price.

[7] Both estimates incorporate forward sales by SOFITEX that were contracted at higher prices.

[8] SOFITEX's profits on the 2003/04 campaign were an estimated CFAF 30 billion (1.2 percent of GDP). About CFAF 20 billion of this is being paid to farmers in the form of a *ristourne*, on the current crop. The *ristourne* is paid on the basis of current production in the amount of CFAF 35 per kilo of seed cotton, added to the guaranteed producer price of CFAF 175 per kilo. Overall, SOFITEX indicated that it had adequate means to finance losses from the current crop.

potential impact of what would have been a 15-20 percent increase in retail prices (see para. 8 of the MEFP). Under the mechanism, domestic retail prices are adjusted during the first week of each month on the basis of a cost-based markup over the world market price.

13. **The discussions on electricity pricing centered on the need to ensure that the government subsidy is consistent with the electricity sector reform strategy recently agreed with the World Bank, but not open-ended**. Under the current arrangement, private distributors buy fuel from the state-owned importing company (SONABHY) at the world market price and sell it to SONABEL at a fixed price. The fixed price is currently below the c.i.f. import price and the government reimburses the private companies. A total of CFAF 12.5 billion was budgeted for 2004, and most of this has been disbursed. The electricity sector strategy agreed with development partners (negotiated before the increase in world oil prices) presumes that SONABEL would continue to pay the current fixed price for fuel in 2005, and the budgeted subsidy was raised by about CFAF 5.5 billion. The authorities agreed to limit the subsidy to the budgeted amount (see para. 14 of the MEFP). The reform strategy agreed with the World Bank envisages additional tariff increases and the elimination of budgetary support over the medium term.

B. Macroeconomic Framework for 2005

14. **The impact of declining world cotton prices and rising world oil prices dominated the discussions of the macroeconomic framework for 2005**. The PRGF program had envisaged real GDP growth of about 5¼ percent in 2005, in line with the long-term trend, based on fairly stable world cotton and crude oil prices. The average export price for cotton is now projected to fall by about 27 percent in 2005 and the average world oil price is projected to increase by 10 percent.[9] The decline in cotton prices will result in a reduction in export earnings by some 2.2 percent of GDP, while the effect of higher world oil prices on imports would amount to 0.4 percent of GDP. The deterioration in the external terms of trade is expected to reduce real economic growth and cause a widening of the external current account deficit. The discussions centered on the magnitude of these impacts and the appropriate fiscal policy response.

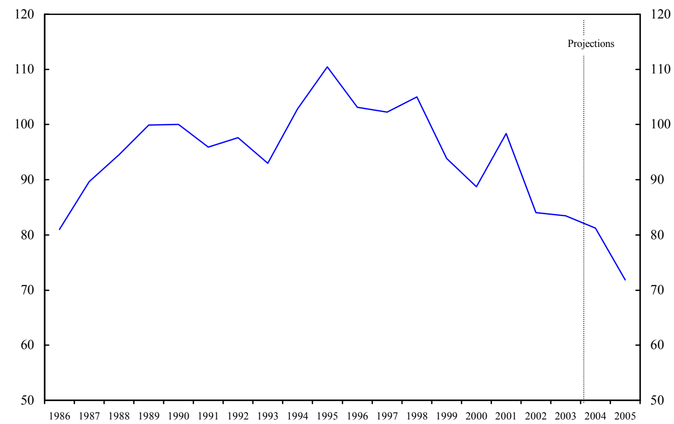
15. **The authorities were generally more optimistic than the mission regarding the slowdown of economic growth arising from the deteriorating external environment**. They noted that the economy had performed well in the past when world cotton prices fell, in part because farmers are well informed and can and have switched between cotton and other crops. They also noted that the economy had demonstrated its ability to grow in the face of

[9] The cotton export projections are based on a marginal world price of US$0.48 per pound and an average export price for cotton of CFAF 590 per kilo, which incorporates some forward sales by SOFITEX at a higher price. The world price forecast is from the November 2004 report of the International Cotton Advisory Committee (ICAC). The world price of oil and the exchange rates are based on the WEO forecast as of November 2004.

disrupted supply lines arising from the Ivorien crisis. Finally, while drought and locusts are adversely affecting agricultural production in some provinces, the authorities expected an overall agricultural surplus in the current year, and have taken measures to ensure that food flows from surplus to deficit regions.

16. **The mission noted that the external terms of trade had fallen to a 20-year low (Figure 8) and urged the authorities to approach the 2005 program with caution, which they agreed to do**. The real GDP growth projection for 2005 has therefore been revised downward to 3.5 percent. The exchange rate peg, together with continued low world inflation and slower growth of domestic demand, are expected to contain inflation to about 2 percent. With cotton export earnings falling and oil imports rising, the external current account deficit is projected to widen to about 12 ½ percent of GDP. Net financial flows are not projected to be sufficient to cover the widening deficit, and the overall balance of payments would be in deficit (Table 4).

Figure 8. Burkina Faso: Terms of Trade, 1986–2005
(1990 = 100)

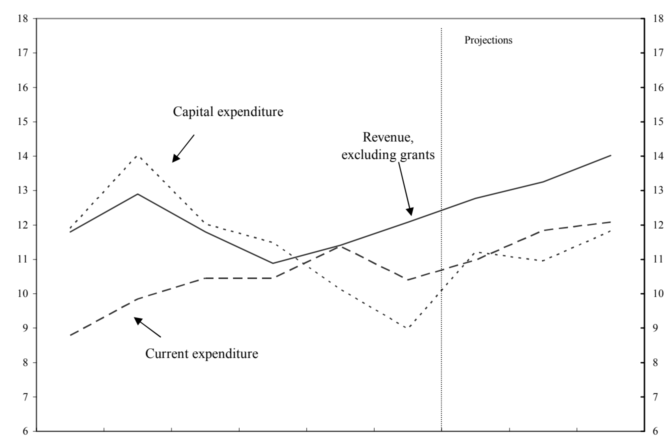


Source: Burkinabè authorities, and Fund staff estimates.

C. Fiscal Policy

17. **Discussions on fiscal policy centered on the need to preserve outlays for the priority social sectors and provide some adjustment assistance in the face of external shocks, while ensuring that the external debt burden falls.** Government revenues for 2005 were revised downward compared with initial program projections, with the dampening effect of slower economic growth partially offset by higher oil-related taxes. The impact of reforms in tax and customs administration undertaken in 2004, as well as those envisaged for 2005 (Table 4 of Appendix I, and Box 1), are expected to contribute to an increase in the revenue-to-GDP ratio of about ½ percentage point (to 13.3 percent of GDP, Table 2 and Figure 9). Expenditures would be slightly lower than programmed, reflecting the rationalization of the public investment

Figure 9. Burkina Faso: Government Revenue and Expenditure, 1998–2006
(In percent of GDP)



Source: Burkinabè authorities, and Fund Staff estimates.

Box 1. 2005 Fund Structural Conditionality

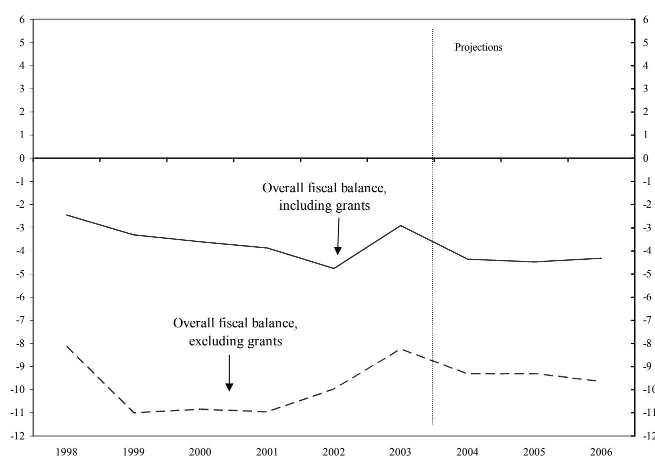
Structural reforms in 2005 will focus on the following main areas:

- Continuing to promote fiscal transparency and good governance, notably through the audit by the Auditor General Office and the submission to the National Assembly of the government's general balance sheets and budget act.
- Efforts to broaden the tax base, notably through the adoption of a revised single taxpayer identification number and the launch of a comprehensive census of taxpayers.
- Measures to enhance tax collection, including computerization and the sharing of information between the tax and customs directorates, improved monitoring of fiscal exonerations and the declared values of imports, and more frequent and better-targeted tax controls at the level of the Large Taxpayer Division.

program. Current outlays would be broadly in line with earlier projections (adjusted for changes in the nomenclature) and would reflect a 15 percent increase in the wage bill. This would accommodate the first increase in the basic wage since 1997, as well as additional recruitments, mostly teachers and health sector workers. The education and health ministries would account for more than one half of the increase in the overall wage bill. Poverty-reducing expenditures are budgeted to increase by about 25 percent and total poverty-reducing outlays (including outlays financed with HIPC resources) will amount to one-third of total domestic outlays. The program provides for an increase in subsidies for household consumption of butane and lamp oil, as well as the fuel subsidy for SONABEL, and contains the rest of the resources for the presidential aircraft amounting to another 0.1 percent of GDP.

18. **On the basis of these discussions, total expenditures in 2005 would amount to 22.6 percent of GDP and the overall fiscal deficit, excluding grants, would remain unchanged from 2004 at 9.3 percent of GDP (Figure 10).** The deficit would be entirely financed by net donor flows, including identified possible financing amounting to 2.8 percent of GDP, for which donors have provided adequate assurances. Donors indicated that they would not provide as much project support in the form of grants as the staff had projected previously under the program. Nonetheless, about two-thirds of gross donor flows would be in the form of grants and debt relief, and the rest in highly concessional loans, thus allowing for a further decline of the external debt burden—a key objective of the authorities' program for 2005.

Figure 10. Burkina Faso: Fiscal Balance, 1998–2006
(In percent of GDP)



Source: Burkinabè authorities, and Fund Staff estimates.

D. Monetary Policy and Financial Sector

19. **Monetary policy will continue to be conducted at the regional level by the BCEAO with the objective of maintaining price stability**. Broad money is projected to grow by about 5½ percent in 2005, in line with nominal GDP, and credit to the economy is projected to grow somewhat more rapidly (Table 3). The projected growth in credit to the economy would accommodate some borrowing by the cotton companies to cover financial losses, but presumes that the bulk would be covered by drawing on liquid assets (in the case of SOFITEX) or by borrowing from parent companies (in the case of the private companies). The overall balance of payments is projected to record a deficit of about CFAF 16 billion (Table 4). However, Burkina Faso's contribution to the international reserves of the BCEAO will still be higher by end-2005 than had been projected earlier, and will remain at a comfortable four months of imports of goods and services.

20. **These projections were discussed with the BCEAO authorities, who had projected an increase in international reserves on Burkina Faso's account**. The mission argued that some decline in international reserves in 2005 seemed warranted given the deterioration of the external environment, the need for the Burkinabè authorities to push ahead with implementing their poverty reduction strategy, and the high level of international reserves. The Burkinabè authorities generally agreed that further tightening fiscal policy to support an increase in reserves would unduly limit the implementation of the poverty reduction strategy. The monetary authorities did not object to this view, but were also not prepared to fully endorse it at the time of the discussions.

21. **The monetary authorities indicated that the banking system was adequately capitalized to withstand the recent external shocks**. All banks were meeting minimum capital requirements at end-June 2004 and most were complying with all other prudential regulations, except for loan concentration limits. Loan concentration risk could rise if the cotton companies borrow heavily in 2005 to cover losses. The Burkinabè authorities reiterated their commitment to promote microfinance in order to increase access to financial services in rural areas and for small enterprises. The elaboration of a strategy for the development of the sector, initially envisaged for March 2004, will be delayed until the end of 2004 in order to ensure adequate participation of all stakeholders in the drafting of the strategy. The authorities are continuing to work with the World Bank on judicial reforms to enhance procedures for the foreclosure on collateral and the collection of loans.

E. Structural Reforms and Governance

22. **The authorities and the mission concurred that structural reforms to enhance competitiveness and improve governance were crucial to enhance economic growth**. As part of the electricity sector reform strategy, the government will adopt a new regulatory framework for the electricity sector that will establish the basis for private generation and flexible prices. It will also extend the Ivorien grid to Ouagadougou, which is expected to reduce the cost of electricity and the need for a budgetary subsidy. The authorities received no bids for their offer to sell a minority holding of ONATEL (the national

telecommunications company), in part because investors were wary of the government's initial intention to relinquish majority control only after a six-year period. Working with the World Bank, the government has decided to shorten this period and it is finalizing a new privatization schedule (Box 2).

Box 2. Structural Reforms Supported by the World Bank

A fourth poverty reduction support credit (PRSC-4) was approved in May 2004, and preparations for the fifth PRSC are underway. In the areas in which the Bank and the IMF collaborate closely, the PRSC includes the following key measures:

- Energy: adoption of regulatory and legal changes in line with the electricity sector strategy;
- Budget formulation: adoption of the draft budget for 2005 on the basis of sectoral ceilings of the 2005–07 medium-term expenditure framework and in line with the priorities of the PRSP;
- Budget execution: implementation of the recommendations of the AFRITAC mission concerning the monitoring of externally financed investment spending;
- Budget procurement: adoption of a decree to implement best international practice for the regulation of concession and leasing contracts;
- Budget management and ex post control: implementation of the action plan to create a government property accounting system.

23. **During the discussions on governance, the mission noted the lack of follow-up to the report of the High Authority on the Coordination of the Fight Against Corruption, finished in January 2004**. The authorities pointed out that the fight against corruption extends beyond the activities of the High Authority, and should be assessed in that broader context. They noted that more than 20 cases of embezzlement of public funds have been successfully prosecuted this year, resulting in prison terms and recovery of funds. The authorities also indicated that a national policy to fight corruption would be adopted in 2005 following a wide-ranging consultation.

F. External Sector and Debt Developments

24. **Burkina Faso made substantial progress in signing bilateral agreements with all Paris Club and multilateral creditors in the context of the enhanced HIPC Initiative**. Topping-up assistance from the Fund was granted on October 27, 2004. The authorities have contacted all seven of Burkina Faso's non-Paris Club bilateral creditors,[10] but they indicated that no agreements had been signed. According to the authorities, Algeria, China, Libya, and Côte d'Ivoire have not responded to their requests for negotiations. Côte d'Ivoire has

[10] Algeria, China, Côte d'Ivoire, Kuwait, Libya, Saudi Arabia, and Taiwan Province of China.

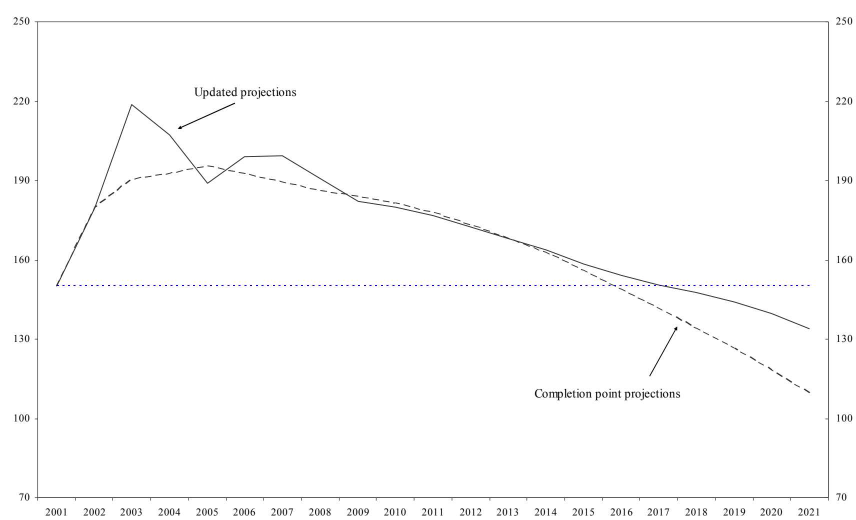
formally demanded payment of its claims in full and has indicated that it will seize official Burkinabè assets in Côte d'Ivoire if payment is not made. The authorities indicated that Kuwait and Saudi Arabia offered rescheduling terms that fall short of the treatment granted by Paris Club creditors. The staff urged the authorities to continue efforts to obtain debt relief in line with the HIPC Initiative.

25. **The mission and the authorities discussed the constraints that external debt dynamics place on fiscal policy**. At the time of the completion point, the ratio of the NPV of debt to exports was projected to rise from 150 percent at end-2001, to 190 percent at end-2003, on the basis of constant commercial interest reference rates (CIRRs) and exchange rates (see www.imf.org, March 28, 2002). The ratio increased to 219 percent, but would have increased to a more moderate 153 percent if the CIRRs and exchange rates had been the same as projected at the time of the completion point. The impact of new borrowing, which was considerably less than projected at the completion point, was largely offset by higher exports. The external debt ratio is projected to rise during 2006-07, because of weaker cotton exports, and to fall steadily thereafter (Table 5 and Figure 11).

Contribution to the increases in Ratios of NPV of Debt to Exports and Revenues (in percent)

	NPV of debt to exports	NPV of debt to revenues
Present value of debt at end-2001	150.0	115.8
Change in discount factor effect	46.6	28.0
Change in exchange rate effect	17.7	10.6
Effect of net borrowing	28.4	17.0
Of which : new borrowing	45.9	27.6
Export effect	-24.1	…
Revenue effect	…	-40.1
Present value of debt at end-2003	218.6	131.2
Change in discount factor effect	…	…
Change in exchange rate effect	…	…
Effect of net borrowing	33.6	19.8
Of which : new borrowing	35.8	21.1
Export effect	-45.1	…
Revenue effect	…	-29.0
Present value of debt at end-2004	207.1	122.0

Figure 11. Burkina Faso: NPV of Debt-to-Exports Ratio, Annual, 2001-2021



26. **The authorities noted that they had little control over most of the factors that had pushed up the NPV of debt-to-exports ratio: world interest rates, the euro/dollar exchange rate, and most recently, the decline in world cotton prices**. They indicated that it would be extremely difficult, if not impossible, to implement the PRSP and achieve the MDGs if the full burden of continuously reducing the debt ratio in the medium term falls on

fiscal policy. The mission acknowledged these difficulties, but noted that new borrowing needed to be moderated in the face of a decline in export earnings; that a fiscal contraction could be avoided if loans were replaced with grants; and that outward-oriented structural reforms could also improve the debt dynamics. The authorities have taken measures to strengthen their debt management process to ensure that the grant element of all loans they contract meets the minimum established under the program.[11]

IV. Program Risks

27. **The main risk to the program is that world cotton prices might not rebound and farmers and exporters are not able to reach agreement on the producer price of cotton for the 2005/06 crop.** The minimum price acceptable to farmers could imply losses to cotton exporters that they may find difficult to finance themselves, and the maximum price acceptable to exporters could imply a sharp reduction in cotton production and farmers' incomes. There is a related risk that real GDP growth could be lower in 2005 than is currently projected. Additional risks include the possible spread of the locust infestation and the emergence of expenditure pressures in the run-up to the 2005 presidential election.

V. Program Monitoring

28. **Quantitative performance and structural performance criteria are set forth in the attached MEFP**. The former focus on budget implementation and external debt. The latter center on strengthening tax and customs administration, and on promoting fiscal transparency. The program includes adjusters for deviations in donor budget support and external debt service relative to program projections, as set forth in the technical memorandum of understanding.

VI. Staff Appraisal

29. **Macroeconomic management remains strong and has established a good basis for coping with the external shocks that emerged during the second half of 2004**. All quantitative performance criteria for the second and third PRGF reviews were observed and the 2004 program targets are achievable. It is regrettable that two structural performance criteria were not observed, but encouraging progress has been made subsequently.

30. **The 2005 budget strikes an appropriate balance between the need for fiscal restraint in the face of adverse external shocks, and the need to push ahead with priority social expenditures in support of the poverty reduction strategy**. The envisaged

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[11] The average grant element of debt disbursed in 2004 is about 50 percent (excluding the Fund) and grants constitute 55 percent of gross donor flows.

increase in the basic wage should be seen in light of the seven-year wage freeze and the need to ensure adequate incentives for public servants in the priority social sectors. Recruitment of new staff appropriately focuses on the health and education ministries. The rationalization of the domestic public investment program is timely given the need to align it with the objectives of the revised PRSP. The budget is consistent with a reduction in the still very high external debt burden.

31. **The budget rightly includes measures aimed at raising Burkina Faso's relatively low revenue-to-GDP ratio**. Completion of the computerization of the major customs offices by the end of 2004 is critical in this regard, as are further measures to strengthen tax and customs administration.

32. **Structural reforms to enhance international competitiveness are essential to achieving higher rates of economic growth**. The sale of assets and concessions in the cotton sector to private operators was an important step in this direction. The authorities need to push ahead with their electricity reform strategy, especially as regards the introduction of flexible tariffs based on cost recovery. The revised labor code is a good first step toward achieving greater labor market flexibility, and the supporting decrees and regulations should be issued expeditiously.

33. **There has been some progress in strengthening fiscal transparency and promoting good governance, but more work is needed to combat corruption**. The successful prosecution of cases of embezzlement of public funds sends an important message and the authorities need to build on this by following up quickly on the report of the High Authority on the Coordination of the Fight Against Corruption.

34. **The tension between orienting fiscal policy toward achieving the MDGs and ensuring a steady decline in the ratio of the NPV of debt to exports is increasing**. The staff recognizes that some of the factors affecting external debt sustainability are not under the government's control. This highlights the importance of maintaining strict control of the level and financing terms of external borrowing. Improving revenue performance, proceeding with export-promoting structural reforms, and obtaining a higher level of donor assistance in the form of grants can also contribute to easing the tension between the need for external debt sustainability and pushing ahead with poverty-oriented expenditures.

35. **The risks to the 2005 program are a source of concern**. The cotton companies are confident that they will be able to finance any losses arising from the current crop without recourse to budgetary support. Developments will need to be monitored closely to determine this will indeed be the case. If farmers and exporters cannot reach an agreement on the floor price for the 2005/06 crop cycle before June 2005, there may be a need for government to intervene to broker an agreement and provide some budgetary support. If this scenario arises, and sufficient donor funding on appropriate terms cannot be obtained, the 2005 budget would need to be revised to find the necessary resources.

36. **The nonobservance of the two structural performance criteria for the second and third PRGF reviews should be viewed against the background of the substantial progress made in both areas since the respective test dates and the long track record of macroeconomic stability and structural reform**. On this basis, as well as on the policies set forth in the supplemental letter of intent, the staff recommends the approval of the authorities' request for waivers. It also supports the authorities' request for the extension of the program period.

Table 1. Burkina Faso: Selected Economic and Financial Indicators, 2002–06

	2002	2003		2004		2005		2006	
	Est.	Prog.	Est.	Prog. 1/	Proj.	Prog. 1/	Rev. Proj.	Prog. 1/	Rev. Proj.
	(Annual percentage change; unless otherwise specified)								
GDP and prices									
GDP at constant prices	5.2	2.6	8.0	5.2	4.8	5.3	3.5	5.7	4.3
GDP deflator	3.3	6.4	1.5	2.6	3.5	2.1	1.8	2.8	1.8
Consumer prices (annual average)	2.3	4.5	2.0	1.9	-0.8	2.0	1.8	2.0	2.0
Consumer prices (end of period)	3.9	5.0	3.2	2.1	0.0	2.2	2.0	2.2	2.0
Money and credit									
Net domestic assets (banking system) 2/	0.0	9.7	10.4	7.9	6.5	5.9	8.2	7.7	4.5
Credit to the government 2/	-10.1	-0.3	2.4	2.5	1.9	1.9	2.9	2.5	2.4
Credit to the private sector 2/	11.9	10.0	9.4	5.4	7.6	3.9	5.3	5.1	2.1
Broad money (M2)	2.9	9.2	16.3	7.9	8.5	7.5	5.4	8.7	6.2
Velocity (GDP/M2)	5.2	5.1	4.9	5.1	4.9	5.1	4.9	5.1	4.9
External sector									
Exports (f.o.b.; valued in CFA francs)	4.3	8.5	9.1	11.1	24.4	11.7	-7.5	5.5	1.5
Imports (f.o.b.; valued in CFA francs)	2.3	11.9	4.3	8.0	17.8	7.2	6.8	5.4	3.1
Terms of trade	-14.6	11.0	-0.7	4.3	-2.7	2.1	-11.6	1.9	1.3
Real effective exchange rate (depreciation = -)	5.2	...	3.7	...	...	...	...	...	...
	(In percent of GDP; unless otherwise specified)								
Gross investment	17.5	19.1	17.0	20.5	18.6	21.2	19.0	22.0	20.1
Government	7.1	7.7	6.3	8.0	7.8	8.3	7.7	8.7	8.3
Nongovernment sector	10.4	11.4	10.7	12.5	10.8	12.9	11.4	13.3	11.9
Gross domestic savings	5.0	4.7	5.5	8.3	6.6	9.5	6.1	10.6	7.2
Government savings	2.8	3.7	4.1	4.9	4.7	5.7	4.9	6.7	5.2
Nongovernment savings	2.2	0.9	1.4	3.4	1.9	3.7	1.1	3.9	2.0
Gross national savings	8.3	9.8	10.1	11.2	10.0	11.2	7.9	12.1	8.7
Capital transfers	4.0	5.0	2.6	3.4	3.3	5.3	3.4	5.4	5.5
Central government finances									
Current revenue	11.4	12.3	12.1	13.2	12.8	13.9	13.3	14.6	14.0
Tax revenue	10.6	11.4	10.8	12.2	11.8	12.8	12.3	13.5	13.0
Current expenditure	11.4	11.3	10.4	11.5	11.0	11.3	11.8	11.1	12.1
Overall fiscal balance, excluding grants	-10.0	-11.0	-8.2	-9.6	-9.3	-9.1	-9.3	-8.8	-9.7
Overall fiscal balance, including grants	-4.8	-2.5	-2.9	-4.9	-4.4	-3.6	-5.8	-3.5	-4.3
External sector									
Exports of goods and services	9.0	8.7	8.9	9.5	9.9	9.8	8.9	9.5	8.6
Imports of goods and services	21.4	23.2	20.4	21.7	21.9	21.6	21.9	20.9	21.5
Current account balance (excluding current official transfers)	-11.8	-14.2	-11.0	-11.8	-11.6	-11.2	-12.5	-10.8	-12.5
Current account balance (including current official transfers)	-9.1	-9.4	-6.9	-9.3	-8.6	-10.0	-11.1	-9.9	-11.4
External debt indicators (after HIPC Initiative)									
Debt-service ratio 3/ 4/	14.4	7.2	11.0	7.9	8.2	8.5	8.6	4.1	9.5
NPV of debt/exports of goods and services (in percent)	169.8	152.4	218.6	177.5	207.1	158.6	189.0	152.0	198.9
Gross official reserves (in months of imports of goods and services)	4.0	3.9	4.6	3.3	4.5	3.4	4.0	3.5	3.7
Nominal GDP (in billions of CFA francs)	2,275	2,380	2,494	2,624	2,706	2,819	2,851	3,064	3,028

Sources: Burkinabè authorities; and staff estimates and projections.

1/ Country Report 04/95.
2/ In percent of beginning-of-period broad money.
3/ Ratio of public external debt service to government revenue, excluding grants.
4/ After traditional debt-relief mechanisms, enhanced Heavily Indebted Poor Countries (HIPC) Initiative assistance, and topping up.

Table 2. Burkina Faso: Consolidated Operations of the Central Government, 2003–06

	2003	2004			2005			2006	
	Est.	Prog. 1/	Jan.-Sept. Est.	Proj.	Prog. 1/	Prog. 1/ New nomenclature	Rev. Proj.	Prog. 1/	Rev. Proj.
				(In billions of CFA francs)					
Total revenue and grants 2/	434.6	470.0	337.0	479.3	544.2	544.2	477.9	608.8	585.8
Revenue 2/	301.2	345.6	253.0	345.6	391.2	391.2	377.9	447.6	424.5
Tax revenue	270.4	319.3	234.3	319.3	361.3	361.3	349.9	414.9	392.6
Income and profits	67.2	79.0	58.4	79.0	91.0	91.0	86.0	108.2	104.2
Domestic goods and services	147.2	179.8	129.4	179.8	200.6	200.6	195.6	230.7	218.8
International trade	44.1	52.6	40.3	52.6	60.5	60.5	57.0	66.0	59.7
Other	11.8	7.9	6.3	7.9	9.2	9.2	11.3	10.0	9.8
Nontax revenue	30.9	26.3	18.7	26.3	29.9	29.9	28.0	32.7	31.9
Grants	133.3	124.4	84.0	133.7	153.0	153.0	100.0	161.2	161.2
Project	61.8	84.8	49.9	84.8	145.7	145.7	93.3	161.2	161.2
Program	71.6	39.6	34.1	48.8	7.3	7.3	6.7	0.0	0.0
Expenditure and net lending 3/	507.0	597.5	419.8	597.5	647.0	647.0	643.0	716.3	716.8
Current expenditures	259.6	300.7	210.9	297.1	319.4	337.8	337.6	341.1	365.9
Wages and salaries	112.5	118.1	89.9	118.1	125.2	132.2	140.7	132.7	139.5
Goods and services	58.8	70.0	50.9	70.4	76.9	89.1	76.8	81.7	100.1
Other expenditure	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0	0.0
Interest payments	16.8	18.7	13.7	18.7	16.8	16.8	17.8	16.5	17.0
Domestic	5.2	8.0	5.3	8.0	6.3	6.3	7.3	6.2	6.7
External	11.6	10.7	8.4	10.7	10.5	10.5	10.5	10.3	10.3
Current transfers	70.3	91.4	55.8	87.4	98.5	97.7	99.8	107.3	107.4
Safety net and other expenditures	1.2	2.5	0.6	2.5	2.0	2.0	2.5	2.0	2.0
Investment expenditure	223.9	299.8	212.4	303.4	334.6	316.2	312.4	382.1	357.8
Domestically financed	89.5	125.0	100.9	128.5	162.2	143.8	132.0	201.1	176.8
Externally financed	134.4	174.8	111.5	174.8	172.4	172.4	180.4	181.0	181.0
Net lending	23.5	-3.0	-3.5	-3.0	-7.0	-7.0	-7.0	-7.0	-7.0
Overall balance	-72.4	-127.5	-82.9	-118.3	-102.8	-102.8	-165.1	-107.5	-131.0
Excluding grants	-205.7	-252.0	-166.8	-252.0	-255.8	-255.8	-265.1	-268.7	-292.2
Financing	73.2	122.3	88.5	118.3	19.9	19.9	83.9	7.6	5.5
Foreign	83.0	132.6	100.1	132.3	24.5	24.5	85.0	13.3	13.4
Drawings	84.7	133.4	101.7	132.9	26.7	26.7	87.1	19.8	19.8
Project loans	72.6	90.0	61.6	90.0	26.7	26.7	87.1	19.8	19.8
Adjustment aid	12.1	43.4	40.1	42.9	0.0	0.0	0.0	0.0	0.0
Amortization	-26.3	-32.8	-18.2	-32.6	-33.1	-33.1	-33.0	-31.4	-31.3
Debt relief	24.7	32.0	16.6	32.0	30.9	30.9	30.9	24.8	24.8
Domestic financing	6.3	19.7	-29.1	13.0	2.4	2.4	8.9	1.4	-0.8
Bank financing	10.4	12.0	-30.3	9.8	10.0	10.0	15.7	14.0	14.0
Central bank	5.4	5.0	-25.9	7.7	5.0	5.0	13.1	10.0	10.0
Commercial banks	5.0	7.0	-4.4	2.1	5.0	5.0	2.7	4.0	4.0
Nonbank financing	-4.1	7.7	1.1	3.2	-7.6	-7.6	-6.8	-12.6	-14.8
Cash basis adjustment	-16.1	-30.0	17.5	-27.0	-7.0	-7.0	-10.0	-7.0	-7.0
Change in payments arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditures authorized but not paid 4/	0.9	-15.0	8.0	-15.0	3.0	3.0	3.0	3.0	3.0
Stock of payment orders not executed	4.0	-4.0	1.7	-4.0	0.0	0.0	0.0	0.0	0.0
Change in treasury commitments	-20.9	-11.0	7.8	-8.0	-10.0	-10.0	-13.0	-10.0	-10.0
Errors and omissions	-0.8	0.0	-5.6	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	5.3	0.0	0.0	82.9	82.9	81.2	99.8	125.5
Identified possible financing	...	...	...	...	...	...	81.2	...	...
Of which: grants	...	...	...	...	...	...	37.3	...	...
loans	...	...	...	...	...	...	43.9	...	...
Residual financing gap	...	...	...	...	...	...	0.0	...	...
Memorandum items:									
Poverty-reducing social expenditures	116.6	147.1	110.2	157.4	164.2	164.2	160.5	179.0	175.0
Of which: education	47.9	58.2	41.8	58.9	70.6	70.6	66.6	76.9	72.6
health	37.9	42.3	39.2	50.3	56.4	56.4	52.9	61.4	57.7
Of which: excluding HIPC resources	86.8	...	75.4	103.4	...	...	128.6	...	...
				(In percent of GDP, unless otherwise specified)					
Revenue	12.1	13.2	9.3	12.8	13.9	13.9	13.3	14.6	14.0
Expenditure and net lending	20.3	22.8	15.5	22.1	22.9	22.9	22.6	23.4	23.7
Current expenditure	10.4	11.5	7.8	11.0	11.3	12.0	11.8	11.1	12.1
Capital expenditure	9.0	11.4	7.8	11.2	11.9	11.2	11.0	12.5	11.8
Overall balance (excluding grants)	-8.2	-9.6	-6.2	-9.3	-9.1	-9.1	-9.3	-8.8	-9.7
External financing	8.7	9.8	6.8	9.8	6.3	6.3	6.5	5.7	5.8
Of which: grants	5.3	4.7	3.1	4.9	5.4	5.4	3.5	5.3	5.3
net loans	2.3	3.8	3.1	3.7	-0.2	-0.2	1.9	-0.4	-0.4
debt relief	1.0	1.2	0.6	1.2	1.1	1.1	1.1	0.8	0.8
Domestic financing	0.3	0.8	-1.1	0.5	0.1	0.1	0.3	0.0	0.0
Cash basis adjustment	-0.6	-1.1	0.6	-1.0	-0.2	-0.2	-0.4	-0.2	-0.2
Financing gap	0.0	0.2	0.0	0.0	2.9	2.9	2.8	3.3	4.1
Identified possible financing	...	...	...	...	...	...	2.8	...	...
Of which: grants	...	...	...	...	...	...	1.3	...	...
loans	...	...	...	...	...	...	1.5	...	...
Errors and omissions	0.0	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
GDP (in billions of CFA francs)	2,494	2,624	2,706	2,706	2,819	2,819	2,851	3,064	3,028

Sources: Burkinabè authorities; and staff estimates and projections.

1/ Country Report 04/95.
2/ Revenue includes taxes on goods and services paid during the execution of public investment projects using checks issued by the treasury.
3/ On an authorization basis and including the tax component of the public investment projects, which is paid by the treasury.
4/ Float during the year. Decline of stock of expenditure committed but not paid : (-).

Table 3. Burkina Faso: Monetary Survey, 2003–05

	2003				2004						2005
	Mar. Est.	Jun. Est.	Sep. Est.	Dec. Est.	Mar. Est.	Jun. Est.	Sep. Prog. 1/	Sep. Est.	Dec. Prog. 1/	Dec. Proj. 2/	Dec. Proj. 2/
	(In billions of CFA francs)										
Net foreign assets	117.3	124.5	130.2	166.1	129.0	173.0	131.5	201.7	131.5	176.5	161.0
Central Bank of West African States (BCEAO)	79.4	78.6	73.8	128.3	77.3	109.0	86.3	152.2	86.3	138.7	125.6
Assets	191.8	175.7	167.8	226.1	174.6	198.9	180.0	240.7	178.7	223.5	209.3
Liabilities	112.5	97.1	94.0	97.8	97.2	89.9	93.7	88.5	92.4	84.9	83.7
Commercial banks	37.9	45.9	56.3	37.8	51.7	64.0	45.1	49.5	45.1	37.8	35.4
Net domestic assets	343.3	328.0	353.2	341.8	376.9	335.2	373.2	304.9	382.7	374.7	419.7
Net domestic credit	362.0	355.9	379.6	369.2	407.6	378.5	389.3	347.9	416.2	417.7	462.7
Net credit to government	35.3	44.0	54.0	28.3	34.3	31.5	38.4	-2.3	58.8	38.0	53.8
Treasury	36.7	90.9	100.1	83.2	91.6	86.2	81.3	53.0	101.7	92.9	108.7
BCEAO	0.0	39.6	52.8	41.2	54.1	57.7	27.7	15.7	46.1	48.8	61.9
Commercial banks	36.7	51.3	47.3	42.0	37.5	28.5	53.7	37.3	55.7	44.1	46.8
Other central government	-1.4	-46.9	-46.1	-54.9	-57.4	-54.7	-43.0	-55.3	-43.0	-54.9	-54.9
Of which: project deposits	-43.6	-37.5	-41.5	-78.9	-84.3	-86.1	-36.4	-89.5	-36.4	-76.1	-76.1
Credit to the economy	326.8	311.9	325.6	340.9	373.3	347.1	351.0	350.2	357.4	379.7	408.9
Of which: crop credit	54.8	55.0	51.5	40.0	65.0	50.0	61.0	0.0	43.5	40.0	43.2
Other items (net)	-18.7	-27.9	-26.5	-27.4	-30.7	-43.3	-16.1	-43.0	-33.5	-43.0	-43.0
Broad money	460.6	452.5	483.3	507.9	505.9	508.2	504.7	506.6	514.2	551.2	580.6
Of which : bank deposits	330.2	338.3	363.5	367.9	393.2	392.7	441.4	396.0	449.4	433.4	458.4
	(Annual changes in percent of stock of M2 of 12 months earlier; unless otherwise specified)										
Memorandum items:											
Net foreign assets	-7.8	-3.5	-1.5	5.9	2.5	10.7	0.3	14.8	-6.8	2.0	-2.8
Net domestic assets	11.5	11.6	12.0	10.4	7.3	1.6	4.1	-10.0	8.0	6.5	8.2
Net credit to government	-4.3	-14.8	-10.6	2.4	-0.2	-2.8	-3.2	-11.6	6.0	1.9	2.9
Credit to the economy	14.4	12.2	16.2	9.4	10.1	7.8	5.2	5.1	3.2	7.6	5.3
(annual percentage change)	24.4	19.7	27.8	13.7	14.3	11.3	7.8	7.5	4.8	11.4	7.7
Money supply	3.7	8.2	10.5	16.3	9.8	12.3	4.4	4.8	1.2	8.5	5.4
Of which : bank deposits	6.9	10.0	6.8	12.9	13.7	12.0	16.1	6.7	16.0	12.9	4.5
Currency velocity (GDP/broad money)	5.1	5.1	5.1	4.9	4.9	4.9	5.1	4.9	5.1	4.9	4.9

Sources: Burkinabè authorities; and staff estimates and projections.

1/ Country Report 04/95.
2/ November 2004 mission estimates.

Table 4. Burkina Faso: Balance of Payments, 2002–06

	2002	2003		2004		2005		2006	
		Prog.	Est.	Prog. 1/	Proj.	Prog. 1/	Rev. Proj.	Prog. 1/	Rev. Proj.
	(In billions of CFA francs)								
Exports, f.o.b.	170.8	178.1	186.3	216.6	231.7	241.8	214.4	255.2	217.7
Of which: cotton	97.4	110.0	119.9	139.8	163.4	156.6	141.2	153.6	142.2
Imports, f.o.b.	-381.7	-427.2	-398.3	-447.4	-469.2	-479.6	-500.9	-505.5	-516.2
Of which: petroleum products	-71.0		-78.0	-83.0	-102.7		-119.2		-113.5
Trade balance	-210.9	-249.1	-212.0	-230.8	-237.5	-237.8	-286.5	-250.3	-298.5
Services and income (net)	-87.2	-106.6	-85.0	-101.3	-96.1	-107.1	-91.4	-111.5	-100.3
Services	-72.5	-94.6	-75.5	-89.0	-87.5	-94.7	-82.8	-99.3	-91.9
Income	-14.7	-11.9	-9.5	-12.4	-8.6	-12.3	-8.5	-12.3	-8.4
Of which: interest payments	-12.8	-10.4	-11.6	-10.7	-10.7	-10.5	-10.5	-10.3	-10.3
budget	-12.9	-10.4	-11.6	-10.7	-10.7	-10.5	-10.5	-10.3	-10.3
Current transfers (net)	90.1	133.1	124.3	88.3	100.4	62.8	60.7	58.8	54.7
Private	29.8	18.9	22.0	21.4	20.0	27.9	21.7	30.9	21.4
Of which : workers' remittances (gross)	36.6	24.4	23.6	27.0	21.9	34.0	24.6	37.5	25.3
Official	60.3	114.2	102.3	66.9	80.4	34.9	39.0	27.9	33.3
Of which: budgetary (program grants) 2/	29.9	87.1	71.6	39.6	48.8	7.3	6.7	0.0	0.0
Current account (deficit= -)	-208.1	-222.6	-172.7	-243.8	-233.3	-282.0	-317.1	-303.1	-344.1
Excluding current official transfers	-268.4	-336.8	-275.0	-310.7	-313.7	-316.9	-356.2	-331.0	-377.4
Capital transfers	112.7	155.0	90.4	120.6	120.7	180.5	128.3	190.1	190.3
Project grants	88.7	115.4	61.8	84.8	84.8	145.7	93.3	161.2	161.2
Other capital transfers	24.0	39.6	28.6	35.8	35.9	34.8	34.9	28.9	29.1
Of which: HIPC Initiative	20.8	36.0	24.7	32.0	32.0	30.9	30.9	24.8	24.8
Financial operations	109.0	65.4	101.7	123.2	122.8	32.2	92.2	24.1	23.4
Official capital	73.1	31.7	57.4	100.5	100.3	-6.4	54.1	-11.6	-11.5
Disbursements	100.8	62.2	84.7	133.4	132.9	26.7	87.1	19.8	19.8
Project loans	54.8	41.0	72.6	90.0	90.0	26.7	87.1	19.8	19.8
Program loans 2/	46.0	21.2	12.1	43.4	42.9	0.0	0.0	0.0	0.0
Amortization	-27.7	-30.5	-27.3	-32.8	-32.6	-33.1	-33.0	-31.4	-31.3
Government securities 3/	14.3	14.9	18.5	-10.0	-10.0	-5.0	-5.0	-5.0	-5.0
Private capital 4/	21.7	18.8	25.8	32.7	32.5	43.6	43.0	40.6	39.8
Errors and omissions	-1.2	0.0	6.2	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	12.4	-2.2	25.6	0.0	10.3	-69.3	-96.7	-88.8	-130.4
Financing	-12.4	-3.6	-25.6	-5.3	-10.4	-13.6	15.5	-11.0	9.9
Net foreign assets	-12.4	2.1	-25.6	0.0	-10.4	-8.2	15.5	-5.7	9.9
Net official reserves 5/	-4.4	2.1	-47.4	0.0	-10.4	-8.2	13.1	-5.7	9.9
Of which: gross official reserves	3.9	6.9	-36.0	5.1	-2.6	-4.5	-14.2	-3.2	7.4
IMF (net)	0.3	-10.5	-7.4	-10.4	-8.0	-9.1	-0.5	-7.8	-7.9
Use of resources 6/	10.0	...	2.8	...	2.7	...	8.6	...	...
Repayments	-9.7	-10.5	-10.2	-10.4	-10.6	-9.1	-9.1	-7.8	-7.9
Net foreign assets, commercial banks	8.0	0.0	-21.8	0.0	0.0	0.0	-2.4	0.0	0.0
Change in arrears (reduction= -)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap 7/	0.0	5.8	0.0	5.3	0.1	82.9	81.2	99.8	120.5
Identified possible financing	...	...	...	...	...	...	81.2	...	...
Residual financing gap	...	...	...	...	...	...	0.0	...	...
Memorandum items:	(In percent of GDP; unless otherwise specified)								
Trade balance (deficit= -)	-9.3	-10.5	-8.5	-8.8	-8.8	-8.4	-10.0	-8.2	-9.9
Cotton export volume (thousands of metric tons)	154.7	164.6	169.1	207.5	203.0	236.6	238.8	228.8	253.9
Current account (deficit= -)	-9.1	-9.4	-6.9	-9.3	-8.6	-10.0	-11.1	-9.9	-11.4
Excluding current official transfers	-11.8	-14.2	-11.0	-11.8	-11.6	-11.2	-12.5	-10.8	-12.5
Overall balance (deficit= -)	0.5	-0.1	1.0	0.0	0.4	-2.5	-3.4	-2.9	-4.3
Total debt-service ratio before HIPC 8/	24.6	24.8	22.2	21.7	20.1	19.1	20.7	17.0	19.0
Total debt-service ratio after HIPC 8/	14.4	7.2	11.0	7.9	8.2	8.5	8.6	4.1	9.5
Net present value of debt/exports of goods and services (percent)	169.8	152.4	218.6	177.5	207.1	158.6	189.0	152.0	198.9
Gross international reserves (in billions of CFA francs)	190.1	189.4	226.1	177.1	223.5	196.1	209.3	199.3	216.7
In months of imports of goods, c.i.f.	5.7	5.2	5.8	4.4	5.4	4.7	4.9	4.4	4.7
In months of imports of goods and services	3.8	3.9	5.3	3.3	4.1	3.4	3.6	3.5	3.7
GDP at current prices (in billions of CFA francs)	2,275	2,380	2,494	2,624	2,706	2,819	2,851	3,064	3,028

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

1/ Country Report 04/95.
2/ The World Bank has been providing its assistance mainly in the form of budgetary program grants from 2003 onward.
3/ Outstanding government bonds and treasury bills issued on the regional market that are held by residents in countries other than Burkina Faso.
4/ Includes portfolio investment and foreign direct investment.
5/ In 2004, does not include the increase in liabilities owing to possible IMF disbursements.
6/ In 2004, IMF financing is included in the financing gap.
7/ Includes IMF financing in 2004.
8/ In percent of exports of goods and services.

Table 5. Burkina Faso: External Debt Indicators, 2003–23

	2003	2004	2005	2006	2007	2008	2009	2010	2015	2020	2023
					(In percent, unless otherwise indicated)						
Completion point projections											
NPV of debt-to-3-year average exports ratio	190.3	192.5	195.3	192.3	189.4	186.1	184.0	181.4	155.7	118.3	...
NPV of debt-to-revenue ratio	131.1	130.4	132.0	130.4	128.7	126.6	125.3	124.0	112.9	95.2	...
Debt service-to-exports ratio	6.0	6.3	6.5	7.9	8.3	8.6	7.9	7.3	7.2	6.2	...
Debt service-to-revenue ratio	16.4	15.6	14.1	12.9	12.3	11.7	10.8	10.0	8.1	6.5	...
Exports of goods and services	319.7	350.8	383.3	417.4	454.9	492.9	534.5	586.7	946.6	1,606.6	...
Exports of goods and services (3-year average)	287.2	317.3	351.3	383.9	418.6	455.1	494.1	538.0	860.6	1,445.7	...
Revenue	416.9	468.4	519.8	566.2	615.8	668.6	725.4	787.1	1,186.7	1,796.5	...
Baseline projections											
NPV of debt-to-3-year average exports ratio	218.6	207.1	189.0	198.9	199.4	190.6	182.0	179.9	158.5	139.6	140.5
NPV of debt-to-revenue ratio	131.2	122.0	117.5	118.6	115.0	111.5	108.5	106.1	94.9	85.2	76.2
Debt service-to-exports ratio	11.3	8.1	9.1	10.2	9.2	9.4	8.8	8.5	7.4	7.1	8.8
Debt service-to-revenue ratio	8.3	6.1	6.0	6.0	6.1	6.1	5.6	5.4	4.9	4.8	4.7
Exports of goods and services	381.6	503.3	478.3	489.4	598.0	641.3	680.4	747.6	1,202.1	1,896.7	1,972.3
Exports of goods and services (3-year average)	311.8	392.9	454.4	490.3	521.9	576.2	639.9	689.8	1,088.8	1,730.6	2,012.2
Revenue	519.3	666.9	731.1	822.0	904.7	985.3	1,073.5	1,169.7	1,818.1	2,836.0	3,707.6
Stress tests											
Export scenarios											
Exports grow at 1994–2003 average rate 1/											
NPV of debt-to-3-year average exports ratio	218.6	227.8	216.6	236.8	243.3	247.3	252.5	259.1	298.3	345.6	360.9
Debt service-to-exports ratio	11.3	11.5	11.0	12.1	12.9	13.6	13.0	13.2	15.3	19.3	22.3
Exports grow at baseline rate less one standard deviation 2/											
NPV of debt-to-3-year average exports ratio	218.6	239.3	248.2	291.8	299.4	284.3	271.2	259.9	213.0	175.7	149.6
Debt service-to-exports ratio	11.3	12.0	12.6	14.9	15.8	15.7	13.9	13.3	10.9	9.8	9.2
Revenue scenarios											
Revenue-to-GDP ratio grows at 1994–2003 average rate 1/											
NPV of debt-to-revenue ratio	131.2	146.8	145.2	154.5	154.4	152.7	151.8	151.5	152.1	153.7	147.9
Debt service-to-revenue ratio	8.3	7.4	7.4	7.9	8.2	8.4	7.8	7.7	7.8	8.6	9.1
Revenues grow at baseline rate less one standard deviation 2/											
NPV of debt-to-revenue ratio	131.2	180.0	218.2	223.3	214.8	204.3	195.3	187.5	155.1	129.1	110.5
Debt service-to-revenue ratio	8.3	9.1	11.1	11.4	11.4	11.3	10.0	9.6	7.9	7.2	6.8
Memorandum items for baseline projections:											
NPV of debt	682	814	859	975	1,041	1,099	1,165	1,241	1,726	2,416	2,826
Of which: new borrowing	0	141	195	324	405	482	564	653	1,173	1,878	2,379
Debt service	43.0	41.0	43.7	49.7	55.1	60.6	59.9	63.3	88.4	134.8	174.3
Of which: new borrowing	0.0	1.5	2.9	4.4	5.8	7.3	9.1	13.1	31.4	52.6	63.7

Assumptions and parameters	1994–2003 Measured in U.S. dollars	1994–2003 Measured in CFA francs	2004–23 Baseline
Average growth rate of exports of goods and services	3.9	10.8	11.2
Standard deviation	20.8	19.3	
Average growth rate of revenue-to-GDP ratio	1.3	1.3	1.4
Average growth rate of revenues	6.7	12.0	11.0
Standard deviation	23.9	8.2	

1/ Average rate of growth measured in U.S. dollars.
2/ Less one standard deviation as measured in U.S. dollars for 2004–05.

Table 6. Burkina Faso: Schedule of Disbursements Under the PRGF Arrangement, 2003–06

Amount	Available Date	Conditions Necessary for Disbursement 1/
SDR 3.44 million	June 11, 2003	Following Executive Board approval of the three-year PRGF arrangement.
SDR 3.44 million	March 19, 2004	Observance of the performance criteria for September 30, 2003 and completion of the first review under the arrangement.
SDR 3.44 million	January 4, 2005	Observance of the performance criteria for March 31, 2004 and completion of the second review under the arrangement.
SDR 3.44 million	January 4, 2005	Observance of the performance criteria for September 30, 2004 and completion of the third review under the arrangement.
SDR 3.44 million	August 15, 2005	Observance of the performance criteria for March 31, 2005 and completion of the fourth review under the arrangement.
SDR 3.44 million	March 15, 2006	Observance of the performance criteria for September 30, 2005 and completion of the fifth review under the arrangement.
SDR 3.44 million	August 15, 2006	Observance of the performance criteria for March 31, 2006 and completion of the sixth review under the arrangement.

Source: International Monetary Fund.

1/ In addition to the generally applicable conditions under the Poverty Reduction and Growth Facility (PRGF) arrangement.

Table 7. Burkina Faso: Millennium Development Goals

	1990	1995	2001	2002
	(2015 target = halve 1990 US$1 a day poverty and malnutrition rates) 1/			
Eradicate extreme poverty and hunger 1/				
Population below US$1 a day (percent)	..	..	..	..
Poverty gap at US$1 a day (percent)	..	..	..	..
Percentage share of income or consumption held by poorest 20 percent	..	..	..	..
Prevalence of child malnutrition (percent of children under 5)	..	32.7	34.3	..
Population below minimum level of dietary energy consumption (percent)	22.0	18.0	17.0	..
	(2015 target = net enrollment to 100) 2/			
Achieve universal primary education 2/				
Net primary enrollment ratio (percent of relevant age group)	26.9	30.8	35.0	..
Percentage of cohort reaching grade 5 (percent)	69.7	75.1	63.7	..
Youth literacy rate (percent ages 15–24)	24.9	29.5	..	..
	(2015 target = education ratio to 100) 3/			
Promote gender equality 3/				
Ratio of girls to boys in primary and secondary education (percent)	61.2	62.6	69.7	..
Ratio of young literate females to males (percent ages 15–24)	39.1	44.7	..	..
Share of women employed in the nonagricultrual sector (percent)	12.5	..	..	..
Proportion of seats held by women in national parliament (percent)	..	4.0	..	..
	(2015 target = reduce 1999 under 5 mortality by two-thirds) 4/			
Reduce child mortality 4/				
Under 5 mortality rate (per 1,000)	210.0	207.0	207.0	207.0
Infant mortality rate (per 1,000 live births)	118.0	110.0	107.0	107.0
Immunization, measles (percent of children under 12 months)	79.0	43.0	46.0	46.0
	(2015 target = reduce 1990 maternal mortality by three-fourths) 5/			
Improve maternal health 5/				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	...	1,000.0	..
Births attended by skilled health staff (percent of total)	..	41.5	31.0	..
	(2015 target = halt, and begin to reverse, AIDS, etc.) 6/			
Combat HIV/AIDS, malaria, and other diseases 6/				
Prevalence of HIV, female (percent ages 15–24)	..	..	9.7	..
Contraceptive prevalence rate (percent of women ages 15–49)	..	7.7	..	..
Number of children orphaned by HIV/AIDS	..	..	270,000	..
Incidence of tuberculosis (per 100,000 people)	..	..	197.0	157.1
Tuberculosis cases detected under DOTS (percent)	..	6.0	15.0	18.1
	(2015 target = various) 7/ 8/			
Ensure environmental sustainability 8/				
Forest area (percent of total land area)	26.5	..	25.9	..
Nationally protected areas (percent of total land area)	..	10.5	10.4	10.4
GDP per unit of energy use (PPP U.S. dollar per kg oil equivalent)	..	..	..	..
CO_2 emissions (metric tons per capita)	0.1	0.1	0.1	..
Access to an improved water source (percent of population)	..	..	42.0	..
Access to improved sanitation (percent of population)	..	..	29.0	..
Access to secure tenure (percent of population)	..	..	..	..
	(2015 target = various) 9/			
Develop a Global Partnership for Development 9/				
Youth unemployment rate (percent of total labor force ages 15–24)	..	..	..	..
Fixed line and mobile telephones (per 1,000 people)	1.8	3.0	8.8	12.9
Personal computers (per 1,000 people)	0.1	0.3	1.5	1.6
General indicators				
Population (in millions)	8.9	10.0	11.6	11.8
Gross national income (in billions of U.S. dollars)	2.9	2.4	2.8	2.9
GNI per capita (U.S. dollars)	330.0	240.0	240.0	250.0
Adult literacy rate (percent of people ages 15 and over)	16.3	19.8	..	..
Total fertility rate (births per woman)	7.0	6.8	6.5	6.3
Life expectancy at birth (years)	45.4	45.3	44.2	42.9
Aid (percent of GNI)	10.6	20.0	14.1	15.2
External debt (percent of GNI)	26.8	51.9	53.7	50.6
Investment (percent of GDP)	18.2	22.8	19.1	18.3
Trade (percent of GDP)	35.6	39.5	32.7	30.9

Source: World Development Indicators database, April 2004.

1/ Targets: Halve, between 1990 and 2015, the proportion of people whose income is less than US$1 a day.
2/ Target: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.
3/ Target: Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education no later than 2015.
4/ Target: Reduce by two-thirds, between 1990 and 2015, the under 5 mortality rate.
5/ Target: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio.
6/ Target: Have halted by 2015, and begun to reverse, the spread of HIV/AIDS. Have halted by 2015, and begun to reverse, the incidence of malaria and other major diseases.
7/ In some cases the data are for earlier or later years than those stated.
8/ Targets: Integrate the principles of sustainable development into country policies and programs and reverse the loss of environment resources. Halve, by 2015, the proportion of people without sustainable access to safe drinking water. By 2020, to have achieved a significant improvement in the lives of at least 100 slum dwellers.
9/ Targets: Develop further an open, rule-based, predictable, nondiscriminatory trading and financial system. Address the Special Needs of the Least Developed Countries. Address the Special Needs of landlocked countries and small island developing states. Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term. In cooperation with developing countries, develop and implement strategies for decent and productive work for youth. In cooperation with pharmaceutical companies, provide access to affordable, essential drugs in developing countries. In cooperation with the private sector, make available the benefits of new technologies, especially information and communications.

Ouagadougou, December 20, 2004

Mr. Rodrigo Rato
Managing Director
International Monetary Fund
700 19th Street NW
Washington DC 20431
USA

Dear Mr. Rato:

1. The government of Burkina Faso is implementing a program of macroeconomic and structural reforms for the period 2003–06 with the support of the International Monetary Fund (IMF). A three-year arrangement under the Poverty Reduction and Growth Facility (PRGF), for an amount equivalent to SDR 24.08 million (40 percent of quota), was approved by the IMF Board on June 11, 2003. We are making satisfactory progress under this arrangement, despite a recent substantial deterioration of Burkina Faso's external environment. Specifically, the economy is coping with record low cotton prices, a sharp increase in oil prices, a drought in the north of the country, the locust infestation in the Sahel, the situation in Côte d'Ivoire, and the recent strong appreciation of the euro. Despite these adverse developments, we observed all quantitative performance criteria for the second and third PRGF reviews. We are requesting completion of the second and third program reviews and the disbursement of the third and fourth loans in the amounts of SDR 3.44 million each. In this regard, we are asking for waivers of two structural performance criteria, based on recent progress and corrective measures as described in the attached memorandum of economic and financial policies (MEFP) for the period October 2004–December 2005.

2. We believe our program appropriately addresses the challenges that we face in 2005. Despite the deterioration in our external environment, we have proposed a government budget that allows us to continue implementing our poverty reduction strategy, consistent with a reduction in the government debt burden. It also makes adequate provisions for the presidential and municipal elections scheduled for 2005 which are fundamental to maintaining social cohesion and strengthening our democratic institutions. The government believes that the policies set forth in the attached MEFP are adequate to achieve the objectives of its program, and it will take any additional measures that may prove necessary for this purpose. During the implementation period of the three-year arrangement, the authorities will consult with the Managing Director of the IMF, either at their own initiative or whenever the Managing Director of the IMF requests such consultation, regarding the adoption of any additional measures that may be appropriate. Moreover, after the implementation period of the arrangement and while Burkina Faso has outstanding financial obligations to the IMF arising from loans under the arrangement, the government will consult with the IMF, at its initiative or whenever the Managing Director requests such consultations, regarding its economic and financial policies.

3. To ensure that there is sufficient time to complete the sixth review under the three-year arrangement, which will be based on performance at end-March 2006, we request that the arrangement be extended until August 15, 2006.

4. The government intends to make the contents of this letter and those of the attached MEFP, technical memorandum of understanding, and the staff report on the second and third reviews available to the public. In this regard, it authorizes the IMF to publish them on its website.

Sincerely yours,

/s/

Jean-Baptiste M. P. Compaoré
Minister of Finance and Budget
Ouagadougou, Burkina Faso

BURKINA FASO

Memorandum of Economic and Financial Policies for October 2004–December 2005

I. Program Implementation and Prospects for 2004

1. Real GDP growth is projected to slow from 8.0 percent in 2003 to 4.8 percent in 2004, somewhat lower than envisaged under the program, as agricultural output falls from the record levels realized in 2003. Food prices have been falling due to the exceptional cereal harvest of 2003/04, and, as a result, overall consumer prices fell by 0.7 percent during the 12 months ending September 2004. The exchange rate peg, along with the appreciation of the euro, has helped contain inflationary pressures, albeit with some consequences for export competitiveness in the period ahead. Against this background, we expect inflation to remain subdued for the remainder of the year. Strong foreign exchange inflows from buoyant cotton export proceeds in the first half of 2004, along with a more rapid disbursement of donor project funds than expected, facilitated a substantial buildup in Burkina Faso's contribution to the international reserves of the BCEAO through September. While we expect some reduction in reserves in the fourth quarter, we project that the end-2004 targeted reserve coverage of 3.3 months of imports of goods and services will be exceeded by a comfortable margin.

2. Fiscal discipline has been a major factor behind these favorable developments. The basic fiscal deficit (revenue less domestically-financed expenditures) was slightly smaller than programmed for the first nine months of the year (Table 1). We observed all quantitative performance criteria for end-March and end-September, and all quantitative indicative targets except for two at end-September pertaining to the wage bill and the stock of expenditures authorized but not executed (*dépenses engagées non mandatées—DENMs*). The wage bill exceeded the program target by CFAF 1.2 billion (less than 0.1 percent of GDP) because of a more rapid execution of payments linked to staff promotions, which had been programmed for payment in the fourth quarter. This will in no way prevent us from observing the programmed indicative target on the wage bill for the year as a whole. The stock of DENMs increased primarily because authorizations to spend on priority capital projects linked to the use of HIPC debt relief exceeded the pace of project execution.

3. We continued to make progress on fiscal reforms during the year, albeit with some delays or interruptions (Table 2). The structural indicative targets on the submission to the Auditor General Office of the 2001 and 2002 balance sheets of the Central Accountant of the Treasury, the General Spending Accountant and the General Revenue Accountant were observed. In addition, we observed the end-September structural performance criterion pertaining to the establishment of the large taxpayer unit. The structural performance criterion on the implementation of the customs computerization system SYDONIA++ in the 10 customs offices was not observed, owing to insufficient telecommunications equipment.

We developed an alternative communications strategy and made the SYDONIA system operational in seven offices by end-September 2004. Measures to strengthen customs valuation and post-clearance control procedures are behind schedule because of the delayed implementation of the new pre-inspection program. This situation has been resolved and we are moving ahead with the reforms agreed in 2003. In the area of fiscal transparency and governance, the structural performance criterion on the submission to the National Assembly of the 2002 draft annual audited budget act by end-March was missed by about six weeks, as the office of the Auditor General needed additional time to finalize its report. The National Assembly approved a new Labor Code in September 2004, which enhances labor market flexibility.

4. Regarding governance, the High Authority for the Coordination of the Fight Against Corruption presented its first annual report to the Prime Minister in January 2004. Of the 10 instances of alleged corruption covered in the report, one case is already the subject of legal proceedings. The other nine cases have been transmitted to Burkina Faso's General Prosecutor who, after careful consideration, will send them to the district attorneys for follow-up action. In addition, more than 20 cases of embezzlement of public funds have been investigated and tried in Ouagadougou, Fada, Tenkodogo, and Bobo-Dioulasso so far in 2004.

5. Progress has been made in implementing structural reforms to support private sector development. SOFITEX sold ginning facilities, other assets, and regional concessions to two private cotton companies in September 2004. This has resulted in the establishment of the first wholly privately owned cotton ginning and marketing companies in Burkina Faso. Equally important, we increased electricity tariffs by 10 percent on October 1, 2004. This will mitigate the impact of the recent increase in world oil prices on the financial operations of SONABEL (the government-owned electricity utility). It will also help unlock additional donor-funded investment in the sector in the context of a sector strategy developed in collaboration with our development partners. We temporarily suspended the monthly domestic petroleum price adjustment mechanism in October in order to take stock of the potential impact of what would have been an unusually sharp increase in prices. While this resulted in the nonobservance of the related continuous structural indicative target under the program, we considered it was necessary in light of the convergence of a number of adverse shocks on the economy. We resumed the automatic adjustment in November and will allow it to function uninterrupted in the future. The audits of the 2002 and 2003 financial accounts of SONABEL and SONABHY are running behind schedule because of delays in selecting companies to carry out the audits, but we are taking measures to get this aspect of our reform program back on track. In the case of SONABEL, the auditor will be appointed in January 2005 and begin work in February 2005.

II. Economic Policies in the Period Ahead

6. The main policy challenge in the period ahead is to ensure an orderly adjustment to the sharp deterioration in our external environment. Since the end of 2003, world cotton

prices have fallen by 35 percent (measured in CFA francs) and world oil prices have increased by 50 percent, with most of the change occurring since the middle of the year. Cotton accounts for nearly 70 percent of our merchandise exports, and oil for some 20 percent of imports. If these price developments persist, they will have substantial adverse effects on real economic growth, fiscal revenues, and the external current account balance. In addition, our supply lines through Côte d'Ivoire, which had been reopened in 2003, have been interrupted again in the wake of the recent intensification of the crisis. Finally, drought in the north of the country and the locust infestation have adversely affected agricultural production. We have succeeded in obtaining additional financial support from our development partners, relative to what was envisaged under the program, which will help ease the adjustment process in the period ahead. Our policies in 2005 will be based on five pillars:

- The government will pursue ongoing reforms in the cotton sector and continue to support the implementation of the existing price adjustment mechanism.
- The automatic adjustment mechanism for domestic petroleum prices to reflect changes in world prices will be allowed to function without interruption;
- The fiscal deficit will be financed in a manner fully consistent with a decline in the government's debt burden;
- Increases in fiscal expenditures to cushion the adjustment process and ensure a smooth transition to the changed external environment will be well targeted; and
- Structural reforms will be accelerated to help support private sector economic development and diversification.

A. Macroeconomic Framework for 2005

7. We have revised the macroeconomic framework for 2005 in response to the changed external environment. We are basing the 2005 budget on a projected growth of real GDP on the order of 3½ percent. We believe that growth could be higher, but a cautious outlook is justified given the risks we face. The exchange rate peg is expected to help contain inflation to about 2 percent. The external current account deficit is projected to widen to about 12½ percent of GDP. Net capital and financial flows, including from our development partners, while larger than programmed, are not expected to be sufficient to cover the wider current account deficit. As a result, Burkina Faso's contribution to the reserves of the WAMU in 2005 will be lower than programmed. However, because of the balance of payments surpluses of the past two years, the contribution since the beginning of the PRGF arrangement will remain higher than programmed.

B. Pricing Policy in the Cotton Sector

8. The cotton sector in Burkina Faso is mostly privately owned and the government will continue to promote competition in the industry. The government is a minority shareholder in the largest of the three cotton ginning and export companies. Cotton farmers and private companies hold the remaining shares. Budgetary subsidies to the sector have been small and confined to mitigating the impact of rising input prices arising from the disruption of supply lines through Côte d'Ivoire. The current agreement between shareholders has served Burkina Faso well during the past five years, and while we recognize that the system has never faced such low world prices for cotton, the government believes that the system should be allowed to function as designed. Shareholders have negotiated reasonable contracts under difficult situations in the past, and government intervention in the process, other than as a minority shareholder, would undermine credibility of the system, which has already succeeded in attracting substantial private-sector participation.

9. Under the current arrangement, shareholders negotiate the producer price, currently at CFAF 175 per kilo of cotton, prior to planting (April/May). In addition, a bonus (*ristourne*) is paid to farmers if the companies earn profits on the operations of the previous year. As this was the case for the 2003/04 crop, farmers are being paid CFAF 210 per kilo for seed cotton, including a *ristourne* of CFAF 35 per kilo, on the current crop (2004/05), for which ginning operations have already begun. Even if world prices fail to rebound from current levels (about CFAF 535 per kilo), the companies will be able to finance their losses on the current crop through their own resources. However, on this basis, a *ristourne* would not be paid for the 2005/06 crop, resulting in, at least, a 17 percent decline in the price received by farmers. The floor price for the next crop (2005/06) will be determined in the context of negotiations between shareholders, including farmers, which will be concluded in April/May. We recognize that if world prices do not rebound, these negotiations could result in a producer price that might have severe poverty implications for farmers or result in unsustainable financial losses for the companies. If this scenario were to materialize, we would expect farmers and companies to absorb a major part of the required adjustment, but we would also consult immediately with our development partners to find a way forward.

C. Fiscal Policy

10. Fiscal policy in 2005 will be oriented toward supporting the implementation of our poverty reduction strategy as set forth in the revised poverty reduction strategy paper (PRSP), consistent with the objective of reducing the overall government debt burden. We are revising our medium-term expenditure framework for 2006–07 in light of the recent deterioration in the external environment. We have already revised downward our revenue projection for 2005 to CFAF 378 billion based on lower economic growth than envisaged under the PRGF arrangement. However, we will continue to improve tax and customs administration, thereby enhancing tax yields, and are targeting an increase in the revenue/GDP ratio by ½ percentage point to 13.3 percent.

11. Total expenditure and net lending in 2005, excluding foreign-financed investment projects, will be lower than programmed at CFAF 463 billion, reflecting a thorough review and prioritization of the domestic public investment program. Recurrent outlays, excluding external interest, will be contained to CFAF 327 billion, as programmed. The government is currently negotiating with labor representatives the first increase in public sector wages since 1997. It is committed to ensuring that the wage agreement is consistent with the programmed ceiling on recurrent outlays. The 2005 wage bill will also provide for the hiring of new teachers and health workers, as well as financial incentives for teachers and health workers to relocate to rural areas, where poverty is most pronounced. The subsidy to the energy sector will be increased by CFAF 5.5 billion to help offset the impact of higher world oil prices, consistent with the sector strategy being supported by our development partners. In the event that world oil prices are higher than currently projected, measures will be taken, including by SONABEL, to ensure that the budgeted subsidy is not exceeded. The budget also provides CFAF 3.5 billion for the purchase of a replacement presidential aircraft, as the existing aircraft is almost 40 years old. These previously unforeseen expenditures will in no way affect spending on priority social programs, which excluding wages, are budgeted to rise to CFAF 61 billion. The budget contains no subsidy to the cotton companies to cover financial losses that may arise from the current cotton campaign, but it does include an additional CFAF 3 billion to offset the increase in the costs of inputs to farmers arising from the disruption of supply lines in the region.

12. The overall fiscal deficit (excluding grants) is programmed at 9.3 percent of GDP. This will be entirely financed by net official flows. External financing will be limited to grants and highly concessional loans and would be consistent with a continued decline in the external debt burden as measured by the ratios of the NPV of debt to exports and fiscal revenues.

D. Fiscal Reforms

13. In 2005, we intend to make further progress in the area of fiscal transparency and to strengthen revenue performance. The measures that we will implement are as follows:

- proceed with the transfer of the collection of the RSI (*régime simplifié d'imposition*) tax to the Tax Directorate before end-March 2005;

- submit by end-September 2005 to the Auditor General Office the general balance sheets for 2004 of the Central Accountant of the Treasury, the General Spending Accountant, and the General Revenue Accountant;

- submit by end-September 2005 to the Auditor General Office the 2004 draft annual audited budget act;

- select ten revenue management indicators by January 15, 2005, produce a first progress report by end-March 2005, and on a monthly basis thereafter. The ten selected indicators will focus on the tax base, tax collection, and tax controls;

- introduce by end-March 2005 a new taxpayer identification system based on the use of a revised single tax identification number (TIN);
- accelerate the control activities of the recently created Large Taxpayer Division (DGE). In particular, the DGE will carry out VAT audits of at least 60 companies under its authority by end-September 2005;
- following the adoption of the new TIN, a methodology for a new census of taxpayers will be adopted by end-June 2005, a comprehensive census of taxpayers in Ouagadougou and Bobo-Dioulasso will be launched, and a report on the status of implementation of the census will be published by end-December 2005;
- issue by end-June 2005 instructions for customs valuation and transmit to the pre-inspection company customs data to allow for the reconciliation of the pre-inspection and declared values of imports; and
- establish by end-September 2005 a special unit to monitor the final destination of imports benefiting from customs and tax exemptions linked to the public investment program.

In addition, the Tax Directorate and the Customs Directorate will sign by end-June 2005 a protocol for sharing of information between the two directorates. The protocol will detail the information to be shared as well as its periodicity. Moreover, we plan to establish by end-December 2005 a Joint Brigade of the two directorates that will aim at improving tax compliance and revenue collection.

E. Monetary Developments and Financial-Sector Policies

14. Monetary policy continues to be coordinated at the regional level by the BCEAO. Its goals are to maintain price stability and to target a general increase in international reserves. Broad money in Burkina Faso is projected to grow in line with nominal GDP during 2005 and credit to the economy somewhat faster.

15. The banking system remains basically sound and is well positioned to sustain the recent external shocks. All banks are in compliance with minimum capital adequacy requirements. Compliance with the other prudential ratios is generally satisfactory, with the exception of single-borrower loan concentration limits. The government will continue to promote microfinance in order to increase access to financial services in rural areas and to small enterprises. We had intended to finalize our strategy for the sector in October 2004, but experienced delays in obtaining the necessary technical assistance. Following discussions with our development partners, we have resolved this problem and revised the schedule accordingly. The cabinet will approve the strategy by end-March 2005 that will be validated, by end-June 2005, through consultations with and the participation of civil society and other stakeholders. To promote financial sector intermediation and reducing the spread between deposit and lending rates, we will continue to pursue judicial reform to enhance procedures

for foreclosure on collateral and improve loan collection. In this regard, we are allocating resources to clear the backlog of existing foreclosure decisions and have issued instructions to the courts to publish foreclosure decisions immediately after the relevant court hearings.

F. External Debt

16. The government has continued negotiations with its creditors to secure their participation in the HIPC Initiative, including the provision of topping-up. With regard to the latter, the government obtained assurances from all multilateral and Paris Club creditors. However, we have had no success, despite repeated efforts, in obtaining the participation of our non-Paris Club bilateral creditors on terms comparable to those offered by our Paris Club creditors. The government remains firmly committed to ensuring that its poverty reduction strategy is fully consistent with external debt sustainability. It will continue to seek grant financing of its strategy to the maximum extent possible and to refrain from contracting or guaranteeing external loans with a grant element of less than 35 percent. We have been, and will remain, current on all external debt obligations, except for those under negotiation in the context of the HIPC Initiative.

G. Structural Reforms, Competitiveness, and Governance

17. The government's structural reform agenda is directed at improving the economy's competitiveness and supporting private-sector-led diversification and growth. We have developed a strategy to privatize ONATEL (the national telecommunications company) in 2005, offering 34 percent of shares to a strategic partner and another 20 percent to the public. We are implementing a major restructuring of the power sector with the support of our development partners. The cabinet will approve by January 2005 and submit to the National Assembly by end-March 2005 a new regulatory framework for this sector. This will open generation to private competition and establish the basis for timely adjustments of electricity tariffs to ensure full cost recovery. This, in turn, will facilitate the elimination of budgetary support for SONABEL in the medium term. We also intend to sell a minority of our shares in SONABHY, the national petroleum importing company. To prepare for private-sector participation in these sectors, we will finalize the audits for 2002, 2003, and 2004 of SONABEL and SONABHY during the course of the year. We will also push ahead with privatizing the remaining government-owned hotels, insurance companies, and banks.

18. Improved governance and the implementation of the rule of law are also fundamental to the promotion of private sector economic development. In this regard, the Ministry of Justice is moving ahead with investigations of cases identified in the first report of the High Authority to Coordinate the Fight Against Corruption. In addition, to strengthen the government's action in this area and broaden participation, the High Authority will prepare a national policy to fight corruption that will be adopted in 2005 following a wide-ranging consultation.

H. The Poverty Reduction Strategy Paper

19. We have finalized the PRSP for 2004–06, and recently presented the 2003 progress report to our development partners. In light of the recent external shocks to the economy, and their budgetary implications, we will revise the medium-term expenditure framework for 2006–07 by end-May 2005. While we expect that real GDP growth will return to a trend rate of 6–7 percent in the medium term, we will base the medium-term macroeconomic framework on a more conservative growth outlook through 2006. Against this background, fiscal revenue in the near term will likely be lower than envisaged earlier, and additional budget support from our development partners would be required if we are to make satisfactory progress toward the Millennium Development Goals.

I. Monitoring of Program Implementation

20. To monitor progress in implementing our program, the government has established quantitative performance criteria for March 2005 and September 2005 and indicative targets for the end of each quarter (Table 3). The program also incorporates structural performance criteria for March 2005 and September 2005, as well as benchmarks for the end of each quarter (Table 4). The program includes an adjuster on domestic financing for deviations in external debt service relative to program projections. In addition, domestic financing will be adjusted upward for a shortfall in budget support, up to a maximum of CFAF 50 billion. The program allows the government to spend budget support in excess of projected amounts on priority social programs, up to a maximum of CFAF 25 billion.

21. The government will, by end-August 2005, conduct the fourth half-yearly review of the program with the Fund, to evaluate the progress made as at end-March 2005. The fifth half-yearly review of the program is also expected to be carried out by end-March 2006, on the basis of the results at end-September 2005.

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

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

	2003	2004						
	Dec. Est.	End-Mar. Prog.	End-Mar. Est.	End-Jun. Indicative Target	End-Jun. Est.	End-Sep.	End-Sep. Est.	End-Dec. Indicative Target
Performance criteria and indicative targets 1/								
Ceiling on cumulative change in net domestic financing to government 2/	6.3	17.3	8.3	21.2	-2.8	3.1	-29.1	19.7
Ceiling on the cumulative amount of new nonconcessional external debt contracted or guaranteed by the government 3/ 4/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which: less than one year's maturity 3/ 4/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accumulation of domestic payments arrears 4/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accumulation of external payments arrears 4/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Indicators								
Government revenue	301.2	70.7	73.9	162.4	174.6	248.8	253.0	345.6
Current expenditure	259.6	72.2	68.7	148.8	139.1	225.5	210.9	300.7
Expenditure on wages and salaries	112.5	28.3	27.7	58.5	57.9	88.6	89.9	118.1
Basic balance 5/ 6/	-71.4	-26.8	-10.5	-40.0	-27.8	-58.3	-55.3	-77.1
Change in the stock of expenditure committed but without payment orders 6/	0.9	2.0	-17.2	2.6	-3.9	-12.3	8.0	-15.0
Adjustment factors								
Balance of payments assistance	83.6	15.3	9.3	26.7	23.6	78.4	74.2	83.0
Adjustment lending (excluding IMF)	12.1	0.0	7.7	8.1	7.7	43.4	40.1	43.4
Adjustment grants	71.6	15.3	1.6	18.6	15.9	35.0	34.1	39.6

Sources: Burkinabè authorities; and staff estimates and projections.

1/ Performance criteria at end-March and end-September 2004.

2/ For 2004, the ceiling on the cumulative change in net domestic financing is to be adjusted upward (downward) by the amount of shortfall (surplus) in balance of payments assistance (excluding debt relief under the HIPC Initiative). At end- March 2004, the adjustment is limited to a maximum of CFAF 10 billion, to a maximum of CFAF 15 billion at end-June 2004, to a maximum of CFAF 45 billion at end-September 2004, and to a maximum of CFAF 50 billion at end-December 2004.

3/ Excluding treasury notes and bonds issued in CFA francs on the regional West African and Economic Monetary Union (WAEMU) market. From end-June 2004, this ceiling excludes

4/ To be observed on a continuous basis.

5/ Revenue (excluding grants) minus expenditure, excluding foreign-financed investment outlays and net lending.

6/ Including HIPC Initiative expenditure.

Table 2. Burkina Faso: Prior Action, Structural Performance Criteria, and Indicative Targets for 2004

Measures	Date	Status
Submission to the National Assembly of the 2002 draft annual audited budget act, as described in paragraph 19 of the LOI dated March 4, 2004.[1]	End-March 2004	Not observed: submitted in May
Submission to the Auditor General Office of the general balance sheets of the Central Accountant of the Treasury (Agent Comptable Central du Trésor), the General Spending Accountant (Payeur Général), and the General Revenue Accountant (Receveur Général), as described in paragraph 19 of the LOI dated March 4, 2004.	End-April 2004	Observed
Implementation of the customs computerization system SYDONIA++ in ten main customs field offices, as described in paragraph 15 of the LOI dated March 4, 2004.[1]	End-April 2004	Not observed: implemented in five offices
Introduction of a taxpayer registration system, as described in paragraph 15 of the LOI dated March 4, 2004.	End-June 2004	Not observed: revised to March 2005
Establishing a single large taxpayer unit in the tax administration main office in Ouagadougou, as described in paragraph 15 of the LOI dated March 4, 2004.[1]	End-September 2004	Observed
Submission to the National Assembly of the 2003 draft annual audited budget act, as described in paragraph 19 of the LOI dated March 4, 2004.	End-December 2004	Target revised: budget act to be submitted to Auditor General by end-September 2004—Observed
Installation of the SYDONIA++ customs computer system at remaining five principal customs houses.	End-December 2004	Prior action for Board discussion
Implementation of the automatic price structure adjustment mechanism for petroleum products in relation to costs, as described in paragraph 22 of the LOI dated March 4, 2004.	Continuous	Not observed: not implemented in October 2004; resumed in November 2004

[1] Performance criterion.

Table 3. Burkina Faso: Quantitative Performance Criteria, and Indicative Targets for the Program Under the Poverty Reduction and Growth Facility Arrangement, 2005

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

	2004	2005			
	Dec. Proj.	End-Mar.	End-Jun.	End-Sep.	End-Dec.
Performance criteria and indicative targets 1/					
Ceiling on cumulative change in net domestic financing to government 2/	13.0	20.8	25.3	4.2	8.9
Ceiling on the cumulative amount of new nonconcessional external debt contracted or guaranteed by the government 3/ 4/	0.0	0.0	0.0	0.0	0.0
Of which: less than one year's maturity 3/ 4/	0.0	0.0	0.0	0.0	0.0
Accumulation of domestic payments arrears 4/	0.0	0.0	0.0	0.0	0.0
Accumulation of external payments arrears 4/	0.0	0.0	0.0	0.0	0.0
Indicative targets					
Government revenue	345.6	77.3	177.6	272.1	377.9
Current expenditure	297.1	81.0	167.1	253.2	337.6
Expenditure on wages and salaries	118.1	33.8	69.7	105.6	140.7
Basic balance 5/ 6/	-77.1	-23.2	-38.8	-56.4	-84.7
Change in the stock of expenditure committed but without payment orders 6/	-15.0	0.0	1.0	6.0	3.0
Adjustment factors					
Balance of payments assistance	94.4	12.2	21.0	62.5	87.9
Adjustment lending	45.6	10.5	7.8	39.7	44.0
Adjustment grants	48.8	1.7	13.2	22.9	43.9

Sources: Burkinabè authorities; and staff estimates and projections.

1/ Performance criteria at end-March and end-September 2005.

2/ For 2005, the ceiling on the cumulative change in net domestic financing is to be adjusted upward (downward) by the amount of shortfall (surplus) in balance of payments assistance. The downward adjustment does not apply to the first CFAF 25 billion in excess balance of payments support, provided that additional spending is for priority social programs. At end-December 2005, the adjustment is limited to a maximum of CFAF 50 billion.

3/ Excluding treasury notes and bonds issued in CFA francs on the regional West African and Economic Monetary Union (WAEMU) market. This ceiling excludes supplier credits with a maturity of one year or less.

4/ To be observed on a continuous basis.

5/ Revenue (excluding grants) minus expenditure, excluding foreign-financed investment outlays and net lending.

6/ Including HIPC Initiative expenditure.

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

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

[1] Performance criterion.

INTERNATIONAL MONETARY FUND

BURKINA FASO

Technical Memorandum of Understanding

Ouagadougou, 20 December, 2004

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

I. Definitions

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

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

- Government is defined as the central government of Burkina Faso and does not include any political subdivision, government-owned entity, or central bank having a separate legal personality.
- External payments arrears are external payments due but unpaid. Domestic payments arrears under the 2004–05 program are domestic payments due (following the expiration of a 90-day grace period, except where the obligation provides for a specific grace period, in which case that grace period will apply) but unpaid.
- Government obligation is any financial obligation of the government accepted as such by the government (including any government debt).

II. Quantitative Performance Criteria

A. Cumulative Change in Net Domestic Financing to the Government

Definition

3. Under the 2004–05 program, net domestic financing of the government is defined as the sum of (i) net bank credit to the government, including both the net bank credit to the treasury as defined below, and other government claims and debts vis-à-vis national banking institutions; and (ii) the unredeemed stock of government bills and bonds held outside national commercial banks.

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

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

6. At end-September 2004, net domestic financing of the government was CFAF -29.1 billion, made up of CFAF -30.3 billion in changes in net bank credit to the government and CFAF 1.1 billion in nonbank financing.

Quantitative performance criterion/indicative targets

7. The ceiling on the cumulative change (from October 1, 2004 onward) in net domestic financing of the government is set at CFAF 19.7 billion at December 31, 2004, and (from January 1, 2005 onward) CFAF 20.8 billion at March 31, 2005. These ceilings

represent an indicative target at end-December 2004 and a performance criterion at end-March 2005 . The ceiling is projected at CFAF 25.3 billion at June 30, 2005 and at CFAF 4.2 billion at September 30, 2005. These figures will be reexamined and set as an indicative target at end-June 2005 and a performance criterion at end-September 2005 during the fourth program review.

Adjustment

8. The ceilings on the cumulative change in net domestic financing to the government will be subject to adjustment when actual disbursements differ from program forecasts of external budgetary assistance. When disbursements exceed forecasts, the ceilings will be adjusted downward by the amount of excess disbursements, with the exception of up to a maximum of CFAF 25 billion in expenditure for priority social programs. In contrast, when disbursements fall short of forecasts, the ceilings will be adjusted upward by the amount of the shortfall. However, upward adjustments of ceilings are limited to a maximum of CFAF 50 billion at end-December 2004 and CFAF 50 billion at end-December 2005. In addition, the ceiling will be adjusted for deviations in external debt service relative to program projections.

Reporting deadlines

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

B. Nonaccumulation of Domestic Payments Arrears

Definition

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

Performance criterion

11. The government will not accumulate any domestic payments arrears on government obligations in 2003 and 2004. Said nonaccumulation of domestic payments arrears is a performance criterion, to be observed continuously.

Reporting deadlines

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

C. Nonaccumulation of External Payments Arrears

Performance criterion

13. The government's external debt is the stock of debt owed or guaranteed by the government. External payments arrears are external payments due but unpaid on the due date. Under the program, the government undertakes not to accumulate external payments arrears on its debt, with the exception of external payments arrears arising from government debt being renegotiated with external creditors, including non-Paris Club bilateral creditors and multilateral creditors participating under the enhanced HIPC Initiative. Nonaccumulation of external payments arrears is a performance criterion, to be observed continuously.

Reporting deadlines

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

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

Performance criterion

15. The government undertakes not to contract or guarantee any external debt maturing in one year or more with a grant element of less than 35 percent (calculated using the interest reference rate for borrowed foreign currencies provided by the IMF). This performance criterion applies not only to debt as defined in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt, adopted by the IMF's Executive Board on August 24, 2000,[12] but also to all commitments contracted or guaranteed for which value has not been received. However, this performance criterion does not apply to treasury bills and bonds issued in CFA francs on the WAEMU regional market. This commitment is a performance criterion, to be observed continuously.

Reporting deadlines

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

E. Government Short-Term External Debt

17. The government undertakes not to accumulate or guarantee any new external debt with a contractual maturity of less than one year. This performance criterion applies not only to debt as defined in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt, adopted by the IMF's Executive Board on August 24, 2000, but also to commitments contracted or guaranteed for which value has not been received. Excluded

[12] See para. 2.

from this performance criterion are import- and export-related loans and treasury bills and bonds issued in CFA francs on the WAEMU regional market and normal short-term suppliers' credits of one year or less. This obligation is a performance criterion to be observed continuously. As of September 30, 2004, the government of Burkina Faso had no short-term external debt.

III. Other Quantitative Indicative Targets

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

Definitions

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

20. Total government revenue is valued on a cash basis. It includes all tax and nontax revenue collected by the Directorate General of Taxation, the Directorate General of Customs, the Burkinabè Treasury and the revenue collection units at ministries and institutions, and it includes revenue from treasury checks.

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

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

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

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

25. At end-September 2004, the basic deficit was valued at CFAF 55.3 billion, made up of CFAF 253.0 billion in government revenue and CFAF 308.3 billion in expenditure, excluding foreign-financed investments. Total revenue was made up of the following:

- tax revenue (customs, Directorate General of Taxation): CFAF 234.3 billion; and
- nontax revenue, including capital revenue: CFAF 18.7 billion.

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

Expenditure Category	Amount (In billions of CFA francs)
Current Expenditure	210.9
Wage bill	89.9
Goods and services	50.9
Interest on debt (domestic and foreign)	13.7
Transfers and subsidies	56.4
Other	0.0
Capital expenditure financed by treasury	72.3
Capital expenditure financed from HIPC funds	28.6

26. The stock of DENMs was valued at CFAF 47.3 billion at end-September 2004.

Other quantitative indicative targets

27. The ceiling for the cumulative basic deficit (from January 1, 2004 onward) of government financial operations is established at CFAF 77.1 billion at December 31, 2004 and (from January 1, 2005) at CFAF 23.2 billion at March 31, 2005. These ceilings are indicative targets at end-December 2004 and end-March 2005. The ceiling is projected at CFAF 38.8 billion at June 30, 2005 and at CFAF 56.4 billion at September 30, 2005. These figures will be reexamined and established as indicative targets during the fourth program review.

28. The floor for total government revenue (cumulative from January 1, 2004 onward) is set at CFAF 345.6 billion at December 31, 2004 and (cumulative from January 1, 2005) at CFAF 77.3 billion at March 31, 2005. These floors are end-December 2004 and end-March 2005 indicative targets. The floor is projected at CFAF 177.6 billion at June 30, 2005 and CFAF 272.1 billion at September 30, 2005. These figures will be reexamined and established as indicative targets during the fourth program review.

29. The respective ceilings for current expenditure and the wage bill (cumulative from January 1, 2004 onward) are established at CFAF 300.7 billion and CFAF 118.1 billion, respectively, at December 31, 2004, and (cumulative from January 1, 2005) at CFAF 81.0 billion and CFAF 33.8 billion, respectively, at March 31, 2005. These ceilings are end-December 2004 and end-March 2005 indicative targets. They are projected, respectively, at CFAF 167.1 billion and CFAF 69.7 billion at June 30, 2005, and at CFAF 253.2 billion and CFAF 105.6 billion at September 30, 2005. These figures will be reexamined and established as indicative targets during the fourth program review.

30. The floor for the cumulative reduction (from January 1, 2004 onward) in the stock of DENMs is set at CFAF 15.0 billion at December 31, 2004. This floor is an indicative target. The ceiling for the cumulative increase (from January 1, 2005 onward) in the stock of DENMs is set at CFAF 0.0 billion at March 31, 2005. This ceiling is an indicative target. The ceiling for the cumulative increase is projected at CFAF 1.0 billion at June 30, 2005 and CFAF 6.0 billion at end-September 2005. These figures will be reexamined and established as indicative targets during the fourth program review.

Reporting deadlines

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

IV. Additional Information for Program-Monitoring Purposes

A. Public Finance

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

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

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

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

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

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

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

B. Monetary Sector

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

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

C. Balance of Payments

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

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

D. Real Sector

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

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

E. Structural Reforms and Other Data

36. The government will report the following information:

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

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

F. HIPC Initiative

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

Summary of Data Requirements

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

Burkina Faso: Relations with the Fund
(As of October 31, 2004)

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

II. General Resources Account:	**SDR Million**	**In percent of quota**
Quota	60.20	100.00
Fund holdings of currency	52.90	87.87
Reserve position in Fund	7.30	12.13
Holdings Exchange Rate		

III. SDR Department:	**SDR Million**	**In percent of allocation**
Net cumulative allocation	9.41	100.00
Holdings	0.14	1.49

IV. Outstanding Purchases and Loans:	**SDR Million**	**In percent of quota**
Enhanced Structural Adjustment Facility (ESAF)/Poverty Reduction and Growth Facility (PRGF) arrangements	77.60	128.91

V. Latest Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	Jun. 11, 2003	Jun. 10, 2006	24.08	6.88
PRGF	Sep. 10, 1999	Dec. 09, 2002	39.12	39.12
PRGF	Jun. 14, 1996	Sep. 09, 1999	39.78	39.78

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

		Forthcoming			
	2004	2005	2006	2007	2008
Principal	3.76	11.73	10.09	12.12	11.48
Charges/interest	0.24	0.54	0.48	0.42	0.36
Total	4.00	12.26	10.57	12.54	11.85

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

		Forthcoming			
	2004	2005	2006	2007	2008
Principal	0.92	2.07	7.07	10.71	11.48
Charges/interest	0.24	0.54	0.48	0.42	0.36
Total	1.16	2.61	7.55	11.13	11.85

VII. Implementation of HIPC Initiative:

I. Commitment of HIPC assistance	Original Framework	Enhanced Framework	Total
Decision point date	Sep. 1997	Jul. 2000	
Assistance committed by all creditors (US$ Million)	229.00	324.15	

Of which: IMF assistance (US$ million)	21.70	35.88	
(SDR equivalent in millions)	16.30	27.67	
Completion point date	Jul. 2000	Apr. 2002	
II. Disbursement of IMF assistance (SDR Million)			
Assistance disbursed to the member	16.30	27.67	43.97
Interim assistance	0.0	4.15	4.15
Completion point balance	16.30	23.52	39.82
Additional disbursement of interest income	0.0	1.34	1.34
Total disbursements	16.30	29.01	45.31

VIII. Safeguards Assessments:

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

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

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

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

IX. Exchange Rate Arrangement:

Starting on January 1, 1999, Burkina Faso's currency, the CFA franc, has been pegged to the euro at the rate of €1=CFAF 655.957. The exchange rate as of May 13, 2004 was CFAF 797.9=SDR 1. The exchange and trade system is free of restrictions on the making of payments and transfers on current international transactions.

X. Article IV Consultations:

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

XI. ROSC/AAP:

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

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

XII. Technical Assistance:

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

Department	Type of Assistance	Time of Delivery	Purpose
FAD	Staff	October 6–17, 1997	Assessing the fiscal impact of the common external tariff (CET) and regional integration and defining policies to offset revenue losses.
FAD	Staff	November 20–30, 1998	Assessing implementation of the 1997 mission recommendations, and proposing complementary reforms to strengthen the fiscal and customs administration.
FAD	Staff	February 11–25, 1999	Assisting in upgrading the computer system used for large taxpayers and following up on the implementation of previously recommended measures.
FAD	Staff	December 4–11, 1999	Monitoring the upgrading of the computer system used for large taxpayers; reviewing the establishment of a withholding system for business taxes; reviewing the system of treasury refunds of taxes due on foreign-financed projects; and proposing modalities for eliminating value-added tax exemptions on investments.
FAD	Staff	May 7–18, 2001	Assisting in completion of the fiscal module of the ROSC, and drafting of an assessment of an action plan on the capacity of the public expenditure management system to track and report on the uses of HIPC Initiative assistance and all poverty-reducing expenditures.
STA	Staff	Since April 2002	Assisting West African Economic and Monetary Union (WAEMU) countries in improving government finance statistics (GFS).
FAD	Staff	March 6–17, 2003	Reviewing the status of implementation of previous FAD recommendations and developing a program of measures to further improve the effectiveness of the tax and customs administration.
STA	Staff	May 8–21, 2003	Assist in completing the data module of the ROSC, assessing the quality and timeliness of macroeconomic data, and helping draft an action plan to ensure the timely disclosure and improve the quality of data.

Department	Type of Assistance	Time of Delivery	Purpose
AFRITAC	STA Advisor	December 8–19, 2003	Help MoF improve GFS, expand the scope of the TOFE, and train staff (first of three scheduled missions).
AFRITAC	PEM Advisor	January 19–30, 2004	Assess the computerized system for expenditure management regarding external financing.
AFRITAC	Custom Advisor	February 7–14, 2004	Review the status of implementation of previous FAD recommendations.
AFRITAC	Tax Advisor	February 18–25, 2004	Review the status of implementation of previous FAD recommendations (first of three scheduled missions).
AFRITAC	STA Advisor	March 29–April 2, 2004	Help MoF improve GFS, expand the scope of the TOFE, and train staff (second of three scheduled missions).
AFRITAC	Tax Advisor	April 28–May 1, 2004	Review the status of implementation of previous FAD recommendations (second of three scheduled missions).
AFRITAC	Custom Advisor	August 23–27, 2004	Review the status of implementation of previous FAD recommendations, and help use ASYCUDA.
AFRITAC	Debt Advisor	September 13–24, 2004	Assess public debt data recording and reporting. Monitor progress in establishing domestic primary markets for government securities and develop secondary market.

XIII. Resident Representative:

Mr. Mario Zejan took up the post of resident representative in March 2004.

Burkina Faso: Relations with the World Bank Group
(As of December 1, 2004)

Partnership in Burkina Faso's development strategy

1. The government of Burkina Faso outlined its development strategy in a poverty reduction strategy paper (PRSP) in May 2000. The Bank and Fund Board endorsed this strategy in June 2000, as well as the first (December 2001), second (November 2002), and third (January, 2004) annual progress report. The government is in the final stages of finalizing the full update of the PRSP and a Priority Action Program (PAP). The PRSP sets out the following four pillars of the government's strategy: (i) accelerating equitable growth; (ii) promoting access to social services; (iii) increasing employment and income-generating activities for the poor; and (iv) promoting good governance.

2. The Fund has supported Burkina Faso under three arrangements under the Poverty Reduction and Growth Facility between 1993 and 2002, and the authorities are currently receiving support under a fourth arrangement covering 2003–06. The Fund takes the lead in the policy dialogue on macroeconomic policies and monitors macroeconomic performance through quantitative performance criteria. In addition, it established recently structural performance criteria in the areas of tax policy, financial transparency and good governance, and trade policy. The Bank is supporting the implementation of the PRSP in the areas of public finance management, good governance, decentralization, health, education, and cotton reform through a series of poverty reduction support credits (PRSC), complemented with a portfolio of specific projects to address issues relating to HIV/AIDS, basic education, infrastructure investments in transport, water and urban areas, rural development, private sector development, and statistical capacity building, as outlined below.

The Country Assistance Strategy (FY 2000–03) and the Bank portfolio

3. The general objective of the November 2000 Country Assistance Strategy (CAS) for the World Bank is to support the government's efforts, as described in the June 2000 PRSP, to achieve sustained high growth rates, to reduce the high incidence of poverty, and to improve the nutrition, health, and education of the rural population, which constitutes the largest group among the poor. The CAS has three specific objectives: (i) supporting policies and programs aimed at improving the supply side of the economy in order to allow for sustained, broad-based, and export-oriented growth; (ii) improving public finance management to increase efficiency of public spending, and (iii) ensuring that the allocation process and public spending effectiveness goals result in a special emphasis on social services.

4. The Bank's assistance to the PRSP is intended to be selective and complementary to activities supported by other donors. Specifically, the Bank envisages a program and related country budget allocation that will (i) give priority to supervision of ongoing projects; (ii) acknowledge the important role of donors; (iii) consolidate lending operations into fewer

but broader resource transfer mechanisms that are more closely integrated with the government's own budgetary allocation and execution processes; and (iv) include a share of nonlending services to foster a robust analytical base for consensus and partnership building.

5. To refocus its assistance program and put a consistent emphasis on rapid growth with poverty reduction, the Bank Group strategy in Burkina Faso focuses attention on (i) key social sectors, where there are viable long-term strategies or where they can be developed; (ii) longer-term economic reforms to improve competitiveness and reduce business costs; (iii) the improvement of public resource management; and (iv) the adapting of Bank-supported programs to the subregional framework and potentials. Bank lending to Burkina Faso takes the form of results-driven programmatic credits (Poverty Reduction Support Credits—PRSCs) and self-standing projects for capacity building, support for community-driven development activities (concentrating on rural, social, and HIV/AIDS interventions) and infrastructure investments directly targeted to poverty alleviation and private sector development. There is a continued commitment to analytical and advisory activities, as knowledge is the critical input for progress in the substantive areas presented in the PRSP.

6. The March 2003 CAS Progress Report (i) assesses the progress made in implementing the PRSP and the FY 2001–03 CAS, (ii) provides an update on the economic and social developments, (iii) elaborates the new challenges that Burkina Faso is facing, and (iv) identifies the risks for continued implementation of the PRSP and CAS. The progress report confirms that the strategy set out in the 2000 CAS remains appropriate and proposes an extension of this strategy for 12–18 months to cover the period until the new CAS is prepared. A result-based Portfolio Performance Review took place in Ouagadougou in November 2004, and a CAS Completion Report is currently under preparation. They will serve as pillars to the new CAS—centered on the full update of the PRSP—scheduled for Board presentation in May 2005.

7. **Assessment of country policies**. In close collaboration with the Burkinabè authorities, IDA has undertaken substantial analytical work over the past three years to assess key social, structural, and sectoral development policies and identify policy and institutional reform priorities for poverty reduction. IDA has relied on a combination of the PRSP and its annual progress reports, a second priority poverty survey and two poverty profiles, sectoral policy notes, and informal papers on specific issues, such as constraints in growth and competitiveness, or the dynamics of poverty and income inequality. IDA has also helped the Burkinabè authorities carry out analytical work in key sectors (education, health, rural development, energy, transport, and private sector development) and assisted with the preparation of a comprehensive economic study on long-term sources of growth and competitiveness in 2001. IDA completed a public expenditure review in June 2004 and a Poverty Assessment in July 2004.

8. Since the beginning of the structural reforms in the early 1990s, the World Bank has approved, in addition to support for investment projects, two structural adjustment credits, an economic recovery credit, an agricultural sector adjustment credit, a transport adjustment credit, an economic management reform credit, and four poverty reduction support credits

(PRSC-1, PRSC-2, PRSC-3, and PRSC-4). The Bank's cumulative commitments to Burkina Faso as of November 30, 2004 amount to US$1,555 million equivalent for 72 operations, comprising 67 IDA credits and 5 IDA grants.

9. The **current portfolio** amounts to IDA commitments of US$594.3 million, of which US$382.0 million is undisbursed. Two GEF Projects also compose the portfolio for a commitment amount of US$12 million for US$7.5 million, of which $2.2 million has been disbursed. IDA's portfolio in Burkina Faso is as follows:

- The PRSC-4 credit was approved in May 2004 for US$60 million. The PRSC program focuses on key sectoral action plans and reforms to improve public finance management, the competitiveness of the economy, and to facilitate the country's implementation of its Poverty Reduction Strategy. The credit was fully disbursed on July 26, 2004.
- Three operations support IDA's strategy in the **agriculture** sector. A second agricultural services project (US$41.3 million, FY 1998) aims at increasing agricultural productivity and farmers' incomes, improving natural resource management, and promoting institutional development. A private irrigation project (US$5.2 million, FY 1999) supports provision of the demand-driven services necessary for the development of an efficient, sustainable small irrigation subsector in Burkina Faso. A community-based rural development program (US$66.7 million, FY 2001) aims at reducing poverty and promoting sustainable development in rural areas. Its first phase provides for building local capacity to plan and implement rural development projects, accelerating the pace of public transfers for decentralized rural development, and supporting implementation of the country's decentralization framework. A Rural Intensification and Market Diversification Project is currently under preparation.
- To support **human resource development**, three operations are being implemented. In **education**, a basic education operation (US$32.6 million) was approved in January 2002 by the World Bank Executive Board. The project provides support for the government's ten-year basic education program, which will be implemented in three phases, the first of which covers the period 2001–05. The main development objective of Phase I of the ten-year program is to lay the foundation for accelerating the development of basic education, while ensuring adequate quality and financial sustainability. The Bank also assists the country with the implementation of a new development learning center (US$2.5 million, FY 2003) for distance-learning activities that will give the Burkinabè access to the latest research worldwide. An HIV/AIDS disaster response project (US$22 million, FY 2002) underpins the implementation of the government's 2001–04 medium-term HIV/AIDS/STIs strategic plan, which has been endorsed by the country's technical and financial partners. The second phase of the HIV/AIDS project is under preparation and the project is expected to be approved by early FY 2006.

- In the **urban sector**, an urban environment project (US$37 million, FY 1995) aims at improving living conditions through priority urban works and urban services benefiting low-income groups. Under this project, supplemental financing of US$22 million for the government's decentralization process was approved in FY 2002.
- A **water supply** project (US$70 million, FY 2001) aims at increasing access to adequate and reliable potable water in Ouagadougou through expanded distribution and tertiary water networks and improved urban water subsector management.
- In the **mining** sector, a mining sector capacity building and environmental management project (US$21.4 million, FY 1997) supports regulatory reform and training, institutional strengthening and resource management, environmental management, and small-scale artisanal mining.
- A technical assistance credit for **private sector development** (Competitiveness and Enterprise Development Project, US$30.7, FY 2003) provides support to implement the privatization program; improve the quality, access, and cost of telecommunications; and promote the development of a strong indigenous private sector in Burkina Faso through a streamlined business environment and well-targeted financial and nonfinancial services to small- and medium-sized enterprises.
- The Bank approved a **transport sector project** in April 2003 for US$92.1 million. The project concentrates on rural roads as the rural economy is the main source of income and employment for 80 percent of the population.
- A Statistical Capacity Building credit for US$10 million was approved in March 2004. The project aims at improving policy decision-making, based on timely and accurate quantitative and qualitative information, that help monitor progress toward national development goals, including the PRSP goals and the MDGs.
- An **energy sector** reform grant (US$63 million) was approved in November 2004, with the aim to promote private sector participation and improve the efficiency of the provision of electricity services and the supply of hydrocarbon products to the economy.

The Bank's **proposed lending** program is as follows:

- A second Rural Energy Project will be prepared for delivery in FY 2006.
- A fifth **poverty reduction support credit (PRSC-5)** is envisaged for Board presentation in 2005. It will continue the support to the implementation of the PRSP.
- A capacity-building program to strengthen government's capacity to implement its program is scheduled in FY 2005. The program will help the government to (i) rationalize its administrative structures and processes; (ii) support decentralization of cross-cutting public management systems; and (iii) improve human resources, public expenditure management and capacity to formulate, implement and monitor public policies. Five ministries will be supported by the project: Finances and Budget, Economy and Development, Civil service, Health, and Territorial Administration and Decentralization.

Bank-Fund collaboration in specific areas

10. **Cotton sector and energy sector.** The Bank and Fund staffs jointly follow developments in the cotton sector because of its importance for macroeconomic aggregates and rural incomes. The Fund staff focuses on the overall financial management of the cotton sector in order to limit spillover effects for government finances and the banking sector. The Bank staff is accompanying the government's structural reform agenda in the sector under a series of PRSCs. These reforms aim at creating a more competitive environment. In that context, two private operators have signed concession agreements in 2004 and will begin operations in the next crop season. The reform is safeguarding the historical achievements of a prudent financial management and the involvement of producer organizations in decision-making processes, including the setting of producer prices.

11. **Public finance management and good governance**. The Bank and the Fund closely collaborate in supporting the government's reforms in the area of public finance management and good governance. Important elements of the reform program are enshrined in the government's own action plan for the improvement of budget management and incorporate the main recommendations of the HIPC Assessment and Action Plan prepared jointly by Bank and Fund staff and the Country Financial Accountability Assessment (CFAA). Recently, the Bank's PRSC focused on the creation and operationalization of the Auditor General Office, resumption of regular submissions of budget audit laws to the Auditor General Office and the National Assembly, and revisions of procurement laws and regulations. The Bank's PRSC is also supporting extensions of the computerized expenditure circuit to deconcentrate budget execution and, together with sector-specific projects, is assisting with the preparation for political decentralization. The PRGF-supported program included measures to ensure the effectiveness of the Auditor General Office, and the Fund has given technical assistance in the area of tax and customs administration. Both the Bank and Fund staffs have followed jointly the government's anticorruption policies, including the creation of the High Authority to Fight Corruption. The Fund is focusing its support under the PRGF on tax administration and tax reform issues while the Bank is supporting expenditure management and control reform under the PRSCs.

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

Statement of IDA Credits/Grants
As of December 1, 2004
(In millions of U.S. dollars)

Credit/Grant Number Undisbursed	Fiscal Year	Sector	IDA	
C27280-BF	1995	Urban Environment	59.0	10.8
CN0290-BF	1997	Mining Capacity Building	21.4	2.4
C29740-BF	1998	Agricultural Services II	41.3	4.7
C31610-BF	1999	Private Irrigation	5.2	0.1
C34360-BF	2001	Community-Based Rural Development	66.7	45.2
C34760-BF	2001	Ouagadougou Water Supply	70.0	66.4
C35570-BF	2002	HIV/AIDS Disaster Response	22.0	10.7
C35970-BF	2002	Basic Education	32.6	30.3
C51242-BF	2002	Partnership for Nat. Eco/System	7.5	5.3
C37070-BF	2003	Development Learning Center	2.3	2.1
C37330/H0220	2003	Competitiveness and Ent. Development	30.7	30.8
C37450/H0320	2003	Transport Sector	92.1	91.0
C38780-BF	2004	Statistical Capacity Building	10.0	9.8
C39000-BF	2004	PRSC-4	60.0	0.0
C53855-BF	2004	Sahel Inter lowland	4.5	4.5
G29867-BF	2004	Energy Sector Reform	63.0	63.0
Total (number of credits/grants: 15)			594.3	382.0

Source: World Bank.

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INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

Press Release No. 05/21
FOR IMMEDIATE RELEASE
February 4, 2005

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Reviews Noncomplying Purchase Made by Burkina Faso, Acknowledges Corrective Actions, and Grants Waiver of Nonobservance

On February 2, 2005, the Executive Board of the International Monetary Fund (IMF) discussed Burkina Faso's noncomplying purchase in connection with a performance criterion under the three-year Poverty Reduction and Growth Facility (PRGF) arrangement. After reviewing the circumstances of the noncomplying purchase and the authorities' corrective actions, the Executive Board granted a waiver of two incidents of nonobservance of the performance criterion.

The noncomplying purchase occurred at the time of the second disbursement under the PRGF arrangement (see Press Release No. 03/82), when Burkina Faso reported that it had observed a continuous performance criterion, under which the government agreed not to contract or guarantee any nonconcessional external debt. Subsequent to the second disbursement, however, IMF staff determined that Burkina Faso had entered into two loan agreements that did not adhere to the terms of the performance criterion.

The Executive Board decided to waive two incidents of nonobservance of the criterion, on the basis of the relatively minor impact of the two loans on Burkina Faso's external debt burden, the corrective actions undertaken by the authorities to ensure that nonconcessional loans are not contracted or guaranteed in the future, and the authorities' continuing commitment to program objectives.

Following the Executive Board Discussion of the misreporting, Anne O. Krueger, First Deputy Managing Director and Acting Chair, stated:

"The Executive Board reviewed a noncomplying purchase made by Burkina Faso under its Poverty Reduction and Growth Facility Arrangement with the Fund, which arose as a result of misreporting of data to the Fund regarding the contracting or guaranteeing of non-concessional external debt.

"The Executive Board regretted the authorities' failure to provide accurate data, which was the result of administrative weaknesses in public expenditure management. The contracting of non-concessional debt was of particular concern in light of the sharp increase in Burkina Faso's external indebtedness since the country reached the completion point under the enhanced

Heavily Indebted Poor Countries Initiative in 2002.

"However, in view of the prompt corrective actions taken by the authorities to ensure that non-concessional loans are not contracted or guaranteed in the future, and the authorities' strong commitment to achieving the program's objectives, the Executive Board decided to grant a waiver for the non-observance of the performance criterion that gave rise to the noncomplying purchase," Ms. Krueger said.

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FOR IMMEDIATE RELEASE
February 4, 2005

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Second and Third Reviews Under Burkina Faso's PRGF Arrangement and Approves US$10.5 Million Disbursement

On February 2, 2005, the Executive Board of the International Monetary Fund (IMF) completed the second and third reviews of Burkina Faso's economic performance under a SDR 24.08 million (about US$36.6 million) Poverty Reduction and Growth Facility (PRGF) arrangement (see Press Release No. 03/82). The completion of the reviews enables the release of a further SDR 6.88 million (about US$10.5 million), which will bring the total amount drawn under the arrangement to SDR 13.76 million (about US$20.9 million).

In completing the reviews, the Executive Board granted a waiver of the nonobservance of two structural performance criteria and agreed to extend the three-year arrangement by two months to August 2006 from June 2006.

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

"Burkina Faso's economy performed well during 2004. Economic growth remained robust and inflation low, and fiscal revenue and expenditure targets were met. However, several challenges to sustaining economic success lie ahead, especially in the face of a sharp fall in world cotton prices, a rise in oil prices, and worsening debt indicators. These challenges need to be addressed decisively if Burkina Faso is to achieve the Millennium Development Goals and debt sustainability.

"The authorities' emphasis on price flexibility and on steps to strengthen competitiveness is well placed. If the world price of cotton does not rebound in the coming months, all parties—including the government as shareholder in the largest ginning company—are encouraged to discuss ways to increase the pass-through of world prices to all participants in the sector. In the electricity sector, the gradual move toward pricing based on cost recovery as well as the ongoing investment program will increase efficiency and improve the competitiveness of the economy. With regard to labor market reform, the decrees and regulations that accompany the recently passed labor law should be issued expeditiously, as the new regulatory framework will help improve labor market flexibility and reduce the cost of doing business in Burkina Faso.

"The authorities will continue to focus on poverty-reducing, pro-growth policies while reducing the external debt ratios in the medium term. The reorientation of public spending in key social sectors is welcome, and the planned increase in the wage bill is rightly targeted primarily to the priority health and education sectors. The wage increase is consistent with the overall spending limits under the government's economic program. The projected fiscal deficit is expected to be financed with net donor flows in the form of grants, debt relief, and highly concessional borrowing. The external debt burden is projected to decline in 2005, and a further reduction of the high debt burden remains a key priority over the medium term. In this regard, critical policy priorities will be to maintain prudent fiscal policies, obtain more grants, and continue the outward-oriented and efficiency-enhancing reform agenda.

"Ongoing efforts to strengthen good governance should be bolstered by a swift follow-up on the findings of the report of the High Authority on the Coordination of the Fight Against Corruption," Ms. Krueger said.

The PRGF is the IMF's concessional facility for low-income countries. PRGF-supported programs are based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners, and articulated in a Poverty Reduction Strategy Paper, or 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. PRGF loans carry an annual interest rate of 0.5 percent, and are repayable over 10 years with a 5 ½-year grace period on principal payments.

Statement by Damian Ondo Mañe, Executive Director for Burkina Faso
February 2, 2005

I. Introduction

My Burkinabè authorities would like to thank the staff for the well-written report, which provides a candid description of the country's involvement in the shaping of workable policies needed to create a sustainable macroeconomic environment. Burkina Faso is pleased to have reached the Completion Point of the HIPC initiative and to have received a large part of the topping up. My authorities therefore, would like to express their appreciation to Fund management and are grateful for the assistance received from the international community. Burkina Faso has made considerable progress under the PRGF-supported program. All prior actions and quantitative criteria were met, and my authorities request waivers for the missed structural criteria. They also would like to request the completion of the second and third review of the PRGF arrangement, and the extension of the program period.

II. Non-Complying Disbursement

I would like to reaffirm the determination of my Burkinabè authorities to improve their debt management. As the Minister of Finance explained in his letter to the Managing Director, the failure to report the two credits was not deliberate. Indeed, the two incidents arose within a context of urgent and exceptional security circumstances, and limited administrative capacity and communication. Due to mounting regional security concerns, the government contracted a loan with the Canadian Bank Note Company, Ltd. (CBN) for the provision of a forgery-free identity card. This loan was processed under emergency procedure, thus, the National Committee of Public Debt (CNDP) could not be consulted. As regards the loan contracted with ECOWAS Regional Fund, the estimation of the grant element relied only on ECOWAS calculations which happened to differ slightly from those of the Fund. Since then, my authorities have taken actions to reinforce the CNDP's mandate in the debt-decision making process, with the grant element as a requirement for CNDP approval. Moreover, the modernization of the debt management unit and the training of its staff are underway. As the Minister of Finance expressed in his letter, the authorities regret this inopportune situation and are committed to its non-reoccurrence. In light of the corrective actions taken to remedy this anomaly and the measures adopted to prevent its re-occurrence, my authorities request a waiver of the related non-complying disbursement under the PRGF agreement.

III. Recent Economic Developments

Burkina Faso is suffering from a number of adverse exogenous shocks and my authorities are aware of the need to maintain their efforts towards achieving sustainable economic growth and implementing their structural reform agenda.

Economic performance in 2004 has been satisfactory, despite the compound negative impact of record lows of world cotton prices, the sharp increase in world oil prices, and drought and locusts that have adversely affected agricultural production. Real GDP growth is estimated at

4.8 percent. Inflation fell by 0.7 percent during the 12 months ending September due to the decline in food prices and the appreciation of the euro to which the CFA franc is pegged.

As regards the **fiscal area,** the authorities have pursued their efforts to strengthen budgetary management. Revenues were up 15 percent relative to the same period in 2003, reflecting high corporate income of the previous year and good performance in the non-agricultural sectors in 2004. Moreover, total expenditure and net lending were lower that programmed. Indeed, the authorities have maintained a tight expenditure management control through restraining expenditures on goods and services and transfers. However, priority was given to enhancing the social capital spending program.

On the **monetary front**, the regional central bank (BCEAO) has continued to implement a tight monetary policy. Domestic borrowing by the government was lower than expected, the banking system adequately capitalized, and broad money grew by about 5 percent. In addition, net foreign assets have significantly increased while the cushion of international reserves at end-September was about FCFA 60 billion, due to strong exports during the first half of 2004. In this regard, the authorities are determined to sustain the country's strong economic performance through diversifying the economy and enhancing competitiveness in order to enlarge further the export base. However, the current account deficit is expected to widen by end-2004, caused by recent increase in oil products imports.

Significant progress was made in the implementation of **structural reforms**. On the fiscal reform front, the large taxpayer unit (DGE) was established. Moreover, the computerization of the customs administration has advanced, although the installation of the SYDONIA system was completed with delays, owing to insufficient telecommunication equipment. My authorities have also pursued their privatization agenda. Specifically, the opening up of two cotton-producing regions to private firms was completed and the partially state-owned cotton enterprise (SOFITEX) sold ginning facilities and other assets to the new companies. As regard the petroleum sector, the authorities have temporarily frozen the implementation of the monthly pricing adjustment mechanism in October 2004 in order to monitor the development of world prices, causing the non observance of the related continuous indicative target under the program. However, my authorities have resumed the automatic adjustment mechanism in November and are committed to ensure it continuous implementation in the future. In the electricity sector, the authorities are aware of the need to trim losses and limit the subsidy paid to the electricity utility company (SONABEL). Therefore, electricity tariffs were increased by 10 percent on October 1, 2004 in the context of a reform strategy that is being supported by the World Bank and other development partners. Furthermore, the Parliament has enacted a new Labor Code that enhances the flexibility of the labor market. As regards enhancing good governance, the first cases of corruption revealed by the High Authority for the Coordination of the Fight against Corruption (HACLC) are being prosecuted.

IV. Macroeconomic Framework for 2005

My Burkinabè authorities are aware of the challenges that lay ahead, including the persistent declining trend of the terms of trade, and natural adverse conditions. In addition, they concur with staff on the risk posed by the low world level of cotton prices and the record highs for oil imports to the achievement of program and PRSP objectives. Indeed, cotton contributes to 70 percent of exports. Also world cotton prices have fallen by 35 percent and oil imports have almost doubled since end of 2003. These developments are worrisome in light of cotton's contribution to the economy, and to government finances. Nevertheless, the authorities are determined to consolidate the gains made thus far in macroeconomic stability while deepening the implementation of the structural reforms agenda.

Cotton Pricing Issue

Following remarkable progress made in the privatization in the cotton sector with the support of development partners, the government is now a minority shareholder of the largest of the three new cotton companies. Consequently, budgetary contribution to the sector have been small and confined to mitigating the impact of rising of inputs prices owing to the regional crisis.

Under the current agreement, the producer price is negotiated by shareholders in April/May each year prior to planting includes a fix floor level and a bonus which is paid if the companies earn profits on the operations of the previous year. At recent levels of world prices, the companies will be able to pay bonuses only for the operations of 2004/05 with their own resources. If world prices fail to rebound by end-April 2005, this will result in a decline of about 17 percent in the forthcoming producer price. Although the current agreement between shareholders has served well during the past years, the system does not have proper safety nets. Moreover, the local banking system cannot sustain its support of the cotton companies with the world market prices remaining low for two consecutive crop years, due to a large extent to subsidies being provided to the cotton sector in advanced countries.

We consider that at this stage, the privatization of the cotton sector remains a challenge for Burkina Faso and its development partners. A lower producer price will not only damage the country's external debt profile, but will also result in severe welfare implications for the population, thus undermining progress to MDGs objectives. In this regard, my Burkinabè authorities would welcome advice and support from development partners in order to find a way forward. They will keep monitoring closely the cotton sector and assessing the impact of exogenous shocks that may affect the sector.

Fiscal Policy

On the revenue side, the authorities intend to increase the revenue to-GDP ratio of about ½ percentage point to 13.3 percent of GDP. In this vein, they will enhance further revenue mobilization through addressing the upgrade of tax and customs administrations. Public expenditures would be broadly in line with the program projections. However, on the expenditure side, total outlays would be slightly lower than programmed, reflecting the rationalization of the public investment program. Programmed increase in the wage bill will reflect the hiring of new teachers and health workers needed in order to meet the targets set in the PRSP, and slight increases in the basic wage. The education and health ministries would account for more than one half of the increase in the overall wage bill. Also, the authorities are committed to pursuing the improvement of the socio-economic conditions of the population. Poverty reducing outlays including those financed with HIPC resources will increase by about 25 percent, amounting to one-third of total domestic outlays.

Monetary Policy and Financial Sector

The BCEAO will continue to conduct monetary policy at the regional level with the objective of maintaining price stability. Broad money is projected to grow by about 5½ percent in 2005 while credit to the economy is projected to grow somewhat more rapidly. Given the low trend of world cotton prices, the projected growth in credit to the economy would accommodate some borrowing by the cotton companies to cover financial losses. My Burkinabè authorities will also ensure the compliance of banks will all prudential regulations including the loan concentration. The increase in oil imports and the reduction of export earnings will cause the widening of the external account deficit to about 12½ percent of GDP. My authorities envisage offsetting this current account deficit by net financial flows, including from development partners and by reducing the contribution to the West Africa Economic and Monetary Union (WAEMU). In the meantime, they will pursue the promotion of microfinance to increase access to financial services in rural areas for small enterprises. All stakeholders will be conveyed to the drafting of the strategy for the development of the sector.

Structural reforms

My authorities will pursue the deepening of structural reforms. They will take appropriate measures toward improving tax collection through enhancing the computerization tax and customs administrations, the broadening of the tax base and the implementation of the taxpayer census using the single taxpayer identification, and a close monitoring of fiscal exoneration. They welcome the assistance of the World Bank in the privatization and public enterprises reform program and are committed to move forward with the divestment of the remaining state-own enterprises. Their objective is to achieve strong and sustainable growth through supporting private sector-led diversification, enhancing economy's competitiveness, and promoting good governance. In the telecommunications sector, given the competition of local wireless communications, a more attractive strategy to privatize ONATEL is underway. Regarding the energy sector, a new regulatory framework prepared with the support of developments partners will be tabled to the National Assembly by end-march 2005. Furthermore, in the context of the electricity sector reform strategy, the government will adopt a new regulatory framework aimed at promoting the participation of private sector in the generation of electricity.

Governance

Improving governance is among the priorities of the government. The authorities will produce timely balance sheets for 2004 of the Central government Accountant of the treasury and submit to the Auditor General Office by end-September 2005. Moreover, a comprehensive national policy aimed at broadening the fight against corruption that will be prepared by the HACLC through a wide-range consultation will be adopted.

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Debt sustainability

My Burkinabè authorities are grateful to the Fund and the International Community for the topping up that have enhanced the county's debt profile. They will continue to negotiate with their creditors, including non-Paris Club creditors, in order to secure their participation to the HIPC initiative. While the authorities acknowledge that Burkina Faso's NPV of debt-to-export ratio is projected to rise during 2006-07, they consider that the source of this uptrend of the country's NVP debt ratio-to-export ratio is beyond their control. Nevertheless, they remain firmly committed to strengthen their debt management and to ensure that new loans will be contracted include at least a 50 percent grant component.

Poverty Reduction

My authorities will pursue the implementation of the PRSP in line with the Millennium Development Goals (MDGs) objectives. Given that fiscal revenues will likely be lower in the near term, we believe Burkina Faso will not make satisfactory progress toward the MDGs without the support of its development partners.

V. Conclusion

The Burkinabè authorities, over the past years, have been striving to improve the wellbeing of the population, through the implementation of sound economic policies, in order to foster economic growth and poverty reduction. My authorities greatly appreciate the technical and financial support received from the Fund and their development partners while dealing with a wide range of structural issues. However, they are of the view that, due to the delay in the Board discussion, and given the catalytical role of the Fund, some development partners have not been able to deliver their assistance on time. These shortfalls in donors' assistance created some problems in the execution of the 2004 budget.

Furthermore, given the importance of the cotton sector in the economy, my authorities believe that there is an urgent need to address the problems facing this sector in a very short time. The current low price of cotton is undermining their efforts to enhance the competitiveness of the cotton sector, thereby deteriorating the welfare of cotton growers in rural areas. This is happening when they have been encouraged by the international community to privatize the companies operating in the sector. My authorities would like to call on the development partners to provide additional assistance to help mitigate the adverse impact of the low cotton price due to the subsidies provided to cotton growers in some industrial countries. They are hopeful that an agreement will be reached soon within the WTO framework.