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Burkina Faso: Sixth Review Under the Three-Year Arrangement Under the Extended Credit Facility, Requests for Extension of the Arrangement, Modification of Continuous Performance Criterion, and Rephasing of Disbursement—Staff Report; Staff Supplements; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Burkina Faso

In the context of the sixth review under the three-year arrangement under the Extended Credit Facility, requests for extension of the arrangement, modification of continuous performance criterion, and rephasing of disbursement, the following documents have been released and are included in this package:

- The staff report for the Sixth Review Under the Three-Year Arrangement Under the Extended Credit Facility, Requests for Extension of the Arrangement, Modification of Continuous Performance Criterion, and Rephasing of Disbursement, prepared by a staff team of the IMF, following discussions that ended on May 8, 2013, with the officials of Burkina Faso on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 14, 2013. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- Debt Sustainability Analysis
- Informational Annex
- A Press Release summarizing the views of the Executive Board as expressed during its July 1, 2013 discussion of the staff report that completed the request and/or review.
- A statement by the Executive Director for Burkina Faso.

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

Letter of Intent sent to the IMF by the authorities of Burkina Faso*
Memorandum of Economic and Financial Policies by the authorities of Burkina Faso*
Technical Memorandum of Understanding*

*Also included in Staff Report

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

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BURKINA FASO

June 14, 2013

SIXTH REVIEW UNDER THE THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, REQUESTS FOR EXTENSION OF THE ARRANGEMENT, MODIFICATION OF CONTINUOUS PERFORMANCE CRITERION, AND REPHASING OF DISBURSEMENT

EXECUTIVE SUMMARY

Growth is rebounding. The security situation in Burkina Faso is stable, despite the conflict in neighboring Mali. 2012 growth was revised upward on the basis of agricultural production and stronger-than-expected gold production. After spikes in food prices last year, inflation is stabilizing. Despite import needs for food and fuel, deterioration of the current account was contained by growing gold and cotton exports.

Domestic revenue collection overperformed by a significant margin in 2012, and program performance remains good. 2012 domestic revenues were higher than targeted by 1.7 percentage points of revised GDP. Overall spending was in line with expectations, but reflected higher current spending and lower investment spending than planned. Lower financing needs resulted in government savings in the banking system. Quantitative program targets and all but two structural benchmarks were met, with the latter to be implemented later this year.

The authorities are prioritizing improvements in public investment planning and spending capacity to meet infrastructure and training needs that constrain growth. Immediate measures, to improve processes and identify specific projects, are underway to ensure that ambitious increases in investment spending can be realized this year. Staff supports the authorities' request for an increase in the program's zero limit on non-concessional borrowing to finance four large development projects. A new debt sustainability analysis (DSA) shows that this and related concessional borrowing result in an unchanged "moderate" risk of debt distress.

The program focus going forward should be transforming high growth into more inclusive growth and job creation. A stakeholder's conference confirmed that better public investment spending is a key component for success, along with strengthening institutional and statistical capacities and bolder reforms to improve the business climate.

Approved By
Michael Atingi-Ego and Peter Allum

Discussions were held in Ouagadougou during April 25–May 8, 2013. The staff team was comprised of Laure Redifer (head), Liam O'Sullivan, David Corvino, Francisco Arizala (all AFR), and Jayendu De (SPR), aided by Jean Baptiste Le Hen (Resident Representative) and his local staff. For a stakeholder's conference held on May 7, 2013, the team was joined by Mr. Atingi-Ego (AFR), Mr. Rossi (FIN), Ms. Mboto-Fouda (COM) and Ms. Rice (TGS). Mr. Tall (OED) accompanied the mission and participated in the stakeholder's conference. The mission met with Mr. Lucien Bembamba, Minister of Economy and Finance; Ms Clotilde Ki-Nikiéma, Minister of the Budget; Mr. Salif Kaboré, Minister of Mines; Mr. Mahama Zoungrana, Minister of Agriculture; and Mr. Charles Ki-Zerbo, National Director of the Central Bank of West African States; as well as other senior officials, private sector representatives, and development partners. Participation in the stakeholder's conference included these groups, as well as civil society, parliamentarians, and academics.

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RECENT DEVELOPMENTS AND GROWTH OUTLOOK: REBOUND DESPITE NEIGHBORING CONFLICT

1. **The security situation in Burkina Faso is stable, despite the conflict in neighboring Mali.** The number of refugees from Mali has stabilized at roughly 45,000 people: UNHCR continues to take the lead role in their care. In response to the conflict, the authorities immediately tightened internal security in Ouagadougou and at the Malian border, and provided troops for the military intervention.

2. **Growth for 2011 and 2012 has been revised upward to 5 percent and 9 percent, respectively.** The 2011 and part of the 2012 revision were based on new information on gold production provided by Customs, which resulted in a significant upward revision in the series (40 percent in 2012). 2012 growth in agricultural production was also higher than anticipated (30 percent). Projected growth of 7 percent was retained for 2013 despite the higher base since leading indicators suggest continued strong domestic demand in the first quarter of 2013 (Figures 1 and 2).

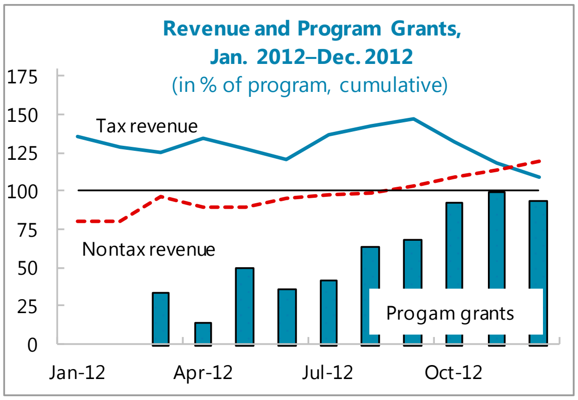
3. **Average 12-month inflation in 2012 was 3.8 percent.** Inflation peaked in September 2012 (5.6 percent), reflecting high food prices which fell from 9.8 percent in September, before the harvest, to 1.6 percent in December. Inflation edged up in Q1 2013 due to base effects from the previous year when government food distribution commenced, but is expected to converge to an average of 2 percent this year.

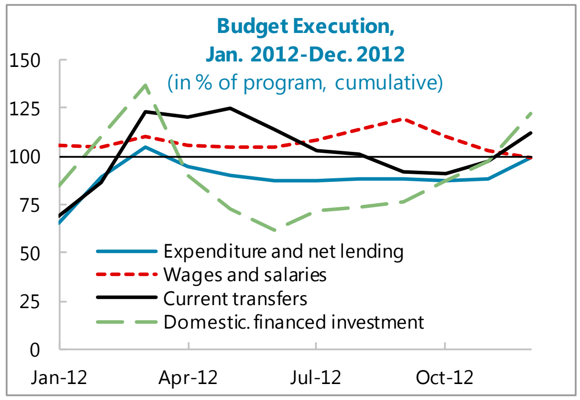
4. **The fiscal balance for 2012 deteriorated less than expected, due to the continued strong performance of domestic revenue collection** (Figure 3). Spending in response to dual shocks in 2012 (food security, refugees) was expected to result in a sharp deterioration of the fiscal deficit: however, this was moderated by 2012 domestic revenue collection—already revised upward at the fifth review—which was far higher than targeted, by 1.7 percentage points of revised GDP. This performance was due to tax administration reforms and better than expected gold production. The overall fiscal deficit ended up at 3.1 percent of GDP (2.8 percent of GDP on a cash basis). Spending was in line with expectations, but its composition reflected higher-than-targeted spending for domestically-financed investment, interest payments, and current transfers, offset by lower spending on externally-financed investment. Transfers included additional fuel and electricity subsidies as well as VAT refunds, pre-shipment inspection and payments made to settle industrial relations cases in the public service. Lower than anticipated net domestic financing needs resulted in higher government savings in the banking system.

Figure 1. Burkina Faso: Recent Economic Developments

2012 revenue performance exceeded program targets, already revised upward....

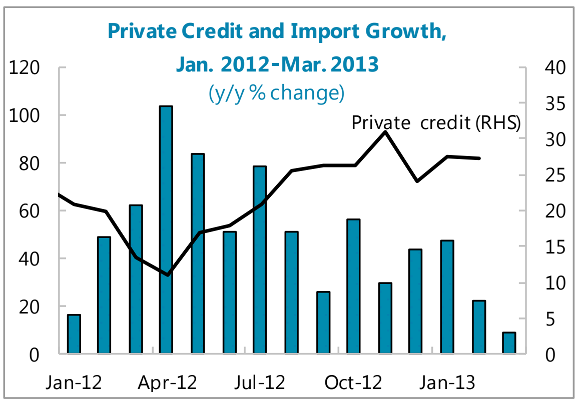
...while total spending was roughly equivalent with program targets.

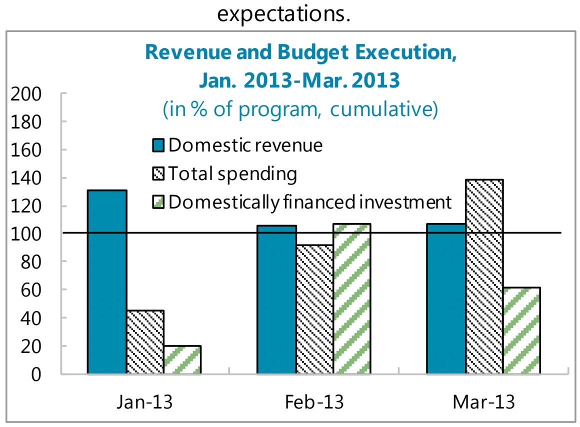




Leading indicators suggest continued growth in Q1 2013 (positive import growth despite base)...

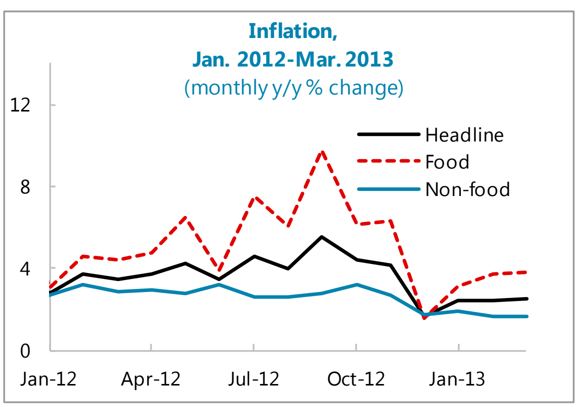
...and revenues continued to outpace expectations.

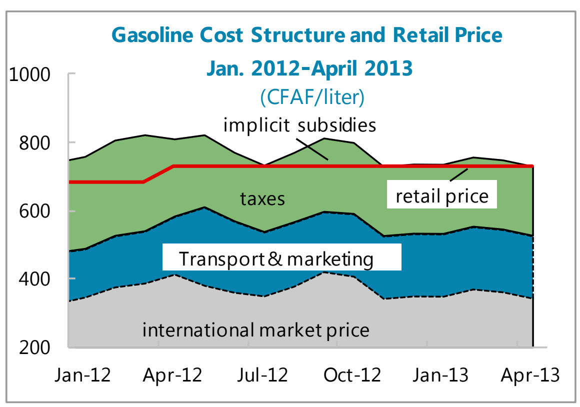




Inflation fell sharply as a result of an abundant fall harvest...

... while decreases in international fuel prices have reduced implicit subsidies.

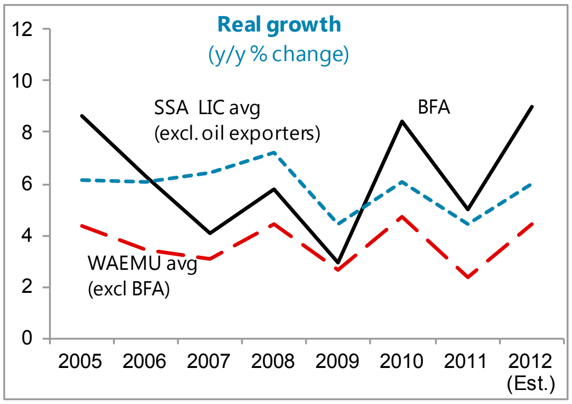




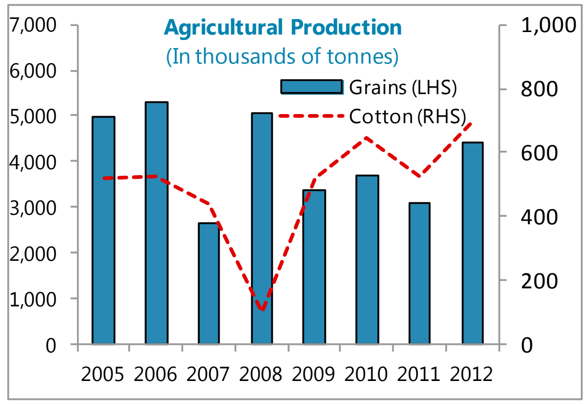
Sources: Burkinabè authorities and IMF staff calculations.

Figure 2. Burkina Faso: Real and External Developments, 2005–2012

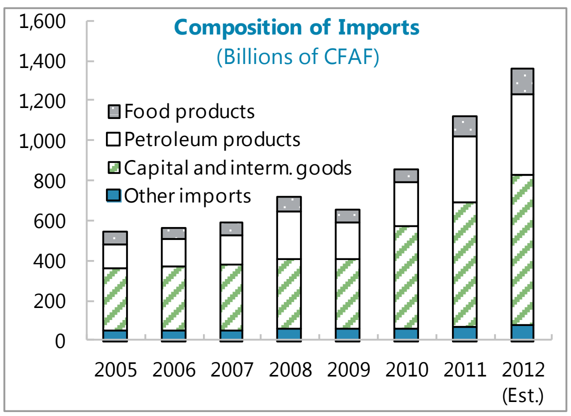
Growth for 2011-2012 was revised upward due to new information on gold production...



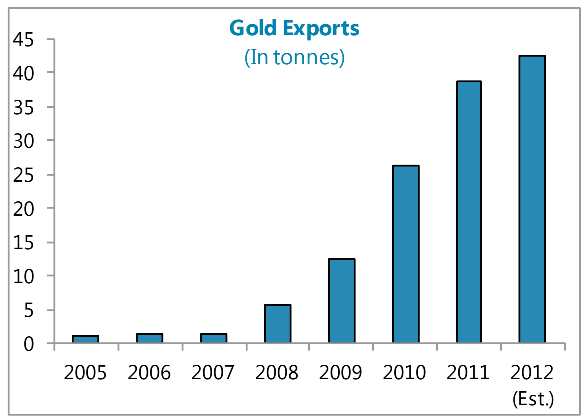
... with 2012 also revised upward due to higher than expected agricultural production.



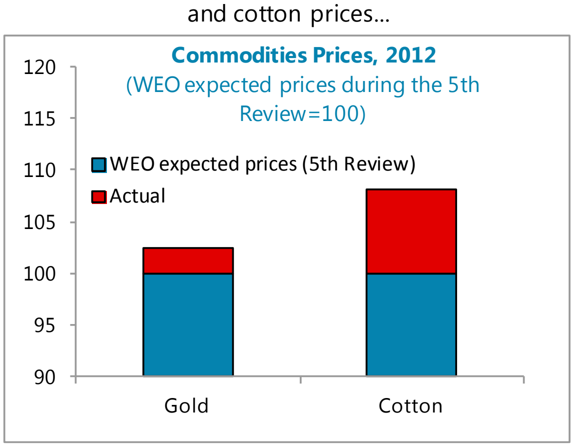
Imports increased in line with expectations in 2012, particularly capital imports for mining....



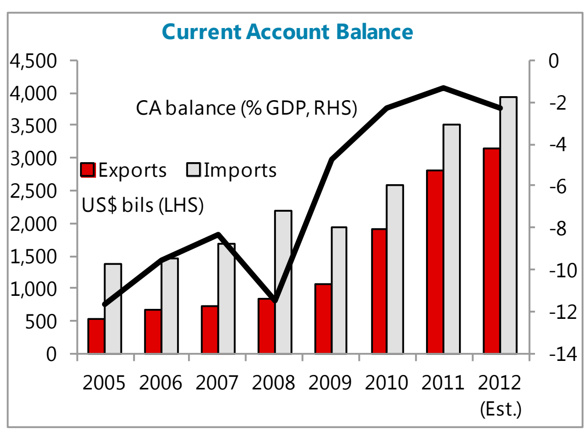
... but rising gold production...



... and stronger than expected international gold and cotton prices...



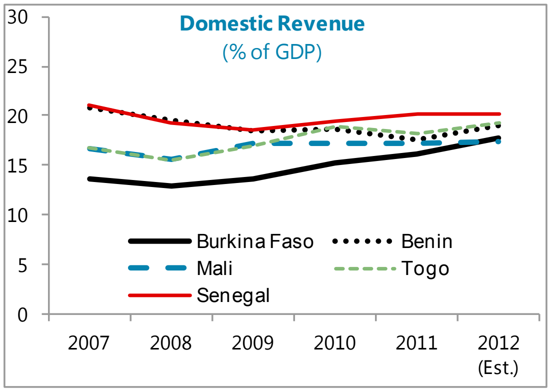
... contained the deterioration of the current account balance in 2012.



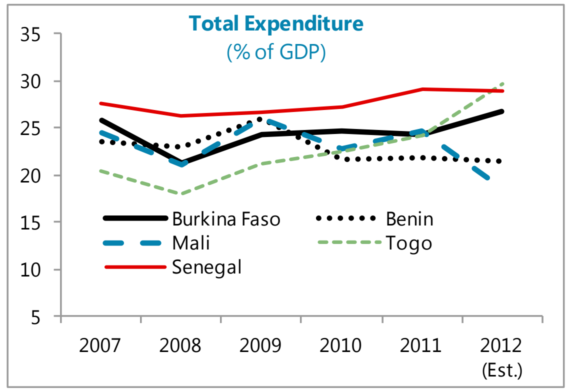
Sources: Burkinabè authorities and IMF staff calculations.

Figure 3. Burkina Faso: Fiscal Developments, 2007–2012

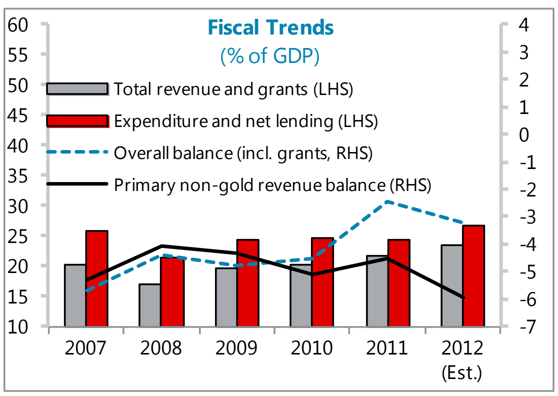
Revenue performance is approaching regional norms…



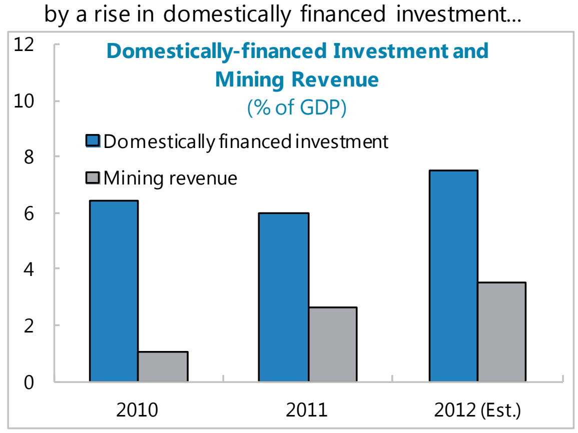
…while expenditure increased in 2012, largely as a result of shocks….



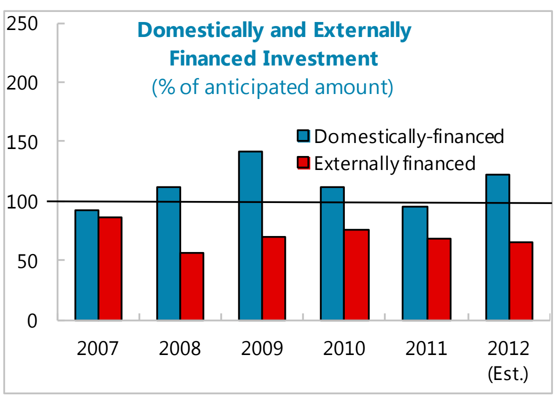
….resulting some deterioration of the fiscal deficit.



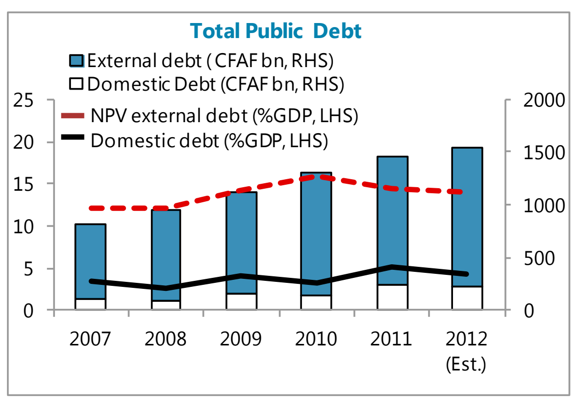
The increase in mining revenues has been accompanied by a rise in domestically financed investment…



… which has a higher level of execution than externally-financed investment.



In the meantime, debt levels remain modest.



Sources: Burkinabè authorities and IMF staff calculations.

5. Deterioration of the current account in 2012 was contained by better than expected performance of gold and cotton exports. Imports were broadly in line with expectations, reflecting mainly higher food needs, fuel prices, and increased public investment. However, a combination of higher prices and higher production of gold and cotton led to export growth of 26 percent and 28 percent, respectively. Thus, the 2012 current account deficit is estimated at 2.2 percent of GDP compared to earlier projections of 4.4 percent. The current account deficit is expected to stabilize at just over 2 percent of GDP in 2013 following the abatement of the 2012 external shocks. Over the medium term, the requirements of the National Growth and Development Strategy (SCADD) infrastructure program will add pressure to imports but this should be offset by continued gold exports.

6. The second SCADD annual review, held on April 30, outlined progress achieved, but identified investment capacity as a constraint to more progress. For "sustained and inclusive growth" (one of four main axes), 57 percent of 2012 measures were met (against 64 percent in 2011): the pilot Bagré growth pole project was successfully launched, and as was the agricultural productivity strategy. However, rural infrastructure investment was lower than anticipated, reflecting weak implementation capacity. The "developing human capital and promoting social protection" axis also showed good progress due to accelerated construction of schools, and implementation of the National Program for Social Protection (paragraph 9), with 58 percent of 2012 measures met, against 37 percent in 2011. The "governance" axis also demonstrated progress, especially regarding public finance, with 87 percent of measures met in 2012, against 37 percent in 2011. Finally, the "promoting cross-cutting policies" axis, more qualitative and institutional, met all but two objectives.

7. The 2012-2015 revised performance matrix for the SCADD calls for: developing new growth poles; speeding up the implementation of the rural sector development strategy; adopting a new mining taxation code; investing in infrastructure to secure more reliable energy supplies, cheaper transportation, and reduce other factor costs; creating new social housing; promoting youth training and employment; and adopting new laws against corruption and on sustainable development.

PROGRAM PERFORMANCE: ON TRACK

8. All quantitative targets for end-December and most structural benchmarks for end-December and end-March were met (Tables 5 and 6). Net domestic financing and fiscal deficit targets were met, while lower financing needs resulted in higher government savings in the banking system. Large non-bank financing includes transfers from central government accounts to cover general government spending.[1] Structural benchmarks were met, with two exceptions:

[1] Above the line spending commitments are only those of the central government, while below the line financing reflects some items of decentralized institutional spending, for example, in the education sector.

- An interconnection between the biometric database and the personnel and payment management system was undertaken to identify inconsistencies. However, before finalizing the process and making the interconnection permanent, the authorities wish to widen the scope of the exercise beyond the central government, e.g. to include the judiciary. The benchmark has been modified accordingly and reset for end-September 2013.

- An updated strategy for SONAPOST's provision of financial services was delayed by personnel changes early in the year. A draft updated strategy will be finished by end-June. However, the authorities' preference was to reformulate and strengthen the benchmark to require adoption of the strategy by the SONAPOST Board of Directors by end-December 2013.

POLICY DISCUSSIONS—CONTEXT: TRANSFORMING HIGH GROWTH INTO INCLUSIVE GROWTH

9. Despite numerous shocks, Burkina Faso's average real growth rate (6.2 percent) over the past decade has been among the highest in SSA. This success has been attributable to strong macroeconomic policies, continued structural reforms, strong improvements in the business climate, and public investment in agriculture, health and education. Mining production has boomed since 2007, but its value added for growth may be understated in national accounts data.[2] Poverty-reducing public spending has been increased to just below 30 percent of total spending, and progress toward MDGs for health and education has been notable, with many indicators now outperforming neighboring LICs, especially those pertaining to infant mortality and maternal health. Free school lunches and health care for expectant mothers and babies have undoubtedly raised standards of living, but have not done much to improve official statistics on income poverty. The authorities are therefore intent on redoubling efforts for reforms to promote job creation, and provide targeted food security and cash transfer programs. In this context, enhancement of social safety nets is one of the main pillars in the SCADD. In 2012, the authorities launched a National Program of Social Protection (PNPS), a comprehensive framework which aims to bolster the effectiveness, breadth and size of existing national safety nets to ensure access by the most vulnerable groups. Major initiatives include, but are not limited to: universal expansion of the free school lunch program; free access to preschool for children ages 0-5; free basic health care for pregnant women, children aged 0- 5, and the poorest; public housing for the most needy; and extending social security benefits to workers in the informal sector.

10. A key emphasis for reforms under the current ECF-supported program has been revenue mobilization: the emphasis needs to evolve towards better and faster public investment spending. Recent improvements in revenue collection risk outpacing capacity for investment spending, as underscored by the 2012 fiscal outcome. To ensure that public resources are productively invested, particularly to meet infrastructure and job training needs, there is an

[2] This is partly because national accounts statistics have a base year of 1999, when mining production was small.

immediate need to improve planning and execution of public investment spending. Over the medium term, the prospect of continued growth of natural resource revenues intensifies the challenge. It will be important to consider fiscal policy rules that can balance urgent investment spending needs, spending capacity constraints and intergenerational equity/consumption smoothing considerations. These themes, ongoing in program discussions, were also highlighted in a stakeholder's conference in Ouagadougou in early May (Box 1). The conference was designed to gather input from a broad range of stakeholders to inform negotiations for a potential successor program. Also presented at the conference were preliminary broad conclusions of an IMF ex-post assessment update (scheduled for Executive Board consideration together with this review).

Box 1. Stakeholders' Conference "Promoting Inclusive Growth in Burkina Faso: A Way Forward"

The May 7 conference in Ouagadougou was co-hosted by the Burkinabè authorities and Fund staff. The event was intended to take stock of progress achieved under past IMF-supported programs and identify priority reforms going forward. Prime Minister Luc Adolphe Tiao opened the conference, reaffirming the government's vision to build on growth and development successes to bring significant improvements in quality of life to the entire population. Staff outlined the Fund's work on inclusive growth. The event was attended by about 150 stakeholders from government, parliament, donors, civil society, academia and the media. It culminated with a press conference, with extensive subsequent media coverage.

Preliminary conclusions from the ex post assessment (EPA) update noted that, despite adverse shocks, macroeconomic policies supported by IMF programs had met key objectives. However, in the face of ongoing acute needs, the opportunity to use natural resource revenues to support development should not be missed. The recommendations also call for a greater focus on targeted social policies aimed at reducing poverty. The EPA update concludes that further Fund engagement is important, with a policy focus on improving the quality of public spending.

Stakeholders discussed impediments to inclusive growth, including weak infrastructure. Growth remains high, but volatile, due to the large share in output of agriculture, which is strongly reliant on weather patterns. The SCADD has already made notable achievements in improving productivity and resilience in agriculture, but more investment is urgently needed on infrastructure and higher level training of workers to promote more inclusive growth.

The mission team laid out priority policy areas going forward. Experience in other countries suggests that resource revenues create pressure for unproductive public spending and rent-seeking. To mitigate such pressures, prioritization and multi-year planning should direct the use of additional resources for higher return investments in infrastructure and people. Non-concessional borrowing should be reserved for large and high return projects on terms which should ensure sufficient fiscal space for other projects. Finally, bolder reforms to improve the business climate are also required, e.g. improving the supply of power, strengthening the judiciary, and reducing financial services costs.

FISCAL POLICY IN 2013: STRENGTHENING SPENDING CAPACITY WHILE SAFEGUARDING FISCAL SPACE

11. The authorities plan to reduce the deficit to 2.4 percent of GDP, consistent with levels prior to dual external shocks in 2012. The projected deficit provides for a prudent rate of debt accumulation to finance priority projects while also maintaining a degree of fiscal space to respond to future shocks, as needed. The fiscal consolidation from 2012 will be accomplished through a combination of continued improvement in revenue performance and lower current spending needs. Revenue projections foresee an increase of almost one percentage point of GDP based on an assumption of continued realization of gains from recent tax policy and administrative reforms, and further reform measures in the pipeline for this year, a few of which are included in the program as structural benchmarks (MEFP, ¶28).

12. Overall spending will decline slightly, with a reorientation from spending on current transfers to domestically-financed investment. A supplemental budget law is currently under preparation which reflects the shift (MEFP, ¶21). Reduced transfers reflect lower spending needs for food security, refugees and elections, offset partly by higher spending needs for internal security and military operations (0.7 percent of GDP). Subsidies to public enterprises are expected to continue at roughly the same levels as last year, while the authorities are implementing various measures to contain losses/subsidies:

- **SONABHY** (state-owned oil importer): compared to 2012, monthly losses are reduced due to lower international fuel prices. However, to address remaining losses, effective as of May, the government announced: (i) an increase in butane prices to cost recovery levels; (ii) a move from per liter to a lump sum subsidy for gas and diesel; and (iii) a renunciation of part of the government's take of fuel excise taxes (MEFP, ¶23). These measures are intended to mitigate all losses in the coming months; the authorities will reassess the situation in late summer to assess whether more is needed.

- **SONABEL** (stated-owned electricity company): subsidies will be increased slightly, to 0.4 percent of GDP, as a result of growing financial losses (Box 2). The mission discussed extensively with the authorities and development partners the imperative of expanding the supply of energy, both to bring down production costs substantially and to remove a binding constraint to growth. The authorities agree, and have committed to accelerate two larger investment projects, in order to relieve some of these pressures. (MEFP, ¶24).

- **SOFITEX (state-owned cotton ginning company):** SOFITEX was recapitalized in 2012, resulting in government again becoming the majority shareholder (Box 3), but it does not receive ongoing fiscal subsidies. Cotton growers (who sell to three ginning companies, including SOFITEX) receive a general government subsidy for inputs, which will be quite modest this year.

Box 2: SONABEL

In the last two years, SONABEL has experienced financial difficulties, requiring government subsidies of 0.3-0.4 percent of GDP to cover its losses. The losses were due to increases in SONABEL's kilowatt-hour production cost (from an average of CFAF 132 in 2010 to CFAF 160 in 2012). The main factor responsible for increased costs was disruptions of the supply of imported energy from Côte d'Ivoire, Burkina Faso's main supplier (41.2 percent of total supply in 2012).). SONABEL was forced to seek alternative sources of supply, either produced by its thermal plants, rented generators, or from private partners, all of which were substantially more expensive than imported electricity. Another cost factor was higher international fuel prices. At the same time, SONABEL undertook measures to reduce other costs under its control, such as waste, fraud, and payment arrears, with notable success.

SONABEL, Selected Financial Indicators, 2010–12
(In billions of CFAF, unless otherwise indicated)

	2010	2011	2012
Turnover growth (In percent)	9.7	6.8	12.4
Net income	0.7	-15.2	-14.6
Debt towards local institutions	16.8	34.4	34.8
Short-term debt	23.4	44.9	82.2
of which: operating suppliers	20.3	39.7	71.9

Source: Burkinabè authorities.

SONABEL faces two related challenges: (1) supply constraints—the lack of sufficient, reliable energy is consistently cited as the main constraint to growth and job creation in business surveys; and (2) rising costs against a fixed tariff schedule—the current tariff schedule for customers was adopted in 2006, and hasn't been modified since. On average, SONABEL sells power for CFAF 138 KW-hour, which is very high but below current production costs. It often reaches capacity limits during the warm season, when demand is highest, and is forced to ration power. Moreover, the SCADD envisages extending power to more than 400 new localities between 2013 and 2015, which will create further demand.

Expanding the energy supply, both within the country and expanded imports, will simultaneously substantially lower SONABEL's sourcing costs, ensure more supply of power, and render provisions of supplies more reliable. More and more reliable power will make options to modify the tariff schedule more feasible. Businesses have consistently reported that they would be willing to pay more, if they could be guaranteed adequate and reliable energy supplies—this would obviate the need to rely on expensive back-up generators to deal with frequent power outages, as is currently the case.

The authorities and development partners have been working together to bring new projects on line to improve the quality and quantity of supply and reduce production cost. In 2012, SONABEL had a total installed power capacity of 236 MW, an 18 percent increase from 2011, owing to the start of production in the new Komsliga thermal plant. The authorities are also revisiting the contract with Côte d'Ivoire to ensure that the constractual minimum imports (at least 50 MW) will be realized. A planned interconnection with Ghana energy grid is a key project in SONABEL's strategy to enhance the supply. The financing, estimated at CFA 36.5 billion, is being shared between the World Bank, the French Development Agency and the European Investment Bank. Implementation has experienced coordination delays, but the authorities are committed to accelerate its execution. (MEFP ¶28). Should capacity be expanded as planned, projected increases in demand should be broadly covered; demand is expected to increase on average by 45 MW per year through 2015, and by slightly less over the longer term.

SONABEL, Projects for Strengthening Supply, 2013–15
(In MW)

	2012	2013	2014	2015
Komsilga plant (Tranches 1, 2, 3)	37.5	18	37.5	
Strengthening of Bobo II plant			20	
Zagtouli solar plant				30
Interconnection Ghana - Burkina Faso				100
Projected production and import power capacity	286	304	361.5	491.5

Source: Burkinabè authorities.

Box 3. SOFITEX

SOFITEX is the largest of three cotton ginning companies in Burkina Faso (accounting for 85 percent of production) and employs about 20 percent of the country's population. During the period 2005–2009, due to international cotton price trends, the company incurred operating losses. As a result of its deteriorating financial situation, SOFITEX was recapitalized by the Burkinabe government in 2006 and 2009 (effective in 2012), rendering the government as the main shareholder.

A strategy to restore the company's financial viability was developed in 2011, starting with an operational restructuring and a recapitalization. The strategy aims to restore profitability and increase resilience through boosting production yields and reducing operating costs, with a view to divesting the government's stake in the company as of 2016. The trend since 2008 has shown steady improvement, although less rapidly than hoped, with positive net income since 2010. Preliminary 2012 financial results show positive net income, but less than 2011, due to the 2011 drought and movements in international cotton prices (cotton is harvested in year t and ginned and sold in year t+1). 2013 financial results are expected to be much better, owing to a strong 2012 harvest (which also adversely affected the 2012 financial position when SOFITEX bought the crop from farmers) and stable cotton prices. Given the inherent volatility to which the sector is exposed (international cotton prices, currency fluctuations, weather, energy prices), SOFITEX's business plan also includes efforts to diversify the products it brings to market, and a search for alternative sources of cheaper energy.

Once the 2012 financial results are finalized, the authorities will update the business plan, and resubmit it to the SOFITEX board for approval (structural benchmark).

SOFITEX: Selected Financial Indicators, 2008-11

(In millions of CFAF)

	2008	2009	2010	2011
Income	137,150	147,881	146,983	163,790
Net income	-11,176	-51	648	5,879

Source: SOFITEX

13. The authorities and staff discussed reforms needed to support an increase in investment spending of 2 percentage points of GDP in 2013. In addition to measures already underway to improve investment planning and execution (Box 4), the authorities will undertake some additional immediate measures before end-June—included as structural benchmarks for the program—to support investment spending this year (MEFP, ¶27). First, they will hold a Cabinet meeting to take stock of implementation of projects included in this year's budget, with an eye to prioritizing projects and accelerating their execution. Second, they will create, by ministerial decree, a committee at the Director-General level to monitor at a more detailed level implementation of externally-financed investment projects, so that delays can be addressed. Priority spending areas for new projects will be energy, roads, and universities. The authorities have also added two structural reforms to the program with the intention of accelerating implementation of two large power projects already underway: one to hire an engineer to oversee the remaining work for the grid connection with Ghana; and the other to implement the final step to expand capacity at a regional thermal power plant.

Box 4. Investment Planning and Execution

With increased resources and substantial investment needs, the question of expanding investment spending capacity is centrally important. Of particular concern in 2012 was the low execution rate of externally-financed investment spending (32.6 percent). The unusually low execution rate can be partly explained by a delay in larger projects.

In the beginning of 2013, the Ministry of Economy and Finance (MEF) studied over 40 externally financed projects experiencing delays to better understand the reasons, and issue recommendations on how to accelerate project execution. Some reforms have already been made to diminish redundant procedures and controls, but more cooperation is needed between spending Ministries and development partners, to eliminate bottlenecks. Specifically, Ministries should accelerate pre-implementation checklists for projects and development partners should eliminate administrative delays in issuing letters of consent.

Burkina Faso: Externally Financed Investment Execution Rates, 2012
(In percent)

Production Sector	32.6
Support to Production Sectors	30.1
Social Sectors	55.9
Infrastructure and administrative equipment sectors	14.2
Total	**32.6**

Sources: Burkinabè authorities.

The MEF also found that improvements are needed in programming and prioritizing public investment projects, and better public procurement legislation is needed to accelerate processes while still safeguarding transparency. Thus, the authorities have established a "project bank," that is, an inventory of projects and programs, prioritized by a number of criteria and examined by various cross-cutting entities. The criteria include: impact on growth, employment creation, MDG attainment, and "shovel readiness." The project bank will be updated annually.

14. **The 2013 budget is fully financed.** The deficit of 2.4 percent of GDP is covered by external financing projected at the same levels of 2012 (1.5 percent of GDP), and domestic financing, comprising the use of proceeds of an October 2012 bond issue (CFA 32.5 billion) and a CFA 55 billion bond issue planned for November 2013 (MEFP, ¶22). The small financing gap can be closed by the remaining disbursements under the current ECF arrangement.

15. **The authorities are requesting an increase in the ceiling for non-concessional borrowing to help finance four projects.** The limit requested is CFA 135.9 billion (2.2 percent of 2013 GDP) assumed to be disbursed over 4 years (MEFP, ¶26). This will finance about one-third of the needs of the projects, with the remainder of the financing coming from concessional borrowing, public-private partnerships, and domestic resources. The four projects involve: (1) a hydro agriculture project building a canal 53 kilometers downstream from a dam in Samendeni which would help irrigate approximately 1500 hectares in the regions of western Burkina Faso; (2) development of a new airport at Donsin, 35 kilometers northwest of Ouagadougou; (3) two new major highways; and (4) improved road links between Kongoussi-Djibo and Dédougou-Tougan. Independent feasibility studies, and in particular for the new airport which is by far the largest project, show positive returns from the investments.

16. **A new DSA including the new borrowing results in a debt distress risk determination of "moderate"** (Appendix II). The new DSA, undertaken jointly with the Bank, reflects various changes since the 2012 DSA, including: (1) the new borrowing, both concessional and non-

concessional; (2) lower discount rates; (3) higher debt distress thresholds (associated with a move to an institutional performance rating of "strong" based on a higher 3 year CPIA average); and (4) use of end-2012 debt data. Under the new DSA, there is no breach of debt distress thresholds under the baseline scenario, and only a slight breach under two of the standardized stress tests. However, given the high dependency on gold, staff constructed the same customized stress test as in 2012, which extends the standardized shock an additional three years to simulate a scenario of lower gold prices, (broadly based on the World Bank Commodities Group projections). Under the customized stress test, the debt distress threshold with respect to exports was breached toward the end of the projection period. Finally, an alternative "higher growth" scenario has been included that assumes conservative positive returns to growth stemming from the authorities' plans to scale up public infrastructure investment; under this scenario, there are no breaches, neither in the baseline nor in the stress tests, of indicative debt distress thresholds. Staff supports the requested increase in the non-concessional external debt ceiling under the arrangement given the projected returns on the projects, the limited domestic and concessional external resources available to the government, and the consistency of the new borrowing with external debt sustainability.

MEDIUM TERM: FISCAL SPACE FOR INVESTMENT

17. Maintaining the fiscal deficit at the 2013 level should leave space to ramp up investment. For the time being, the medium-term framework reflects conservative assumptions about grants and revenue collection. It assumes that an increase of 1 percentage point of GDP in domestically-financed investment can be met through containment of recurrent public spending and abatement of other exceptional spending, e.g., operations related to Mali. The overall investment budget is projected to increase from 11.1 percent of GDP in 2012 to almost 13 percent of GDP in 2015, on the basis of reforms to improve investment planning and execution. The overall investment increase reflects a reduction in projections for externally-financed investment spending to ensure they are more realistic, offset by significant increases in domestically-financed investment spending. Remaining modest financing gaps in 2014 and 2015 could be closed through further spending adjustment, additional donor support, or, if there are accompanying balance of payments needs, access under a possible successor IMF-supported program.

18. Planned increases in domestically-financed investment spending over the medium term exceed projections of growth in natural resource revenues. Currently, mining revenues are projected to stay roughly constant as a percent of GDP over the medium term. The projections are based on FARI-model computations using the authorities' projections for mining production, WEO price projections, and the current tax system. On balance, these projections may be overly cautious, but the projections will be carefully monitored should any of these factors change, in particular since the authorities are in the process of finalizing a new mining taxation code. The authorities are also considering updating the underlying tax code to more clearly define taxable income, not just for mining companies, but for all international companies.

19. Similarly, the current account deficit is expected to hold steady around 2.0 percent of GDP. The requirements of the infrastructure investment program will add pressure on imports, but this should be offset by continued modest growth in gold and cotton exports, supported by stable international price projections. Cotton production will also be bolstered by measures taken to support agriculture in the context of SCADD (renewing degraded land, irrigation, use of more drought and pest-resistant seeds and fertilizers).

20. The financial sector is in sound condition and is expected to remain so. Ongoing robust credit growth to the private sector (24.1 percent in 2012) has not resulted in any increase in the share of non-performing loans (3.6 percent at end-2012). Other financial soundness indicators point to the general good health of the commercial banking system. As pointed out in the 2013 WAEMU surveillance report, the banking system is concentrated: in Burkina Faso, the four largest banks hold 65 percent of total banking assets. 10 out of 12 banks met the WAEMU capital adequacy ratio (CAR) of 8 percent, with an average CAR of 12.6 percent for the banking system as a whole. The two banks under the desired threshold are small, representing 5 percent of total banking system assets.

Selected Financial Soundness Indicators

	2010	2011	2012
Regulatory capital to risk-weighted assets	9.6	12.6	10.0
Non-performing loans	9.5	5.3	3.6
After-tax return on average equity	22.7	18.9	15.9
Total deposits to total loans	110.8	105.2	104.5

21. Increasing access to financial sector services continues to be a central feature of the authorities' development strategy. To broaden access to financial services in line with SCADD objectives, the authorities are focusing on reinforcing the financial position of microfinance institutions (which are supervised domestically, consistent with regional guidelines), and the quality of basic financial services provided by the postal company SONAPOST, whose wide geographical network plays an important role in providing proximate services. Meanwhile, commercial banks are also seeking to extend their geographical range of coverage, as well as to increase their appeal to the informal sector via the introduction of a range of new innovative products, such as mobile banking. However, commercial banks complain that complicated regulations, stringent ex ante supervision of new product offerings, and a weak judiciary cause delays, increase costs beyond the consumer's reach, and limit their ability to provide innovative products that could appeal to informal economic actors.

PROGRAM MODALITIES: TRANSITION TO A POSSIBLE SUCCESSOR PROGRAM

22. The authorities are requesting an extension of the current program until end-December 31, 2013 and addition of a 7th review to provide more time to negotiate a possible successor Fund-supported program. The authorities plan to request a successor program, and they felt this approach would allow additional time to consider the results of their own annual

SCADD review (held on April 30), the stakeholder's conference (May 7), and the results of the EPA update. Continuing program engagement in the meantime allows them to catalyze donor financing. Negotiations for the successor program could take place together with the 7th review mission in September-October 2013. Remaining access under the current ECF arrangement is SDR 6.45 million, consistent with the remaining financing gap for calendar 2013. Based on this updated financing need, the proposal is to split the remaining access between the current 6th review and the proposed 7th review. New performance criteria are proposed for end-June, as the test date for the 7th review, with indicative targets for end-September and end-December. New structural benchmarks are also proposed for end-June through end-September. The indicative targets and structural measures targeted for end-December 2013 can help guide discussions on a possible Fund-supported program.

23. The authorities have not yet expressed a preference about the type of possible successor program they will request. Depending upon projected balance of payments needs, two options that have been discussed are a low-access ECF arrangement or a PSI-supported program. The authorities are mainly concerned about flexibility with regard to program debt limits, and the ability to access additional financing, if needed, in the face of shocks. Development partners have expressed strong preferences for an unbroken transition to a successor program, necessary for their continued engagement, but do not have strong preferences about the type of program.

PROGRAM RISKS

24. Risks through the remainder of the program and its proposed extension (December 31, 2013) are balanced. Increases in international fuel and/or food prices are a main risk, since they can and have sparked domestic social tension in the recent past (2011). Should recent volatility in international gold prices continue, this could pose a risk, albeit fairly modest, for realization of this year's revenue projections. Medium-term risks for the policy agenda are investment spending capacity constraints and/or lower than-hoped-for growth returns to investment. GDP growth and revenue mobilization could be less than projected if current assumptions regarding weather conditions and international commodity prices are overoptimistic. Finally, spillover from regional security problems remains a risk.

STAFF APPRAISAL

25. Greater domestic resources present an opportunity and a serious challenge. The combination of natural resources and tax policy and administrative reforms boosted domestic revenues by 4 percentage points of GDP between 2009 and 2012, bringing revenues close to the WAEMU convergence criterion (tax revenues to GDP of 17 percent or more). At the same time, external grants and concessional borrowing have remained relatively stable. However, the experience of other countries shows that rapid increases in natural resource wealth can create pressure for more non-productive spending and rent-seeking, which can squeeze out productive spending to promote inclusive growth. Strong investment planning and execution can help mitigate such pressure. Over the medium term, a fiscal rule—which balances needs and capacity constraints—could help safeguard the use of natural resource revenues.

26. The authorities' focus on improving investment planning and execution capacity already this year is welcomed. New measures to be undertaken by end-June should help ensure that ambitious increases in investment spending this year can be realized. Reforms already underway on investment planning, broader reforms pertaining to rationalized and computerized approval processes for spending, and reforms to the public procurement system should help improve investment capacity over the medium term.

27. Public investment in infrastructure and training should support the sectors best placed to create jobs. These themes were also emphasized as priorities in the discussions of the May 7 stakeholder conference. Agriculture continues to be the main employer in the country, and will continue to be for the foreseeable future. Enhancing productivity, diversity and resilience in agriculture—as already envisaged by the SCADD—will continue to be main priorities to bring about structural transformation and create jobs. Services, particularly in finance and telecommunications, provide good opportunities for expanded employment. Mining currently creates some direct employment and training: it has strong potential for more indirect impact on output and employment in the services industry, including financial services. Finally, ramped up public investment should create additional jobs, for example, in construction, transportation, and design.

28. There has been steady improvement in the business climate, but henceforth bolder reforms are called for. Input costs remain high. In addition to insufficient energy supply and inadequate transportation networks, other concerns are a weak judiciary, unreliable communications networks, insufficient higher education and training for skilled jobs, lack of competition in transportation, and overregulation/high fees that render traditional financial services too costly. The authorities are urged to seek creative solutions/redouble efforts for improvement in these areas.

29. Modernizing national accounts statistics is a priority in order to better identify evolving sources of growth and employment. This should be a priority and may require commitment of additional resources to the statistical services. Better analysis of growth and employment trends is necessary to ensure that high growth becomes more inclusive, and contributes to reducing income poverty. The base year for national account statistics needs to be updated to properly reflect the emergence of the mining sector and its direct and indirect contributions to growth, as well as improved productivity in cotton, and agriculture more generally. In the meantime, generation of leading indicator indices can provide more immediate insight on growth and employment trends.

30. New sources of investment financing, including non-concessional borrowing and public private partnerships should be embarked upon cautiously and reserved for high return projects. The authorities are starting with relatively conservative plans for non-concessional borrowing over four years, in order to ensure adequate space for a broad range of projects without jeopardizing debt sustainability. They also intend to use public private partnerships to leverage additional financing. In this case, they will need to improve debt management capacity to track contingent liabilities, including those created by public enterprises and local governments.

31. Staff supports completion of the sixth review, the authorities' request for the seventh disbursement under the ECF arrangement, extension of the arrangement until end-December, addition of a 7th review, modification of the continuous performance criterion on external borrowing and rephasing existing program access. Similarly, it supports addition of performance criteria for end-June as a test date for the requested 7th review, as well as new structural benchmarks for the remainder of this year. The number of structural benchmarks reflects the authorities' wishes to ensure a smooth transition between the current program and a potential successor program: end-December benchmarks would be conveyed to a potential successor arrangement.

Table 1. Burkina Faso: Selected Economic and Financial Indicators, 2011–15

	2011	2012		2013	2014	2015
	Est.	Prog. [1]	Prel.	Proj.		
	(Annual percentage change, unless otherwise indicated)					
GDP and prices						
GDP at constant prices	5.0	8.0	9.0	7.0	7.0	7.0
GDP deflator	5.6	4.4	4.6	2.0	2.0	2.0
Consumer prices (annual average)	2.8	3.6	3.8	2.0	2.0	2.0
Consumer prices (end of period)	5.1	2.0	1.6	2.0	2.0	2.0
Money and credit						
Net domestic assets (banking system) [2]	11.2	13.5	16.1	17.5	16.7	15.8
Credit to the government (banking system) [2]	-1.9	0.5	-2.7	1.5	1.0	0.4
Credit to the private sector	23.5	17.3	24.1	23.4	22.2	20.6
Broad money (M3)	13.8	11.3	15.9	18.4	16.3	15.1
External sector						
Exports (f.o.b.; valued in CFA francs)	43.9	21.0	24.1	9.3	10.1	8.7
Imports (f.o.b.; valued in CFA francs)	30.9	31.5	22.1	8.3	6.0	7.4
Terms of trade	-1.0	4.1	5.7	-0.7	3.6	3.0
Real effective exchange rate	1.7	...	...	...	...	...
CFAF/US$ (annual average)	471.4	...	510.0	...	...	...
	(Percent of GDP, unless otherwise indicated)					
Central government finances						
Current revenue	16.1	16.6	17.7	18.7	18.7	18.8
Of which: tax revenue	14.1	15.0	15.8	16.7	16.7	16.7
Total expenditure and net lending	23.6	27.2	25.8	26.5	25.6	25.6
Of which: current expenditure	12.7	14.5	14.7	13.1	12.7	12.5
Overall fiscal balance, excl. grants (commitment	-7.5	-10.5	-8.1	-7.8	-6.9	-6.8
Overall fiscal balance, incl. grants (commitments	-2.4	-3.2	-3.1	-2.4	-2.4	-2.4
Savings and investment						
Current account balance (incl official transfers)	-1.3	-4.7	-2.2	-2.2	-2.2	-2.0
Gross investment	15.6	18.4	21.3	18.2	18.7	18.7
Government	6.9	8.8	7.8	9.3	8.9	9.0
Private	8.7	9.6	13.5	8.9	9.8	9.7
Gross national savings	14.4	13.7	19.0	16.0	16.5	16.7
Government	9.0	5.7	7.5	9.8	9.0	9.0
Private	5.3	8.0	11.5	6.2	7.4	7.7
Debt indicators						
External debt	24.6	25.1	23.2	24.3	25.4	26.5
NPV of external debt (percent of exports)	65.9	55.6	62.4	65.8	68.9	72.3
Memorandum items:						
Nominal GDP (CFAF billion)	4,937	5,421	5,628	6,141	6,705	7,316
Nominal GDP per capita (US$)	617	...	636	...	...	...

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

[1] Fifth ECF Review

[2] Percent of beginning-of-period broad money.

Table 2a. Burkina Faso: Consolidated Operations of the Central Government, 2011–15

	2011	2012		2013	2014	2015
	Prel.	Prog. [1]	Prel.	Proj.	Proj.	
	(CFAF billions)					
Total revenue and grants	1047.3	1300.3	1276.5	1479.0	1553.3	1694.2
Total revenue	793.6	902.5	999.0	1148.4	1254.7	1375.8
Tax revenue	695.6	812.1	890.8	1022.9	1119.7	1220.3
Nontax revenue	98.0	90.4	108.2	125.5	135.0	155.5
Grants	253.7	397.7	277.5	330.6	298.5	318.4
Project	73.1	222.1	111.6	150.8	154.6	161.4
Program	180.6	175.7	165.9	179.7	143.9	157.0
Expenditure and net lending [2]	1166.0	1472.2	1452.8	1628.1	1715.9	1871.3
Current expenditure	628.3	785.3	828.7	804.7	854.4	917.6
Wages and salaries	281.4	334.4	332.3	353.6	394.1	430.0
Goods and services	97.1	124.2	120.6	133.3	145.8	159.2
Interest payments	28.3	28.5	41.8	29.9	37.0	46.2
Domestic	15.9	20.1	28.8	17.5	19.8	24.7
External	12.4	8.4	13.0	12.4	17.2	21.5
Current transfers	221.4	298.2	333.9	287.9	277.5	282.2
Of which: food security/refugees	17.6	73.5	73.5	35.9	0.0	0.0
subsidies to SONABHY/SONABEL	36.0	50.5	50.7	37.0	...	...
additional security and military spending				40.6		
Investment expenditure	488.6	678.8	625.1	813.4	851.5	943.7
Domestically financed	286.4	334.1	407.9	538.4	543.1	607.2
Externally financed	202.2	344.7	217.1	275.0	308.4	336.5
Net lending	2.7	8.1	-0.9	10.0	10.0	10.0
Overall balance [2]	-118.8	-172.0	-176.3	-149.1	-162.6	-177.1
Cash basis adjustment	12.9	0.0	19.5	0.0	0.0	0.0
Overall balance (cash basis)	-105.8	-172.0	-156.8	-149.1	-162.6	-177.1
Financing	105.1	157.9	150.2	144.3	152.6	162.1
Foreign financing	108.8	102.9	85.5	100.0	112.6	132.1
Drawings	129.1	124.1	107.3	124.2	153.8	175.1
Project loans	129.1	122.6	105.5	124.2	153.8	175.1
Program loans	0.0	1.5	1.8	0.0	0.0	0.0
Amortization (excl. IMF)	-20.3	-21.2	-21.7	-24.2	-41.2	-43.0
Domestic financing	-3.7	55.0	64.7	44.3	40.0	30.0
Bank financing	-24.5	-5.9	-40.4	26.8	20.0	10.0
Central bank	-31.4	-5.9	-2.6	29.2	0.0	0.0
Commercial banks	6.9	0.0	-37.8	-2.4	20.0	10.0
Nonbank financing	20.8	60.9	105.0	17.5	20.0	20.0
Errors and Omissions	0.7	0.0	6.6			
Financing gap	0.0	14.1	0.0	4.8	10.0	15.0
Of which: IMF future disbursements	0.0	14.1	0.0	4.8	0.0	0.0
Memorandum items:						
Poverty-reducing expenditure	298.2	367.6	408.4	464.3	523.0	570.6
Gold mining revenue	127.4	...	189.5	183.1	213.4	246.6
Overall Balance excl. gold mining revenue [2]	-246.2		-365.9	-332.2	-376.0	-423.7

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

[1] Fifth ECF Review.
[2] Commitment ("*engagement*") basis.

Table 2b. Burkina Faso: Consolidated Operations of the Central Government, 2011–15

	2011	2012		2013	2014	2015
	Prel.	Prog. [1]	Prel.	Proj.	Proj.	
	(percent of GDP)					
Total revenue and grants	21.2	24.0	22.7	24.1	23.2	23.2
Total revenue	16.1	16.6	17.7	18.7	18.7	18.8
Tax revenue	14.1	15.0	15.8	16.7	16.7	16.7
Nontax revenue	2.0	1.7	1.9	2.0	2.0	2.1
Grants	5.1	7.3	4.9	5.4	4.5	4.4
Project	1.5	4.1	2.0	2.5	2.3	2.2
Program	3.7	3.2	2.9	2.9	2.1	2.1
Expenditure and net lending [2]	23.6	27.2	25.8	26.5	25.6	25.6
Current expenditure	12.7	14.5	14.7	13.1	12.7	12.5
Wages and salaries	5.7	6.2	5.9	5.8	5.9	5.9
Goods and services	2.0	2.3	2.1	2.2	2.2	2.2
Interest payments	0.6	0.5	0.7	0.5	0.6	0.6
Domestic	0.3	0.4	0.5	0.3	0.3	0.3
External	0.3	0.2	0.2	0.2	0.3	0.3
Current transfers	4.5	5.5	5.9	4.7	4.1	3.9
Of which: food security/refugees	0.4	1.4	1.3	0.6	...	...
subsidies to SONABHY/SONABEL	0.7	0.9	0.9	0.6	...	...
additional military and security sp	...	...	...	0.7		
Investment expenditure	9.9	12.5	11.1	13.2	12.7	12.9
Domestically financed	5.8	6.2	7.2	8.8	8.1	8.3
Externally financed	4.1	6.4	3.9	4.5	4.6	4.6
Net lending	0.1	0.1	0.0	0.2	0.1	0.1
Overall balance (commitment basis)	-2.4	-3.2	-3.1	-2.4	-2.4	-2.4
Cash basis adjustment	0.3	0.0	0.3	0.0	0.0	0.0
Overall balance (cash basis)	-2.1	-3.2	-2.8	-2.4	-2.4	-2.4
Financing	2.1	2.8	2.7	2.3	2.3	2.2
Foreign financing	2.2	1.8	1.5	1.6	1.7	1.8
Drawings	2.6	2.2	1.9	2.0	2.3	2.4
Project loans	2.6	2.2	1.9	2.0	2.3	2.4
Program loans	0.0	0.0	0.0	0.0	0.0	0.0
Amortization (excl. IMF)	-0.4	-0.4	-0.4	-0.4	-0.6	-0.6
Domestic financing	-0.1	1.0	1.1	0.7	0.6	0.4
Bank financing	-0.5	-0.1	-0.7	0.4	0.3	0.1
Central bank	-0.6	-0.1	0.0	0.5	0.0	0.0
Commercial banks	0.1	0.0	-0.7	0.0	0.3	0.1
Nonbank financing	0.4	1.1	1.9	0.3	0.3	0.3
Errors and Omissions	0.0	0.0	0.1	0.0	0.0	0.0
Financing gap	0.0	0.2	0.0	0.1	0.1	0.2
Of which: IMF future disbursements	...	0.2	...	0.1	0.0	0.0
Memorandum items:						
Poverty-reducing expenditure	6.0	6.5	7.3	7.6	7.8	7.8
Gold Mining Revenue	2.6	...	3.4	3.0	3.2	3.4
Overall Balance excl. gold mining revenue	-5.0		-6.5	-5.4	-5.6	-5.8
Nominal GDP (CFAF billions)	4,937	5,421	5,628	6,141	6,705	7,316

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

[1] Fifth ECF Review.

[2] Commitment ("*engagement*") basis.

Table 3. Burkina Faso: Monetary Survey, 2011–15

	2011	2012		2013	2014	2015
		Prog. [1]	Proj	Proj		
	(CFAF billions)					
Net foreign assets	681.5	648.2	678.8	694.5	685.8	669.0
BCEAO	275.3	242.0	233.9	249.5	240.8	224.0
Assets	488.5	451.4	509.1	520.8	506.5	478.6
Liabilities	213.1	209.4	275.2	271.3	265.7	254.6
Commercial banks	406.2	406.2	445.0	445.0	445.0	445.0
Net domestic assets	819.6	1022.6	1061.4	1365.6	1709.8	2087.9
Net domestic credit	943.8	1116.8	1133.0	1437.2	1781.4	2159.5
Net credit to government	-7.8	0.4	-48.2	-21.4	-1.4	8.6
Treasury	60.0	68.2	-22.7	4.2	24.2	34.2
BCEAO	11.2	19.4	-1.8	27.4	27.4	27.4
Commercial banks	48.9	48.9	-20.8	-23.2	-3.2	6.8
Other central government	-67.9	-67.9	-25.5	-25.5	-25.5	-25.5
Credit to the economy	951.6	1116.4	1181.2	1458.6	1782.8	2150.8
Other items (net)	-124.2	-94.2	-71.6	-71.6	-71.6	-71.6
Broad money	1501.1	1670.8	1740.2	2060.1	2395.6	2756.8
Of which: Priv. deposits in comm. banks	1224.6	1373.1	1424.1	1649.0	1940.1	2253.5
	(Annual % change, unless otherwise indicated)					
Memorandum items:						
Net foreign assets	5.2	-4.9	-0.4	2.3	-1.2	-2.5
Net domestic assets [2]	11.2	13.5	16.1	17.5	16.7	15.8
Net credit to government [2]	-1.9	0.5	-2.7	1.5	1.0	0.4
Credit to the private sector	23.5	17.3	24.1	23.5	22.2	20.6
(excluding crop credit)	23.2	17.3	23.9	23.5	22.2	20.6
Money supply	13.8	11.3	15.9	18.4	16.3	15.1
Of which: bank deposits	19.0	12.1	16.3	15.8	17.7	16.2

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

[1] Fifth ECF Review.

[2] Annual change as a percentage of broad money from 12 months earlier.

Table 4. Burkina Faso: Balance of Payments, 2011–15

	2011	2012		2013	2014	2015
	Prel.	Prog. [2]	Proj.		Proj.	
			(CFAF billions)			
Current account	-62.5	-255.8	-125.9	-132.2	-146.7	-143.3
Trade balance	11.9	-108.1	37.0	53.6	119.7	150.9
Exports of goods	1129.7	1290.6	1402.0	1532.5	1686.7	1833.8
Of which: cotton	130.9	165.4	167.3	229.9	263.8	279.2
gold	852.2	914.7	1073.7	1123.6	1222.0	1333.9
Imports of goods	-1117.8	-1398.7	-1365.0	-1478.8	-1566.9	-1682.9
Of which: oil	-328.3	-373.0	-403.4	-425.4	-434.8	-447.6
Of which: food	-103.8	-180.0	-132.1	-110.6	-111.9	-116.6
Of which: public investment	-390.9	-543.1	-500.0	-650.8	-681.2	-755.0
Services, net	-342.3	-417.1	-434.0	-473.5	-520.4	-561.9
Income, net	-3.5	6.4	-0.9	-2.2	-1.7	-3.5
Current transfers	271.5	262.9	272.0	289.8	255.7	271.2
Of which: Official transfers, net	205.6	198.9	204.2	221.1	186.2	200.9
Capital account	121.2	270.6	160.1	199.3	203.1	209.9
Project grants	73.1	222.1	111.6	150.8	154.6	161.4
Financial account	-17.0	-48.1	-58.5	-56.3	-75.2	-98.4
Direct investment	19.7	18.0	23.2	25.3	27.6	30.1
Portfolio investment	9.4	10.0	10.0	10.0	10.0	10.0
Other investment	-46.1	-76.1	-91.8	-91.6	-112.8	-138.5
Long-term investment	-47.7	-81.1	-92.8	-96.6	-117.8	-143.5
Project loans	129.1	122.6	105.5	124.2	153.8	175.1
Program loans	0.0	1.5	1.8	0.0	0.0	0.0
Amortization of public loans (excl. IMF)	-20.3	-21.2	-21.7	-24.2	-41.2	-43.0
Other private	-154.9	-184.0	-178.3	-196.6	-230.4	-275.7
Short-term investment	1.6	5.0	1.0	5.0	5.0	5.0
Errors and omissions	-7.8	0.0	21.6	0.0	0.0	0.0
Overall balance	34.0	-33.4	-2.7	10.8	-18.7	-31.8
Financing	-34.0	19.3	2.7	-15.6	8.7	16.8
Net change in foreign assets of the central b	25.5	19.3	41.4	-15.6	8.7	16.8
Of which: gross official reserves	37.1	-0.3	-20.7	-11.6	14.3	27.9
IMF net financing	7.8	19.6	34.6	-4.0	-5.6	-11.0
Disbursements	9.6	23.3	38.3	0.0	0.0	0.0
Repayments (excluding charges)	-1.8	-3.7	-3.7	-4.0	-5.6	-11.0
Net foreign assets of commercial banks	-59.4	0.0	-38.7	0.0	0.0	0.0
Financing Gap [1]	0.0	14.1	0.0	4.8	10.0	15.0
			(Percent of GDP, unless otherwise indicated)			
Memorandum items:						
Trade balance (– = deficit)	0.2	-2.0	0.7	0.9	1.8	2.1
Exports of goods	22.9	23.8	24.9	25.0	25.2	25.1
Imports of goods	-22.6	-25.8	-24.3	-24.1	-23.4	-23.0
Gold export volume (metric tons)	38.7	33.8	42.4	45.4	48.6	52.0
Current account (– = deficit)	-1.3	-4.7	-2.2	-2.2	-2.2	-2.0
GDP at current prices (CFAF billions)	4,937	5,421	5,628	6,141	6,705	7,316

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

[1] For 2013, corresponds to prospective IMF disbursements.

[2] Fifth ECF Review.

Table 5. Burkina Faso: Quantitative Performance Criteria and Indicative Targets, March 2012–March 2013
(CFAF billions, cumulative from beginning of year; unless otherwise indicated)

(CFAF billions, cumulative from beginning of year; unless otherwise indicated)

	2012												2013		
	Mar. [6]			Jun.			Sep. [6]			Dec.			Mar. [6]		
	Prog. [7]	Adj.	Actual	Prog. [7]	Adj.	Actual	Prog. [7]	Adj.	Actual	Prog. [7]	Adj.	Actual	Prog. [7]	Adj.	Proj.
Quantitative Performance Criteria															
Ceiling on net domestic financing of central government [1]	35.0	40.0	56.7	68.4	105.0	13.2	75.3	24.5	27.4	69.1	78.6	64.7	9.8	46.1	42.1
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	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accumulation of external arrears [2]	0.0	...	0.0	0.0	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Indicative targets															
Ceiling on the overall fiscal deficit including grants [4]	63.0	92.7	39.5	116.0	146.3	38.5	142.7	93.4	45.8	172.5	197.5	152.9	29.8	54.8	-6.7
Government revenue	184.5	...	225.1	428.8	...	505.4	614.5	711.0	754.3	902.5	902.5	999.0	225.3	...	259.3
Poverty-reducing social expenditures[5]	77.5	...	76.4	162.0	...	169.8	257.0	...	268.3	367.6	...	408.4	101.5	...	72.8
Accumulation of new domestic arrears	0.0	...	0.0	0.0	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	...	0.0

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

[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. The ceiling on net domestic financing is to be adjusted in line with the TMU definition.

[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] The ceiling on the overall fiscal deficit is to be adjusted in line with the TMU definition. It is calculated on a commitment basis.

[5] 90 percent of budget amount.

[6] Indicative target.

[7] Fifth ECF Review.

Table 6. Burkina Faso: Structural Benchmarks, July 2012–March 2013			
Measure	**Rationale**	**Completion Date**	
Develop and implement the tax information management and cross-checking module to optimize information sharing between the DGI and the Directorate General of Customs (DGD).	Strengthening tax administration through limiting fraud.	December 2012	Met
Purchase the SYLVIE pilot software and test it internally with Ouagadougou stakeholders in preparation for nationwide deployment of SYLVIE.	Strengthening customs administration through streamlining customs procedures.	December 2012	Met
Submit the conclusions of the study of the civil service compensation scheme to the Council of Ministers.	To streamline compensation schemes to control wage bill and improve service delivery.	March 2013	Met
Conduct and complete the administrative census and biometric enrollment of civil servants.	Control wage bill through limiting fraud and improve service delivery.	December 2012	Met
Interconnect the verified biometric database and the integrated personnel and payment management system (SIGASPE).	Improve control of civil service pay.	March 2013	Not fully met
Submit a medium-term debt strategy to the National Public Debt Committee.	Strengthen debt management capacity.	December 2012	Met
Continue the process of divesting the government's holdings in SOFITEX by updating the financial position assessment.	Eliminate market distortions and reduce public stake.	March 2013	Met
Prepare the strategy to improve the quality of financial services offered by the national postal service (SONAPOST) and submit it to the SONAPOST board of directors.	Deepen access to financial services	December 2012	Not met

Table 7. Burkina Faso: Schedule of Disbursements Under the ECF Arrangement, 2010–13

Amount	Date Available	Conditions Necessary for Disbursement[1]
SDR 7.454 million	June 14, 2010	Following Executive Board approval of the new ECF arrangement
SDR 6.45 million	December 3, 2010	Observance of the performance criteria for June 30, 2010, and completion of the first review under the arrangement
SDR 6.45 million	June 14, 2011	Observance of the performance criteria for December 31, 2010, and completion of the second review under the arrangement
SDR 6.45 million	December 15, 2011	Observance of the performance criteria for June 30, 2011, and completion of the third review under the arrangement
SDR 30.53 million	June 8, 2012	Observance of the performance criteria for December 31, 2011, and completion of the fourth review under the arrangement
SDR 18.49 million	December 1, 2012	Observance of the performance criteria for June 30, 2012, and completion of the fifth review under the arrangement
SDR 3.225 million	May 1, 2013	Observance of the performance criteria for December 31, 2012, and completion of the sixth review under the arrangement
SDR 3.225 million	November 1, 2013	Observance of the performance criteria for June 30, 2013, and completion of the seventh review under the arrangement

[1] In addition to the generally applicable conditions under the Extended Credit Facility.

APPENDIX I. LETTER OF INTENT

Ouagadougou, June 14, 2013

Madame Christine Lagarde,
Managing Director
International Monetary Fund
700 19th Street NW
Washington, DC 20431 (USA)

SUBJECT: Letter of Intent and [Memorandum] of Economic and Financial Policies 2013-2014

Madame Managing Director,

The government of Burkina Faso has continued to implement the measures established in its economic program supported by the three-year arrangement under the IMF Extended Credit Facility (ECF) for the period 2010-2013.

Program implementation took place in an environment marked by resumed growth. The fifth review of our economic and financial program supported by the ECF was completed by the IMF Board of Directors on December 19, 2012, allowing for a disbursement of 18.49 million SDRs or about 28.4 million dollars.

The attached Memorandum of Economic and Financial Policies (MEFP) examines implementation of the program and presents the policies that the government intends to pursue for what remains of 2013.

Over the course of 2012, the government pursued implementation of the Accelerated Growth and Sustainable Development Strategy (SCADD) to strengthen the economy's resilience against various shocks while promoting inclusive growth and poverty reduction. The measures taken to mitigate the food crisis brought on by the 2011 drought and assistance provided to refugees, along with their cattle, weighed on the country's finances. However, the economy continued to be dynamic, with estimated growth of 9.0 percent in 2012 as compared to 5.0 percent in 2011. The growth was basically due to performance of the primary and secondary sectors. Added to this were achievements in implementing reforms in the area of mobilizing tax revenues, which allowed for substantial growth in budgetary revenues. The overall deficit on a cash basis reached 2.8 percent of GDP in late 2012 compared to 2.1 percent in 2011.

As of the end of December 2012, all quantitative performance criteria for completion of the sixth review of the program supported by the ECF arrangement were observed.

All structural measures agreed to under the program for the same period were carried out, with the exception of: (i) submission to the Board of Directors of the National Postal Service (SONAPOST) of a strategy for improving the quality of financial services offered; and (ii) linkage between the improved biometric database and the database of the integrated system of government personnel and payment management (SIGASPE), which are in progress. In any case, the government is committed to carrying out these measures during the course of 2013.

Reforms in tax policy and customs administration succeeded in improving revenue collection, including revenues linked to growing mining activities. Consequently, program reforms will be aimed at improving the use of the new revenues, by strengthening and accelerating public investment spending capacity. Investments in human capital will be stepped up, particularly in health, education, and professional training. Particular emphasis will be placed on increasing infrastructure investment, reducing production costs and ensuring job creation, so that the benefits of growth are shared among the population.

In view of the progress made in implementing the program and based on the policies set out in the attached MEFP, we request that the IMF conclude the sixth review of the arrangements under the ECF and disburse an amount equivalent to 3.225 million SDRs.

From end-June 2013 through the remainder of the arrangement, we request a modification of the continuous performance criterion on nonconcessional external debt contracted or guaranteed by the government. Specifically, we request an increase from zero to an amount of CFA 136 billion (US$276.5 million or 2.2 percent of GDP), which is intended to be used over four years, in connection with four projects described in the attached memorandum.

To allow successful completion of the current program and measures being carried out, and to have more time for successor program negotiations with the IMF, the government requests an extension of the ECF arrangement to December 31, 2013, and addition of a seventh review under the program, with a request for associated quantitative performance criteria for end-June 2013 and structural measures for the remainder of the year (Tables 1-3).

The government believes that the policies set forth in the attached MEFP are adequate to achieve the economic and social objectives of its program. It is determined, nonetheless, to take any further measures that may prove necessary to this end. The government will consult with the IMF on the adoption of these measures, and in advance of any revisions to the policies contained in the MEFP, in accordance with applicable IMF policies.

Furthermore, the government will provide the IMF with information on implementation of the agreed measures and program execution, as provided in the attached revised Technical Memorandum of Understanding or at the request of the IMF.

As in the past, the government agrees to publication of this letter, the attachments hereto, and the related IMF staff report upon approval by the IMF Executive Board.

Sincerely,

/s/
Lucien Marie Noël BEMBAMBA
Minister of Economy and Finance
Officier de l'Ordre National

Attachments: 2013–2014 Memorandum of Economic and Financial Policies
Revised Technical Memorandum of Understanding

Attachment I. Memorandum on Economic and Financial Policies, 2013

Introduction

1. This memorandum updates Burkina Faso's economic and financial program, supported by the International Monetary Fund (IMF) under the Extended Credit Facility (ECF) for 2010-2013. The program supported by the ECF aims to consolidate macroeconomic stability, improve prospects for growth, and intensify efforts to reduce poverty, consistent with the objectives of the Accelerated Growth and Sustainable Development Strategy (SCADD). This memorandum describes the country's economic development in 2012 and updates the structural reforms pursued in the program as of end-December 2012. Furthermore, it establishes the macroeconomic objectives and structural reforms for the remainder of 2013.

ECONOMIC SITUATION AND PROGRAM IMPLEMENTATION AT THE END OF 2012

2. In a context of favorable economic growth, public revenues increased from 16.1 percent of GDP in 2011 to 17.7 percent of GDP in 2012, increasing more rapidly than current expenditures excluding exceptional expenses related to the elections, the food crisis, and care provided to refugees from Mali.

A. Recent Economic Developments

3. Economic activity in Burkina Faso developed against a domestic sociopolitical background that was calmer, however marked by international geopolitical tensions, particularly the crisis in Mali that led to an influx of refugees. Furthermore, resumption of growth was sustained by weather conditions favorable to the 2012/2013 agricultural season, and progress in normalizing the socioeconomic, security, and economic situation in Côte d'Ivoire. Real GDP growth was thus 9.0 percent in 2012 compared to 5.0 percent in 2011, due to performance of the primary and secondary sectors. In the primary sector, grain production increased by 33.6 percent and cotton production grew by 43.0 percent, basically due to good rainfall together with government incentives to farmers to boost agricultural productivity. In the secondary sector, gold production increased by 9.5 percent to about 42,419 tons. In 2012, the primary, secondary, and tertiary sectors respectively contributed 4.7, 1.4, and 3.0 points to GDP growth. The change in the growth rate for 2011 (initially estimated at 4.2 percent) was due to revised gold production data to take account of the new information provided by Customs. Gold production for 2011 was revised upward to 38 tons, from 32.4 tons previously. Gold production estimates in 2012 also take into account the new information from Customs.

4. Inflationary pressures intensified, with an annual average inflation rate that reached 3.8 percent in 2012, higher than the regional norms (and compared to 2.8 percent in 2011).

This inflation is due in part to the poor 2011-2012 agricultural harvest, leading to increased prices for basic staples, as well as the impact of increased retail fuel prices in April 2012. At the end of March 2013, the inflation rate (compared to the same month of the previous year) reached 3.6 percent, a slowdown compared to February and January (3.7 and 3.8 percent, respectively). This level of inflation can be explained by the markets being supplied from commercial stocks, while farmers hold back on their sales. The rate should fall further as supplies are gradually replenished by farmers' stocks.

5. The trade balance improved over the course of 2012, as exports increased at a higher rate than imports. The export growth was primarily due to exports of gold and cotton. Based on final customs figures, gold exports totalled 42,419 kg in 2012 compared to 30,168 kg initially estimated. As a result of the export figures, estimates of gold production volumes have been increased as well. Despite the improvement in the trade balance, the current account deficit deteriorated, from 1.3 percent of GDP in 2011 to 2.2 percent of GDP in 2012, as a result of a decline in the services balance, while current transfers remained broadly stable.

6. The monetary situation as of end-December 2012 was characterized by a year-over-year contraction in net external assets of 2.7 billion CFAF (-0.4 percent) and an increase in net domestic asets of about 20.0 percent, with a 24.1 percent increase in private sector credit, contrasting with the government's net position, which improved by 40.4 billion CFAF. Reflecting these trends, the money supply increased by 15.9 percent at end-December 2012.

7. With respect to public finances, the government has pursued program objectives in a context of substantial improvement of domestic revenue collection, with a tax ratio of 15.8 percent of GDP in 2012, an increase of 1.7 percentage points of GDP over 2011. This result, due in part to domestic revenue amounting to 110.6 percent compared to the program, was possible due to government reforms, particularly: establishment of collection units, expansion of the tax base, an awareness campaign for taxpayer compliance, and efforts to combat fraud, counterfeiting, and corruption. This outcome was also attributable to other actions undertaken by different agencies, particularly reclassifying administration for larger taxpayers to allow better follow-up, institution of a specific tax on transactions related to mining rights, and customs administration. Grants increased by 9.4 percent, from CFA 253.7 billion at end-December 2011 to CFA 277.5 billion at end-December 2012.

8. Expenditures and net lending amounted to CFA 1,452.9 billion in 2012, or 25.8 percent of GDP, representing an increase of CFA 286.8 billion, attributable to both current expenditures (14.7 percent of GDP) and capital expenditures (11.1 percent of GDP). The increase in current expenditures over the previous year is tied to: (1) some planned increases in components of the wage bill; and (2) the combined costs of elections, food security, increased fuel subsidies, and expenses related to refugees from Mali. The increase in domestically-financed investment spending was mainly due to a new construction projects and road maintenance. Externally-financed investment spending amounted to 3.9 percent of GDP in 2012 compared to 4.1 percent in 2011. The overall fiscal deficit on a commitment basis reached CFA 176.3 billion at end-December 2012, representing 3.1 percent of GDP compared to 2.4 percent of GDP in 2011. The overall deficit on a cash basis was 2.8 percent of GDP in 2012, an increase of 0.7 percentage points of GDP compared to 2011.

9. For the first quarter of 2013, government financial operations resulted in a surplus of CFA 6.7 billion CFAF, stemming from good performance with respect to revenues and grants, amounting to 322.4 billion, combined with a moderate increase in expenditures and net lending, amounting to 315.6 billion.

10. During 2012, SONABHY continued to operate under a difficult cash flow situation and with a low level of inventories. The increase in retail fuel prices in April 2012 reduced financial losses, but was not enough to eliminate them. To cover remaining losses, the government increased subsidies by CFA 15.5 billion. At the same time, it provided securities to SONABHY to cover past losses, in an amount of CFA 38 billion. SONABHY placed these securities with commercial banks (30 billion were sold in late March 2013).

11. Nearly all of SONABEL's technical performance indicators improved in 2012, with the volume of sales increasing from 857 GWh in 2011 to 952 GWh in 2012, an increase of about 11.14 percent, and a collection rate that increased from 82.75 percent in 2011 to 98.75 percent in 2012. Despite this improvement, SONABEL's financial situation remained difficult during 2012, with a net loss of CFA 14.6 billion. This situation was due to higher fuel prices, higher debt service costs, and the need to rely on higher cost domestic supplies, based on declining volumes of cheaper imported energy.

Program Performance

12. End-December quantitative performance criteria were met. Net domestic financing was CFA 64.7 billion against a ceiling of CFA 69.1 billion (adjusted to CFA 78.6 billion). The government has maintained a prudent policy on external indebtedness: it neither contracted nor guaranteed debt on noncessional terms, nor incurred new domestic or external arrears. Total revenues amounted to 998.9 billion, against an indicative target of CFA 902.5 billion. The overall deficit amounted to CFA 176.4 billion CFAF against an adjusted ceiling of CFA 197.5 billion. Poverty-reducing expenditures amounted to CFA 408.4 billion against a program target of CFA 367.6 billion.

13. All the structural measures anticipated as of end-December 2012 were implemented, with the exception of the measure to prepare a "strategy for improving the quality of financial services offered by SONAPOST." The delay is explained by personnel changes at the top management levels at SONAPOST. A strategy is currently under preparation, which will be submitted to the SONAPOST Board of Directors for its approval. The measure has therefore been reformulated to require adoption of the strategy by the SONAPOST Board of Directors, before end-December 2013.

14. Structural measures for end-March 2013 were implemented, but the measure to interconnect the biometric database and the database of the integrated government personnel and payment management system (SIGASPE) has not yet been finalized. It will be finalized after the SIGASPE database is completely cleaned up and the technical implementation of a continuous connection of the two databases—the process will be automated based on a platform implemented by a Moroccan consulting firm, GEMADEC, which undertook the biometric census of civil service workers. A new measure is being proposed that will expand the interconnected database to include magistrates, and will automate the process for temporary hires, in order to avoid manual processing of the integrated files.

Economic Policies for the Rest of 2013

A. Macroeconomic framework

15. The government intends to continue its efforts to support growth and reduce poverty, while adopting measures necessary to preserve macroeconomic stability. In terms of the momentum of economic activity, the rate of real growth for 2013 should be 7.0 percent, due to the good 2012/2013 agricultural harvest, and average inflation should be around 2.0 percent.

16. The trade balance is expected to be in surplus in 2013, of 1.5 percent of GDP. Export growth should continue to be driven by gold and cotton. The current account deficit should be around 2 percent of GDP. The overall balance of payments should show an improvement, with a slight surplus of 0.1 percent of GDP.

17. Macroeconomic targets will be achieved due to: (i) continued consolidation of progress made in the area of public finances; (ii) implementation of structural reforms; and (iii) execution of the government's priority programs as defined within the SCADD.

18. The 2012 annual assessment of SCADD implementation, discussed on April 30, 2013, indicates that 57 percent of the measures and actions included in the SCADD performance matrix were fully carried out, and 66 percent of the targets were achieved. The annual review revealed impediments to full implementation. As a result, measures are being adopted to strengthen regional and sectoral capacity to improve implementation over the period 2014-2016. Key measures and actions include developing the Bagré growth pole, more use of public-private partnerships, improving the population's access to energy, and increasing the competitiveness of the private sector by improving the business climate and promoting more capacity for structural transformation.

19. To promote a stronger social safety net, implementation of the action plan for the national social protection policy, adopted in December 2012, is continuing, and a mechanism has been established to monitor implementation nationally.

B. Budgetary policy for the rest of 2013

20. Budget policies will be prioritized based on the SCADD objectives to promote sustainable economic growth, and equitable and effective redistribution of wealth. To this end, public financial management with focus on strengthening already-achieved progress in mobilizing domestic and foreign resources, as well as improving the quality of investment spending, both domestically and externally financed.

21. A supplemental budget law for 2013 has been submitted for parliamentary approval. In the supplemental budget, revenue projections have been revised upward, to reach a level of 18.7 percent of GDP, based on favorable trends so far this year. Capital expenditures should increase significantly due, inter alia, to loans provided in the context of the Donsin airport construction project, the Bagré growth pole project, and university and roads infrastructure projects, as well as projects to increase electricity supplies. To accelerate the execution rate for investment expenditures on infrastructure, the government plans to strengthen processes for identifying priority projects, and undertake reforms in the public expenditure chain to streamline and digitalize spending control processes and documents. In order to properly identify the most relevant actions, the government plans to organize a national workshop including relevant parties, from which an action plan will be prepared and submitted for adoption by the Council of Ministers.

22. The overall budget deficit (commitment basis) is projected to be 2.4 percent of GDP in 2013. This deficit will be financed to a large extent by external financing, mostly on concessional terms. In addition, the proceeds from the CFA 32.53 billion bond issued on the WAEMU market in late 2012 will be used in 2013. A new bond issue amounting to CFA 55 billion CFAF is planned for November. Bonds of CFA 30.7 billion are scheduled to mature, thus net bond issuance in 2013 will be CFA 24.3 billion.

C. Public companies

23. SONABHY: In April 2013 the government reduced subsidies for butane by increaseing butane prices as of May 2013. In addition, as part of its strategy to reduce SONABHY's losses, the government will renounce a portion of its take of the per liter excise tax on petroleum products (TPP). In addition, SONABHY is continuing internal efforts to diversify the sources of its fuel purchase in order to obtain better prices. A competitive bidding process will be introduced for those shipping fuel, in the hope of reducing transport costs.

24. SONABEL: an increased subsidy will be included in the supplemental budget law to offset higher projected losses for 2013. In addition, in order to reduce costs and improve the supply of energy, the government will accelerate planned expansion projects, specifically the interconnection with Ghana, execution of the third 37.5MW segment of the Komsilga power station, and construction of the Zagtouli solar power station. Steps to implement the first two, larger, projects were added as structural reforms for the program.

D. Balance of payments

25. Burkina Faso's foreign trade in 2013 will continue to be marked by sustained exports of gold and cotton, in an environment of uncertainty concerning international prices, of these products and for fuel. However, exports should cause some improvement in the current account deficit, which is projected to remain at a level of about 2 percent in 2013 and 2014.

E. Debt policy

26. Debt policy will continue to be prudent. Consistent with its medium-term debt strategy, the government will continue to use concessional financing whenever possible. However, for certain highly profitable projects where concessional financing is not available, it will resort to use of nonconcessional financing. To this end, it has identified four projects that have an impact on growth and for which it requests exceptions to the program limit of zero nonconcessional financing. Financiers have been identified, and the government will seek the most favorable terms possible. These projects are: (i) development of 1,500 hectares of irrigated areas in Seguere, Nieguema, Bossora and construction of a 53 km feeder channel downstream of the Samendeni Dam (CFA 10 billion); (ii) development of the urban section of the RN04/RN03+ extension up to where it crosses the Avenue de la Liberté (CFA 18 billion); (iii) construction of the Donsin airport and its access routes (CFA 306 billion, of which CFA 104.5 billion to be financed on concessional terms, CFA 91.5 billion on non-concessional terms, and the remainder to be financed by domestic resources and PPPs); and (iv) paving the Kongoussi-Djibo and Dédougou-Tougan roads (CFA 68 billion, of which CFA 51.9 billion is to be financed concessionally, and CFA 16.4 billion non-concessionally). Inclusion of these projects in the latest external debt sustainability analysis conducted by the IMF and World Bank in May 2013 resulted Burkina Faso's risk of debt distress remaining at "moderate."

Structural reforms

27. Table 1 lays out structural benchmarks for the remainder of the current program, while Table 2 presents key structural goals for end-December 2013. Certain benchmarks are intended to accelerate the execution rate of investment expenditures, including already this year. Other benchmarks also seek to consolidate and improve achievements made in mobilizing tax revenues. The government is also pursuing many other reforms to achieve program objectives. One of the most important is the revision of the mining code, currently under way, in order, inter alia, to align the mining tax system with best international practices. In addition, the government is planning reforms to its public procurement processes, to be inscribed in law.

28. The government also plans to undertake other reforms that could have been structural benchmarks. For example, the Directorate of the Treasury plans to undertake a mining revenues diagnostic study to better define all opportunities for its share of collection of mining revenues and to improve revenue forecasting. Since used vehicles represent a large share of imports, the Directorate of Customs plans to purchase and configure software to improve their valuation and overall revenue collection. Finally, the government is working with development partners on two important projects to expand the energy supply, which will alleviate fiscal pressure for SONABEL and remove an important constraint to inclusive growth. These are:

- Accelerate implementation of electricity grid connection with Ghana (as evidenced by signing and implementing the supervisory engineering contract); and

- Accelerate implementation of the third and final phase of the Komsilga thermal power plant (to be achieved through ensuring the generators are operational through factory testing).

Program Modalities

29. The authorities intend to take all measures necessary to achieve the objectives and benchmarks agreed with IMF staff, as presented in Tables 1 and 2 of this memorandum. The program will be monitored in accordance with the Technical Memorandum of Understanding, which defines quantitative performance criteria and requirements for data reporting to IMF staff. The seventh program review is expected to take place on or after November 1, 2013.

Table 1: Structural Benchmarks for the 7th ECF Review

Measures	Reason	Completion Date
Decide on measures to accelerate investment projects included in the 2013 budget, to be determined in a Cabinet-level meeting.	Accelerating the execution of the investment budget	June 2013
Create by ministerial decree a committee to monitor the implementation of externally-financed investment projects and programs.	Accelerating the execution of the state investment budget.	June 2013
Adopt a plan of action by the Council of Ministers to implement recommendations to modernize and digitalize public spending systems, based on input from a national conference.	Improving the procedural efficiency and the level of execution of investment spending.	Sept. 2013
Finalize and operationalize the interconnection of the biometric database and the SIGASPE (payroll database).	Improving the monitoring of elements of the public sector wage bill	Sept. 2013 (building on the partially-met Dec. 2012 benchmark)

Table 2: Additional Structural Targets for December 2013

Measures	Reason	Completion Date
Make the tax information crosscheck module operational and functional in GERIF taxpayer database.	Improving information-sharing between the DGI and the DGD.	Dec. 2013
Update projections of the 2013-16 financial situation of the SOFITEX business plan based on results from fiscal year 2012 and submit update for approval by the Board of Directors	Updating of the latest developments in the financial situation.	Dec. 2013
Prepare a strategy to improve the quality of financial services offered by the national postal service (SONAPOST), and have it approved by the Board of SONAPOST.	Improving access to financial services	Dec. 2013 (building on the Dec. 2012 benchmark that was not met)

Table 3. Burkina Faso: Performance Criteria and Indicative Targets, 2013

(CFAF billions, cumulative from beginning of year; unless otherwise indicated)

	2013		
	June	Sep. [4]	Dec.[4]
	Proj.	Proj.	Proj.
Quantitative Performance Criteria			
Ceiling on net domestic financing of central government[1]	18.8	34.2	49.1
Ceiling on the amount of new nonconcessional external debt contracted or guaranteed by the government [2 3]		135.9	135.9
Accumulation of external arrears [2]	0.0	0.0	0.0
Indicative targets			
Ceiling on the overall fiscal deficit including grants	57.7	95.7	144.3
Government revenue	601.7	817.5	1148.4
Poverty-reducing social expenditures[5]	170.5	266.2	417.9
Accumulation of new domestic arrears [2]	0.0	0.0	0.0

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

[1] Including on-lending of prospective IMF disbursements.

[2] Performance criterion, to be observed continuously.

[3] The non-zero limit applies to 4 specific projects namely, (i) the hydro- agriculture project at Samendeni (ii) the Donsin airport and access roads (iii) highways RN03 and RN04 and (iv) the road links between Kongoussi-Djibo and Dédougou-Tougan

[4] Indicative Target, except for continuous performance criteria.

[5] 90 percent of budget amount.

Attachment II. Technical Memorandum of Understanding

1. This technical memorandum of understanding (TMU) defines the quantitative performance criteria, indicative targets, and structural benchmarks that will serve to assess performance under the program supported by the Extended Credit Facility (ECF). It also sets deadlines for the submission of data to IMF staff.

DEFINITIONS

2. **Government.** Unless otherwise indicated, "government" means the central administration of Burkina Faso and does not include local administrations, the central bank, or any other public or government-owned entity with autonomous legal status not included in the government flow-of-funds table (TOFE).

3. **Definition of debt.** For the purposes of the relevant performance criteria, the definition of debt is set out in IMF Executive Board Decision No.6230-(79/140), Point 9, as amended August 31, 2009 (Decision No. 14416-(09/91), as published on the IMF website.

4. **Debt guarantees.** For the purposes of the relevant performance criteria, a government debt guarantee means an explicit legal obligation to service a debt in the event of nonpayment by the borrower (through payment in cash or in kind).

5. **Debt concessionality.** For the purposes of the relevant performance criteria, a debt is considered concessional if it includes a grant element of at least 35 percent.[1] The present value (PV) of debt at the time it is contracted is calculated by discounting the borrower's future debt service payments on the debt. The discount rates used for this purpose are the currency-specific commercial interest reference rates (CIRRs), published by OECD. For debt with a maturity of at least 15 years, the ten-year-average CIRR is used to calculate the PV of debt and, hence, its grant element. For debt with a maturity of less than 15 years, the six-month average CIRR is used. The margins for differing repayment periods (0.75 percent for repayment periods of less than 15 years, 1 percent for 15 to 19 years, 1.15 percent for 20 to 29 years, and 1.25 percent for 30 years or more) are added to the ten-year and six-month CIRR averages.

6. **External debt.** For the purposes of the relevant performance criteria, external debt is defined as debt contracted or serviced in a currency other than the CFA franc. This definition also applies to debt among WAEMU countries. The relevant performance criteria apply to the external debt of the government, public enterprises, and other public entities in which the government holds more than 50 percent of the capital, and any private debt for which the government has extended guarantees that constitute a contingent liability for the government.

[1] The following page of the IMF website provides a tool to calculate the grant element of a wide range of financing packages: http://www.imf.org/external/np/pdr/conc/calculator.

7. Reporting requirements. The government will promptly inform IMF staff when new external debt is contracted or guaranteed, including the applicable terms, within a maximum of two weeks after signature of the contract.

QUANTITATIVE PERFORMANCE CRITERIA

8. The revised quantitative performance criteria proposed for June 2013 relate to: (i) net domestic financing as defined in paragraph 9; (ii) the contracting or guarantee of nonconcessional external debt, as defined in section 1; and (iii) the non-accumulation of payment arrears on external debt service. The amounts provided in the program for September 2013 and December 2013 are indicative targets.

A. Net Domestic Financing

9. For the purposes of the relevant performance criteria, net domestic financing is defined as the sum of (i) net bank credit to the government, including net bank credit to the Treasury as defined below and other government claims and debts vis-à-vis the national banking institutions (claims associated with IMF disbursements are included); (ii) the stock of unredeemed government bills and bonds held outside national commercial banks; (iii) privatization receipts; and other government claims and debts vis-à-vis national nonbank institutions. Net bank credit to the Treasury is the balance of the Treasury's claims and debts vis-à-vis national banking institutions. Treasury claims include the cash holdings of the Burkinabè Treasury, deposits with the central bank, deposits with commercial banks, secured obligations, and government deposits in postal checking accounts (CCP). Treasury debt to the banking system includes funding from the central bank (including statutory advances, consolidated advances, IMF financing, and refinancing of secured obligations), government securities held by the central bank, funding from commercial banks (including government securities held by commercial banks), and securitized deposits of the national postal savings fund (CNE/CCP). Net bank credit to the government is calculated based on information provided by the Central Bank of West African States (BCEAO), whose figures are deemed valid for program purposes. The foregoing items are calculated based on the government budget execution report presented each month in the government financial operations table prepared by the Ministry of Economy and Finance.

Adjustment

10. The cumulative ceiling on net domestic financing will be adjusted upward in the amount by which external program support, excluding grants and project loans, falls short of the projected amount, up to a maximum of CFAF 53 billion. The shortfall in external program assistance (grants and loans) will be calculated in reference to the projections in Table 1 below. The ceiling will not be adjusted downward in the event the external program assistance is higher than programmed.

Table 1: External Program Assistance (cumulative, CFAF billions)			
	End-June 2013	End-September 2013	End-December 2013
Grants and loans	24.0	81.0	179.7

11. The Ministry of Economy and Finance will forward data on net domestic financing to the IMF within six weeks after the end of each quarter.

B. Non-accumulation of External Payment Arrears

Performance criterion

12. External payment arrears are external payments due but unpaid. Under the program the government agrees not to accumulate external payment arrears on its debt except arrears arising from obligations being renegotiated with external creditors, including bilateral non-Paris Club creditors. Nonaccumulation of external arrears is a performance criterion, to be observed continuously.

Reporting deadlines

13. Data on outstanding balances, accumulation, and repayment of external arrears will be forwarded within six weeks after the end of each month.

C. Nonconcessional External Debt Contracted or Guaranteed by the Government

Performance criterion

14. The government undertakes not to contract or guarantee any nonconcessional external debt beyond the ceiling indicated in MEFP Table 3. This performance criterion applies to external debt as defined in paragraph 6 of this memorandum. It utilizes the concept of concessionality as defined in paragraph 5 of this memorandum. This performance criterion also applies to any private debt guaranteed by the government that constitutes a contingent government debt as defined in section I of this memorandum. In addition, this criterion applies to public enterprises, local governments, and other public sector entities (including public administrative, professional, scientific and technical agencies) unless excluded in MEFP Table 3. However, this performance criterion will not apply to Treasury bills and bonds issued in CFA francs on the WAEMU regional market, to suppliers' normal short-term credits, or to IMF loans. This commitment is a performance criterion to be observed continuously. It is measured on a cumulative basis from the IMF Executive Board's approval of the ECF, and no adjustment factor will apply.

Reporting deadlines

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

III. OTHER QUANTITATIVE INDICATIVE TARGETS

16. The program also includes indicative targets for the overall deficit (commitment basis, grants included) as defined in paragraph 17 below; total government revenue; poverty-reducing social expenditures, and nonaccumulation of domestic payment arrears.

A. Overall Deficit Including Grants

Definition

17. For the program, the overall deficit including grants is valued on a commitment basis. It is defined as the sum of the government's net foreign and domestic financing, measured from the financing side, plus a cash basis adjustment. Net foreign financing is the sum of new foreign borrowing less amortization. Government net domestic financing is defined as the sum of: (i) net bank credit to the government, including the sum of net bank credit to the Treasury as defined below and other government claims and debts vis-à-vis national banking institutions; (ii) the stock of unredeemed government bills and bonds held outside national commercial banks; and (iii) privatization receipts. Net bank credit to the Treasury is defined as the balance of Treasury claims and debts vis-à-vis national bank institutions. Treasury claims include cash holdings of the Burkinabè Treasury, central bank deposits, deposits with commercial banks, secured obligations, and government deposits in postal service checking accounts (CCP). Treasury debt to the banking system includes central bank funding (including statutory advances, consolidated advances, IMF financing, and refinancing of secured obligations), government securities held by the central bank, commercial bank funding (including government securities held by commercial banks), and securitized deposits of the national postal savings fund (CNE/CCP). Net bank credit to the government is calculated by the Central Bank of West African States (BCEAO), whose figures are deemed valid for program purposes. The stock of Treasury bills and bonds and net government external financing is calculated by the Ministry of Economy and Finance. The cash basis adjustment is defined as the sum of: (i) all unpaid expenditure commitments and (ii) the change in pending bills.

18. The foregoing items are calculated based on the government budget execution report presented each month in the government financial operations table prepared by the Ministry of Economy and Finance.

Adjustment

19. The overall deficit including grants will be adjusted upward in the amount by which grants fall short of the programmed amount, up to a maximum of CFAF 25 billion. It will not be adjusted if grants are higher than programmed. The shortfall will be calculated in reference to the projections in Table 2 below.

20. The overall deficit including grants will also be adjusted upward in the amount by which concessional loans exceed the programmed amount, up to a maximum of CFAF 15 billion. The surplus will be calculated in reference to the projections in Table 2 below.

Table 2: External Assistance (cumulative, CFAF billions)

	End-June 2013	End-September 2013	End-December 2013
Grants (program and projects)	124.7	219.4	330.6
Loans	51.1	82.1	124.2

Reporting deadlines

21. The Ministry of Economy and Finance will forward data to the IMF on the overall deficit excluding grants within six weeks after the end of each quarter.

B. Total Government Revenue

Definition

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

Reporting deadlines

23. The Ministry of Finance and Budget will forward details on total revenue to the IMF within six weeks after the end of each month.

C. Poverty-Reducing Social Expenditures Definition

24. Poverty-reducing social expenditures are defined as the expenditures of sectors sponsoring the priority programs identified in the Accelerated Growth and Sustainable Development Strategy (SCADD) to accelerate the achievement of poverty reduction objectives. The expenditures cover all spending categories for the following ministries: Basic Education; Health; Social Action and National Solidarity; Promotion of Women; Civil Service, Labor and Social Security (only the labor and social security components); Youth, Professional Training and Employment; Agriculture and Water; Animal Resources; and Environment and Sustainable

Development. They also cover rural roads and Heavily Indebted Poor Countries (HIPC) initiative (Category 5) for infrastructures, and HIPC expenditures only for Communication; Mines, Quarries, and Energy; Justice and the Ministry of Economy and Finance. These expenditures are monitored directly through the budget, and the indicative threshold for the program will be 90 percent of the amount established by the budget authority.

Reporting deadlines

25. The government will forward monthly data on poverty-reducing social expenditures within six weeks after the end of each month. It will also submit the poverty-reducing expenditure execution report each quarter.

D. Non-accumulation of Domestic Payment Arrears

Definition

26. The government will not accumulate payment arrears on domestic obligations during the program period. This is a benchmark to be observed continuously.

Reporting deadlines

27. Data on balances, accumulation, and repayment of arrears on domestic government obligations will be reported within four weeks after the end of each month.

ADDITIONAL INFORMATION FOR PROGRAM MONITORING

A. Public Finance

28. The government will forward the following data to IMF staff in MS Excel format:

- The monthly government financial operations table (TOFE) and the customary appendix tables, to be forwarded within six weeks after the end of each month; if data on actual investment financed by external grants and loans are not available in time, a linear estimate of execution based on the annual projections will be used.

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

- Quarterly data on implementation of the public investment program, including details on financing sources, to be sent within six weeks after the end of each quarter.

- Quarterly data on the stock of external debt, external debt service, external debt contracted, and external debt repayment, to be sent within six weeks after the end of each quarter.

- Monthly data in table format on the monitoring of social poverty-reducing expenditures, to be submitted at the same intervals provided above for the TOFE.

- Monthly data on petroleum product prices, consumption, and taxes, including:

(i) the price structure for the month concerned;
(ii) detailed calculation of the price structure, from the f.o.b.-MED price to the retail price;
(iii) volumes purchased and distributed for consumption by the petroleum distributor (SONABHY); with a distinction made between retail and industry sales; and
(iv) a breakdown of tax revenue from petroleum products—customs duties, tax on petroleum products (TPP), and value-added tax (VAT)—and subsidies paid; to be provided within four weeks after the end of each month.

- A monthly statement of the accounts with the treasury, broken out by major category (administrative services, state enterprises, joint public-private enterprises, public administrative enterprises, international organizations, private depositors, and others), to be provided within six weeks after the end of each month.

B. Monetary Sector

29. Within six weeks after the end of each month, the government will forward:

- the consolidated balance sheet of monetary institutions;

- the monetary survey, within six weeks after the end of the month for provisional data, and within ten weeks after the end of each month for final data;

- the lending and borrowing interest rates;

- the standard bank supervision indicators for banks and nonbank financial institutions.

C. Balance of Payments

30. The government will transmit the following to IMF staff:

- Any revision of balance of payments data (including services, private transfers, official transfers, and capital transactions), as they occur;

- Foreign trade statistics compiled by the National Statistics Institute, within three months after the end of the month concerned; and

- Preliminary annual balance of payments data, within nine months after the end of the year concerned.

D. Real Sector

31. The government will transmit the following to IMF staff:

- Disaggregated monthly consumer price indices, monthly within two weeks after the end of each month;
- Provisional national accounts; and;
- Any revision of the national accounts.

E. Structural Reforms and Other Data

32. The government will transmit the following to IMF staff:

- Any study or official report on Burkina Faso's economy, within two weeks after publication thereof; and.
- Any decision, order, law, decree, ordinance, or circular having economic or financial implications, on the date published, or no later than the date of entry into force.

INTERNATIONAL MONETARY FUND

BURKINA FASO

SIXTH REVIEW UNDER THE THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, REQUESTS FOR EXTENSION OF THE ARRANGEMENT, MODIFICATION OF CONTINUOUS PERFORMANCE CRITERION, AND REPHASING OF DISBURSEMENT—DEBT SUSTAINABILITY ANALYSIS

June 14, 2013

Approved By
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Prepared by the International Monetary Fund and the World Bank

This joint World Bank/IMF Debt Sustainability Analysis (DSA) has been prepared in the context of the Sixth Review under the program supported by the IMF's Three-Year Extended Credit Arrangement (ECF). It is based on higher debt risk thresholds and new end-2012 debt data. This DSA includes proposed new borrowing for four large development projects, assumed to be implemented over the next four years. In order to isolate the impact of the new borrowing on debt sustainability, most macroeconomic assumptions remain unchanged from the 2012 DSA. Notably, a conservative assumption has been taken to keep long term growth projections as in the previous DSA. None of the external debt ratios under the baseline scenario breach their respective indicative debt distress thresholds. Under the stress test scenarios, two ratios breach the thresholds in the outer years (including a country-specific stress test to better reflect the effect of the falling gold prices). As a result, Burkina Faso's risk rating for external debt distress remains moderate. Under an alternative scenario where investment spending is assumed to result in gradually higher growth over the long term, there are no breaches of the debt distress thresholds.

BACKGROUND AND UNDERLYING DSA ASSUMPTIONS

1. Burkina Faso's nominal stock of debt as of end-2012 was 28.7 percent of GDP, equivalent to around US$3.2 billion (Table 1). A large portion of this debt (81 percent) is external debt while domestic debt which is comprised of government bonds and short term treasury bills is relatively small (19 percent).

Table 1. Stock of Public Debt 2009–12

	2009	2010	2011	2012	Percent
	CFAF billions				
Public Debt	1150.8	1365.7	1508.2	1615.6	100
External Debt	964.1	1164.4	1216.2	1305.4	81
Domestic Debt	186.8	201.3	291.9	310.2	19
	(percent of GDP)				
	2009	**2010**	**2011**	**2012**	
Public Debt	29.2	30.7	30.5	28.7	
External Debt	24.5	26.1	24.6	23.2	
Domestic Debt	4.7	4.5	5.9	5.5	

2. Table 2 summarizes the main differences in assumptions between the previous DSA and this one. The main changes in underlying assumptions in this DSA compared to the 2012 DSA are: use of end-2012 data; a stronger institutional capacity assessment; lower discount rate; higher gold production; higher domestic revenues; lower gold prices and inclusion of the authorities' proposal for non-concessional borrowing tied to four projects.

Table 2. Changes in Assumptions for the April 2013 DSA vs the April 2012 DSA

		2012	2013	2014	2015	2016	2022	2030
Gold (tons)	2013 DSA	42.4	45.4	48.6	52.0	54.6	72.4	90.8
	2012 DSA	35.0	40.0	46.1	49.1	51.8	69.1	86.6
Gold (USD / ounce)	2013 DSA	1407.0	1418.1	1432.3	1451.0	1467.8	1625.4	1844.0
Memo: World Bank projs.		*1670.0*	*1500.0*	*1450.0*	*1400.0*	*1390.0*	-	-
	2012 DSA	1554.1	1596.0	1639.0	1683.2	1728.6	1900.8	2157.5
Exports (% of GDP)	2013 DSA	24.9	25.0	25.2	25.1	24.2	22.7	21.9
	2012 DSA	27.1	28.4	29.7	29.6	29.3	27.4	26.7
GDP Growth (y/y)	2013 DSA	9.0	7.0	7.0	7.0	6.9	6.4	6.0
	2012 DSA	7.0	7.0	7.0	7.0	6.9	6.4	6.0
Revenue (% of GDP)	2013 DSA	17.7	18.7	18.5	18.6	18.9	18.7	19.4
	2012 DSA	16.1	16.3	17.0	17.5	18.3	18.5	19.2

3. Other basic macroeconomic assumptions (Box 1) remain unchanged from the 2012 DSA. The GDP growth rate is projected at 7 percent and this robust rate relies on continued improvements in the agricultural sector and anticipated growth in the mining sector. A recent drop in food prices and mostly unchanged retail fuel prices has kept inflation low (projected at 2 percent for 2013) while the current account balance is expected to fall to 1.5 percent of GDP in 2015 from the projected 2 percent in 2013.

Box 1. Burkina Faso: Macroeconomic Assumptions Underlying the DSA

Real GDP growth is projected at 7 percent per year until 2015. Growth for 2012 has been revised upward to 9 percent. The revisions stem from the use of gold production figures from Customs rather than those of the Ministry of Mines. The growth rate in 2012 captures a 30 percent growth in the agricultural sector and a strong growth in gold production (11.5 percent growth). Longer term real growth is averaged slightly above 6 percent to account for a slowdown in the production of gold and the frequency of weather and other shocks.

Inflation in 2012 was 3.8 percent and year-on-year inflation in March 2012 was 3.6 percent. Inflation is expected to converge to an average of 2 percent over the medium-term.

The current account deficit in 2012 was 2.2 percent of GDP and is expected to stay relatively constant through 2015, reflecting higher imports for public investment offset by growing gold exports. Over the longer term, it is projected to increase gradually to 4.7 percent by 2033, as gold exports decelerate but imports remain relatively constant.

Fiscal deficits (including grants) are projected to increase very gradually, from 2.4 percent of GDP in 2013 to around 2.9 percent in 2032. The reliance on grants drops from 5.4 percent of GDP in 2013 to 1.9 percent of GDP over the projection period.

External debt (24.3 percent of GDP in 2013) includes the new anticipated concessional and non-concessional borrowing totaling CFA 292 billion (US$590.6 million) in the baseline scenario.

Domestic debt assumptions have been changed slightly from the 2012 DSA, that is, there is small constant change in the nominal stock of domestic in the medium term, which is gradually increased in the long term to account for development of domestic and regional bond markets.

4. **This DSA is based on end-2012 debt data.** Also, historical data has also been revised back to 2008 to harmonize with the authorities' data.

5. Burkina Faso's three year average CPIA score increased the institutional capacity classification from medium to strong.[1] This raised the indicative thresholds for assessing debt distress. Thresholds corresponding to strong policy performers are the highest, indicating good policies and debt accumulation being less risky.

6. The discount rate used for the DSA has been lowered from 4 percent to 3 percent due to the decrease in the U.S. dollar long-term CIRR.[2] Although the net present value of the debt stock increases given the decrease in the discount rate, the simultaneous increase in the thresholds due to the CPIA score keeps the debt ratios in the baseline well below the thresholds. The drop in the discount rate (combined with the terms assumed for the anticipated new borrowing) also affects the average grant element for disbursements when compared to the 2012 DSA. In this DSA, the average grant element drops from 43 to 23 percent in the medium term and is an average of 20 percent over the long term.

7. Export projections are lower in the current DSA compared to the 2012 DSA, reflecting lower gold price projections. In fact, projections for the production of gold are larger than those projected in the previous DSA, due to an upward revision in the base series. The historical series was revised due to new information on gold production provided by Customs, which constitutes a significant upward revision (40 percent in 2012).

8. Gold prices have been on a decline over the last six months, with a sharp drop in April. The price of gold used to project exports in the baseline scenario of this DSA assumes a lower figure compared to the 2012 DSA, in line with variations in WEO projections for international gold prices. World Bank projections for gold in the medium term are somewhat lower. Over the medium term, the lower gold price assumptions have a stronger impact on exports than the upward revision in the base for production projections.

9. New anticipated external borrowing totaling CFA 292 billion (US$590.6 million over 4 years) has been included in the baseline scenario (Box 2). New financing for four large development projects is currently being negotiated by the authorities, who continue to seek external financing on the best terms possible. Investment levels are expected to be maintained at relatively high levels close to 13 percent of GDP over the medium term before gradually declining to 11 percent by the end of the projection period. Growth assumptions remain constant, however. In the medium term, the public investment should have some direct impact on growth, but this DSA includes a conservative assumption that longer term growth rates remain unchanged. Of the total amount of anticipated new borrowing, CFA 156.4 billion (US$ 316.1 million) is expected to be borrowed on concessional terms, and CFA 135.9 billion (US$ 274.5 million) on non-concessional terms. For this, the authorities have requested a modification of

[1] The 2011 CPIA was 3.77, bringing the 3 year average to 3.78.

[2] The U.S. dollar long term discount rate is used to derive the net present value of debt stocks in the LIC DSF. This has fallen from 4 percent (its level since September 2009) to 3 percent. This decrease is mandated by IMF policy, which calls for adjusting the discount rate used in the LIC DSF if the six-month average of the long-term CIRR deviates from the prevalent rate in the LIC DSF by more than 100 basis points for a period of six months or more. See Operational Framework for Debt Sustainability Assessments in Low-Income Countries—Further Considerations (http://www.imf.org/External/np/pp/eng/2005/032805.htm).

the ceiling on non-concessional borrowing from zero to CFA 135.9 billion (US$274.5 million, or 2.2 percent of GDP). The baseline assumes that this amount will be disbursed in four equal amounts starting in 2014 through 2017.

Box 2. Non-concessional Borrowing

The authorities have identified financing needs totaling CFA 402 billion (6.6 percent of the projected 2013 nominal GDP) for the development of infrastructure in: (i) hydro agriculture; and (ii) transportation.

Two-thirds of the amount is expected to be financed by concessional borrowing (CFA 156.4 billion), domestic resources (CFA 45 billion) and public private partnerships (CFA 65 billion). The remainder will be financed by non-concessional borrowing in an amount of CFA 135.9 billion (2.2 percent of projected 2013 nominal GDP). It is assumed that this borrowing will take place over a period of four years.

The hydro agriculture project involves building a canal 53 kilometers downstream from a dam in Samendeni which would help irrigate approximately 1500 hectares in the regions of western Burkina Faso. The estimated cost for this project is CFA 10 billion. The Islamic Development Bank is expected to be the major creditor for this project.

The infrastructure in transportation includes the development of a new airport at Donsin, located 35 kilometers northwest of Ouagadougou. Various feasibility studies have determined that the cost of construction of the new airport and its related access roads will be CFA 306 billion. CFA 91.5 billion is expected to be borrowed on non-concessional terms. Creditors are expected to be the Islamic Development Bank, the West African Development Bank, the ECOWAS Bank for Investment and Development, and the French Development Agency.

Other transportation infrastructure projects include building highways and urban links. The two road projects are estimated to cost CFA 86 billion, with CFA 34 billion to be financed on non-concessional terms. Main creditors are expected to be the West African Development Bank and the Islamic Development Bank.

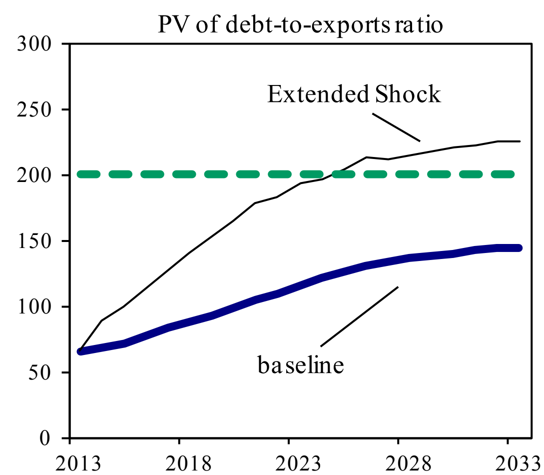
EXTERNAL DEBT DSA RESULTS

10. **The 2013 DSA highlights the inclusion of the anticipated new borrowing into the baseline scenario.** In the baseline scenario, all debt ratios remain comfortably below the risk thresholds, mainly due to the higher thresholds, but also due to higher gold production and higher domestic revenues. The analysis shows an increase in PV of debt-to-exports, from 65.9 percent in 2013 to 72 percent in 2015 in the short term, followed by a steady increase to a maximum of 144.6 percent in 2033. This is attributed to the worsening of the PV of debt due to the lower discount rate (3 percent), changes in borrowing and the lower projections of exports as compared to the previous DSA (Table 2).

11. Of the two cases where the threshold is breached in the standardized stress tests, the PV of debt of exports is more pronounced and relevant. The stress test showing stricter terms for public sector borrowing breaches the debt distress threshold for PV of debt-to-exports, slightly at the end of the forecast period. This stress test assumes that, over the period of 2013–2033, the interest rate on new borrowing is 2 percentage points higher than in the baseline with the grace and maturity periods remaining the same. There is also a breach of the PV of debt to GDP after 2028 due to a onetime exchange rate depreciation shock—the 1994 CFAF devaluation notwithstanding, application of this stress test in the context of a monetary union with a pegged currency would not be a valid reason to maintain a debt risk rating of "moderate."

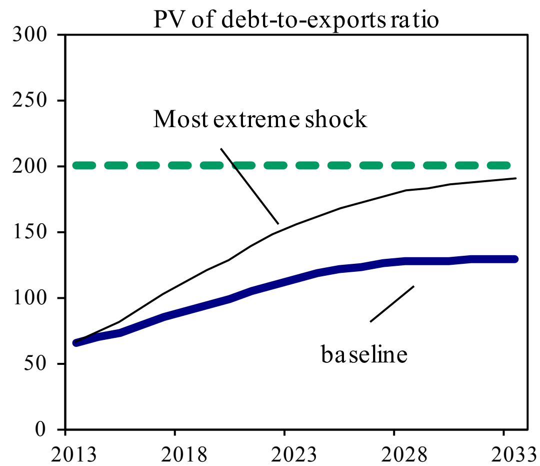
12. In addition, a customized stress test was conducted to test the sensitivity of the analysis to changes in underlying gold production and price assumptions (Figure 1a)**.** The customized stress test was the same one conducted for the 2012 DSA. The effect of this change on export values was approximated by extending the standardized export shock for three further years (2014–18). This would be more consistent with World Bank projections for international gold prices, which show cumulative price declines of around 17 percent over five years. Under this scenario the debt distress threshold with respect to exports is breached.

Figure 1a. Customized Stress Test



13. Finally, an alternative scenario was explored in which long term growth projections are gradually increased as a result of the impact of the government program to scale up investment (Figure 1b). Staff analysis using DSGE models shows that scaling up investment spending in line with the amounts proposed by the authorities (roughly 2 percentage points of GDP) could add as much as 1.5 percentage points to growth after 8 years. In the alternative scenario considered here, it is assumed that growth remains at an average of 7.0 percent through 2015, and then gradually trends upward to 7.5 percent as of 2033 (as opposed to a gradual decline to 6.0 percent under the baseline scenario). This is a more conservative assumption than the DSGE scaling up result, since the full effect on growth rates takes a decade longer to phase in.[3] Under this scenario, there are no breaches of the debt distress thresholds, under either the standardized or customized stress tests.[4]

Figure 1b. Alternative scenario and Stress Test



TOTAL PUBLIC DEBT DSA RESULTS

14. The inclusion of domestic public debt in the analysis does not significantly alter the dynamics of debt burden indicators (Table 2a, Figure 2). Under the baseline scenario, the PV of total public debt-to-GDP and total public debt-to-revenue (including grants) ratios are projected to increase steadily over time to reach 36.3 and 168.8 percent at the end of the projection period. In this DSA it is assumed that current domestic debt levels are maintained in the medium term and are increased gradually in the long term to allow for development of domestic and regional bond markets. However, as the share of domestic debt isn't very large, the total public debt is mostly driven by the dynamics of external debt.

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[3] While these growth assumptions are more positive than historical rates, they are not unrealistic considering historical trends. Over the past 30 years, average real growth rates have increased (4.3 percent in the period 1986-1997, compared to 6.0 in 1998-2012). Over the same period, the volatility of growth has dropped (the standard deviation of the growth rate went from 3.7 percentage points to 2.1 percentage points over the same periods). The results are more pronounced on a per capita basis.

[4] In this case, the standardized stress test affecting the terms of new borrowing rendered a worse result than the customized extended export shock.

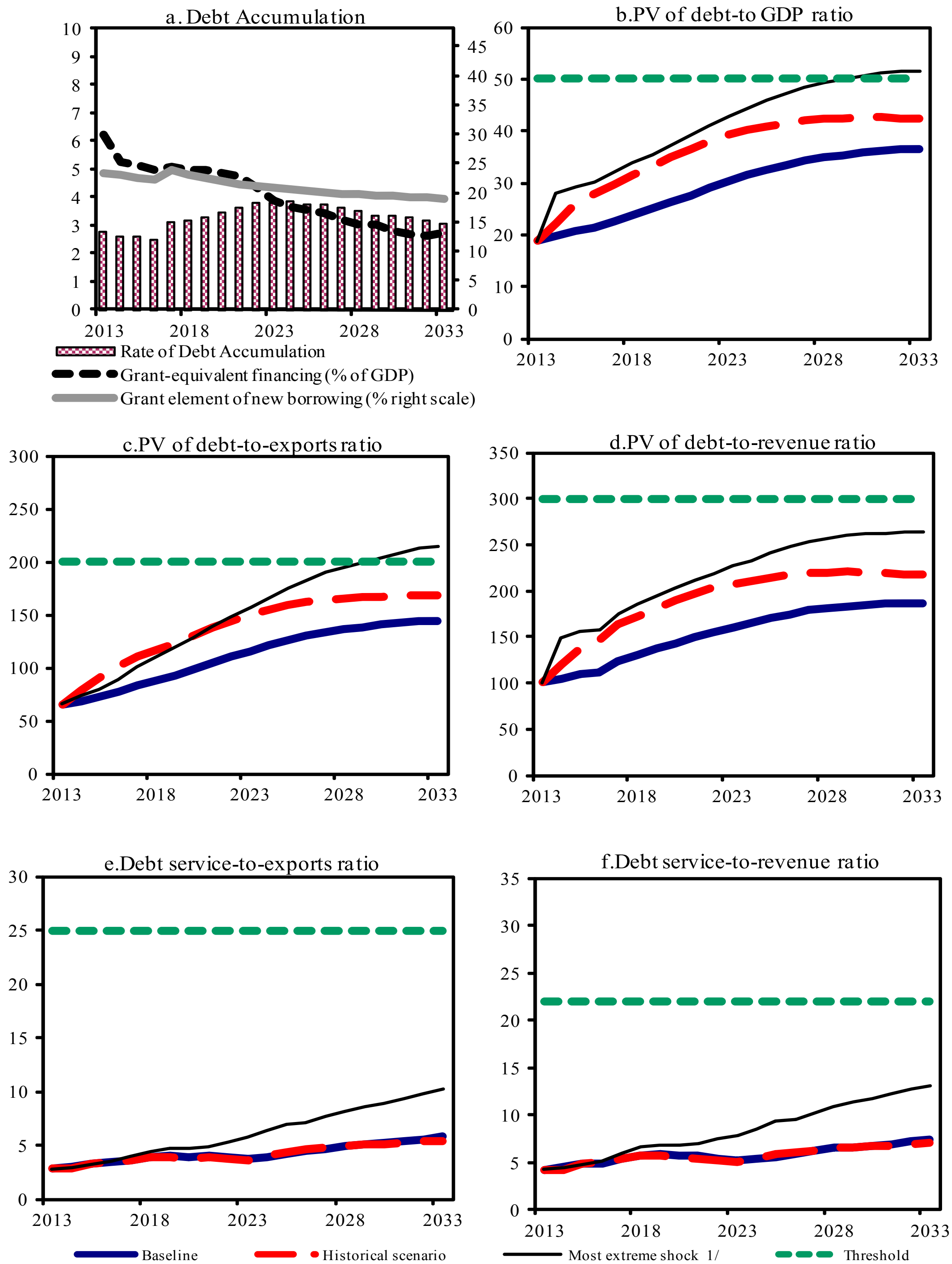
CONCLUSION

15. The DSA results indicate that Burkina Faso should remain at moderate risk of debt distress. The baseline scenario shows no breach of debt distress thresholds for any of the indicators. However, the thresholds were breached with two plausible stress tests, the standard DSA stress test on borrowing terms and customized stress test that better reflects the high dependency on underlying assumptions about gold exports.

AUTHORITIES' VIEWS

16. The assumptions and conclusions of the DSA were discussed with the authorities, who broadly concurred with staff's assessment. They questioned the baseline assumption of zero growth impact of scaled up public investment, thus an alternative scenario has been added to show the impact of a gradual increase in growth due to investment scaling up.

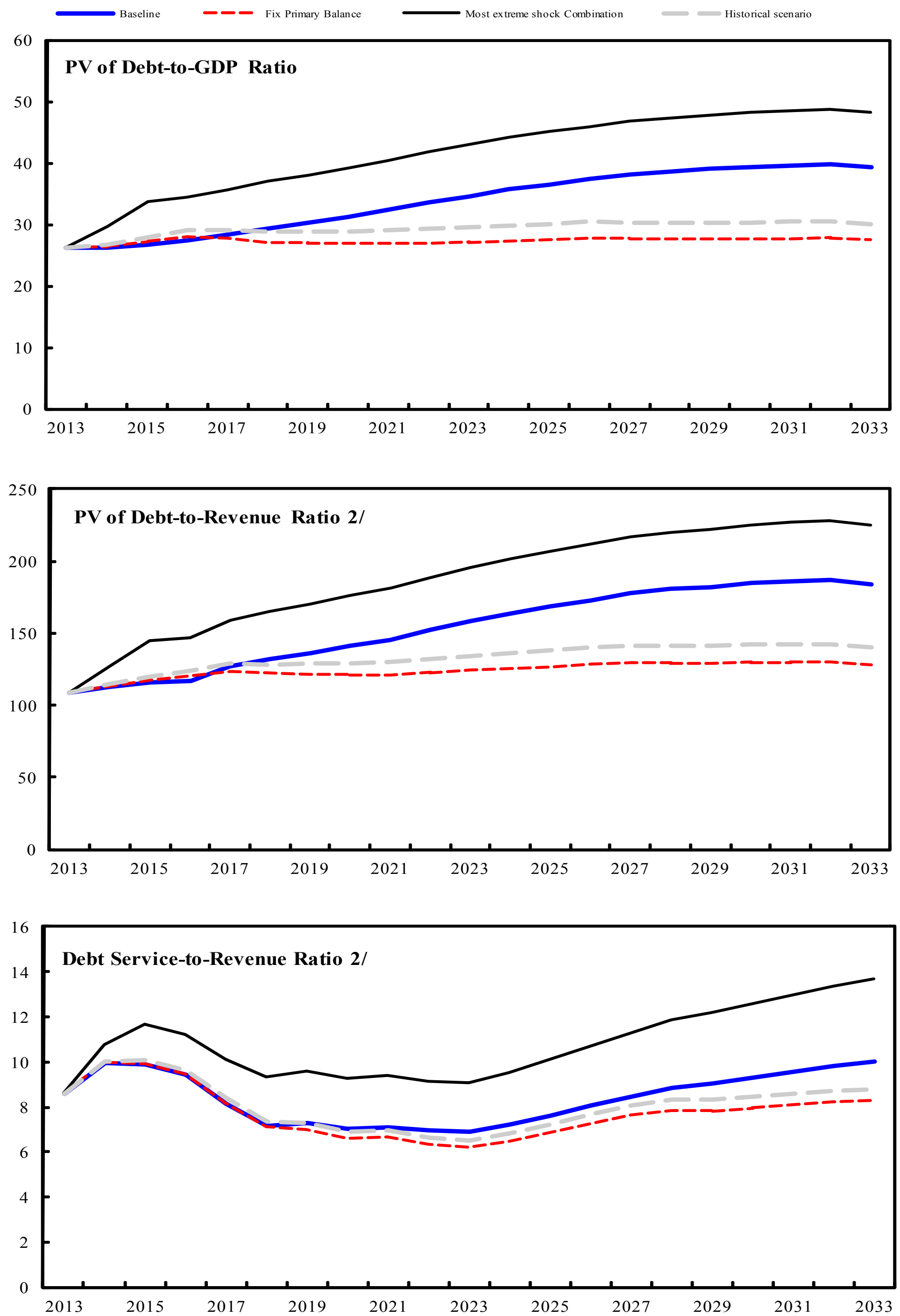
Figure 2. Burkina Faso: Indicators of Public and Publicly Guaranteed External Debt Under Alternatives Scenarios, 2013–2033[1]



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2023. In figure b. it corresponds to a One-time depreciation shock; in c. to a Terms shock; in d. to a One-time depreciation shock; in e. to a Terms shock and in figure f. to a Terms shock

Figure 3. Burkina Faso: Indicators of Public Debt Under Alternative Scenarios, 2013–2033[1]



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2023.

2/ Revenues are defined inclusive of grants.

Table 1. Burkina Faso: External Debt Sustainability Framework, Baseline Scenario, 2010-2033[1]

(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 6/	Std. Deviation 6/	Projections									
	2010	2011	2012			2013	2014	2015	2016	2017	2018	2013-2018 Average	2023	2033	2019-2033 Average
External debt (nominal) 1/	**26.1**	**24.6**	**23.2**			**24.3**	**25.4**	**26.5**	**27.4**	**29.0**	**30.7**		**38.0**	**44.0**	
o/w public and publicly guaranteed (PPG)	26.1	24.6	23.2			24.3	25.4	26.5	27.4	29.0	30.7		38.0	44.0	
Change in external debt	1.7	-1.5	-1.4			1.1	1.1	1.1	0.9	1.7	1.6		1.4	-0.1	
Identified net debt-creating flows	-0.2	-2.5	0.6			0.3	0.2	-0.1	1.2	1.9	1.9		1.9	1.4	
Non-interest current account deficit	**2.0**	**1.0**	**2.0**	**7.0**	**4.2**	**1.9**	**1.9**	**1.6**	**3.0**	**3.7**	**3.7**		**4.0**	**4.0**	4.0
Deficit in balance of goods and services	7.4	6.7	7.1			6.8	6.0	5.6	6.9	7.5	7.5		7.2	6.5	
Exports	21.0	26.9	28.5			28.5	28.6	28.5	27.6	27.1	27.2		26.1	25.2	
Imports	28.4	33.6	35.5			35.3	34.6	34.1	34.5	34.6	34.7		33.3	31.6	
Net current transfers (negative = inflow)	-5.3	-5.5	-4.8	-5.0	0.7	-4.7	-3.8	-3.7	-3.6	-3.5	-3.5		-2.8	-2.0	-2.6
o/w official	-3.8	-4.2	-3.6			-3.6	-2.8	-2.7	-2.7	-2.7	-2.6		-2.0	-1.2	
Other current account flows (negative = net inflow)	-0.2	-0.2	-0.3			-0.3	-0.3	-0.3	-0.3	-0.3	-0.3		-0.4	-0.4	
Net FDI (negative = inflow)	**-0.4**	**-0.4**	**-0.4**	**-1.1**	**1.4**	**-0.4**	**-0.4**	**-0.4**	**-0.4**	**-0.4**	**-0.5**		**-0.6**	**-0.9**	-0.7
Endogenous debt dynamics 2/	**-1.8**	**-3.1**	**-1.0**			**-1.2**	**-1.3**	**-1.3**	**-1.3**	**-1.3**	**-1.4**		**-1.6**	**-1.7**	
Contribution from nominal interest rate	0.2	0.2	0.3			0.3	0.3	0.3	0.4	0.4	0.4		0.6	0.7	
Contribution from real GDP growth	-1.9	-1.1	-2.1			-1.4	-1.6	-1.6	-1.7	-1.7	-1.8		-2.1	-2.5	
Contribution from price and exchange rate changes	-0.2	-2.2	0.8			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**1.9**	**1.0**	**-2.0**			**0.8**	**0.9**	**1.1**	**-0.4**	**-0.3**	**-0.3**		**-0.5**	**-1.5**	
o/w exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	17.8			18.7	19.7	20.6	21.4	22.7	23.9		30.2	36.4	
In percent of exports	...	...	62.4			65.8	68.9	72.3	77.2	83.7	88.1		115.6	144.6	
PV of PPG external debt	**...**	**...**	**17.8**			**18.7**	**19.7**	**20.6**	**21.4**	**22.7**	**23.9**		**30.2**	**36.4**	
In percent of exports	**...**	**...**	**62.4**			**65.8**	**68.9**	**72.3**	**77.2**	**83.7**	**88.1**		**115.6**	**144.6**	
In percent of government revenues	**...**	**...**	**100.2**			**100.2**	**105.2**	**109.5**	**111.6**	**124.2**	**131.0**		**160.2**	**186.9**	
Debt service-to-exports ratio (in percent)	**2.7**	**2.2**	**2.5**			**2.8**	**2.9**	**3.3**	**3.4**	**3.6**	**3.9**		**3.7**	**5.8**	
PPG debt service-to-exports ratio (in percent)	**2.7**	**2.2**	**2.5**			**2.8**	**2.9**	**3.3**	**3.4**	**3.6**	**3.9**		**3.7**	**5.8**	
PPG debt service-to-revenue ratio (in percent)	**3.8**	**3.7**	**4.0**			**4.3**	**4.5**	**4.9**	**4.9**	**5.3**	**5.8**		**5.1**	**7.4**	
Total gross financing need (Billions of U.S. dollars)	0.2	0.1	0.2			0.3	0.3	0.3	0.6	0.7	0.8		1.2	2.8	
Non-interest current account deficit that stabilizes debt ratio	0.3	2.5	3.4			0.8	0.8	0.6	2.1	2.0	2.1		2.6	4.1	
Key macroeconomic assumptions															
Real GDP growth (in percent)	8.4	5.0	9.0	6.2	2.1	7.0	7.0	7.0	6.9	6.8	6.7	6.9	6.3	6.0	6.2
GDP deflator in US dollar terms (change in percent)	0.7	9.2	-3.3	6.8	8.5	5.1	1.4	1.3	1.2	1.3	1.3	1.9	2.0	2.3	2.0
Effective interest rate (percent) 5/	1.0	1.0	1.2	0.9	0.2	1.4	1.3	1.4	1.5	1.6	1.6	1.5	1.7	1.8	1.7
Growth of exports of G&S (US dollar terms, in percent)	81.8	46.6	11.7	30.0	26.1	12.3	9.0	8.0	5.0	5.9	8.4	8.1	8.0	8.3	7.8
Growth of imports of G&S (US dollar terms, in percent)	33.4	35.3	11.6	19.3	15.4	11.7	6.3	6.9	9.4	8.4	8.4	8.5	7.7	7.7	7.7
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	23.4	23.1	22.5	22.3	23.8	23.1	23.0	20.8	19.0	20.3
Government revenues (excluding grants, in percent of GDP)	15.3	16.1	17.7			18.7	18.7	18.8	19.1	18.2	18.3		18.9	19.5	19.0
Aid flows (in Billions of US dollars) 7/	0.7	0.8	0.8			0.9	0.8	0.9	0.9	0.9	1.0		1.0	1.4	
o/w Grants	0.4	0.5	0.5			0.7	0.6	0.6	0.7	0.7	0.7		0.8	1.2	
o/w Concessional loans	0.3	0.3	0.2			0.2	0.2	0.2	0.2	0.2	0.2		0.2	0.2	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			6.2	5.3	5.2	5.0	5.1	5.0		3.9	2.7	3.6
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			69.4	66.0	64.9	64.9	60.9	59.5		51.4	45.5	49.5
Memorandum items:															
Nominal GDP (Billions of US dollars)	9.1	10.5	11.0			12.4	13.5	14.6	15.8	17.1	18.4		27.8	61.4	
Nominal dollar GDP growth	9.2	14.6	5.4			12.4	8.5	8.3	8.2	8.1	8.0	8.9	8.5	8.4	8.4
PV of PPG external debt (in Billions of US dollars)			2.0			2.3	2.6	3.0	3.4	3.9	4.4		8.4	22.3	
(PVt-PVt-1)/GDPt-1 (in percent)						2.8	2.6	2.6	2.5	3.1	3.2	2.8	3.8	3.1	3.5
Gross workers' remittances (Billions of US dollars)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.1	
PV of PPG external debt (in % of GDP + remittances)	...	...	17.8			18.7	19.7	20.6	21.4	22.6	23.9		30.2	36.3	
PV of PPG external debt (in % of exports + remittances)	...	...	62.3			65.7	68.8	72.2	77.2	83.5	87.9		115.0	143.4	
Debt service of PPG external debt (in % of exports + remittances)	...	...	2.5			2.8	2.9	3.3	3.4	3.6	3.9		3.7	5.7	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Assumes that PV of private sector debt is equivalent to its face value.

5/ Current-year interest payments divided by previous period debt stock.

6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

7/ Defined as grants, concessional loans, and debt relief.

8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 2. Burkina Faso: Total Public Sector Debt Sustainability Framework, Baseline Scenario, 2010–2033
(In percent of GDP, unless otherwise indicated)

	Actual			Average 5/	Std. Dev. 5/	Estimate	Projections								
	2010	2011	2012			2013	2014	2015	2016	2017	2018	2013-18 Average	2023	2033	2019-33 Average
Public sector debt 1/	29.3	29.7	27.3			31.8	31.9	32.7	33.3	34.7	36.1		42.4	47.0	
o/w foreign-currency denominated	26.1	24.6	23.2			24.3	25.4	26.5	27.4	29.0	30.7		38.0	44.0	
Change in public sector debt	0.7	0.4	-2.4			4.5	0.1	0.8	0.6	1.4	1.4		1.2	-0.6	
Identified debt-creating flows	2.8	0.1	-0.5			0.1	-0.1	-0.1	-0.4	1.3	1.3		0.4	-0.8	
Primary deficit	4.0	2.0	2.6	1.6	6.6	1.4	1.1	1.2	0.9	3.0	3.4	1.8	2.9	2.1	2.6
Revenue and grants	19.8	21.2	22.7			24.1	23.2	23.2	23.3	22.3	22.2		21.8	21.4	
of which: grants	4.5	5.1	4.9			5.4	4.5	4.4	4.2	4.1	4.0		2.9	2.0	
Primary (noninterest) expenditure	23.8	23.2	25.3			25.5	24.3	24.3	24.2	25.4	25.6		24.7	23.5	
Automatic debt dynamics	-1.1	-1.9	-3.1			-1.3	-1.2	-1.2	-1.3	-1.7	-2.1		-2.5	-2.9	
Contribution from interest rate/growth differential	-2.9	-2.4	-3.1			-1.2	-1.4	-1.4	-1.5	-1.9	-2.2		-2.5	-2.9	
of which: contribution from average real interest rate	-0.7	-1.0	-0.7			0.5	0.7	0.7	0.6	0.2	-0.1		-0.1	-0.2	
of which: contribution from real GDP growth	-2.2	-1.4	-2.4			-1.8	-2.1	-2.1	-2.1	-2.1	-2.2		-2.4	-2.7	
Contribution from real exchange rate depreciation	1.8	0.5	0.0			0.0	0.2	0.2	0.2	0.2	0.2		...	...	
Other identified debt-creating flows	-0.2	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	-0.2	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	-2.1	0.3	-1.8			4.4	0.2	0.9	1.0	0.1	0.1		0.9	0.3	
Other Sustainability Indicators															
PV of public sector debt	...	...	21.9			26.2	26.2	26.8	27.3	28.3	29.4		34.6	39.4	
o/w foreign-currency denominated	...	...	17.8			18.7	19.7	20.6	21.4	22.7	23.9		30.2	36.4	
o/w external	...	...	17.8			18.7	19.7	20.6	21.4	22.7	23.9		30.2	36.4	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	5.3	3.3	4.1			3.5	3.4	3.5	3.1	4.9	5.0		4.4	4.2	
PV of public sector debt-to-revenue and grants ratio (in percent)	…	…	96.5			108.9	112.9	115.7	117.0	126.9	132.1		158.7	183.7	
PV of public sector debt-to-revenue ratio (in percent)	…	…	123.4			140.3	139.7	142.4	142.7	155.3	160.7		183.3	202.2	
o/w external 3/	…	…	100.2			100.2	105.2	109.5	111.6	124.2	131.0		160.2	186.9	
Debt service-to-revenue and grants ratio (in percent) 4/	6.7	6.1	6.6			8.6	10.0	9.9	9.4	8.1	7.2		6.9	10.0	
Debt service-to-revenue ratio (in percent) 4/	8.7	8.0	8.5			11.1	12.3	12.2	11.5	9.9	8.7		8.0	11.0	
Primary deficit that stabilizes the debt-to-GDP ratio	3.3	1.6	5.0			-3.1	1.0	0.4	0.3	1.6	2.0		1.6	2.6	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	8.4	5.0	9.0	6.2	2.1	7.0	7.0	7.0	6.9	6.8	6.7	6.9	6.3	6.0	6.2
Average nominal interest rate on forex debt (in percent)	1.0	1.0	1.2	0.9	0.2	1.4	1.3	1.4	1.5	1.6	1.6	1.5	1.7	1.8	1.7
Average real interest rate on domestic debt (in percent)	1.4	1.7	1.2	2.7	3.3	17.9	12.4	13.4	12.5	6.0	0.5	10.5	1.0	0.7	0.5
Real exchange rate depreciation (in percent, + indicates depreciation)	8.3	2.3	-0.1	-2.1	9.7	-0.2	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	4.2	5.6	4.6	3.3	2.9	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.3	2.0
Growth of real primary spending (deflated by GDP deflator, in percent)	0.1	0.0	0.2	0.1	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.0	0.1	0.1
Grant element of new external borrowing (in percent)	...	...	...	…	…	23.4	23.1	22.5	22.3	23.8	23.1	23.0	20.8	19.0	...

Sources: Country authorities; and staff estimates and projections.
1/ Medium term and long term general government gross debt
2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.
3/ Revenues excluding grants.
4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.
5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 3. Burkina Faso: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2013-2033 (in percent)

	Projections							
	2013	2014	2015	2016	2017	2018	2023	2033
PV of debt-to GDP ratio								
Baseline	19	20	21	21	23	24	30	36
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	19	22	26	28	30	32	39	42
A2. New public sector loans on less favorable terms in 2013-2033 2	19	21	23	25	27	30	41	54
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	19	20	22	22	24	25	32	38
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	19	21	23	24	25	26	32	37
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	19	20	22	23	24	25	32	39
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	19	20	21	22	23	24	30	36
B5. Combination of B1-B4 using one-half standard deviation shocks	19	17	14	15	17	18	26	35
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	19	28	29	30	32	34	43	51
PV of debt-to-exports ratio								
Baseline	66	69	72	77	84	88	116	145
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	66	78	91	101	110	116	150	168
A2. New public sector loans on less favorable terms in 2013-2033 2	66	73	80	89	101	109	157	215
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	66	69	72	77	83	88	115	144
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	66	76	90	95	101	106	133	160
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	66	69	72	77	83	88	115	144
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	66	69	73	78	84	89	116	144
B5. Combination of B1-B4 using one-half standard deviation shocks	66	56	42	47	53	58	85	119
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	66	69	72	77	83	88	115	144
PV of debt-to-revenue ratio								
Baseline	100	105	110	112	124	131	160	187
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	100	120	138	146	164	173	208	217
A2. New public sector loans on less favorable terms in 2013-2033 2	100	111	121	129	150	163	218	278
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	100	108	115	118	131	138	169	197
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	100	111	125	126	138	144	170	190
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	100	108	116	118	132	139	170	198
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	100	106	111	113	125	132	161	187
B5. Combination of B1-B4 using one-half standard deviation shocks	100	93	75	79	92	101	138	180
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	100	149	155	158	176	185	227	265

Table 3 (continued). Burkina Faso: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2013-2033 (in percent)

	Projections							
	2013	2014	2015	2016	2017	2018	2023	2033
Debt service-to-exports ratio								
Baseline	3	3	3	3	4	4	4	6
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	3	3	3	3	4	4	4	5
A2. New public sector loans on less favorable terms in 2013-2033 2	3	3	3	4	4	4	6	10
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	3	3	3	3	4	4	4	6
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	3	3	4	4	4	4	4	7
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	3	3	3	3	4	4	4	6
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	3	3	3	3	4	4	4	6
B5. Combination of B1-B4 using one-half standard deviation shocks	3	3	3	3	3	3	3	4
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	3	3	3	3	4	4	4	6
Debt service-to-revenue ratio								
Baseline	4	4	5	5	5	6	5	7
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	4	4	5	5	5	6	5	7
A2. New public sector loans on less favorable terms in 2013-2033 2	4	4	5	5	6	7	8	13
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	4	5	5	5	6	6	5	8
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	4	4	5	5	6	6	5	8
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	4	5	5	5	6	6	5	8
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	4	4	5	5	5	6	5	7
B5. Combination of B1-B4 using one-half standard deviation shocks	4	4	5	4	5	5	5	7
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	4	6	7	7	8	8	7	11
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	19	19	19	19	19	19	19	19

Sources: Country authorities; and staff estimates and projections.

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

Table 4.Burkina Faso: Sensitivity Analysis for Key Indicators of Public Debt 2013-2033 (in percent)

	Projections							
	2013	2014	2015	2016	2017	2018	2023	2033
PV of Debt-to-GDP Ratio								
Baseline	26	26	27	27	28	29	35	39
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	26	27	28	29	29	29	29	30
A2. Primary balance is unchanged from 2013	26	26	27	28	28	27	27	27
A3. Permanently lower GDP growth 1/	26	26	27	28	29	31	39	53
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014-2015	26	27	30	31	33	35	43	51
B2. Primary balance is at historical average minus one standard deviations in 2014-2015	26	32	38	38	38	39	42	42
B3. Combination of B1-B2 using one half standard deviation shocks	26	30	34	34	36	37	43	48
B4. One-time 30 percent real depreciation in 2014	26	34	33	33	34	34	37	40
B5. 10 percent of GDP increase in other debt-creating flows in 2014	26	34	34	34	35	36	39	41
PV of Debt-to-Revenue Ratio 2/								
Baseline	109	113	116	117	127	132	159	184
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	109	115	120	124	129	128	135	140
A2. Primary balance is unchanged from 2013	109	114	117	120	124	122	125	128
A3. Permanently lower GDP growth 1/	109	114	117	120	132	139	179	246
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014-2015	109	117	126	131	145	154	195	238
B2. Primary balance is at historical average minus one standard deviations in 2014-2015	109	138	164	162	172	175	191	198
B3. Combination of B1-B2 using one half standard deviation shocks	109	128	145	147	159	165	196	225
B4. One-time 30 percent real depreciation in 2014	109	145	144	143	151	153	170	186
B5. 10 percent of GDP increase in other debt-creating flows in 2014	109	148	149	148	158	161	181	192
Debt Service-to-Revenue Ratio 2/								
Baseline	9	10	10	9	8	7	7	10
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	9	10	10	10	8	7	7	9
A2. Primary balance is unchanged from 2013	9	10	10	9	8	7	6	8
A3. Permanently lower GDP growth 1/	9	10	10	10	8	7	7	12
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014-2015	9	10	10	10	9	8	8	12
B2. Primary balance is at historical average minus one standard deviations in 2014-2015	9	10	10	11	9	8	8	11
B3. Combination of B1-B2 using one half standard deviation shocks	9	10	11	10	9	8	8	12
B4. One-time 30 percent real depreciation in 2014	9	11	12	11	10	9	9	14
B5. 10 percent of GDP increase in other debt-creating flows in 2014	9	10	11	10	9	8	7	11

Sources: Country authorities; and staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.

2/ Revenues are defined inclusive of grants.

INTERNATIONAL MONETARY FUND

BURKINA FASO

June 14, 2013

SIXTH REVIEW UNDER THE THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, REQUESTS FOR EXTENSION OF THE ARRANGEMENT, MODIFICATION OF CONTINUOUS PERFORMANCE CRITERION, AND REPHASING OF DISBURSEMENT—INFORMATIONAL ANNEX

Prepared By African Department

CONTENTS

RELATIONS WITH THE FUND

(As at April 30, 2013)

Membership Status: Joined: May 2, 1963; Article VIII

General Resources Account:	SDR Million	%Quota
Quota	60.20	100.00
Fund holdings of currency (Exchange Rate)	52.66	87.47
Reserve Tranche Position	7.54	12.53
SDR Department:	SDR Million	%Allocation
Net cumulative allocation	57.58	100.00
Holdings	48.14 83.60	
Outstanding Purchases and Loans:	SDR Million	%Quota
ECF Arrangements	136.04	225.98

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	Jun 14, 2010	Jun 13, 2013	82.27	75.82
ECF [1/]	Apr 23, 2007	Apr 22, 2010	48.16	47.16
ECF [1/]	Jun 11, 2003	Sep 30, 2006	30.10	30.10

[1/] Formerly PRGF.

Projected Payments to Fund [1/]
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2013	**2014**	**2015**	**2016**	**2017**
Principal	2.72	7.15	14.13	14.45	17.80
Charges/Interest	0.01	0.01	0.31	0.27	0.24
Total	2.73	7.16	14.44	14.72	18.03

[1/] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Implementation of HIPC Initiative:

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

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

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

Implementation of Multilateral Debt Relief Initiative (MDRI):

I.	MDRI-eligible debt (SDR Million)[1/]	62.12
	Financed by: MDRI Trust	57.06
	Remaining HIPC resources	5.06
II.	Debt Relief by Facility (SDR Million)	

	Eligible Debt		
Delivery Date	**GRA**	**PRGT**	**TOTAL**
January 2006	n/a	62.12	62.12

[1/] The MDRI provides 100 percent debt relief to eligible member countries that qualified for the assistance. Grant assistance from the MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to the Fund as of end-2004 that remains outstanding at the time the member qualifies for such debt relief.

Implementation of Post-Catastrophe Debt Relief (PCDR):

Not Applicable

Safeguards Assessments:

The Central Bank of West African States (BCEAO) is a common central bank of the countries of the West African Economic and Monetary Union (WAEMU). The most recent safeguards assessment of the BCEAO was completed on March 1, 2010. The update safeguards assessment was initiated in February 2013. A mission is planned for July 2013. The 2010 update assessment found that the BCEAO continues to have controls in place at the operational level. The overall governance framework needed nonetheless to be strengthened by the addition of an audit committee to ensure that the Board of Directors exercises appropriate oversight over the control structure, including the audit mechanisms and financial statements. The Institutional Reform of the WAEMU and the BCEAO completed after the approval of the safeguards report stipulated creation of the Audit Committee, which should now start working. Efforts to implement fully the International Financial Reporting Standards reporting framework should also be pursued.

Exchange Rate Arrangement:

Burkina Faso is a member of the West African Economic and Monetary Union (WAEMU) and has no separate legal tender. The union's common currency, the CFA franc, is pegged to the euro at a rate of CFAF 655.957 = EUR 1, consistent with the official conversions rate of the French franc to the Euro and the previous fixed rate of the CFA franc to the French franc of CFAF 100= F 1. Effective January 1, 2007, the exchange arrangement of the WAEMU countries has been reclassified to the category of conventional pegged arrangement from the category of exchange arrangement with no separate legal tender. The new classification is based on the behavior of the common currency, whereas the previous classification was based on the lack of a separate legal tender. The new classification thus only reflects a definitional change, and is not based on a judgment that there has been a substantive change in the exchange regime or other policies of the currency union or its member. The exchange system is free of restrictions on the making of payments and transfers on current international transactions.

Article IV Consultations:

The periodicity of Burkina Faso's Article IV consultation is set in accordance with the July 15, 2002 Executive Board Decision on consultation cycles. Discussions on the 2011 Article IV consultation were held between September 29–October 14, 2011 in Ouagadougou. The staff report for the 2011 Article IV consultation was considered by the Executive Board on December 21, 2011. The staff report on the previous Article IV consultation was considered by the Executive Board on December 14, 2009. The next Article IV consultation is scheduled for spring 2014.

ROSC/AAP:

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

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

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

Resident Representative:

Mr. Jean-Baptiste Le Hen took up the post of Resident Representative in September 2012.

Technical Assistance:

Significant technical assistance has been provided since 1989, but more recently the assistance has focused on the fiscal area:

Department	Type of Assistance	Time of Delivery	Purpose
FAD	Fiscal Reporting	January 1–21, 2012	Accounting
FAD	Public Financial Management	February 1–21, 2012	Improve the efficiency of the expenditure chain
FAD	Budgeting	February 1–22, 2012	Follow up on progress in developing program budgeting
FAD	Public Financial Management	February 2–28, 2012	
STA	Assist with WAEMU PFM	February 13–17, 2012	
MCM	Public Debt Management	February 13–24, 2012	
AFRITAC	Budgeting	February–April 2012	Definition of performance indicators
AFRITAC	Debt management	February–April 2012	Development of risk management
AFRITAC	Revenue Administration	April 16–April 27, 2012	Strengthen the management of tax arrears
AFRITAC	National Accounts Statistics	March 4–8, 2013	Conduct workshop on the implementation of the *System of National Accounts 1993* (*1993 SNA*).
STA	Public Finance Management	March 20-29, 2013	Government Finance Statistics
STA	Public Finance Management	April 15-26, 2013	Implementation of quarterly national accounts

STA	Public Finance Management	April 23-28, 2013	Workshop on the GFS Manual 2001
AFRITAC	Customs Administration	May 2012-April 2013	Automated Risk Management
AFRITAC	Customs Administration	May 2012-April 2013	Interconnection of Customs Offices on a Single Server
AFRITAC	Tax Administration	May 2012-April 2013	Second Branch of the Medium Enterprises in Ouagadougou
AFRITAC	Tax Administration	May 2012-April 2013	Improvement of Revenue Collection
AFRITAC	Public Debt Management	May 2012-April 2013	National Strategy for Medium-Term Debt, Debt-Sustainability Analysis
AFRITAC	Public Expenditure Management	May 2012-April 2013	Budget Program
AFRITAC	Public Expenditure Management	May 2012-April 2013	Reforming More Budget Programs According to WAEMU Standards (Second Wave)
AFRITAC	Public Expenditure Management	May 2012-April 2013	Budgeting of expenditures in a multi-year framework introduced in the annual performance plans (first wave).
AFRITAC	Public Expenditure Management	May 2012-April 2013	Budgeting of expenditures in a multi-year framework introduced in the annual performance plans (second wave).
AFRITAC	Real Sector Statistics	May 2012-April 2013	Quarterly Accounts

AFRITAC	Public Finance Statistics	May 2012-April 2013	Support the implementation of the Directive No. 10/CM/WAEMU with respect to TOFE, adopted in June 2009

STATISTICAL ISSUES

The most pressing issue for the authorities with respect to statistics is changing the base year for the calculation of Real GDP or revising the fixed based year approach altogether. The current usage of 1999 as the base year for the calculation of Real GDP is inconsistent with considerable structural change in the economy. The discovery of more gold and the subsequent rise in gold production in addition to the significant increase in gold prices constitute the most important elements of this structural shift. Changes in agricultural productivity, specifically in the production of cotton have also contributed to shifts in GDP structure. The implication of this vis-à-vis gold production is that the current framework underestimates the contribution of gold mining to economic growth because it uses 1999 prices that are less than a tenth of the present levels in real terms for a sector that has grown substantially. This in turn distorts the contribution of other sectors, and raises potential policy implications that stem from a less than accurately obtained GDP statistics. In order to address this and other issues in National Account Statistics, there has already been TA involvement. In particular, as a part of the AFRITAC West (AFW) FY2013 work program, an AFW mission visited Ouagadougou, Burkina Faso, during March 4–8, 2013 to conduct a Regional Workshop on the implementation of the System of National Accounts 1993 (1993 SNA) in the AFW member countries.

The authorities are making commendable effort in providing detailed GDP statistics at the quarterly level, but with respect to changing the base year and a critical review of Real GDP estimation, more initiative and urgency are needed. The AFR Mission that took place between April 25 and May 8, 2013 as part of the Sixth Review, underlined the importance of this issue.

Press Release No. 13/241
FOR IMMEDIATE RELEASE
July 1, 2013

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Sixth Review Under the Extended Credit Facility Arrangement for Burkina Faso and Approves US$4.84 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the sixth review under a three-year arrangement under the Extended Credit Facility (ECF) for Burkina Faso.The completion of the review enables the disbursement of an amount equivalent to SDR 3.225 million (about US$4.84 million), bringing the total disbursements under the arrangement to SDR 79.049 million (about US$118.75 million). In completing the review, the Board approved an extension of the arrangement until December 31, 2013 and the rephasing of the remaining amount available under the arrangement. Fund staff and the authorities intend to use the additional time to discuss a possible successor Fund-supported program.

The ECF arrangement for Burkina Faso for the equivalent of SDR 46.15 million (about US$ 70.8 million) was approved by the IMF's Executive Board on June 14, 2010 (see Press Release No. 10/241). The Executive Board subsequently approved augmentation of access under the ECF arrangement to the equivalent of SDR 82.27 (about US$126.4 million) on June 8, 2012 (see Press Release No. 12/214).

Following the Executive Board's discussion of Burkina Faso, Mr. Naoyuki Shinohara, Deputy Managing Director and Acting Chair issued the following statement:

"The Burkinabe authorities' implementation of their Fund-supported economic program has been strong. Growth is expected to remain robust this year; inflation is trending down; and a deterioration of the current account has been contained. Various reforms are in the pipeline to improve domestic resource mobilization. Going forward, continued prudent macroeconomic policies will consolidate the macroeconomic gains, and further structural reforms will help achieve lasting and more inclusive growth.

"With the growing importance of natural resource revenue, it will be important to ensure that the natural resource wealth is deployed to raise living standards for all. Strong investment planning and execution is a key element for this goal. Accordingly, the authorities are implementing measures to prioritize investment projects, particularly for infrastructure, and streamline procedures for their approval. Broader reforms in the business environment are also necessary to achieve the authorities' growth and poverty reduction objectives.

"Fund engagement with Burkina Faso, together with the authorities' strong program ownership, has supported macroeconomic stability and strong growth. Nonetheless, Burkina Faso continues to face economic challenges and a need for more inclusive growth. Continued Fund engagement should further support the authorities' efforts."

Statement by Mr. Assimaidou on Burkina Faso
Executive Board Meeting
July 1, 2013

I would like to convey the appreciation of my Burkina Faso authorities' to the IMF for its constructive technical and financial engagement. The authorities thank Fund's staff country team, as well as the Ex-Post Evaluation mission for the candid and helpful policy discussions recently held in Ouagadougou in the context of this sixth ECF program review. They are also grateful for Fund's valuable contribution to the high level Conference on Inclusive Growth.

Burkina Faso's economic growth momentum remained strong in spite of a difficult external environment marked by the conflict in neighboring Mali. This conflict resulted in a significant influx of refugees and livestock, and heightened security measures to contain regional geo-political risks. The authorities, however, pursued steadfastly the implementation of the economic program supported under the ECF program which continued to anchor their reform efforts aimed at promoting growth and reducing poverty, while preserving macroeconomic stability.

Burkina Faso's performance under the program remains strong. All quantitative performance criteria have been met. All but two structural reforms benchmarks were implemented as well. Remedial actions were taken to fulfill the goal of the unmet benchmarks. My authorities, therefore, request the completion of the sixth ECF program review, an extension of the current ECF program, and the addition of a seventh review to allow them to carry on to fruition reforms underway, notably structural reforms in public financial management and in the energy and state-owned enterprises sectors. The extension will also allow for discussions for a successor program to be completed in time to avoid an interruption in program coverage.

Going forward, daunting development challenges remain, notably in translating high growth rates into poverty reduction, and in strengthening the resilience of the economy in the face of increased volatility in commodities prices. The authorities' remain committed to implement sound economic policies as they address these challenges, guided by the homegrown poverty reduction and sustainable growth strategy (SCADD).

Recent Economic Developments

Real GDP grew by 9 percent in 2012, following a 5 percent increase in 2011. Economic growth momentum was sustained by the buoyancy of the primary and secondary sectors on account of higher gold and cotton exports, improved agricultural productivity, as well as a good harvest. Although recently in decline, inflation was higher than the regional average due to increases in fuel prices and the lingering effect of the previous year's drought spell. The trade balance improved due to higher volumes and prices of cotton and gold exports. However, increases in infrastructure related investments needs lead to a deterioration of the current account.

On ***fiscal policy***, the authorities aimed at improving revenue mobilization and the allocation of spending towards growth and poverty reduction actions.

On the *revenue side*, they focused on strengthening and streamlining tax and customs administration, combating fraud, and enhancing tax compliance. In this vein, they established revenue collection units, acquired and tested the SYLVIE custom management software, and developed a cross-checking module to share information between government agencies with the view to limit fraud. As a result, the tax ratio increased by 1.7 percentage point of GDP in 2012.

On spending, the authorities endeavored to control the wage bill and improve the efficiency of spending, including by completing the census and biometric enrollment of civil servants, and preparing a review of civil service compensation scheme with the view to streamlining it. Priority spending, particularly social and investment spending, was increased. However, one-off increases in spending related to elections, food security, and the refugees contributed to an increase by 0.7 percent of GDP in the overall deficit on a cash basis in 2012. Additional revenue mobilization and expenditure control efforts helped offset this increase and register a budget surplus in the first quarter of 2013.

On debt policy, the authorities submitted a medium term debt strategy to the National Public Debt Committee with the view to preserving debt sustainability.

The authorities' s***tructural reforms*** focused on the implementation of SCADD whose overall objective is the achievement of strong, sustained and inclusive economic growth. Key steps taken include the promotion of growth poles, and support infrastructure in agriculture and mining sectors. They also took steps to improve the financial operations and management of key state owned enterprises, including SONABHY (the state-owned oil importer) and SONABEL (the state-owned electric company). Higher cotton prices and production levels helped improve the financial outlook of the cotton sector. SOFITEX, the main cotton ginning company benefited from this improved outlook.

Policies for the remainder of 2013

Government policies will continue to be informed by SCADD priorities. In this regard, the authorities will seek to promote an inclusive and sustainable growth, while consolidating reforms already in train to ensure that macroeconomic stability is preserved.

The macroeconomic outlook is expected to be favorable with the real growth momentum sustained at 7 percent. Inflation is expected to revert towards the regional average following the good 2012-2013 agricultural season. Exports, particularly of gold and cotton are expected to remain strong, with the trade balance improving.

Fiscal policy

The authorities' fiscal policies will focus on consolidating reforms aimed at mobilizing revenue and in improving spending efficiency. Tax and customs administration reforms

already in train will be carried to fruition to further improve revenue collection. Moreover, the authorities plan to broaden the tax base by overhauling the taxation of the mining resources sector.
Spending will be further aligned with SCADD priorities and will seek to foster a pro-poor and inclusive growth. To that purpose, the authorities will step up expenditure control and prioritization efforts, with a particular emphasis on improving the quality of public expenditure and building the capacity for investment planning and execution. They plan to create a high level committee to monitor the implementation of investments projects. Moreover they will intensify efforts to modernize and computerize public spending systems. The authorities will also strengthen the social safety net, by implementing the recently adopted national action plan which, amongst others, provide for universal health care.

Debt Policy

Debt policy will continue to aim at preserving medium term debt sustainability, by improving further debt management capability, and following a prudent borrowing strategy. The authorities welcome the results of the DSA which point to an improved debt outlook. They are nonetheless resolved to further strengthen debt sustainability by mitigating vulnerabilities identified by the DSA’s most stringent stress tests. In particular, they will prioritize efforts to diversify the export base of economy.

Furthermore, the authorities will continue efforts to secure concessional financing for their development agenda. For selected investment projects in hydro agriculture and transportation, with high returns and positive development impact, and for which concessional financing is insufficient, they plan to have recourse to non-concessional financing to close the financing gap. They will seek the most favorable terms preferably in the context of public-private partnerships. The authorities extensively consulted developments partners, including the IFC and the IDB, and other interested stakeholders in selecting or evaluating the projects, and welcome the DSA's finding that the projects will not lead to a deterioration of the debt outlook.

Monetary and financial sector policies

Financial sector policy will focus on deepening the financial system, and improving access to financial services. A strategy for improving the quality of financial services provided by the national Post service will be adopted. Micro finance development efforts will also be continued.

Structural reforms

The authorities will efforts will center on the implementation of SCADD to promote a pro-poor growth agenda and broaden the basis for growth. In line with the findings of the annual review of SCADD, the authorities identified sectors and regions where stronger capacity will help improve the implementation of the strategy. Amongst the priorities retained are the promotion of the Bagre’s growth pole, a cluster of agri-business enterprises and research centers located in the special economic zone of Bagré; infrastructure investments particularly in hydro-agriculture, and transportation.

The authorities will also continue to build on the progress already achieved to further improve the business environment and promote a private-sector driven growth. In light of the increased share of the private sector-led mining sector in the economy, the authorities plan a revision of the mining code to better align it with international standards. Steps are planned to improve the provision of electricity, a major constrain to doing business. The authorities also will continue to improve the delivery of public service and procurement processes including by streamlining administrative procedures and improving efficiency.

Regarding the cotton sector, the authorities continue to envision divesting the government's ownership share in SOFITEX when conditions become favorable. To that regard they plan to update the projected financial situation of the ginning company's business plan in line with the sector's strategy.

Ex-post assessment and Successor Program with the Fund

The authorities broadly agree with the ex-post assessment update report's findings and recommendations. Fund engagement has been very helpful in anchoring their reforms efforts and in the progress they made towards achieving their growth and poverty reduction objectives. The increase in the domestic revenue efforts has been a notable achievement under the Fund program with tax revenue increasing from 15 percent of GDP in 2007, to 18.7 in the 2013 supplemental budget law, above the WAEMU's 17 percent convergence criteria. Social expenditure increased from an average of 4.8 percent in 2006 to 7.5 in 2012. Capital expenditure has also been higher than regional average.

The report also identified areas with potential for further improvements, which could be addressed in the context of a successor program. The authorities value the policy dialogue with the IMF as well as the technical and program related assistance provided. The IMF plays also an important catalytic role in helping mobilize and make the most of external resources. Although they have not yet settled on a definitive path for future relations, they are keen to further reinforce the relationship with the institution, and intend to start discussions at the time of the next review on a successor program.

Conclusion

In light of the implementation of program performance criteria, and the authorities' commitment to sound policies going forward, I would appreciate Director's support to the authorities' requests.