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Burkina Faso: Sixth Review Under the Arrangement Under the Poverty Reduction and Growth Facility and Request for Waiver of Performance Criteria and Augmentation of Access, and Ex Post Assessment of Longer-Term Program Engagement—Staff Reports; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Burkina Faso

In the context of the sixth review under the Arrangement under the Poverty Reduction and Growth Facility and request for a waiver of performance criteria and augmentation of access and ex post assessment of longer-term program engagement, the following documents have been released and are included in this package:

- the staff report for the Sixth Review Under the Arrangement Under the Poverty Reduction and Growth Facility and Request for Waiver of Performance Criteria and Augmentation of Access, prepared by a staff team of the IMF, following discussions that ended on June 6, 2006, the officials of Burkina Faso on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on August 28, 2006. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- a staff report on ex post assessment of longer-term program engagement, which was completed on August 28, 2006.
- a Press Release summarizing the views of the Executive Board as expressed during its September 8, 2006 discussion of the staff report that completed the review and request.
- a statement by the Executive Director for Burkina Faso.

The document 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*
*Also included in Staff Report

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

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INTERNATIONAL MONETARY FUND

BURKINA FASO

Sixth Review Under the Arrangement Under the Poverty Reduction and Growth Facility and Request for Waiver of Performance Criteria and Augmentation of Access

Prepared by the African Department
(In consultation with other departments)

Approved by Thomas Krueger and Mark Plant

August 28, 2006

Executive Directors approved an arrangement under the Poverty Reduction and Growth Facility (PRGF) on June 11, 2003, in an amount equivalent to SDR 24.08 million (40 percent of quota), of which SDR 20.64 million has been disbursed. The fifth review was completed on March 13, 2006, on a lapse of time basis. The arrangement has been extended through end-September 2006. Upon completion of the sixth review, a disbursement in the amount of SDR 3.44 million becomes available.

Completion of the taxpayer census and electricity tariff increases are prior actions for the completion of the sixth review.

The authorities request augmentation of access equivalent to 10 percent of quota (SDR 6.0 million).

Discussions on the sixth review were held in Ouagadougou during May 23–June 6, 2006. The mission met with the Prime Minister, Mr. Yonli; Minister of Finance and the Budget, Mr. Compaoré; National Director of the Central Bank of West African States (BCEAO), Mr. Bolo Sanou; and other senior officials, as well as representatives of the private sector and the donor community.

The mission team comprised Mr. Rogers (head), and Messrs. Geiregat, Gottschalk, and Shen (all AFR). The mission was assisted by Mr. Zejan, the Fund's Resident Representative. Ms. Goldstein, the World Bank's Resident Representative, also participated in the discussions.

Burkina Faso is a member of the West African Economic and Monetary Union (WAEMU) and shares a fixed exchange rate and common external tariff with other members. Monetary and exchange rate policies are conducted at the regional level by the BCEAO, which are discussed in Western African Economic and Monetary Union—Recent Economic Developments and Regional Policy Issues (www.imf.org). Burkina Faso has accepted the obligations under Article VIII and maintains an exchange system free of restrictions on payments and transfers for current international transactions. Selected economic, financial, and social indicators are presented in Tables 1–9. Relations with the Fund and the World Bank are summarized in Appendices II and III, respectively.

Municipal elections were held in April 2006 and parliamentary elections will be held in 2007.

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EXECUTIVE SUMMARY

Performance under the PRGF-supported program has generally been good. All quantitative performance criteria were met. However, waivers will be required for two structural performance criteria. Given the difficult external environment, the authorities are requesting an augmentation of access of 10 percent of quota.

Key issues:

- **The economy has coped well with unfavorable external price developments.** World cotton prices have declined again since the beginning of the year, and world oil prices have risen. Nonetheless, real GDP growth in 2006 is projected to be 5.6 percent on the basis of favorable rains, and inflation remains low.
- **Revisions to the 2006 budget incorporate debt relief under the Multilateral Debt Relief Initiative (MDRI) and address additional expenditure needs.** Total spending and net lending would increase by about 1 percent of GDP relative to previous projections. Domestic financing requirements (excluding the IMF) would nevertheless remain largely unchanged.
- **A substantial reform of the mechanism for determining cotton producer prices is underway.** Cotton farmers and ginning companies agreed in principle on a new price setting mechanism that will automatically link the producer price of cotton to the world price. To support this mechanism, sector participants wish to create a cash reserve fund as a buffer against future price shocks (*fonds de lissage*), which would be self financing after an initial funding using donor support.
- **In response to higher world oil prices, the authorities intend to increase the fuel subsidy to the state-owned electricity company SONABEL, but also to raise electricity tariffs.** The authorities continued to implement the automatic pricing mechanism for retail petroleum products, thereby ensuring full pass-through of world oil prices.

The Ex Post Assessment finds that program implementation was strong, reflecting the authorities' firm ownership. The authorities concurred with the main findings of the report, including the need for stronger efforts to raise the revenue-to-GDP ratio, and indicated their desire to maintain a close policy dialogue with the Fund, either in the context of a low-access PRGF arrangement or under the Fund's Policy Support Instrument.

The staff supports the authorities' request for the completion of the sixth review, for waivers for the nonobservance of two performance criteria, and for augmentation of access by 10 percent of quota.

I. Recent Developments

1. **Macroeconomic performance in 2005 remained strong despite adverse external shocks.** Rising world oil prices and lower world cotton prices led to a deterioration in the terms of trade by about 25 percent (Table 1). Nevertheless, real GDP growth increased strongly on account of record cereal and cotton harvests, which more than offset the decline in disposable income (estimated at about 2 percent of GDP by staff) as a result of the decline in the terms of trade. The strong growth performance and the fact that cotton ginning companies did not pass through the decline in world cotton prices to cotton producers for the harvest 2004/05 helped to mitigate the negative impact of the terms of trade shock on poorer households. Rising domestic gasoline prices and a sharp upsurge in food prices in the first half of 2005 pushed average annual inflation to above 6 percent, but inflationary pressures eased in the second half of the year as food prices retreated as a result of the good harvest. The fiscal deficit in 2005 (on a cash basis, excluding grants) was substantially smaller than programmed (Table 2), despite a revenue shortfall, because many expenditure authorizations were not executed but used to rebuild balances in the treasury accounts of autonomous and semi-autonomous agencies (*dépôts au trésor*) to a level consistent with the long-term trend.[1] Consequently, the end-December indicative target on domestic financing was observed by a large margin (Appendix I, Table 1). The external current account deficit (excluding current official transfers) widened by about 1.5 percentage points of GDP, with higher oil prices, lower cotton prices, and a build up of unsold cotton stocks—as a result of the unfavorable

Selected Economic Indicators, 2004–2006

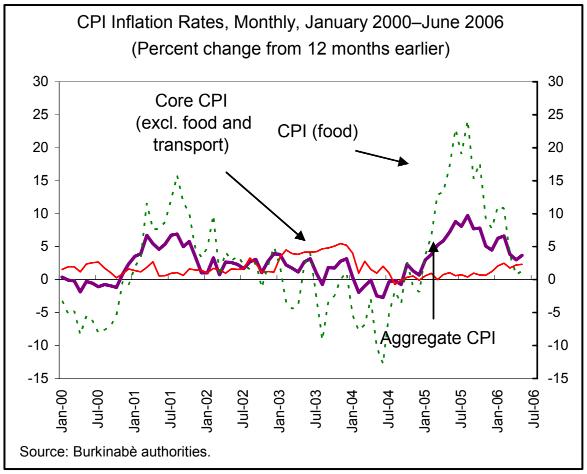
	2004	2005			2006
	Est.	Prog. 1/	Proj. 2/	Est.	Proj.
Real GDP growth (%)	4.6	3.5	7.5	7.1	5.6
CPI (annual average, % change)	-0.4	4.0	6.4	6.4	3.1
Revenue (% GDP)	12.7	13.3	12.6	12.2	13.3
Expenditure and net lending (% GDP)	21.2	22.9	20.6	21.4	23.4
Overall fiscal balance (cash basis), excluding grants (% GDP)	-8.2	-10.0	-7.9	-8.4	-10.0
Overall fiscal balance (cash basis), including grants (% GDP)	-3.9	-4.6	-3.8	-4.0	16.6
Domestic financing (% GDP)	-0.4	0.6	-0.1	-0.5	-1.0
Current account balance, excluding current official transfers (% GDP)	-11.9	-12.3	-12.3	-13.2	-13.2
Current account balance, including current official transfers (% GDP)	-8.9	-9.1	-9.3	-10.3	-10.5
Terms of trade (% change)	14.6	-26.4	-31.0	-24.7	-2.7

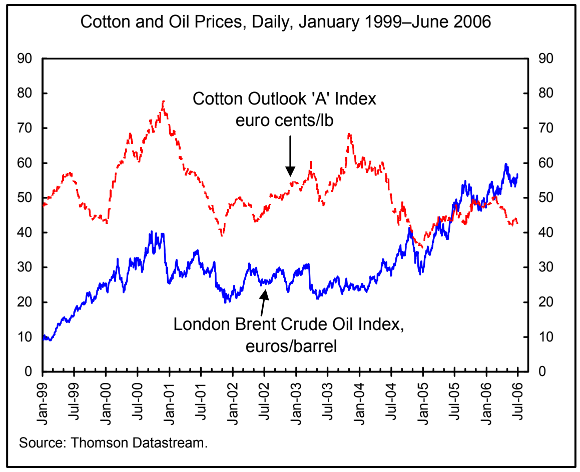
Source: Burkinabè authorities, and Fund staff estimates.

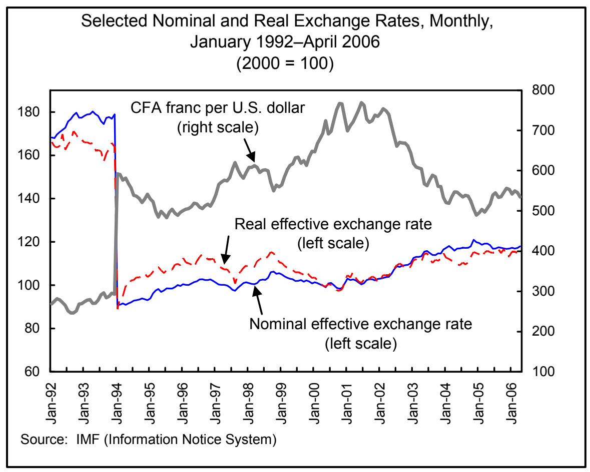
1/ IMF Country Report No. 05/354, September 30, 2005.
2/ IMF Country Report No. 06/107, March 13, 2006.

[1] As a result, an unwinding of these expenditure authorizations in 2006 is not anticipated.

price environment—being key factors behind the larger deficit (Table 4). Credit growth (excluding crop credit) declined from about 22 percent in 2004 to 12.5 percent in 2005, in line with the slowdown in economic activity in non-agricultural sectors owing to the unfavorable external environment (Table 3).







2. **Macroeconomic developments in the first half of 2006 have generally been encouraging, with the exception of a further deterioration in the external terms of trade.** Inflation fell to 3.7 percent for the 12-month period ending in May. There are signs of a good cereal harvest, which would bolster real GDP growth and reduce inflationary pressures further. However, since the beginning of the year the external environment has worsened somewhat as a result of a decline in world cotton prices, higher world oil prices, and a strengthening of the euro to which the local currency is pegged.

II. Program Performance

3. **Macroeconomic policy through March 2006 was generally in line with the program.** The end-March quantitative performance criterion on domestic financing was observed, as were all other quantitative performance criteria (Appendix I, Table 2). The indicative targets for fiscal revenue and the basic balance were observed as well; however, the current expenditure target was exceeded (by a small margin) because of higher-than-expected outlays on goods and services, and the expenditure target on wages and salaries was also (narrowly) missed.

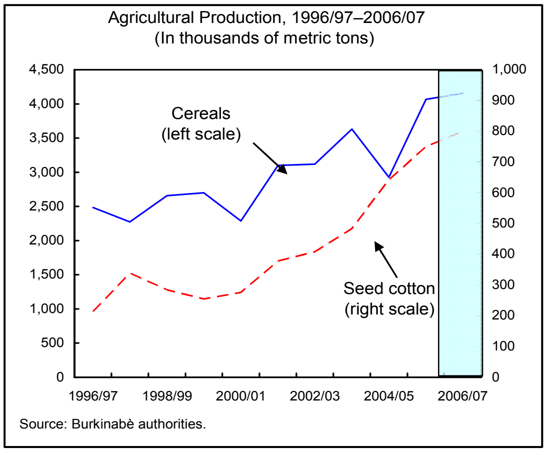
4. **Performance with regard to structural reforms has been less satisfactory, with only one of three structural performance criteria having been observed** (Appendix I, Table 3). The Joint Brigade of the Tax and Customs Directorates was established before the end-December 2005 target date, thereby meeting one of the structural performance criteria. The Brigade completed the targeted number of audits by the end-March 2006 test date, but the submission of the report to the Minister of Finance was delayed owing to personnel changes at the Directorate of Tax Administration. The census of taxpayers in Ouagadougou and Bobo-Dioulasso started ahead of schedule, but completion is not expected until August 2006 because of a strike by census workers. All structural benchmarks were observed.

III. Report on the Discussions

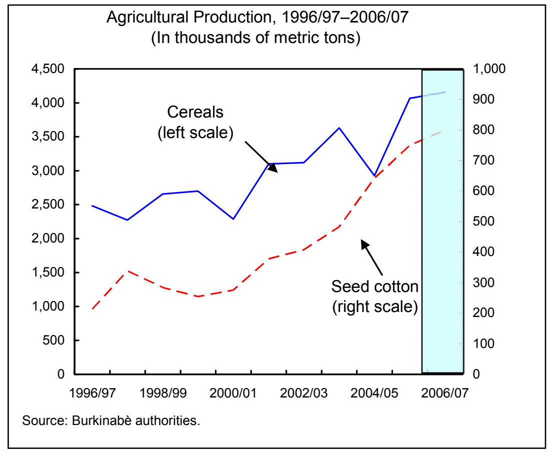
A. Macroeconomic Framework and Request for Augmentation

5. **Macroeconomic prospects are relatively favorable notwithstanding the deterioration in the terms of trade.** Real GDP growth in 2006 is expected to decline to 5.6 percent from 7.1 percent in 2005, as agricultural growth slows following the strong output expansion in the previous year. In the wake of good rainfalls, an expected good cereal harvest should keep inflation low. The fiscal deficit (cash basis, excluding grants) is projected to widen relative to 2005, but would be mostly financed by concessional external resources, including those freed up by MDRI. Despite a temporary boost to exports from the sale of cotton stocks built up during 2005, the current account deficit is projected to be broadly unchanged from its 2005 level, reflecting largely the increase in oil imports because of higher oil prices. While the overall balance of payments in 2006 is projected to register a surplus owing to the impact of the stock-of-debt reduction provided under MDRI by the Fund, gross international reserves of the national branch of the BCEAO are projected to fall for a third consecutive year.

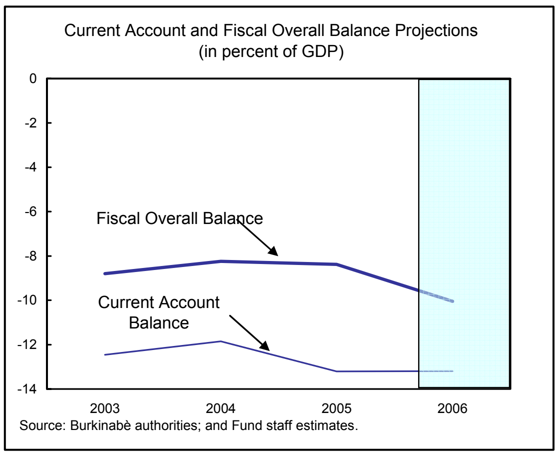
6. **Against the background of declining reserve levels, the authorities are requesting an augmentation of access under the PRGF equivalent to 10 percent of quota (SDR 6.0 million).** The request is based on the balance of payments need resulting from the severe terms of trade shocks taking place over the previous two years—oil prices have climbed to historic highs in this period whereas world cotton prices fell by 40 percent during the course of 2004 and have not significantly recovered since then. The reserve cover fell from about 6 months of imports in 2004 to only 4 months of imports in 2005, well below the WAEMU average of about 5 months in the same year, and would fall further to below 3.5 months in 2006 in the absence of additional Fund support. The requested augmentation would help to moderate the decline in reserves. The decrease in the reserve cover is likely to bottom out in 2006, as smaller current account deficits in 2007 and 2008 in relation to GDP will contribute to a rebuilding of reserves. The projected narrowing in the current account deficits is the result of adjustment processes in the economy that are already under way, reflected, for example, in the decline in credit growth to the economy (excluding crop credi
The agreement between cotton producers and ginning companies last year to reduce producer



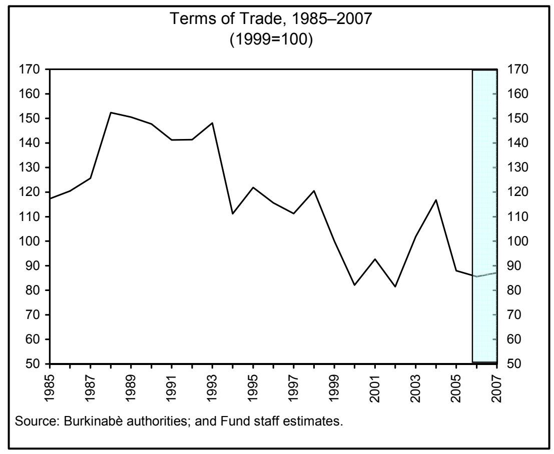
Agricultural Production, 1996/97–2006/07
(In thousands of metric tons)
Source: Burkinabè authorities.



Agricultural Production, 1996/97–2006/07
(In thousands of metric tons)
Source: Burkinabè authorities.



Current Account and Fiscal Overall Balance Projections
(in percent of GDP)
Source: Burkinabè authorities; and Fund staff estimates.


Terms of Trade, 1985–2007
(1999=100)
Source: Burkinabè authorities; and Fund staff estimates.

prices by 17 percent for the harvest 2005/06 and the steadfast implementation by the authorities of the automatic pricing mechanism for petroleum products, which assures full pass through of changes in world oil prices, have been important policy measures to facilitate this adjustment). The proposed reform of the cotton producer price setting mechanism (see paragraph 15), and the planned increase in electricity tariffs (see paragraph 16) are likely to aid the adjustment process as well.

7. **There are a number of risks to the macroeconomic outlook:** a renewed weakening of the world cotton price, a further strengthening of the euro, or additional increases in the world oil price could add pressure on the balance of payments, whereas the recurrent threat of drought could adversely affect real GDP growth and inflation.

B. Fiscal Policy

8. **Discussions on fiscal policy focused on preserving fiscal sustainability, absorbing MDRI resources, and addressing additional expenditure needs.** The authorities concurred to keep domestic financing (excluding the IMF) broadly in line with the previously agreed target for 2006, but to use additional resources, largely from external sources, to raise spending. Higher priority expenditures, which reflect the availability of additional external

Additional Expenditures and Net Lending, 2006 1/	
	% of GDP
Priority social sectors	0.4
Wages and salaries	0.1
Goods and services 2/	0.2
Of which: Utility bills	0.1
Domestically financed investment	0.1
Non-priority social sectors	0.3
Wages and salaries	0.1
Goods and services (utility bills)	0.1
VAT reimbursements	0.2
Electricity subsidy (SONABEL)	0.2
Offsetting expenditure cuts	-0.2
Net lending *(fonds de lissage)*	0.4
Total	1.1

1/ Compared to projected spending in IMF Country Report No. 06/107, March 13, 2006.
2/ Including spending to reconstitute the food security stock.

budgetary support and debt service savings provided under the MDRI, include larger outlays on investment projects, as well as higher utility costs and payments for retroactive civil service promotions in the health and education sectors. The latter two expenditure items are contingent on the verification of utility invoices and the outcomes of negotiations with labor unions (see paragraph 9). Additional expenditure needs identified by the authorities in non-priority sectors consist of a larger fuel subsidy to SONABEL owing to higher world oil prices (see paragraph 16) and VAT reimbursements as a result of past claims by the cotton sector that were recently settled. The authorities agreed to expenditure cuts in other non-priority areas to offset part of these expenditure increases. The authorities also intend to set aside resources for a possible zero interest loan (0.4 percent of GDP), largely financed by donor grants, to the envisaged *fonds de lissage* (see paragraph 15). Overall, total spending and net lending would be on the order of 23.4 percent of GDP, about one percent of GDP higher than previously projected, but in line with the original program.

9. **The staff urged the authorities to move cautiously with regard to committing additional spending for civil service promotions and higher utility bills**. The government estimates that retroactive civil service promotions would cost CFAF 18 billion (0.6 percent of GDP). While formal promotions have not been implemented since 2003, because of problems in operationalizing the new merit-based promotion system, compensation has nonetheless been raised on an ad hoc basis. The mission urged the authorities to take these increases into account in its negotiations with labor representatives. Should the government determine that it is obligated to provide further compensation increases, it will spread payments over a number of years, with a maximum of CFAF 6 billion (0.2 percent of GDP) being paid in 2006. Recent bills by utility companies indicate that real consumption by government has increased by some 60 percent over last year. The authorities explained that the additional charges come in the context of the decentralization of government and the expansion of health and education facilities, but the mission urged the authorities to verify the additional charges. The budgeted CFAF 5 billion (0.2 percent of GDP) represents a good faith down payment by government that will be made only after the utility companies have provided all information necessary to validate these charges.

10. **Recent revenue data indicate that the annual revenue target (equivalent to 13.3 percent of GDP) is achievable.** The better revenue performance relative to 2005 reflects increasing computerization and an enhanced fight against fraud in customs administration, whereas tax administration benefits from better control of tax declarations and the computerization of large and medium-sized taxpayer units. The fiscal deficit (excluding grants) is expected to amount to 10 percent of GDP, 1 percent higher than previously projected on account of the higher expenditures and unchanged revenue performance.

11. **Domestic financing requirements (excluding the IMF) remain essentially at the level of previous projections.** Additional expenditures would be financed mostly through concessional external resources, consisting of MDRI debt service savings and additional budgetary support, as well as possible donor support for the *fonds de lissage* (from the European Union and the Agence Française de Développement) and for higher spending on food security. In case donor support would not materialize, the resulting financing gap would be closed by foregoing the loan to the *fonds de lissage* and cuts in non-priority spending. Domestic resources for financing the additional expenditures include cash savings as unexecuted expenditure authorizations from 2005 are not expected to unwind in 2006 (see paragraph 1), resulting in a smaller cash basis adjustment relative to previous projections. The net domestic financing requirements (excluding the IMF) would stay broadly in line with previous projections. The residual financing gap could be covered with the support of additional Fund resources.

Fiscal Operations, 2005–2006

(In percent of GDP)

	2005			2006		
	Prog. 1/	Proj. 2/	Est.	Prog. 1/	Proj. 2/	Rev. Proj.
Revenue	13.3	12.6	12.2	14.0	13.3	13.3
Grants	5.4	4.1	4.4	3.4	4.8	26.7
Of which: MDRI	...	...	...	...	...	21.8
Expenditure and net lending	22.9	20.6	21.4	24.7	22.3	23.4
Overall balance (commitment basis)	-4.3	-3.9	-4.8	-7.3	-4.2	16.6
Excluding MDRI grants	...	...	...	...	...	-5.2
Excluding grants	-9.6	-8.0	-9.2	-10.7	-9.0	-10.0
Foreign financing	4.0	4.0	4.5	2.6	4.0	-16.1
Domestic financing	0.6	-0.1	-0.5	0.4	0.4	-1.0
Of which: Domestic financing excl. IMF	0.6	-0.1	-0.4	0.5	0.5	0.5
Cash basis adjustment	-0.4	0.1	0.8	-0.2	-0.1	0.0
Errors and Omissions / Financing gap	0.0	0.0	0.0	4.5	0.0	0.5

Sources: Burkinabè authorities and Fund Staff estimates and projections.

1/ IMF Country Report No. 05/354, September 30, 2005.

2/ IMF Country Report No. 06/107, March 13, 2006.

Financing for Additional Expenditures and Net Lending, 2006 1/	
	% of GDP
Additional spending needs	1.1
External resources	0.7
MDRI debt service savings	0.3
Additional food security stock and budget support	0.1
Possible support for the *fonds de lissage*	0.3
Domestic resources	0.2
Cash adjustment	0.1
Domestic financing (excl. IMF)	0.1
Residual financing gap	0.2

1/ Compared to projected spending in IMF Country Report No. 06/107, March 13, 2006.

12. **The envisaged fiscal stance is consistent with maintaining debt sustainability.** Fund staff has updated the external debt sustainability analysis (DSA) to incorporate the proposed expenditure increases in 2006 as well as the likely spillover into 2007 and 2008, which would raise spending by about 0.7 and 0.5 percent of GDP respectively in these two years.[2] Medium-term fiscal expenditures are otherwise based on the authorities' Priority Action Plan for 2006-08 (see paragraph 19). The DSA shows that the implied fiscal stance is consistent with maintaining Burkina Faso's external debt ratios at levels well below the policy-dependent thresholds. This reflects partly that a substantial share of the proposed expenditure increases is financed through grants and MDRI savings. Domestic debt levels are expected to remain largely unchanged in relation to GDP.

13. **The authorities will continue implementing reforms to strengthen tax and customs administration with a view to raising the relatively low revenue-to-GDP ratio**. The completion of the taxpayer census is a prior action for conclusion of the sixth PRGF review. The Minister of Finance intends to validate updated multi-year plans to strengthen tax and customs administrations by end-September 2006, and will appoint a director to supervise the implementation of the plans and to coordinate technical assistance. Key actions to be taken during the second half of 2006 include speeding up VAT reimbursement procedures, and strengthening customs administration through streamlining documents and improving the use of customs valuation and declaration data (see MEFP, paragraph 11). The authorities will also approve a new investment code by end-December. The staff advised the authorities to design the new investment code with a view to replacing specific and costly tax exemptions with broad-based growth-oriented incentives, for example accelerated depreciation schedules.

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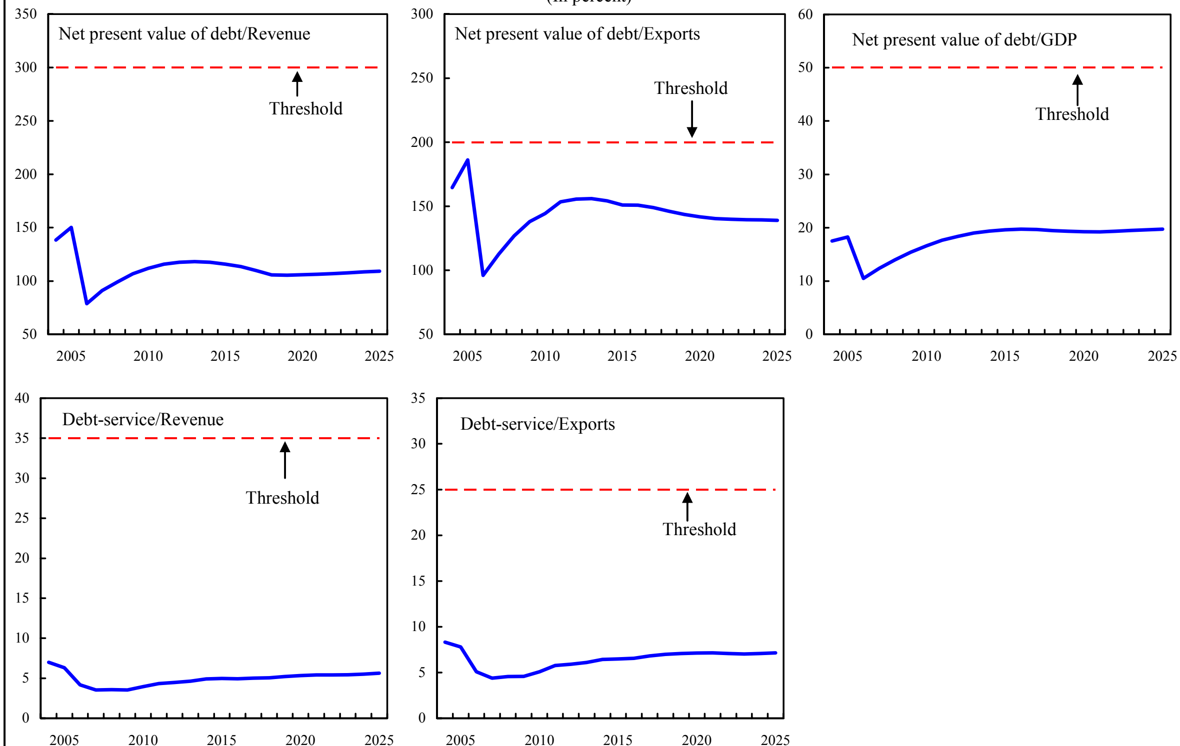
[2] A joint DSA with the World Bank is planned for later this year.

Burkina Faso: Selected debt-sustainability Indicators, (Baseline Scenario), 2004–2025 1/
(In percent)



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

C. Cotton Sector Issues

14. **The cotton ginning companies suffered sizeable financial losses in 2005 (about 1 percent of GDP), and further losses are expected for 2006 (about 0.3 percent of GDP)**. These losses reflect the slump in world cotton prices since 2004; the relative strength of the euro in the past two years; an incomplete pass through of the decline in world cotton prices to local cotton producers; and rising transportation costs linked to higher world oil prices.

15. **In March 2006, cotton farmers and ginning companies agreed to a new mechanism for determining the producer price of cotton and for financing a sustainable cash reserve fund as a buffer against future price shocks (*fonds de lissage*).** Farmers and ginning companies agreed to lower the producer price of cotton for the upcoming 2006/0 crop to CFAF 165 per kilo (from CFAF 175 last year). For future years, a new pricing mechanism has been agreed in principle by the Interprofessional Association of Cotton Producers of Burkina Faso (IACB) that would link the producer price of cotton to a centered moving average of historical and forecast world cotton prices. Thus, the producer price would change yearly based solely on movements in actual and forecast world market prices. To support this mechanism, sector participants wish to create a *fonds de lissage*, which would be drawn upon in those years in which the realized world cotton price falls below the floor of the band surrounding the centered-average price, and be replenished in years when the

Box 1: Cotton Price Setting Mechanism and *Fonds de Lissage*

The proposed price setting mechanism for cotton producer prices would link the domestic producer price to past and expected future developments of cotton world prices via a multi-year centered moving average of the Cotlook Index A price index.[1] In addition, a band would be established around the producer price that would determine the operation of the *fonds de lissage* (literally: smoothing fund) whenever the realized cotton world price deviates from the projection:

- **Realized price is above the band:** Based on a pre-determined formula, ginning companies would use part of their surplus to build up cash reserves in the *fonds de lissage*, and the remainder would be distributed between producers and ginning companies.
- **Realized price falls within the band:** No replenishments or drawings take place.
- **Realized price falls below the band:** Ginning companies pay producers the agreed domestic producer price, but can draw on the *fonds de lissage* according to a pre-determined formula to help finance the price difference. If the *fonds de lissage* is depleted—either because balances were low at the beginning of the period or because of a severe price shock—a negotiated settlement between producers and ginning companies is envisioned that could include a lowering of the domestic producer price.

Key elements of this mechanism have not yet been settled, including how projected cotton prices would be determined, or the width of the band. A narrow band would imply frequent recourse and replenishment of the *fonds de lissage*, whereas a wide band would lead to transactions only in exceptional cases.

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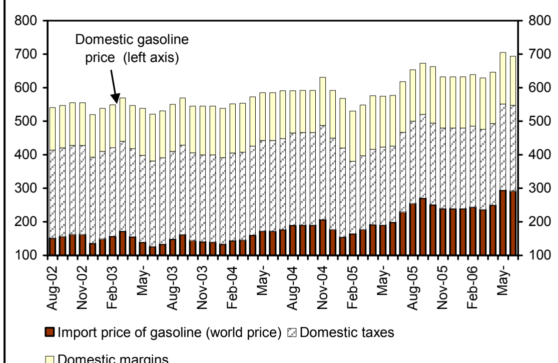
[1] The Cotlook Index A is an independently published cotton price index that mirrors closely world market prices for cotton from Burkina Faso.

realized price is above the ceiling of the band (see Box 1). The government is seeking donor support to establish the fund, and some donors have expressed an interest in providing such support. The government would onlend these resources plus its own contribution as a zero-interest loan to the fund. The *fonds de lissage* is intended to be self financing after the initial funding, and the government loan would be repaid once the fund reaches a sufficiently high level through replenishments by the cotton ginning companies. However, a number of outstanding issues remain regarding the pricing mechanism (including the width of the intervention band; see Box 1), the operation of the *fonds de lissage*, and its legal status. The staff welcomed the principle of linking producer prices of cotton to movements in world prices, and calls for a wide intervention band to ensure that recourse to the *fonds de lissage* takes place only in exceptional circumstances. The onlending arrangement will commence only after all issues have been resolved to the satisfaction of all participants, including the government and donors. The government has also suggested that all cotton company shareholders (including the state) consider the merits of an augmentation of capital, which would help strengthen the financial position of the cotton companies after two years of sizeable financial losses. It is currently seeking donor support to help finance an augmentation of the shares of cotton farmers.

D. Energy Pricing and Structural Reforms

16. **Discussions on energy pricing focused on taxes on retail petroleum products and the budget subsidy to the state-owned electricity company (SONABEL).** The authorities faced pressures to reduce petroleum-based taxes to mitigate the impact of rising world oil prices, but have consistently implemented the monthly automatic pricing mechanism that assures a full pass-through of world prices. However, they indicated that it would not be feasible to contain the subsidy to SONABEL to the CFAF 18 billion (0.6 percent of GDP) programmed for 2006. Doing so would require raising electricity tariffs on the order of 30 percent, which, in the face of rising retail fuel prices, could generate social unrest. Leaving tariffs unchanged would require raising the subsidy to CFAF 27 billion (0.8 percent of GDP). As a compromise, the authorities agreed to raise tariffs by 12.5 percent, which would require raising the subsidy to CFAF 23 billion. In case this amount is exceeded because of unforeseen developments, including a lower-than-expected yield of the tariff increase or higher world oil prices, the authorities agreed to reduce other non-priority spending accordingly to ensure that any additional subsidies remain budget neutral. The increase in electricity tariffs is a prior action for the completion of the sixth PRGF review. The authorities also intend to work with the World Bank to design an electricity-tariff setting mechanism that will link prices to costs, while providing incentives for efficiency, thereby helping to ensure that the subsidy to SONABEL will not increase further from current levels. The authorities expect to eliminate all electricity subsidies (except, possibly, for low-income households) by 2009, when the World Bank-supported project of interconnecting the electrical grid between Burkina Faso and Côte d'Ivoire is expected to be completed.

Domestic Gasoline, August 2002–June 2006
(CFA francs per liter)



Source: Burkinabè authorities.

17. **Progress on privatization has been mixed.** The privatization of ONATEL, the state-owned telecommunications company, is advancing. The call for expressions of interest in April resulted in a shortlist of seven bidders, and the authorities expect to sell a majority of shares before the end of the year. Progress regarding the other large public enterprises, notably SONABEL and SONABHY (the state-owned petroleum importing company) has

largely stalled, as tenders for the selection of a private operator of SONABEL and bidding documents for private sector participation in SONABHY have not been issued. Also, there has been little progress with regard to a new law on the legal and regulatory framework for the electricity sector, and, consequently, the regulatory agency for the electricity sector could not be established.

18. **The authorities are working to improve the business environment.** A recent survey by the World Bank found that Burkina Faso ranks second from the bottom on its "Doing business" index. While the authorities dispute some of the numbers being used in this index, they recognize the need to improve the business environment. To this end, they launched a World Bank-supported project in July 2006 focusing on streamlining business-related procedures and regulations, and enhancing labor market flexibility while preserving appropriate worker protection to encourage formal employment. This reform is supplemented by ongoing efforts to strengthen the justice system, which led recently to enhanced autonomy of the General Inspectorate of Judicial Services and disciplinary actions against magistrates accused of unethical or illegal activities (see MEFP, paragraph 13).

E. Scaling Up, Poverty Reduction Strategy, and Priority Action Plan

19. **The authorities indicated that the upcoming Priority Action Plan (PAP) for 2007-09 will have a stronger focus on scaling up of priority expenditure programs.**[3] The PAP is a key input into the medium-term fiscal expenditure framework because it operationalizes the Poverty Reduction Strategy (PRS) by establishing priority policy reforms and key investments. The PAP for 2006–08 aims to raise real GDP growth to around 7 percent per year, but it does not provide a detailed road map towards other Poverty Reduction Strategy Paper (PRSP) goals, including for achieving the MDGs. The development of detailed multiyear costing plans of PRSP goals and measures to remove absorptive capacity constraints would be useful to deepen the links with achieving the MDGs. The authorities have agreed to the general approach, and their intention to include scaling-up scenarios in the upcoming PAP for 2007–09 is an important step in this direction.

F. Ex Post Assessment

20. **The Ex Post Assessment (EPA), covering the post-devaluation period 1994–2005, finds that program implementation and ownership by the authorities were strong.** However, the Fund-supported programs did not succeed in raising domestic revenue effort sufficiently and the economy remains vulnerable to external shocks. The EPA also suggests that selectivity in fiscal indicators would have been more desirable in program design, and noted the absence of indicators to monitor the overall deficit. Main priorities for Fund

[3] The government has submitted to the Fund and World Bank the fifth PRSP Annual Progress Report, which has been circulated together with the related Joint Staff Advisory Note to Executive Directors for information in August 2006.

involvement over the medium term should be to: (i) increase the domestic revenue effort; (ii) help develop stronger absorptive capacity along with progress in the public financial management system; and (iii) increase private sector participation to enhance economic diversification. Future Fund programs should focus more closely on the link between the fiscal stance and debt sustainability.

21. **The authorities concurred with the main findings and conclusions of the report.** They noted that the initial conditions were weak, and emphasized in particular that the relatively low revenue-to-GDP ratio reflected the large share of the lightly-taxed agricultural sector in the economy, which explains partly why Burkina Faso performed less well in this regard than some of its neighbors. Nevertheless, the authorities recognized that more resolve was needed to tackle the low revenue-to-GDP ratio, including through a reassessment of tax exemptions and stronger implementation of revenue administration reforms.

G. Post Program Issues

22. **The authorities indicated their desire to maintain a close policy dialogue with the Fund following the current PRGF arrangement.** They are considering the relative merits of a low-access successor PRGF arrangement and an arrangement under the Fund's Policy Support Instrument. The discussion on the appropriate course of action will be held after the completion of the Ex Post Assessment.

IV. Staff Appraisal

23. **The external environment in 2006 has proved more difficult than expected, but macroeconomic management remains strong.** Despite higher oil prices and the renewed decline in cotton prices since the beginning of the year, economic growth proved resilient, inflation declined, and the fiscal stance was broadly in line with the program. Although two quantitative indicative targets were missed, albeit by small margins, all quantitative performance criteria for the sixth review were observed. It is regrettable that two structural performance criteria were not met, but the required actions will be taken before the completion of the sixth review, and all structural benchmarks were met.

24. **The staff supports the authorities' request for an augmentation of access.** This is justified on the basis of the balance of payments need arising from the deterioration in cotton prices and the hike in world oil prices over the past two years, which have led to a substantial decline in the reserve level at the national branch of the BCEAO. The proposed augmentation would help to moderate the expected decline in gross international reserves in 2006, the third consecutive year in which reserves would be falling. The balance of payments need is likely to be temporary, since there are signs that the economy is already adjusting to the adverse environment, facilitated by appropriate policy measures. The proposed augmentation of access of 10 percent of quota would increase total access under the program to 50 percent of quota, just marginally above the norm (45 percent of quota) for countries, like Burkina Faso,

that are on their fourth PRGF arrangement, and would have only a minimal effect on Burkina Faso's external debt stock, which is sustainable, and on its debt service burden.

25. **The proposed expenditure increases strike an appropriate balance between responding to urgent needs, utilizing MDRI resources for increasing poverty-reducing expenditures, and maintaining debt sustainability.** While the overall fiscal stance is looser than previously envisaged, it is nevertheless consistent with the original program and would not have a significant adverse effect on debt sustainability. Debt service savings resulting from MDRI relief and additional budgetary support have been fully incorporated into the program to increase poverty-reducing expenditures. Regarding higher payments for utility bills, staff encourages the authorities to audit these claims carefully before effecting full payment.

26. **The proposed new producer price mechanism for cotton would represent a substantial improvement over the previous system.** Previously, ginning companies were bearing most of the downside price risk, which contributed to the erosion of their financial health during the recent downturn in world cotton prices. The new pricing mechanism, in contrast, links producer prices to world market prices, thereby aligning incentives for producers with world market conditions—an innovation that will likely strengthen the sector. In operationalizing the proposed *fonds de lissage*, a premium should be placed on the fund's financial sustainability, and there should be no expectation of government support beyond the initial funding. Rules should include a relatively wide intervention band, which would ensure that drawings on the *fonds de lissage* take place only in exceptional circumstances. The design should also make certain that adequate surpluses are accumulated in good years. Transparency in the operation of the *fonds de lissage* would be critical as well, including publication and auditing of its books.

27. **The maintenance of the fuel pricing mechanism, which ensures full pass through of changes in world oil prices, and steps to privatize the state-owned telecommunication company are major accomplishments.** However, progress in other structural reforms has been disappointing. Further efforts are needed to reduce electricity subsidies which have little benefit for the poor; to move towards an automatic tariff setting mechanism that links tariffs to costs; to reform the regulatory environment; and to engage the private sector in the energy industry. The proposed electricity tariff increase is an important step in this direction.

28. **Going forward, it would be useful for the authorities to develop scaling-up scenarios consistent with achieving the MDGs.** This work would benefit from close cooperation with donors. At the same time, the authorities should vigorously pursue growth-enhancing structural reforms to raise the growth performance of Burkina Faso's economy, which is indispensable for reducing poverty.

29. **The staff recommends that the sixth review under the PRGF arrangement be completed.** The non-observance of the two structural performance criteria should be viewed against the background that the required actions were subsequently taken or constitute prior actions under the sixth review, and against 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 and augmentation of access.

Table 1. Burkina Faso: Selected Economic and Financial Indicators, 2004–06

	2004	2005		2006	
	Est.	Proj. 1/	Est.	Proj. 1/	Rev. Proj.
	(Annual percentage change; unless otherwise specified)				
GDP and prices					
GDP at constant prices	4.6	7.5	7.1	4.4	5.6
GDP deflator	2.8	3.5	3.2	2.8	2.3
Consumer prices (annual average)	-0.4	6.4	6.4	2.1	3.1
Consumer prices (end of period)	0.7	4.5	4.5	2.0	1.9
Money and credit					
Net domestic assets (banking system) 2/	1.3	13.7	12.8	10.5	4.6
Credit to the government 2/	-3.7	3.7	0.9	4.2	-2.7
Credit to the private sector 2/	6.1	12.0	14.9	6.3	6.6
Broad money (M2)	-7.2	6.0	-3.7	7.3	8.1
Velocity (GDP/M2)	4.4	4.6	5.0	4.6	5.0
External sector					
Exports (f.o.b.; valued in CFA francs)	36.3	1.4	-3.0	23.4	22.5
Imports (f.o.b.; valued in CFA francs)	15.1	17.3	13.8	9.5	14.5
Terms of trade	14.6	-31.0	-24.7	-0.3	-2.7
Real effective exchange rate (– = depreciation)	-0.6	...	2.9	...	...
World cotton price (US$ cents per pound) 3/	62.0	54.0	55.2	59.5	57.0
Average petroleum spot price (US$ per barrel) 3/	37.8	54.2	53.4	61.8	66.5
	(In percent of GDP; unless otherwise indicated)				
Gross investment	18.7	19.9	17.9	20.2	16.8
Government	7.7	6.9	7.5	7.4	7.4
Nongovernment sector	11.0	13.0	10.4	12.8	9.4
Gross domestic savings	6.7	7.1	4.7	8.1	3.5
Government savings	4.8	4.4	3.9	5.0	4.9
Nongovernment savings	1.9	2.7	0.8	3.1	-1.4
Gross national savings	9.8	10.5	7.6	11.5	6.3
Central government finances					
Current revenue	12.7	12.6	12.2	13.3	13.3
Of which: Tax revenue	11.7	11.7	11.2	12.3	12.3
Total expenditure	21.2	20.6	21.4	22.3	23.4
Of which: Current expenditure	10.5	11.2	11.1	11.9	12.4
Overall fiscal balance, excluding grants	-8.6	-8.0	-9.2	-9.0	-10.0
Overall fiscal balance, including grants	-4.2	-3.9	-4.8	-4.2	16.6
External sector					
Exports of goods and services	10.6	9.0	9.8	10.2	10.9
Imports of goods and services	22.6	21.8	23.0	22.2	24.2
Current account balance (excluding current official transfers)	-11.9	-12.3	-13.2	-11.3	-13.2
Current account balance (including current official transfers)	-8.9	-9.3	-10.3	-8.7	-10.5
Debt indicators					
External debt in percent of GDP	34.3	33.0	33.0	35.5	17.8
NPV of external debt in percent of GDP	18.1	18.3	18.3	19.9	10.5
NPV of external debt in percent of exports	183.1	202.7	186.1	195.5	96.0
NPV of external debt in percent of revenues	141.5	145.1	150.2	149.1	78.8
Nominal GDP (in billions of CFA francs)	2,718	3,026	3,005	3,246	3,247

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

1/ IMF Country Report No. 06/107, March 13, 2006.
2/ In percent of beginning-of-period broad money.
3/ Source: WEO.

Table 2. Burkina Faso: Consolidated Operations of the Central Government, 2004–08

	2004	2005			2006		2007	2008
	Est.	Prog. 1/	Proj. 2/	Est.	Proj. 2/	Rev. Proj.	Proj.	Proj.
	(In billions of CFA francs)							
Total revenues and grants	461.8	529.9	503.9	496.7	588.2	1,298.3	636.9	693.7
Total revenues	344.5	377.9	380.9	365.2	432.3	432.3	478.3	539.0
Tax revenue	318.2	349.9	353.8	336.8	399.2	399.2	440.9	496.4
Non-tax revenue	26.3	28.0	27.1	28.4	33.1	33.1	37.4	42.5
Grants	117.3	152.0	123.0	131.5	155.8	866.0	158.6	154.8
Project	70.3	93.3	65.7	73.8	101.9	101.9	104.0	106.0
Program	47.1	58.7	57.4	57.8	53.9	56.0	54.6	48.8
MDRI relief 3/	...	...	...	...	...	708.1	0.0	0.0
Of which: IMF	...	...	...	...	...	54.1	0.0	0.0
Expenditure and net lending 4/	577.0	650.8	623.4	642.0	724.6	758.6	842.6	911.9
Current expenditure	284.5	342.4	339.6	332.4	384.9	403.8	437.0	468.3
Wages and salaries	119.0	140.7	141.6	141.4	151.8	157.8	171.9	182.4
Goods and services	62.9	76.8	76.0	75.3	88.0	91.3	115.7	119.5
Interest payments	19.1	19.5	17.8	18.2	17.3	15.3	16.5	16.5
Domestic	6.4	7.3	6.9	6.4	5.9	5.9	8.0	6.0
External	12.7	12.2	10.9	11.7	11.4	9.4	8.5	10.5
Current transfers	82.7	99.8	102.8	96.1	125.8	137.4	130.8	147.6
Safety net and other expenditures	0.8	5.6	1.4	1.5	2.0	2.0	2.1	2.3
Capital expenditure	297.8	315.4	297.2	322.7	342.4	345.3	406.6	444.6
Net lending	-5.4	-7.0	-13.4	-13.2	-2.8	9.5	-1.0	-1.0
Of which: fonds de lissage	...	...	...	...	...	12.5	0.0	0.0
Overall balance (commitment basis)	-115.2	-120.9	-119.5	-145.3	-136.4	539.7	-205.7	-218.1
Excluding MDRI grants	...	...	...	...	...	-168.4	...	...
Excluding grants	-232.5	-272.9	-242.5	-276.8	-292.2	-326.3	-364.3	-372.9
Cash basis adjustment	8.5	-10.0	3.9	25.2	-4.8	0.0	0.0	0.0
Overall balance (cash basis)	-106.7	-130.9	-115.6	-120.1	-141.2	539.7	-205.7	-218.1
Excluding MDRI grants	...	...	...	...	...	-168.4	...	...
Excluding grants	-224.0	-282.9	-238.6	-251.7	-297.0	-326.3	-364.3	-372.9
Financing	108.4	130.9	115.5	121.6	141.2	-554.9	159.0	156.5
Foreign	118.5	113.6	119.8	136.1	128.4	-523.9	159.0	156.5
Drawings	119.9	122.3	127.2	136.6	137.1	138.0	166.6	164.4
Project loans	79.8	87.1	91.4	100.8	93.2	93.2	116.3	120.6
Adjustment aid	40.1	35.3	35.8	35.8	43.9	44.8	50.3	43.8
Amortization	-26.2	-48.3	-39.5	-24.5	-36.1	-682.3	-17.4	-16.9
Of which: MDRI					...	-654.0	...	...
Debt relief (excl. MDRI)	24.8	39.5	32.2	24.0	27.4	20.4	9.8	9.1
Domestic financing	-10.0	17.3	-4.3	-14.5	12.8	-31.0	0.0	0.0
Banking sector	-24.9	24.1	23.2	5.6	27.6	-16.2	0.0	0.0
Central bank	-28.8	21.4	49.6	28.0	27.6	-16.2	0.0	0.0
Of which: IMF	5.3	-1.1	-1.1	-1.3	-2.6	-48.5	0.0	0.0
Commercial banks	3.9	2.7	-26.4	-22.4	0.0	0.0	0.0	0.0
Nonbanks	14.9	-6.8	-27.4	-20.2	-14.8	-14.8	0.0	0.0
Memorandum item:								
Domestic financing excluding IMF	-15.3	18.3	-3.2	-13.3	15.4	17.5	0.0	0.0
Errors and omissions	-1.7	0.0	0.0	-1.5	0.0	0.0	0.0	0.0
Financing gap	-1.7	0.0	0.0	0.0	0.0	15.2	46.7	61.6
Identified possible financing	...	...	...	...	...	10.4	0.0	0.0
Of which : grants	...	...	...	...	...	10.4	0.0	0.0
loans	...	...	...	...	...	0.0	0.0	0.0
Residual financing gap	...	...	...	...	...	4.8	46.7	61.6
Memorandum items:								
Poverty-reducing social expenditures	145.0	160.5	166.2	166.2	181.1	199.4	...	...
Of which: education	56.9	68.0	54.7	59.5	74.2	79.5	...	...
health	48.1	58.1	53.6	50.8	57.6	64.3	...	...
Poverty-reducing social expenditures excl. HIPC resources	101.5	128.3	127.8	...	156.0	...	...	...
Flow relief from the MDRI	...	...	...	...	...	10.3	...	...

Sources: Burkinabè authorities and Fund Staff estimates and projections.

1/ IMF Country Report No. 05/354, September 30, 2005.

2/ IMF Country Report No. 06/107, March 13, 2006.

3/ Multilateral Debt Relief Initiative stock-of-debt operation, including cancellation of debt treated under the enhanced HIPC Initiative, shown on accrual basis. Includes IMF, World Bank, and African Development Bank. For the World Bank and African Development Bank, implementation of the stock-of-debt operation is assumed for July 1, 2006. The stock-of-debt operation increases domestic and external amortization payments in 2006, which is offset by MDRI grants, and lowers amortization and interest from 2006 onwards. MDRI stock-of-debt relief from the Fund is higher than in the balance of payments because of a valuation adjustment by the BCEAO.

4/ On an authorization basis.

Table 2 (continued). Burkina Faso: Consolidated Operations of the Central Government, 2004–08

	2004	2005			2006		2007	2008
	Est.	Prog. 1/	Proj. 2/	Est.	Proj. 2/	Rev. Proj.	Proj.	Proj.
	(In percent of GDP, unless otherwise specified)							
Revenue	12.7	13.3	12.6	12.2	13.3	13.3	13.6	14.1
Grants	4.3	5.4	4.1	4.4	4.8	26.7	4.5	4.1
Expenditure and net lending	21.2	22.9	20.6	21.4	22.3	23.4	23.9	23.9
Current expenditure	10.5	12.1	11.2	11.1	11.9	12.4	12.4	12.3
Capital expenditure	11.0	11.1	9.8	10.7	10.5	10.6	11.5	11.6
Overall balance (commitment basis)	-4.2	-4.3	-3.9	-4.8	-4.2	16.6	-5.8	-5.7
Excluding MDRI grants	...	...	...	...	...	-5.2	...	...
Excluding grants	-8.6	-9.6	-8.0	-9.2	-9.0	-10.0	-10.3	-9.8
Overall balance (cash basis)	-3.9	-4.6	-3.8	-4.0	-4.4	16.6	-5.8	-5.7
Excluding MDRI grants	...	...	...	...	...	-5.2	...	...
Excluding grants	-8.2	-10.0	-7.9	-8.4	-9.2	-10.0	-10.3	-9.8
Foreign financing	4.4	4.0	4.0	4.5	4.0	-16.1	4.5	4.1
Domestic financing	-0.4	0.6	-0.1	-0.5	0.4	-1.0	0.0	0.0
Domestic financing excl. IMF	-0.6	0.6	-0.1	-0.4	0.5	0.5	0.0	0.0
Cash basis adjustment	0.3	-0.4	0.1	0.8	-0.1	0.0	0.0	0.0
Financing gap	-0.1	0.0	0.0	0.0	0.0	0.5	1.3	1.6
Errors and omissions	-0.1	0.0	0.0	0.0	0.0	...	1.3	1.6
Memorandum items:								
External financing	8.7	9.4	8.0	8.9	8.8	10.5	9.0	8.1
Of which: grants	4.3	5.4	4.1	4.4	4.8	26.7	4.5	4.1
net loans	3.4	2.6	2.9	3.7	3.1	-16.8	4.2	3.9
debt relief	0.9	1.4	1.1	0.8	0.8	0.6	0.3	0.2
External financing and financing gap	8.6	9.4	8.0	8.9	8.8	11.0	10.3	9.8
Basic balance	-3.0	-3.3	-2.8	-3.4	-3.0	-4.0	-4.1	-3.8
Flow relief from the MDRI	...	...	...	...	0.3	0.3	...	...
GDP (in billions of CFA francs)	2,718	2,838	3,026	3,005	3,246	3,247	3,521	3,821

Sources: Burkinabè authorities and Fund Staff estimates and projections.

1/ IMF Country Report No. 05/354, September 30, 2005.

2/ IMF Country Report No. 06/107, March 13, 2006.

Table 3. Burkina Faso: Monetary Survey, 2003–06

	2003	2004	2005		2006		
	Dec.	Dec.	Dec.	Dec.	Mar.	Dec.	Dec.
			Proj. 1/	Est.	Est.	Proj. 1/	Rev. Proj.
	(In billions of CFA francs)						
Net foreign assets 2/	331	274	226	171	220	204	191
Central Bank of West African States (BCEAO)	293	232	221	165	220	200	186
Assets	391	318	306	244	268	282	230
Liabilities 3/ 4/	98	86	85	79	48	83	45
Commercial banks	38	42	5	6	1	5	6
Net domestic assets	342	350	436	430	431	505	458
Net domestic credit	369	385	484	484	484	553	508
Net credit to government 3/	28	3	27	9	-23	54	-7
Credit to the economy	341	382	457	475	506	499	515
Crop credit	40	15	18	63	90	20	68
Other	301	367	439	413	416	479	447
Other items (net) 5/	-28	-35	-48	-54	-53	-48	-49
Broad money 2/	673	624	662	601	651	710	649
Of which : bank deposits	368	399	425	401	437	459	436
	(Annual changes in percent of stock of broad money of 12 months earlier, unless otherwise specified)						
Memorandum items:							
Net foreign assets	43.6	-8.4	-7.7	-16.6	-1.3	-3.2	3.4
Net domestic assets	10.4	1.3	13.7	12.8	-0.4	10.5	4.6
Net credit to government	2.4	-3.7	3.7	0.9	-9.9	4.2	-2.7
Credit to the economy	9.4	6.1	12.0	14.9	10.0	6.3	6.6
(annual percentage change)	13.7	12.0	19.7	24.4	15.0	9.2	8.3
(excluding crop credit)	19.2	21.9	19.7	12.5	11.8	9.1	8.2
Money supply	54.0	-7.2	6.0	-3.7	-1.7	7.3	8.1
Of which : bank deposits	12.9	4.7	4.1	0.3	1.8	5.0	5.9
Currency velocity (GDP/broad money)	3.8	4.4	4.6	5.0	5.0	4.6	5.0

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

1/ IMF Country Report No. 06/107, March 13, 2006.
2/ From December 2003 onwards, reflects the BCEAO's revised estimates of currency in circulation.
3/ MDRI relief from the Fund is reflected from 2006 onwards.
4/ For 2006, assumes augmentation of access under the Fund arrangement.
5/ Includes valuation adjustment related to MDRI relief.

Table 4. Burkina Faso: Balance of Payments, 2004–08

	2004	2005		2006		2007	2008
	Est.	Proj. 1/	Est.	Proj. 1/	Rev. Proj.	Proj.	Proj.
	(In billions of CFA francs)						
Exports, f.o.b.	253	232	245	287	301	328	356
Of which: cotton	163	151	143	202	187	208	230
Imports, f.o.b.	-458	-490	-522	-537	-597	-626	-662
Of which: petroleum products	-72	-139	-101	-170	-139	-140	-147
Trade balance	-205	-258	-276	-250	-296	-298	-306
Services and income (net)	-137	-146	-142	-157	-146	-151	-159
Services	-121	-129	-120	-141	-136	-141	-147
Income	-16	-17	-22	-16	-10	-10	-12
Current transfers (net)	101	121	110	126	102	107	106
Private	20	32	21	39	14	20	23
Official	81	89	89	87	88	87	82
Current account (– = deficit)	-241	-283	-308	-281	-341	-341	-360
Excluding current official transfers	-322	-372	-397	-368	-428	-428	-442
Capital transfers	106	110	125	136	833	121	123
Project grants	70	66	74	102	102	104	106
Other capital transfers	36	44	51	34	731	17	17
Of which: MDRI stock of debt relief (incl. IMF)	...	...	...	...	704	...	...
Of which: IMF MDRI stock of debt relief	...	...	...	...	50	...	...
Of which: Remaining HIPC Initiative relief	25	40	40	30	20	10	9
Financial operations	116	125	79	124	-482	185	190
Official capital	96	88	97	101	-544	149	147
Disbursements	120	127	137	137	138	167	164
Project loans	80	91	101	93	93	116	121
Program loans	40	36	36	44	45	50	44
Amortization	-24	-40	-40	-36	-682	-17	-17
Of which: MDRI stock of debt relief (IDA and AfDB)	...	...	...	...	-654	...	...
Private capital 2/	21	37	-18	23	62	36	42
Errors and omissions	-38	0	1	0	0	0	0
Overall balance	-57	-48	-103	-21	10	-34	-47
Financing	57	48	103	21	-25	-12	-14
Net foreign assets	57	48	103	21	-25	-12	-14
Net official reserves	61	11	67	21	-25	-12	-14
Of which: gross official reserves	73	12	75	24	13	-17	-22
IMF (net)	-8	-1	-1	-3	-44	0	0
Of which: IMF MDRI stock of debt relief	...	...	...	...	-50	...	...
Net foreign assets, commercial banks	-4	37	36	0	0	0	0
Change in arrears (– = reduction)	0	0	0	0	0	0	0
Financing gap	0	0	0	0	15.2	47	62
Identified possible financing	...	...	...	...	10.4	0	0
Residual financing gap	...	...	...	...	4.8	47	62
Memorandum items:	(In percent of GDP; unless otherwise indicated)						
Debt service relief from MDRI 3/	...	...	...	0.3	0.3	...	...
Trade balance (– = deficit)	-7.6	-8.5	-9.2	-7.7	-9.1	-8.5	-8.0
Cotton export volume (thousands of metric tons)	202.8	260.0	247.7	306.6	298.7	322.9	347.1
Current account (– = deficit)	-8.9	-9.3	-10.3	-8.7	-10.5	-9.7	-9.4
Excluding current official transfers	-11.9	-12.3	-13.2	-11.3	-13.2	-12.2	-11.6
Overall balance (– = deficit)	-2.1	-1.6	-3.4	-0.7	0.3	-1.0	-1.2
Total debt-service ratio after HIPC 4/	9.2	8.9	11.1	8.7	203.9	4.9	5.1
Gross international reserves (in billions of CFA francs)	318.1	306.0	243.6	282.1	230.4	247.7	269.6
In months of imports of goods and services	6.2	5.6	4.2	4.7	3.5	3.6	3.7
GDP at current prices (in billions of CFA francs)	2,718	3,026	3,005	3,246	3,247	3,521	3,821

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

1/ IMF Country Report No. 06/107, March 13, 2006.
2/ Includes portfolio investment and foreign direct investment.
3/ Multilateral Debt Relief Initiative.
4/ In percent of exports of goods and services.

Table 5. Burkina Faso: External Debt Sustainability Framework Including Impact of MDRI, Baseline Scenario, 2004-2025 1/
(In percent of GDP, unless otherwise indicated)

	Actual	Historical	Standard	Estimate	Projections								
		Average 6/	Deviation 6/							2005-10				2011-25
	2004			2005	2006	2007	2008	2009	2010	Average	2015	2020	2025	Average
External debt (nominal) 1/	**34.1**			**33.0**	**17.8**	**21.4**	**24.4**	**27.0**	**29.1**	**25.4**	**33.5**	**31.8**	**31.2**	32.2
Change in external debt	-8.2			-1.1	-15.2	3.6	3.0	2.6	2.1	-0.8	0.2	-0.4	-0.1	0.1
Identified net debt-creating flows	1.9			7.6	9.7	8.4	7.9	7.0	6.1	7.8	3.4	2.2	0.4	2.8
Non-interest current account deficit	**8.6**	**8.4**	**3.2**	**10.0**	**10.3**	**9.6**	**9.4**	**8.6**	**7.8**	9.3	**5.5**	**4.2**	**2.3**	4.8
Deficit in balance of goods and services	12.0			13.2	13.3	12.5	11.9	11.3	10.6	12.1	7.6	5.9	3.9	6.7
Exports	10.6			9.8	10.9	11.0	11.0	11.2	11.5	10.9	13.0	13.6	14.2	13.2
Imports	22.6			23.0	24.2	23.5	22.9	22.4	22.1	23.0	20.5	19.4	18.1	19.9
Net current transfers (negative = inflow)	-3.7	-5.5	2.2	-3.6	-3.1	-2.9	-2.6	-2.7	-2.8	-3.0	-2.2	-1.8	-1.8	-2.0
Other current account flows (negative = net inflow)	0.3			0.5	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.1
Net FDI (negative = inflow)	**-0.5**	**-0.4**	**0.2**	**-0.4**	**-0.4**	**-0.4**	**-0.4**	**-0.4**	**-0.4**	-0.4	**-0.5**	**-0.5**	**-0.5**	-0.5
Endogenous debt dynamics 2/	**-6.3**			**-2.0**	**-0.2**	**-0.8**	**-1.0**	**-1.2**	**-1.3**	-1.1	**-1.6**	**-1.6**	**-1.5**	-1.5
Denominator: 1+g+ρ+gρ	1.2			1.1	1.0	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Contribution from nominal interest rate	0.3			0.3	0.2	0.2	0.2	0.3	0.3	0.3	0.4	0.4	0.4	0.4
Contribution from real GDP growth	-5.4			-2.3	-0.4	-1.0	-1.3	-1.4	-1.6	-1.3	-2.0	-1.9	-1.9	-1.9
Contribution from price and exchange rate changes	-1.2			…	…	…	…	…	…	...	…	…	…	
Residual (3-4) 3/	**-10.1**			**-8.8**	**-25.0**	**-4.8**	**-4.9**	**-4.4**	**-4.0**	-8.6	**-3.2**	**-2.5**	**-0.4**	-2.7
o/w exceptional financing	0.0			0.0	-17.6	0.0	0.0	0.0	0.0	-2.9	0.0	0.0	0.0	0.0
NPV of external debt 4/	17.5			18.3	10.5	12.4	14.0	15.4	16.6	14.5	19.6	19.2	19.8	19.3
In percent of exports	164.6			186.1	96.0	112.7	126.9	138.0	144.4	134.0	151.1	141.8	139.0	146.7
In percent of revenues	138.3			150.2	78.8	91.1	99.1	106.7	111.9	106.3	115.8	105.8	109.3	108.6
Debt service-to-exports ratio (in percent)	8.3			7.8	5.1	4.4	4.6	4.6	5.1	5.2	6.5	7.1	7.1	6.7
Debt service-to-revenues ratio (in percent)	7.0			6.3	4.2	3.5	3.6	3.5	3.9	4.2	5.0	5.3	5.6	5.3
Total gross financing need (millions of U.S. dollars)	465.8			592.5	620.4	621.1	659.5	658.4	657.0	634.8	736.7	908.5	847.7	820.5
Non-interest current account deficit that stabilizes debt ratio	16.8			11.1	25.5	6.0	6.4	6.0	5.7	10.1	5.3	4.6	2.4	4.7
Key macroeconomic assumptions														
Real GDP growth (in percent)	15.0	7.1	11.3	7.3	1.3	6.0	6.6	6.5	6.4	5.7	6.4	6.6	6.6	6.5
GDP deflator in US dollar terms (change in percent)	2.8	2.5	3.3	3.2	2.3	2.3	2.2	2.2	2.2	2.4	2.4	2.2	2.2	2.2
Effective interest rate (percent) 5/	0.7	0.4	0.4	0.9	0.6	1.3	1.2	1.2	1.2	1.1	1.2	1.2	1.3	1.2
Growth of exports of G&S (US dollar terms, in percent)	49.9	10.8	23.4	2.0	15.5	9.0	9.1	10.4	11.9	9.7	12.6	9.9	9.9	10.4
Growth of imports of G&S (US dollar terms, in percent)	27.6	10.4	14.9	12.4	9.3	4.9	6.2	6.7	6.9	7.7	7.5	7.8	7.4	7.4
Grant element of new public sector borrowing (in percent)	...	...	...	32.9	34.9	33.4	33.6	33.6	33.8	33.7	32.3	30.0	26.8	30.7
Memorandum item:														
Nominal GDP (millions of US dollars)	5,152			5,707	5,915	6,414	6,983	7,597	8,262		12,607	19,255	29,491	

Source: Staff simulations.

1/ Includes public external debt.
2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.
3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
Includes also capital transfers—in particular project grants, which are projected to average over 3 percent of GDP in 2006-10—and private, non-debt creating capital inflows.
4/ Assumes that NPV of private sector debt is equivalent to its face value.
5/ Current-year interest payments devided by previous period debt stock.
6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 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	February 2, 2005	Observance of the performance criteria for March 31, 2004 and completion of the second review under the arrangement 2/
SDR 3.44 million	February 2, 2005	Observance of the performance criteria for September 30, 2004 and completion of the third review under the arrangement 2/
SDR 3.44 million	September 7, 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	September 29, 2006	Observance of the performance criteria for March 31, 2006 and completion of the sixth review under the arrangement 3/

Source: International Monetary Fund.

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

2/ The second and third reviews under the arrangement were completed simultaneously on February 2, 200

3/ Including the requested augmentation of SDR 6.02 million (10 percent of quota), the disbursement woulc total SDR 9.46 million.

Table 7. Burkina Faso: IMF Credit Position and Projected Payments to the IMF, 2005–15 1/

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
	(In millions of SDRs, unless otherwise indicated)										
Fund credit, net charges	1.8	-12.5	0.4	0.4	0.4	1.1	2.8	4.2	5.2	5.2	4.5
Poverty Reduction and Growth Facility (PRGF) disbursements	10.3	12.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PRGF repayments	11.7	0.0	0.0	0.0	0.0	0.7	2.4	3.8	4.9	4.9	4.2
PRGF charges and interest	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.3
MDRI relief 2/	...	7.4	10.9	11.7	9.6	8.2	6.4	3.1	1.0	0.3	0.0
Quota	60.2	60.2	60.2	60.2	60.2	60.2	60.2	60.2	60.2	60.2	60.2
Exchange rate: CFA francs per SDR (period average)	778.1	789.3	790.9	790.8	790.8	791.0	791.0	791.0	791.0	791.0	791.0
	(In billions of CFA francs, unless otherwise indicated)										
Exports of goods and services	295	355	387	421	464	518	562	629	705	792	892
Tax revenue	337	399	441	496	552	615	684	764	854	955	1,069
GDP	3,005	3,247	3,521	3,821	4,149	4,507	4,889	5,321	5,793	6,310	6,877
Outstanding Fund credit, end of period											
In millions of SDRs	72.4	23.2	23.2	23.2	23.2	22.5	20.1	16.3	11.5	6.6	2.4
In billions of CFA francs	56.4	18.3	18.4	18.4	18.4	17.8	15.9	12.9	9.1	5.2	1.9
In percent of quota	120.3	38.6	38.6	38.6	38.6	37.4	33.4	27.1	19.0	11.0	4.1
Debt service to the Fund											
In millions of SDRs	12.1	0.4	0.4	0.4	0.4	1.1	2.8	4.2	5.2	5.2	4.5
In billions of CFA francs	9.4	0.3	0.3	0.3	0.3	0.9	2.2	3.3	4.1	4.1	3.6
In percent of exports of goods and services	3.2	0.1	0.1	0.1	0.1	0.2	0.4	0.5	0.6	0.5	0.4
In percent of tax revenue	2.8	0.1	0.1	0.1	0.1	0.1	0.3	0.4	0.5	0.4	0.3
In percent of GDP	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1

Sources: IMF, Finance Department.

1/ Assumes 2 disbursements in 2006 of SDR 3.44 million each and an augmentation of 10 percent of quota (SDR 6.02 million).

2/ Annual relief on principal and interest, net of remaining HIPC assistance.

Table 8. Burkina Faso: Selected Indicators on the Millennium Development Goals

	1990	1994	1997	2000	2003	2004
Eradicate extreme poverty and hunger	(2015 target: halve 1990 US$1 a day poverty and malnutrition rates)					
Income share held by lowest 20%	..	..	..	..	7	*7*
Malnutrition prevalence, weight for age (% of children under 5)	..	*33*	..	*34*	38	*38*
Poverty gap at $1 a day (PPP) (%)	..	..	..	..	7	*7*
Poverty headcount ratio at $1 a day (PPP) (% of population)	..	..	..	..	27	*27*
Poverty headcount ratio at national poverty line (% of population)	..	..	..	..	46	*46*
Prevalence of undernourishment (% of population)	..	..	19	..	17	*17*
Achieve universal primary education	(2015 target: net enrollment to 100)					
Literacy rate, youth total (% of people ages 15-24)	..	..	..	..	..	31
Persistence to grade 5, total (% of cohort)	..	..	..	69	76	*76*
Primary completion rate, total (% of relevant age group)	20.4	29.2	*24.2*	25.2	28.2	29.5
School enrollment, primary (% net)	..	..	..	36	38	40
Promote gender equality and empower women	(2015 target: education ratio 100)					
Proportion of seats held by women in national parliament (%)	..	..	4	8	12	12
Ratio of girls to boys in primary and secondary education (%)	..	..	..	69.7	73.5	76.3
Ratio of young literate females to males (% ages 15-24)	..	..	..	..	..	64.6
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	13	13	14	15	15	*15*
Reduce child mortality	(2015 target: reduce 1990 under 5 mortality by two-thirds)					
Immunization, measles (% of children ages 12-23 months)	79	45	41	59	76	78
Mortality rate, infant (per 1,000 live births)	113	..	..	100	..	97
Mortality rate, under-5 (per 1,000)	210	..	..	196	..	192
Improve maternal health	(2015 target: reduce 1990 maternal mortality by three-fourths)					
Births attended by skilled health staff (% of total)	..	*41.5*	..	*31*	38	*38*
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	1000	..	..
Combat HIV/AIDS, malaria, and other diseases	(2015 target: halt, and begin to reverse, AIDS, etc)					
Children orphaned by HIV/AIDS	..	..	..	..	260,000	*260,000*
Contraceptive prevalence (% of women ages 15-49)	..	*8*	..	..	14	*14*
Incidence of tuberculosis (per 100,000 people)	157.7	..	..	..	..	191.4
Prevalence of HIV, female (% ages 15-24)	..	..	..	..	..	..
Prevalence of HIV, total (% of population ages 15-49)	..	..	..	..	2	*2*
Tuberculosis cases detected under DOTS (%)	..	..	16.2	17.7	17.1	18.1
Ensure environmental sustainability	(2015 target: various)					
CO2 emissions (metric tons per capita)	0.1	0.1	0.1	0.1	*0.1*	..
Forest area (% of land area)	26	..	..	25	..	..
GDP per unit of energy use (constant 2000 PPP $ per kg of oil equivalent)	..	..	..	..	..	..
Improved sanitation facilities (% of population with access)	13	..	..	..	*12*	..
Improved water source (% of population with access)	39	..	..	..	*51*	..
Nationally protected areas (% of total land area)	..	..	..	..	11.5	11.5
Develop a global partnership for development	(2015 target: various)					
Aid per capita (current US$)	38.8	45.3	35.5	29.8	40.8	47.6
Debt service (PPG and IMF only, % of exports of G&S, excl. workers' remittances)	8	15	..	20	13	9
Fixed line and mobile phone subscribers (per 1,000 people)	1.9	2.8	3.6	6.9	23.5	37.4
Internet users (per 1,000 people)	0	..	0.2	0.8	3.9	4.1
Personal computers (per 1,000 people)	0.1	0.2	0.8	1.3	2.1	2.2
Total debt service (% of exports of goods, services and income)	7	12	..	15	..	..
Unemployment, youth female (% of female labor force ages 15-24)	..	..	..	..	..	..
Unemployment, youth male (% of male labor force ages 15-24)	..	..	..	..	..	..
Unemployment, youth total (% of total labor force ages 15-24)	..	..	..	..	..	..
Other						
Fertility rate, total (births per woman)	7.3	..	6.9	6.5	6.6	6.5
GNI per capita, Atlas method (current US$)	350	240	270	250	290	350
GNI, Atlas method (current US$) (billions)	2.9	2.3	2.8	2.8	3.6	4.4
Gross capital formation (% of GDP)	18.2	19.3	25	22.7	18.7	19.1
Life expectancy at birth, total (years)	47.5	..	45.9	46.8	47.7	48.1
Literacy rate, adult total (% of people ages 15 and above)	..	..	..	..	..	21.8
Population, total (millions)	8.5	9.6	10.4	11.3	12.4	12.8
Trade (% of GDP)	35.6	37.1	35.6	34.4	31.9	31.5

Source: World Development Indicators database, April 2006.

Table 9. Burkina Faso: Poverty-Reducing Social Expenditure, 2001-2006. 1/

	2001	2002	2003	2004	2005 Est.	2006 Proj.
			(In billions of CFA francs)			
Total poverty-reducing social expenditure	80.4	108.9	116.6	145.0	151.3	199.4
Current expenditure	64.9	76.7	83.8	94.0	106.6	144.8
Capital expenditure	15.5	32.2	32.8	50.9	44.7	54.6
Health	27.3	38.5	37.9	48.1	50.8	64.3
Current expenditure	24.1	31.5	29.9	31.9	36.7	51.9
Capital expenditure	3.2	6.9	8.0	16.3	14.1	12.4
Education	35.1	42.7	47.9	56.9	59.5	79.5
Current expenditure	29.8	30.5	37.6	44.2	50.4	63.7
Capital expenditure	5.3	12.2	10.3	12.7	9.1	15.8
Rural roads	1.9	1.8	2.3	3.3	3.7	4.3
Current expenditure	0.0	0.0	0.0	0.0	0.0	0.1
Capital expenditure	1.9	1.8	2.3	3.3	3.6	4.3
Women's welfare and other poverty-reducing social expenditure	16.2	25.9	28.5	36.6	37.3	51.3
Current expenditure	11.1	14.7	16.3	18.0	19.4	29.2
Capital expenditure	5.1	11.2	12.2	18.6	17.9	22.1
			(As percentage of GDP)			
Total poverty-reducing social expenditure	3.8	4.8	4.6	5.3	5.0	6.1
Current expenditure	3.1	3.4	3.3	3.5	3.5	4.5
Capital expenditure	0.7	1.4	1.3	1.9	1.5	1.7
Health	1.3	1.7	1.5	1.8	1.7	2.0
Current expenditure	1.1	1.4	1.2	1.2	1.2	1.6
Capital expenditure	0.2	0.3	0.3	0.6	0.5	0.4
Education	1.7	1.9	1.9	2.1	2.0	2.4
Current expenditure	1.4	1.3	1.5	1.6	1.7	2.0
Capital expenditure	0.3	0.5	0.4	0.5	0.3	0.5
Rural roads	0.1	0.1	0.1	0.1	0.1	0.1
Current expenditure	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure	0.1	0.1	0.1	0.1	0.1	0.1
Women's welfare and other poverty-reducing social expenditure	0.8	1.1	1.1	1.3	1.2	1.6
Current expenditure	0.5	0.6	0.6	0.7	0.6	0.9
Capital expenditure	0.2	0.5	0.5	0.7	0.6	0.7
			(As percentage of total expenditure)			
Total poverty-reducing social expenditure	17.5	22.3	24.1	24.9	23.1	26.6
Current expenditure	14.1	15.7	17.3	16.1	16.3	19.3
Capital expenditure	3.4	6.6	6.8	8.7	6.8	7.3
Health	5.9	7.9	7.8	8.3	7.8	8.6
Current expenditure	5.2	6.4	6.2	5.5	5.6	6.9
Capital expenditure	0.7	1.4	1.7	2.8	2.1	1.7
Education	7.6	8.7	9.9	9.8	9.1	10.6
Current expenditure	6.5	6.2	7.8	7.6	7.7	8.5
Capital expenditure	1.2	2.5	2.1	2.2	1.4	2.1
Rural roads	0.4	0.4	0.5	0.6	0.6	0.6
Current expenditure	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure	0.4	0.4	0.5	0.6	0.6	0.6
Women's welfare and other poverty-reducing social expenditure	3.5	5.3	5.9	6.3	5.7	6.8
Current expenditure	2.4	3.0	3.4	3.1	3.0	3.9
Capital expenditure	1.1	2.3	2.5	3.2	2.7	3.0

Sources: Burkinabe authorities; and staff estimates and projections.

1/ Includes use of HIPC Initiative resources and MDRI flow relief in 2006, and excluding foreign-financed investment.

APPENDIX I

Ouagadougou, August 25, 2006

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

Mr. de Rato:

1. The government of Burkina Faso has successfully implemented the measures contained in its economic program implemented with the support of the International Monetary Fund through its Poverty Reduction and Growth Facility. The program, which was approved by the IMF Board on June 11, 2003 for an amount equivalent to SDR 24.08 million (40 percent of quota), runs through September 2006.

2. The attached memorandum of economic and financial policies (MEFP) supplements the one attached to my letter to you dated February 27, 2006. The MEFP attached to that letter established quantitative performance criteria (for end-March 2006) and structural performance criteria (through mid-May 2006) for the completion of the sixth and final review under the PRGF arrangement.

3. All quantitative performance criteria for the completion of the sixth review were observed. We met one of the three structural performance criteria, and requisite actions for a second structural performance criterion were implemented with a delay. The third structural performance criterion, the completion of the taxpayer census in Ouagadougou and Bobo-Dioulasso and the submission to the Minister of Finance of the implementation report, was not observed, and completion of these measures constitutes a prior action for the completion of the sixth review under the PRGF arrangement. In addition, the increase in electricity tariffs by 12.5 percent constitutes a second prior action for completion of the sixth review. On the basis of this performance, and on the strength of the policies set forth in the attached memorandum, we request waivers for the nonobservance of two structural performance criteria, and that the IMF complete the sixth review under the PRGF and disburse the seventh loan in the amount of SDR 3.44 million.

4. In addition, the deterioration in Burkina Faso's terms of trade caused by higher world oil prices has considerably weakened our external position. The Government of Burkina Faso is determined to forcefully address these challenges and, to facilitate the adjustment and address the temporary additional balance of payments needs, requests an augmentation of access under the PRGF arrangement in an amount equivalent to SDR 6.02 million (10 percent of quota).

Sincerely yours,

/s/

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

APPENDIX I
ATTACHMENT I

BURKINA FASO

MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES OF THE GOVERNMENT FOR 2006

I. MAIN ECONOMIC AND FISCAL DEVELOPMENTS IN 2005

1. Burkina Faso faced substantial economic challenges in 2005. A sharp decline in world cotton prices and a surge in world oil prices led to a near 25 percent deterioration in the external terms of trade and contributed to a balance of payments deficit. The relatively poor cereal harvest late in the previous year, along with rising world oil prices, pushed average inflation to 6.4 percent in 2005. However, conditions improved somewhat in the second half of the year. Strong agricultural growth offset a slowdown in other sectors, pushing real GDP growth to an estimated 7.1 percent in 2005, and inflationary pressures eased late in the year as food prices fell. Nonetheless, rising world oil prices continue to put upward pressure on transport costs and downward pressure on non-agricultural growth prospects. In the context of the deteriorating external environment, enterprises, notably in the cotton sector, increased their recourse to bank credit, driving the growth in credit to the economy to some 24 percent for the year as a whole. Nonetheless, the quality of commercial bank balance sheets remained satisfactory as adequate provisioning has been made to manage increased credit risk.

2. The overall fiscal deficit in 2005 (on a cash basis, excluding grants) was smaller than programmed (8.4 percent of GDP), despite a shortfall in revenue. As many expenditure authorizations were used to rebuild account balances of autonomous and semi-autonomous agencies (*comptes de trésor*), the indicative target on domestic financing was observed by a comfortable margin.

II. MACROECONOMIC FRAMEWORK FOR 2006 AND PROGRAM IMPLEMENTATION THROUGH MARCH

3. The projection for real GDP growth in 2006 has been revised upward to 5.6 percent to reflect early signs of a good cereal harvest, which is expected to offset the negative impact of a further deterioration in terms of trade on non-agricultural sectors. Inflation eased to 3 percent for the 12 months ending April 2006, owing to the continued impact of declining food prices. The external outlook has deteriorated since the 2006 program was designed, with the terms of trade projected to fall by another 2.7 percent on the basis of rising world oil prices. While the overall balance of payments is projected to register a surplus on account of the impact of reduction of debt under the multilateral debt relief initiative (MDRI), the generally weaker external environment is expected to result in a further, but more moderate, loss of international reserves. Monetary and exchange rate policy will continue to conducted a the regional level by the BCEAO with the objective of maintaining inflation to 2-3 percent .

4. Despite these adverse developments, macroeconomic policy implementation through March 2006 was satisfactory and all quantitative performance criteria were observed. A continued high implementation rate of the public investment program, financed by project grants, and higher spending on priority social programs resulted in a moderately higher fiscal deficit than projected. Progress regarding structural reforms was mixed. The Joint Brigade of the Tax and Customs Directorates (JBTCD) was established before the end-December 2005 target date, thereby meeting one of three structural performance criteria under the program. The other two structural criteria were not observed. The JBTCD completed the targeted number of audits by end-March 2006, but the submission of the report to the Minister of Finance was delayed owing to personnel changes at the Directorate of Tax Administration. The completion of the taxpayer census and the submission of the report to the Minister of Finance was not completed as scheduled because of delays in settling contract disputes with census workers. All structural benchmarks were observed.

III. Policies for the Remainder of 2006

5. Fiscal policy will be somewhat more expansionary in 2006 than previously programmed. The revenue target of CFAF 432 billion (13.3 percent of GDP) remains achievable, but additional expenditure needs will require an increase in total non-interest outlays, including net lending, by about CFAF 36.1 billion (1.1 percent of GDP). The additional expenditures comprise a larger fuel subsidy to SONABEL (CFAF 5 billion); retroactive payments for civil service advancements that had been frozen since 2003 (CFAF 6 billion); higher utility bills linked to the decentralization of government and the establishment of new structures (CFAF 5 billion); VAT reimbursements (CFAF 6 billion); the *fonds de lissage* (CFAF 12.3 billion); and food security (CFAF 0.6 billion). To partially offset these additional expenditures, outlays in non-priority sectors will be reduced by CFAF 5.5 billion. In addition to the spending needs identified above (some of which are in priority sectors), another CFAF 6.6 billion is available for increasing spending in priority sectors. Any increase in the subsidy to SONABEL in 2006 beyond the CFAF 5 billion currently envisaged will be fully offset by reductions in non-priority sector outlays.

6. Against this background, total expenditure and net lending is projected to be on the order of CFAF 759 billion (23.3 percent of GDP) and the overall fiscal deficit (excluding grants) would be about 10 percent of GDP. Total spending in priority sectors would be CFAF 199.4 billion (6.1 percent of GDP). After taking into account the portion of recently obtained donor budget support and resources freed up in 2006 under the MDRI that could be used for these outlays (applied only to priority social sectors), additional domestic financing (excluding the onlending of IMF resources), a financing gap of about CFAF 15.2 billion remains. Given identified possible financing from donors, the remaining gap could be closed with the support of the requested augmentation from the IMF in the amount of 10 percent of quota (about CFAF 4.8 billion).

7. The CFAF 5 billion in additional provisions for SONABEL is the amount that will be needed after the increase in electricity tariffs of 12.5 percent. SONABEL is also taking measures to reduce internal costs by changing the fuel mix, and SONABHY (the petroleum importing company) is also implementing measures to reduce the cost of delivering fuels. We are also working to accelerate the extension of the Côte d'Ivoire interconnection to Ouagadougou, which will further reduce costs and the need for subsidy. Finally, we also intend to implement a tariff setting mechanism that will link tariffs to costs, while providing incentives for improving efficiency in electricity generation. We are working closely with the World Bank in these areas, but substantial savings from these innovations are not expected before 2007.

8. Concerning the payments for retro-active public service advancements, the government estimates that the total cost of these advancements would be CFAF 18 billion. However, while formal advancements of public servants have not been implemented since 2003, salaries and indemnities have been raised on an ad-hoc basis during this period. These increases will be taken into account in assessing the government's additional financial obligation in this area. Should the government determine that it is legally obligated to pay the full CFAF 18 billion, it will spread the payment over a number of years, with a maximum of CFAF 6 billion to be paid in 2006.

9. The proposed *fonds de lissage* will help manage the risk associated with volatile world cotton prices and promote a more flexible response to changing world market conditions. The basic principles of the new fund and the associate automatic mechanism for establishing the cotton producer price have been adopted by the Interprofessional Association of Cotton Producers of Burkina Faso (AICB). Further work is needed to finalize the parameters of the new price-setting mechanism, the regulations governing the use of the fund, and the establishment of an adequate financial oversight system. Resources obtained for the *fonds de lissage* will be disbursed only after this work has been completed to the satisfaction of all stakeholders. Any resources provided to the fund by the government (which includes all donor contributions) would be made in the form of an interest-free loan to be repaid after the balance in the *fonds de lissage* reaches a sufficiently high level. In addition, the government is suggesting that all shareholders of cotton companies consider augmenting their capital. In that regard, the government has opened a dialogue with development partners to see if they could make resources available to help producers with their contribution.

10. Recent bills by utility companies indicate that total additional charges could total CFAF 11 billion in 2006. These additional charges come in the context of the decentralization of government, the establishment of new municipal and regional structures, and the expansion of health and education facilities. The provisioned CFAF 5 billion represents a good faith down payment by government that will be made only after the utility companies have provided all information necessary to validate the additional charges. Should the validity of the additional charges be verified, the balance will be paid in the context of the 2007 budget.

11. The government will continue to push ahead with the fiscal reforms outlined in its previous memorandum, and will implement additional measures in 2006 to strengthen tax and customs administrations. The Minister of Finance will validate updated multi-year plans to strengthen tax and customs administration by September 2006, and appoint a director of a steering committee to supervise working groups to implement the reform plans and to coordinate technical assistance made available by donors. In addition, the Council of Ministers will approve a new investment code before the end of the year, which will enhance investment incentives while reducing revenue losses through exonerations. Key measures to strengthen tax and customs administration in the second half of the year include:

Tax Administration

- Install the tax management system (Sintax) at the two Directorates of Small and Medium Entreprises (*DPME, Direction des Petites et Moyennes Entreprises*);
- Generate automatically the list of nonfilers at the DPME each month;
- Reorganize tax files and teams at the DPME by sectoral activity;
- Produce an evaluation report of the program of ad hoc VAT audits, and assign objectives for ad hoc audits for 2007;
- Finish assigning Unique Taxpayer Numbers (*IFU, Identifiant Financier Unique*) to all firms in the DGE and the DPME, and update the taxpayer file;
- Link the Unique Taxpayer Number database to the tax management system (Sintax) at the DGE and the DPME;
- Improve management of the Remaining Balances (*RAR, Restes à Recouvrer*) by classifying the files in order of recoverability and amounts involved; and
- Put in place a mechanism to accelerate VAT refunds with a view to paying reimbursements within 60 days.

Customs Administration

- Start implementing the Unique Customs Declaration Form (*DDU, Déclaration en Douane Unique*);
- Implement monthly reconciliation of customs declaration data with Cotecna, and produce statistics; and
- Set up computerized database for customs valuation (*valeur en douane*).

12. The structural reforms for the energy sector, set forth in the government's previous MEFP (paragraph 8), will be implemented following the completion of the comprehensive energy sector reform strategy. Tenders for the selection of a private operator for the management of SONABEL and for private sector participation in SONABHY are unlikely to be realized this year. However, we are on schedule for selling a majority stake in ONATEL before the end of the year.

13. As noted in the government's previous letter of intent, we will continue to improve the business environment by streamlining procedures and costs for the transfer of property and the licensing of businesses, enhance labor market flexibility. The government's National Action Plan for the Reform of Justice (PANJR) is a key element of its efforts to fight corruption and to improve governance and the business climate. The General Inspectorate of Judicial Services has been given more autonomy. As a result, the Higher Judicial Council has recently applied disciplinary actions against magistrates (including arrest) accused of unethical or illegal activities. The government will increase the number of high tribunals from 13 to 20, increase the number of courts specializing in commercial and financial cases, and provide additional training for magistrates in the area of financial and commercial law. It will also enhance the independence of magistrates in the Auditor General Office (*Cour des Comptes*) by conferring them the same status as other judicial officers.

IV. Post Program Relations with the Fund

14. The government would like to maintain a close policy dialogue with the IMF with an arrangement either under the Poverty Reduction and Growth Facility or the Policy Support Instrument. We will shortly inform the IMF of our preference, and will request that a mission return to Burkina Faso in September-October to hold negotiations on the next arrangement.

Appendix 1. Attachment 1. Table 1. Burkina Faso: Quantitative Performance Criteria and Indicative Targets for the Program Under the Poverty Reduction and Growth Facility Arrangement, 2005

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

	2004	2005		
	Dec.	End-Dec.		
	Actual	Prog. 1/	Prog. 1/ Adj. 2/	Actual
Performance criteria and indicative targets 3/				
Ceiling on cumulative change in net domestic financing to government 3/	-9.7	17.3	8.9	-14.5
Ceiling on the cumulative amount of new nonconcessional external debt				
contracted or guaranteed by the government 4/ 5/	0.0	0.0	0.0	0.0
Of which: less than one year's maturity 4/ 5/	0.0	0.0	0.0	0.0
Accumulation of domestic payments arrears 5/	0.0	0.0	0.0	0.0
Accumulation of external payments arrears 5/	0.0	0.0	0.0	0.0
Indicative targets				
Government revenue	344.5	377.9	377.9	365.2
Current expenditure	284.5	342.4	342.4	332.4
Expenditure on wages and salaries	119.0	140.7	140.7	141.4
Basic balance 6/ 7/	-82.0	-92.5	-92.5	-102.3
Change in the stock of expenditure authorized but without payment orders 7/	7.4	3.0	3.0	3.6
Adjustment factors				
Balance of payments assistance	89.8	99.2	...	98.8
Adjustment lending	42.8	40.5	...	41.0
Adjustment grants	47.1	58.7	...	57.8
Debt service after HIPC relief	14.2	21.0	...	12.2
Memorandum item:				
Social spending	145.0	160.5	160.5	166.2

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

1/ IMF Country Report No. 05/354, September 30, 2005.

2/ Target on net domestic financing adjusted to reflect the excess or shortfall in balance of payments assistance and deviations in external debt service compared to program projections.

3/ 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.

4/ 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.

5/ To be observed on a continuous basis.

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

7/ Including HIPC Initiative expenditure.

Appendix 1. Attachment 1. Table 2. Burkina Faso: Quantitative Performance Criteria and Indicative Targets for the Program Under the Poverty Reduction and Growth Facility Arrangement, 2006

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

	2005	2006						
	Dec.	End-Mar.			End-June	End-Sep.	End-Dec.	
	Actual	Prog. 1/	Progr. Adj.	Actual	Rev. Proj.	Rev. Proj.	Proj. 2/	Rev. Proj.
Performance criteria and indicative targets 3/								
Ceiling on cumulative change in net domestic financing to government 4/	-14.5	14.8	-31.3	-50.3	-51.7	-45.5	12.8	-31.0
Ceiling on the cumulative amount of new nonconcessional external debt								
contracted or guaranteed by the government 5/ 6/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which: less than one year's maturity 5/ 6/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accumulation of domestic payments arrears 6/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accumulation of external payments arrears 6/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Indicative targets								
Government revenue	365.2	87.7	87.7	87.9	213.4	314.8	432.3	432.3
Current expenditure	332.4	91.2	91.2	94.4	199.9	302.8	384.9	403.8
Expenditure on wages and salaries	141.4	37.1	37.1	38.6	78.1	118.4	151.8	157.8
Basic balance 7/ 8/	-102.3	-23.7	-23.7	-22.9	-54.3	-98.8	-97.1	-131.2
Change in the stock of expenditure authorized but without payment orders 8/	3.6	-7.0	-7.0	-9.1	-2.0	1.0	3.0	0.0
Adjustment factors								
IMF MDRI relief on principal due after 2006	...	0.0	...	45.3	45.3	45.3	...	45.3
Balance of payments assistance 9/	98.8	24.0	...	22.4	63.5	109.3	103.1	111.0
Adjustment lending	41.0	2.7	...	2.7	14.5	55.0	49.2	55.0
Adjustment grants	57.8	21.3	...	19.7	49.0	54.4	53.9	56.0
Debt service after HIPC relief	12.2	6.0	...	3.7	8.5	667.0	20.1	671.3
Memorandum item:								
Social spending	166.2	35.1	...	30.4	91.4	145.0	181.1	199.4

Sources: Burkinabè authorities; and staff estimates and projections.

1/ IMF Country Report No. 05/354, September 30, 2005.
2/ IMF Country Report No. 06/107, March 13, 2006.
3/ Performance criteria at end-March 2006.
4/ The ceiling on the cumulative change in net domestic financing is to be adjusted in line with the specifications set out in paragraph 7 of the TMU of IMF Country Report No. 06/107, March 13, 2006.
6/ To be observed on a continuous basis.
7/ Revenue (excluding grants) minus expenditure, excluding foreign-financed investment outlays and net lending.
8/ Including HIPC Initiative expenditure.
9/ Includes identified financing only.

Appendix 1. Attachment 1. Table 3. Burkina Faso: Structural Performance Criteria and Benchmarks and Prior Actions for the sixth PRGF Review in 2005–06

	Measures	Dates	Measures
1.	Production by the Tax Directorate of monthly outcomes and quarterly progress reports on the 10 management indicators for three computerized offices (DGE, Kadiogo I, Houet I).	From end-March 2005	Observed
2.	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	Observed
3.	Establishment of a fully operational Joint Brigade of the Tax and Customs Directorates with an annual work program for 2006. 1/	End-December 2005	Observed
4.	Submission to the Minister of Finance of a report on the six joint audits of the Joint Brigade of the Tax and Customs Directorates. 1/	End-March 2006	Not observed; done in April 2006
5.	Completion of the taxpayer census in Ouagadougou and Bobo-Dioulasso, and submission to the Minister of Finance of an implementation report. 1/	15 May, 2006	Not observed; prior action for the completion of the sixth review
6.	Implementation of the automatic price structure adjustment mechanism for petroleum products in relation to costs.	Continuous	Observed
7.	Increase electricity tariffs by 12.5 percent.		Prior action for the completion of the sixth review

[1] Performance criterion.

APPENDIX II

BURKINA FASO
RELATIONS WITH THE FUND

(As of June 30, 2006)

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

II. General Resources Account:	**SDR Million**	**In percent of quota**
Quota	60.20	100.00
Fund holdings of currency	52.85	87.80
Reserve position in Fund	7.35	12.21
Holdings Exchange Rate		

III. SDR Department:	**SDR Million**	**In percent of allocation**
Net cumulative allocation	9.41	100.00
Holdings	0.02	0.16

IV. Outstanding Purchases and Loans:	**SDR Million**	**In percent of quota**
Poverty Reduction and Growth Facility (PRGF) arrangements	13.76	22.86

V. Latest Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	Jun. 11, 2003	Sep. 30, 2006	24.08	20.64
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
(SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2006	2007	2008	2009	2010
Principal					0.69
Charges/interest	0.21	0.42	0.42	0.42	0.42
Total	0.21	0.42	0.42	0.42	1.10

VII. Implementation of HIPC Initiative:

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

VIII. Implementation of MDRI Assistance:

I. Total Debt Relief (SDR Million)[3]	62.12
Of which: MDRI	57.06
Of which: HIPC	5.06

II. Debt Relief by Facility (SDR Million)

	Eligible Debt		
Delivery date	**GRA**	**PRGF**	**Total**
January 2006	N/A	62.12	62.12

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

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

[3] The Multilateral Debt Relief Initiative (MDRI) provides 100 percent debt relief to eligible member countries that are qualified for the assistance. The debt relief covers the full stock of debt owed to the Fund as of end-2004 which remains outstanding at the time the member qualifies for such debt relief. The MDRI is financed by bilateral contributions and the Fund's own resources, as well as the resources already disbursed to the member under the HIPC Initiative (see Section VII above).

IX. Safeguards Assessments:

The Central Bank of West African States (BCEAO) is the common central bank of the countries of the West African Economic and Monetary Union. A new safeguards assessment of the BCEAO was completed on November 4, 2005. The assessment found that progress has been made in strengthening the BCEAO's safeguards framework of the bank since 2002 when the last safeguards assessment took place.

The BCEAO now publishes a full set of audited financial statements, and improvements have been made to move financial reporting closer to International Financial Reporting Standards (IFRS). Furthermore, an internal audit charter has been put in place, mechanisms have been established to improve risk management and risk prevention, and follow-up on internal and external audit recommendations has been strengthened.

The new assessment identified a number of areas where further steps would help solidify the progress made. The main recommendations relate to improvements in the external audit process (including the adoption of a formal rotation policy), further enhancement of the transparency of the financial statements by fully adopting IFRS, and further strengthening of the effectiveness of the internal audit function.

X. 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 June 30, 2006 was CFAF 763.3=SDR 1. The exchange and trade system is free of restrictions on the making of payments and transfers on current international transactions.

XI. 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. Discussions on the 2005 Article IV consultation and fourth review under the Poverty Reduction and Growth Facility (PRGF) were held during the period May 24—June 9, 2005 in Ouagadougou. The staff report (IMF Country Report No. 05/354, September 30, 2005) and the Selected Issues and Statistical Annex (IMF Country Report No. 05/358, September 30, 2005) were considered by the Executive Board on September 7, 2005.

XII. 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 broadly concurred with the mission assessment. On July 31, 2002, the authorities formally adopted an action plan based on the recommendations of the final ROSC.

An STA mission during May 8–21, 2003 assisted the authorities in preparing a data ROSC. The report was published in March 2004. The mission found that most of the methodologies used in the compilation of macroeconomic statistics are in broad conformity with internationally accepted guidelines. However, most datasets are affected by limited or impaired source data arising from irregularity in the conduct of surveys (national accounts), use of outdated weights (CPI), or low response rate to surveys (balance of payments). For CPI and government finance statistics, data dissemination meets the SDDS requirement, but for other macroeconomic datasets, timeliness falls short of GDDS recommendations. The authorities broadly concurred with the main findings of the mission as well as the recommendations made to address them.

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' approval of 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.

XIII. 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
AFRITAC	Tax Advisor	February 7–11, 2005	Review the progress made on: (1) the setup of the Large Taxpayer Unit and the Medium Taxpayers Office; (2) the steps to strengthen the fiscal control; and (3) the corporate registry reform.
AFRITAC	Customs Advisor	February 14–18, 2005	Provide assistance to control transit merchandises in the country and travelers at Ouagadougou airport.
AFRITAC	Customs, short-term Expert	February 14–23, 2005	Implement customs valuation code and establish a database for indicative import prices.
AFRITAC	Microfinance Advisor	March 21–25, 2005	Assess the TA need of the Cellule responsible of the supervision of microfinance institutions and prepare a capacity-building program.
AFRITAC	Short-term Expert	April 18–29, 2005	Training of auditors of the Tax administration.
AFRITAC	PEM Advisor	June 27, July 1, 2005	Review of the public finance directives of WAEMU.
AFRITAC	STA Advisor and Short-term Expert	June 27–July 5, 2005	Assist in setting up database for the TOFE (first or two scheduled missions) and expand further the scope of the TOFE (last of three scheduled missions).
AFRITAC	Customs Advisor visits	July 10-16, 2005	Advice on customs enforcement, and assessment of further TA needs.
AFRITAC	Tax Advisor	August 8–12, 2005	(1) Review the status of implementation of the 2003 FAD mission's recommendations; (2) update the tax directorate's action plan; and (3) asses the DGI TA's needs.
AFRITAC	STA Short- term Expert	August 22-26, 2005	Assist with putting in place the database of public finances.

Department	Type of Assistance	Time of Delivery	Purpose
AFRITAC	Customs Advisor visits	August 28–September 1, 2005	Advice on customs enforcement, and assessment of further TA needs.
AFRITAC	STA Short- term Expert	August 29–September 2, 2005	Assist and setting up database for the TOFE (last of the two scheduled missions).
AFRITAC	Microfinance Advisor	September 19–23, 2005	Strengthen operational systems for the surveillance of microfinance institutions.
AFRITAC	STA Short- term Expert	September 19–23, 2005	Assist and setting up database for the TOFE (additional mission).
AFRITAC	PEM Advisor	October 10–14, 2005	Review the status of implementation the January 2004 mission recommendations and asses the technical assistance needs.
AFRITAC	Microfinance Advisor and short-term Expert	November 21–December 16, 2005	Coaching in microfinance inspections.
AFRITAC	STA Advisor	December 6-15, 2005	Review of the WAEMU directives on budgetary nomenclature.
AFRITAC	Customs Advisor	January 23-25, 2006	Strengthening the dialogue between the customs administration and the private sector (regional workshop).
AFRITAC	STA Advisor	March 11-25, 2006	Review of the directive on the TOFE.
AFRITAC	PEM Advisor	March 13-17, 2006	Review of the directive on the TOFE.
AFRITAC	Tax administration; short term expert	March 14-28, 2006	Assist in strengthening (1) operations of the LTU; and (2) tax auditing.
AFRITAC	Customs Advisor	March 14-28, 2006	Assist in defining an action plan to improve revenue mobilization.
FAD	Revenue administration mission	March 14–28, 2006	Advice on tax and customs administration reform strategy (including improvement of the large tax payer unit, and strengthening of the tax and customs organization and operations).

XIV. Resident Representative:
Mr. Mario Zejan took up the post of Resident Representative in March 2004.
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APPENDIX III

BURKINA FASO
RELATIONS WITH THE WORLD BANK GROUP[7]

(As of August 1, 2006)

Partnership in Burkina Faso's development strategy

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

2. **Partnership with the Fund**. The Fund has supported Burkina Faso under three arrangements under the Poverty Reduction and Growth Facility between 1993 and 2002, and the authorities are currently receiving support under a fourth PRGF arrangement covering 2003–06. The first review of the latter arrangement was completed in March 2004, and the fifth review was completed in March 2006.

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

The FY06–09 Country Assistance Strategy (CAS)

4. **Lessons from past support to Burkina**. The 2000 CAS Completion Report concludes that development outcomes in FY01–05 were satisfactory, as was Bank performance in supporting implementation of the strategy. Key lessons from the past CAS

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[7] This appendix has been prepared by the World Bank. Additional information can be obtained from Michelle Keane, Acting Country Program Coordinator, or Abdoulaye Seck, Senior Country Economist.

have shaped the strategy for FY06–09. First, strong country commitment and consistent policy reform have succeeded in creating an environment more conducive to growth. Second, a more aggressive approach to economic diversification and administrative decentralization will be required in order to accelerate growth and make it more inclusive. Third, the CAS needs to do more to support strengthening of national capacity and country systems, in order to get better results and sustain them. Finally, IDA and other external partners must use the next few years to translate principles of harmonization into reality, in order to reduce the burden of aid management for Burkina.

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

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

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

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

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

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

(iv) decentralizing development to enhance pro-poor growth; and (v) creating a public sector interface that inspires private sector confidence.

Assessment of country policies

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

The Bank portfolio and proposed lending pipeline

8. The Bank's cumulative commitments to Burkina Faso as of August 1, 2006 amount to US$1,775.235 million equivalent for 79 operations, comprising 73 IDA credits and 6 IDA grants.

9. The **current portfolio** amounts to IDA and GEF commitments of US$553.6 million, of which US$455.07 million is undisbursed. IDA's portfolio in Burkina Faso is as follows:

- The **PRSC-6** approved on June 20, 2006 for US$60 million equivalent supports the implementation of PRSP-2 and its accompanying PAP. PRSC-6 is expected to be fully disbursed by August 2006. Under the growth and employment objectives, PRSC-6 supports reforms in the cotton, rural, telecommunication and energy sectors, as well as in the labor market, to lower factor costs, increase productivity and favor new investments. PRSC-6 also supports policies in the education, health, social protection, and water sectors with the objectives to improve access and improve service quality. Lastly, PRSC-6 supports measures to strengthen budget formulation, execution, procurement, and control, as well as public sector performance, decentralization, and environmental management.
- In the **agriculture** sector, the community-based rural development program (US$66.7 million equivalent, FY01) aims at reducing poverty and promoting sustainable development in rural areas. Its first phase provides for building local capacity to plan and implement rural development projects, accelerating the pace of

public transfers for decentralized rural development, and supporting implementation of the country's decentralization framework.

- To support **human resource development**, three operations are being implemented. In **education**, a basic education operation (US$32.6 million equivalent) was approved in January 2002. The project provides support for the government's ten-year basic education program, which will be implemented in three phases, the first of which covers the period 2001–05. The main development objective of Phase I of the ten-year program is to lay the foundation for accelerating the development of basic education, while ensuring adequate quality and financial sustainability. The Bank also assists the country with the implementation of a new development learning center (US$2.3 million equivalent, FY03) for distance-learning activities that will give the Burkinabè access to the latest research worldwide. A **HIV/AIDS** disaster response project (US$22 million equivalent, FY02) underpins the implementation of the government's 2001–04 medium-term HIV/AIDS/STIs strategic plan, which has been endorsed by the country's technical and financial partners. A US$5 million supplemental grant has been approved on May 3, 2005 to complete the activities of the original operation. In addition, the multi-country *HIV/AIDS Treatment Acceleration Program* (TAP), approved in June 2004, includes US$18 million for Burkina, to scale up treatment through strengthening the response of associations of persons living with HIV/AIDS and the Ministry of Health.

- A **Health Sector Support and Multisectoral AIDS Project** (US$47.7 million) was approved in April 2006 and aims at improving the quality and use of maternal and child health services; scaling up the malaria response and control by supporting malaria prevention and treatment activities; subsidizing procurement and distribution of insecticide-treated bed nets and malaria medicines, with a focus on children under five and women; and providing flexible support for rapidly responding to epidemics, including meningitis, cholera, and bird influenza; scaling up AIDS treatment, promoting HIV prevention and behavioral change, and mitigating the socio-economic consequences of the HIV/AIDS epidemic.

- A **Post Primary Education Project** (US$22.9 million, FY06) was approved in June 2006 and aims at supporting the Government strategy to increase the number, and quality of students graduating from secondary school at reduced costs for parents, with increased equity of access by gender and by area (rural-urban).

- An **Agricultural Diversification and Market Development Project** (US$66 million, FY06) aims at strengthening private operators' capacities to respond to market opportunities and requirements; developing irrigation and marketing infrastructure for agricultural productivity increase, product quality improvement, and agricultural diversification, while strengthening producers' linkages to markets; improving the business environment, regulatory framework, and provision of advisory services.

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

- A technical assistance credit for **private sector development** (Competitiveness and Enterprise Development Project, US$30.7 equivalent, FY03) provides support to implement the privatization program; improve the quality, access, and cost of telecommunications, and promote the development of a strong indigenous private sector in Burkina Faso through a streamlined business environment and well-targeted financial and nonfinancial services to small and medium-sized enterprises.
- The Bank approved a **transport sector** project in April 2003 for US$92.1 million equivalent. The project concentrates on rural roads as the rural economy is the main source of income and employment for 80 percent of the population.
- A **statistical capacity building** credit for US$10 million equivalent was approved in March 2004. The project aims at improving policy decision-making, based on timely and accurate quantitative and qualitative information, that help monitor progress towards national development goals, including the PRSP goals and the MDGs.
- An **administration capacity building** grant for US$7.0 million equivalent was approved in March 2005. The project aims at improving administration structures and processes in light of the decentralization policy, in order to yield measurable impact on provision of services to the citizens of Burkina. This will improve human and financial management systems and entrench a culture of capacity building in the administration.
- A **power sector development** project, US$63 million equivalent, was approved in November 2004, with the aim to increase power supply through domestic generation and investment in sub-regional inter-connectors for increased electricity imports.

10. The Bank's **proposed remaining lending** program for the FY06–09 period will consist of: (i) one programmatic development lending operation per fiscal year; (ii) support to the agriculture sector through a follow up to the intensification and market diversification project, and the second phase of the community-based rural development program; (iii) an energy access project which will aim at increasing access to infrastructure services, especially for rural communities; (iv) a capacity building project to support the decentralization agenda. In addition, Burkina will participate in regional projects to improve infrastructure networks and increase agricultural productivity[8].

Bank-Fund collaboration in specific areas

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

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

enterprise, prudent financial management and the increased involvement of producer organizations in decision-making processes, including the setting of producer prices.

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

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

Statement of IDA Credits/Grants
As of August 1, 2006
(In millions of U.S. dollars)

Credit/Grant Number	Fiscal Year	Sector	IDA	Undisbursed
C34360-BF	2001	Community-Based Rural Dev.	66.7	13.29
C34760-BF	2001	Ouagadougou Water Supply	70.0	40.71
C35570-BF	2002	HIV/AIDS Disaster Response	27.0	3.47
C35970-BF	2002	Basic Education	32.6	19.72
C51242-BF	2002	Partnership for Nat. Eco/System	7.5	2.26
C37070-BF	2003	Development Learning Center	2.3	0.61
C37330/H0220	2003	Competitiveness & Ent. Dev.	30.7	27.16
C37450/H0320	2003	Transport Sector	92.1	82.60
C38780-BF	2004	Statistical Capacity Bldg	10.0	7.79
C53855-BF	2004	Sahel Inter lowland	4.5	3.72
G29867-BF	2005	Power Sector Dev.	63.6	48.29
H1510	2005	Administration Capacity Building	7.0	6.05
C40190	2005	WA Locust	3.0	2.80
Credit	2006	PRSC-6	60.0	60.0
Credit	2006	Health Sector Support	47.7	47.7
Credit	2006	Post-Primary Education	22.9	22.9
Credit	2006	Ag. Diversification and Markets	66.0	66.0
Total (number of credits/grants: 21)			553.6	455.07

Source: World Bank

INTERNATIONAL MONETARY FUND

BURKINA FASO

Ex Post Assessment of Longer-Term Program Engagement

Prepared by a Staff Team from the African, Fiscal Affairs, and Policy Development and Review Departments[1]

Authorized for distribution by Benedicte Vibe Christensen and Mark Plant

August 28, 2006

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[1] The team comprised Ms. Fouad (Head, FAD), Messrs. Clausen, Geiregat, and Basnyat (all AFR), Ms. Le Manchec (PDR), and Mr. Ntamatungiro (FAD).

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EXECUTIVE SUMMARY

Fund's engagement with Burkina Faso started in 1991, and has been continuous since then. The current Ex Post Assessment (EPA) covers the four successive ESAF/PRGF-supported programs following the January 1994 devaluation of the CFA franc.

Program implementation was strong, reflecting the authorities' firm program ownership. The observance of quantitative performance criteria was exemplary, and the track record in implementation of structural reforms was relatively strong. However, the government's commitment to tax administration reform could have been stronger.

Macroeconomic performance improved significantly. Growth and inflation performances over the last decade have been favorable, with Burkina Faso benefiting strongly from West African Economic and Monetary Union (WAEMU) membership, particularly regarding the maintenance of low inflation and competitiveness following the CFA franc devaluation. A stable inflow of foreign aid has supported the fiscal and current account deficits.

Due to sustained high real GDP growth, real per capita income nearly doubled in the last 20 years but it remains one of the lowest in the world. Thanks to external assistance, pro-poor spending increased and debt sustainability was preserved. While poverty was reduced and social indicators improved, the latter remain weak by regional standards.

Burkina Faso's economy remains vulnerable to external shocks and institutional constraints. First, economic diversification has been elusive, and the economy remains highly dependent on the cotton sector. Second, while the fiscal deficits were successfully covered by foreign aid, domestic revenue mobilization remains low by regional standards, exposing the country to the availability of external aid. Finally, absorptive capacity constraints have prevented the country from fully benefiting from resources released by debt relief.

The EPA identifies the challenges that will need to be addressed over the medium term. In the post- Multilateral Debt Relief Initiative (MDRI) context, and with the overarching objective of meeting the Millennium Development Goals (MDGs), the main reform priorities would be to: (i) increase the domestic revenue effort; (ii) strengthen institutions to allow better domestic absorption of aid; and (iii) increase private sector participation to enhance economic diversification. Some key areas for reform are outside the Fund's core mandate and will require the involvement of the World Bank and other development partners.

In view of Burkina Faso's unfinished reform agenda and strong ownership, the Fund should continue to be engaged. Continued Fund involvement would be key to support the government's reform agenda. The authorities could opt for a successor Poverty Reduction and Growth Facility (PRGF) arrangement with low access or a Policy Support Instrument (PSI).

I. Introduction

1. **Burkina Faso ranks among the world's poorest countries, with a real GDP per capita of about US$275 in 2005, and confronts serious developmental constraints.** The country, located in the Sahel, is landlocked and its climate is characterized by large rainfall variations. Most of the population lives in rural areas, where poverty and reliance on subsistence agriculture are widespread. Like other Sahelian countries, Burkina Faso suffers from drought and desertification, overgrazing, soil degradation, and deforestation. In addition, political instability in neighboring countries has strong repercussions on economic activity through remittances, and access to ports and markets.

2. **Burkina Faso's engagement with the Fund is relatively recent but has been continuous.** Following almost a decade of inward-looking policies, the government embarked on its first Fund-supported program under a Structural Adjustment Facility (SAF) in 1991 (Table 1). Despite strong government commitment to reforms at the start of the SAF, internal politics intervened during a transition period to a representative democratic regime, throwing the program off track in 1992. The adjustment program resumed in earnest in 1993 when the SAF was replaced with an Enhanced Structural Adjustment Facility (ESAF), and was further strengthened following the 1994 CFA franc devaluation.

Table 1. Lending Arrangements with the Fund, 1991–2006
(as of March 31, 2006)

Arrangement	Date of Arrangement	Date of Expiration or Cancellation	Amount agreed (in millions of SDR)	Amount agreed (in percent of quota) [1]	Amount drawn (in millions of SDR)	Amount drawn (in percent of agreed amount)
SAF	Mar 1991	Mar 1994	22,12	70,0	6,32	28,6
ESAF I	Mar 1993	May 1996	53,04	120,0	40,1	75,6
ESAF II	Jun 1996	Sep 1999	39,78	90,0	39,78	100,0
PRGF I	Sep 1999	Dec 2002	39,12	65,0	39,12	100,0
PRGF II	Jun 2003	Sep 2006	24,08	40,0	20,64	85,7

Source: Finance Deptartment (IMF).

1/ Burkina Faso's quota increased from SDR 31.6 million in 1984 to SDR 44.2 million in 1992 and to SDR 60.2 million in 1999.

3. **The stable political climate during the period under consideration contributed to a firm commitment from the authorities, resulting in a strong track record of policy implementation**. Despite occasional internal tensions, the political environment remained fairly stable, allowing for a smooth program implementation. A strong track record of policy implementation allowed Burkina Faso to reach the decision point under the HIPC initiative in September 1997 as the second country after Uganda, and to receive irrevocable HIPC debt relief in 2000 under the original framework and in 2002 under the enhanced framework. Burkina Faso qualified for the Multilateral Debt Relief Initiative (MDRI) from the Fund, followed by the International Development Association and the African Development Fund.

4. **This ex-post assessment of longer-term engagement (EPA) covers the post-devaluation period, 1994-2005.** The report is organized as follows: Section II examines Fund involvement in Burkina Faso by, first, reviewing the objectives of Fund-supported programs and policy instruments used to achieve them, and, second, evaluating the achievements and shortcomings of policy implementation during the period under consideration. Section III draws lessons from the program design and implementation issues, and Section IV lays out some considerations for medium-term priorities and for future Fund involvement.

II. Assessment of Fund Involvement

A. Objectives of Fund-Supported Programs

5. **As with all WAEMU countries, the 1994 annual ESAF-supported program was based on the 50 percent devaluation of the CFA franc which restored much eroded competitiveness.** The devaluation provided a welcome momentum to boost the reforms that were running out of steam under ESAF I. The devaluation of the CFA franc was accompanied by tight macroeconomic policies and a deepening of structural reforms aimed at accelerating the rate of growth and ensuring a viable external position in the medium-term.

6. **Poverty reduction was a key objective in all Fund-supported programs, but particularly so under the PRGFs.** Policy Framework Papers (PFPs) and later Poverty Reduction Strategy Papers (PRSPs) included measures to address poverty issues. In the long run, poverty was to be tackled through sustaining high growth and employment, particularly in rural areas, where the majority of the poor live. Under PRGF-supported programs, the focus was on achieving the Millennium Development Goals (MDGs) through the monitoring of targets on poverty-reducing social expenditure.[2] The number of targets increased considerably, in line with the PRSP, which has become the vehicle for coordinating poverty reduction. Structural conditionality on social spending related more to the public financial management (PFM) area and tracking of pro-poor spending.

7. **The main goals of Fund-supported programs were to achieve macroeconomic stability and lay out the conditions for sustainable growth.** To these ends, the programs aimed at fostering the development of human resources and productive potential, increasing tax mobilization, deepening financial intermediation and private sector participation. The macroeconomic objectives in the four successive programs did not change substantially (Table 2), but the focus of structural reforms shifted from privatization, liberalization, and arrears reduction to fiscal structural reforms, regulatory framework, and social spending. As Burkina Faso is a member of the West African Economic and Monetary Union (WAEMU), exchange rate, monetary and trade policy were largely set collectively by member states. Regional agreements also set important markers for the legal environment and for the country's business climate. A full assessment of the benefits of monetary union membership for Burkina Faso is

[2] The monitoring of social indicators was based on the results of the household surveys of living conditions published in 1995 and 2003, as well as administrative surveys and Demographic and health surveys.

beyond the scope of this paper. However, there are strong indications that the regional framework provided an appropriate monetary environment, supported financial discipline, helped in accelerating trade reform, and allowed for closer economic linkages with neighboring countries (Box 1).

Table 2. Stated Medium-term Macroeconomic Objectives of the Fund-Supported Programs

	ESAF I (1994 program) (1994–96)	**ESAF II (1996–99)**	**PRGF I (1999–2002)**	**PRGF II (2003–06)**
Growth	At least 5 percent	More than 5 percent	About 6 percent	Increase to 5.2 percent
Inflation	Around 6 percent	Around 3-3.5 percent	About 2 percent	Less than 3 percent
Current account deficit (excluding grants)	Less than 15 percent of GDP	10 percent of GDP	11 percent of GDP	12 percent of GDP

8. **With monetary and exchange rate policy mostly conducted at the regional level, fiscal policy was the key policy instrument aimed at supporting macroeconomic stability and the pegged exchange rate system.**[3] Immediately following the devaluation, fiscal policy aimed at containing aggregate demand while promoting the expansion of bank credit to the private sector. Wage policy, in particular, aimed at safeguarding the competitiveness gains achieved following the devaluation. Later on, in the context of the HIPC initiative, fiscal policy focused more on scaling up growth-enhancing, poverty-reducing spending without endangering debt sustainability or crowding out the private sector.

9. **Fiscal conditionality focused on the following main quantitative targets**:[4]

- The main fiscal target monitored by the program was net credit to government, replaced in 2002 by net domestic financing. The shift to a broader measure of government domestic financing was to allow a better surveillance over the overall deficit and domestic debt.

- Given the low tax-to-GDP ratio, floors on revenue were set to improve domestic tax collection and reduce reliance on external assistance.

[3] Monetary policy has been conducted at the regional level by the BCEAO, and its main objective has been to maintain an inflation rate and international reserves position consistent with the peg of the CFA franc, first to the French franc and later to the euro.

[4] "Conditionality" refers to performance criteria as well as benchmarks and indicative targets.

Box 1. Burkina Faso: Economic Impact of Regional WAEMU Integration

This box summarizes Burkina Faso's experience with WAEMU integration.

Adherence to the thresholds of the convergence criteria have not been explicitly incorporated in Burkina Faso's programs supported by the Fund. Nonetheless, the objectives of the convergence criteria and of Fund-supported programs intersect, notably with respect to keeping inflation low and improving fiscal soundness by avoiding arrears, raising revenues, containing the wage bill, and public debt. Burkina Faso met four out of eight convergence criteria in 2004, called for by the WAEMU's Regional Convergence, Stability, Growth, and Solidarity Pact which was adopted in 1999.

WAEMU: Performance on Convergence Criteria by Country, 2004 1/

Convergence criteria	Benin	Burkina Faso	Ivory Coast	Guinea-Bissau	Mali	Niger	Senegal	Togo
Basic balance to GDP ≥ 0%	**0.5**	-1.6	-1.1	-9.4	**0.1**	-2.2	**1.5**	**2.6**
Inflation ≤ 3%	**0.9**	**-0.4**	**1.4**	**0.9**	**-3.1**	**0.2**	**0.5**	**0.4**
Public debt to GDP ≤ 70%	**41.1**	**47.1**	84.1	331.3	**66.5**	75.5	**50.3**	96.5
No arrears accumulation (CFAF bln.)	**0.0**	**0.0**	521.5	13.0	**0.0**	3.2	**0.0**	72.0
Wage bill to tax revenue ≤ 35%	38.0	37.3	44.0	139.0	**30.9**	35.2	**29.5**	**32.0**
Domestically financed investment spending to tax revenue ≥ 20%	**21.5**	**46.2**	9.8	15.2	**22.7**	**35.0**	**30.0**	7.4
Current account balance (excl. grant) to GDP ≥ -5 percent	-6.3	-12.5	**2.1**	-6.8	-7.0/-8.0	-11.0	-8.6	-6.1
Tax revenue to GDP ≥ 17 percent	14.6	12.0	15.2	7.9	15.4	11.6	**18.4**	14.9

Source: WAEMU.

1/ Bolded numbers show that the convergence criteria were respected.

Efforts at increasing regional integration have had important impact on trade, legal harmonization and structural policies:

- An important achievement was the phased introduction of the Common External Tariff (CET) during 1998-2000. The current system has four categories of goods that have tariff rates of 0, 5, 10, and 20 percent respectively, plus a statistical tax of 1 percent.
- Burkina Faso benefited from labor mobility in WAEMU with (pre-crisis) large movements of workers to Côte d'Ivoire.
- Tax harmonization moved forward with the implementation of a common regulation on VAT, and tariff rates on imports of goods originating from WAEMU were gradually reduced and fully eliminated by 2000.
- Banking and financial sector regulation are common through the zone, and business law was harmonized in line with the OHADA Treaty of 1993.
- Burkina Faso has been a leader in adopting five directives aimed at harmonizing budget laws and government accounts, including regulations for public accounting, a new budget nomenclature and a summary table of fiscal operations (TOFE).

- The basic balance (i.e., revenue minus current spending and domestically financed capital spending) became an indicator under the second PRGF-supported program as of 2003, to measure the domestic fiscal effort.

- Debt sustainability was mainly controlled through a zero target on the contracting or guaranteeing of non-concessional debt.[5]

- Programs also aimed at eliminating external and domestic payments arrears in the early stages, then focused on the non-accumulation of payment arrears, once the existing stocks were eliminated. From 2003, expenditure committed but without payment orders were monitored under an indicative target.

- Conditionality also focused on the composition of expenditure. The share of nonpriority spending was to be reduced through the application of quantitative benchmarks or indicators on cumulative expenditure on government wages and salaries (which was also key to lessen the early inflationary pressures), on primary expenditure commitment basis, excluding foreign-financed investment (1997–2000), and current expenditure (as of 2000).

10. **Structural reform aimed at sustaining growth and developing an economy more resilient to adverse external shocks.** Program structural conditionality included measures mainly to improve public financial management, boost revenue, enhance the competitiveness and efficiency of the economy, and provide incentives for private sector activity. In particular, programs focused on civil service reform, price and trade liberalization, divestiture from financial and nonfinancial public enterprises and improvement of the legal and regulatory frameworks. Structural measures covered broad areas through PRGF I to strengthen the macroeconomic environment and liberalize the economy, but increased the focus on tax and public financial management under PRGF II (Appendix Table 1).

B. Achievements and Shortcomings

Macroeconomic performance

11. **Macroeconomic performance has been generally good, but there remain vulnerabilities.** Burkina Faso has succeeded in sustaining high growth rates and containing inflation, strongly supported by the policy discipline imposed by the WAEMU membership (Table 3, and Appendix Table 2). Following the devaluation—also a regional policy—competitiveness improved markedly, before eroding somewhat over time. There has been limited progress, however, in meeting some key objectives of the Fund-supported programs—most importantly, in increasing domestic revenue and diversifying the economy.

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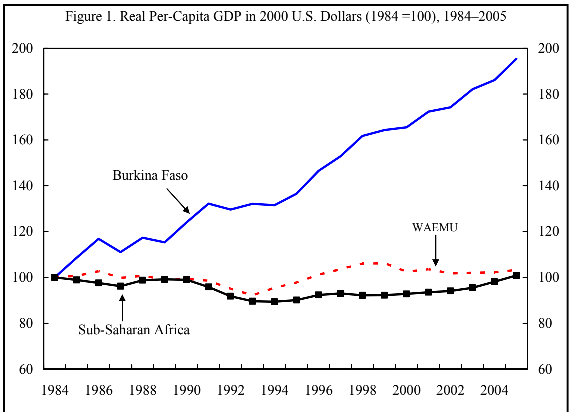
[5] The level of required concessionality was increased from 25 percent to 35 percent in 1996 in the context of the second ESAF.

Table 3: Key Macroeconomic Indicators for Burkina Faso, WAEMU, and Sub-Saharan Africa, 1984–2004									
	1984-93			1994-98			1999-2004		
	BFA	WAEMU	SSA	BFA	WAEMU	SSA	BFA	WAEMU	SSA
	(Annual percentage change; unless otherwise indicated)								
Real GDP growth	5,3	2,0	1,8	6,7	5,7	3,4	5,5	2,8	3,8
Real per-capita GDP growth	2,8	-1,2	-0,9	4,2	2,7	0,9	2,4	-0,1	1,8
Real per-capita GDP (in 2000 U.S. Dollars)	166,3	345,5	552,5	204,3	352,5	522,4	243,9	360,3	539,3
Inflation	1,1	2,5	26,3	9,2	10,7	30,9	1,2	1,6	14,2
	(In percent of GDP)								
Current account, excl. official transfers	-10,3	-9,1	-3,0	-11,0	-7,5	-4,1	-13,1	-6,0	-3,2
Current account, incl. current official transfers	-3,9	-4,8	-1,5	-6,6	-4,7	-2,8	-10,0	-4,3	-2,1
Current official transfers	6,5	4,3	1,5	4,4	2,8	1,2	3,0	1,7	1,0
Fiscal balance, excl. grants	-8,4	-7,8	-6,0	-8,1	-5,3	-4,9	-9,9	-4,4	-3,3
Fiscal balance, incl. grants	-3,3	-5,5	-4,8	-1,6	-2,4	-3,9	-3,8	-2,0	-2,1
Grants	5,0	2,3	1,1	6,4	2,9	1,0	6,1	2,3	1,2
Revenue, excl. grants	10,8	19,1	18,8	10,8	15,4	19,9	12,0	15,8	22,0
Expenditure	19,2	26,9	24,8	18,9	20,7	24,8	21,9	20,2	25,3

Source: IMF African Department database, May 2006.

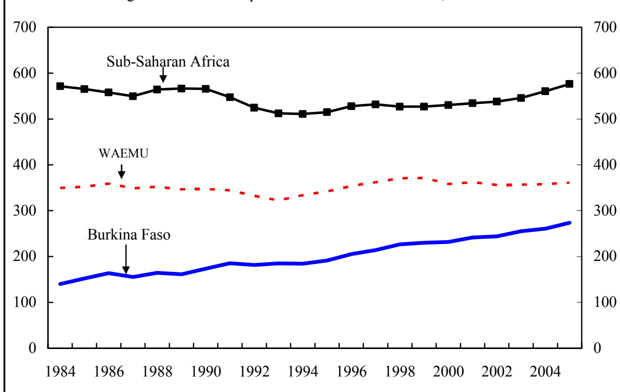
12. **Burkina Faso has experienced higher economic growth and lower inflation in the last 20 years than the average in the WAEMU and Sub-Saharan African (SSA) countries**. Real per capita income nearly doubled in the last 20 years (Figures 1 and 2), rising from US$140 to US$275 between 1984 and 2005. In contrast, real per capita GDP in the WAEMU and SSA countries stayed roughly constant on average—although at a higher level of around US$350 and US$540 for WAEMU and SSA countries, respectively. Except for a short-lived spike following the devaluation, average inflation remained below 3 percent since 1995.

Figure 1. Real Per-Capita GDP in 2000 U.S. Dollars (1984 =100), 1984–2005



Source: IMF African Department.

Figure 2. Real Per-Capita GDP in 2000 U.S. Dollars, 1984-2005



Source: IMF African Department.

13. **Burkina Faso's exceptionally high growth was broad-based.** Real GDP growth accelerated in 1994-98 to 6¾ percent on average before slowing to pre-devaluation period levels of 5½ percent. The country remains largely an agrarian economy, with the primary sector representing about 40 percent of GDP (Table 4). The services sector, at 43 percent of GDP, mainly relates to trade and transport which are also closely linked to developments in the agriculture sector. The growth in the secondary sector was driven by construction, both private and public—mostly infrastructure related to social spending (e.g., construction of schools) as well as roads.

External sector

14. **There has been a gradual appreciation of the real exchange rate since the 1994 devaluation but exchange rate based competitiveness gains are still largely preserved** (Figure 3). Despite a deterioration in terms of trade due to high oil prices and weak world cotton prices, the real effective exchange rate (REER) has recently appreciated, reflecting mainly the nominal appreciation of the euro against the U.S. dollar.[6] From the CFA franc zone perspective, however, the cumulative REER appreciation in Burkina Faso from January 1994 to March 2006 is lower than the average of the zone. Prudent wage policies, have allowed the REER to remain more than 30 percent below its pre-devaluation level, in March 2006.[7] Average export volume growth of 12 percent a year, over 1994–2005, was four times higher than during the pre-devaluation period. In addition, export volume growth remained strong, averaging 13 percent in the 2000–05 period, despite the nominal appreciation since 2000.

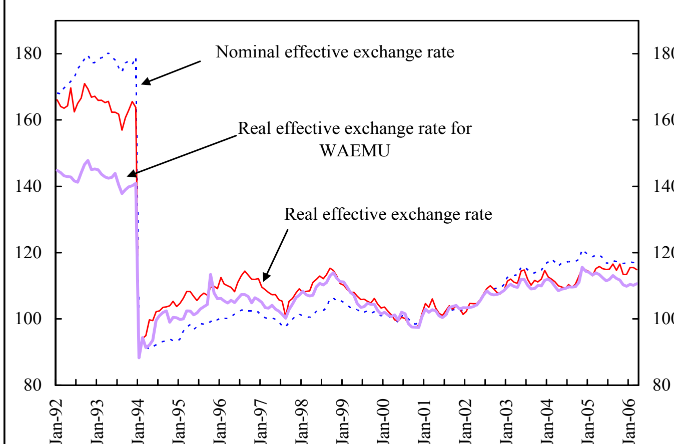
Table 4. Selected GDP Figures, 1985–2004

	1985–93	1994–98	1999–2004
	(Average real growth rates) 1/		
Primary sector	5.7	6.9	4.6
Secondary sector	5.6	3.5	6.6
Tertiary sector	5.4	6.2	5.2
	(In percent of GDP at factor costs)		
Primary sector	36.8	39.3	39.6
Secondary sector	21.0	17.9	17.6
Tertiary sector	42.2	42.7	42.9
Agriculture	24.1	23.0	22.1
Non-agriculture	75.9	77.0	77.9
	(In percent of GDP at market prices)		
Gross fixed capital formation	20.3	20.2	18.1
Public	7.2	7.9	7.9
Private	13.1	12.2	10.2

Source: IMF desk database.

1/ Sectoral growth rates refer to 1986-93.

Figure 3. Selected Nominal and Real Exchange Rates, Monthly, January 1992–March 2006
(2000 = 100)



Source: IMF (Information Notice System)

15. **Despite the boost of the devaluation, economic diversification has been elusive and trade openness remains low.** Cotton exports benefited by far the most from the devaluation and its share in total exports

[6] The deterioration in the terms of trade averaged 11.5 percent per year during 2002–05. Given the low degree of trade openness experienced by Burkina Faso, the sharp swings in the terms of trade had limited impact on aggregate output, and therefore on prices and wages.

[7] Furthermore, Burkina Faso's REER has depreciated three times more compared with the average of the main cotton producers over the last decade, showing that the substantial depreciation in the currencies of Asian and Latin American cotton-exporting countries following the 1998 financial crisis did not nibble away the effects of the 1994 devaluation.

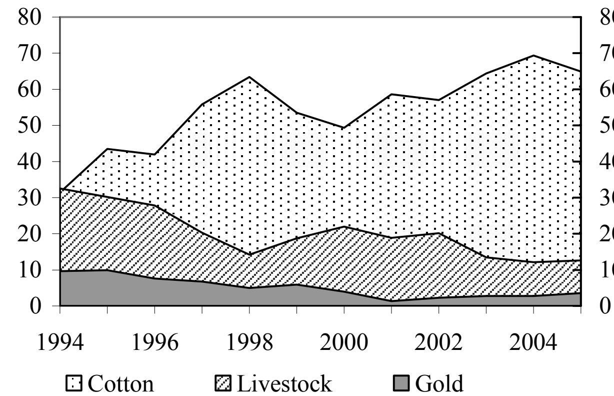
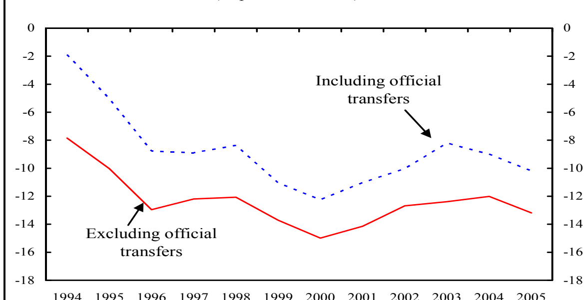


Figure 4. Decomposition of Main Exports, 1994–2005
(In percent of total exports of goods)

Source: IMF desk database.

doubled between 1994 and 2005 (Figure 4) rendering the export base more concentrated—as a result, Burkina Faso appears to have the strongest export concentration among the WAEMU countries at end-2005, making it highly vulnerable to terms-of-trade shocks.[8] The failure in achieving export diversification reflects structural bottlenecks such as high transportation costs in a landlocked country and high labor market restrictions.[9] The introduction of the Common External Tariff (CET) in 2000 has reduced the unweighted average tariff rate from about 19 percent in 1997 to 12 percent. However, the degree of trade openness remains modest, and the broad measure of trade openness, defined as the sum of exports and imports, increased from 34 percent of GDP in 1994 to 37.5 percent in 1998, and decreased subsequently to 30.7 percent of GDP in 2005, mostly reflecting falling cotton prices. Because most of the export growth was driven by cotton exports, which are exported to European and Asian markets, the relative share of exports to WAEMU countries decreased by 30 percent between 1994 and 2003.

Figure 5. Current Account Balance, 1994–2005
(In percent of GDP)



Source: IMF African Department.

16. **Burkina Faso's economy has had, over the last decade, a large current account deficit reflecting high aid flows.** The trade balance has been highly sensitive to imports related to foreign-financed investment required for the full implementation of the public investment program. Combined with weak performance in noncotton exports and declining current transfers,[10] this led to a widening of the

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[8] See Pierre van den Boogaerde and Charalambos Tsangarides, "Ten Years After the CFA Franc Devaluation: Progress Toward Regional Integration in the WAEMU," IMF Working Paper WP/05/145, July 1, 2005.

[9] Restrictions include mandating high minimum wages and employer welfare contributions, prohibiting night and weekend work, and providing severance payments equivalent to 18 months of wage.

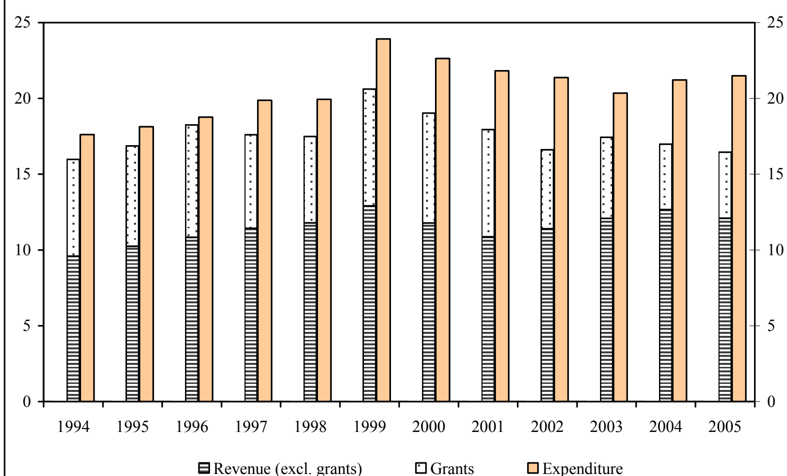
[10] There has been a progressive deterioration in private transfers (mostly remittances from Burkinabè working abroad), which was exacerbated as a consequence of difficulties in neighboring Côte d'Ivoire.

current account balance (excluding official transfers) from 7.9 percent of GDP in 1994 to 12.2 percent in 2005 (Figure 5).

Fiscal developments

17. **Large fiscal deficits were sustained mainly thanks to foreign grants.** The fiscal deficit, including grants, averaged 2 percent of GDP during 1994–1999, and widened to an average of about 4 percent of GDP after 1999, reflecting HIPC-related spending (Figure 6). Excluding grants, the deficit remained high at 9 percent of GDP on average in 1994-2005, partly reflecting an increase in social spending, and a loss of revenue stemming from the implementation of the WAEMU customs tariff reform. While grants allowed the deficits to be financed without unduly undermining debt sustainability, the latter remains vulnerable to changes in the availability of foreign financing.

Figure 6. Revenue, Grants, and Expenditure, 1994–2005
(In percent of GDP)



Source: IMF African Department.

18. **The revenue-to-GDP ratio remains very low by regional and international standards, despite revenue-enhancing reform efforts.** During 1999–2004, government revenue in Burkina amounted to only 12 percent of GDP, well below the average for the WAEMU and sub-Saharan countries.[11] Revenue collection was sustained until 1999, when total revenue reached a peak of 13 percent of GDP. However, the adoption of the CET during 1998-2000 entailed a cumulative revenue loss of more than 2 percent of GDP. VAT collections have been on the rise, but improvements in VAT productivity have been limited. The consumption-based "C-efficiency" ratio[12] rose from 23 percent in 1997 to only 30 percent in 2005, half of Senegal's and well below the average for mature stabilizers low-income countries (about 40 percent).[13] The weak revenue reflects tax exemptions and weaknesses in

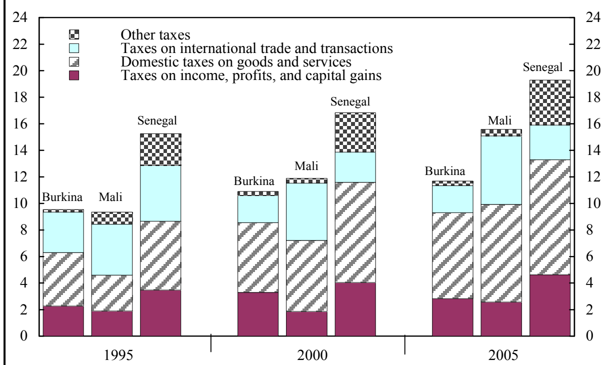
[11] The tax revenue-to-GDP ratio is far below the WAEMU's second tier convergence criterion of 17 percent.

[12] Defined as total VAT revenue as a ratio of private consumption, divided by the standard VAT rate.

tax administration (see below). Unlike Mali and Senegal, Burkina Faso did not manage to achieve significant strides in revenue collection on a sustained basis (Figure 7).

19. **Efforts were made to increase priority spending while containing total outlays.** Nonpriority current spending was cut to accommodate increases in domestically financed investment and poverty-reducing social expenditure. Budgetary resources allocated to poverty-reducing programs were raised in the aftermath of the qualification for HIPC assistance in 1997 (see below). At the same time, other current outlays, including the wage bill and military expenditure, were reduced considerably:

Figure 7. Comparative Tax Ratios in Burkina, Mali, and Senegal 1995–2005
(In percent of GDP)



Source: IMF African Department database.

- The total wage bill declined from about 6 percent of GDP in 1993 to 4¾ percent in 2005, despite the increased use of HIPC resources for the payment of workers in the health and education sectors. This was made possible thanks to the limited general wage increases, and to a civil service reform during 1994–99 (see below).

- Since 1993, the share of military spending in current expenditure declined by 10 percentage points to 12 percent in 2004.

- Price liberalization also resulted in the reduction of subsidies.

Financing and aid effectiveness

20. **Fiscal deficits were largely financed externally.**[14] Burkina Faso's net aid inflows included mainly grants and concessional loans (Table 5). External borrowing, which has been contracted on concessional terms, remained stable, while grants have been on a declining trend since 2002. The loss in grants has partly been compensated by increased debt relief freed up under the HIPC Initiative, which has averaged 1 percent of GDP. HIPC debt

Table 5. Decomposition and Management of Aid Flows
(In percent of GDP)

	Averages		
	1994–99	1999–2002	2003–05
Net aid flows	9.0	9.6	7.6
Gross aid flows	11.5	12.0	9.7
Of which:			
Grants	7.2	7.0	4.7
Loans	4.2	4.3	4.0
Debt relief	0.2	0.7	1.0
Nonaid current account balance 1/	-10.7	-13.1	-11.3
Fiscal deficit net of aid 2/	-7.6	-10.7	-8.3
Stock of reserves	16.9	9.3	10.3

Source: Fund staff estimates.

1/ Excluding interest on external public debt.
3/ Defined as total expenditure less domestic revenue.

[13] Monetary and Fiscal Policy Design Issues in Low-Income Countries.

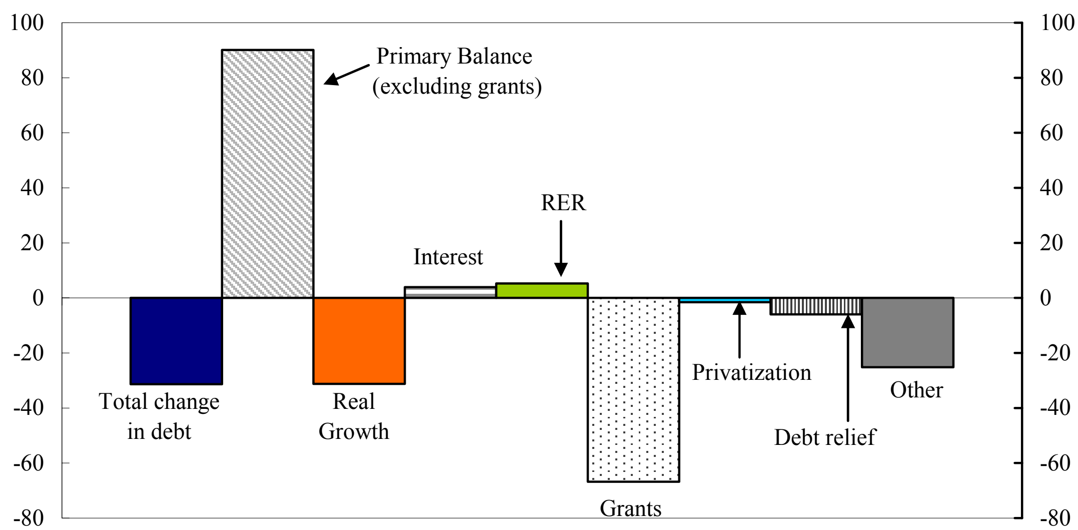
[14] Domestic financing was very limited under Fund-supported programs, to support the inflation objectives, and due to restrictions of the regional central bank on government bank financing.

relief did not thus translate into additional aid flows. Burkina Faso has achieved a moderate debt burden, mostly thanks to grants and debt relief (Box 2). The external debt-to-GDP ratio was nearly halved from 64 percent in 1994 to 33 percent in 2005.

Box 2. Debt Decomposition

Decomposing the factors that contributed to the decline in debt shows that the largest contributor to the decline in debt has been grants, accounting for 66 percentage points of GDP to the decline (see Figure). This was more than offset by the primary balance contribution, which has increased by 91 percentage points of GDP. Real growth was also a strong factor in reducing debt, accounting for 30 percentage points. The large residual (other) mainly reflects coverage issues as this includes publicly-guaranteed—off-budget debt. These results show that while prospect for external viability has improved, over the 1994-2005 period, this was mostly on account of the authorities' ability to mobilize grants. While this has allowed to increase priority spending without undermining debt sustainability, it also points to vulnerabilities, and therefore the need to keep debt under scrutiny.

Contributions to the Change in Public Debt Stock 1994–2005
(In percent of GDP)



Source: IMF country reports, and staff estimates and calculations.

21. **As net aid flows remained broadly stable, the country did not have to deal with the macroeconomic consequences of exceptional aid surge.** The synchronization of the trends in the nonaid current account balances and fiscal deficits net of aid indicates that aid was both spent and absorbed.[15]

[15] Aid is "spent" when it increases the deficit net of aid, and it is "absorbed" when net imports rise.

Fiscal structural reforms

22. **Burkina Faso followed a two-pronged approach aimed at supporting fiscal consolidation through structural measures on the revenue (Box 3) and expenditure sides.**[16]

- On the tax policy side, the objectives were to expand the tax base, through improved taxation of the informal sector and reduced exemptions, and to compensate customs revenue shortfall through increased indirect taxation, and the reform of petroleum product pricing—successfully introducing an automatic adjustment formula (Box 5).

- Regarding revenue administration, main achievements were the introduction of a taxpayer identification number and of a large taxpayer unit (DGE), as well as various computerization programs.

23. **Despite some progress, the poor revenue performance reflects widespread exemptions and the reluctance of the authorities to fully implement the necessary reforms.**

- Exemptions are still pervasive, hampering any marked increase in revenue collection. The VAT base excludes a large number of consumption goods, as well as the agricultural sector and the mining sector. There are also large exemptions granted by the investment code. Moreover, there have been instances of reform backtrack, such as the reintroduction of VAT exemptions on certain food items in 2003, and the contraction of the base for the income tax on wages and salaries (IUTS) in 2002.

- There were significant delays in the implementation of tax and customs administrative measures, notably in the establishment of the DGE (which became operational only in mid-2005), and the computerization of tax and customs administrations. Moreover, some of these reform measures were not fully implemented.[17] The monitoring and auditing of tax payers has improved in 2005, but they are still not up to speed, nor is collection enforcement.

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[16] The Fund supported the government reforms mainly through extensive technical assistance in tax policy and tax and customs administration (Box 4).

[17] For example, computerization does not cover all tax and customs activities; ASYCUDA ++ is used essentially for statistical recording purposes; the database of the pre-shipment inspection company is not fully used for valuation at customs; and smuggling is persistent at customs.

Box 3. Main Revenue Reforms

Key tax policy reforms included mainly:

- The unification of VAT rates at 15 percent in 1994, subsequently raised to 18 percent in 1998;
- the introduction of a single excise tax on petroleum products in 1994 (TUPP, changed into TPP in 2001);
- the implementation of a single system of taxation of the informal sector and of small- and medium-size enterprises since 1994;
- the elimination of exemptions of VAT on cement in 1994 and of the TUPP on petroleum products related to foreign-financed public investment projects in 1996;
- the expansion of the base for the single tax on wage and salaries (IUTS) in 1995;
- the rationalization of excise tax rates on tobacco and nonalcoholic beverages in 1996;
- a tightening of benefits under the investment code since 1999;
- the reduction in the corporate income tax (CIT) rate from 45 in 1996 to 40 percent in 1997, and 35 percent in 2000;
- a tightening of benefits under the investment code since 1999;
- the introduction of withholding taxes on rental property, wholesales and at customs to bring the informal sector in the tax net since 2000;
- a reform of the presumptive taxation for VAT and the income tax was carried out in 2002; and
- the progressive reduction in the maximum WAEMU common external tariff from 37 percent in 1998 to 25 percent in 2000.

Revenue administration reforms included mainly:

- The computerization of tax assessments and collections since 1999;
- the extension of the tax identification number (TIN) to all tax payers since 2002 (strengthened in 2005);
- the establishment of a large taxpayer unit (DGE) in Ouagadougou in 2004;
- improved follow-up of tax payers,
- the application of VAT to all public contracts and the tightening of procedures for tax payments under foreign-financed projects since 1999;
- a better valuation of imports at customs, including the elimination of most tariff lines subject to administratively set customs values, and a reduction of payment delays since 1997; and
- the computerization of customs, with the progressive establishment of ASYCUDA ++ during 2004-05.

Box 4. The Role of Fiscal Technical Assistance

Extensive FAD TA was provided to accompany the authorities' fiscal adjustment effort. It encompassed a wide range of activities, in line with the program objectives of raising government revenue, strengthening budgetary management, and allocating resources to poverty reduction.

During 1993-95, FAD TA focused mainly on the implementation of the tax reforms introduced in 1993, essentially the administration of the VAT. A long-term advisor in tax policy and administration was in the field.

During 1997-99, FAD TA helped in assessing the fiscal impact of the reform of the WAEMU common external tariff (CET) and in identifying and implementing compensating measures. The latter included the strengthening of the tax and customs administration and the extension of the tax base, through computerizing tax and customs activities; controlling tax exemptions on investments and foreign-financed investment projects; and the introduction of withholding taxes. FAD also organized follow-up revenue administration missions in 2001, 2003, and 2006, and several short-term expert visits in Ouagadougou through the regional technical assistance center (AFRITAC-West) since 2004, to review the status implementation of previous FAD recommendations in the areas of tax and customs administration. In particular, FAD helped in setting up the large tax payers unit (DGE) and the medium taxpayers units, strengthening tax controls, training in tax audit, reforming the corporate registry, improving customs controls and valuation, and computerizing customs (ASYCUDA).

Fund assistance in the area of public expenditure management was limited to fielding a long-term advisor in budget planning and control in 1994. A fiscal ROSC took place in 2001. Recent FAD TA also focused on improving public financial management and the tracking of the use of HIPC resources. More recently, assistance through AFRITAC consisted of short-term missions to follow-up on the recommendations of the 2001 missions for the fiscal ROSC and the assessment of the capacity to track poverty-reducing expenditures.

24. **A comprehensive civil service reform was carried out since 1994 in two phases.** The first phase of the reform was more "quantitative" (focusing on a civil service census, the removal of irregular workers from the payroll, and limiting recruitments to social sectors). The reform also identified retrenchment programs, in a context of liberalization and privatization programs. The second phase of civil service reform was more "qualitative" with a move towards a performance-based compensation system, a reform of the salary scale, and a strengthening of the contractual staff stream. The reform also aimed at a decentralization of recruitment decisions for social sectors. The second phase of the reform was prepared in 1996, but faced stiff political opposition and its implementation started only in 1999.[18] The civil service reform has been partially successful. The wage bill has been contained, and the foundations for the reform are in place; but some aspects have yet to be fully implemented.[19]

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[18] The introduction in January 1999 of the new wage scale, which was accompanied by an update of the employees' individual administrative status (arrears payments), resulted in an unexpected increase in the average salary of 10 percent in 1999. Delays in the introduction of the new computerized payroll management procedure also led to retroactive wage adjustments in 2000–01.

[19] For example, the decentralization of hiring decisions in the education sector needs to be effective.

Box 5. Petroleum Product Pricing

Since 2001, domestic fuel prices reflect market prices through an automatic price adjustment mechanism. Faced with high oil prices in 2000 and increasing cost of fuel subsidies, Burkina Faso decided to abandon the 1995 price setting system under which fuel prices had not been adjusted frequently enough and fuel subsidies were not well targeted, as most of the subsidies went to higher-income households. In February 2001, a monthly automatic pricing mechanism for petroleum products was established to adjust, in a transparent manner, domestic retail prices in line with international prices. To mitigate the adverse effects on poor and vulnerable households, fuel subsidies were targeted to a limited number of products for social reasons, and shown in the budget as an expenditure item. Fuel subsidies were limited to fuel deliveries for electricity generation to promote investments (recorded in the budget under transfers) as well as butane gas and cooking oil, for social and environment protection reasons (recorded under social safety net). The subsidy rate per product is clearly indicated in the monthly price structure for petroleum products set by the instruction of the minister of commerce. At the same time, the taxation of petroleum products was simplified, including: (i) the replacement of the import duty (based on notional values) by the common external tariff (CET) based on transaction values, in line with the WAEMU guidelines; (ii) the setting of a specific tax on petroleum products (TPP); and (iii) application of the standard VAT rate. These taxes are shown in the price structure, with TPP rates varying in favor of “social” products.

Burkina Faso played a pioneer role within the WAEMU in introducing an automatic mechanism for fuel price adjustment. The longevity and success of the mechanism is a clear indication of the authorities’ commitment to the reform. This mechanism, which has insulated the fuel price determination from political interference, was made possible by:

- The authorities’ commitment to the mechanism (no interruption or suspension) as defined by the Ministerial Decree of May 10, 2001;
- the authorities’ determination to allocate efficiently resources in face of competing demands for limited resources (there were clear efforts to reduce nonpriority spending and to improve budget management);
- the authorities’ policy to reorient resources to poverty reduction (the reform was introduced at the time when poverty-reducing social spending was on the rise);
- the authorities’ awareness of the need to mitigate the negative (direct and indirect) impact of fuel price adjustments on poor households, by targeting and budgeting in a transparent manner fuel subsidies for a limited number of petroleum products;
- the PRSP consultation process provided an opportune forum to explain the rationale for government policies; and
- the political support for the reform. Although subsidies to fuel deliveries for electricity generation benefited mainly better-off households, they helped garner political support for the reform.

The government has adhered to the monthly adjustment in all but one month (October 2004) when it was “temporarily suspended in order to take stock of the potential impact of what would have been an unusually sharp increase in prices.”

Going forward, the current unprecedented price spike poses two challenges. First, there is the standard issue of high prices at the pump, and how far these can go before creating domestic problems. Second, the potentially open-ended subsidy to SONABEL (the electricity producer), which receives oil at a fixed price, needs to be contained. As world prices continue to rise, the gap between the world price and the delivery price widens, while the current program has capped this subsidy at CFAF 18 billion.

25. **Burkina Faso made important strides in the area of public financial management.** The early introduction of economic and functional budget classification and of an integrated financial and management information system (IFMIS), as well as a medium-term expenditure framework (MTEF) facilitated the follow up, monitoring, and assessment of performance of actions in sectoral policies. A program budgeting system was introduced in 1999 for a number of ministries. This system, together with the regular conduct of public expenditure reviews (PER), allowed a better focus in the allocation and efficiency of budgetary resources through regular reassessment of government expenditure priorities. Joint IMF/World Bank Country Assessment and Action Plan for HIPCs (AAP) missions in 2001 and 2004 found that Burkina Faso's tracking capacity was generally advanced in comparison with other countries in the sub-region.[20] Recommendations for upgrading the tracking system were implemented starting from 2002, in the context of the budget management action improvement plan (PRGB). Starting from the early 2000s, however, there has been a tendency to under-execute committed expenditure, thus creating a backlog of expenditure committed but awaiting payment orders (*dépenses engagées non-mandatées* (DENMs)). The persistence of DENMs reflects weaknesses both in cash management and in absorption capacity (see below).

26. **Governance has improved but a strategy to fight corruption still needs to be fully defined.** The establishment of the Auditor General Office (*Cour des Comptes*) and the High Authority of Coordination of the Fight against Corruption in 2002 were important steps to improve governance. The High Authority assists the government in preventing and detecting corruption. It has prepared a national action plan to fight corruption, and its annual reports identified several cases of alleged illegal practices that led to the initiation of judicial actions. The national plan needs to be adopted and implemented and the Auditor General's function needs to be reinforced, including by some reforms of the legislation.

Social policies

27. **Domestically financed investment and poverty-reducing social expenditure increased considerably over the period covered by the program.** Social spending increased from 2 percent of GDP in 1994 to almost 6 percent in 2005, mirroring in part an increase in domestically financed investment from less than 1 percent of GDP in 1993-94 to 4½ percent in 2005 (Table 6). These investments were oriented mostly to the development of infrastructure, including the construction of schools, health centers and feeder roads in rural areas, where most poor live.

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[20] Based on the most recent AAP report, Burkina Faso had met 9 out of the 16 expenditure management benchmarks in 2004, against an average of 7 for HIPC post-completion point countries.

Table 6. Poverty-Reducing Social Expenditure, 1994–2005

(In percent of GDP)

	1994	1999	2000	2001	2002	2003	2004	2005
Total poverty-reducing social expenditure	1,9	3,8	3,8	3,8	4,8	4,7	5,3	5,5
Current expenditure	...	3,2	3,3	3,1	3,4	3,4	3,5	3,2
Capital expenditure	...	0,6	0,5	0,7	1,4	1,3	1,9	2,2
Health	0,9	1,3	1,2	1,3	1,7	1,5	1,8	1,8
Current expenditure	...	1,1	1,1	1,1	1,4	1,2	1,2	1,3
Capital expenditure	...	0,2	0,1	0,2	0,3	0,3	0,6	0,5
Education	1,0	1,6	1,6	1,7	1,9	1,9	2,1	1,8
Current expenditure	...	1,4	1,5	1,4	1,3	1,5	1,6	1,4
Capital expenditure	...	0,2	0,1	0,3	0,5	0,4	0,5	0,4
Rural roads	...	0,0	0,0	0,1	0,1	0,1	0,1	0,7
Current expenditure	...	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Capital expenditure	...	0,0	0,0	0,1	0,1	0,1	0,1	0,7
Women's welfare and other poverty-reducing social expenditure	...	0,9	0,9	0,8	1,1	1,1	1,3	1,2
Current expenditure	...	0,7	0,7	0,5	0,6	0,7	0,7	0,6
Capital expenditure	...	0,2	0,2	0,2	0,5	0,5	0,7	0,7
Memorandum item:								
Domestically financed investment	0,8	3,6	2,9	3,0	3,8	3,6	5,4	4,4
Foreign-financed investment	5,3	10,1	9,7	8,4	6,3	5,4	5,5	5,4

Sources: Burkinabe authorities; and staff estimates and projections.

28. **Sustained high growth contributed to reducing poverty markedly.** According to a 2005 World Bank report, the poverty rate declined by about 8 percentage points between 1998 and 2003, but remains high at about 46 percent of the population. The decline in poverty appears to have resulted from sustained strong growth in agricultural output (cereal and cotton production). Growth has been pro-poor since consumption per capita increased both for the poor and the rich. Poverty in Burkina Faso also continues to be concentrated in rural areas and among women. The 2003 household survey points to the fact that inequality increased in rural areas and declined slightly in urban areas (due to more informal activities). The World Bank, however, considers that the trade-off between growth and inequality is insignificant in Burkina Faso.

29. **Most of Burkina Faso's social indicators remain low by regional and international standards, and reaching the MDGs by 2015 constitutes a big challenge.** The most recent data show that improvements in health indicators since 1990 have been slow (Appendix Table 3). While the incidence of tuberculosis and HIV prevalence remains below the average for WAEMU and SSA countries, maternal mortality rate remains high, and the incidence of tuberculosis has been on the rise.[21] In the education sector, although the net primary enrollment ratio has improved, it remains very low by regional standards, and far below the universal education MDG goal for 2015. There are

[21] The incidence of tuberculosis is on the rise reflecting the fact that diagnosis and treatment centers have increased, thus allowing better monitoring.

ongoing policies to target the 20 provinces with lowest schooling, providing them with significant subsidies to lower education costs. The MDG on access to potable water seems on track.

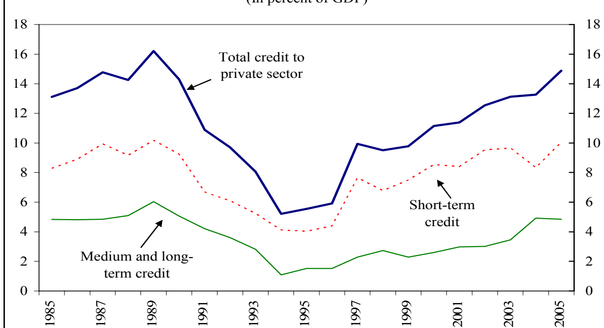
30. **One reason for the slow progress in social indicators is that access to social services continues to be skewed in favor of high-income, educated, urban households.** In 2005, the World Bank estimated that the total education sector subsidy is unquestionably pro-rich.[22] Moreover, even though achieving universal primary education remains one of the main objectives of the government, per-student government spending is considerably higher in the secondary and higher education than in primary education.

Monetary and financial sector reforms

31. **The financial and banking sectors reforms aimed at addressing the financial difficulties of financial institutions and improving access to credit.**[23]

32. **A protracted banking restructuring process succeeded in gradually restoring the health of the banking sector by the second half of the 1990s.** Banking sector development had been stunted by severe government interference, weak risk management capabilities that resulted in a build-up of nonperforming loans (particularly to public companies), and difficult loan recovery. The restructuring strategy focused on reducing government participation in the sector, the recapitalization, consolidation or closure of troubled banks (notably the National Development Bank), the creation of a loan recovery bureau, and freeing up the funds borrowed by the treasury from the postal bank (CNE/CCP). Since 1998 a number of new private banks and financial institutions have opened for business.

Figure 8. Credit to Private Sector by Maturity, 1985–2005
(In percent of GDP)



Source: IMF staff.

33. **Credit to the private sector has grown steadily following the devaluation and the efforts to restore banking sector health, but financial intermediation remains low.** Total credit as a percentage of GDP has nearly tripled to about 15 percent by end-2005, a major improvement from the lows reached in 1994–95 (Figure 8). The bulk of commercial bank lending consists of short term loans, notably cyclical cotton crop credit,

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[22] Burkina Faso, Reducing Poverty Through Sustained Equitable Growth, Poverty Assessment, World Bank, Report No. 29743-BUR, June 7, 2005.

[23] Financial sector developments featured less prominently in programs with the notable exception of measures related to banking sector restructuring. This is due to the mainly regional dimension of these areas, and to a lesser degree also due to limited Fund expertise in areas such as tenure rights and microfinance, which is more within the realm of the World Bank.

and the share of short-term credit has hovered around 70 percent of total credit. The government also believes that expanding the microfinance sector is crucial in the fight against poverty, and a national strategy for microfinance was adopted in 2005.

34. **Despite significant progress, the financial sector is still underdeveloped.** Bankers' representatives have noted that access to credit, particularly to small- and medium-sized enterprises, is hampered because of difficulties in securing and realizing guarantees, insufficient sources of long-term funding, and the often poor quality of loan applications. Money market activity is very low, in part because banks typically have excess liquidity, and the treasury and bond markets are shallow.

Private sector involvement

35. **From 1991 onwards the government has pursued an ambitious agenda to increase private sector participation in the economy.** This included privatization, breaking government monopolies, liberalizing prices and reducing external trade restrictions. Early successes included the elimination of price controls on most locally produced goods, of profit margin regulations on most imported goods, and of most export and import monopolies (with the notable exceptions of imports of rice, sugar, wheat and petroleum products). There were key achievements in the area of privatization and in government devolvement from the cotton sector (Box 6). Some 47 public enterprises, which represented 80 percent of the government initial portfolio, were liquidated or sold.[24]

36. **The two areas where reforms were sluggish are the deregulation of utilities and the telecommunication sector.**

- *Progress in energy sector reform has been mixed*. The reform strategy agreed with the World Bank envisaged additional tariff increases and the elimination of the fuel subsidy over the medium term. In addition, the Fund has urged the authorities to work towards an automatic electricity tariff adjustment mechanism. The plans for privatization of or increased private sector involvement in the electricity company and the oil importing monopoly, embodied in the 2000 letter of development policy, have not yet been finalized.

- *Reforms in the telecommunication sector are coming to an end, but with long delays*. After stalling for a long period, privatization of the telecommunication company envisaged in 2003, is now expected to be completed by end-2006.

[24]The privatization process has been transparent, with proceeds recorded in the budget.

Box 6. The Cotton Sector—A Successful Reform

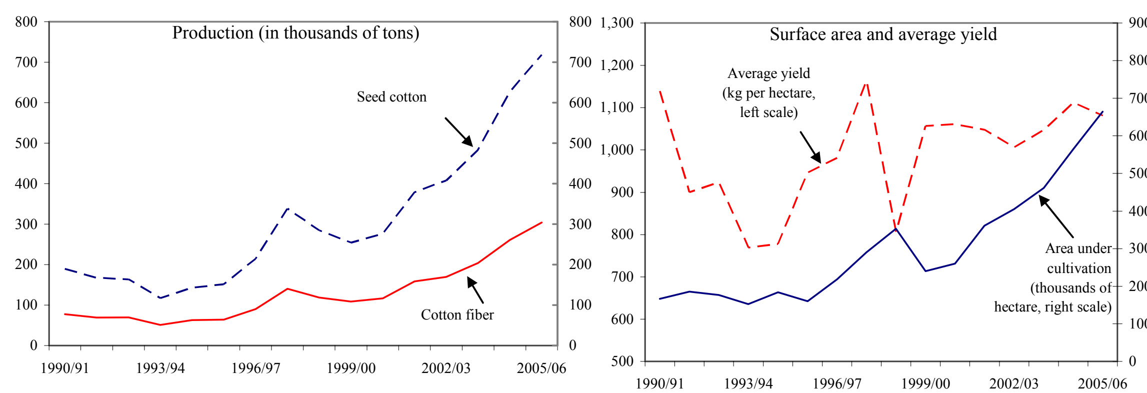
Cotton is the dominant cash crop in Burkina Faso, accounting for an estimated two thirds of export revenues in 2005. After declining steadily through the 1993/94 season to 117 thousand tons, production of seed cotton has since increased sixfold to reach more than 700 thousand tons in the 2005/06 season. There is evidence that income generated in the agricultural tradable sector has a growth multiplier effect of 1.88 in the nontradable sector, and cotton production has had a measurable positive impact on poverty incidence.

The strong performance of the cotton sector was achieved by boosting the area under cultivation and by improving yields. The initial decline in production was due to farmers' responses to decreasing producer prices and to payment delays by SOFITEX, the then public cotton ginning and marketing monopoly. The subsequent improvements can be attributed to a number of factors, including the devaluation in 1994 which improved the competitiveness of SOFITEX and allowed for an increase in the producer price, as well as timely payments, increased use of fertilizers and pesticides, the extension of credit, and the increasing professionalization of cotton producers.

The government recognized the role of appropriate incentives and pursued a strategy of opening up the sector to private sector participation and involving all the stakeholders in the decision making process. In early-1999, 30 percent of the capital of SOFITEX was transferred to producers' associations, leaving the government as a minority shareholder, and an inter-professional agreement was signed. This agreement included rules for setting minimum producer prices and profit sharing, the operation of a support fund, and the creation of a sectoral management committee. The monopoly of SOFITEX was ended in September 2004 with the sale of concessions and assets concessions in two cotton regions to private operators, and a new inter-professional agreement was signed to reflect the new sector structure.

The Fund has supported the government's commitment to liberalize the cotton sector and allow the various private stakeholders find their own solutions to problems, even in the wake of the recent drop of the world cotton prices and resulting losses of the 2004/05 campaign. The Fund has recognized the importance of the cotton sector for growth and poverty reduction, but has cautioned about concentration risk for the banking sector of lending to finance the cotton campaign. Furthermore, risk sharing among cotton sector stakeholders could be improved, notably through increased flexibility in the arrangement for the floor price that is paid to producers, which had been fixed at CFAF 175 until the 2007/08 campaign.

Cotton Production, 1990/91–2005/06



Source: Burkinabè authorities.

37. **In spite of the various reforms, the investment and business climates remain unattractive.** As a result of the delays in fully liberalizing and privatizing the utility companies, factor costs remain high, thereby hampering long-term competitiveness.[25] Foreign direct investment has remained modest, partly because of the country's landlocked situation, high costs of production, and a lack of natural resources to exploit. While the authorities and the staff concurred that sustained higher growth can only be achieved through greater private sector involvement, Burkina Faso still ranks low in the quality of its business climate. Based on evidence such as the 2005 Doing Business survey, Burkina Faso needs to reduce the administrative burden to open or close a business, ease hiring and firing restrictions, and improve contract enforcement. Several indicators are worse than the WAEMU and/or SSA average. The authorities are working closely with the World Bank in these areas and have taken actions such as reducing the number of formalities to open a business, establishing a one-stop window for registering a business, and reconsidering the labor code.

III. Program Design and Implementation Lessons

A. Program Implementation

38. **Compliance towards the quantitative performance criteria was exemplary**.[26] The compliance rate was 90 percent over the four program periods (Table 7).[27] The performance criteria with lowest compliance was net credit to government/net domestic financing. Compliance with indicative targets was weaker (64 percent), mainly due to difficulties in meeting revenue floors and expenditure-related indicators (notably wages and current spending). Large revisions to the national accounts could partly explain the deviations between projections and outturn (see below, and Box 7 on program projections).

[25] "Burkina Faso. Competitiveness and Economic Growth. Policies, Strategies, Actions," prepared jointly by the Ministry of Economy and Finance, and the World Bank, 2001. Also see, "Doing Business in 2006: Creating Jobs," published by the World Bank and the International Finance Corporation.

[26] Since the devaluation, all reviews have been completed, albeit sometimes with delay.

[27] There has been one case of noncompliant drawing following the first review under the second three-year PRGF of March 19, 2004. The misreporting related to two nonconcessional loans that had been contracted on October 24, 2003 and on March 2, 2004, respectively. Two waivers were granted.

Box 7. Program Targets and Outcome

Projections for key macroeconomic objectives did not show an overall systematic upward or downward bias. While the current account deficit (including official transfers) and the fiscal deficit (including grants) were often programmed higher than the actual realizations (both 8 out of 11 times), inflation and real GDP projections were balanced. Overall, the projections did not show a systematic bias. This assessment is supported by computing the deviation between the outcome as reported in staff reports and the revised targets. The mean error did not prove to be statistically significant. The same holds true for the mean of the deviation between the revised targets and the original program estimates.

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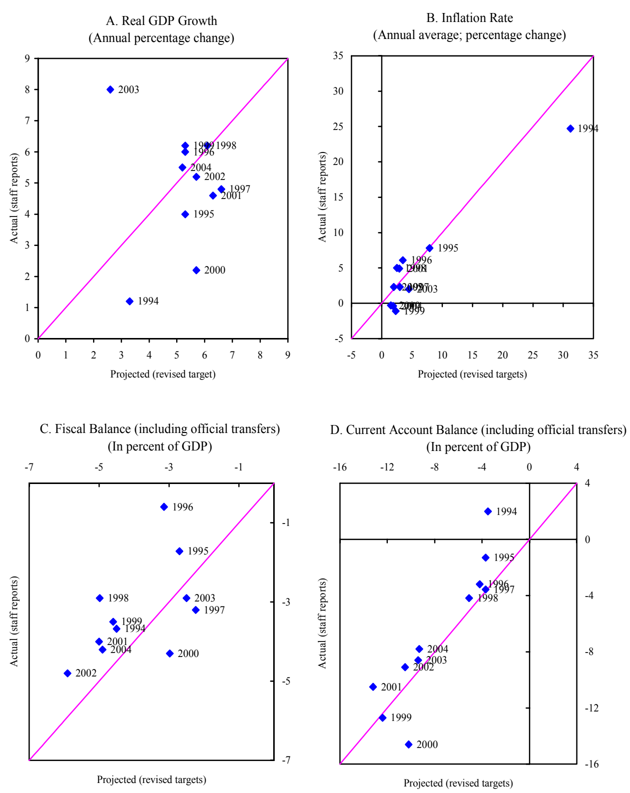
Burkina Faso: Original Program Targets, Revised Projections, and Outcome

	Deviation between revised targets and original program estimates (1994-2006)			Deviation between the actual outcome as reported in individual staff reports and revised targets (1994-2004)		
	Mean error	Standard deviation	t-value	Mean error	Standard deviation	t-value
Real GDP growth, percentage change	0.2	0.9	0.2	-0.3	2.3	-0.1
Inflation rate, percentage change	2.5	8.1	0.3	-0.9	2.8	-0.3
Current account balance, incl. official transfers (in percent of GDP)	-0.7	1.9	-0.4	1.1	2.4	0.4
Current account balance, excl. official transfers (in percent of GDP)	-1.4	2.1	-0.7	1.0	4.0	0.2
Overall fiscal balance, incl. grants (in percent of GDP)	-1.5	2.1	-0.7	0.7	1.2	0.6
Overall fiscal balance, excl. grants (in percent of GDP)	-2.5	3.2	-0.8	0.8	2.3	0.3
Revenue, excl. grants (in percent of GDP)	-0.7	1.9	-0.4	-0.6	1.8	-0.3
Expenditure and net lending (in percent of GDP)	1.8	2.4	0.8	-1.3	3.5	-0.4

Source: IMF staff reports and staff estimates.

Selected Macroeconomic Indicators, Projected and Actual, 1994–2004



Source: IMF Staff reports 1994–2004.

Table 7. Quantitative Performance Criteria and Indicators under the ESAF and PRGF Arrangements, 1994–2005 1/

	ESAF I		ESAF II			PRGF I					PRGF II					Percent
	Jun-94	Sep-95	Sep-96	Dec-97	Dec-98	Dec-99	Dec-00	Jun-01	Dec-01	Jun-02	Sep-03	Mar-04	Sep-04	Mar-05	Sep-05	Met
Performance Criteria																
Ceiling on the cumulative change in net domestic assets of the Central Bank 2/	M	M	M	...	...	...	...	...	...	...	...	...	...	...	...	100
Ceiling on the cumulative change in net bank credit to the government	W	M	M	W	M	W	W	M	M	...	...	...	...	...	...	55.6
Ceiling on cumulative change in net domestic financing to government 3/	...	...	...	...	...	...	...	...	...	W	M	M	M	W	M	67
Ceiling on new external public or publicly-guaranteed borrowing on non-concessional terms: 4/																
Medium/long-term (1 - 15 years maturity)	M	M	M	M	M	M	M	M	M	M	M	W	M	M	M	93
Short-term (<1 years maturity)	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	100
Minimum cumulative net reduction in external arrears on public debt through cash payments.	W	M	...	...	...	...	...	...	...	...	...	...	...	...	...	50
No accumulation of external payments arrears 4/	...	...	...	...	M	M	M	M	M	M	M	M	M	M	M	100
Minimum cumulative net reduction in domestic payment arrears.	M	M	M	M	M	M	M	M	M	...	...	...	...	...	...	100
No accumulation of domestic payments arrears 4/	...	...	...	...	...	...	...	...	...	M	M	M	M	M	M	100
Indicators																
Government revenue 5/	NM	M	M	NM	M	M	M	NM	NM	M	M	M	M	NM	M	67
Revenue from petroleum products	M	NM	M	...	...	...	...	...	...	...	...	...	...	...	...	66.7
Cumulative expenditure on government wages and salaries	M	M	NM	M	NM	NM	NM	M	M	M	M	M	NM	NM	NM	53.3
Primary expenditure and net lending, excluding foreign-financed investment	...	...	...	NM	M	NM	M	...	...	...	...	...	...	...	...	50
Current expenditure	...	...	...	...	...	...	NM	M	M	NM	M	M	M	M	NM	66.7
Change in the stock of expenditure committed but without payment orders 6/	...	...	...	...	...	...	...	...	...	...	M	M	NM	M	M	80
Basic balance 7/	...	...	...	...	...	...	...	...	...	...	M	M	M	M	NM	80
Ceiling on the cumulative change in net domestic assets of the banking system	...	M	M	NM	...	...	...	...	...	...	...	...	...	...	...	66.7
Memo items:																
Total number of PCs (and percent met)	6 (66.7)	6 (100)	5 (100)	4 (75)	5 (100)	5 (80)	5 (80)	5 (100)	5 (100)	5 (80)	5 (100)	5 (80)	5 (100)	5 (80)	5 (100)	76 (89.5)
Total number of indicators (and percent met)	3 (66.7)	4 (75)	4 (75)	4 (25)	3 (66.7)	3 (33.3)	4 (50)	3 (66.7)	3 (66.7)	3 (66.7)	5 (100)	5 (100)	5 (60)	5 (60)	5 (40)	59 (64.4)

Source: IMF Staff reports and MONA (PDR).

1/ M = Met, NM = Not Met, W = Waived.
2/ For Jun-94, this condition applied to the whole banking system.
3/ For PRGF II, the nonbank financing part of this criterion includes only the unredeemed stock of government bills and bonds held outside national commercial banks. For PRGF I (Jun-02), nonbank financing includes other financing instruments as well, such as the proceeds from asset sales by the government.
4/ Continuous criterion.
5/ For PRGF I, current revenue only i.e. excludes revenue from treasury checks.
6/ Including HIPC Initiative expenditure.
7/ Revenue (excl grants) minus expenditure, excluding foreign-financed investment outlays and net lending. Including HIPC Initiative expenditure.

39. **The track record in the implementation of structural reforms was also relatively strong.** More than three-quarters of the measures were met on time, with the remainder split equally between “met with delay” and “not met” (including those waived) (Table 8).

Table 8. Structural Conditionality by Criteria and Completion Status, 1994–2006 1/

	Total						ESAF I					ESAF II				
	M	MD	NM	W	Pending	Total	M	MD	NM	W	Total	M	MD	NM	W	Total
Prior Action	23	0	0	0	0	23	14	0	0	0	14	1	0	0	0	1
Performance Criteria	29	1	0	6	3	39	5	0	0	0	5	9	0	0	1	10
Structural Benchmark	33	10	6	0	1	50	8	4	0	0	12	7	5	2	0	14
Total	85	11	6	6	4	112	27	4	0	0	31	17	5	2	1	25
In percent	75.9	9.8	5.4	5.4	3.6	100.0	87.1	12.9	0.0	0.0	100.0	68.0	20.0	8.0	4.0	100.0

	PRGF I					PRGF II					
	M	MD	NM	W	Total	M	MD	NM	W	Pending	Total
Prior Action	3	0	0	0	3	5	0	0	0	0	5
Performance Criteria	9	1	0	2	12	6	0	0	3	3	12
Structural Benchmark	4	2	0	1	7	14	0	2	0	1	17
Total	16	3	0	3	22	25	0	2	3	4	34
In percent	72.7	13.6	0.0	13.6	100.0	73.5	0.0	5.9	8.8	11.8	100.0

Source: IMF Staff reports and MONA database (PDR).

1/ M = Met, MD = Met with Delay, NM = Not Met, W = Waived.

B. Lessons from Policy and Program Design

Policy design

40. **Fund-supported programs have adequately backed the regionally set key economic policies, notably the devaluation of the CFA franc, thus achieving low inflation and strengthening competitiveness**. The use of the exchange rate as a nominal anchor and the implementation of Fund-supported programs helped to induce policy discipline, engender confidence in the currency, bring down inflation and boost economic growth. The monetary anchor, however, limited policy flexibility in terms of competitiveness and export growth, and therefore Fund-supported programs envisaged supporting structural policies. A number of efficiency gains were realized including liberalizing the cotton sector, privatizing key public companies, and, more recently, adopting a new legal and regulatory framework for the electricity sector.

41. **Bold reforms were accompanied by substantial social programs for vulnerable groups, thus helping achieve broad consensus.** Following the 1994 devaluation, the program included a series of measures to alleviate the negative effects of the devaluation to vulnerable groups. In addition, training was provided to the unemployed, and public work programs in road maintenance and construction were expanded with World Bank assistance. In the context of privatizations, social programs were established to retain workers, and when necessary, severance packages were

provided. A social safety net associated to butane gas and cooking oil was explicitly incorporated in the budget starting from 2001. A large share of the consumption by the poor is VAT-exempt.

42. **The anticipated growth in noncotton exports was perhaps not backed by enough supporting policies**. Early Fund-supported programs did not address fully existing constraints to the development of nontraditional activities, including weak human capital resources, and an inadequate regulatory framework. Rather, they focused on privatization, bank restructuring, and tackled private sector participation through the reduction in profit tax rates, and streamlining customs procedures. Bold structural reforms aimed at establishing a friendly environment for private sector development only started under the third three-year program, in coordination with the World Bank's CAS for 2001–05.[28]

43. **In addition, the programs may have underestimated the difficulties that Burkina Faso would face to diversify its economy.** While the strong performance of the cotton sector has been a welcome boost to the economy, further diversification would have reduced vulnerabilities. However, programs may have overlooked some fundamental problems related to the geographic situation of the country, being landlocked, with limited access to markets because of lack of adequate infrastructure and high (exogenous) transportation costs, and exposure to political instability in neighboring countries. In addition, widespread poverty and limited improvements in literacy and health indicators might have put some limits on the speed of a potential diversification.

44. **Although the design and sequencing of policies across the programs appear broadly adequate, greater attention could have been given to tax collection to compensate for the revenue losses arising from the introduction of the CET.** One could question whether trade liberalization, which was dictated by the regional integration policy agenda, should not have been accompanied by stricter conditionality on the tax policy side to offset revenue losses—in particular, a reduction in exemptions.

45. **Recent programs pointed out the limited absorption capacity of Burkina Faso which hinders the full absorption of freed resources and reduces benefits from reforms.** Weak absorptive capacity resulted from institutional constraints and poor infrastructure that hampered access to remote rural areas. In 2002, to ease institutional constraints following the experience with the limited absorption of resources freed by debt relief under the HIPC, the government launched a comprehensive decentralization program to strengthen the absorptive capacity.[29] The program

[28] The 2005 CAS Completion Report emphasizes the need for a more aggressive approach to economic diversification and administrative decentralization. These issues are being addressed under the PRSC-5, in line with CAS for 2006–09.

[29] In 2002, only 41 percent of available resources freed up under the HIPC Initiative received since 2000 were spent, on a cash basis, and 64 percent on a commitment basis.

aimed at improving the efficiency and targeting of social spending. While there was progress in the education sector, the health sector has been marred with implementation issues.

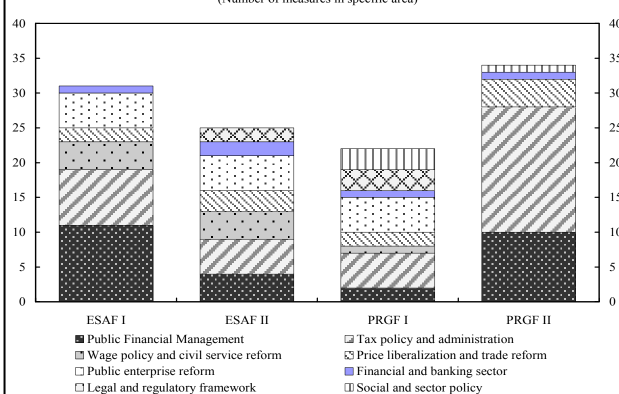
Program conditionality

46. **There appears to have been an abundance of fiscal quantitative indicators, especially as the programs moved on.** The number of indicative targets increased from about 3 in 1994 to 5 during 2003–05. Such profusion points in some cases to overlapping and redundant indicators. For example, PRGF II had indicative targets on the revenue floor, ceiling on wages and salaries, current spending, and the basic balance—in addition to the performance criterion on domestic financing. A more selective approach would have been more desirable.

47. **At the same time, given concerns regarding public debt sustainability, the absence of indicators to monitor total deficit financing is noticeable.** The switch of the performance criterion from net credit to government to net domestic financing in 2002 (with adjustors for external financing) could be seen as a way to keep public debt in check, but this could have been dealt with better by targeting the overall deficit including grants.[30]

48. **The number of structural conditions declined during the second and third arrangements, but increased substantially over the latest arrangement.**[31] The composition of measures, however, shifted somewhat, with fiscal structural measures (PFM, and especially the tax area) dominating PRGF II (Figure 9). This reflects (i) an increased effort to tackle the persistently high fiscal deficit level; and (ii) the Fund's switch towards "core" conditionality. Given the explicit objective of removing structural impediments to growth and promoting poverty reduction, structural conditionality continued to appear prominent even after the publication of the 2000 Interim Guidance Note and the 2002 Conditionality Guideline.

Figure 9. Evolution of Structural Conditionality Under Various IMF Programs, 1994–2005
(Number of measures in specific area)



Source: IMF staff reports.

[30] Fedelino, A. and D. Zacharova, "Reflections on Quantitative Fiscal Conditionality in African PRGF-Supported Programs", IMF Working Paper WP/06/118, May 1, 2006.

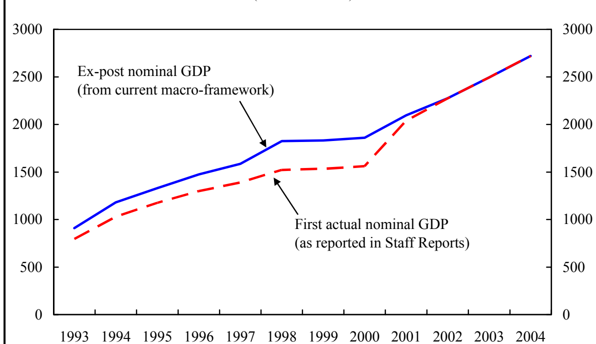
[31] In the 1999–2002 programs, the number of structural conditions was below the WAEMU average, while in the 2003–06 program, it was above.

C. Data Issues

49. **Program implementation was characterized by important gaps in the coverage and timeliness of the data.** National accounts are finalized with a few years lag, with actuals turning out to be quite different from the original estimates. For example, at present, national accounts have not been finalized after 1999, no measure of industrial production exists after 1999, and the availability of high-frequency measures of economic activity is limited. The consumer price index is available on a monthly frequency, but its coverage has been limited to Ouagadougou and the basket needs revision. Also, even though the authorities have been participating in the GDDS since 2001, metadata for statistical practices and plans for improvement have yet to be updated. Finally, the analysis of competitiveness could be enhanced by developing better indications, in particular those based on relative wages.

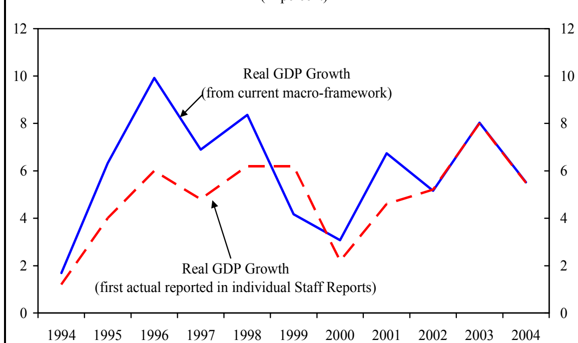
50. **National accounts revisions bear a significant impact on projections of policy variables such as revenue and expenditure.** Figures 10 and 11 show the difference between the "preliminary" actual and the final outturn for nominal GDP and real growth rates. From 1994 to 1999, nominal GDP and the growth rate were under-estimated by important margins in the preliminary data. Large revisions also affect the base year for projections, thus impeding smooth program projections.

Figure 10. Nominal GDP, 1993–2004
(In billions of CFA)



Source: IMF Staff Reports and current database.

Figure 11. Real GDP Growth, 1994–2004
(In percent)



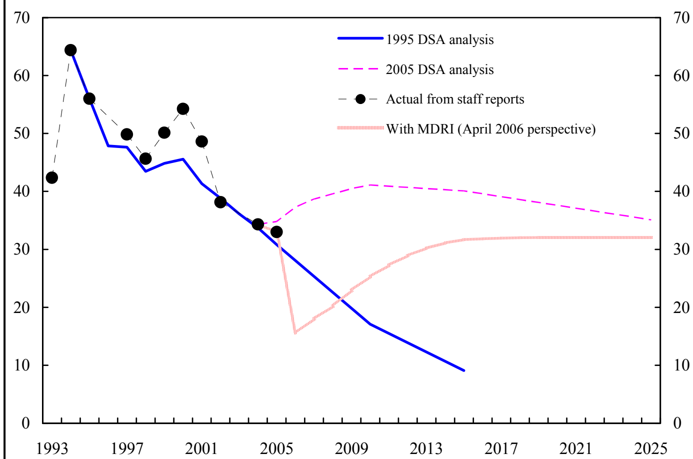
Source: IMF Staff Reports and current database.

51. **Projections for growth also pose challenges, given Burkina Faso's vulnerability to exogenous shocks, notably the weather.** Across the programs, growth was projected on the account of prospects in the diversification of the economy and development of noncotton exports. However, growth was sustained as the result of a surge in cotton production. Therefore, staff appears to have been, on average, pessimistic in projecting growth in cotton and overly optimistic in anticipating growth in noncotton sectors. Such forecasts, which are discussed with a unit in the ministry of economy, could be improved by expanding the scope, frequency and timeliness of data.

D. Issues in Debt and Financing Constraints

52. **The policy behind debt path projections under various Debt Sustainability Analyses (DSAs) has changed remarkably over the different programs**. The first DSA in 1995 was very ambitious, projecting a debt-to-GDP ratio of 10 percent for 2015 under the baseline scenario (Figure 12).[32] The following DSAs also projected a very ambitious decline in debt. However, the most recent debt projections forecast an increasing debt ratio (following the MDRI relief), recognizing that a more ambitious downward trajectory might have required an unnecessarily restrictive fiscal policy in light of pressing expenditure needs in priority sectors and in light of constraints in revenue collection. This also reflects the international community's shift during the period considered from a strong focus on debt reduction to recognizing the trade-off between reaching the MDGs and achieving low debt ratios. The debt-to-GDP ratio is projected to be cut in half to 16 percent of GDP by end-2006 under the MDRI, before reverting to its 2005 level in 2015.

Figure 12. External Debt, Actuals and Projections, 1993–2025
(In percent of GDP)



Source: IMF staff reports, and current staff projections.

1/ The debt stock is seldomly reported in staff reports and there is no reliable historic series available today.
2/ Nominal GDP from today's perspective is used to compute historic debt-to-GDP ratios so that revisions to GDP do not distort the analysis.

53. **Until recently, discussions on public debt sustainability and the appropriate debt path had not featured prominently in programs.** Given the high debt burden and the substantial development needs, a discussion around the right mix of expansionary fiscal policy and debt reduction would have provided useful insights.[33] Apart from the necessary external DSA required periodically, there is an absence of information and analysis on *public* debt, and primary balances do not appear in tables. While this could be explained by the low level of domestic debt, this should have not precluded a discussion of public debt and its sustainable path. Since 2004, however, staff reports emphasize the need for fiscal policy to strike a balance between debt sustainability and additional spending to achieve the MDGs.

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[32] Incidentally, the projection for 2005 arrived at in 1995 proved to be very accurate in CFA franc as well as GDP terms.

[33] Staff reports often neglected to report debt-to-GDP ratios. Others, like IMF Country Report No/02/3, January 8, 2002, did mention past debt-to-GDP ratios in accompanying tables, but did not project or discuss those in the text. So far, the authorities have not followed up on the request from Fund staff to regularly report on external debt stocks as required under the Technical Memorandum of Understanding.

E. Ownership and Relations with Other Donors

54. **In general, there was strong ownership of the Fund-supported programs.** Perhaps because Fund engagement has been relatively recent, the authorities were more motivated than in similar countries that had experienced program "fatigue" and weakened ownership. In addition, the relative stability of the government may have resulted in a consistent strategic view of reforms that avoided stop-and-go approaches experienced elsewhere. Also, Burkina Faso's tradition of consultation helped in setting reform priorities, notably in the context of the PRSP. The overall satisfactory rates of compliance can also be explained by the fact that most of the conditionality was the outcome of a broad process of negotiation.[34]

55. **One area where government commitment should have been stronger is in tax administration reform.** A number of the measures recommended by successive FAD technical assistance (TA) missions kept coming back due to lack of implementation. The latest TA report in tax administration indicates that a stronger commitment by the minister of finance and the heads of tax and customs administration would be needed to advance reforms in a credible way.

56. **There has been a strong interaction with civil society on the PRSPs, also improving over time.** From the start, the government HIV/AIDS initiatives appear to have been undertaken in close collaboration with donors and civil society. More recently there has been more active involvement of these groups through informal exchanges on all levels comprising the PRSP. However, to gain broader public support, the PRSP discussion should be linked more closely to the MTEF and the budget session in parliament. This should help to integrate expenditure foreseen in the PRSP with a macroeconomic strategy that takes into account debt sustainability.

57. **Cooperation with the World Bank has been close**. There has been a good division of labor, where the Bank has focused more on areas such as governance, decentralization, health and education, infrastructure, and recently, investment climate reform and labor code. The Fund and the Bank collaborate closely in monitoring developments in the cotton and energy sectors and both have supported the authorities' efforts to improve public sector management, statistical capacity and promotion of private sector activity through technical assistance and through program activity and lending.

58. **Burkina Faso's relations with its development partners have been fruitful.** The net flow of aid from donors has been relatively stable, pointing to a strong relationship of trust and appreciation for the strong macroeconomic performance. Donors have established a program pilot of joint conditionality in Burkina Faso since 1997. In 2002, six major donors strengthened their coordination through a joint budget support group aimed at improving the disbursement and predictability of budgetary assistance to Burkina Faso. The group was expanded in 2005 to include

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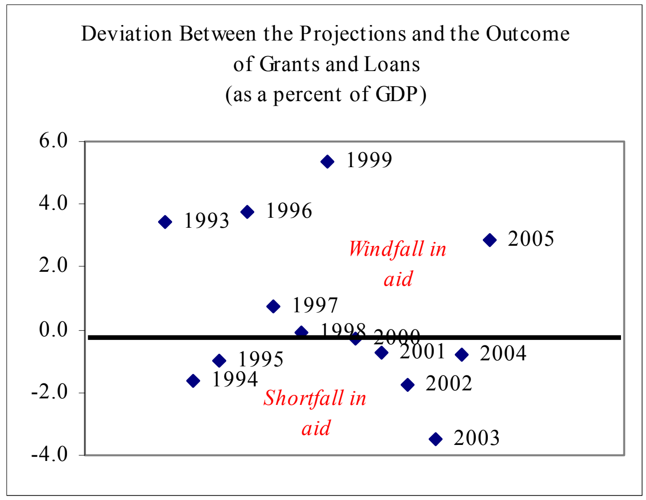
[34] The one misreporting instance was mainly due to weak technical capacity to assess loans concessionality.

the World Bank and the African Development Bank, and it meets frequently and regularly, keeping track of committed and disbursed aid. As a result, aid predictability improved somewhat in recent years (Box 8).

Box 8. Aid Predictability

Under the leadership of the European Union (EU), main donors agreed to pilot a program of joint conditionality in 1997 to improve program monitoring. Furthermore, Burkina Faso signed with its major donors a memorandum of understanding to set out the procedures and objectives of donors' budgetary assistance in 2002, whereby no additional conditionality will be required for the disbursement, except from the EU.



Thanks to all these efforts, there are signs of better aid predictability over time; deviations between projections and outcome of foreign loans and grants were reduced, on average, from 0.4 to 0.2 percent of GDP (equivalent to FCFA 3.3 billion) between 1994-96 and 1997-2005. If 2003 is excluded, the average deviation during 1997-2004 is close to zero. When the same analysis is carried on budget loans and grants only, the average deviation is even lower and declined from -1.1 percent of GDP during 1993-99 to close to zero during 2000-04.[1/]

[1/] Oya Celasun and Jan Walliser, Predictability of Budget Aid: Recent Experiences in: *Budget Support as More Effective Aid, Recent Experiences, and Emerging Lessons*, World Bank, 2006.

IV. Strategy for Future Fund Involvement

A. Main Priorities

59. **Although Burkina Faso made important strides to reach higher growth levels and reduce poverty, social indicators remain weak.** There are important policy challenges to sustain growth and to finance priority areas to reach the MDGs. The next phase of Burkina Faso's economic policies will be set in a post-MDRI context. Gains achieved on the debt sustainability front and the freeing of resources should be preserved, while striving to meet the MDGs. The main priorities would be to:

- **Increase the domestic revenue effort.** There should be stronger commitment from the authorities to improve revenue administration. After MDRI relief, there is a need to ensure that the country does not scale back its efforts to generate resources for poverty reduction to create more room for spending and reduce vulnerabilities. It is therefore urgent to accelerate the review under way of the investment and customs codes and to show more resolve in implementing TA recommendations such as the computerization of tax administration and the effective use of ASYCUDA at customs.

- **Strengthen institutions.** A stronger absorptive capacity should be developed along with progress in the PFM system. While embarking in administrative decentralization, resources should be made available at local levels, while care has to be taken in terms of increasing expenditure and weakening control systems.

- **Increase private sector participation.** Future programs should focus on collaboration with other donors to remove structural bottlenecks that hamper stronger private sector participation and export diversification. The next program should require the full liberalization of the utility sector in order to increase efficiency and ultimately lower the current high production costs.

60. **Future Fund-supported programs should focus more closely on the link between the annual fiscal stance and debt sustainability**. Instead of a top-down approach, resources needed to reach the MDGs have to be taken into account when designing the fiscal program, in the context of a sustainable MTEF and in line with the PRSP. Once this is assessed, programs need to focus on the available financing, the absorptive capacity, and appropriate PFM and debt management framework. Given that the debt ratio is projected to increase even after the MDRI relief, the debt dynamics will need to be closely monitored.

61. **The next program should also focus on improving data.** Specific areas for improvement of Burkina Faso's statistical system include the human, technical and financial resources at the National Institute of Statistics and Demography (INSD), the technical support to the National Statistics Coordination Council (CNCS), and data dissemination to the public at large.[35] Data on public debt should also be closely monitored, especially as debt management becomes an important policy tool. In the area of poverty indicators, the JSAs point out that the authorities need to establish comparable annual social statistics not only to ensure reliable poverty data, but also to secure prompt disbursements of donor support that is linked to specific outcomes.

62. **The WAEMU convergence criteria and policy harmonization did not feature prominently in the discussion.** Given that Burkina Faso is a member of the Union, and has to abide by its harmonized policy, it would be useful for future Fund-supported programs to integrate these policies into the discussion and, if relevant, into program design.[36] This would strengthen the

[35] See Burkina Faso: Report on the Observance of Standards and Codes—Data Module IMF Country Report No/04/87, March 24, 2004).

[36] For example, in the fiscal sector, the presentation of expenditures on a payments order basis, in line with WAEMU directives, would help address the problem of DENMs.

Fund's role in regional surveillance, while at the same time avoid for the authorities the need to juggle between several commitments that may not be consistent or well-sequenced. At the same time, Fund's regional surveillance would be a good forum to discuss the appropriate policies for union members.

B. How Can the Fund Be Involved?

63. **Given Burkina Faso's strong resolve and ownership for reform, and its compelling development needs, the Fund should continue to be engaged.** While macro-stability has been broadly achieved, the reform agenda remains unfinished. Some key areas for reform are not necessarily under the Fund's core mandate, and it will be important to involve the World Bank and other development partners. But Fund involvement will be necessary to catalyze donor financing, especially with the recent switch of donor financing from project to program support. In addition, sources of pressure are emerging that could weaken the fiscal stance: a possibly too generous investment code, pressure to increase indebtedness too fast, social groups demanding lower petroleum taxes, higher wages, all making the government reluctant to adjust energy prices. Continued Fund involvement would be seen as key to strengthen government's policies.

64. **There are two options for future Fund engagement available to the authorities:** a successor PRGF arrangement with low access or a Policy Support Instrument (PSI). Both would provide the Fund's seal of approval, enhance ownership, and support broader-based reform. A PSI could give a strong signal of satisfactory economic performance to the donors' community, thereby engaging them to provide higher levels of aid. However, given the possibility of mounting domestic pressures, some of the requirements under the PSIs such as a fixed review schedule may appear too cumbersome for Burkina Faso. A low access PRGF would perhaps provide stronger incentives for reforms, and the additional financial support could be useful. The authorities should weigh the costs and benefits of each option and choose what they view as more appropriate.

65. **There are some risks to future Fund engagement.** The relatively comfortable macroeconomic conditions may result in a relaxation of the reform effort. The authorities could start to suffer from "program fatigue." If domestic revenue does not pick up or if external assistance declines, the poverty reduction program could derail. Given that a number of the remaining reform challenges are outside the Fund's core mandate, strong coordination with other development partners (through the PRSP process) will continue to be essential.

Appendix Table 1. Burkina Faso: Performance of Key Indicators Under the ESAF/PRGF-Supported Programs, 1994–2006

	ESAF I		ESAF II			PRGF I				PRGF II			
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006 Proj.
Real GDP growth (annual percentage change)													
Program (original program) 1/	3.3	3.7	5.3	5.2	5.5	5.3	5.7	6.5	6.6	2.6	4.0	4.8	5.2
Annual program (revised targets) 2/	3.3	5.3	5.3	6.6	6.1	5.3	5.7	6.3	5.7	2.6	5.2	3.5	4.8
Actual (staff report) 3/	1.2	4.0	6.0	4.8	6.2	6.2	2.2	4.6	5.2	8.0	5.5	…	…
Actual (current macro-framework) 4/	1.7	6.3	9.9	6.9	8.4	4.2	3.1	6.7	5.2	8.0	4.6	7.1	5.6
Inflation rate (annual average; percentage change)													
Program (original program) 1/	2.4	2.3	3.5	3.0	3.0	2.3	1.5	2.0	2.0	4.5	2.8	2.6	2.4
Annual program (revised targets) 2/	31.2	7.9	3.5	3.0	2.5	2.3	1.5	2.9	2.0	4.5	1.9	1.8	2.0
Actual (staff report) 3/	24.7	7.8	6.1	2.3	5.0	-1.1	-0.3	4.9	2.3	2.0	-0.4	…	…
Actual (current macro-framework) 4/	24.7	7.8	6.1	2.4	5.0	-1.1	-0.3	4.7	2.3	2.0	-0.4	6.4	3.2
Broad money growth (percentage change)													
Program (original program) 1/	5.2	6.0	8.2	7.8	8.1	3.9	6.1	...	...	9.2	7.1	7.0	7.7
Annual program (revised targets) 2/	20.8	13.8	8.2	7.0	8.4	3.9	6.3	5.1	10.6	9.2	7.9	5.4	7.1
Actual (staff report) 3/	29.9	23.7	8.2	14.2	1.7	3.1	5.7	10.7	2.9	16.3	22.9	…	…
Actual (current macro-framework) 4/	29.4	22.3	5.2	17.7	1.0	3.2	5.7	3.3	2.9	54.0	-7.2	-3.7	8.9
Net credit to the government (in percent of beginning-of-period broad money)													
Program (original program) 1/	0.1	-3.0	0.9	-0.8	-0.5	1.2	0.9	...	...	-0.3	-0.4	-0.2	0.0
Annual program (revised targets) 2/	2.6	-0.1	0.9	-0.8	-0.6	1.2	2.2	-1.1	-1.4	-0.3	2.5	2.9	5.1
Actual (staff report) 3/	6.4	-6.2	3.8	8.4	0.9	3.4	7.8	-4.5	-10.1	2.4	-4.9	…	…
Actual (current macro-framework) 4/	10.1	-7.3	3.2	9.0	-0.4	3.4	7.8	-5.2	-9.7	2.4	-3.7	0.9	-3.9
Credit to the private sector (in percent of beginning-of-period broad money)													
Program (original program) 1/	9.8	11.3	2.8	0.6	6.7	6.9	2.5	...	...	10.0	5.8	5.6	6.1
Annual program (revised targets) 2/	8.1	1.3	2.8	5.6	4.9	6.9	3.2	4.9	2.8	10.0	5.4	5.3	2.3
Actual (staff report) 3/	-8.3	3.4	11.0	16.6	3.0	1.9	8.2	8.0	11.9	9.4	8.1	…	…
Actual (current macro-framework) 4/	-8.1	2.9	3.8	24.6	4.9	3.0	8.2	7.4	11.9	9.4	6.1	14.9	6.8
Terms of trade (annual percentage change)													
Program (original program) 1/	3.2	2.2	-2.3	1.7	1.8	-10.6	0.4	1.2	2.3	11.0	4.3	4.1	1.5
Annual program (revised targets) 2/	14.3	5.1	-2.3	3.0	-5.6	-10.6	-5.7	6.7	-7.2	11.0	4.3	-11.6	0.3
Actual (staff report) 3/	10.4	7.4	-6.8	-0.6	3.1	-9.9	-11.5	11.0	-14.6	-0.8	1.8	…	…
Actual (current macro-framework) 4/	11.3	-4.9	-8.1	-0.7	7.8	-10.8	-10.0	10.6	-11.9	16.0	7.2	-29.5	-5.7
Current account balance, excl. official transfers (in percent of GDP)													
Program (original program) 1/	-14.4	-13.7	-12.6	-11.4	-10.4	-15.0	-12.8	-11.5	-10.8	-14.2	-12.6	-12.0	-11.7
Annual program (revised targets) 2/	-20.0	-13.0	-12.6	-11.6	-12.8	-15.0	-14.4	-16.8	-14.1	-14.2	-11.8	-12.5	-12.8
Actual (staff report) 3/	-8.7	-11.3	-14.7	-13.9	-14.5	-15.9	-17.6	-13.6	-11.8	-12.7	-10.7	…	…
Actual (current macro-framework) 4/	-7.9	-10.0	-13.0	-12.2	-12.1	-13.7	-15.0	-14.1	-12.7	-12.4	-12.0	-13.2	-12.8
Current account balance, incl. official transfers (in percent of GDP) 5/													
Program (original program) 1/	-6.1	-4.9	-4.2	-3.6	-3.3	-12.4	-10.1	-9.0	-8.5	-9.4	-10.1	-8.9	-8.7
Annual program (revised targets) 2/	-3.5	-3.7	-4.2	-3.7	-5.1	-12.4	-10.2	-13.2	-10.5	-9.4	-9.3	-11.1	-11.8
Actual (staff report) 3/	2.0	-1.3	-3.2	-3.6	-4.2	-12.7	-14.6	-10.5	-9.1	-8.6	-7.8	…	…
Actual (current macro-framework) 4/	1.1	-1.2	-3.1	-3.6	-1.3	-11.0	-12.2	-11.0	-10.0	-8.2	-9.0	-10.2	-10.0
Official transfers (in percent of GDP) 5/													
Program (original program) 1/	8.3	8.7	8.4	7.8	7.1	2.6	2.7	2.5	2.3	4.8	2.5	3.0	3.0
Annual program (revised targets) 2/	16.6	9.3	8.4	7.9	7.7	2.6	4.2	3.6	3.6	4.8	2.5	1.4	1.1
Actual (staff report) 3/	10.7	10.0	11.5	10.3	10.3	3.2	3.1	3.2	2.7	4.2	2.9	…	…
Actual (current macro-framework) 4/	9.0	8.8	9.9	8.6	10.8	2.7	2.7	3.1	2.6	4.2	3.0	3.0	2.7
Overall fiscal balance, excl. grants (in percent of GDP)													
Program (original program) 1/	-5.7	-2.8	-8.3	-6.9	-5.6	-10.0	-10.4	-9.9	-8.8	-11.0	-9.9	-9.5	-9.2
Annual program (revised targets) 2/	-14.7	-9.9	-8.3	-8.2	-11.5	-10.0	-11.0	-13.4	-13.5	-11.0	-9.6	-9.3	-10.7
Actual (staff report) 3/	-11.0	-9.2	-9.0	-10.2	-9.8	-12.7	-12.9	-11.3	-10.0	-8.2	-8.5	…	…
Actual (current macro-framework) 4/	-8.0	-7.9	-7.9	-8.4	-8.1	-11.0	-10.8	-10.9	-10.0	-8.3	-8.7	-9.3	-9.9

Appendix Table 1. Burkina Faso: Performance of Key Indicators Under the ESAF/PRGF-Supported Programs, 1994–2006 (concluded)

	ESAF I		ESAF II			PRGF I				PRGF II			
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006 Proj.
Overall fiscal balance, incl. grants (in percent of GDP)													
Program (original program) 1/	-2.5	0.4	-3.1	-2.1	-1.3	-4.6	-5.1	-4.8	-4.0	-2.5	-3.3	-2.1	-1.7
Annual program (revised targets) 2/	-4.5	-2.7	-3.1	-2.2	-5.0	-4.6	-3.0	-5.0	-5.9	-2.5	-4.9	-5.8	-7.3
Actual (staff report) 3/	-3.7	-1.7	-0.6	-3.2	-2.9	-3.5	-4.3	-4.0	-4.8	-2.9	-4.2	…	…
Actual (current macro-framework) 4/ 6/	-1.6	-1.2	-0.5	-2.3	-2.5	-3.3	-3.6	-3.9	-4.8	-2.9	-4.3	-4.9	16.9
Grants (in percent of GDP)													
Program (original program) 1/	3.2	3.2	5.2	4.8	4.3	5.4	5.3	5.1	4.8	8.5	6.6	7.4	7.5
Annual program (revised targets) 2/	10.2	7.2	5.2	6.0	6.5	5.4	8.0	8.4	7.6	8.5	4.7	3.5	3.4
Actual (staff report) 3/	7.3	7.5	8.4	7.0	6.9	9.2	8.6	7.3	5.2	5.3	4.3	…	…
Actual (current macro-framework) 4/ 6/	6.4	6.6	7.4	6.2	5.7	7.7	7.2	7.1	5.2	5.3	4.4	4.4	26.8
Revenue, excl. grants (in percent of GDP)													
Program (original program) 1/	14.9	15.8	12.4	13.5	14.6	14.3	13.7	14.0	14.3	12.3	13.2	13.9	14.7
Annual program (revised targets) 2/	10.8	10.7	12.4	12.9	13.9	14.3	14.4	15.6	14.9	12.3	13.2	13.3	14.0
Actual (staff report) 3/	11.0	11.6	12.3	13.1	14.1	15.4	14.0	11.1	11.4	12.1	12.7	…	…
Actual (current macro-framework) 4/	9.6	10.2	10.8	11.4	11.8	12.9	11.8	10.9	11.4	12.1	12.8	12.3	13.4
Expenditure and net lending (in percent of GDP)													
Program (original program) 1/	20.7	18.6	20.7	20.5	20.2	24.3	24.1	23.9	23.1	23.3	23.1	23.5	23.9
Annual program (revised targets) 2/	25.5	20.5	20.7	21.1	25.5	24.3	25.4	29.0	28.4	23.3	22.8	22.6	24.7
Actual (staff report) 3/	22.0	20.9	21.3	23.3	23.9	28.2	27.0	22.4	21.4	20.3	21.2	…	…
Actual (current macro-framework) 4/	17.6	18.1	18.8	19.9	19.9	23.9	22.6	21.8	21.4	20.3	21.5	21.6	23.3

Source: IMF staff reports.

1/ Original program targets for 1994-95 are based on the request for arrangements under the Enhanced Structural Adjustment Facility (ESAF I).
Original program targets for 1996-98 are based on the request for arrangements under the Enhanced Structural Adjustment Facility (ESAF II).
Original program targets for 1999-2002 are based on the request for arrangements under ESAF later under the Poverty Reduction and Growth Facility (PRGF I).
Original program targets for 2003-2006 are based on the request for a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF II).

2/ Revised targets for 1994 are based on the midterm review of the second annual arrangement under ESAF I.
Revised targets for 1995 are based on the request for the third annual arrangement under ESAF I.
Revised targets for 1997 are based on the request for the second annual arrangement under ESAF II.
Revised targets for 1998 are based on the midterm review of the second annual arrangement under ESAF II.
Revised targets for 2000 are based on the first review under the PRGF I.
Revised targets for 2001 are based on the third review under the PRGF I.
Revised targets for 2002 are based on the fifth review under the PRGF I.
Revised targets for 2004 are based on the first review under the PRGF II.
Revised targets for 2005 are based on the fourth review under the PRGF II.
Revised targets for 2006 are based on the fifth review under the PRGF II.

3/ First actual data presented in staff reports. For 2003 and 2004, some of the figures are still classified as estimates.

4/ From current desk database. Changes reflect revisions to the nominal GDP series.

5/ There is a break in the series. While from 1994-1998, offical transfers refer to *total* official transfers and no distinction is made between current and capital official transfers, from 1999-2006, the series only refer to *current* official transfers.

6/ Figure for 2006 reflects MDRI relief.

Appendix Table 2. Burkina Faso: Structural Performance Criteria, Benchmarks, and Prior Actions, 1994-2006 1/

Area	Program	Year	Criterion	Measure	Test-Date	Status
Public financial management 2/	ESAF I	1994	PA	Adoption of revised budget compatible with the objectives of the program and reflecting the envisaged measures on revenue, expenditure, and financing, as well as the single tax on petroleum products (TUPP) and the Value-Added Tax (VAT) on cement.	3/28/1994	M
	ESAF I	1994	SB	Transmittal to the IMF of the monthly public finance statistics (TOFE), during the following months.	03/01/1994 through 12/31/1994	M
	ESAF I	1995	PA	Observance by the budgetary office of the date set for end of liquidation period for budgetary expenditures relating to fiscal year 1994.	Mar-95	M
	ESAF I	1995	PA	Preparation by the Treasurer of a monthly statement indicating for each ministry the outstanding expenditure without prior commitment pending regularization.	Apr-95	M
	ESAF I	1995	PA	Notification to all ministries that the Treasurer will be authorized to accept payments for exceptional expenditure without commitment, only if the requesting ministry is up to date with respect to such commitments.	Apr-95	M
	ESAF I	1995	PA	Status as at March 31, 1995 of expenditure for which payment orders have been issued during fiscal years prior to 1995 but which have not been settled.	Apr-95	M
	ESAF I	1995	PA	Status as at March 31, 1995 of payments made during the first quarter of 1995 on account of payment orders of past fiscal years.	Apr-95	M
	ESAF I	1995	PA	Regular monthly issuance by the financial control directorate of reminder notices for late certification of delivery for goods and services and communication to the Minister in charge of the Budget and to the Executive Secretariat for the Structural Adjustment Program, of the list and amounsts of certification due .	Apr-95	M
	ESAF I	1995	PC	Elimination of arrears accumulated by the Government before 1995 to utility companies, SONABEL (electricity), ONATEL (telecommunications) and ONEA (water).	Jun-95	M
	ESAF I	1995	SB	Completion of draft closed government accounts for 1994.	Sep-95	MD
	ESAF I	1995	SB	Completion of the draft 1996 budget based on the new budget nomenclature.	Nov-95	M
	ESAF II	1996	SB	Complete draft closed government accounts for 1994.	Jun-96	M
	ESAF II	1998	PC	Extend computerized budgetary expenditure procedures to payroll and foreign-financed investment expenditures.	Dec-97	M
	ESAF II	1998	SB	Completion of public investment review.	Dec-97	MD
	ESAF II	1998	SB	Implement computerized monitoring of investment expenditure.	Dec-98	M
	PRGF I	2000	PC	Adoption of audited budget acts (Lois de Reglement) from 1995 to 1998.	Mar-01	M
	PRGF I	2000	SB	Finalize settlement of cross debts between the postal agency (SONAPOST) and government.	Jun-00	MD

Appendix Table 2. Burkina Faso: Structural Performance Criteria, Benchmarks, and Prior Actions, 1994-2006 (continued)

Area	Program	Year	Criterion	Measure	Test-Date	Status
Public financial management 2/	PRGF II	2003	PA	Submission to the National Assembly of the amended 2003 draft budget law.	Program Prior Action	M
	PRGF II	2003	PA	Submission to the National Assembly of the 1995-2000 draft audited budget acts.	Program Prior Action	M
	PRGF II	2003	PC	Submission to the National Assembly of the 2002 draft annual audited budget act.	Mar-04	W
	PRGF II	2003	SB	Submission to the National Assembly of the 2004 draft budget law.	Sep-03	M
	PRGF II	2003	SB	Submission to the National Assembly of the 2001 draft annual audited budget act.	Sep-03	M
	PRGF II	2004	SB	Submission to the National Assembly of the 2003 draft annual audited budget act.	Dec-04	M
	PRGF II	2004	SB	Submission to the Auditor General Office of the 2001 and 2002 general balance sheets of the Central Accountant of the Treasury, the General Spending Accountant, and the General Revenue Accountant.	Apr-04	M
	PRGF II	2004	PC	Submission to the Auditor General Office of the 2004 draft annual budget act	Sep-05	M
	PRGF II	2004	SB	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.	Mar-05	M
	PRGF II	2004	SB	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.	Sep-05	M
Tax policy and administration	ESAF I	1994	PC	Effective implementation of the obligation to use the single taxpayer identification number in all administrative procedures, import declaration and invoices; non-reimbursement of VAT for invoices lacking the identifier.	Jun-94	M
	ESAF I	1994	SB	Implementation of the simplified collection procedures for direct taxes, following the model of the VAT.	Sep-94	M
	ESAF I	1994	PA	Empowering the special unit of the Tax Directorate to assess and effectively collect all domestic tax liabilities owed by large industrial and commercial enterprises.	Mar-94	M
	ESAF I	1994	PA	Announcement of new rates for water and electricity.	Mar-94	M
	ESAF I	1994	PA	Introduction of procedures at Customs Directorate to communicate to the Tax Directorate monthly imports by large enterprises.	Mar-94	M

Appendix Table 2. Burkina Faso: Structural Performance Criteria, Benchmarks, and Prior Actions, 1994-2006 (continued)

Area	Program	Year	Criterion	Measure	Test-Date	Status
Tax policy and administration	ESAF I	1994	PA	Completion of reconciliation of the files of the Customs and Tax Directorates with a view to effectively utilizing the unique tax identification number, and beginning of operation of large enterprise unit in Ougadougou and Bobo-Dioulasso.	Mar-94	M
	ESAF I	1995	PA	Preparation of the list of all beneficiaries of exemptions by the tax and customs directorates.	Apr-95	M
	ESAF I	1995	SB	Completion of audit of existing exemptions.	Jul-95	MD
	ESAF II	1996	SB	Raise VAT from 15% to 18%	Jul-96	MD
	ESAF II	1996	SB	Complete audit of existing exemptions	Dec-96	M
	ESAF II	1996	SB	Remove tax exemption on petroleum products used in connection with foreign-financed products.	Jun-96	NM
	ESAF II	1998	PC	Council of Ministers adoption of draft legislation on introduction of withholding at source on imports and purchases from wholesalers for all informal sector transactions.	Dec-98	W
	ESAF II	1998	PC	Complete computerization of 6 customs offices.	Dec-98	M
	PRGF I	2000	PC	Implement new tax withholding system on imports and purchases from wholesalers.	Jan-00	M
	PRGF I	2000	PC	Introduce withholding tax on payments of services to nonresidents.	Jan-00	M
	PRGF I	2000	PC	Reform of petroleum products taxation in compliance with WAEMU norms.	Dec-00	M
	PRGF I	2001	SB	Amend the VAT legislation so that henceforth VAT credits would offset VAT liabilities on receipts.	Dec-01	NM
	PRGF I	2002	PA	Raising the excise tax on petroleum products by CFAF 12.5 a liter on diesel oil and CFAF 10 a liter on premium and regular gasoline.	Mar-02	M
	PRGF II	2003	PC	Implementing of a computerized tax management system in the large and medium-sized taxpayers' units of the regional tax directorates in the center (Ouagadougou) and the west (Bobo-Dioulasso), as described in paragraph 17.	Oct-03	W
	PRGF II	2004	PA	Adoption by the government of an action plan to strengthen tax and customs revenue collection.	First Review Prior Action	M
	PRGF II	2004	PA	Implementation of a computerized tax management system in the large- and medium-sized taxpayers' unit of the regional tax directorate in the west (Bobo-Dioulasso).	First Review Prior Action	M
	PRGF II	2004	PC	Implementation of the customs computerization system, SYDONIA++, in ten main customs field offices.	Apr-04	W

Appendix Table 2. Burkina Faso: Structural Performance Criteria, Benchmarks, and Prior Actions, 1994-2006 (continued)

Area	Program	Year	Criterion	Measure	Test-Date	Status
Wage policy and civil service	ESAF II	1996	PA	Remove "irregular" civil servants from payroll.	May-96	M
	ESAF II	1996	SB	Eliminate automatic promotion system in civil service and introduce performance-based promotion system.	Jun-96	NM
	ESAF II	1996	PC	Identification of priority and nonpriority sectors for civil service recruitment and annual targets for staff reductions in nonpriority sectors to offset annual recruitment into priority sectors.	Sep-96	M
	ESAF II	1998	PC	Submission to parliament of new statutes of permanent civil servants and of contractual employees, including provisions for merit-based promotion.	Dec-97	M
	PRGF I	2000	SB	Finalization of the interconnection of the payroll and civil service databases.	Jun-01	M
Price liberalization and trade reform	ESAF I	1994	SB	Abolition of price controls mentioned in paragraph 21.	Apr-94	M
	ESAF I	1994	PA	Liberalization of prices of milk, sugar, and cement.	Mar-94	M
	ESAF II	1996	SB	Remove export restriction on hides and skins.	Jun-96	M
	ESAF II	1996	PC	Abolish list of imports subject to quality control and adopt short list of goods subject to health, safety, security controls.	Sep-96	M
	ESAF II	1998	PC	Sign interprofessional agreement in cotton sector.	Dec-98	M
	PRGF I	2000	SB	Introduction of an automatic domestic price setting mechanisms of petroleum products reflecting movements in international prices.	Mar-01	M
	PRGF I	2002	PC	Elimination of the 59 tariff lines still subject to administratively set custom values, as specified in the order No. 01-037/MCPEA/MEF of May 28, 2001.	Jun-02	W
	PRGF II	2003	SB	Implementation of the automatic price structure adjustment mechanism for petroleum products in relation to costs.	Continuous	M (1st Rev) NM (2nd & 3rd Rev) M (4th Rev) M (5th Rev)
Public enterprise reform	ESAF I	1994	PC	Review of the role of the CGP and preparation of plans for downsizing the agency, given that it no longer plays any role in the rice sector or in the stabilization of petroleum product prices.	Sep-94	M
	ESAF I	1994	SB	Issuance of public tenders for privatization for at least 6 enterprises.	Jul-94	NM
	ESAF I	1994	SB	Agreement with the World Bank on the timing of measures needed to liquidate the National Development Bank (BND-B).	Jun-94	M
	ESAF I	1995	SB	Implementation of reorganization plan for Air Burkina.	Jun-95	M

Appendix Table 2. Burkina Faso: Structural Performance Criteria, Benchmarks, and Prior Actions, 1994-2006 (continued)

Area	Program	Year	Criterion	Measure	Test-Date	Status
Public enterprise reform	ESAF I	1995	SB	Issuance of tenders for privatization of seven enterprises from the list of 19 enterprises selected in 1994 by Parliament.	Sep-95	M
	ESAF II	1996	PC	Complete privatization or liquidation of 11 enterprises remaining from Phase 1 of privatization program.	Jun-96	M
	ESAF II	1998	PC	Complete privatization of four public enterprises: FASO FANI (textiles), SOSUCO (sugar), SOPAL (alcohol), SONOCOR (rice ginning).	Dec-97	M
	ESAF II	1998	SB	Offer for sale of the following public enterprises: SOFIVAR (groundnuts), SLM (equipment leasing), SNTB (transport), SOCOGIB (construction), INB (printing), CNEA (agricultural equipment), ONACAB (tiles).	Mar-98	M
	ESAF II	1998	SB	Launch call for bids for INB (printing), SLM (equipment leasing), SNTB (transport), SOCOGIB (construction).	Dec-98	M
	ESAF II	1998	SB	Launch call for bids for sale of hotel company (SHB).	Dec-98	MD
	PRGF I	2000	SB	Issuance of call for bids for Air Burkina.	Mar-00	M
	PRGF I	2000	PC	Select investment bank that will bring ONATEL (telecommunications company) to point of sale.	May-00	MD
	PRGF I	2000	PC	Finalize plan to privatize SONABEL (electricity company).	Dec-99	W
	PRGF I	2000	PC	Adoption by Council of Ministers of regulatory framework for the electricity sector and finalization of the plan for the privatization of SONABEL.	Dec-00	M
	PRGF I	2000	SB	Adoption by the Council of Ministers of the letter of development policy of the energy sector including the regulatory framework for the electricity sector and the plan for the privatization of SONABEL.	Dec-00	M
Financial and banking sector	ESAF I	1994	PA	Preparation and transmission to IMF of liquidation plan for BND-B.	Mar-94	M
	ESAF II	1996	SB	Liquidation of the National Development Bank (BND-B).	Jun-96	MD
	ESAF II	1996	SB	Privatization of the bank, BFCI.	Sep-96	MD
	PRGF I	2001	PC	Securitization of the deposits of the Postal Savings Bank (CNE) with the treasury.	Sep-01	M
	PRGF II	2003	PC	Closing of all nonfinancial private enterprise deposit accounts with the treasury.	Sep-03	M
Legal and regulatory framework	ESAF II	1998	SB	Adoption of new mining code.	Jun-98	M
	ESAF II	1998	PC	Council of Ministers to adopt draft law liberalizing telecommunications sector.	Dec-98	M

Appendix Table 2. Burkina Faso: Structural Performance Criteria, Benchmarks, and Prior Actions, 1994-2006 (concluded)

Area	Program	Year	Criterion	Measure	Test-Date	Status
Legal and regulatory framework	PRGF I	2001	PC	Make operational the anti-corruption unit that will be independent of the government and that will have jurisdiction to investigate and refer cases to competent judicial authorities.	Dec-01	M
	PRGF I	2001	SB	Adopt the administrative and institutional stipulations for the effective operation of the Supreme Court (Cour des Comptes).	Dec-01	MD
	PRGF I	2002	PC	Appointment of three magistrates in the Supreme Audit Court.	Jun-02	M
Social sector policy	PRGF I	2001	PC	Setting up a centralized database to track social outlays and outcomes, in particular for health and education.	Jun-01	M
	PRGF I	2002	PA	Opening an account at the Central Bank (BCEAO) to lodge the resources freed under the HIPC Initiative.	Mar-02	M
	PRGF I	2002	PA	Committing by March 15, 2002, 80 percent of the HIPC resources accumulated during 2000 and 2001 and not yet committed.	Mar-02	M
	PRGF II	2003	SB	Adoption by the government of the WAEMU budgetary nomenclature with specific codes for identifying social expenditure and expenditure financed under the HIPC Initiative.	09/30/2003	M

Source: IMF Staff reports (AFR) and MONA database (PDR).

1/ M=Met, MD=Met with Delay, NM=Not Met, W=Waived.
2/ Includes the sub-categories: Budget process, execution, reporting and audit; public expenditure management; and domestic debt.

Appendix Table III. Burkina Faso: Millenium Development Goals Indicators

	1990				2000				2004			
	BFA	WAEMU	SSA	LIC	BFA	WAEMU	SSA	LIC	BFA	WAEMU	SSA	LIC
Poverty												
Percentage share of income or consumption held by poorest 2	...	...	...	...	...	...	...	...	...	5.2	...	...
Population below $1 a day (%)	...	31.0	44.6	...	...	...	46.4	...	...	14.8	...	...
Population below minimum level of dietary energy consumpt	...	...	...	...	...	...	...	...	19.0	23.0	31.9	24.6
Poverty gap ratio at $1 a day (incidence x depth of poverty)	...	12.0	...	...	...	...	...	...	...	4.1	...	...
Poverty headcount, national (% of population)	...	32.3	...	...	...	29.0	...	...	...	...	...	...
Prevalence of underweight in children (under five years of ag	...	...	...	...	34.3	28.5	...	43.7	37.7	37.7	...	...
Education												
Net primary enrollment ratio (% of relevant age group)	26.2	40.2	53.5	...	35.0	53.5	...	75.5	36.2	54.8	63.7	78.3
Primary completion rate, total (% of relevant age group)	19.1	28.5	50.0	64.8	27.8	41.1	...	...	29.2	33.0	59.2	71.5
Proportion of pupils starting grade 1 who reach grade 5	69.7	65.9	65.0	...	63.7	75.6	...	63.8	...	...	...	...
Youth literacy rate (% ages 15-24)	...	...	...	...	...	51.2	...	...	...	46.8	71.9	72.8
Gender												
Proportion of seats held by women in national parliament (%	...	8.7	9.4	10.8	8.0	7.5	10.8	9.9	12.0	9.1	13.4	12.2
Ratio of girls to boys in primary and secondary education (%	60.7	59.5	79.0	73.7	69.7	69.8	...	81.5	72.2	73.1	83.5	87.2
Ratio of young literate females to males (% ages 15-24)	...	...	...	...	...	68.1	...	...	...	63.0	84.9	81.1
Share of women employed in the nonagricultural sector (%)	12.5	25.3	27.1	21.6	14.5	17.6	...	21.7	15.2	17.7	...	22.6
Health: child												
Immunization, measles (% of children ages 12-23 months)	79.0	57.4	57.1	57.6	59.0	56.0	54.9	58.8	76.0	65.8	60.8	65.5
Infant mortality rate (per 1,000 live births)	118.0	124.3	109.8	94.8	107.0	111.5	...	...	107.0	109.1	101.0	79.1
Under 5 mortality rate (per 1,000)	210.0	209.4	187.0	147.6	207.0	193.1	...	...	207.0	189.5	171.2	122.0
Health: mother												
Births attended by skilled health staff (% of total)	...	...	...	...	31.0	44.6	...	...	...	...	...	...
Maternal mortality ratio (modeled estimate, per 100,000 live	...	...	...	...	1,000.0	962.5	917.0	681.0	...	...	...	...
Health: disease												
Contraceptive prevalence rate (% of women ages 15-49)	...	...	...	...	...	14.2	...	...	14.0	14.0	...	...
Incidence of tuberculosis (per 100,000 people)	147.3	188.1	154.1	174.1	159.1	225.3	312.0	213.9	162.8	235.7	352.8	225.2
Number of children orphaned by HIV/AIDS	...	...	...	...	240,000.0	94,142.9	...	...	260,000.0	110,571.4	...	...
Prevalence of HIV, total (% of population aged 15-49)	...	...	...	...	4.2	3.0	7.3	2.1	1.8	2.7	6.7	2.1
Tuberculosis cases detected under DOTS (%)	...	...	...	...	18.9	40.7	...	...	18.5	44.3	...	...
Environment												
Access to an improved water source (% of population)	39.0	51.0	48.8	63.8	...	...	...	...	51.0	59.9	58.2	75.1
Access to improved sanitation (% of population)	13.0	24.3	32.3	20.4	...	...	...	...	12.0	32.6	36.0	35.6
Access to secure tenure (% of population)	...	...	...	...	...	...	...	...	...	...	...	...
CO2 emissions (metric tons per capita)	0.1	0.3	0.9	0.8	0.1	0.3	0.7	0.8	...	...	...	...
Forest area (% of total land area)	26.5	29.2	30.7	28.9	25.9	25.4	27.3	26.1	...	...	...	...
GDP per unit of energy use (2000 PPP $ per kg oil equivalen	...	4.4	2.8	3.5	...	4.0	2.7	3.9	...	4.1	2.8	4.1
Nationally protected areas (% of total land area)	...	...	...	...	...	...	...	...	11.5	8.5	8.7	7.7
Development												
Aid per capita (current US$)	37.3	71.9	35.4	13.1	29.8	32.7	20.4	9.2	37.2	41.3	34.3	13.8
Debt service (% of exports)	8.0	12.9	...	...	23.0	14.9	...	...	13.0	9.3	...	...
Fixed line and mobile phone subscribers (per 1,000 people)	1.8	3.6	10.0	6.3	6.9	19.7	32.3	25.4	23.9	50.2	61.9	55.8
Internet users (per 1,000 people)	...	0.0	0.0	0.0	0.8	4.5	8.5	3.7	3.9	17.8	19.6	16.2
Personal computers (per 1,000 people)	0.1	1.3	...	...	1.3	7.0	9.6	4.5	2.1	14.8	11.9	6.9
Unemployment, youth female (% of female labor force ages	...	0.1	...	...	...	...	...	...	...	...	...	...
Unemployment, youth male (% of male labor force ages 15-2	...	0.8	...	...	...	...	...	...	...	...	...	...
Unemployment, youth total (% of total labor force ages 15-2	...	0.5	...	...	...	...	...	...	...	...	...	...
Other												
Fertility rate, total (births per woman)	7.0	6.8	6.1	4.7	...	...	...	...	6.2	5.7	5.2	3.6
GNI per capita, Atlas method (current US$)	330.0	430.0	580.0	360.0	250.0	340.0	480.0	380.0	360.0	432.5	600.0	510.0
GNI, Atlas method (current US$) (billions)	2.9	3.2	297.7	630.2	2.8	3.4	317.9	832.1	4.4	4.7	432.0	1,184.3
Gross capital formation (% of GDP)	18.2	17.6	17.6	21.1	22.7	17.0	16.9	21.3	19.1	16.9	18.5	22.2
Life expectancy at birth, total (years)	45.4	47.1	50.0	56.2	44.9	43.8	...	...	42.8	46.9	45.6	58.3
Literacy rate, adult total (% of people ages 15 and above)	...	...	...	...	...	38.5	...	...	...	36.5	59.3	61.0
Population, total (millions)	8.9	53.4	510.4	1,767.9	11.3	70.3	658.1	2,174.8	12.4	77.4	719.0	2,338.1
Trade (% of GDP)	35.6	50.6	53.4	29.7	34.4	61.8	64.8	41.8	31.5	58.2	64.7	41.9

Source: www.developmentgoals.org, WDI 2005 (World Bank).

INTERNATIONAL MONETARY FUND EXTERNAL RELATIONS DEPARTMENT

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International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Sixth Review Under Burkina Faso's PRGF Arrangement, Request for Waivers of Performance Criteria, Augmentation of Access and Approves US$14.0 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) completed today the sixth review under the Poverty Reduction and Growth Facility (PRGF) arrangement for Burkina Faso (see Press Release No. 06/51). The Board also granted Burkina Faso's request for waiver of nonobservance of two performance criteria and for augmentation of access by 10 per cent of quota (SDR 6.0 million (about US$8.9 million). Completion of the review enables the release of a final disbursement of approximately SDR 9.5 million (about US$14.0 million) under the arrangement. This will bring the total amount drawn under the arrangement to SDR 30.1 million (about US$44.5 million).

After the Executive Board's discussion of Burkina Faso, Mr. Takatoshi Kato, Deputy Managing Director and Acting Chair, issued the following statement:

"The Burkinabè authorities are to be commended for Burkina Faso's robust economic performance in recent years in the context of strong implementation of Fund-supported programs. Over the past one and a half years, the economy performed well despite adverse external shocks. Growth increased strongly in 2005, as record cereal and cotton harvests more than offset the negative impact of rising world oil prices and lower world cotton prices. Macroeconomic policy implementation in 2006 continued to be good and economic prospects are generally favorable, with growth expected to reach 5.6 percent, notwithstanding a further deterioration in the terms of trade. Progress on structural reforms has been somewhat slower, especially in the area of privatization of public utilities.

"The terms-of-trade shocks have led to a substantial decline in foreign exchange reserves at the national branch of the Central Bank of West African States (BCEAO), creating a need for augmentation of access to Fund resources to moderate the expected decline in reserves in 2006.

"The authorities' strategy to pass through world prices to domestic producers and consumers is well placed and will facilitate the adjustment of the economy to the recent terms-of-trade shocks. The continued implementation of the automatic pricing mechanism for petroleum products is therefore welcome. The recent increase in electricity tariffs is also a step in the right direction, but further headway should be made in linking tariffs to costs while safeguarding the poorest households. The proposed new producer price mechanism for cotton could represent a substantial improvement over the previous system by linking producer prices more closely to world cotton prices, thereby aligning incentives for producers with world market conditions.

"The 2006 fiscal program strikes an appropriate balance between responding to urgent expenditure needs and maintaining debt sustainability. The use of resources freed up by the Multilateral Debt Relief Initiative (MDRI) and the availability of additional budgetary support to increase priority expenditures are welcome. A strict management of non-priority expenditures is required to preserve the fiscal space for priority expenditures. The projected fiscal deficit is expected to be financed mostly with net donor flows in the form of grants, debt relief, and highly concessional borrowing, and the envisaged fiscal deficit is consistent with maintaining debt sustainability.

"To preserve the gains in debt sustainability as a result of MDRI relief, which has lowered all external debt indicators well below their policy-dependent thresholds, critical policy priorities will be to maintain prudent fiscal policies, improve revenue mobilization, obtain grants to the extent possible, and continue to borrow only on highly concessional terms.

"Strengthened efforts on growth-enhancing structural reforms will be essential to reduce poverty and facilitate the timely achievement of the MDGs," Mr. Kato said.

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

Statement by Damian Ondo Mãne, Executive Director for Burkina Faso
September 8, 2006

On behalf of my Burkinabe authorities, I would like to express our appreciation to Management and staff for their invaluable policy advice and assistance to Burkina Faso as reflected in the set of well-written papers before us today. I also wish to convey to Executive Directors, my authorities' appreciation of their unwavering support to Fund's continued involvement in Burkina Faso.

Record harvest of cereal and cotton led to a strong GDP performance despite lower world cotton prices and increasing oil prices. The good harvest helped ease the inflationary pressures which rose to 6%, in the first half of 2005. The fiscal deficit in 2005 met the program target by a comfortable margin in spite of a revenue shortfall as expenditure was reallocated to rebuild treasury balances. A sharp deterioration of the terms of trade due, among others, to recent adverse developments in oil and cotton prices weighted on the external balance by widening the current account deficit by about 1.5 percent of GDP.

On the structural front, major reforms are underway. Although the number of audits by the tax and customs administration was met by the test date of end-March 2006, personnel changes delayed the submission of the report to the Ministry of Finance. The completion of the census of tax payers, another performance criterion, was delayed because of strikes by census workers. At the same time, major reforms were implemented in the energy and telecommunications sectors. All structural benchmarks were observed.

PROSPECTS AND FUTURE CHALLENGES

Fiscal Policy

In order to mitigate the impact of adverse external shocks, fiscal policy will be somewhat more expansionary in 2006 than previously programmed. Nonetheless my authorities are committed to a prudent fiscal policy stance and will restrain additional spending within available external resource envelope while keeping domestic financing in line with the previously agreed target for 2006. The additional expenditures comprise a larger fuel subsidy to SONABEL; retroactive payments for civil service advancements that had been frozen since 2003; higher utility bills linked to the decentralization of government and the establishment of new structures; VAT reimbursements; the *fonds de lissage*; and food security. To partially offset these additional expenditures, outlays in non-priority sectors will be reduced by CFAF 5.5 billion. In addition to the spending needs identified above- some of which are in priority sectors, another CFAF 6.6 billion is available for increasing spending in priority sectors. Any increase in the subsidy to SONABEL in 2006 beyond the CFAF 5 billion currently envisaged will be fully offset by reductions in other areas. Total spending in priority sectors would be CFAF 199.4 billion- 6.1 percent of GDP.

After taking into account the portion of recently obtained donor budget support, resources freed up in 2006 under the MDRI that could be applied only to priority social sectors and additional domestic financing, a financing gap of about CFAF 15.2 billion remains. Given identified possible financing from donors, the remaining gap could be closed with the support of the requested augmentation from the IMF in the amount of 10 percent of quota (about CFAF 4.8 billion).

Concerning the payments for retro-active public service advancements, the government estimates that the total cost of these advancements would be CFAF 18 billion. However, while formal advancements of public servants have not been implemented since 2003, salaries and indemnities have been raised on an ad-hoc basis during this period. These increases will be taken into account in assessing the government's additional financial obligation in this area. Should the government be legally obligated to pay the full CFAF 18 billion, it will spread the payment over a number of years, with a maximum of CFAF 6 billion to be paid in 2006.

My authorities will continue to push ahead with fiscal reforms and will implement additional measures in 2006 to strengthen tax and customs administrations as stated in the Memorandum of Technical Understanding. Key measures will be implemented before the end of September 2006, including the adoption of an updated multi-year plan to strengthen tax and customs administration and the appointment of a steering committee to supervise working groups to implement the reform plans and to coordinate technical assistance made available by donors.

Developments in the Cotton Sector

The cotton sector's share in the exports of Burkina Faso has increased due to productivity improvement and to a high price paid to producers. My authorities had placed high hopes in the successful conclusion of the Doha Round of trade negotiations, fully sharing Fund's view that fully liberalized world trade regime would help improve Burkina Faso's terms of trade. Regrettably, these negotiations had been suspended and declining world cotton prices as well as an appreciation of the Euro and rising transport costs contributed to significant losses, about 1% of GDP of cotton ginning companies.

In order to better manage the effects of fluctuations in the world prices of cotton on producers in the future, cotton farmers and cotton ginning companies agreed to a new reserve fund, the *"fonds de lissage*", that will be operated as a self sustained cash reserve buffer against price shocks. The operational details of the mechanism are still being defined but the main principles the authorities intend to follow throughout are the following:

- There will be a link between producer prices and world prices of cotton. While the fund will seek to smooth short-term fluctuations in world prices with a view of shielding small producers from highly variable production uncertainties, there will be a full pass-trough of trend changes.

- The fund is intended to be self-financing after the initial funding. My authorities are determined to avoid any risk to the budget from the fund. Accordingly it will strictly restrict the governments' support to start up lending.

- The authorities will seek a broad based consensus between interested actors including cotton producers and the donors who wish to support the fund. My authorities are thankful for the expression of support from some donors. They are convinced that following a successful reform of the sector with the advice of the IMF, this mechanism will help reduce poverty and thus contribute to achieving the MDGs by providing some protection to poor households which produce cotton.

Energy Pricing and Structural Reforms

Burkina Faso, like many oil importing countries face increasing domestic pressures to mitigate rising world oil prices. Nonetheless, my authorities have allowed for the domestic pricing mechanism to reflect full pass-through of world prices.

They have however some concerns that additional increases in the cost of living to consumers, including the increase in electricity fees, may be counterproductive to the reforms. They recognize that in order to contain the subsidy to SONABEL- the electricity company, to CFAF 18 billions as initially programmed for 2006, an increase in electricity tariffs in the order of 30 percent would be required. In the current circumstances, such an increase will be socially unacceptable, and, after broad consultation, my authorities have decided to increase the tariff by 12.5 percent. Given current oil prices, this would still require an increase in the subsidy to SONABEL to CFAF 23 billion. The authorities look forward to the completion of the World-Bank support project of Interconnection of the electrical grid between Burkina Faso and Cote d'Ivoire which will result in substantial savings starting in 2007.

The privatization agenda is progressing. My authorities are committed to the full implementation of structural reforms in the energy sector. However a comprehensive energy sector strategy is under review. Upon completion, guidelines will be issued for the tenders for the selection of a private operator for the management of SONABEL and for private sector participation in SONABHY. Unfortunately, this process is unlikely to be completed this year. However, the privatization process of ONATEL the state-owned telecommunication company is underway. In April 2006 a shortlist of seven companies was made public and by the end of the year the authorities expect to sell a majority of shares.
My authorities are devoted to improving the business environment by streamlining procedures and costs for the transfer of property and the licensing of businesses, and enhance labor market flexibility. The National Action Plan for the Reform of Justice (PANJR) is a key element of the anti-corruption strategy which will contribute to improve the business climate. The General Inspectorate of Judicial Services has been given more autonomy and the Higher Judicial Council has recently applied disciplinary actions, including imprisonment sentences against magistrates convicted of unethical or illegal activities. The authorities plan to increase the number of high tribunals from 13 to 20, increase the number of courts

specializing in commercial and financial cases, and provide additional training for magistrates in the area of financial and commercial law. They also plan to enhance the independence of magistrates in the Auditor General Office - *Cour des Comptes*.

EX-POST ASSESSEMENT AND POST PROGRAM RELATIONS WITH THE FUND

My Burkinabe authorities welcome the Ex-post Assessment of Longer Term Program Engagement report. The report rightly points out Burkina Faso's strong program ownership and implementation. They value Fund's support which helped steer the country successfully from decades of in-ward looking economic policy.

My authorities would like to maintain a close policy dialogue with the IMF after the expiration of the current program, with an arrangement either under the Poverty Reduction and Growth Facility or the Policy Support Instrument.

CONCLUSION

My authorities would like to benefit from a new partnership with the donor community based on regular and open policy dialogue. In this perspective, they are keen to ensure national ownership of the development strategy and policies, along with their monitoring and evaluation. Meeting this objective will require that the country receives adequate and timely technical and financial assistance from donors.

In light of the above, I would appreciate Directors' support for my authorities request for waivers of the nonobservance of the performance criteria, the completion of the sixth review under the PRGF and for the augmentation of access by 10 percent of quota.