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Burkina Faso: Ex Post Assessment of Longer-Term Program Engagement—An Update

This ex post assessment of longer-term program engagement—an update on Burkina Faso was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with the member country. It is based on the information available as of December 4, 2012. The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of Burkina Faso or the Executive Board of the IMF.

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BURKINA FASO

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BURKINA FASO—EX POST ASSESSMENT OF LONGER-TERM PROGRAM ENGAGEMENT—AN UPDATE

KEY ISSUES

- *Burkina Faso enjoyed economic growth above regional standards since 2007, supported by a three-year Arrangement under the Poverty Reduction and Growth Facility and a three-year Arrangement under the Extended Credit Facility.*
- *Despite multiple adverse shocks, both programs managed to meet key objectives of the authorities' poverty reduction and growth strategy, illustrating the importance of strong program ownership, of flexibility in program implementation, and underscoring the need for fully-fledged authorities' commitment to reform. Both programs have also broadly incorporated the recommendations of the 2006 EPA, although, given their long-term nature, they remain relevant to a various extent in specific areas. While the authorities are to be commended for the significant progress achieved so far, some reforms could have been faster. Burkina Faso continues to face daunting economic challenges and acute poverty reduction needs; strengthened capacity to deliver pro-poor programs is therefore a priority.*
- *Burkina Faso also faces a significant opportunity that must not be missed. Over the last few years Burkina Faso has emerged as a large potential exporter of gold relative to other countries in Sub-Saharan Africa and to the size of its exports. Against the backdrop of low per capita incomes, limited access to international capital markets, and scarcity of domestic capital, the opportunity is now to ensure that this exhaustible underground resource be transformed into a portfolio of other physical, human, and financial assets to support sustainable development for this and future generations.*
- *Future Fund engagement would be important in further assisting the authorities anchor their reform efforts, and, in particular, in ensuring that Burkina Faso fully benefits from the surge in gold production, including by strengthening the tax regime while remaining attractive to foreign investors and local service companies. To build on recent progress and enhance medium-term prospects, structural reforms have to maintain momentum to diversify economic activity and enhance competitiveness. Improving the quality of public spending, further boosting revenue mobilization, strengthening governance and administrative processes, and, particularly, improving public investment selection and execution capacity—a key step in reducing poverty and accelerating sustainable growth via an expansion of physical and human capital—should continue to feature prominently on the authorities' reform agenda.*

Authorized for Distribution by the **African and Strategy, Policy, and Review Departments**

This report is prepared by an interdepartmental team comprising David Corvino (AFR), Atsushi Oshima (AFR), Silvia Sgherri (SPR), and Marco Rossi (FIN, head).

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APPENDIX

ANNEX

INTRODUCTION

1. **This Ex Post Assessment (EPA) Update reviews Burkina Faso's performance under Fund-supported programs since 2007** (Table 1).[1] It also looks at whether recommendations under the 2006 EPA[2] were effectively incorporated in the policy framework supported by successor arrangements since 2007 and, selectively, on priority areas for any future Fund-supported program.

2. **The 2006 EPA provides the background for this update.** Covering Fund engagement over the period 1994–2006, it emphasized the importance of using the payoffs of the Multilateral Debt Relief Initiative (MDRI) and supported them with sound economic and structural policies to help Burkina Faso meet the Millennium Development Goals (MDGs). Box 1 summarizes its recommendations.

Box 1. Recommendations of the 2006 Ex-Post Assessment

The 2006 EPA made the following recommendations with regard to policy priorities and to the focus of future Fund's programs.

Increase the domestic revenue effort. 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. Proceed with administrative decentralization, providing resources at local levels while controlling for increasing expenditure and weakening control systems.

Increase private sector participation. Remove structural bottlenecks that hamper stronger private sector participation and export diversification. Full liberalization of the utility sector to increase efficiency.

Focus closely on the link between the annual fiscal stance and debt sustainability, including in terms of available financing, the absorptive capacity, and appropriate PFM and debt management framework.

Improve data, including 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.

Integrate WAEMU convergence criteria and policies in Fund-supported programs.

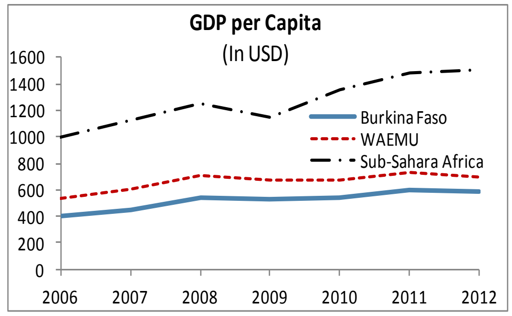
3. **This update finds that Fund engagement with Burkina Faso has helped the authorities progress toward their long-term goal of poverty reduction, and would continue to assist the authorities in anchoring their reform efforts.** It also finds that the recommendations of the 2006 EPA have been broadly incorporated, although, given their long-term nature, they remain relevant to a various extent in specific areas. This update is structured as follows. Section II reviews macroeconomic developments since 2007. Section III considers—for each program in the review period—the program objectives, macroeconomic and structural policy developments,

[1] *Burkina Faso—Request for Three-Year Arrangement Under the Poverty Reduction and Growth Facility*, (EBS/07/38, 4/11/07) and reviews, and *Burkina Faso—Request for a Three-Year Arrangement Under the Extended Credit Facility*, (EBS/10/104, 6/1/10) and reviews (until the Fifth Review of the 2010 arrangement under the ECF).

[2] *Burkina Faso—Ex Post Assessment of Longer-Term Program Engagement*, (SM/06/294, 8/28/06).

conditionality, and outcomes. It also identifies some lessons that can be drawn from this review, including in areas identified in the 2006 EPA and this update. Section IV discusses the economic and structural reform strategy for the future as well as recommendations for future Fund engagement.

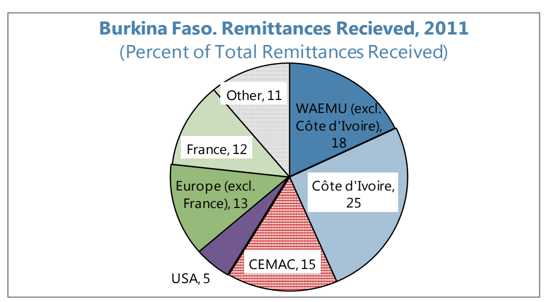
MACROECONOMIC DEVELOPMENTS SINCE 2007



4. **Economic growth has fluctuated above regional standards, averaging 5.3 percent between 2007 and 2012** (Figure 1 and Table 2). The improvements in the agricultural sector, as a result of the authorities' strong push for reforms and investments in the sector, mitigated the impact of unfavorable weather conditions (poor rainfalls in 2007, heavy flooding in 2009, and Sahel drought in 2011). As a result, and against the backdrop of a slowing growth in 2009–11 in the face of the global crisis and the Ivorian crisis, GDP per capita grew steadily, from US$449 in 2007 to an estimated US$603 in 2012, though remaining below regional standards.

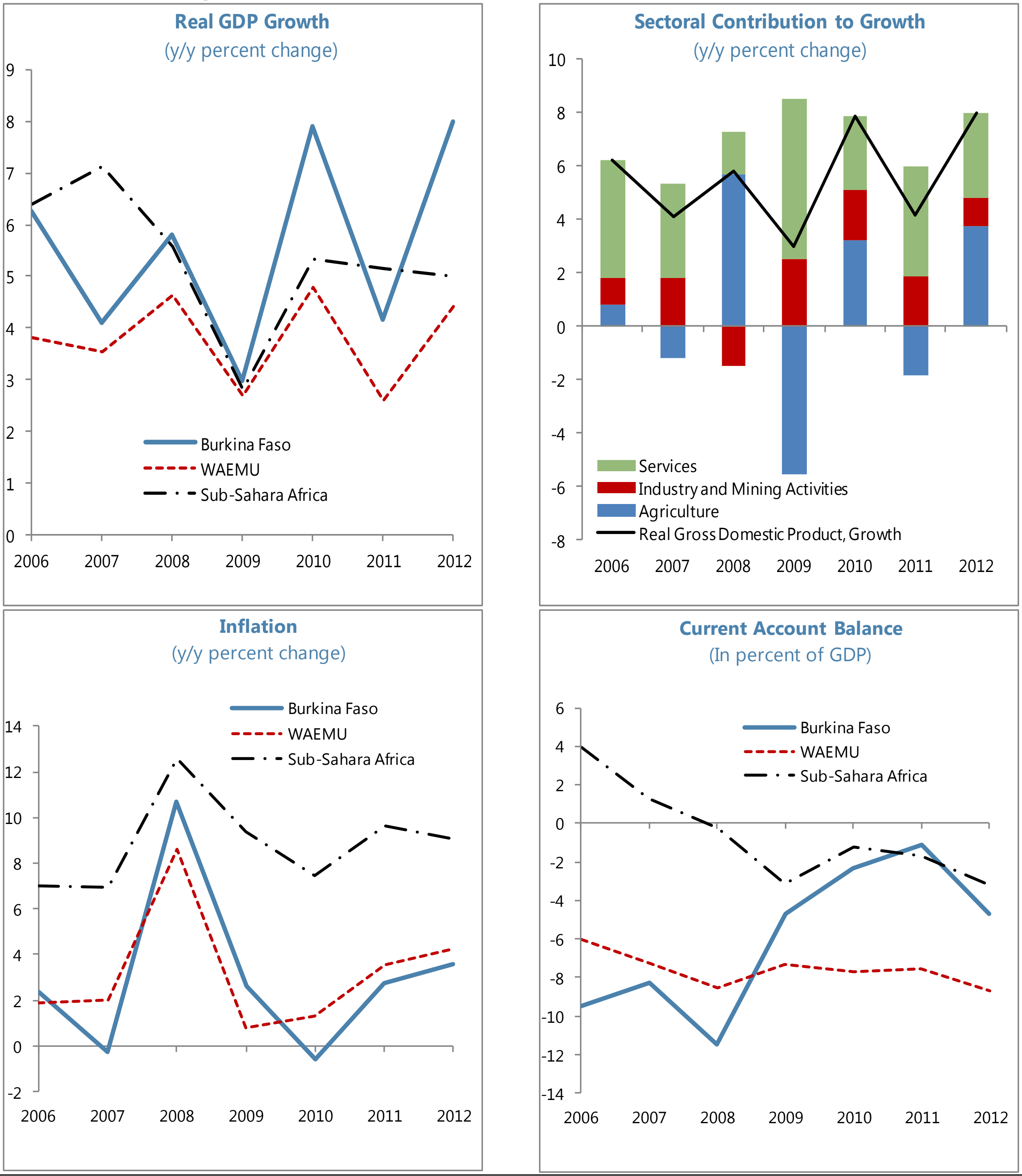
5. **Burkina Faso's growth was broad-based.** The primary sector's contribution slightly declined from 30.4 percent of GDP in 2000–06 to 26.8 percent in 2007–12, reflecting the series of weather-related shocks. Despite the emergence of gold production, the secondary sector's share did not increase (around 20 percent of GDP). The service sector grew from 43 percent of GDP in 2000 to an estimated 47 percent in 2012, mainly related to transport and trade, linked to developments in the agriculture and mining sectors.

6. **Inflation remained low, averaging about 3 percent during 2007–12, in line with the WAEMU convergence criterion of 3 percent.** In 2008, inflation peaked at 10.7 percent, reflecting high oil and food world prices as well as heavy floods, affecting a third of the provinces in the country (food-inflation was around 23.4 percent). Authorities responded to high commodity price pressure with temporary exemption from custom fees and VAT on basic products, sales of food at below market prices and suspension of the automatic oil price mechanism. Inflation has remained generally low since 2010, despite food shortages caused by the drought in 2011.



7. **The current account deficit narrowed in 2007–12, owing to the increase of gold production and price.** After deteriorating in 2008 to 11.5 percent of GDP, because of high world prices for food and oil and low world prices for cotton and low cotton production, the deficit fell to 1.1 percent of GDP in 2011, following a steady increase in gold production (Box 2). In 2012, the deficit is estimated to have slightly increased as a result of high volume of food imports in response to the drought and large number of Malian refugees. Remittances have stagnated during this period, averaging about 1 percent of GDP in credit and 1 percent in debit. In 2011, WAEMU countries accounted for 43 percent of received remittances, CEMAC for 15 percent, and Europe for 25 percent.

Figure 1. Burkina Faso: Selected Economic Indicators, 2006–12

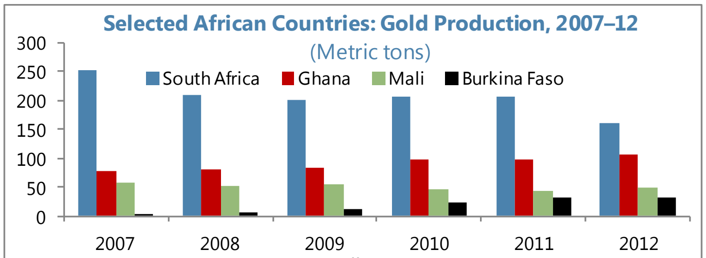


Sources: countries authorities; and IMF staff estimates and projections.

Box 2. Burkina Faso's Natural Resources

Burkina Faso's mining sector has recently grown to unveil a potentially significant source of wealth. Exploration and development studies of mining resources such as copper, manganese, zinc or clinker have started at a relatively slow pace. Gold instead has rapidly become a major source of revenue and contributor to growth.

Gold production. Production has increased considerably during the last five years. It has surged from 755 kg in 2007 to 30.2 tons in 2012, making Burkina Faso the fourth largest gold production country in Africa in 2012.

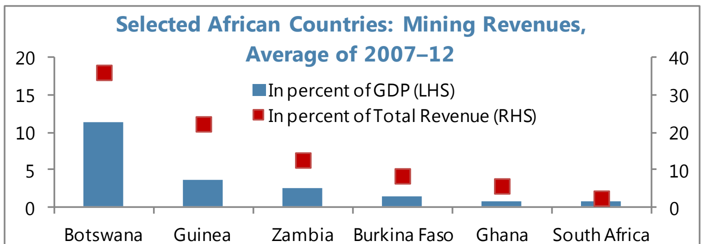


Sources: Country authorities; and IMF staff calculations

From 2007–12, the industry benefited from increased world gold prices and investment incentives and rapidly became a driver of growth—it is estimated that its contribution to growth has surged from 0.1percent in 2007 to 1.2 percent in 2011—and the dominant export (71 percent of export in 2012).

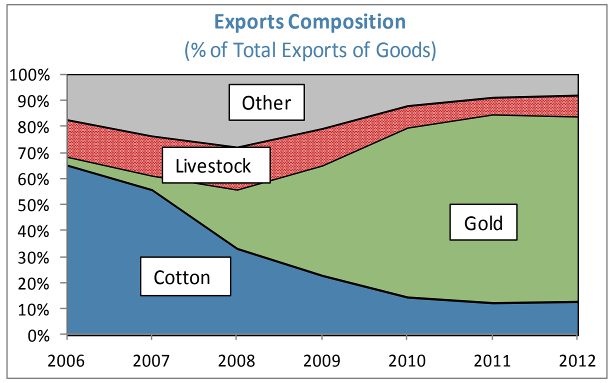
Although showing signs of slowdown in 2012–13 owing to hard rock layers and gold purity decline, production is expected to resume over the medium term. The 2 biggest mines, ESSAKANE and SEMAFO, have recently increased their life expectancy by 5 and 4 years, respectively. A new mine should start producing in 2013, with a production potential of 3 tons per year, while numerous exploration projects are underway, with total reserves estimated at, at least, 500 tons, adding to about 230 tons from existing mines. The Current Potential Index in the "2011/2012 Annual Survey of Mining Companies", which tracks whether or not a jurisdiction's mineral potential under the current policy environment encourages or discourages exploration and is conducted by the Fraser Institute of Canada, ranked Burkina Faso's 13th worldwide.

Gold revenue. Reflecting the surge of production, gold related revenues have increased from 1.2 percent of total revenue in 2007 to 21 percent in 2012 (respectively 0.2 and 3.5 percent of GDP). Revenue principally covers royalties and corporate income taxes. In 2010, the royalty rate moved from a fixed 3 percent to a sliding scale system of 3 to 5 percent, depending on world prices. The state holds a 10 percent stake in mining companies, with the remainder being held mainly by international companies, mostly Canadian.



Sources: Country authorities; and IMF staff calculations

8. **Exports increased from 11.4 percent of GDP in 2006 to an estimated 26.9 percent of GDP in 2012, reaching the WAEMU average.** The authorities took measures to support the cotton sector, including recapitalization of SOFITEX, the subsidization of fertilizers, the use of genetically modified seeds and new irrigation practices, and the introduction of a price mechanism for producers based on world prices. Despite these efforts, the contribution of cotton has fallen to 12 percent of total exports from 65.2 percent in 2006, including because of price shocks and unfavorable weather conditions, with volumes fluctuating significantly in response to the latter (for instance, these were 42 percent lower in 2012 than in 2006). Other projects, like the Bagré Growth Pole, to develop the agro-industry and research in new mining industries such as copper, manganese and clinker aimed at diversifying the export base. The surge of industrialized gold production has, however, been a game-changer for the Burkinabé economy, with gold increasing its share of exports dramatically to a staggering 71 percent in 2012. Europe and Asia are Burkina Faso's main export markets, accounting for 27 percent and 42 percent of total exports in 2011, respectively.

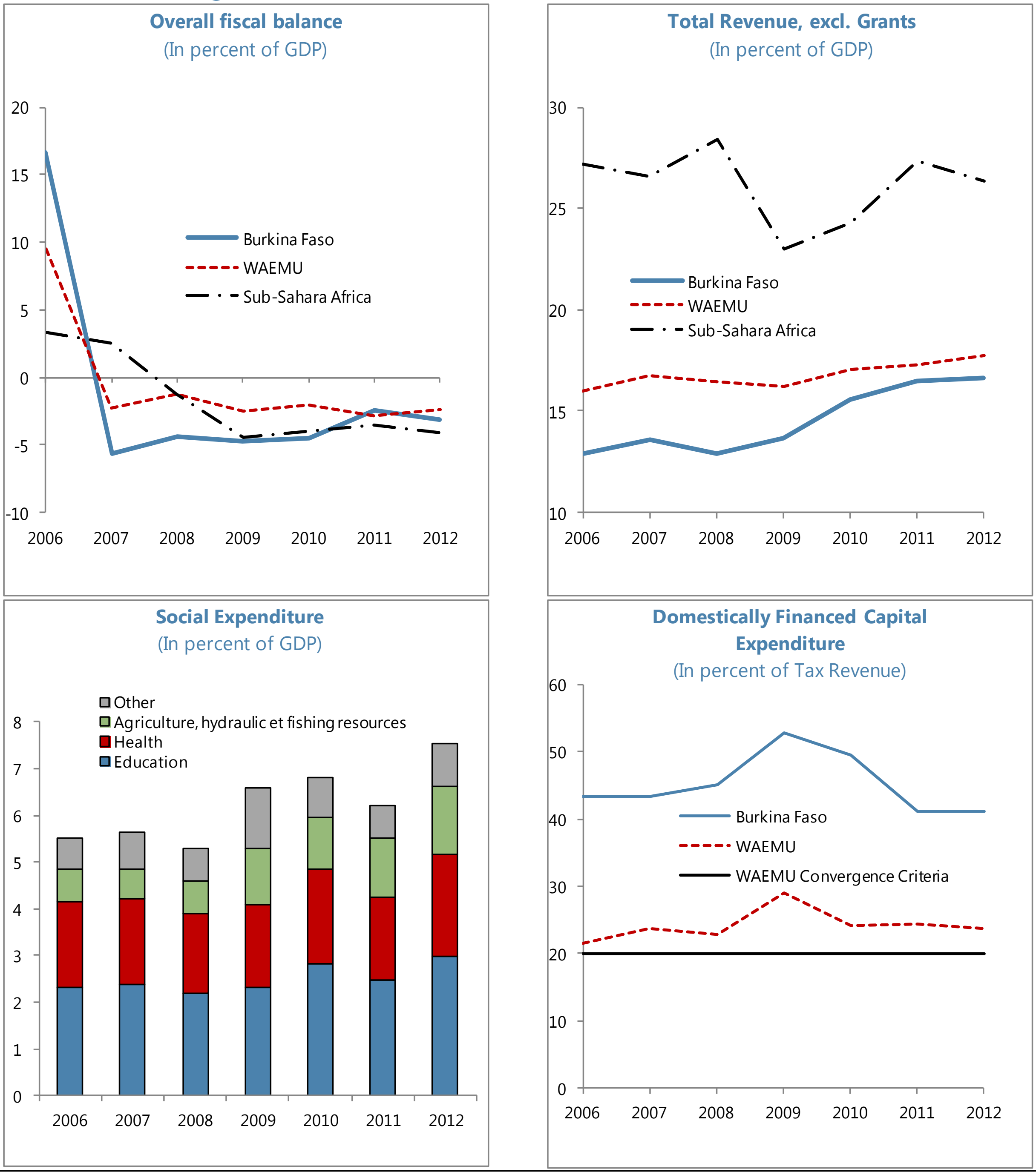


9. **Imports followed a similar trend to exports, expanding from 25.3 percent of GDP in 2006 to an estimated 36.6 percent of GDP in 2012.** More than 50 percent of imports are for capital and intermediate goods, illustrating the high level of investment in the country, including in the mining industry, and the limited domestic production capacity.

10. **The overall fiscal deficit, including grants, improved in the period 2007–12** (Figure 2), narrowing from 5.7 percent of GDP to 3.2 percent, bringing Burkina Faso in line with countries in WAEMU and Sub-Saharan Africa. Countercyclical fiscal policies in response to adverse shocks were able to be accommodated by growing revenue, which also helped create fiscal space for poverty-reduction expenditure.

11. **Tax revenue rapidly increased from 12.5 percent of GDP in 2007 to an estimated 15 percent in 2012, closer to WAEMU target of 17 percent.** Part of the improvement is due to revenue from gold production, with the remainder to reforms in tax policies and tax administration such as the introduction of a corporate income tax in 2010, the increase of gold royalties from 3 percent to 5 percent, measures to combat tax fraud and evasion and reforms of tax and custom agencies. The improvement in revenue collection has more than compensated the loss of income from temporary tax exonerations and oil subsidy.

Figure 2. Burkina Faso: Selected Fiscal Indicators, 2006–12



Sources: countries authorities; and IMF staff estimates and projections.

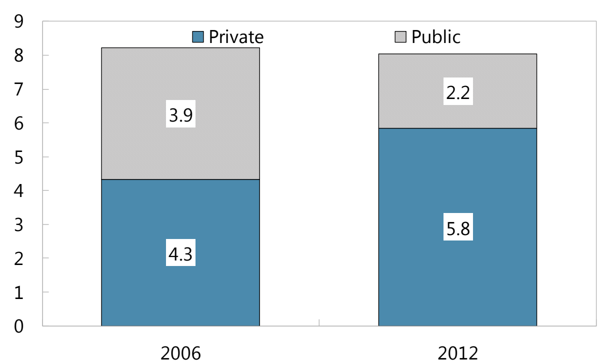
12. **Social expenditure is anticipated to reach 7.5 percent of GDP in 2012, after averaging 4.8 percent in 2000–06.** Authorities intensified poverty reduction measures through key pro-poor programs including school lunches, financial support for the elderly, a cash transfer system for the two major cities and food security programs. Consistent with the Strategy for Accelerated Growth and Sustained Development (SCADD), the authorities have increased spending for agricultural development, which plays a key role for poverty reduction. Investments in infrastructure (roads, irrigation) and measures to improve access to higher productivity inputs (enhanced seeds, subsidized fertilizers) aimed at stimulating food and cotton production and creating more resilience to climatic shocks while eliminating food deficits.

13. **Capital expenditure averaged 11 percent of GDP in 2007–12, higher than regional standards.** Domestically financed capital expenditure contributed about 54 percent of total capital expenditure. Burkina Faso is also way above the WAEMU convergence criteria on domestically financed capital expenditure as percentage of tax revenue. The authorities are taking measures to improve low administrative capacity and heavy procedures that have hampered execution of the investment budget, including by reducing redundant administrative steps with progress on automation (Box 3).

14. **The private sector grown faster than the public sector since 2006.** Several initiatives taken by the government to improve the business environment have facilitated significant growth in the private sector (Box 4). The mining industry, which is mainly operated by the private sector, significantly contributed to the expansion of the private sector in Burkina Faso. Furthermore, the government recently sold its stakes in the banking sector—which is growing rapidly although its GDP share is still small—to the private sector. The share of the private sector in gross domestic product, as estimated by staff, appears to have slightly increased since 2007, reaching almost 68 percent in 2011. On the demand side, private consumption growth was also strong, accounting for about 70 percent of domestic absorption growth. However, private investment decreased gradually in real terms and appears to have been offset by increasing public investment.

Burkina Faso: Growth Contribution, Private vs Public Sector

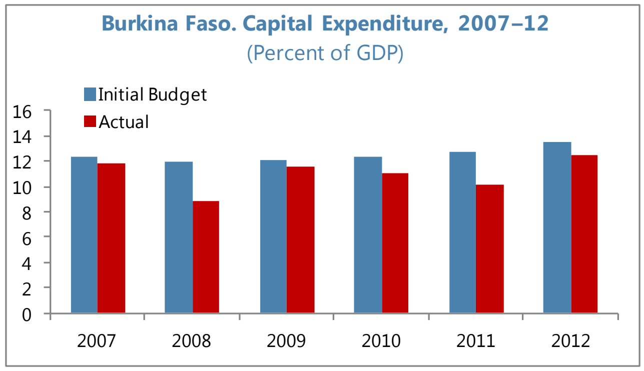
(Percent)



Sources: Burkina Faso authorities; and IMF staff estimates.

Box 3. Capital Expenditure Capacity

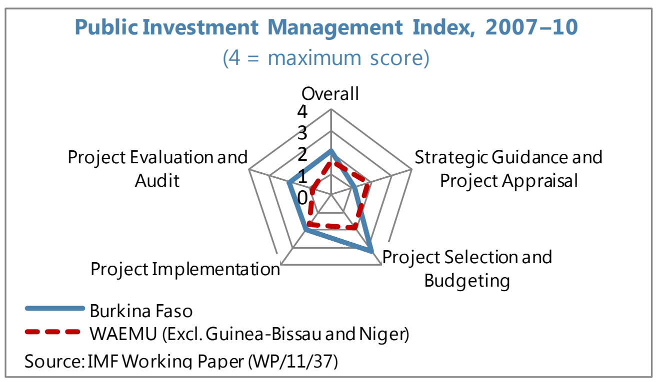
Through its Strategy for Accelerated Growth and Sustained Development (SCADD), the authorities have indentified the increase of public investment as a key factor to achieve the objective of accelerating progress toward the MDGs.



From 2007 to 2012, capital expenditure averaged 11 percent of GDP (54 percent of which was domestically financed). For each year, the realization has been lower than initially budgeted, owing to bottlenecks in the procurement procedures, low administrative capacity, and possibly overoptimistic projections.

Nevertheless, the government took several measures with a view to enhancing execution of capital expenditure such as the elimination of redundant procedures or the early preparation of projects. Throughout both programs, relevant structural benchmarks have been selected and met.

Burkina Faso. Selected Structural Benchmarks	
Produce reports on poverty-reducing expenditure, on a continuous basis.	Met in June 2010
Prepare an audit of expenditure commitment systems in line ministries.	Met in June 2011
Establish expenditure verification units in five ministries.	Met in March 2012



The IMF working paper "Investing in Public Investment: An Index of Public Investment Efficiency" (WP/11/37), published in 2011, calculates the Public Investment Management Index (PIMI) that aims at capturing *ex ante* and *ex post* dimensions of various stages of the investment process. According to this study, Burkina Faso has an overall score of 2.09 out of 4, higher than regional standards (WAEMU average excluding Guinea-Bissau and Niger is 1.59), with the weakest sub-index being Strategic Guidance and Project Appraisal, which points at a low capacity in the choice of public investment projects.

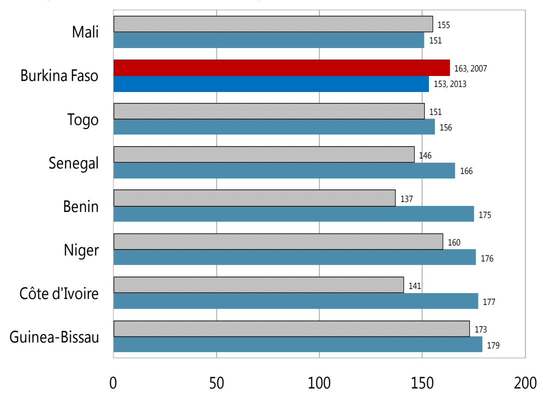
Box 4. Business Environment

Owing to continuous efforts by the government, Burkina Faso's business environment has gradually improved, although several challenges remain. Burkina Faso's rank as to the "Ease of Doing Business" improved from 163 in 2007 to 153 in 2013, more than in other WAEMU countries. Burkina Faso's ranking for 2013 is the second highest in the region whereas it ranked the second lowest in 2007. In particular, the indicators of "Starting Business," "Dealing with Construction," and "Registering Property" have improved substantially. Reforms in these areas, consisting of both regulatory changes and cost improvements, supported robust growth of private sector activities.

Despite these achievements, Burkina Faso remains among the lowest 20 percent performers. Cross-border trades remain extremely difficult in terms of both administrative procedures and costs, while weak investor protection, complicate and long tax payment procedures, which should however improve as a result of computerization of the fiscal administration, continue to hamper business.

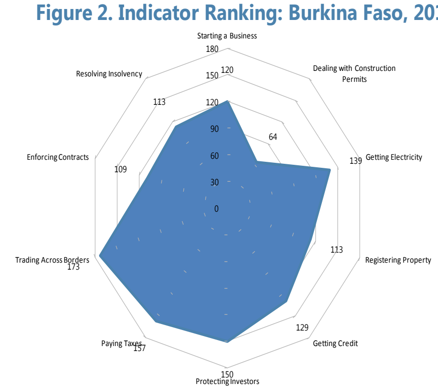
Doing Business Indicators

Figure 1. Rank of Ease of Doing Business: WAEMU, 2007 and 2013



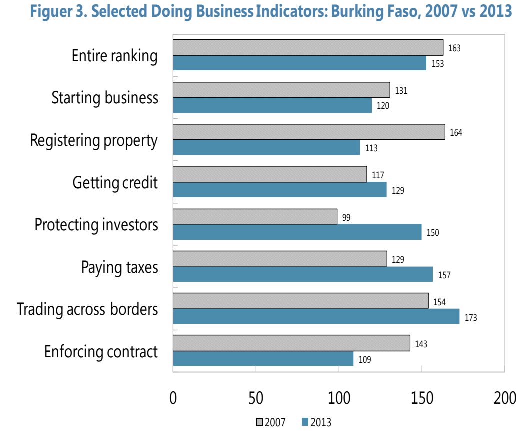
Sources: Doing Business

Figure 2. Indicator Ranking: Burkina Faso, 2013



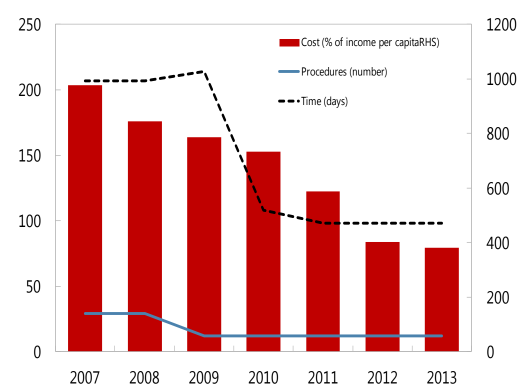
Sources: Doing Business 2013

Figuer 3. Selected Doing Business Indicators: Burkina Faso, 2007 vs 2013



Sources: Segoe UI - Size 18

Figure 4. Dealing with Construction: Burkina Faso, 2007-13



Sources: Doing Business, 2013

Source: Doing Business Indicator Report 2007 and 2013.

15. **While robust for most of the areas, especially children's education, further significant progress toward the MDGs is needed by 2015.** Benefitting from debt relief under the MDRI, and consistent with the national strategy, the government has kept its social spending around one-quarter of total expenditure, with education spending being the largest, accounting for around 40 percent of total social spending. The health sector also received a large part of the entire social spending (around 30 percent). The primary school completion ratio increased by 10 percent annually from 2006 to 2010, although the ratio remains far below target. There are a few other areas where even stronger efforts are required to achieve the MDGs goals: infant, children, and maternal mortality rates as well as the share of population consuming dietary energy below the minimum level needed before the 2015 deadline. In particular, the number of people affected by hunger has increased over the last two decades despite robust economic growth and strong improvement in children's malnutrition rate. Emission of carbon dioxide has slightly increased.

Primary completion ratio, average annual growth rate (percent)

	2006-Latest	2000-2006	2000-10
Burkina Faso	9.9	4.5	6.6
Benin[1]	4.8	8.1	6.0
Cote d'Ivoire	5.2	1.1	2.9
Guinea-Bissau	-	-	8.6
Mali	4.7	7.6	6.4
Niger	6.2	9.6	8.2
Senegal	4.0	3.9	3.9
Togo	-0.6	1.5	0.7

Source: World Development Indicators, World Bank

[1] The growth rates refer to the data between 2004 and 2011 and 2000 and 2004.

Selected Indicators of MDG

	2006	Latest[2]	Country target[1]
Population below $1 (PPP) per day, percentage[3]	57	45	36
Population undernourished, percentage	25	26	11
Malnutrition prevalence, weight for age (% of children under 5)	38	26	-
Total net enrolment ratio in primary education, both sexes	47	63	100
Primary completion rate, both sexes	31	45	100
Gender Parity Index in primary level enrolment	0.8	0.9	1.0
Children under five mortality rate per 1,000 live births	162	146	69
Infant mortality rate (0-1 year) per 1,000 live births	87	82	35
Maternal mortality ratio per 100,000 live births[4]	370	300	140
People living with HIV, 15-49 years old, percentage	1.4	1.2	-
Carbon dioxide emissions (CO_2), thousand metric tons per capita	0.09	0.10	-
Proportion of the population using improved drinking water sources, total	71	79	72
Proportion of the population using improved sanitation facilities, total	15	17	54

Source: Millenium Developing Goals indicators, United Nations, and World Development Indicators, World Bank

[1] Calculated from the available oldest data by IMF staff.

[2] 2009 through 2011 data are refered depending on availability.

[3] 2003 and 2009 data are refered.

[4] 2005 and 2010 data are refered.

16. **The Debt Sustainability Analysis (DSA) has underscored policy priorities for the Burkinabé authorities.** Burkina Faso benefitted from the MDRI, with an immediate impact on debt

service starting in 2006 (Box 5). In the aftermath, debt sustainability analysis has continued to highlight that the economy's narrow export base leaves medium-term fiscal sustainability vulnerable to volatile commodity prices and external shocks, that fiscal discipline and strengthening debt management/investment evaluation capacity remain crucial, and that any move away from grants toward concessional financing should be undertaken gradually. The inclusion of the 2011 CPIA score in the three year average has changed Burkina Faso's institutional capacity classification from medium to strong. This together with rapid expansion in gold production has recently determined a shift in Burkina Faso's risk of debt distress from high to moderate, underscoring the need to manage resource wealth appropriately while persevering with structural fiscal reforms.

FUND-SUPPORTED PROGRAMS: OBJECTIVES, CONDITIONALITY, AND OUTCOMES

Program objectives were broadly consistent with moving Burkina closer to achieving the MDGs. Conditionality was adequately sequenced and implemented with flexibility when warranted. Strong ownership and ability to bring donors on board have reinforced support for the program. Nonetheless, binding capacity constraints remain.

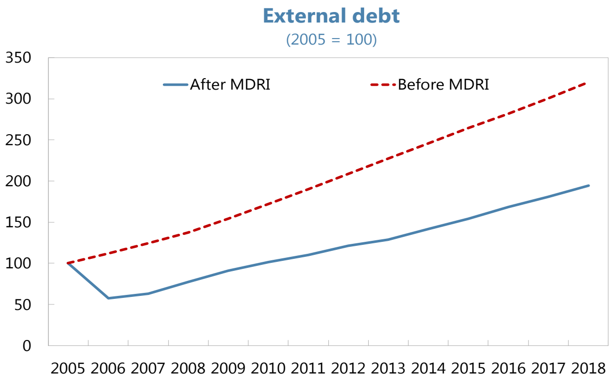
17. **The Fund continued to support Burkina Faso at the end of the 2003-06 PRGF arrangement.** The last review under the 2003–06 PRGF arrangement was completed in September 2006. All quantitative performance criteria were met. However, waivers were required for two structural performance criteria. Given the difficult external environment, the authorities requested an augmentation of access of 10 percent of quota. In completing the review, the Board commended the authorities for the robust economic performance in the context of strong implementation of Fund-supported programs and reiterated the need to strengthen efforts on growth-enhancing structural reforms to reduce poverty and facilitate the timely achievement of the MDGs.

A. PRGF Arrangement 2007–10

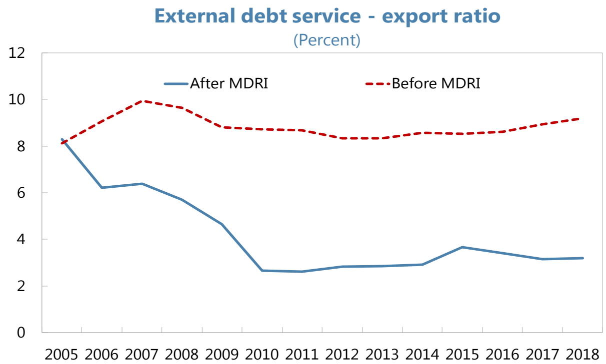
18. **The subsequent three-year PRGF arrangement—approved in April 2007—was instrumental in helping Burkina Faso preserve macroeconomic stability in a challenging environment, and secure a higher level of external budgetary support.** With the overarching objective of moving Burkina Faso closer to the MDGs by reducing the poverty rate to below 35 percent by 2015, while achieving income per-capita growth rates of at least 4 percent, program conditionality appropriately focused on: (i) rising domestic revenues, (ii) strengthening public financial management (PFM) to allow for better domestic absorption of aid and more effective poverty-reducing spending; (iii) increasing private sector participation to accelerate growth and diversify economic activity; and (iv) maintaining debt and fiscal sustainability. Due to protracted balance of payments fragility and an external position susceptible to fluctuations in commodity prices, IMF financial support remained essential to finance Burkina Faso's balance of payments needs and to catalyze donors' support.

Box 5. Burkina Faso—Multilateral Debt Relief Initiative and Debt Sustainability Issues

Along with the HIPC completion in 2002, Burkina Faso received additional debt relief under the MDRI to help achieve the MDGs. Burkina Faso's debt relief amounted US$1217 million, which accounted for about 21 percent of GDP in 2006. Three donors, the



Source: IMF staff calculation based on past DSAs.
Note: "before MDRI" line is computed based on the projections before MDRI was implemented.



Source: IMF staff calculation based on past DSAs.
Note: "before MDRI" line is computed based on the projections before MDRI debt relief was implemented.

International Development Association (IDA), the IMF, and the African Development Bank contributed to the debt relief under the initiative. The nominal amounts of the debt relief were US$756 million, US$76 million, and US$386 million, respectively. The impact of the debt relief under the MDRI on debt sustainability was significant. External debt stock declined by more than 40 percent in 2006, with the external debt to GDP ratio dropping from 40.6 percent in 2005 to 19.9 percent in 2006. Furthermore, the debt relief implied a decline in debt service by more than an average US$15 million every year, contributing to a significant reduction in the projected debt service to export ratio in 2018, from 9.2 according to the 2005 DSA to 3.2 according to the latest projections.

Even though the MDRI has significantly reduced Burkina Faso's external indebtedness with respect to its pre-debt relief level, debt ratios have deteriorated somewhat to reach 23.2 percent of GDP in 2012. The country's exports and revenue mobilization have improved, but this improved repayment capacity has been offset by increases in debt levels owing to new borrowing, albeit concessional. In addition, the economy's narrow export base left it vulnerable to volatile commodity prices and external shocks, compounding the risk embodied in domestic revenue performance with Burkina Faso's vulnerable export performance.

The high risk of debt distress highlighted in all debt sustainability analysis undertaken between 2007 and 2011 has underscored the importance of limiting external borrowing to concessional loans, maintaining a prudent fiscal policy to limit the accumulation of new debt, including by sustaining the ongoing tax reforms, and making continued efforts to diversify and increase exports.

Upon conclusion of the latest external debt sustainability analysis conducted by the IMF and World Bank in May 2012, Burkina Faso's risk of debt distress has fallen from "high" to "moderate". The shift has primarily reflected the rapid development of Burkina Faso's gold mining sector, combined with notable improvements in underlying macroeconomic fundamentals.

The change in rating is likely to imply greater flexibility in borrowing conditions under the current IMF/World Bank Debt Limits Framework. This adjustment could result in an accelerated move away from grants toward concessional financing—a change that would require determined efforts to continue strengthening debt management capacity to handle evolving needs.

Source: *Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI)-Status of Implementation and Proposals for the Future of the HIPC Initiative,* IMF, 2011, and various vintages of DSA.

19. **In spite of adverse external developments, overall program implementation was good, reflecting strong program ownership and suitable adjustment measures in the face of shocks.** During the program period, Burkina Faso's economy suffered from several adverse shocks: a drought (2007), the global energy and food crisis (2008), the global economic crisis (2009) and severe floods in the capital city (September 2009), in conjunction with the fall in international cotton prices and the appreciation of the euro to which the West African CFA franc is pegged. Despite such a challenging environment, almost all program quantitative performance criteria and indicative targets were observed (Table 3), owing to strong program ownership and significant flexibility of fiscal policy (including in terms of targets) in the face of shocks: fiscal policy loosened, while efforts to increase revenue collection intensified. Measures were also adopted to mitigate the impact of the global food and oil price shocks on the population, including subsidized fertilizers to stimulate food production, temporary suspension of import duties on basic consumer goods, and subsidies on petroleum products. Accordingly, the performance criteria on the ceiling on overall fiscal deficit was modified to allow for a slightly higher deficit, while an augmentation of access by 15 percent of quota was granted to smooth the drawdown in reserves needed to finance the higher deficit.[3]

20. **The track record in the implementation of structural reforms was also relatively strong** (Table 4). There was some delay in the implementation of the structural reform agenda in tax and custom administration, but the authorities addressed these delays promptly. Despite undeniable progress in structural reforms, restoring financial viability in the cotton sector proved challenging and the sector remained fragile. Ginning companies continued to face unsustainable levels of accumulated losses, thereby raising potential risks for the banking system.

21. **Good policy performance contributed to macro stability and supported poverty reduction effort.** Overall fiscal performance strengthened. Efficiency gains in tax administration, new tax policy measures and actions to combat tax evasion sustained revenue performance during the program. The revenue to GDP ratio increased from 13 percent in 2006 to 15.6percent in 2010. Total expenditure remained at around 25 percent of GDP over the same period. Poverty reduction measures were intensified. In 2010, poverty-reducing outlays reached an average of just above 27 percent of total expenditure, up from 23 percent in 2006.

B. Extended Credit Facility Arrangement 2010–present

22. **Approved in June 2010, the three-year arrangement under the Extended Credit Facility (ECF) was designed to support the authorities' program to enhance growth prospects and poverty reduction efforts.**[4] Consistent with the priorities defined in the authorities' growth

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[3] On January 2008, an SDR 9.03 million increase in access was approved to help address the impact of higher oil prices and the adverse shock to the cotton sector (see EBS/07/153).

[4] The successor ECF arrangement was increased from the norm of 75 percent of quota to 76.67 percent of quota. The difference reflected an amount equivalent to the disbursement that would have become available on completion of the sixth review. Because the authorities' request to extend the program period was not submitted to the Board on time, the arrangement was not extended beyond its expiration date of April 22, 2010 to permit completion of the sixth review.

and sustainable development strategy, the key macroeconomic objectives under the new program were to: (i) raise the real GDP growth above 6 percent by 2013; (ii) contain inflation below 3 percent; and (iii) reduce the external current account deficit further.[5] Largely in line with previous Fund engagement, the new program mainly focused on fiscal consolidation to sustain macroeconomic stability and safeguard debt sustainability, as well as on a reform agenda geared to enhancing broad-based growth prospects and supporting private sector development. In particular, structural reforms were centered on measures to further strengthen revenue collection and public financial management, as well as decisive actions to close the infrastructure gap, improve the business climate, and advance reforms in the cotton and financial sectors.

23. **Amid unprecedented external challenges, Burkina Faso's program implementation and macroeconomic performance remained strong.** Despite social unrest, regional political turmoil, an influx of Malian refugees, inadequate food supplies, adverse weather, and the weakening of the global economy, the program has—thus far—remained broadly on track (Tables 5 and 6) and macroeconomic developments have been roughly in line with expectations. Good performance in agriculture, mining and service sector has supported growth and export, successfully weathering adverse shocks. In addition, an augmentation of access equal to 60 percent of quota (SDR 36.1 million) was approved in June 2012 under the existing ECF arrangement to address the balance of payments needs arising from the response to the food security crisis and an influx of Malian refugees.

24. **Domestic revenue collection has increased, as a result of tax policy and administrative reforms, as well as new revenues from fast-growing gold mining activities.** The authorities' continued efforts to enhance revenue collection have increased fiscal space for an ambitious public investment program and much needed social spending, consistent with the sustainable use of Burkina Faso's natural resources as discussed below.

25. **Improvements on the revenue side, however, have not been matched by progress on the spending side.** Despite progress in strengthening revenue mobilization, the government's capacity for spending execution did not keep pace (Box 6). Reflecting apparent capacity constraints on spending execution, capital expenditures were consistently below programmed levels, posing risks to long-term growth prospects.

26. **While important progress in implementing structural reforms has been made under the program, additional efforts are needed to strengthen capacity and stimulate broad-based economic growth (Table 6).** Cotton and petroleum sector reforms have been also lagging behind. In particular, progress toward divesting a majority stake in the state-owned cotton ginning company, SOFITEX, was delayed. Delays have been also characterizing the launch of a flexible fuel pricing mechanism aiming at smoothing short-term adjustments while safeguarding long-term fiscal sustainability. In this regard, further measures, which the authorities are considering, to

[5] The authorities' homegrown development program was defined in the Poverty Reduction Strategy Paper (PRSP) and its successor, the Strategy for Accelerated Growth and Sustained Development (SCADD), which was completed in 2011.

Box 6. Revenue and Public Financial Management

Revenue reform

Burkina Faso has made substantial efforts to improve government revenue and public financial management with the support of international organizations, particularly the IMF and AFRITAC West, which have provided 60 technical assistance missions between 2006 and 2011 (34 on fiscal issues).

Progress on revenue reforms was especially remarkable. Further to IMF staff recommendations, the government kept improving their revenue systems, including tax administration, VAT, corporate tax, and tax incentives. In 2011, the authorities adopted the new tax reform strategy, including computerization of custom collections. Furthermore, the government is revising the mining code.

The outcome of those efforts is significant, but revenue remains below regional targets. Income tax revenue in percent of GDP was improved from 2.8 to 4.2 from 2005 to 2011, and VAT in percent of GDP increased from 6.4 to 7.6 during the same period. In particular, a decrease in consumption share in GDP during this period shows the improvement of effectiveness of tax collection. However, 2011 tax ratio to GDP is 14.5 percent, which is still below the WAEMU target 17 percent). Therefore, further efforts are expected.

PFM reform

Reform of public financial management (PFM) was sluggish until 2009. For instance, although a plan to introduce Program Budgeting (PB) had existed since 1999, inadequate progress was achieved as of 2009, requiring an extension of the target year for PB implementation plan to 2015 from 2012 at first and to 2019 subsequently in 2011. Full adoption of the WAEMU's PFM framework, which is ambitious, has not yet been completed; in particular, incorporating financial management information system (FMIS) in the framework is delayed while the capacity of the supreme audit institution (Cour des Comptes) is highly limited.

Since 2009, however, some important progress in PFM has been made. The authorities streamlined the documentation needed for expenditure payment and adopted a new treasury cash flow plan. Many necessary tools and measures for transition to the PB were adopted, such as introducing the medium-term budgetary framework and implementing the strategy for strengthening public finance (SRFP). Also, organizational and financial audits of expenditure commitment systems were strengthened.

The latest TA mission pointed out the following areas for further work:

- To consider speeding up the implementation of the roadmap to update the FMIS as a priority to avoid downstream risks;
- To involve the parliament and the supreme audit institution in the ongoing reform;
- To submit the draft laws for internalization of the WAEMU directives to the WAEMU Commission for quality assurance;
- To improve the usefulness of the MTEF as a multiyear budgeting tool by extending its coverage to government agencies and donor-funded projects and updating it regularly;
- To communicate the strategy for moving to accrual accounting to all those affected and involve them in its implementation;
- To consider simplifying the current internal audit structure to avoid too many duplicating layers;
- To audit the expenditure chain in order to identify bottlenecks and address them as devolution of budget responsibilities to line ministries progresses.

support smooth reform of the fuel price mechanism are welcome and should free resources for social spending while depoliticizing energy pricing.

C. Lessons

27. **Despite repeated adverse shocks, recent programs met key objectives, illustrating the importance of strong program ownership, flexibility in program implementation, and adequate technical support, including by the Fund via its technical assistance (TA).** Burkina Faso's experience shows that the effectiveness of Fund engagement in a challenging environment lies in the ability of building flexibility into the program, for example through the use of adjusters and focused conditionality (Box 7). In this context, the frequent resort to augmentations of access can also be seen as evidence of adequate flexibility in program financing to adjust to the extraordinary adverse shocks hitting Burkina Faso over the period 2007-12.[6] A relatively fluid approach to program design and implementation may contribute to macro stabilization and secure higher level of external budgetary support. TA played an important role in accompanying reforms, especially in the public sector. Essential, however, remains for all TA providers to follow up on their recommendations, while ensuring that topics are chosen flexibly and delivered in a coordinated fashion to ensure the authorities would benefit the most. Future TA could usefully include a significant training component to facilitate the effective implementation of specific reform recommendations.

28. **Despite the program's considerable emphasis on increasing social outlays, improving the quality of public expenditure remains a challenge.** The program actively promoted a shift of public resources away from the wage bill and into pro-poor spending. The latter was concentrated in education, food security, and maternal and early childhood health.[7] Despite the improvements in living standards from free health care and school lunches, public spending has fallen somewhat short of expectations in improving income poverty indicators. These efforts have been frustrated to some extent by the need to divert resources to more immediate needs in the face of repeated economic emergencies, weak absorptive capacity resulting from institutional constrains and poor infrastructures, and strong demographic pressures.[8] Greater focus is therefore needed on public spending to improve infrastructure and training/secondary education, including to bring down input costs and create more employment, particularly in those sectors with a high level of poverty and greater scope for job creation. While the factors behind the challenge to deliver more uniformly strong gains in poverty reduction under recent Fund-supported programs require further study, strengthened capacity to deliver pro-poor programs and promote inclusive growth appears to be a priority (Box 8).

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[6] See Table 1, according to which 60 percent of access approved in the last two arrangements came from augmentations.

[7] The Ten-Year Development Plan for Basic Education (PDDEB) was completed in 2010 and successfully increased the number of students and the ratio of books to students.

[8] The Reproductive Health Project, which began in 2011, aims at improving the utilization and quality of reproductive health services in selected regions.

Box 7. Assessing Program Conditionality

Conditionality has appropriately focused and broadly aligned with the overarching program objective of reducing poverty while preserving stability in a challenging environment.[1] Conditionality was generally well-tailored to country and program characteristics, as well as to initial macroeconomic conditions and widespread capacity constraints. In particular:

- Program execution was supported by parsimony of conditionality and flexible timelines for program implementation. Both quantitative performance criteria and structural conditionality were parsimonious (in number), but appropriately focused on a few macro-critical variables, which helped enhance ownership.
- Conditionality has tended to be focused on core areas of Fund responsibility, which helped reduce the risk of overwhelming the country's capacities. Coordination with other institutions supported parsimony and made conditionality more effective by avoiding duplicate measures.
- Program design adapted flexibly and appropriately to the challenges of the global financial crisis and its aftermath.
- The macroeconomic impact of the programs appears to have been generally positive, and social spending has usually been largely protected, although progress in reducing poverty has been quite disappointing.

While conditionality over past programs has been broadly appropriate, future program implementation and reporting on discussions could be strengthened by:

- Greater clarity on structural conditionality in program documents, particularly the adequacy of progress in structural reforms subject to review-based conditionality.
- Enhancing transparency, through more discussion of alternative policy options, greater clarity in program documents, and new avenues to collect external views.
- Strengthening the analysis of both long-term benefits and short-term and macro-social costs of alternative policy options, through standing dialogue with authorities.
- Developing a framework with a greater range of robustness tests with respect to identified risks (including by cross-checking against past crisis cases) with the aim of strengthening debt sustainability assessments.
- Consolidating partnerships with other institutions and donors to ensure adequate financing and coherent conditionality while avoiding duplications. In a similar vein, maintain a standing dialogue with relevant regional institutions could help dealing with common and recurrent capacity constraints.

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[1] Principles guiding conditionality in Fund's programs are stated in the revised Staff Statement on Principles Underlying the Guidelines on Conditionality, and Operational Guidance Note on Conditionality – January 2010 Revision.

Box 8. Pro-poor Growth

The literature on the effectiveness of pro-poor spending shows that economic and social dimensions of poverty are interlinked and that effective poverty reduction needs actions on both.[1] Growth has been more successful in reducing poverty when policies have been in place to deal with the risks, vulnerabilities and market failures that hold back people's participation; ultimately these policies have been able to create jobs, which, unlike subsidies, can offer a sustainable source of income and self worthiness. In this regard, the development by the Burkinabé government of a Special Program for Job Creation to reduce youth and female unemployment in response to the 2011 social unrest is welcome.

Policies to develop the private sector need to focus on providing incentives that generate pro-poor outcomes in markets that matter for the livelihoods of the poor. For instance, these should be directed to eliminate regulatory and administrative barriers, reduce fees and financial requirements, improve infrastructure and eliminate bottlenecks, provide key business services (including business development advisory and financing services), while strengthening governance and, sometimes, transform socio-cultural attitudes. In this regard, the Bagré Growth Pole Project in 2011, and the recent Samendeni Dam Project represent important steps in promoting private economic activities, generating employment, and reducing poverty, including by improving food security. Significant contribution to pro-poor growth could also come from improving competition law and its enforcement as well as supporting prudent mobilization of savings and remittances while helping bridge the gap between banks and microfinance institutions so that greater access to financial services is mainstreamed in the development of the financial sector.

Agriculture usually accounts for a large part of the economy in low-income countries. Sound investments in agriculture and policy reform are cost-effective investments to support pro-poor growth. Increasing sector output is not enough: policies should focus on the role of agriculture in improving existing livelihoods, serve as catalyst for transforming livelihoods by providing new opportunities on and off-farm, and reduce risk and vulnerability. Priorities to this end include: (i) increasing access to markets, assets, and productivity enhancing technology, and investment in infrastructure (power and roads); (ii) improving opportunities to earn non-farm incomes by facilitating labor mobility, investment in transport and communications services and access to health and education; (iii) addressing risk and vulnerability by focusing on prevention strategies (e.g. drought resistant crops, irrigation), mitigation strategies (e.g. crop and price insurance instruments), as well as coping strategies (e.g. smart transfers and safety nets); and (iv) supporting the development of country-led national development strategies as part of the pro-poor growth agenda and fostering partnerships on the ground among the various regions/states.

Implementing policies to promote pro-poor growth involves a continuous process of strengthening the engagement between policy makers and the representatives of the private sector and civil society, especially those who represent the interests of the poor, while promoting evidence-based, transparent decision making to arrive at policies suited to the local context. In this regard, donors too may need to reconsider the way they relate to partner countries and the modalities they use to provide assistance to ensure that their support is effective in fortifying collaboration among the various characters and the policy dialogue.

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[1] Rodrik, Dani, 2000, "Growth versus poverty reduction: a hollow debate" in *Finance and Development*, International Monetary Fund, Washington, D.C., OECD, 2007, *Promoting Pro-Poor Growth: Policy Guidance for Donors*, POVNET, DAC, Paris, Manning, Richard, 2007, "Pro-poor growth: negotiating consensus on a contentious issue", *Society for International Development Journal*, Vol. 50, pp. 42-47, Clements, Benedict, Sanjeev Gupta, and Masahiro Nozaki, 2011, "What Happens to Social Spending in IMF-Supported Programs?", International Monetary Fund, SDN/11/15, Carey, Kevin Joseph, Catherine A. Pattillo, and Sanjeev Gupta, 2006, *Sustaining and Accelerating Pro-Poor Growth in Africa*, International Monetary Fund, Washington, D.C..

29. **To build on recent progress and enhance medium-term prospects, structural reforms have to maintain momentum to diversify economic activity and enhance competitiveness.** Although most structural reforms benchmarks were achieved (Tables 2 and 4), there is a need to push ahead with measures aiming at supporting financial sustainability in the cotton sector, designing a flexible and gradual approach to petroleum prices, and improving the business climate. Access to financial services, including for SMEs, should also be broadened (Box 9).

30. **Strong coordination among development partners is crucial to program success.** Good cooperation with donors and civil society has resulted in a relatively stable net flow of aid and broad macroeconomic stability. In addition to their efforts to expand the resource envelope, the Burkinabé authorities have also been able to intensify inclusive growth and create larger growth synergies with the Bagré Growth Pole project.[9] An investor roundtable in September 2012 has attracted large interest by donors and civil society and the authorities wish to earmark a larger sum for the project in 2013.

KEY REFORM PRIORITIES AND FUTURE FUND INVOLVEMENT

31. **Notwithstanding the significant progress achieved so far, Burkina Faso continues to face daunting economic challenges and acute poverty reduction needs.** As acknowledged by the 2006 EPA, widespread capacity constraints may have reduced the dividends from reforms and put limits to diversification efforts. The gist of the 2006 EPA recommendations—though not necessarily the urgency of specific actions as a result of the authorities' commendable efforts—is still valid, as these recommendations identify objectives that can be achieved only gradually over the years and with constant effort. As discussed above, there are several areas in which further reforms are needed, particularly improving the quality of public spending, enhancing PFM, further boosting revenue mobilization, strengthening governance and administration, which should help make a bigger dent into poverty reduction than has been the case so far.

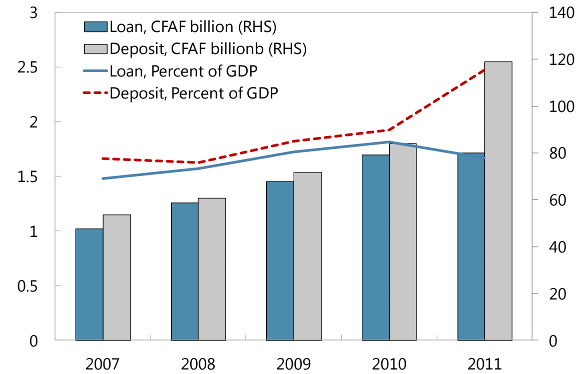
32. **Burkina Faso also faces a newer challenge or rather an opportunity that must not be missed.** As discussed, over the last few years Burkina Faso has emerged as a large potential exporter of gold relative to other countries in Sub-Saharan Africa and to the size of its exports, which has already improved Burkina Faso's external position and generated a rapid and sizable increase in fiscal revenue. Against the backdrop of low per capita incomes, limited access to international capital markets, and scarcity of domestic capital, the opportunity is now to ensure that this exhaustible underground resource be transformed into a portfolio of other physical, human, and financial assets to support sustainable development for this and future generations.

[9] See Box 3, IMF Country Report No. 13/26.

Box 9. Microfinance Institutions (MFIs) in Burkina Faso

Microfinance is a growing industry. Compared with 2007, outstanding loans from and deposits in MFIs increased by about 68 percent and 121 percent, respectively. The growth speeds are indeed faster than its nominal GDP growth. Furthermore, the (recorded[1]) amounts of loans and deposits in terms of GDP, 1.8 and 2.7 in 2011, are the largest in the WAEMU region. The national microfinance strategy, which became recently effective, is expected to enhance the further development of the sector and to improve the regulatory framework.

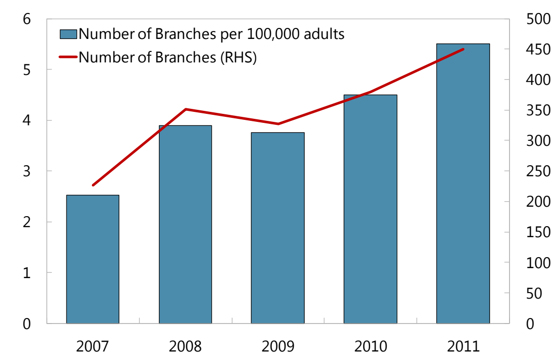
Figure 1. Loan and Deposit in Microfinance: Burkina Faso, 2007-11



Sources: Financial Access Survey, IMF

Currently, regulation frameworks of MFIs in Burkina Faso are two-fold: WAEMU Banking Commission supervises large MFIs (more than CFAF 2 billion assets or deposits) and the rest of MFIs are supervised by the Microfinance Directorate at the Ministry of Finance. However, implementations of regulations are weak although efforts have been made to strengthen supervision along with the program conditionality in 2009.

Figure 2. Number of MIF branches: Burkina Faso, 2007-11

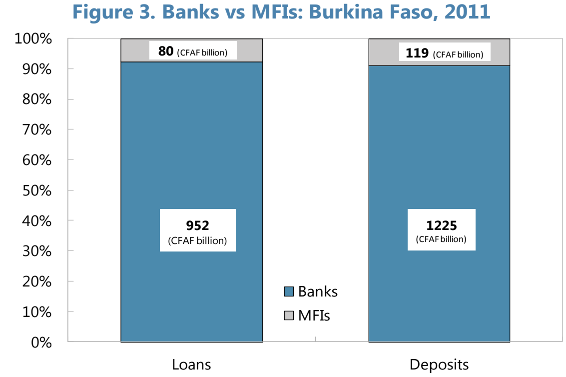


Sources: Financial Access Survey, IMF

In order to ensure the development of the microfinance sector, capacity building of MFIs and credit information provision to creditors should be urged. The recent strong growth with weak regulations could raise a risk. Quality of human capital for risk management should be improved as soon as possible, as the neighboring countries.[2] Also, limited information on borrowers for creditors could hinder MFIs' (and formal banks') loan decision.

Furthermore, regulatory and judicial systems related with land collateral mechanisms are another area to be reformed. Experience of Uganda, where the microfinance sector is increasing access to finance despite dominant role of commercial banks in the financial market, showed that shortcomings of land collateral mechanisms could hamper financial access.[3]

Figure 3. Banks vs MFIs: Burkina Faso, 2011



Sources: FAS, IMF; and Internatinoal Financial Statistics, IMF

Monetary statistics should cover MFIs. Although MFIs' loans and deposits account for 7.8 and 8.9 percent of entire private loans and deposits, the current monetary survey does not take into account them. As a result, broad money in the country is somewhat underestimated.

[1] The data of MFs' loans and deposits in Benin, Cote d'Ivoire, Guinea-Bissau, and Togo are not available. But, it is very unlikely that loans and deposits in those countries are higher than Burkina Faso due to their extremely small number of MFIs and MFI branches per 100,000 adults.

[2] See, for example, the 2012 Article IV Staff Report for Senegal (IMF Country Report No. 12/337).

[3] See "*Enhancing Financial Sector Surveillance in LICs: Financial Deepening and Macro-Stability*", IMF Policy Paper (2012).

33. **Management of natural resource wealth should feature front and central in future discussions about Burkina Faso's economic development strategy.** This strategy would require (i) a policy framework that ensures fiscal sustainability and macroeconomic stability, (ii) appropriate fiscal institutions that ensure transparent and efficient management of resource wealth, (iii) adequate infrastructure and human capital to allay supply-side bottlenecks (for instance, by targeting public investment to improve power-generation capacity, transportation, and education), (iv) strengthened governance, and (v) sufficient and timely data to be able to assess performance effectively. The challenges in managing natural resource wealth are discussed in the Appendix.

34. **Short- and medium-term fiscal targets should be informed by long-term fiscal sustainability frameworks.** Traditional methods, such as those based on the Permanent Income Hypothesis, are ill-suited because they aim to smooth consumption over time, but cannot capture the growth-enhancing benefits of a short-term scaling up of investment. External stability and debt sustainability analyses also have limitations in anchoring fiscal policy when net debt is potentially negative as assets are projected to surge. The choice is that of setting an appropriate path for public investment and largely smoothing government consumption to avoid short-term capacity constraints subject to an expected resource revenue envelope that is based on expected, but realistic, production and prices. In this context, fiscal rules and precautionary savings can protect this path from the volatility of actual revenues, from unintended procyclical fiscal impulses that could exacerbate inflationary pressures, real exchange rate appreciation, and loss of competitiveness in specific sectors (Dutch disease). Fiscal rules could be designed and calibrated to be consistent with regional convergence criteria (Box 10).

35. **The fiscal policy framework would need to be based on a multiple indicator approach.** Traditional fiscal indicators, such as the overall and primary balances, would result in incomplete and potentially misleading conclusions about the sustainability of public finances and the impact of fiscal policy on the economy. Specifically, indicators are needed to assess: (i) the short-term fiscal stance (that is, whether an expansionary fiscal policy is leading to inflation and larger current account deficits) and (ii) solvency (that is, the government's capacity to meet the intertemporal budget constraint). While one such indicator could be the NRPB, it would be appropriate to rely on a wider battery of supplementary indicators.

36. **Strengthening absorptive capacity and institutional transparency and accountability is also crucial.** Plans to ramp up investment spending are sometimes frustrated by bottlenecks at the microeconomic level such as weaknesses in project implementation, project selection, and budgeting, lowering the efficiency of investments. Steady efforts are needed to reinforce public financial management, build the technical capacity of the civil service, and put in place institutional structures and procedures that ensure government transparency and accountability and strengthen the business climate with attendant positive impact on competitiveness. Resource fund flows

Box 10. WAEMU Surveillance Framework

WAEMU's multilateral surveillance framework is based on five first-order and four second-order convergence criteria:

First-order (mandatory) criteria

- Basic fiscal balance/GDP (≥ 0 percent)[1]
- Average annual CPI inflation (≤ 3 percent)
- Total debt/GDP (≤ 70 percent)
- Change in domestic arrears (≤0)
- Change in external arrears (≤ 0)

Regional Convergence Criteria

(Number of countries violating)

	2005		2006		2007		2008		2009		2010		2011		2012	
First-order															proj.	
Basic fiscal balance/GDP	8	*	8	*	7	*	7	*	6	*	3		6		5	*
Average CPI inflation	7	*	1		2		8	*	0		1		5		4	*
Total debt/GDP	2		2		3		3		2		0		1		0	
Change in domestic arrears	2		2		2		2		0		0		0		0	
Change in external arrears	3		3		3		2		2		0		1		1	
Second-order																
Wage and salaries/tax revenue	4	*	4	*	3	*	4	*	5	*	4	*	5	*	6	*
Capital expenditure domestically financed/tax revenue	3		4		4		3		3		4		2		2	
External current account balance, excluding grants/GDP	5	*	4	*	7	*	7	*	7	*	6	*	7	*	7	*
Tax revenue/GDP	7	*	7	*	7	*	6	*	7	*	7	*	7	*	5	*

Source: WAEMU; BCEAO; and IMF staff estimates.

Second-order (supplementary) criteria

- Wages and salaries/tax revenue ratio (≤ 35 percent)
- Capital expenditure domestically financed/tax revenue (≥ 20 percent)
- External current account balance, excluding grants/GDP (≥-5 percent)
- Tax revenue/GDP (≥ 17 percent)

In addition to these convergence criteria, regional integration indicators have also been monitored since 2012:

- Changes in per capita GDP relative to average in the zone
- Change in intra-regional trade as a share of the total
- Visa and/or passport requirement for labor mobility within the WAEMU
- Number of projects underway and completed relative to plan related with the Regional Economic Plan
- Disbursements relative to commitments related with the Regional Economic Plan
- Doing Business Indicators
- Share of (intraregional) cross-border bank-to-bank transactions (both in value and volume)

Detailed targets, guidelines, and/or rules for member countries have not yet been determined and the WAEMU's correcting mechanism for failures of first-order criteria has never been enforced.

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Sources: WAEMU authorities; and IMF staff.

[1] Total fiscal revenues, excluding grants, minus total expenditures excluding foreign-financed investment expenditure. From 2009, total fiscal revenues plus budget support grants plus counterpart of HIPC/MDRI-related spending for both current and capital spending less current expenditure and capital expenditure financed by own resources.

should be integrated into the budget process to ensure its integrity and protect its role as the mechanism for setting expenditure priorities and allocating public resources.[10]

37. **Adequate and timely data are required to support the development strategy.** Detailed statistics, such as those compiled under the System of Environmental and Economic Accounts can help support resource management strategies by making explicit the contribution to the economy of natural resources and by allowing an effective and timely assessment of such strategies.

A. Modalities of Future Fund Engagement

38. **After many years of largely successful IMF-supported programs, there is a strong case for the Fund to remain engaged in Burkina Faso.** With a very low income base and a still uncertain growth takeoff, Burkina Faso is likely to remain strongly dependent on external support, for which Fund engagement is likely to play a catalytic role.[11] The authorities, with the support of the international donor community, have made important strides toward bringing Burkina Faso closer to the MDGs, and are to be commended for their steady implementation efforts.

39. **Future Fund engagement would be important in further assisting the authorities anchor their reform efforts, while having an important signaling role for donors, creditors, and the general public.** A multi-year program would best meet this goal. If Burkina Faso's financing needs can be met without Fund resources, its macroeconomic performance has reached the point where a PSI-supported program would be an option. Alternatively, continued Fund financing would be possible under a low-access ECF arrangement.

40. **Program monitoring and conditionality should remain parsimonious, focused on macro-critical areas, and mindful of capacity constraints.** As discussed, performance criteria, indicative targets, and structural conditionality and benchmarks would need to ensure an appropriate monitoring and assessment of the authorities' ability to manage Burkina Faso's natural resource wealth, including with regard to reforms in those areas that would help maximize the resource windfall (tax regime), and the effectiveness with which this windfall is invested (absorptive capacity) and its impact and sustainability assessed (data). Continued support via focused TA would remain crucial. As the incidence of external shocks is unlikely to abate over the typical program horizon, steps to built fiscal buffers and program flexibility would remain essential.

41. **Fund TA will remain instrumental in strengthening institutional capacity, and in guiding and pacing reform momentum.** More specifically, and based on recent Fund TA, the main priorities for future Fund TA engagement, in addition to continuing to strengthen revenue mobilization, public finance management, and debt management, relate to mining, particularly the

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[10] The Santiago Principles (2008) adopted by a group of internationally recognized funds, provide a set of generally accepted good operating principles that can help guide countries with the financial management of fund resources.

[11] While it is difficult to provide any counterfactual in a country like Burkina Faso where the Fund has been continuously engaged for 22 years, the literature find that concessionary IMF programs under the PRGF (and its predecessors) were positively and significantly linked to official development assistance (see, for instance, Bird and Rowlands, 2009). The strong statistical association seems to reflect chiefly a convergence of interests between the IMF and aid donors, rather than liquidity or signaling effects from IMF lending.

gold industry. Fund support should work to ensure the best possible natural resource management, for instance by evaluating its mining system in comparison with other comparable countries, by improving its mining sector revenue projections, by making sure that the tax regime of the industry captures an appropriate share of natural resource rents, and by deepening transparency and accountability in the industry. In addition, financial sector reforms should be accelerated in line with past FSAP recommendations, while close collaboration with the World Bank should aim at improving incentives for private investment and business activity. Coordination among all donors will remain crucial in strengthening Burkina Faso's institutional capacities effectively consistent with its absorptive constraints.

Table 1. Burkina Faso: Fund Arrangements, 2007 to Present

Arrangement	Request/ Review/ Cancellation	Approval Date	Amount (in millions of SDR) Approved	Drawn
Extended Credit Facility [1]	Request	April 23, 2007	6.02	0.5
	First Review	January 9, 2008		3.51
	Augmentation	January 9, 2008	9.03	
	Second Review	June 30, 2008		4.01
	Third Review	December 17, 2008		4.01
	Fourth Review	June 22, 2009		1.00
	Augmentation	December 14, 2009	33.11	
	Fifth Review	December 14, 2009		34.11
	Expiration	April 22, 2010		
	Total		48.16	47.16
Extended Credit Facility	Request	June 14, 2010	46.154	7.454
	First Review	December 3, 2010		6.45
	Second Review	July 15, 2011		6.45
	Third Review	December 21, 2011		6.45
	Augmentation	June 8, 2012	36.12	
	Fourth Review	June 8, 2012		30.53
	Fifth Review	December 19, 2012		18.49
	Sixth Review	Expected in June 2013		
	Total		82.27	75.82

Source: IMF staff reports.

[1] Formerly PRGF.

Table 2. Developments in Burkina Faso, WAEMU, and Sub-Saharan Africa, 2000-12

	Burkina Faso		WAEMU		SSA	
	2000–06	2007–12	2000–06	2007–12	2000–06	2007–12
	(Annual percentage change)					
GDP at constant prices	5.7	5.5	3.3	3.8	5.7	5.2
Real GDP per capita	2.7	2.5	0.3	0.9	3.6	2.9
Consumer prices	2.5	2.6	2.0	3.4	10.6	9.2
Broad Money	9.3	15.5	10.9	14.0	20.4	18.1
Exports (f.o.b; valued in CFA francs)	12.6	29.9	10.3	12.5	14.2	11.0
Imports (f.o.b; valued in CFA francs)	8.1	18.1	8.3	11.7	11.0	12.8
	(Period average, percent of GDP)					
Capital expenditure	11.1	11.0	6.9	8.1	7.1	8.6
Tax revenue	11.3	13.2	12.6	14.3	15.5	17.3
Overall fiscal balance, excluding grants	-10.0	-9.7	-6.4	-6.8	-5.7	-5.9
Overall fiscal balance, including grants	-1.2	-4.2	-1.7	-2.8	-2.0	-2.5
Current account balance (excluding current official transfers)	-14.2	-9.8	-8.3	-10.4	-5.9	-7.2
Current account balance (including current official transfers)	-11.0	-5.6	-5.9	-7.9	-0.7	-1.4

Sources: Burkinabè authorities; and IMF staff estimates.

Table 3. Burkina Faso: Overview of Quantitative Performance Criteria of 2007-10 Arrangement under PRGF
(CFAF billion, cumulative from beginning of year, unless otherwise indicated)

	Status of Conditionality															
	First review			Second review			Third review			Fourth review			Fifth review			Sixth Review [1]
	End-June 2007			End-December 2007			End-June 2008			End-December 2008			End-June 2009			
	Prog.	Adj.	Act.	Prog.	Adj.	Act.	Prog.	Adj.	Prel.	Prog.	Adj.	Prel.	Prog.	Adj.	Prel.	
Quantitative performance criteria and indicative targets																
Ceiling on the overall fiscal deficit including grants (payment-order basis)	80		58.5	240		181	75	100	88.3	195	221	161	80.1	105	82	
Ceiling on the amount of new nonconcessional external debt contracted or guaranteed by the government [2, 3]	0		0	0		0	0		0	0		0	0		0	
Ceiling on the amount of new external debt of less than one year's maturity contracted or guaranteed by the government [2, 3]	0		0	0		0	0		0	0		0	0		0	
Accumulation of external payments arrears [2]	0		0	0		0	0		0	0		0	0		0	
Accumulation of domestic payments arrears (Reviews 1 - 2) [2]	0		0	0		0										
Indicative targets																
Government revenue	230		228	440		440	245		247	475		484	275		262	
Poverty-reducing social expenditures	95		94.3	203		183	95		97	195		199	106		105	
Large taxpayer non-filer rate [4]										7		7	7		7	
Accumulation of domestic payments arrears (Reviews 3 - 5)							0		0	0		0	0		0	
Maximum upward adjustment of fiscal deficit ceiling including grants due to:																
Shortfall in grants relative to program projections	25		0	25		25	25		25	25		25	25		25	
Excess in concessional loan financing relative to program projections	15		0	15		0	15		0	15		0	15		0	

Source: Monitoring of Fund Arrangements (MONA).

Note: Met Almost Met Not Met

[1] Because the authorities' request to extend the program period was not submitted to the Board on time, the arrangement was not extended beyond its expiry date of April 22, 2010 to permit completion of the sixth review

[2] To be observed continuously.

[3] Excluding Treasury bills and bonds issued in CFA frances on the regional West African Economic and Monetary Union (WAEMU) market. This ceiling excludes supplier credit with a maturity of one year or less.

[4] Applies to average over respective quarter.

Table 4. Burkina Faso: Overview of Structural Conditionality of 2007-10 Arrangement under PRGF

Category	Description	Status of Conditionality					
		First review	Second review	Third review	Fourth review	Fifth review	Sixth review [1]
		6/30/2007	12/31/2007	6/30/2008	12/31/2008	6/30/2009	
Tax administration	Use Sintax to generate a list of LTO late filers and nonfilers for main tax categories (VAT, corporate income tax, tax on income from securities, and from real estate), and send reminders within a week after declaration deadline.						
	Put in place a mechanism to accelerate VAT refunds so that verified refund requests are paid within 90 days.						
	Harmonize VAT thresholds for large, medium, and small taxpayers and subject small taxpayers to simplified taxation instead of VAT, in line with Fund recommendations.						
	Reduce the large taxpayer nonfiler rate to 7 percent						
Customs administration	Make main ASYCUDA modules fully functional in computerized offices and put them into operation, beginning with Ouagadougou.						
	Implement the single customs declaration form.						
	Put in operation a computerized customs-specific valuation database in the computerized offices.						
	Assign at least 50 percent of customs declarations to the green and blue channels and keep the percentage of declarations thus selected but assigned for further controls by individual inspectors o less than 10 percent.						
	Electronically connect five additional border posts and the General Directorate of Customs.						
Public financial management	Introduce a comprehensive system for tracking foreign-financed expenditures.						
	Introduce a comprehensive system for tracking poverty-reducing expenditures.						
	Introduce a system for tracking poverty-reducing expenditures in order to track all self-financed spending except for personnel.						
	Ensure the operational implementation of a general system for the tracking of poverty-reducing spending incorporating all domestically funded expenditures except salaries.						
	Develop an action plan for improving the effectiveness of ex ante expenditure controls, including elimination of redundant procedures.						
	Develop an action plan for improving the effectiveness of ex ante and ex post expenditure controls, including elimination of redundant procedures.						
	Submit to Cabinet a plan to clear outstanding paymnets identified by the domestic debt audit.						
	Improve the performance of the system for monitoring poverty reduction expenditure, incorporating all expenditure financed by own resources except for personnel.						

Table 4. Burkina Faso: Overview of Structural Conditionality of 2007-10 Arrangement under PRGF (concluded)

Category	Description	Status of Conditionality					
		First review	Second review	Third review	Fourth review	Fifth review	Sixth review
Tax policy	Submit single tax code to parliament consolidating all tax legislation.	Met	Met				
	Set up a tax policy unit in the Ministry of Finance to formulate tax reforms and supervise their implementation.			Met			
	Submit to Cabinet detailed proposals for the reform of the business tax, the investment code, and the VAT, based on IMF recommendations, the tax policy reform strategy, and WAEMU directives.				Not Met		
	Submit to the Council of Ministers detailed proposals on the reform of corporate tax, the investment code, and VAT, based on IMF recommendations, the strategy for comprehensive reform of tax policy, and WAEMU Community directives.					Met	
	Secure approval from the Council of Ministers for a tax policy reform strategy in line with Fund staff recommendations.	Met with Delay	Met with Delay	Met with Delay			
	Submit to the National Assembly tax policy reform related to VAT, corporate tax, and the investment code, which will enter into force with the 2010 budget law. Include in the budget law the raising of VAT hresholds for small, medium, and large enterprises as of January 2010, and make small enterprises liable for simplified taxation instead of VAT, in accordance with IMF recommendations and WAEMU directives.					Met	
	Submit a comprehensive tax policy reform program to parliament.		Met with Delay				
	Submit to parliament a draft 2009 budget that includes tax policy measures consistent with the reform program.		Unknown Status				
Cotton sector	Adopt a formula-based producer price mechanism for cotton linking the producer price to world prices in collaboration with the World Bank.	Met					
	Conduct an audit of SOFITEX with a view to supporting transparency and privatization.				Met		
	Secure government approval of liberalization strategy for SOFITEX in collaboration with the World Bank.	Met	Met				
Financial Sector	Submit to Cabinet a financial sector action plan with a timetable for reforms. The action plan, based on the FSAP recommendations, will cover the following areas: (i) facilitating cotton sector financing; (ii) reducing government ownership in the banking sector; and (iii) improving microfinance supervision.				Met		

Source: Monitoring of Fund Arrangements (MONA).

Note: Met; Met with Delay; Unknown Status; Not Met

[1] Because the authorities' request to extend the program period was not submitted to the Board on time, the arrangement was not extended beyond its expiry date of April 22, 2010 to permit completion of the sixth review.

Table 5. Burkina Faso: Overview of Quantitative Performance Criteria of 2010-13 Arrangement under ECF
(CFAF billion, cumulative from beginning of year, unless otherwise indicated)

	Status of Conditionality														
	First review			**Second review**			**Third review**			**Fourth review**			**Fifth review**		
	End-June 2010			End-December 2010			End-June 2011			End-December 2011			End-June 2012		
	Prog.	Adj.	Act.	Prog.	Adj.	Act.	Prog.	Adj.	Prel.	Prog.	Adj.	Prel.	Prog.	Adj.	Prel.
Quantitative performance criteria and indicative targets															
Ceiling on the overall fiscal deficit including grants (commitment basis)	95.1	120	157	218	247	232	91	129	90.4	186	211	117			
Ceiling on net domestic financing of central government [1]													68.4	105	-0.3
Ceiling on the amount of new nonconcessional external debt contracted or guaranteed by the government [2, 3]	0		0	0		0	0		0	0		0	0		0
Ceiling on the amount of new external debt of less than one year's maturity contracted or guaranteed by the government [2, 3]	0		0	0		0	0		0	0		0			
Accumulation of external payments arrears [2]	0		0	0		0	0		0	0		0	0		0
Indicative targets															
Ceiling on the overall fiscal deficit including grants (commitment basis)													116	146	36.5
Government revenue	300		311	668		681	348		387	712		794	429		505
Poverty-reducing social expenditures	126		118	275		297	145		126	314		298	162		170
Large taxpayer non-filer rate [4]	5		4	5		1.9	5		2.3	5		3			
Accumulation of domestic payments arrears	0		0	0		0	0		0	0		0	0		0

Source: Monitoring of Fund Arrangements (MONA).

Note: Met (green) / Not Met (pink)

[1] Including on-lending of prospective IMF disbursements and including a bond of CFAF 59.1 billion that was issued in 2011 and recorded in 2012.

[2] To be observed continuously.

[3] Excluding Treasury bills and bonds issued in CFA francs on the regional West African Economic and Monetary Union (WAEMU) market. This ceiling excludes supplier credit with a maturity of one year or less.

[4] Applies to average over respective quarter.

Table 6. Burkina Faso: Overview of Structural Conditionality of 2010-13 Arrangement under ECF

Category	Description	Status of Conditionality				
		First review	Second review	Third review	Fourth review	Fifth review
		6/30/2010	12/31/2010	6/30/2011	12/31/2011	6/30/2012
Tax administration	Implement the Directorate General of Taxes (DGI) revenue management application (SINTAX) in three tax directorates of Bobo-Dioulasso.					
Customs administration	Electronically connect two additional customs posts to the main Customs system.					
	Set up a one-stop window for customs clearance.					
	Set up an electronic system to improve merchandise valuation in two customs posts.					
Public financial management	Produce a quarterly report on poverty-reducing expenditure, on a continuous basis, using the new tracking system adopted in October 2009, starting in June 2010.					
	Prepare a new Treasury Cash Flow plan Table					
	Finalize the procedure manual on external debt management					
	Finalize the social audit of the public service					
	Implement the merit-based promotion system.					
	Prepare an audit of expenditure commitment systems in line ministries					
	Implementation of the integrated circuit for external financing.					
	Complete the civil service survey and harmonize the payroll and the civil service roster.					
	Establish expenditure verification units in five ministries					
Tax policy	Adopt legal documents that implement the new fiscal reform strategy approved by parliament in January 2010.					

Table 6. Burkina Faso: Overview of Structural Conditionality of 2010-13 Arrangement under ECF (concluded)

Category	Description	Status of Conditionality				
		First review	Second review	Third review	Fourth review	Fifth review
Cotton sector	Set up an internal audit system at SOFITEX.					
	Develop a business plan for SOFITEX.					
	Recruit investment advisors to support the government's strategy to gradually reduce its stake in the capital of SOFITEX.					
	Prepare a strategy to gradually reduce the government's stake in the capital of SOFITEX.					
Petroleum Sector	Prepare a study on the taxation of petroleum products and on a new pricing system.					
	Adopt the recommendations of the studies on financing mechanisms for the price-smoothing fund, and for the input fund, and develop an action plan for implementing the new mechanisms.					
	Implement a new pricing and taxation system for petroleum products. [1]					
Financial Sector	Finalize the restructuring of the Banque Commerciale du Burkina.					
	Implement the microfinance strategy.					
	Adopt and put in place the microfinance strategy.					
	Execute delegated project management (MOD) contracts with private and public operators for implementation of the national microfinance strategy action plan.					

Source: Monitoring of Fund Arrangements (MONA).

Note: Met; Met with Delay; Partially Met; Not Met; Dropped

[1] Compliance with the benchmark was based on a one-off increase in petroleum prices with no follow through on continuing pricing adjustment.

Appendix I. Managing Natural Resource Windfalls

The management of natural resource windfalls is a central short- to medium-run challenge for policy makers in resource-rich countries, particularly developing countries.[1] For intertemporal equity, it is crucial that these underground resources be not wasted but rather transformed into physical, human, and financial assets that could help support growth for generations to come. Moreover, resource windfalls, being typically large relative to the size of the domestic economy, can have macroeconomic consequences on inflation, competitiveness, and the structure of the economy, particularly with respect to the tradable and non-tradable sectors.

A. Fiscal Sustainability

The question is how much of the resource windfall to consume now instead of later and what forms this consumption should take—current or investment spending—to maintain fiscal sustainability while enhancing growth and revenue prospects in the medium and long term.

The ***Bird-in-Hand*** approach allows only interest income from already extracted resources to be consumed, effectively back loading consumption spending.

The ***Permanent Income Hypothesis*** (PIH) approach would suggest perfect consumption smoothing across generations, explicitly incorporating in the government's intertemporal budget constraint the value of the resources in the ground and the associated resource revenues that will accrue to the government in the future. These frameworks, which stabilize total spending without any distinction between consumption (current spending) and investment (capital spending), are not adequate for capital-scarce developing countries, which could have high returns on capital, but limited ability to tap both often-shallow domestic financial markets and international capital markets.

The ***Modified PIH*** (MPIH) approach allows for a more front-loaded spending path during an initial investment scaling-up period. Accordingly, this framework allows financial assets to be drawn down for a few years, which would then be offset by fiscal adjustment in the future to rebuild financial assets to the same level as under the traditional *PIH*. This approach, however, does not account for the potential ratchet effect of larger investment on growth and non-resource revenues. In other words, it provides the future fiscal adjustment path that is required to offset the loss of wealth if higher public investment has no impact on growth.

The ***Fiscal Sustainability Framework*** explicitly incorporates *ex ante* the expected impact of higher investment on growth and non-resource revenues, as well as larger operation and maintenance expenditures, and allows for a stabilization of net wealth at lower levels than under the PIH or MPIH approach. Since financial wealth is allowed to decrease in this framework (using resource assets to build human and physical capital that produce a fiscal return), the implicit adjustment path of fiscal variables can be smoother than under both PIH and MPIH frameworks. The specific stabilizing target

[1] See IMF (2012) *Macroeconomic Policy Frameworks for Resource-Rich Developing Countries*, August.

for net wealth (and the time horizon by which it is to be achieved) is country-specific since it involves estimating the interactions between government spending needs and non-resource growth.

B. Macroeconomic Stability

Natural resources windfalls impact domestic economic activity primarily through fiscal policy response, although the broader macroeconomic effects also depend on the monetary and exchange rate response. The appropriate fiscal stance—that is, how much to consume/save of the revenue windfall—is determined, however, not only by intertemporal fiscal and external sustainability considerations, in light of future resource (and resource revenue) depletion, but also by the objective of maintaining macroeconomic stability in the face of exogenous shocks, resource price volatility, capacity constraints and supply bottlenecks.

Higher public spending on local goods and services is likely to put upward pressures on prices of local factors not only in the resource sector but also in the economy at large as the economy is likely to meet both sector bottlenecks and wider absorptive capacity constraints. The increase in domestic demand (consumption and domestic investment) could therefore create inflationary pressures and an appreciation of the real exchange rate that could eventually lead to lower productivity growth in the tradable sector (Dutch disease), particularly if the import content associated with investment in infrastructure is low.

The composition and speed of spending as well as structural reforms to allay absorptive capacity constraints are key to mitigating these effects on the domestic economy, especially when, in low income countries, these are magnified by larger fiscal multipliers as a result of lack of labor market flexibility—particularly sector and geographic segmentation—and higher propensity to consume—because of the large share of population that leaves close to subsistence levels.

C. Dealing with Volatility

Volatility in commodity price, volume of output and exports, and the attendant swings in revenue complicate macroeconomic management and fiscal planning. Moreover, when expenditure follows closely natural resource prices, economic cycles are likely to be reinforced. In such circumstances, the adoption of certain fiscal rules would help mitigate procyclicality:

1. A price-based smoothing rule would help delink expenditures from resource revenues, and, while not ensuring fiscal sustainability by definition, it could support long-term solvency by construction through "prudent" forecasts of structural revenues. Crucial to this end would be the ability to set a sustainable reference price for computing structural resource revenues "conservatively".

2. An expenditure growth rule, which would limit the growth of government spending in nominal or real terms, or as a percent of non-resource GDP, could usefully supplement a price-based rule by setting floors and ceilings for expenditure growth to limit fiscal procyclicality in the face of resource price volatility.

Revenue volatility also creates a motive to save some of the resource windfalls for precautionary reasons (that is, in addition to the need to save part of revenue windfalls because of capacity constraints). In theory, the size of a precautionary liquidity buffer should be adequate to withhold a tail-risk shock; its optimal size would be the larger the higher and more persistent revenue volatility, the higher society's risk aversion (that is, its dislike for swings in consumption), and the higher consumption out of resource revenue. In practice, however, self-insurance for precautionary reasons may have high opportunity costs in terms of foregone investment, especially in developing countries that have little or no access to international capital markets and depend heavily on grants to finance development projects.

D. Setting and Assessing the Fiscal Stance

The specific policy challenges faced by resource-rich countries underscore the need for setting and assessing the fiscal policy framework on the basis of a larger-than-usual battery of indicators. They also emphasize the importance of relying on detailed statistics that could help support resource management strategies.

Indicators

The ***overall (or primary) balance*** measures the change in net financial assets. This indicator is, however, ill-suited alone to anchor a fiscal rule that is intended to avoid procyclicality as a massive fiscal expansion would not be detected by the overall balance after a spike in natural resource prices and revenues. The ***non-resource primary balance*** (NRPB), defined as non-resource revenues minus primary expenditures (i.e., excluding net interest payments, income and expenditures associated with development of the resource sector) would instead capture such an expansionary fiscal stance. Setting fiscal policy on the basis of the NRPB could help decouple fiscal policy from the volatility of resource revenues and facilitate an explicit link to fiscal sustainability, particularly for countries with short reserve horizons, by choosing a target for the NRPB consistent with one of the fiscal sustainability approaches above.

An NRPB rule would, however, inaccurately identify an expansion in capital expenditure in response to stronger resource revenues, even if consistent with macroeconomic stability, as a worsening in the fiscal outlook. Moreover, to the extent that a country derives an increasingly large part of its fiscal revenues from natural resources, more economic activity would be excluded from fiscal indicators. Targeting a ***structural primary balance***— the NRPB plus the structural component of resource revenues—would therefore be an important complement to the NRPB, particularly for countries with long reserve horizons.

Other complementary indicators might be the ***non-resource current balance***, which indicates the maximum amount of public investment that could be executed without incurring an overall fiscal deficit. The ***domestic balance***, which excludes resource revenues and the import content of government expenditures so that its abrupt deterioration (resulting, for example, from an increase in public investment without a large import content), could indicate potentially binding absorptive capacity constraints. The ***break-even resource price***, which is the price at which the overall balance will be zero, could also be useful to assess the short-term vulnerability of public finances with a constantly rising break-even price suggesting that the budget is becoming increasingly vulnerable to declines in resource prices. The ***share of public investment in total spending***, which is expected to rise over time until major infrastructure gaps are closed; the ***ratio of the increase in public***

investment to the increase in resource revenues, both as a percent of non-resource GDP, would provide a measure of the extent to which additional resource revenues are used to expand capital spending.

Data

Detailed statistics can help support resource management strategies. While the System of National Accounts (SNA) provides detailed statistics on management for many economic sectors, it does not cover natural resource sectors. The System of Environmental and Economic Accounts (SEEA), which compiles natural capital accounts with detailed information for resource management, making explicit the contribution to the economy of natural resources, was recently approved as an international statistical standard. Use of such system of accounts has greatly improved the ability of policy makers to manage their resources. To support countries as they move to natural capital accounting, the World Bank has initiated a new partnership, WAVES—Wealth Accounting and the Valuation of Ecosystem Services.

E. Institutional Capacity

Well-designed fiscal institutions that support scaling up of public investment while maintaining sound fiscal policies and improvements to non-resource tax policy and administration are paramount to rip all the benefits from the exploitation of natural resources. Transparent public financial management systems, special fiscal institutions, such as natural resource funds and independent forecasting bodies, a budget process underpinned by a medium-term fiscal framework with forecasts for broad fiscal aggregates for revenues and expenditures in line with a fiscal rule, a sustainable investing framework that allows to evaluate (via the Public Investment Management Index) which of the four stages of the public investment management process (project appraisal, selection, implementation, and evaluation) is a bottleneck and needs to be strengthened before scaling up public investment, and effective legal framework are all tassels of a governance structure that is required for natural resource wealth to be transformed into growth-enhancing infrastructure.

Annex I. The Burkinabé Authorities' Reaction

The draft EPA Update was presented to and discussed with a wide group of stakeholders in Ouagadougou during May 6–8, 2013. The authorities appreciated the opportunity to review the Fund's program engagement and discuss longer-term priorities and were broadly in agreement with the report's findings and recommendations. They provided the following specific comments:

"The assessment report shows that, in the period from 2007 to 2012, growth fluctuated above regional norms, and reached an average of 5.3 percent. This calls for two (2) major observations:

- Fluctuation in growth and weakness in growth for achieving the MDGs: The report seems to justify this situation by the unfavorable climatic conditions that prevail in Burkina Faso and unfavorable trends in global cotton prices. With regard to this first observation, it is important to stress two aspects in the upcoming programs. In addition to production support, such as fertilizer, seeds, supervision, etc., it is important to implement policies aimed at controlling water supply and promoting agricultural products, cotton processing in particular. Moreover, upcoming programs should do more in terms of taking the production of energy into account.

- The Burkinabé economy is seriously exposed to external shocks: this situation is not unique to Burkina Faso. Cotton and gold are the leading sources of foreign currency. It would be helpful to emphasize quality tourism infrastructure that could support cultural events held in Burkina Faso such as the Panafrican Film and Television Festival of Ouagadougou (FESPACO), the International Art and Craft Fair (SIAO), etc..

Fiscal reforms requires modernizing revenue agencies, including by giving them adequate resources, so that the government is able to collect more revenue and better harness expenditures. To this end, future revenue programs should be bi-directional. The first direction should deal with the revenue collection agencies (modernization, training, interconnection and professionalism). The second direction should make customs, taxation and treasury services more accessible to users by streamlining them and improving awareness and proximity. Due to the obvious constraints of the tax administration in terms of modernization, it is very important to propose that future programs incorporate measures that address computerization, procedure reengineering, and the use of information technology and secure documents to control fraud and forgery.

Furthermore, in terms of revenue, it was indicated that progress in reforming revenue mobilization has been substantial. There have been about thirty IMF missions that have provided assistance in this area between 2006 and 2011. However, if, despite all the efforts, the regional tax ratio norm of 17 percent has not yet been achieved, questions may be raised as to the degree to which these reforms have been effectively implemented.

On the expenditure side, there must be an emphasis on the quality of expenditures, in other words, expenditures that could promote and facilitate private investments. In addition to social expenditures, these expenditures should be directed towards improving access to the major production areas and to facilities for processing and preserving agricultural products (such as tomatoes, mangoes, etc.). They must complement business climate improvements efforts. In this vein, it is important to welcome the creation of the commercial court.

The development of the mining sector is, to be sure, advantageous for companies that provide services. However, more analysis could be done to highlight the impact the mining sector has on the growth of the private sector overall, including in terms of creating new companies and the investments these companies make, etc..

Fighting poverty should be a major component of future programs and should take Burkina Faso's specificities into account. In addition to the government's ongoing efforts, quality technical training in this area should be encouraged and promoted with donors support. Likewise, the programs should provide for startup (credit, for example) and supervision (management) for young technicians who have been through the training centers that were established for this purpose. This support will be advantageous in that it will fight unemployment among youths and foster a sort of formalization of the activities of small crafts persons who, in the past, were in the informal sector. At the same time, this support will serve as a means through which the dividends from growth are passed on to those who are most vulnerable."