January 2013
IMF Country Report No. 13/26

Burkina Faso: Fifth Review Under the Three-Year Arrangement Under the Extended Credit Facility and Request for Modification of Performance Criteria—Staff Report; Press Release on the Executive Board Discussion.

In the context of the fifth review under the three-year arrangement under the Extended Credit Facility and request for modification of performance criteria, the following documents have been released and are included in this package:

- The staff report for the fifth review under the three-year arrangement under the Extended Credit Facility and request for modification of performance criteria, prepared by a staff team of the IMF, following discussions that ended on October 3, 2012, with the officials of Burkina Faso on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on December 4, 2012. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A Press Release summarizing the views of the staff appraisal contained in the staff report.

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

Fifth Review Under the Three-Year Arrangement Under the Extended Credit Facility and Request for Modification of Performance Criteria

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

Approved by Michael Atingi-Ego and Peter Allum

December 4, 2012

Discussions and outreach: Held in Ouagadougou during September 19–October 3. The mission met with Mr. Lucien Bembamba, Minister of Economy and Finance; Mr. François Zoundi, Minister of the Budget; Mr. Salif Kaboré, Minister of Mines; Mr. Laurent Sedogo, 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. The mission held a press conference and issued a press statement.

IMF team: Ms. Redifer (head), Mr. Le Hen (resident representative), Mr. van Houtte, Ms. Diouf, and Mr. Corvino (all AFR), and Mr. Ouattara (local IMF office). Mr. Tall (OED) joined the policy discussions, and Mr. Rota Graziosi (FAD) provided advice on mining taxation.

Fund relations: The three-year ECF arrangement was approved by the Executive Board on June 14, 2010 in an amount of SDR 46.15 million (77 percent of quota). The Executive Board approved an augmentation of access in an amount equivalent to SDR 36.12 million (60 percent of quota) on June 8, 2012. Completion of this review would enable disbursement of the sixth tranche of SDR 18.49 million.

Fifth review of the ECF-supported program: All end-June quantitative performance criteria and structural benchmarks were met, as were all but one end-March indicative targets. Crisis-lending programs were implemented in line with expectations, with related expenditures spanning into 2013. A modest tightening of 2012 fiscal stance will help preserve resources for priority spending in 2013, and the authorities have requested modification of the end-December program targets accordingly. The authorities also requested modifying the end-March 2013 structural benchmark due to delays in plans to divest the government's share in the largest cotton ginning company, SOFITEX. Staff supports the authorities' requests and proposes modified targets for end-December 2012, a modified benchmark for end-March 2013, and an indicative macroeconomic framework for 2013 that could serve as a bridge to a possible successor program. An ex-post assessment update would be required if the authorities are interested in a successor program.

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List of Acronyms

BCEAO	Central Bank of West African States
CPIA	Country Policy and Institutional Assessment
DeMPA	Debt Management Performance Assessment
MEFP	Memorandum of Economic and Financial Policies
MDGs	Millennium Development Goals
MTDS	Medium-Term Debt Strategy
NPV	Net Present Value
PFM	Public Financial Management
QAC	Quantitative Assessment Criteria
SCADD	Stratégie pour une Croissance Accélérée et pour le Développement Durable (Strategy for Accelerated Growth and Sustainable Development)
SSA	sub-Saharan Africa
SOFITEX	Société Burkinabè des Fibres Textiles (the largest cotton ginning company)
SONABHY	Société Nationale des Hydrocarbures (public oil importing company)
WAEMU	West African Economic and Monetary Union

Executive Summary

In spite of multiple shocks, macroeconomic performance in the first half of 2012 was good. The number of Malian refugees increased significantly, but additional needs are being met by stepped up efforts from the international community. Food security needs were met, notwithstanding some coordination problems (within government and with donors) and capacity constraints. Remaining resources will be used in 2013 to replenish food security stocks and implement measures to further strengthen resilience to weather-related shocks.

Growth and inflation projections for 2012 were revised upward. Abundant rains presaged a strong harvest, after the drought of last year. Other indicators also suggest higher growth: projections were revised upward to 8 percent. Annual inflation was revised to 3.6 percent, due to higher food prices during the crisis and a March increase in retail fuel prices.

Program performance at end-June was strong. All quantitative performance criteria were met, and structural benchmarks were implemented. Strong revenue performance and slow investment spending resulted in a lower fiscal deficit than expected at end-June**.** Revenue performance was largely a function of gains from reforms: annual projections were revised upward to 16.6 percent of GDP. The authorities put in place immediate measures to accelerate investment spending in the second half of the year, to keep spending in line with projections. Current spending should be somewhat higher than expected, and the resulting fiscal deficit slightly better than programmed at the time of the fourth review.

Near term policy discussions centered on containing increases in current spending in 2012. Current spending is expected to be 14.5 percent of GDP, reflecting increases in the wage bill, interest payments, and transfers. Retail fuel prices have not been adjusted since March, creating a need for additional subsidies for this year to cover the losses of the state-owned oil importer SONABHY. Program targets for end-December were tightened to ensure that domestic financing in the second half is safeguarded for priority spending in 2013.

Policy discussions for 2013 and beyond focused on ensuring resources are directed to implement the development program (SCADD). The authorities reaffirmed their commitment to move gradually toward cost recovery for fuel, and added a program commitment to consolidate public wages. Administrative reforms and revision of the mining code should continue to improve revenue performance. The authorities are also seeking new sources of external borrowing to finance large investment projects. To take advantage of a larger resource envelope, they are intent to improve spending capacity. Agreement was reached on indicative targets that could serve as a bridge to a possible successor program.

Staff supports the authorities' request to complete the fifth review, and modify program targets and one benchmark. Modified end-December performance criteria and an end-March structural benchmark—to reflect delayed implementation of the government strategy to divest from the state-owned cotton ginning company, SOFITEX—are proposed.

I. Recent Developments and Near Term Outlook

The 2012 growth outlook has improved since the last review, while inflation and the current account deficit projections are slightly higher.

1. **The number of Malian refugees has increased, but the Burkinabe government's contribution remains in line with earlier estimates.** Current estimates of refugees in Burkina Faso are about 80,000 people (up from 57,000 at the fourth review). The U.N. is coordinating humanitarian assistance and its calls for increased international contributions are expected to meet additional needs. Implementation of the food security program will span into 2013 as fully-depleted domestic food security stocks are replenished. Food security needs in 2012 were met, but program implementation revealed some capacity and coordination problems, including some donors not reporting their activities and spending in a timely manner.

2. **Growth for 2012 has been revised upward to 8 percent.** Abundant rainfall presages a strong rebound in agricultural production (24 percent) after last year's drought, compensating for slightly lower than expected gold production (due to capacity expansion). Higher growth prospects are supported by leading indicators: construction approvals and building permits by end September exceeded 2011, private sector credit growth and import growth are robust, and the BCEAO's growth index shows an upward trend (Figures 1 and 2).

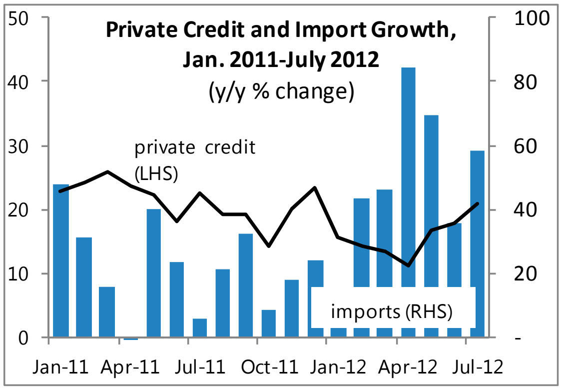
3. **Average 12-month inflation through August was 3.6 percent.** It peaked at 4.6 percent in July, reflecting strong price pressure on food during the spring and summer and a one-off increase in retail fuel prices in late March. Inflation is expected to come down sharply with the new harvest. The projection for 12-month inflation in December is 2.0 percent, with average inflation for the year remaining at around 3.6 percent.

4. **The overall fiscal deficit was significantly lower than anticipated at end-June.** The overall balance was 1.7 percentage points of GDP better than expected, due to a combination of revenue over-performance, under-execution of spending, and lower than expected grants (0.9, 2.4, and 1.7 percentage points of GDP, respectively). Revenue over-performed largely due to gains from revenue administration reforms implemented over the last two years and partly due to growth. On the expenditure side, current spending and net lending were slightly over target (by 0.1 and 0.3 percentage points of GDP, respectively), while investment spending was substantially lower (by 2.8 percentage points of GDP).

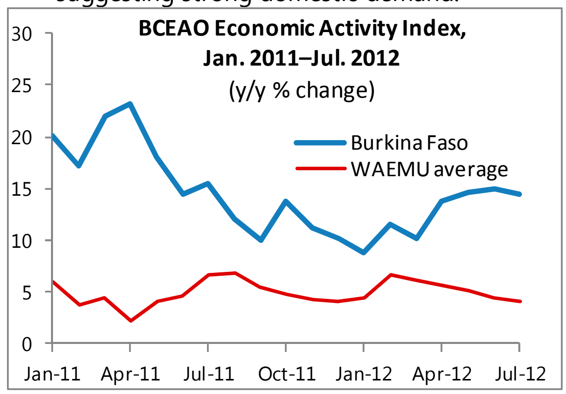
5. **The current account deficit is expected to increase sharply in 2012.** The deficit is now expected to widen to 4.7 percent of GDP, slightly higher than the last review, largely due to food imports and higher international fuel prices. The accelerating trend of gold exports should pause this year. Cotton export projections have been revised downward, based on forward sales contracts.

Figure 1. Burkina Faso: Recent Economic Developments

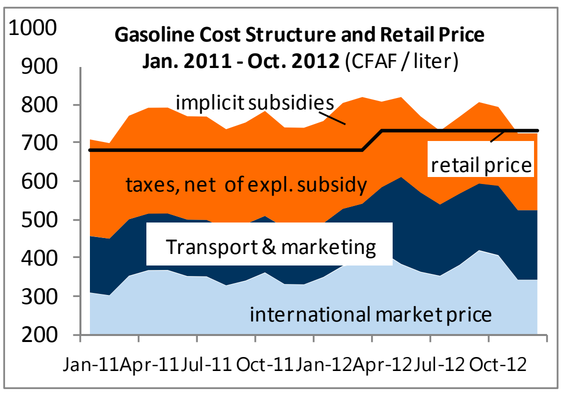
Private credit and import growth were strong



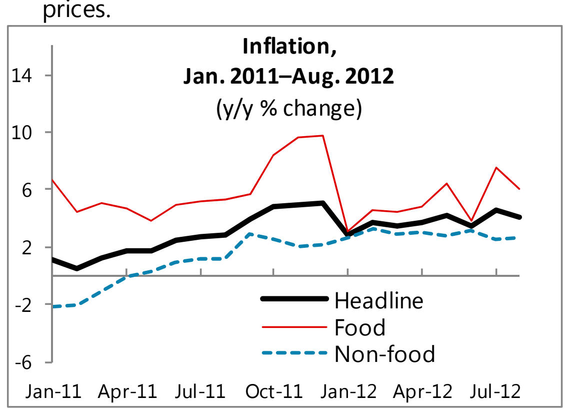
...and business sentiment trended upward, all suggesting strong domestic demand.



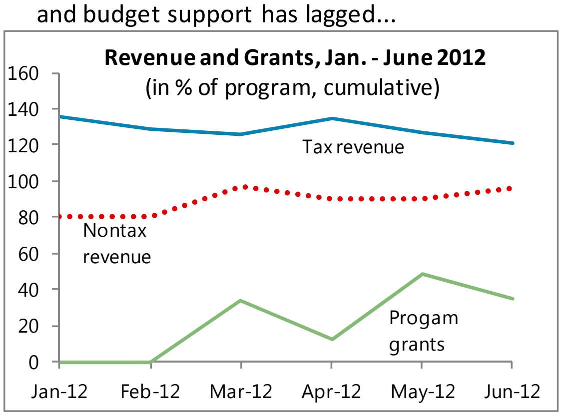
A retail price increase in March helped reduce fuel subsidies, but contributed to inflation.



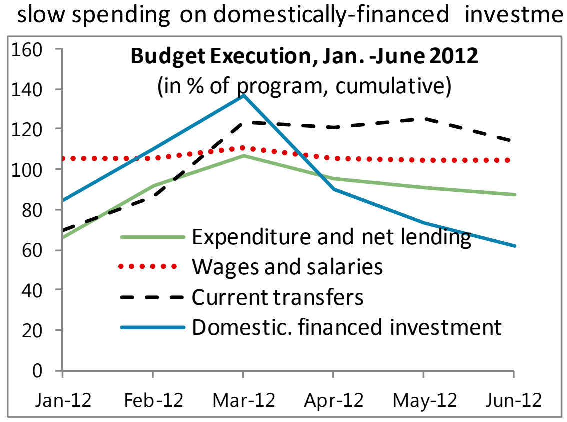
...which peaked in July, mainly driven by food prices.



Domestic revenues have overperformed and budget support has lagged...



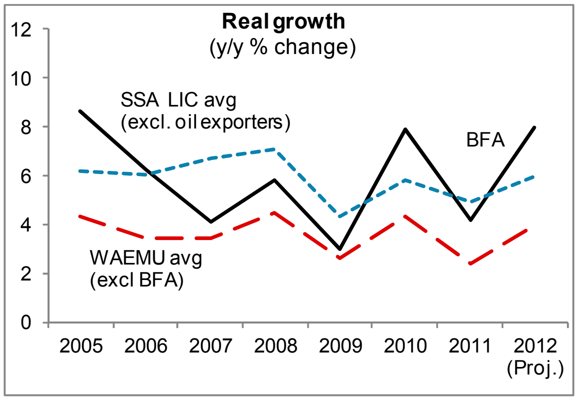
...while higher current spending was combined with slow spending on domestically-financed investment.



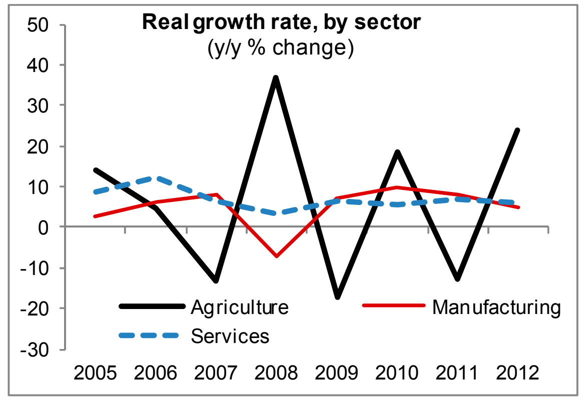
Sources: Burkinabè authorities and IMF staff calculations.

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

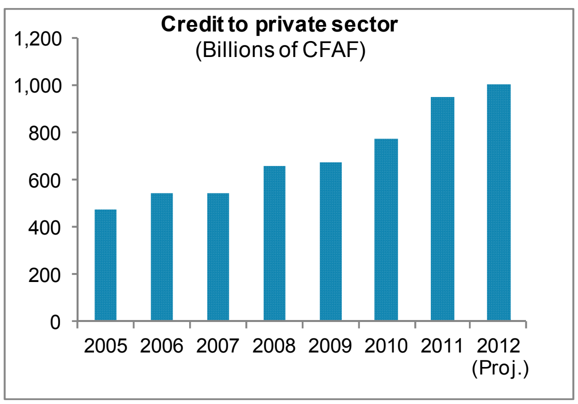
Economic growth is expected to be strong…



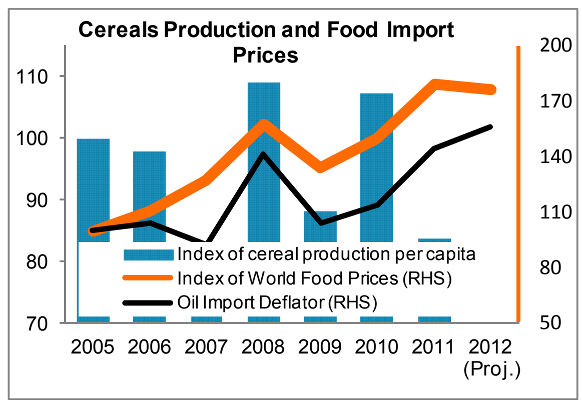
… as good rains underpin agricultural production…



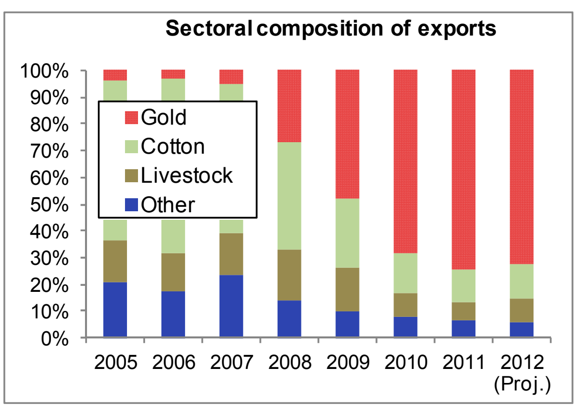
… and private sector credit remains robust.



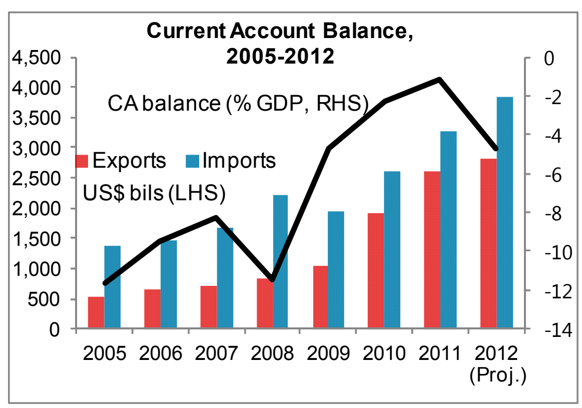
Food import needs and higher food and fuel prices increased imports...



with a pause in gold production affecting exports....



… leading to a sharp deterioration of the current account balance in 2012.



Sources: Burkinabè authorities and IMF staff calculations.

6. **Losses by the state-owned oil company, SONAHBY, required subsidies**. As a result of rising SONAHBY losses in the first quarter, pump prices were increased in March by 8 percent, halving implicit subsidies. Prices were also hiked for some non-retail fuel products later in the year. Reflecting periodic spikes in international oil prices during the course of the year, SONAHBY incurred further losses, which were partly covered by government transfers. The government does not intend to adjust retail prices further in 2012. International prices have dropped recently, reducing losses.

II. Program Performance

7. **All program quantitative targets and structural benchmarks for end-June were met**. All quantitative targets for end-June were achieved and that for net domestic financing was met by a wide margin. The three structural benchmarks for end-June were observed (Table 7) in the areas of: (i) deploying revenue management software for information sharing in three tax directorates; (ii) producing a strategy to reduce the government's stake in SOFITEX; and (iii) signing management contracts to implement the microfinance strategy. The indicative target for poverty-reducing spending for end-March was missed by a very narrow margin, but all other indicative targets were met.

III. Medium-Term Outlook

Growth is expected to stabilize at around 7 percent over the medium term, with inflation of around 2 percent, assuming no major shocks. The current account balance should improve, but only gradually.

8. **Medium-term growth should remain around 7 percent and inflation around 2 percent.** Despite improved prospects for gold, cotton, and other agriculture in 2013, growth should ease to 7 percent, as a result of a higher 2012 base. Medium-term growth is also estimated at 7 percent, supported by implementation of the government's development program, the SCADD.[1] Assuming normal rainfall, agricultural production should stabilize, and inflation should remain around 2 percent.

9. **The current account is expected to improve next year and over the medium term**. Food imports will decrease in 2013 when the bulk of food insecurity needs will have been met. Also, gold production and exports will increase after 2013 as a result of mining companies' plans to expand capacity (Box 1). These will more than offset higher imports of oil and public investment goods, resulting in a marginal narrowing of the current account deficit to 3.4 percent of GDP in 2015, from a deficit of 4.7 percent of GDP in 2012.

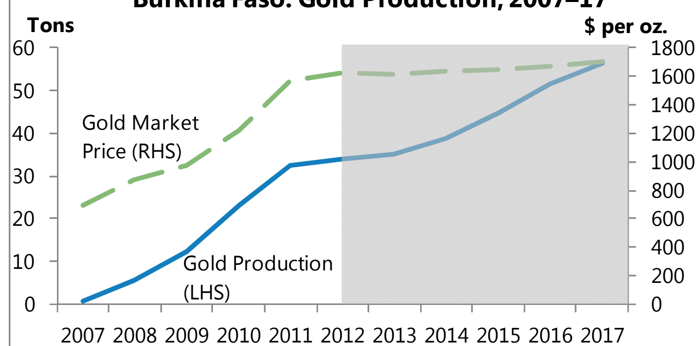
[1] For example, SCADD interventions aim to increase agricultural productivity and resilience through more use of irrigation and fertilizers, drought-resistant and higher yielding seeds, and better soil management practices.

Box 1. Gold Production

The production of gold has grown significantly over the last 5 years, at an average of 170 percent per year. The mining code issued in 2003 as well as investment incentives spurred the exploration and development for gold, which quickly became a driver of growth and the dominant export (75 percent of all exports in 2011).

The production amounted 32.6 tons in 2011, spread over eight mines. Production increases are expected to pause over 2012–13, as the biggest mines encounter difficulties caused by underground mining, gold purity decline and hard rock layers. Nevertheless, with large investments underway as well as the development of new sites, production should accelerate starting in 2014. The biggest mines have re-evaluated their life expectancy to add 5–10 years after discovering new goldfields, which, combined with higher price projections, supports projections for growing volumes in the sector over the long term.

Burkina Faso: Gold Production, 2007–17



Sources: Burkinabè authorities, and IMF staff calculations

Over the last years, numerous local companies expanded provision of services to the mining companies (transport, equipment, construction work), which has allowed the local economies to benefit increasingly from the mining industry. (In 2011, around 25 percent of services provided to mining companies were provided locally).

Artisanal gold production (small-scale, less formal operations) is difficult to track. Gold panners sell their gold outside the country, where taxes are lower. Informal estimates suggest that 8–10 tons of Burkinabè artisanal gold may have been sold through neighboring countries in 2011.

IV. Policy Discussions

10. **Policy discussions centered on setting fiscal objectives for the remainder of 2012 and 2013.** For 2012, program targets for end-December (the final test date of the program) were adjusted to reflect revenue performance and budget execution. For 2013, preliminary quarterly targets were developed that could serve as a basis for a transition to a potential successor Fund-supported program.

11. **An important backdrop for policy discussions was the significant improvement in revenue collection over the past three years.** Total revenue has improved about 3 percentage points of GDP since 2009, a little more than half of which has been attributable to revenues from increased gold production. The remainder was due to reforms in tax

policies and tax administration (Box 2 and Figure 3). 2012 revenue is projected to be 16.6 percent of GDP, close to the WAEMU target of 17 percent. Over the medium term, further gains are expected as a result of administrative reforms still in the pipeline. The medium-term revenue forecast, however, does not reflect any potential reductions in fuel excise taxes (see ¶17 below).

Box 2. Burkina Faso—Reforms to Increase Revenue Collection

Revenue collection has improved significantly since 2009. Total revenue increased by 3 percentage points of GDP over 2009–12, 80 percent from tax revenue, as a result of significant administrative reforms since 2009, and new tax policies adopted in early 2010.

Burkina Faso: Revenue performance, 2009–12
(percent of GDP)

	2009	2010	2011	2012p
Total revenues	**13.7**	**15.6**	**16.5**	**16.6**
Tax revenue	12.5	12.9	14.5	15.0
Income and profits	2.7	3.1	4.2	4.2
Goods and services	7.2	7.3	7.6	7.7
International trade	2.3	2.2	2.3	2.8
Other	0.4	0.4	0.3	0.3
Non-tax revenue	1.1	2.6	2.0	1.7
Memorandum item:				
Revenue from gold[1]	0.4	1.1	2.3	2.1

Sources: Burkinabè authorities and IMF staff estimates.
[1] Actual intake of gold revenue as of end-August 2012.

Policy reforms include:

- **New corporate income tax**. A standard corporate income tax (CIT) was introduced in 2010, and in 2011, a system of estimated taxes payments was introduced, collected in July and October of the tax year and January of the following year, with declaration and payment of balances in April.

- **Fewer tax exemptions.** Notably: (i) extending the scope of the VAT; (ii) eliminating many VAT exemptions for NGOs; (iii) raising four-fold the threshold for VAT refunds to CFAF 1 million; (iv) raising the threshold for investment benefits—from CFAF 20 billion and creation of three jobs to CFA 100 billion and creation of 30 jobs; (v) limiting investment deductions from profit taxes; and (vi) lowering payment thresholds for different taxes.

- **Revising mining royalties.** In 2010, the royalty rate on gold exports was revised from a fixed rate of 3 percent to 5 percent when prices are higher than $1,300 per ounce.

Administrative reforms include:

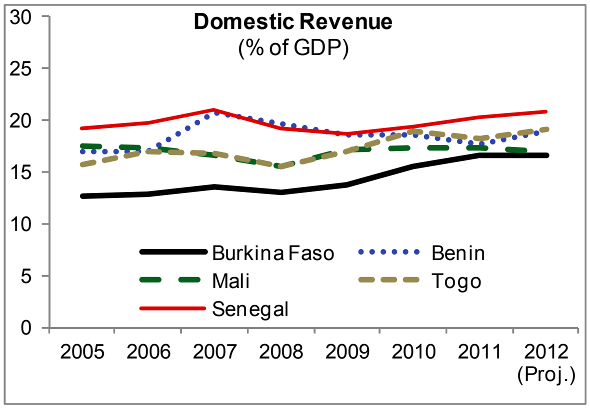
- **Agency-by-agency quantitative targets** to monitor performance in early 2009.

- **Collection units in ministries** to improve nontax revenue collection.

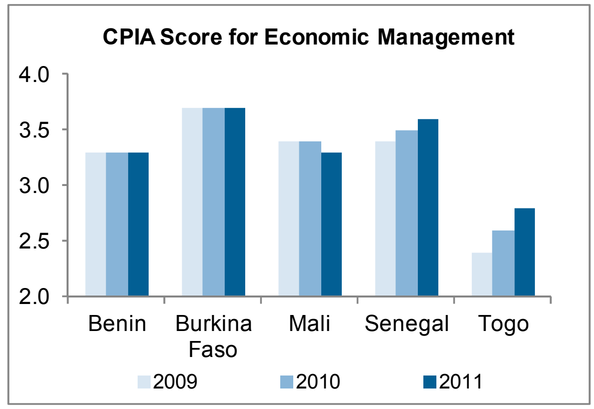
- **Expanded automation,** including tracking non-filers and non-payers, revamping the database of large and medium-sized taxpayers, and cross-checking databases.

Figure 3. Burkina Faso: Fiscal Developments, 2005–2012

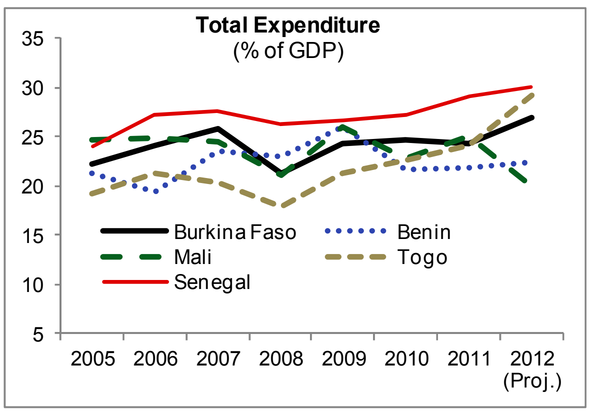
Revenue performance is approaching regional norms...



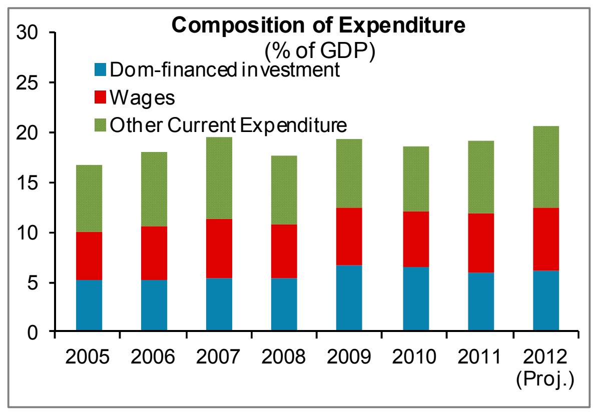
... with capacity measures outperforming regional norms.



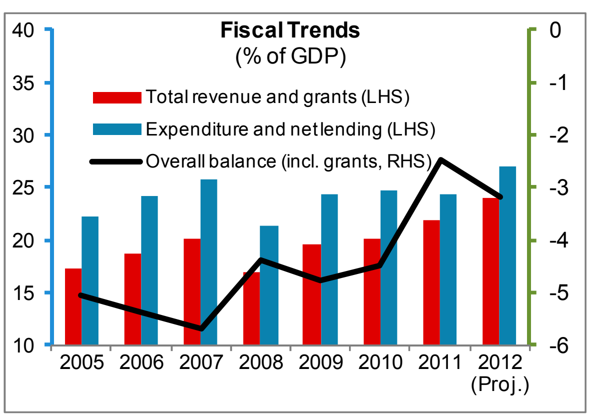
Expenditure was pushed up in 2012 as a result of shocks....



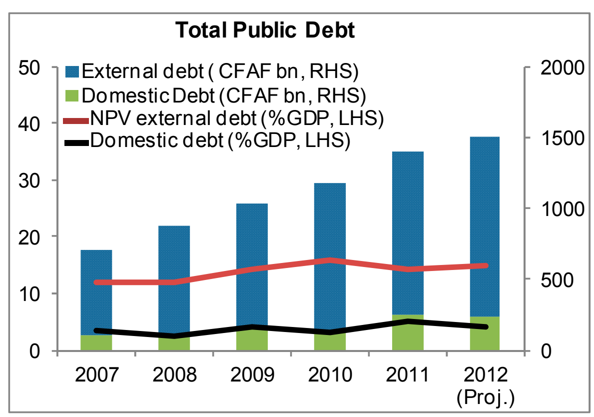
... reflected mainly in current spending, resulting in a shift in composition.



....and a higher fiscal deficit.



While debt levels remain moderate.



Sources: Burkinabè authorities and IMF staff calculations.

A. Revisions in Fiscal Policies for 2012

Program targets were tightened to ensure that any higher than expected domestic resources are preserved for high-priority spending in 2012 and 2013.

12. **Revenue projections under the program were revised upward to 16.6 percent of GDP in 2012.** Following on the strong performance in the first half of the year, tax revenue should be higher as a result of administrative efficiency gains, higher collection of provisional corporate income tax payments, increased collection of VAT on fuel imports—due to international price increases—and high VAT and import fees collected from mining companies owing to one-off imports of investment goods. A 2012 supplemental budget approved on October 23 shows higher revenues and grants, assuming a second World Bank disbursement and large non-tax proceeds from the sale of a telecom license. Following discussions with the World Bank and the authorities on the likely timing of these flows, the program incorporates these resources only in 2013.

13. **Despite slow execution during the first half of the year, investment spending is projected to be in line with projections.** Investment spending should accelerate in the second half of the year, with the authorities having taken steps to hasten contract and payment approvals through: streamlining control procedures to reduce redundant steps; improving automation to avoid lost paperwork; and case-specific monitoring in spending Ministries (MEFP, ¶¶ 8 and 27). Program projections for domestically-financed investment spending are 6.2 percent of GDP, a more conservative estimate than assumed in the supplemental budget (and consistent with resource assumptions in ¶12 above). However, staff pointed out that if more revenues materialized and spending capacity was sufficient, program targets could allow for commensurately higher investment spending.

14. **Current spending is projected at 14.5 percent of GDP, slightly up from earlier program targets.** As reflected in the 2012 supplement budget, the increase in current spending is composed of increased allocations for wages, goods and services, and interest payments, for a total of 0.6 percentage points of GDP.[2] There are no plans to increase spending allocated for December elections (though spending for biometric registration was reclassified). Projections of current transfers were revised downward by 0.6 percentage points of GDP to account for slightly lower food security spending and higher transfers this year than previously envisaged.

- **Food security and associated spending this year should be CFAF 64.5 billion in contrast to earlier needs estimates of CFAF 75 billion.** The food security program

[2] The increases reflect unanticipated impacts of 2011 decisions, including additional measures agreed during the 2011 public wage negotiations, extension of the academic year to compensate for lost days during the 2011 civil unrest.

was executed successfully to meet food security needs. Estimates of the vulnerable population were revised downward over the course of program implementation, however, other needs arose that had not been included in previous estimates, e.g., replenishing depleted food stocks. In addition, needs estimates for 2013 have been increased to: continue replenishing stocks, significantly expand school feeding programs in line with the new social protection plan, and implement longer term food security measures, such as improving infrastructure for food redistribution, and improving the capacity of agencies charged with food security operations.

- **A further transfer will be made to SONABHY**. To more fully address SONABHY losses in 2012, the authorities will provide a further transfer in late 2012, increasing explicit subsidies to CFAF 30.5 billion (0.6 percent of GDP). This additional allocation had not been included in the 2012 supplemental budget, but will be reflected in the "budget execution law" to be transmitted to the audit court early next year. At the same time, the authorities reaffirmed their commitment to explore more sustainable fiscal solutions for 2013 (see below and MEFP, ¶ 26).

15. **In sum, the fiscal deficit will be slightly lower than previously targeted.** The overall fiscal deficit (commitment basis) will be contained at 3.2 percent of GDP, down slightly from 3.5 percent of GDP. Net domestic financing targets had included use of a bond issuance of CFAF 30 billion; in light of strong revenue performance this year and already-higher current spending, these resources will be saved to help meet 2013 needs, with program targets for both years adjusted accordingly.

B. Fiscal Policy for 2013 and the Medium Term

Expanded domestic resources will be directed toward spending for the development program, including growth-enhancing investment, more social protection, and measures to reduce vulnerability to weather-related shocks.

16. **The current draft budget for 2013 is in line with agreed indicative program targets, but underlying revenue and spending projections are more ambitious.** Program revenue projections are 16.9 percent of GDP, however, these may change depending on potential changes to fuel excise taxes and the timing of the sale of the aforementioned telecom license. Expenditure projections assume some consolidation (1.2 percentage point of GDP) as crisis spending subsides, offsetting higher domestically-financed investment and other priority spending, resulting in an overall improvement of the deficit to 2.6 percent of GDP.

17. **2013 projections and indicative targets will be revisited in the sixth and final review under the ECF arrangement**, as a bridge to a possible successor program.[3] Discussions under the review will focus on the following:

- **Plans to set SONABHY on a more sustainable financial footing, while improving cost recovery.** The authorities reasserted their commitment to allow for more pass-through of international prices, but point out that domestic fuel prices are an extremely sensitive topic that has sparked social turmoil in the past. Given the recent strong gains in revenue mobilization and the fact that fuel taxes were more than double SONABHY's average annual losses in 2011 and 2012, the authorities are exploring options for a flexible fuel pricing mechanism under which temporary changes in excise taxes could smooth the price adjustment process (MEFP, ¶ 26).

- **Measures to streamline the public wage bill.** The authorities have implemented measures in 2012 to reduce abuse of per diems. Also, they carried out both a census and a biometric registration of public sector employees this year. The results of the two databases will be matched to identify those who are receiving redundant benefits (MEFP, ¶ 14).

- **Impact of revenue administration reforms in the pipeline.** The authorities continue pursuing administrative reforms to curb fraud, notably by deploying collections units in ministries that deliver services, as well as centralizing customs clearance procedures in better staffed and equipped posts.

- **Changes in the mining code.** The new draft mining code will be considered by parliament early next year. Due to resource constraints, the Fund has not been able to meet the authorities' request for full TA mission on mining taxation, but an FAD expert was able to join the AFR review mission, and the preliminary work undertaken suggests that the new code is an improvement, but still contains loopholes.

- **Implementation of reforms to improve investment spending capacity.** It remains to be seen what the full impact of the measures implemented this year to hasten investment spending will be. In addition, next year a new investment project selection process will be made operational, involving a project "bank" that identifies "shovel ready" projects that can be added to the budget. The authorities are also implementing associated reforms to reduce payment delays (MEFP, ¶¶ 8 and 27).

[3] After expiry of the current program in June, modest financing gaps are estimated for the second half of 2013 and in the medium term. Prospects are good to close those gaps through new financing or modest policy adjustment, including potentially through a successor IMF-supported program.

C. Financing for Growth-Enhancing Projects

In addition to their own efforts to expand the resource envelope, the authorities will seek new sources of external financing and private domestic financing to support SCADD objectives.

18. **The authorities are stepping up efforts to improve resilience to shocks, including through diversified activities.** A notable SCADD priority is attracting private investment to the Bagré growth pole, a project intended to intensify inclusive growth and create larger growth synergies (Box 3). An investor roundtable in September attracted large attendance, and the authorities wish to earmark a larger sum for the project in 2013 (MEFP, ¶ 21).

Box 3. Inclusive Growth: The Bagré Growth Pole Project

Thirty years ago, the river banks of Bagré, near the borders of Ghana and Togo, were rife with river blindness. Today, the disease is eradicated and the area is thriving, with a well-fed population and children in school. A large man-made reservoir was created when the river was dammed and the subsistence farmers relocated. In the intervening decade the government has invested in order to mobilize, manage and distribute the water for numerous new activities. Currently, activities include diverse agriculture production (including rice and bananas), livestock and dairy, a fish hatchery, an eco-tourism resort, and a hydro-electric power plant (supplying 13 percent of Ouagadougou's needs).

Encompassed by the national development strategy (SCADD), the Bagré Growth Pole project seeks to attract additional private investment to further boost local employment and promote agricultural productivity. An agreement between the Burkinabè government and the World Bank for 2011–17 aims to attract private investment in agriculture, agro-industry, and fishing through improvements in the business climate, and development of supporting infrastructure and services (lodging, electricity, schools, medical facilities, and training facilities). With total costs of US$134 million, investments will be co-financed by the government, the World Bank, and other partners, and managed by "Bagrépole," a public-private partnership.

Expected outcomes by 2017	
Jobs created	30,000
Direct beneficiaries	20,000
Indirect beneficiaries	250,000
Agro production	450,000 tons from 157,000 in 2010
Fish production	1,250 tons from 522 in 2009
Livestock	2,400 tons from 300 in 2010

Agricultural productivity is to be enhanced through measures to increase soil fertility, control erosion, increase irrigation, and train workers on international standards for agricultural products. Specific objectives have been set for 2017, with explicit objectives for the participation of women.

Bagré is intended to serve as model for other already-identified growth poles, and to have spillover effects for the national economy.

19. **The authorities are also seeking to expand access to financial services.** In addition to measures to expand microfinance (MEFP ¶ 15), the authorities hope to take advantage of the postal service company's (SONAPOST) extended network throughout the country to increase geographical coverage of basic financial services. To do so, the authorities are preparing a strategy to improve the quality of financial services already offered by SONAPOST by end-December 2012 (structural benchmark, MEFP ¶ 36). As for commercial banks, they are undertaking efforts to expand operations to the farther reaches of the country and introduce new innovative products to appeal to the informal sector. Financial soundness indicators suggest commercial banks are in healthy shape.

20. **New financing sources for large projects are sought, notably public-private partnerships (PPPs) and non-concessional borrowing.** A framework law for PPPs has been approved (with the help of Fund TA) and the authorities are moving forward to seek such financing for large investment projects identified under the SCADD. At the next review, the authorities plan to request one or more project-specific exceptions from the program's zero limit on external non-concessional borrowing. They will seek external financing on the best terms possible–for example, for the proposed airport project–but it is likely to prove difficult to find large sources of financing that meet program concessionality requirements in the current low interest rate environment. Importantly, in light of the rating change from a high to moderate risk of debt distress resulting from the 2012 joint Fund-Bank DSA, donor grants for 2013 are likely to be modified to a mix of grants and concessional lending, at a minimum on the World Bank's part, which would also increase the envelope of available external financing.

21. **Efforts are underway to improve debt management capacity.** With the support of Bank-Fund TA, the authorities are preparing a medium-term debt strategy, to be concluded by the end of the year (Structural Benchmark/MEFP, ¶¶ 34 and 36). The strategy takes into account likely changing terms of external financial assistance, as well as contingent liabilities that can arise from use of PPPs. At the request of the authorities, the Bank and Fund conducted a debt sustainability analysis training workshop in early November; the authorities plan to produce a DSA that would subsequently be updated on an annual basis.

V. Other Program Monitoring Issues and Risks

22. **The authorities are requesting a modification of an end-March structural benchmark relating to divestiture of the cotton ginning company, SOFITEX.** Following an operational restructuring last year, broader sectoral reforms, and an increase in global cotton prices, the authorities had anticipated that the company's financial position would be sufficiently improved to allow sale of a majority stake to a strategic private investor (Box 4). Accordingly, a divestiture strategy was finalized by mid-2012 (structural benchmark), and the next step would have been recruitment of an investment bank to support the divestiture (March 2013 benchmark). Subsequently, however, the authorities received the preliminary results of a financial assessment (structural benchmark for end-March 2013) which shows

SOFITEX's balance sheet to have improved less rapidly than hoped. Accordingly, while the authorities remain committed to the divestiture process, they have decided that further progress is needed in strengthening the company's balance sheet to prepare it for sale. They will discuss with staff new timing of the divestiture strategy at the next review, taking into account the finalized financial assessment, preliminary financial results for 2012, and a stocktaking of the impact of the operational restructuring and other reforms. Pending the outcome of this review, they have requested that the March 2013 structural benchmark be modified to remove the commitment to recruit an investment bank. Given the importance of the cotton sector and the need for a successful divestiture, staff supports this approach. The next review will discuss progress in developing an updated divestment timeline.

Box 4. The Government's Stake in SOFITEX

The cotton sector in Burkina Faso employs around 20 percent of the population. Extensive reforms in the sector over the past 20 years have improved productivity, and Burkina Faso has become one of the two largest producers and exporters in sub-Saharan Africa. In addition to other reforms, in 1999, the government divested its holdings in the state-owned cotton ginning monopoly, SOFITEX, and opened the sector to competition. As of 2006, the government owned 35 percent of SOFITEX, with the remainder of capital divided between a private company and the cotton producers. Two other cotton ginning companies started operations in the mid-2000s.

In 2005 and 2008, due to international prices movements and US$ depreciation, SOFITEX experienced substantial losses. Two rounds of recapitalization left the government again in the position as majority shareholder (currently about 89 percent). Subsequent reforms were implemented to protect the company's balance sheet from international price and exchange rate movements, and an operational restructuring of the company was undertaken in 2011. The government has explicitly stated throughout its intention to improve the company's balance sheet over time so that a strategic investor could be found to reduce the government's stake.

23. **Risks through the remainder of the program (May 2013) are balanced.** The main downside risks are intensification of the security problems in Mali with spillover into Burkina Faso and further increases in international fuel and/or food prices that could spark domestic social tension. However, medium term risks for the policy agenda are constraints to capacity for program implementation, and/or that accelerated investment spending might not yield hoped-for growth returns. On the upside, agricultural production and/or growth could be higher than projected, as could revenue collection.

VI. STAFF APPRAISAL

24. **Welcome progress has been made in implementing the food security program**. At the same time, additional efforts are needed—both by the authorities and donors—to strengthen capacity and coordination.

25. **Improvements in revenue collection present an opportunity, but also a challenge to improve spending practices.** The confluence of tax policy and administrative reforms, and expanding gold production has improved revenue collection more rapidly than anticipated. The government's capacity for spending execution has not improved at the same pace, and important opportunities for development spending could be lost as a result. The authorities have redoubled efforts to accelerate approval and execution of investment spending, but this must be accompanied by robust and objective processes to identify and prioritize investment projects with the highest growth returns. Public-private partnerships must be carefully examined a priori to ensure a full understanding of any associated contingent fiscal liabilities.

26. **Similarly, a shift from external grants to borrowing requires stepped-up capacity, both in debt management but also evaluation of investment projects.** As development partners move away from grants-only assistance to a mix of grants and concessional lending, the authorities will need to be more diligent to ensure the highest returns possible to investment projects. The authorities should proceed cautiously in seeking new types of financing, to ensure that smart spending is financed through smart borrowing.

27. **The mining taxation regime needs to rebalance the interests of investors extracting the resources and the benefits the country draws from the extraction.** The 2003 Mining Code contained a number of provisions successful in drawing investors to the country. The new draft mining code would rebalance the taxation regime to align it better with best international practice, but some loopholes remain. The authorities are encouraged to take more time to ensure that the revised mining code is in line with international best practice.

28. **The authorities' commitment to improve cost recovery for fuel is welcome**. Given the risks to social stability from large fuel price adjustments, staff supports the authorities' goal of designing a flexible and gradual approach to petroleum prices that would smooth short-term price adjustments while preserving longer-term fiscal stability, including by directing currently untargeted subsidies to more efficient uses. To safeguard the budget against potential fuel price shocks, the authorities are encouraged to finalize and implement the new approach at the earliest possible date.

29. **Staff supports the modification of the structural benchmark for SOFITEX.** Staff welcomes the authorities' reaffirmed commitment to the goal of divestment, and agrees that the process should be conducted in a careful manner considering the strategic importance of the sector. Staff looks forward to discussing revised timing for the divestment strategy during the sixth and final review of the ECF arrangement.

30. **Staff supports completion of the fifth review, the authorities' request for the sixth disbursement under the ECF arrangement.** Similarly, it supports the modification of performance criteria for end-December 2012 and the modification of a structural benchmark for end-March 2013.

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

	2011	2012		2013	2014	2015
	Est.	Prog. [2]	Proj.	Proj.		
	(Annual percentage change, unless otherwise indicated)					
GDP and prices						
GDP at constant prices	4.2	7.0	8.0	7.0	7.0	7.0
GDP deflator	5.6	3.5	4.4	2.0	2.0	2.0
Consumer prices (annual average)	2.7	3.0	3.6	2.0	2.0	2.0
Consumer prices (end of period)	5.1	3.0	2.0	2.0	2.0	2.0
Money and credit						
Net domestic assets (banking system) [1]	11.2	13.1	13.5	12.0	11.5	11.7
Credit to the government (banking system) [1]	-1.9	2.5	0.5	2.1	1.1	1.2
Credit to the private sector	23.3	14.2	17.3	15.1	14.7	11.4
Broad money (M3)	13.8	10.8	11.3	11.4	11.3	11.2
External sector						
Exports (f.o.b.; valued in CFA francs)	35.8	18.4	21.0	9.2	11.6	13.8
Imports (f.o.b.; valued in CFA francs)	24.5	26.0	31.5	1.3	9.5	11.8
Terms of trade	10.6	3.2	4.1	-0.4	2.0	1.3
Real effective exchange rate	1.7	…	….	…	…	…
CFAF/US$ (annual average)	471.4	…	….	…	…	…
	(Percent of GDP, unless otherwise indicated)					
Central government finances						
Current revenue	16.5	16.1	16.6	16.9	17.0	17.2
Of which: tax revenue	14.5	14.0	15.0	15.0	15.2	15.3
Total expenditure and net lending	24.3	26.7	27.2	26.0	26.2	26.3
Of which: current expenditure	13.1	14.3	14.5	12.5	12.7	12.7
Overall fiscal balance, excl. grants (commitments)	-7.7	-10.5	-10.5	-9.1	-9.2	-9.1
Overall fiscal balance, incl. grants (commitments)	-2.5	-3.5	-3.2	-2.6	-2.8	-2.7
Savings and investment						
Current account balance (incl official transfers)	-1.1	-4.4	-4.7	-3.9	-3.7	-3.4
Gross investment	15.6	18.4	18.4	18.1	18.2	18.5
Government	7.1	8.7	8.8	9.4	9.4	9.4
Private	8.5	9.7	9.6	8.7	8.8	9.0
Gross national savings	14.5	14.0	13.7	14.2	14.5	15.0
Government	9.2	5.6	5.7	6.8	7.0	7.1
Private	5.2	8.4	8.0	7.4	7.5	7.9
Debt indicators						
External debt	24.1	24.0	25.1	24.5	24.5	24.3
NPV of external debt	14.3	14.5	15.0	14.6	14.6	14.4
NPV of external debt (percent of exports)	56.1	53.6	55.6	54.3	53.3	50.8
Memorandum items:						
Nominal GDP (CFAF billions)	4,807	5,326	5,421	5,919	6,457	7,045
Nominal GDP per capita (US$)	601	…	….	…	…	…

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

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

[2] Fourth ECF Review (IMF Country Report 12/159).

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

	2011	2012		2013	2014	2015
	Prel.	Prog. [2]	Proj.	Proj.	Proj.	
	(CFAF billions)					
Total revenue and grants	1047.3	1234.8	1300.3	1385.2	1510.8	1659.3
Total revenue	793.6	858.7	902.5	998.7	1095.7	1213.5
Tax revenue	695.6	745.3	812.1	886.8	979.8	1079.9
Income and profits	201.0	191.7	229.4	257.8	287.0	308.6
Domestic goods and services	366.8	410.9	416.8	456.9	505.9	553.8
International trade	112.0	125.2	149.8	152.9	165.0	190.8
Other	15.9	17.5	16.1	19.1	21.9	26.7
Nontax revenue	98.0	113.4	90.4	112.0	115.9	133.5
Of which: royalties from gold	17.7	45.2	45.7	73.8	54.1	63.2
Grants	253.7	376.1	397.7	386.4	415.1	445.9
Project	73.1	215.5	222.1	272.5	287.6	306.8
Program	180.6	160.5	175.7	113.9	127.5	139.1
Expenditure and net lending [1]	1166.0	1419.5	1472.2	1536.8	1691.0	1851.9
Current expenditure	628.3	761.3	785.3	740.2	818.5	893.7
Wages and salaries	281.4	319.9	334.4	349.6	381.4	416.1
Goods and services	97.1	104.0	124.2	113.8	130.6	144.0
Interest payments	28.3	20.6	28.5	29.4	33.3	34.2
Domestic	15.9	12.3	20.1	17.0	21.1	21.0
External	12.4	8.4	8.4	12.4	12.2	13.2
Current transfers	221.4	316.8	298.2	247.5	273.2	299.5
Of which: food security	17.6	75.2	64.5	64.4	0.0	0.0
election	…	19.0	26.9	…	…	…
refugee	…	10.7	9.0	…	…	…
subsidies to SONABHY	4.3	15.5	30.5	10.0	…	…
Investment expenditure	488.6	665.1	678.8	791.7	862.5	948.2
Domestically financed	286.4	333.5	334.1	414.9	452.0	500.2
Of which: election		11.0	0.0	…		
Externally financed	202.2	331.6	344.7	376.7	410.6	448.0
Of which: food security	17.6	36.9	36.9	0.0	0.0	0.0
refugee	…	2.3	2.3	…	…	…
Net lending	2.7	-6.9	8.1	4.9	10.0	10.0
Overall balance (commitment basis)	-118.8	-184.7	-172.0	-151.6	-180.2	-192.5
Cash basis adjustment	13.2	0.0	0.0	-0.5	-0.5	-0.5
Overall balance (cash basis)	-105.6	-184.7	-172.0	-152.1	-180.7	-193.0
Financing	104.9	147.3	157.9	135.0	144.7	171.7
Foreign financing	108.8	94.9	102.9	80.0	94.7	111.7
Drawings	129.1	116.1	124.1	104.2	122.9	141.2
Project loans	129.1	116.1	122.6	104.2	122.9	141.2
Program loans	0.0	0.0	1.5	0.0	0.0	0.0
Amortization (excl. IMF)	-20.3	-21.2	-21.2	-24.2	-28.3	-29.5
Domestic financing	-3.9	52.4	55.0	55.0	50.0	60.0
Bank financing	-24.5	0.0	-5.9	30.0	20.0	25.0
Central bank	-31.4	0.0	-5.9	30.0	0.0	0.0
Nonbank financing	20.6	52.4	60.9	25.0	30.0	35.0
Financing gap	0.0	37.4	14.1	17.1	36.0	21.3
Of which: IMF future disbursements	0.0	37.4	14.1	4.8	0.0	0.0

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

[1] Commitment basis.

[2] Fourth ECF Review (IMF Country Report 12/159).

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

	2011	2012		2013	2014	2015
	Prel.	Prog. [2]	Proj.	Proj.	Proj.	
	(Percent of GDP, unless otherwise indicated)					
Total revenues and grants	21.8	23.2	24.0	23.4	23.4	23.6
Total revenue	16.5	16.1	16.6	16.9	17.0	17.2
Tax revenue	14.5	14.0	15.0	15.0	15.2	15.3
Income and profits	4.2	3.6	4.2	4.4	4.4	4.4
Domestic goods and services	7.6	7.7	7.7	7.7	7.8	7.9
International trade	2.3	2.4	2.8	2.6	2.6	2.7
Other	0.3	0.3	0.3	0.3	0.3	0.4
Nontax revenue	2.0	2.1	1.7	1.9	1.8	1.9
Of which: royalties from gold	0.4	0.8	0.8	1.2	0.8	0.9
Grants	5.3	7.1	7.3	6.5	6.4	6.3
Project	1.5	4.0	4.1	4.6	4.5	4.4
Program	3.8	3.0	3.2	1.9	2.0	2.0
Expenditure and net lending [1]	24.3	26.7	27.2	26.0	26.2	26.3
Current expenditure	13.1	14.3	14.5	12.5	12.7	12.7
Wages and salaries	5.9	6.0	6.2	5.9	5.9	5.9
Goods and services	2.0	2.0	2.3	1.9	2.0	2.0
Interest payments	0.6	0.4	0.5	0.5	0.5	0.5
Domestic	0.3	0.2	0.4	0.3	0.3	0.3
External	0.3	0.2	0.2	0.2	0.2	0.2
Current transfers	4.6	5.9	5.5	4.2	4.2	4.3
Of which: food security	0.4	1.4	1.2	1.1	0.0	0.0
election	…	0	0.5	…	…	…
refugee	…	0.2	0.2	…	…	…
subsidies to SONABHY	0.1	0.3	0.6	…	…	…
Investment expenditure	10.2	12.5	12.5	13.4	13.4	13.5
Domestically financed	6.0	6.3	6.2	7.0	7.0	7.1
Of which: election		0.2	0.0			
Externally financed	4.2	6.2	6.4	6.4	6.4	6.4
Of which: food security	0.4	0.7	0.7	0.0	0.0	0.0
refugee	…	0.0	0.0	…	…	…
Net lending	0.1	-0.1	0.1	0.1	0.2	0.1
Overall balance (commitment basis)	-2.5	-3.5	-3.2	-2.6	-2.8	-2.7
Cash basis adjustment	0.3	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis)	-2.2	-3.5	-3.2	-2.6	-2.8	-2.7
Financing	2.2	2.8	2.9	2.3	2.2	2.4
Foreign financing	2.3	1.8	1.9	1.4	1.5	1.6
Drawings	2.7	2.2	2.3	1.8	1.9	2.0
Project loans	2.7	2.2	2.3	1.8	1.9	2.0
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	-0.4	-0.4
Domestic financing	-0.1	1.0	1.0	0.9	0.8	0.9
Bank financing	-0.5	0.0	-0.1	0.5	0.3	0.4
Central bank	-0.7	0.0	-0.1	0.5	0.0	0.0
Nonbank financing	0.4	1.0	1.1	0.4	0.5	0.5
Financing gap	0.0	0.7	0.3	0.3	0.6	0.3
Of which: IMF future disbursements	0.0	0.7	0.3	0.1	0.0	0.0
Memorandum item:						
Nominal GDP (CFAF billions)	4,807	5,326	5,421	5,919	6,457	7,045

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

[1] Commitment basis.

[2] Fourth ECF Review (IMF Country Report 12/159).

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

	2011	2012		2013	2014	2015
		Prog. [1]	Proj.		Proj.	
	(CFAF billions)					
Net foreign assets	681.5	617.9	648.2	637.2	633.6	622.8
BCEAO	275.3	211.7	242.0	231.0	227.4	216.6
Assets	488.5	412.3	451.4	436.4	427.1	405.2
Liabilities	213.1	200.6	209.4	205.4	199.8	188.6
Commercial banks	406.2	406.2	406.2	406.2	406.2	406.2
Net domestic assets	819.6	1031.1	1022.6	1223.4	1436.8	1679.1
Net domestic credit	943.8	1138.3	1116.8	1317.6	1530.9	1773.3
Net credit to government	-7.8	29.5	0.4	35.2	55.2	80.2
Credit to the economy	951.6	1108.7	1116.4	1282.4	1475.8	1693.1
Other items (net)	-124.2	-107.1	-94.2	-94.2	-94.2	-94.2
Broad money	1501.1	1649.0	1670.8	1860.6	2070.3	2301.9
Of which: Priv. deposits in comm. banks	1224.6	1404.9	1373.1	1538.9	1722.2	1924.5
	(Annual % changes, unless otherwise indicated)					
Memorandum items:						
Net foreign assets	5.2	-5.2	-4.9	-1.7	-0.6	-1.7
Net domestic assets	22.0	23.3	24.8	19.6	17.4	16.9
Net credit to government [2]	-1.9	2.5	0.5	2.1	1.1	1.2
Credit to the private sector	23.5	14.2	17.3	14.9	15.1	14.7
Money supply	13.8	10.8	11.3	11.4	11.3	11.2
Of which: bank deposits	13.8	14.7	12.1	12.1	11.9	11.7
Currency velocity (GDP/broad money)	3.2	3.2	3.2	3.2	3.1	3.1

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

[1] Fourth ECF Review (IMF Country Report 12/159).

[2] Annual change in % of broad money from 12 months earlier.

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

	2011	2012		2013	2014	2015
	Prel.	Prog. [1]	Proj.		Proj.	
	(CFAF billions)					
Current account	-54.3	-234.6	-255.8	-229.2	-237.4	-241.3
Excluding official transfers	-257.6	-418.4	-454.7	-366.8	-389.1	-405.0
Trade balance	2.4	-81.1	-108.1	-7.9	20.7	55.6
Exports of goods	1066.2	1278.3	1290.6	1409.4	1572.9	1790.4
Of which: cotton	130.9	173.4	165.4	202.5	215.9	222.7
gold	772.4	904.5	914.7	964.9	1082.4	1263.8
Imports of goods	-1063.8	-1359.4	-1398.7	-1417.3	-1552.3	-1734.9
Of which: oil	-308.6	-380.2	-373.0	-385.1	-405.5	-434.9
Of which: food	-84.3	-153.7	-180.0	-118.5	-118.1	-124.4
Of which: public investment	-390.9	-532.1	-543.1	-633.3	-690.0	-758.5
Services, net	-325.0	-407.4	-417.1	-432.0	-486.0	-539.8
Income, net	0.2	6.1	6.4	7.8	9.7	11.3
Current transfers	268.1	247.8	262.9	202.9	218.3	231.7
Of which: Official transfers, net	203.4	183.8	198.9	137.6	151.7	163.7
Capital account	121.2	264.0	270.6	321.0	336.1	355.3
Project grants	73.1	215.5	222.1	272.5	287.6	306.8
Financial account	-19.2	-63.6	-48.1	-115.2	-138.3	-146.0
Direct investment	19.7	18.0	18.0	23.0	25.0	27.3
Portfolio investment	9.4	10.0	10.0	10.0	10.0	10.0
Other investment	-48.3	-91.6	-76.1	-148.2	-173.3	-183.3
Long-term investment	-49.9	-96.6	-81.1	-153.2	-178.3	-188.3
Project loans	129.1	116.1	122.6	104.2	122.9	141.2
Program loans	0.0	0.0	1.5	0.0	0.0	0.0
Amortization of public loans (excl. IMF)	-20.3	-21.2	-21.2	-24.2	-28.3	-29.5
Other private	-157.1	-191.5	-184.0	-233.2	-273.0	-300.0
Short-term investment	1.6	5.0	5.0	5.0	5.0	5.0
Errors and omissions	-13.8	0.0	0.0	0.0	0.0	0.0
Overall balance	34.0	-34.2	-33.4	-23.4	-39.6	-32.1
Financing	-34.0	-3.2	19.3	6.2	3.6	10.8
Net change in foreign assets of the central bank	25.5	-3.2	19.3	6.2	3.6	10.8
Of which: gross official reserves	37.1	0.4	-0.3	10.2	9.2	21.9
IMF net financing	8.6	-3.6	19.6	-4.0	-5.6	-11.1
Uses of resources	9.6	0.0	23.3	0.0	0.0	0.0
Repayments (excluding charges)	-1.0	-3.6	-3.7	-4.0	-5.6	-11.1
Net foreign assets of commercial banks	-59.4	0.0	0.0	0.0	0.0	0.0
Financing Gap [2]	0.0	37.4	14.1	17.1	36.0	21.3
	(Percent of GDP, unless otherwise indicated)					
Memorandum items:						
Trade balance (– = deficit)	0.0	-1.5	-2.0	-0.1	0.3	0.8
Gold export volume (metric tons)	32.6	35.0	33.8	35.1	38.9	44.8
Current account (– = deficit)	-1.1	-4.4	-4.7	-3.9	-3.7	-3.4

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

[1] Fourth ECF Review (IMF Country Report 12/159).

[2] Including prospective IMF disbursements.

Table 5. Burkina Faso: Quantitative Performance Criteria and Indicative Targets, 2012

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

	2012											
	Mar. [6]				Jun.				Sep. [6]		Dec.	
	Prog. [7]	Adj.	Prel.	Status	Prog. [7]	Adj.	Prel.	Status	Prog. [7]	Adj. Prog.	Prog. [7]	Adj. Prog.
Quantitative Performance Criteria												
Ceiling on net domestic financing of central government [1]	35.0	40.0	30.0	Met	68.4	104.9	-0.3	Met	75.3	24.5	89.8	69.1
Ceiling on the amount of new nonconcessional external debt contracted or guaranteed by the government [2, 3]	0.0	…	0.0	Met	0.0	…	0.0	Met	0.0	0.0	0.0	0.0
Accumulation of external arrears [2]	0.0	…	0.0	Met	0.0	…	0.0	Met	0.0	0.0	0.0	0.0
Indicative targets												
Ceiling on the overall fiscal deficit including grants [4]	63.0	89.4	37.9	Met	116.0	146.3	36.5	Met	142.7	93.1	185.2	172.2
Government revenue	184.5	…	225.1	Met	428.8	…	505.4	Met	614.5	711.0	858.7	902.5
Poverty-reducing social expenditures [5]	77.5	…	76.4	Not met	162.0	…	169.8	Met	257.0	268.3	352.1	367.6
Accumulation of new domestic arrears	0.0	…	0.0	Met	0.0	…	0.0	Met	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] Ninety percent of budget amount. September and December projections assume no changes in monthly targets compared to the 4th review.

[6] Indicative target.

[7] Fourth ECF Review (IMF Country Report 12/159).

Table 6. 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 15, 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 6.45 million	May 1, 2013	Observance of the performance criteria for December 31, 2012, and completion of the sixth review under the arrangement

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

Table 7. Burkina Faso: Structural Benchmarks, June 2012

Measures	Rationale	Target Date	Status
Fiscal Management			
Implement the Directorate General of Taxes (DGI) revenue management application (SINTAX) in three tax directorates of Bobo-Dioulasso.	Strengthening tax administration	June 2012	Met
Cotton sector			
Prepare a strategy to gradually reduce the government's stake in the capital of SOFITEX.	Reduce market distortions and public stake	June 2012	Met
Financial Sector			
Execute delegated project management (MOD) contracts with private and public operators for implementation of the national microfinance strategy action plan.	Deepen access to financial services	June 2012	Met

Appendix I—Letter of Intent

Ouagadougou, November 30, 2012

Madame Christine Lagarde
Managing Director
International Monetary Fund
700 19th St., N.W.
Washington, D.C.

Madame Managing Director:

The government of Burkina Faso has continued to implement the measures provided in its economic program supported by the IMF Extended Credit Facility (ECF).

The program implementation took place in an environment marked notably by several shocks and declining growth in 2011. Despite the difficult context, the government implemented its economic and financial program satisfactorily, in keeping with its commitments under the May 24, 2012 Memorandum of Economic and Financial Policies (MEFP). The attached MEFP supplements that correspondence.

All of the quantitative performance criteria for end-June 2012 for the completion of the fifth review of the ECF arrangement were observed. All structural benchmarks for end-June 2012 were implemented, and all targets were achieved. In light of these results and based on the policies set out in the attached MEFP, we request that the IMF conclude the fifth review of the arrangement under the ECF, and the sixth disbursement in the amount of SDR 18.49 million. We also request modifications to end-December program targets and one end-March structural benchmark.

In 2012, the government vigorously pursued implementation of the Accelerated Growth and Sustainable Development Strategy (SCADD) to strengthen the economy's resilience to various shocks while promoting inclusive growth and poverty reduction. The measures taken to curb the food crisis brought on by poor rainfall in 2011 and the assistance to refugees fleeing subregional conflicts along with their cattle weighed on the country's finances. However, good prospects for growth in 2012 as well as benefits from structural reforms in the area of tax collection allowed for substantial growth in budgetary revenues this year.

The government believes that the measures presented in the MEFP will allow it 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 before adopting such measures, and in any event before modifying the measures provided 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
Officer of the National Order

Attachments: Memorandum of Economic and Financial Policies, 2012–13
Revised Technical Memorandum of Understanding

Appendix I—Attachment I

Memorandum of Economic and Financial Policies for 2012–13

I. Introduction

1. Burkina Faso's economic and financial program, supported by the International Monetary Fund (IMF) under the Extended Credit Facility (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 reviews implementation of the program at end-June 2012, and defines the economic policies and reforms the government plans to implement in order to achieve the objectives of its economic and financial program for what remains of 2012 and for 2013. In this respect, it supplements the letter of intent of the Minister of Economy and Finance as well as the memorandum of economic and financial policies of May 24, 2012.

II. Economic Situation and Program Implementation at End-June 2012

A. Recent Economic Developments

2. Economic activity developed in a national context marked by the food crisis and the influx of refugees from Mali. Weather conditions favorable to the 2012/2013 agricultural season should allow for accelerated growth. Indeed, according to preliminary estimates, the real GDP growth rate would increase to 8 percent in 2012 compared to 4.2 percent in 2011. After the drought in 2011, agricultural production should increase by 24 percent based on good rainfall and government actions giving producers access to inputs and training, in addition to the rehabilitation and construction of water management infrastructures. The production of cottonseed should increase by 38 percent compared to the 2011/2012 season. This increase in due in part to incentives for producers and the increased use of genetically modified cotton seed. Growth in the production of gold has paused, with production of 19 tons up to the end of June 2012 compared to 20 tons for the same period in 2011.

3. With respect to consumer prices, the average annual rate of inflation is projected to be 3.6 percent. This reflects an increase in commodity prices tied to the food crisis on the one hand and increased fuel prices on the other. Although this increase was more pronounced in the first half of the year, the prospects for a good harvest could reduce the inflation rate to about 2 percent in December 2012. The average inflation rate should thus be slightly higher than the WAEMU standard of 3 percent.

4. As of end-July 2012, imports increased by 46 percent compared to June 2011. Some of this increase was due to imports of food products and essential goods to deal with the food crisis and the influx of refugees. During the same period, exports increased by 15 percent.

The volume of gold exports paused in comparison with the preceding year although this decline was offset by increased prices for gold.

5. The money supply increased by 4.8 percent at end-June 2012 compared to end-December 2011. This reflects increased credits to the economy on one hand and an increase in net foreign assets on the other, due in large part to purchases of short-term bills from other WAEMU countries.

6. Overall, the financial system remains sound. Most banks continue to adhere to prudential standards, are sufficiently capitalized according to the new regional standards, and continue to be active in the regional bond market.

7. Revenue mobilization was strong up to end-June 2012. A continued drive for accountability and increased monitoring of collection units made it possible to recover 17.8 percent more revenue than planned. Strong economic growth, prepayment of corporate tax (IS) by wire transfer, and buoyant VAT collection contributed to this good performance.

8. The execution of spending was slightly lower than planned, particularly for investment. This basically reflects delays in the procurement process. The mid-term review of 2012 budget execution produced recommendations such as close monitoring on a case by case basis of files with the sectoral ministries and downstream support to facilitate full execution. These recommendations will help to improve the execution rate of investment expenditures as anticipated in the framework of the amending finance law for 2012 adopted by Parliament on October 23, 2012.

9. National fuel prices increased by CFAF 50 per liter in March 2012 and an explicit subsidy per liter of fuel was introduced in order to curb the increasing financial losses of SONABHY, the publicly owned fuel import company. In addition, the government assumed SONABHY's losses for the year 2011 through securitization of the related debt. Due to the decline in international fuel prices in the months that followed and the maintenance of prices at the pump, SONABHY's monthly losses decreased up to end of the July.

B. Results of the Program's Quantitative and Structural Criteria

10. All of the program's quantitative objectives at end-June 2012 were achieved. Minimum total revenue of CFAF 428.8 billion was exceeded by 17.8 percent, with performance of CFAF 505.4 billion. In addition, the net domestic financing ceiling set at CFAF 68.4 billion was observed. The level of social expenditures exceeded the objectives and the overall deficit ceiling, including grants, set at CFAF 116 billion, was observed. The government maintained a prudent policy on external indebtedness: it neither contracted nor guaranteed debt under nonconcessional terms. Moreover, it did not accumulate domestic payment arrears.

11. All the structural measures anticipated as of end-June 2012 were implemented. In particular, this involved (i) deploying the General Tax Directorate's revenue management software (SINTAX) in three directorates of the Bobo-Dioulasso tax center; (ii) preparing a strategy for gradually reducing government participation in the capital of SOFITEX; and (iii) with private and public operators for delegated project management to implement the action plan for the national microfinance strategy.

12. In the context of continuing actions to improve revenue collection, the General Tax Directorate proceeded to conduct a tax census in six (6) urban communes, the results of which will be used to strengthen management of the taxpayer file. In addition, actions to raise awareness and provide information to improve tax compliance are ongoing.

13. Regarding reduced payment times, nearly all the internal audit units created by decree in October 2011 and established by inter-ministerial order in March 2012 are in operation. Between 2011 and end-August 2012, this has helped to achieve a 19 day reduction in payment times after a service is rendered. Moreover, the institutional reform of the Ministry of Economy and Finance that occurred in July 2012 will also help to improve payment times due to the elimination of duplicate controls in the administrative phase of expenditure execution with the merger of the General Government Procurement Directorate and the General Financial Control Directorate and the subsequent creation of the General Government Procurement and Financial Commitments Directorate.

14. Progress was made in controlling the wage bill with the conduct of the administrative census and biometric enrolment of civil service employees. This operation was carried out from end-May to mid-July 2012 in all regions of the country; it registered 113,844 civil servants compared to a SYGASPE base of 120,420. The data collected are now being processed to provide an accurate database without duplications at year-end 2012.

15. With regard to the implementation of the financial sector strategy, the microfinance strategy action plan became effective with the creation of the permanent secretariat responsible for promoting microfinance (SP-PMF) on the one hand and the creation of the Directorate for Oversight and Control of Decentralized Financial Systems on the other. In addition, the permanent secretariat responsible for promoting and developing microfinance signed contracts for execution of the plan with three (3) delegated project managers (MOD): the Professional Association of Decentralized Financial Systems (APSFD/BF), the Maison de l'Entreprise du Burkina Faso, and the Directorate for Oversight and Control of Decentralized Financial Systems.

16. The authorities continued cotton sector reforms by finalizing the study on the inputs fund. Implementation of the mechanism is planned for the 2013/2014 season.

17. In the area of statistics, monthly production of the consumer price index faced some problems between February and June 2012 as some of the data could not be collected due to administrative capacity problems in connection with the implementation of reforms in civil

service compensation. However, the problem has been resolved, collection of information has resumed and the combination of partial information collected earlier with alternative sources of information has allowed for a credible reconstitution of the series.

III. Economic Policies for the Rest of 2012 and 2013

A. Macroeconomic Framework

18. The government intends to continue its efforts to support growth and reduce poverty while adopting the measures necessary for stability of the macroeconomic framework. An economic growth rate of 8 percent, an average inflation rate on the order of 3.6 percent, and an external current account deficit of 4.7 percent are expected in 2012. For 2013, growth is expected to be 7 percent, the inflation rate should fall to about 2 percent, and the current account deficit should fall modestly.

19. Burkina Faso's external position should deteriorate in 2012 and improve over the medium term. Indeed, anticipated net capital inflows, particularly in connection with the mobilization of budgetary assistance, should only partially offset the projected deficit for the current transactions account, largely due to high food product import requirements. As a result, the overall balance of payments in 2012 should fall by more than CFAF 70 billion compared to 2011. This was the rationale for the increased resources requested in the context of the program supported by the ECF, with tranches to be disbursed with the conclusion of the fourth and fifth reviews.

20. The macroeconomic objectives will be achieved thanks to actions on (i) continued consolidation of the progress made in the area of public finances; (ii) the implementation of structural reforms; and (iii) the execution of programs planned in the context of the SCADD. Budget resource allocations will focus primarily on: (i) strengthening support to the rural development sector, in particular rehabilitating dams and reservoirs, developing areas around dams to increase the availability of arable land, and actions under way in the special programs; (ii) developing economic infrastructures; (iii) consolidating actions to combat poverty; and (iv) promoting employment and reducing unemployment, particularly among youths and women.

21. In implementing the SCADD, the annual review of May 2012 adopted the 2011 annual performance report and the 2012-2015 performance matrix. The measures and indicators implementation rate was deemed to be generally satisfactory in 2011. The government intends to accelerate implementation of its growth model based on growth centers, including the BagréPôle. This center is structured around: (i) basins with natural resources (secured land tenure and water for agricultural use that can be moved easily and that is properly used and managed), allowing for the development of agricultural, forestry, livestock, and fisheries products linked to real/potential securities markets; (ii) transportation infrastructures so that productive basins can be connected in all seasons to product collection and shipment areas and even to product use/consumption areas; (iii) energy supply

infrastructures adapted to stakeholders' needs; (iv) infrastructure and equipment, particularly for storage, processing, marketing, and communication; and (v) financial and nonfinancial services needed for the sustainable development of value chains.

22. In the area of consolidating social safety nets, the implementation of the action plan for the national social protection policy will emphasize ensuring the access of vulnerable populations to basic social services by: (i) supporting school enrolment and health for children in disadvantaged households; (ii) providing conditional food support to disadvantaged households; (iii) supporting the empowerment of disadvantaged households; (iv) improving access to health care for children under the age of five and pregnant women; (v) improving the coverage of medical emergencies; and (vi) accelerating mechanisms for implementing universal health insurance in the formal and informal sectors.

B. Budgetary Policy for the Rest of 2012

23. Budgetary policy will basically aim at supporting growth with accelerated execution of investment expenditures in order to deal with the food crisis and the influx of refugees from Mali. Projected budgetary resources for the year were revised upward due to good performance noted in the first half of the year.

24. Budgetary revenues excluding grants should increase, reaching CFAF 902.5 billion, or 16.6 percent of GDP in 2012. This represents an increase of 0.5 percentage points of GDP over the original projections. This growth reflects the level of economic activity and the effect of continued enhancement of the revenue-collecting agencies' organizational structure using the approach centered on collection units.

25. Expenditures and net lending are projected at CFAF 1472.2billion, or 27.2 percent of GDP, compared to 24.3 percent in 2011. Current expenditures would increase to 14.5 percent of GDP and poverty reduction expenses should increase to 7.7 percent of GDP.

26. Due to recent increases in international oil prices, SONABHY again suffered modest losses. In the short term, given revenue performance in 2012, the continuation of the per liter subsidy will ensure that current retail prices will be maintained without excessive losses for SONABHY. In the meantime, the government is still determined to introduce as soon as possible a more flexible approach for petroleum prices. This will make it possible to limit the need to resort to subsidies that, due to their general nature, would also cover those who need support the least. It would thus release budgetary resources that could be used to expand priority social programs. The government is working to achieve this in collaboration with its technical and financial partners in order to identify methods that will allow adoption in 2013 of a flexible oil price adjustment system, while protecting vulnerable groups.

27. The level of investment expenditure should increase to 12.5 percent over 2012, as compared to 10.2 percent in 2011. Despite execution delays in the first half of 2012, we

expect that this level of investment spending could be reached based on measures seeking to accelerate spending, as described in paragraph 8.

28. The overall budget deficit (commitment basis, excluding grants) is projected at 10.5 percent of GDP in 2012. The deficit will be financed with budgetary supports. Funds from the last bond issue in the amount of CFAF 30 billion on the WAEMU market will be deposited in the government's account at the Central Bank for use in 2013.

C. Budget Policy for 2013

29. The government's 2013 budget priorities were defined on the basis of the objectives established in the Accelerated Growth and Sustainable Development Strategy (SCADD). Thus, for 2013 the priorities revolve around four areas: (i) strengthening the growth pillars with particular attention to the productive sectors (agriculture, livestock, fisheries) and production support (transportation infrastructure, energy, and SMI/SME promotion); (ii) consolidation of social gains, particularly in the health, education, employment, and social protection sectors; (iii) good governance and combating corruption, with particular emphasis on strengthening the capacities of the justice system and supervisory bodies; and (iv) strengthening territorial defense and domestic security. For the selected priority sectors, interventions will be directed to structural investments with real knock-on effects.

30. Revenues are projected at CFAF 998.7 billion in 2013, reflecting a slight increase to 16.9 percent of GDP. Expenditures are projected at CFAF 1536.8 billion or 26.0 percent of GDP, lower than in 2012 as a result of the abatement of crisis-related spending. Including grants, the projected fiscal deficit is expected to be CFAF 151.6 billion or 2.6 percent of GDP. It will be financed by budget support, the use of funds from the bond issue in 2012, and issuance of a bond by the government. Provisional indicative quarterly macroeconomic targets could serve as a bridge to a potential successor program. The draft budget law submitted for approval by the national assembly reflects somewhat higher revenue and spending projections than the provisionally agreed macroeconomic framework, but provision targets on net domestic financing and the fiscal deficit would be respected nonetheless.

D. Balance of Payments

31. As expected, the current deficit in the balance of payments should increase in 2012. This is notably due to imports of food products for the populations affected by the food crisis, as well as international petroleum prices. The volume of gold exports should contract during 2012. However, the implementation of expansion plans by some mining companies bodes well for accelerated growth over the medium term. Despite improvements in the capital and financial account balances, due in large part to foreign aid, the overall balance should deteriorate and could be financed by IMF disbursements, which were increased during the fourth review of the program.

E. Debt Management Policy

32. Debt policy will continue to be prudent. Upon conclusion of the latest external debt sustainability analysis conducted by the IMF and World Bank in May 2012, Burkina Faso's risk of debt distress fell from "high" to "moderate." This new situation opens the door to new financing possibilities other than grants. The government intends to make optimal use of this new possibility by choosing projects that have a maximum impact on growth so as not to compromise the sustainability of the public debt. To do so, it has undertaken to improve the structure of its portfolio of priority projects. To this end, the government intends to seek concessional financing as much as possible.

33. For some large projects, the government has identified some preliminary sources of financing but the terms did not reach the level of concessionality required due to the current environment of very low interest rates. While seeking the best terms possible, the government is likely to request project-specific exceptions to the zero limit on non-concessional borrowing under the program. The government will provide cost-benefit studies for each of the projects, as well as the specific financing terms and lenders.

34. The government is currently taking measures to strengthen its ability to manage debt, particularly with more varied sources of financing. Based on technical assistance from the World Bank and the IMF, a medium-term debt strategy is being developed and should be finalized before the end of this year. In addition, a workshop was organized on the debt sustainability framework. Before the end of the year, the government will produce its own debt sustainability analysis, which will be updated regularly.

IV. Structural Reforms for the Rest of 2012 and 2013

35. The economic and financial program will continue to be supported by the implementation of structural reforms. The benchmarks seek to continue improving the collection of tax revenues, to continue implementing measures already taken to make public sector salary payments more effective, and to improve debt management capacity. For SOFITEX, the previous structural benchmark required hiring an investment bank to help implement the strategy to gradually reduce government participation. However, preliminary results of a recent update of the financial evaluation (benchmark for end-March 2013) indicates that the operational restructuring of SOFITEX undertaken last year will require more time to improve the balance sheet of the company in order to interest potential investors. At this stage, it is thus logical to focus on continued improvement of the company's financial situation before implementing the strategy for reducing the government's stake. As a result, we propose to modify the structural measure for end-March 2013 to remove the commitment to hire an investment firm, but keeping the commitment to finalize the financial assessment. Nonetheless, the government reaffirms its intention to reduce its participation in the company once the company's financial situation has improved. We plan to revisit the timing of the divestiture strategy at the next review when the final

results of the financial assessment and preliminary financial results for 2012 will be available.

36. The other benchmarks involve:

- Continuing actions to improve the level of revenue collection, with finalization before the end of 2012 of the tax information management and verification module (GERIF) now being developed.

- Testing the fourteen (14) centers of the Virtual Link System for Import and Export Operations (SYLVIE) to be completed in Ouagadougou before the end of 2012 for deployment at the national level.

- Continuation of the study of the civil service compensation system with a view to submitting conclusions to the Council of Ministers.

- Linkage between the improved biometric database and the database of the integrated government personnel and payment management system (SIGASPE) [.

- Strengthened debt management capacity with organization of a training session on developing a medium-term debt strategy for end-December 2012 with technical assistance from the IMF and its adoption by the national public debt committee.

- Submission to the SONAPOST Board of Directors of the strategy for improving the quality of financial services offered by the National Postal Service (SONAPOST).

37. The government is also pursuing many reforms outside the framework of the program. One of the most important reforms is revision of the mining code, currently under way, in order, *inter alia*, to align the mining tax system with best international practices. The government has asked for technical assistance from the IMF for evaluating its mining system in comparison with other comparable countries and improving its mining sector revenue projections.

Table 1. Burkina Faso: Quantitative Performance Criteria and Indicative Targets, 2012

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

	2012											
	Mar. [6]				Jun.				Sep. [6]		Dec.	
	Prog. [7]	Adj.	Prel.	Status	Prog. [7]	Adj.	Prel.	Status	Prog. [7]	Adj. Prog.	Prog. [7]	Adj. Prog.
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Ceiling on net domestic financing of central government [1]	35.0	40.0	30.0	Met	68.4	104.9	-0.3	Met	75.3	24.5	89.8	69.1
Ceiling on the amount of new nonconcessional external debt contracted or guaranteed by the government [2, 3]	0.0	…	0.0	Met	0.0	…	0.0	Met	0.0	0.0	0.0	0.0
Accumulation of external arrears [2]	0.0	…	0.0	Met	0.0	…	0.0	Met	0.0	0.0	0.0	0.0
Indicative targets												
Ceiling on the overall fiscal deficit including grants [4]	63.0	89.4	37.9	Met	116.0	146.3	36.5	Met	142.7	93.1	185.2	172.2
Government revenue	184.5	…	225.1	Met	428.8	…	505.4	Met	614.5	711.0	858.7	902.5
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Accumulation of new domestic arrears	0.0	…	0.0	Met	0.0	…	0.0	Met	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] Ninety percent of budget amount. September and December projections assume no changes in monthly targets compared to the 4th review.

[6] Indicative target.

[7] Fourth ECF Review (IMF Country Report 12/159).

Table 2. Burkina Faso: Indicative Targets, 2013

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

	2013			
	Mar. [6]	Jun.	Sep. [6]	Dec.
	Proj.	Proj.	Proj.	Proj.
Ceiling on net domestic financing of central government [1]	9.8	14.8	27.8	59.8
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
Accumulation of external arrears [2]	0.0	0.0	0.0	0.0
Ceiling on the overall fiscal deficit including grants [4]	29.8	54.8	87.8	139.8
Government revenue	225.3	553.1	822.5	998.7
Poverty-reducing social expenditures [5]	101.5	212.1	303.0	415.0
Accumulation of new domestic arrears	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.
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.

[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] Ninety percent of budget amount. September and December projections assume no changes in monthly targets

[6] Indicative target.

Table 3. Structural Benchmarks, December 2012–March 2013

Measure	Rationale	Completion Date
Fiscal management		
Develop and implement the tax information management and cross-checking module to optimize information sharing between the Directorate General of Taxes (DGI) and the Directorate General of Customs (DGD).	Strengthening tax administration through limiting fraud.	December 2012
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
Civil service		
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
Conduct and complete the administrative census and biometric enrollment of civil servants.	Control wage bill through limiting fraud and improve service delivery.	December 2012
Interconnect the verified biometric database and the integrated personnel and payment management system (SIGASPE).	Improve control of civil service pay.	March 2013
Debt management		
Submit a medium-term debt strategy to the National Public Debt Committee.	Strengthen debt management capacity.	December 2012
Cotton sector		
Continue the process of divesting the government's holdings in SOFITEX by updating an assessment of the company's financial position.	Eliminate market distortions and reduce public stake.	March 2013
Financial sector		
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

Appendix I—Attachment II

TECHNICAL MEMORANDUM OF UNDERSTANDING

Ouagadougou, November 30, 2012

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.

I. 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.[2] The discount rates used for this purpose are the currency-specific commercial interest reference rates (CIRRs), published by OECD.[3] 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.

[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 .

[2] The calculation of concessionality takes all aspects of the loan agreement into consideration, including maturity, grace period, repayment schedule, upfront fees, and management fees.

[3] For loans denominated in currencies for which the OECD does not calculate the CIRR, the grant element calculation should be based on the (average weighted) composite CIRR of the currencies in the SDR basket.

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.

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.

II. Quantitative Performance Criteria

8. The revised quantitative performance criteria proposed for December 2012 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 2012 and March 2013 are indicative targets. The amounts provided in the program for June, September, and December 2013 represent a hypothetical framework for a potential successor program.

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 project grants and 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-September 2012	End-December 2012	End-March 2013	End-June 2013	End-September 2013	End-December 2013
Grants and loans	152.1	177.2	36.3	56.4	107.8	113.9

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. Nonaccumulation 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 1. This performance criterion applies 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 1. However, this performance criterion will not apply to Treasury bills and bonds issued in CFA francs on the WAEMU regional market, to suppliers' regular 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 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 treasury deposits.

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-September 2012	End-December 2012	End-March 2013	End-June 2013	End-September 2013	End-December 2013
Grants (program and projects)	300.3	397.7	87.4	175.7	295.1	386.4
Loans	82.9	124.1	26.1	52.1	78.2	104.2

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. Nonaccumulation 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.

V. 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 index, 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 EXTERNAL RELATIONS DEPARTMENT

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International Monetary Fund
Washington, D.C. 20431
USA

IMF Board Completes Fifth Review Under Burkina Faso's Three-Year Arrangement Under the Extended Credit Facility and Approves US$ 28.4 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) has completed the fifth review under a three-year arrangement under the Extended Credit Facility (ECF) for Burkina Faso[1].The completion of the review enables the disbursement of an amount equivalent to SDR 18.49 (about US$ 28.4 million), which will bring the total disbursements under the arrangement to SDR 75.82 million (about US$116.5 million). The Executive Board's decision was taken on a lapse of time basis[1].

The three-year SDR 46.15 million (about US$ 70.8 million) ECF arrangement with Burkina Faso 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 SDR 82.27 (about US$ 126.4 million) on June 8, 2012 (see Press Release No. 12/214).

In spite of multiple external shocks, Burkina Faso's macroeconomic performance has remained strong. 2011 real GDP growth has been weaker than anticipated as a result of political events in the region, short-lived social turmoil in Burkina Faso, and a drought in the Sahel that led to a strong contraction in grain production. In early 2012, the authorities moved decisively to implement a comprehensive program to meet food needs created by the drought, as well as work with the international community to manage an influx of refugees fleeing political upheaval in Mali. As a result of this shock-related spending, the overall fiscal and current account deficits will expand modestly in 2012. The government's food security program also helped to dampen food prices, which had spiked in the spring. Thanks

[1] The Executive Board takes decisions under its lapse of time procedure when it is agreed by the Board that a proposal can be considered without convening formal discussions.

to good rains and measures taken to boost agricultural productivity, this year's harvest is expected to lead to a rebound in real GDP growth to about 8%.

Burkina Faso has made notable progress under the program. All targets and structural reforms under the program through end-July were respected. Domestic revenue collection has increased, as a result of tax policy and administrative reforms in recent years, as well as new revenues from fast-growing gold mining activities. Burkina Faso is well-poised to meet WAEMU revenue targets in the next year or so. Some of the higher-than-expected domestic revenues will be used to pay for retail fuel subsidies.

For the remainder of the program through mid-2013, the policy agenda is aimed at ensuring increased resources directed toward implementation of the authorities' development program, the SCADD (Strategy for Accelerated Growth and Sustainable Development). The SCADD aims at building on innovative projects to promote inclusive growth; building up needed public infrastructure (including provision of energy); improving agricultural productivity, resilience, diversity and sustainable farming practices; and strengthening social safety nets, including through direct transfers, as well as expanded provision of school lunches and health services for pregnant mothers and young children. To help meet resource needs, the authorities will move gradually toward cost recovery for retail fuel, contain public wage costs through efforts to eliminate fraud, continue efforts to expand domestic revenues, and streamline approval processes to execute fully priority investment spending.