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**Burkina Faso:** Letter of Intent, Memorandum of Economic and  
Financial Policies, and Technical Memorandum of Understanding

June 3, 2009

The following item is a Letter of Intent of the government of Burkina Faso, which describes the policies that Burkina Faso intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Burkina Faso, is being made available on the IMF website by agreement with the member as a service to users of the [IMF](#) website.

## LETTER OF INTENT

Ouagadougou, June 3, 2009

Mr. Dominique Strauss-Kahn  
Managing Director  
International Monetary Fund  
700 19<sup>th</sup> Street, N.W.  
Washington, D.C. 20431  
U.S.A.

Dear Mr. Strauss-Kahn:

1. On December 17, 2008, the IMF Executive Board approved the third review of our economic and financial program, financed by the Poverty Reduction and Growth Facility (PRGF).
2. The attached Memorandum on Economic and Financial Policies (MEFP) reviews recent economic developments and progress made in the implementation of our program throughout the last quarter of 2008 and the first quarter of 2009. It also sets out the policies the government intends to pursue during the remainder of 2009 and early 2010.
3. The government's continuous efforts to strengthen the tax and customs administrations and to implement the other structural reforms enabled it to observe all quantitative performance criteria and most of the benchmarks. In particular, the revenue, fiscal deficit, and social expenditure targets were met.
4. As regards the tax reform, which is a crucial reform element of the 2008–09 program, the agreed work plan for the preparation of detailed proposals was generally followed. The working groups set up under the supervision of the tax policy committee were able to make progress on the project. But it is essential that, while discussions with all the stakeholders take place, the tax policy simulations be performed before concrete proposals can be submitted to the government. Particularly because of delays in the provision of technical assistance, we were unable to submit to the Council of Ministers by end-April 2009 detailed proposals for the tax policy reform, and intend to do so by end-July 2009.
5. In light of our overall performance and based on the policies set forth in the attached MEFP, we request completion of the fourth review of the PRGF-supported program and the fifth disbursement, in an amount of SDR 1.004 million.
6. The government believes that the policies set forth in the attached MEFP will enable it to meet its program objectives in a difficult economic environment, characterized by high prices and the effects of the global economic and financial crisis. The government therefore remains vigilant and is determined to take any other appropriate measures that may prove necessary. Burkina Faso

would then consult with the Fund before revising any of the policies contained in the attached MEFP, in accordance with the Fund's policy on such consultation. It is expected that the fifth review of the PRGF-supported program will be completed by end-January 2010.

7. The government plans to make available to the public the contents of the IMF staff report, including this letter, the attached MEFP, the Technical Memorandum of Understanding, and the debt sustainability analysis and annexes for information. Therefore, it authorizes the IMF to publish these documents on the IMF website once the Executive Board completes its review.

Sincerely yours,

/s/

Lucien Marie Noël BEMBAMBA  
Minister of Economy and Finance  
Officer of the National Order

Attachments: Memorandum on Economic and Financial Policies  
Revised Technical Memorandum of Understanding

## ATTACHMENT I

MEMORANDUM ON ECONOMIC AND FINANCIAL POLICIES  
OF THE GOVERNMENT FOR 2009–10**Introduction**

1. This memorandum updates Burkina Faso's economic and financial program under the three-year Poverty Reduction and Growth Facility (PRGF) arrangement with the IMF for the period 2007–10. The first part describes recent economic developments and program implementation performance. The second part discusses the economic outlook for the period 2009–10 and the government's commitments to pursuing the ongoing fiscal reforms. The program, which was approved by the IMF's Executive Board on April 23, 2007, is aimed at consolidating macroeconomic stability and establishing conditions conducive to sustained economic growth and poverty reduction.<sup>1</sup> It therefore focuses on: (i) optimally mobilizing domestic revenue to expand fiscal space and ensure debt sustainability; (ii) strengthening public financial management (PFM) in an effort to absorb as much assistance as possible and maximizing the impact of poverty reduction expenditure; and (iii) increasing private sector participation to accelerate growth and diversify the economy. The third review was completed on December 17, 2008. During the second half of 2008 and in early 2009, the government made considerable progress in implementing structural reforms, especially strengthening tax and customs administrations and pursuing tax policy reform.

**I. RECENT ECONOMIC DEVELOPMENTS AND PROGRAM IMPLEMENTATION IN 2008  
AND IN THE FIRST QUARTER OF 2009****A. Recent Economic Developments**

2. **Despite difficult domestic economic circumstances resulting from unprecedented exogenous shocks in 2008, Burkina Faso's economic performance began to recover towards its previous trend.** Indeed, GDP growth rebounded to 5.0 percent, compared with 3.6 percent in 2007, as a result of growth in cotton production on the order of 29 percent, following a decline of over 40 percent the previous year, a 36 percent increase in cereal production, and higher gold production (5.5 tons instead of 1.5 tons in 2007). The stimulus measures adopted by the government to help producers increase agricultural productivity, favorable agro-climatic conditions, and the start-up of production by three

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<sup>1</sup> The program document was published in the form of an IMF Country Report (CR 07/153) on the IMF website ([www.imf.org](http://www.imf.org)).

industrial gold mines are the main reasons for this evolution of the real sector, along with the continued strength of the telecommunications sector. Inflation, averaging 0.3 percent in 2007, rose again to 10.7 percent in 2008, mainly because the continued high prices of food items, despite a good cereal harvest, and of imported energy products.

3. **The government made a number of changes to its policies to protect the most vulnerable segments of the population, in an attempt to improve its targeting.** As of end-September 2008, after monitoring developments, the government revoked the temporary suspension of customs duties and/or VAT on certain essential goods. These measures had been taken in an effort to ease the social climate and protect the most vulnerable segments of the population. It also gradually adjusted hydrocarbon prices to help reconstitute the import capacity of the national petroleum company (SONABHY), which was hard hit by the freeze of pump prices. Also noteworthy was the launching, in the context of better targeting subsidies, of an experiment to transfer cash to the most vulnerable segments of the population by distributing purchase vouchers, with the support of the World Food Programme (WFP).

## **B. Program Implementation**

4. **The principal program objectives for the fourth review were met,** particularly because of continued strengthening of the tax and customs administrations and proper expenditure control. Generally speaking, the fiscal position as a whole remains relatively satisfactory.

5. **Indeed, the overall deficit of government financial operations, on a commitment basis and including grants, was contained within the program limits** because of rigorous, efficient expenditure management. The deficit stood at CFAF 161.1 billion (on a commitment basis) at end-2008 compared with a planned ceiling of CFAF 195.6 billion.

6. **The floor on total government revenue, projected at CFAF 475 billion at end-2008, was exceeded** (CFAF 483.8 billion), despite CFAF 5.3 billion in losses linked to government measures whereby duties and fees were suspended on certain products of mass consumption for seven months. This performance can be attributed to the strengthening of control, steps taken to combat fraud, and a better collection of nontax revenue, as a result of closer monitoring and improvements in the revenue-collecting agencies.

7. **Burkina Faso contained public expenditure in 2008, although the year was marked by the food crisis.** Indeed, while limiting total expenditure, the government pursued its efforts to maintain priority expenditure, the execution level of which, estimated at CFAF 198 billion at end-2008, exceeded the programmed floor by CFAF 3 billion. Total externally funded capital expenditure was lower than planned because of, among other things, postponement of the start-up of the Samendeni dam and various road projects. The government put in place innovations to improve its control of expenditure execution and to streamline spending. Those innovations included, in particular:

- Streamlining fuel consumption by introducing the use of the electronic chip system for up to 60 percent of all allocations, thus saving about CFAF 300 million on this expenditure category; and
- Taking steps to control public utility (water, electricity, and telephone) costs.

8. **The partnership with donors and lenders present in Burkina Faso is becoming stronger from one year to the next.** This is illustrated especially by the continuous improvement of disbursements by the partners that are members of the CGAB-PRSP, by way of general budgetary support, and by the 2008 launching of the investment program supported by the United States of America through the Millennium Challenge Account, in an overall sum on the order of CFAF 240 billion, spread over five years.

9. **Progress was made in implementing structural reforms.**

- **Tax policy reform:** The established work plan was generally followed, despite a few delays. The short-term measures announced in the reform strategy adopted by the government in October 2008 were taken into account in the 2009 budget law; they relate, in particular, to eliminating withholding taxes and levies on large enterprises and expanding the scope of excise taxes. As regards the medium- and long-term measures related especially to the introduction of a corporate tax, the investment code, and VAT, working groups were established to prepare detailed tax reform proposals for submission to the Council of Ministers in April 2009. The first draft laws on these three priority areas of the reform will be discussed by the tax policy committee before they are sent to the various domestic and external partners (including the IMF) for comments with a view to their finalization. The preliminary statistical databases have been set-up to facilitate the simulations announced in the work methodology. There was a delay of about three months in implementing the initial work plan, as the planned technical assistance could be obtained only as of March 2009 instead of January 2009.

- **Tax administration:** As regards revenue collection and taxpayer management, the systematic editing of the list of late filers and nonfilers by the DGE in the case of VAT, the BIC, and the IUTS, and the sending of reminder letters led to positive results. The non-filer rate at end-2008 stood at 5.6 percent compared with a target of 7 percent. Nearly all taxpayers are now registered with the DGE and the DME in Ouagadougou and in Bobo-Dioulasso, where the DGE office is now operational. The tax audits performed in 2008 facilitated the reclassification of taxpayers from a lower regime to another and the issuance of reminder notices increased revenues on the order of CFAF 1.8 billion.
- **Customs administration:** The value file has now been updated at all the computerized customs offices. This file is updated periodically on the basis of data collected using ASYCUDA, the COTECNA value file, and other sources of information. The database thus established enables inspectors to check the legitimacy of declared merchandise values.
- To facilitate customs clearance procedures and increase the transparency of collection operations, the ASYCUDA++ selectivity module is activated, and the objective of assigning at least 30 percent of all declarations to the green and blue lanes was largely exceeded, actual performance being 69 percent. We reduced to 13 percent (compared with a target of 10 percent) the proportion of declarations thus selected but assigned to inspectors for additional checks. In addition, licensed customs brokers (*commissaires en douane*) in Ouagadougou and Bobo-Dioulasso can now file their declarations on line, using ASYCUDA++.
- **The integrated revenue information system (CIR)** has been in use since its introduction in January 2008, thus facilitating the entry of data on the collection operations of the revenue-collecting agencies and their general monitoring. The sharing of databases facilitated by this integrating software will lead to better cross-data use among revenue-collecting agencies and improved audit targeting.
- **Program budget reform:** In the context of program budget reform, a committee was set up by decree to steer the reform plan. To ensure observance of the 2012 horizon set for the full introduction of the government program budget, an action plan was prepared on the basis of directives given by the Council of Ministers in December 2007. This plan hinges on 10 key areas of policy covering actions to sensitize the partners, training those involved in the process, adaptation of the management tools in use, and the timetable for gradual introduction of the program budget in all ministries and institutions, starting with tests in five pilot ministries.

- **Adoption in February 2008 of the new public debt and debt management policy,** which is built around six strategic focal points and has among its objectives strengthening the legal and institutional frameworks; improving debt management instruments, and enhancing the quality and use of borrowed resources. A public debt strategy paper for 2009 was prepared in 2008 to provide guidance on borrowing, the principles underlying the public debt policy for 2009 (a ceiling on indebtedness and guarantees), and the profiles of medium- and long-term public debt sustainability.
- **Government procurement:** The new government procurement arrangements that took effect on July 1, 2008, formalized the separation between control functions, performed by the General Directorate of Government Procurement (DGMP), and regulatory functions, entrusted to the Government Procurement Regulatory Authority (ARMP). Data available for 2008 show an increase in the transparency of the government procurement system. For instance, of the 2,479 contracts concluded, 1,843 (74 percent) were based on the open bidding procedure, 81 (3 percent) on the mutual agreement procedure, and 555 (22 percent) on the restricted bidding procedure. Efforts will be geared toward strengthening the preparation and management of procurement plans and introducing the integrated government procurement system (SIMP), which will help improve the administration of government purchasing.
- **Fiscal transparency:** In this area, a noteworthy effort has been made to provide information on the FY 2009 government budget to the press, civil society, and the country's 13 regions. Similarly, the Audit Office published in 2008 its reports on FY 2006 and FY 2007, which were widely carried by the media. The government has undertaken to pay all the required attention to the recommendations made by the top fiscal control institution, by establishing a monitoring mechanism at the highest level.
- **Budget execution:** To improve expenditure execution, the government introduced the requirement for ministries and institutions to establish procurement plans, to be adopted by the Council of Ministers at the beginning of each financial year. To this end, it introduced the midterm budget execution review, which allows to take stock of constraints experienced by the ministries and institutions and to make any necessary adjustments to improve expenditure execution in the second half of the year. The review facilitates the preparation of the supplementary budget and the initial budget law.



- **Implementation of the recommendations generated by the domestic debt audits is being monitored.** At end-February 2009, more than CFAF 49 billion in claims from various government suppliers had been settled. We prepared a plan for settling residual debt that was submitted to the Council of Ministers in March 2009 (benchmark). This plan provides, in particular, for the creation of an ad hoc committee to review the claims and propose, in the case of debts recognized as valid, procedures for their settlement.
- **Financial sector:** Following the regional adoption of the action plan for financial sector reform, the government formulated proposals for actions to reform the national financial sector, in conformity with the regional plan. This draft plan defines actions, assigns responsibilities, and draws up a timetable for following key FSAP recommendations. It covers several areas, including: (i) facilitating cotton sector financing; (ii) reducing the role of the state in the banking system; and (iii) improving the control of microcredit institutions. We submitted the draft plan to the Council of Ministers at end-March (March 2009 performance criterion).
- **Promotion of the private sector:** Since 2006, the government has worked to strengthen the ongoing actions aimed at simplifying procedures relating to estates and lands. In the context of these efforts, and with the aim of facilitating access to land ownership titles, it has set up a one-stop shop for land transactions, officially launched in March 2009.

## II. OUTLOOK FOR THE PERIOD 2009–10

### A. Macroeconomic Framework

10. **We must do everything possible to maintain strong economic growth and to ensure its equitable distribution.** The global financial crisis is already being felt in Burkina Faso, and its effects could become more pronounced during the year. So far, the main channels of transmission are the slowdown in global growth, the fall in cotton and oil prices, the problems faced in selling cotton stocks, and the reduction in trade-related tax revenues since late 2008. The other channels through which the slowdown is felt, namely, the contraction of private transfers (remittances of funds), foreign direct investment, trade credits, and other financial flows, could become more important. The impact on the banking sector could be more profound, in particular because of liquidity constraints and the increase in credit risk as economic growth slows. According to projections, the rate of real GDP growth will decline to about 3.5 percent, supported by the effects of sound cotton seed production in the 2008/09 crop year and a positive outlook for the industrial production of gold as a result of the beginning of an increase in capacity related to the discovery of new mines. Inflation could persist but is expected to return to 3 percent as envisaged in the WAEMU convergence criteria. In this regard, the supply of food products should be encouraged and better organized. The actions initiated to restore the competitiveness of the

cotton sector will therefore be supplemented by efforts to develop new production sectors so as to gradually reduce the vulnerability of the economy to external shocks. It is important, in this context, to maintain and increase the flows of budgetary support.

## **B. Fiscal Policy**

### **11. Revenue collection is experiencing strong pressures because of exogenous shocks.**

It will be difficult to achieve the previously envisaged revenue objectives. At the same time, new pressures could appear in the area of social welfare expenditure. Nevertheless, during the period 2009–10 the government intends to pursue its efforts to contain the fiscal deficit as a share of GDP and to ensure fiscal sustainability over the medium term. For 2009, the government adopts the objective of maintaining the deficit, on a commitments basis and including grants, at slightly over 5 percent of GDP.

**12. The FY 2009 government budget provides for an increase in the share of domestic resources in the financing of budget expenditure.** Accordingly, own revenue is projected, in the program framework, to increase by about 5 percent, to CFAF 508 billion or 13.2 percent of GDP. To achieve such a performance, the continued strengthening of the tax administration and observance of the timetable for the tax policy reform program are essential for ensuring a sustainable increase in revenue. The budget law for the financial year under review contains, among new tax initiatives, the short-term measures envisaged in the context of the overall tax policy reform strategy, an expansion of the range of goods subject to excise tax to include cosmetics and higher tariffs on tobacco, and the elimination of withholdings from large enterprises for profit taxes. To achieve the revenue target, the government has established a priority program for revenue collection based on target contracts with the three major revenue-collecting agencies. Implementation of this program, which will be closely monitored, is supported by the provision of considerable resources to collection units and by the stepping up of efforts to combat fraud and forgery.

**13. Actions aimed at streamlining expenditure and better controlling its execution will be strengthened to increase its effectiveness.** Careful monitoring of operating costs will continue so as to prevent the inefficient use of public resources. In this context, the measures taken in FY 2008 to contain expenditure on fuel as well as on water, electricity, and telephone services will be enhanced, while further arrangements will be made to achieve savings on the consumption of supplies and equipment, through a better organization of government orders. At the same time, the government will maintain the effort to increase social spending, but with better targeting of the recipients of social transfers, following an assessment of the experience under way in Ouagadougou and Bobo-Dioulasso with WFP support. Concerning oil products, the government will accelerate the process of fully reviving the mechanism for adjusting the price structure based on developments in world prices.

## C. Structural Fiscal Reforms

### Tax reform

14. **The government is working intensively to prepare the detailed tax policy reform program**, with the aim of submitting it to the National Assembly in time for the debate on the 2010 budget law (by end-October 2009). This program will give details of the tax reform measures related to VAT, corporate tax, and the investment code, which will enter into force with the 2010 budget law. However, compliance with the end-April 2009 deadline for the discussion of the proposals by the Council of Ministers was not possible, because of a delay in the provision of technical assistance to help the tax policy committee establish the database and carry out the simulations that are essential for determining which proposals are to be submitted to the government. It is planned to submit to the Council of Ministers at end-July 2009 detailed proposals for reform related to VAT, corporate tax, and the streamlining of tax incentives in the investment code (benchmark).

15. **The VAT reform**, which falls within the framework of improving the management and yield of indirect taxes, will consist primarily of broadening coverage and improving the management procedures, namely, tax thresholds, the refund mechanism, the elimination of withholdings, and the elimination of double taxation on certain operations.

16. **As regards the taxation of corporates**, the aim is, in the context of a simplification and modernization of the tax legislation, to merge the various schedules of taxes on the income of legal entities to create a corporate income tax.

17. **As regards the streamlining of tax incentives**, the proposals will relate to different incentives granted under the various investment promotion codes, in the context of broad consultations with all concerned. In particular, the aim will be to clarify certain general provisions and the definition of priority sectors, to reformulate the classification of preferred regimes, and to review the terms for granting certain specific benefits, taking account of the government's priorities in the context of pursuing the country's development objectives.

### Administration of collections

18. **The rollout of the tax management system (SINTAX) will continue in 2009 at the tax divisions of the Ouagadougou Tax Department, in the interests of increasing staff productivity.** Also, a new taxpayer survey will be conducted with a view to broadening the tax base, and its results will be exploited gradually to have a direct impact on the taxpayer rolls in the regular tax system and the simplified system, both expected to increase by 5 percent as a result of the operation.

19. **The customs administration will in 2009 intensify efforts to modernize its customs clearance procedures**, by giving priority to use of the ASYCUDA transit module in at least five border posts, which will be interconnected with the inland customs offices, to strengthen the surveillance of these operations (benchmark, end-December 2009). It is also adopting the objective of maintaining (continuously), at 40 percent at least, the proportion of customs declarations assigned to the green and blue lanes, so as to keep physical inspections of operations in customs at reasonable levels.

20. **The government will also put into place the means necessary for generating the full revenue potential from non tax revenue, under the supervision of the Public Treasury.** In this context, it will continue to establish specialized collections at ministries and institutions, so as to improve the organization of collection and the regular handover of collections to the Public Treasury through constant presence in the field, as well as to identify new sources of increases in their respective contributions to the government budget.

### **Combating fraud and forgery**

21. **Efforts to combat fraud and forgery are designed to support the efforts of collection units in 2009, with a view to improving their overall performances.** Actions to be taken in this area will hinge mainly on the following key points:

- Safeguarding the documents used in the financial administration's transactions with third parties, to eradicate or at least reduce the increasingly widespread use of forgeries. Indeed, in recent years the administration has been faced with a resurgence of forgeries of all types in its relations with users, especially in the context of import operations, the payment of taxes, and services under government contracts. Following a survey of all the documents used by the revenue-collecting agencies, the General Directorate of Government Property, the General Directorate of Government Procurement, and the General Directorate of Financial Control, it was decided to give priority, in the short-term, to ensuring the security of documents having an impact on revenue collection. Comprehensive approaches are then envisaged, especially including the use of holograms and dry signatures. The promotion of information sharing between the General Directorate of Customs and the General Directorate of Taxes through the integrated revenue information system (CIR), to facilitate information sharing and cross-checking by the two revenue-collecting agencies; and
- Interconnecting the General Directorate of Customs with the import inspection company (COTECNA) to facilitate information sharing with a view to improving the control function. Better coordination of the actions of the control structures and enhancement of the joint Customs/Taxes Unit created in 2006, in particular through the appointment of permanent staff, who will be provided with ample means to make the Unit more operational.

## Public expenditure management

22. **In 2009 fiscal policy will consolidate the achievements of the previous year.** Thus, in the FY 2009 government budget the operating expenditure forecasts are nearly the same as in 2008, reflecting the government's desire to streamline at all levels. The effort in favor of the social sectors is maintained, especially as regards the level of current transfers. Infrastructure and rural development are to receive over 40 percent of all capital expenditure, reflecting the government's determination to strengthen the foundations of economic growth.

23. **The government remains committed to streamlining control of the expenditure process.** It has prepared a pertinent action plan based on a study concerning the responsibilities of all involved in the expenditure process, taking into account the constraints related to the country's WAEMU membership. This plan provides primarily for: (i) ensuring that the financial laws and regulations related to public expenditure are adapted to the new context; (ii) drafting new laws and regulations on the rules specific to financial controllers and the procedures with respect to instances of misconduct; (iii) restructuring the MoF units involved in public expenditure execution; (iv) matching the resources, tools, and working methods of the units in question with the new regulatory framework; and (v) training those involved in the expenditure process on the nature of the new context. **The objective of implementing a program budget by 2012 also remains a priority for the government,** as it seeks to anchor a performance-oriented culture in the administration. To meet this deadline while supporting the pilot exercises under way in six ministries, the government will formulate in 2009 an introductory strategy and a guide to help ministries and institutions in this exercise.

24. **Closer monitoring of social expenditure and the streamlining of expenditure will contribute to pursuit of the Millennium Development Goals (MDGs).** We have improved our system for monitoring social expenditure that largely hinged on a classification by ministry. We have established a system relating to all categories of expenditure financed from own resources, except for personnel expenditure (benchmark, February 2008). Although the system is generally functional, its performance should be improved with the support of IT units, so that detailed information can be obtained more easily by category and by year (new benchmark, September 2009) for use in financial programming. To expand the monitoring of poverty reducing expenditure to include personnel expenditure and externally financed capital expenditure, interfaces will be established with the CID and, respectively, the integrated system of government personnel administration and payroll management (SIGASPE) and the integrated external financing information system (CIFE) under development. Given the complexity of the project, especially related to the need for developing numerous interfaces with other software, comprehensive implementation will not be effective until 2010.

## Public debt management

25. **The government remains committed to pursuing a prudent debt policy, so as to maintain debt sustainability.** It will continuously ensure, in the implementation of the public investment program, that account is taken of this concern, while continuing to contain the use of borrowing of all types within the framework of annual debt strategies in which sustainable ceilings are set.

## D. Other Structural Reforms

26. **The government had clearly demonstrated its readiness to divest itself of the shares in SOFITEX,** carried because of the default of DAGRIS, which was unable to meet the call for recapitalization of the company. However, the current unfavorable conditions on the cotton market make such an operation difficult. We have, however, conducted financial and operational audits of SOFITEX, and the results were available in March 2009 (benchmark). Pending an improvement in the external environment, we shall continue the effort to improve the governance of the company by encouraging its executives to implement the recommendations of the financial and operational audit conducted in the fourth quarter of 2008. To improve monitoring, we plan to prepare an action plan concerning the recommendations in question (new benchmark, September 2009).

27. **Financial sector:** Given the current financial crisis, it is imperative for us to ensure increased supervision and surveillance at both the regional and national levels, so as to limit the impacts on the economy. With this in mind, we will work with our partners in the subregion and with the support of the Bretton Woods institutions, to formulate and implement the more detailed comprehensive action plan that will expand the existing plan. The adoption of this new plan by the Council of Ministers is a new benchmark (January 2010). This plan will take into account the impact of the financial crisis and will cover in detail the following areas: banking sector, insurance sector, microfinance sector, retirement systems, postal finance, cash flow management, the legal environment, and access to financial services.

## E. Program Monitoring

28. Program monitoring will continue on the basis of the quantitative and structural criteria and benchmarks agreed (Tables 1 and 3) between the government and the IMF, especially in the context of program reviews. The quantitative financial benchmarks for end-June 2009 and end-December 2010 are performance criteria, and those for end-March and end-September 2009 are indicative targets. It is anticipated that the fifth program review will be completed by end-January 2010, and the sixth review at end-July 2010. Definitions of the variables used and the procedures adopted for reporting data are contained in the attached revised Technical Memorandum of Understanding (TMU).

**Table 1. Burkina Faso — Structural Conditionality for the Period  
July 1, 2009 to January 31, 2010**

Measure	Timetable	Benchmark
<b>Tax Policy and Tax Administration</b>		
Submission to the Council of Ministers of detailed proposals on the reform of corporate tax, the investment code, and VAT, based on the recommendations of the IMF, the strategy for comprehensive reform of tax policy, and the WAEMU Community directives (MEFP, para. 14).	July 31, 2009	Benchmark
Submission to the National Assembly of the tax policy reform concerning VAT, corporate tax, and the investment code, which will enter into force with the 2010 budget law. As regards the VAT reform, it is planned to include in the budget law the raising of VAT thresholds for small, medium-sized, and large enterprises as of January 2010, and to make small enterprises liable for simplified taxation instead of VAT, in accordance with the pertinent IMF recommendations and WAEMU directives (MEFP, para. 15-17).	October 31, 2009	Benchmark
<b>Customs Administration</b>		
Electronic interconnection of five additional border posts and the General Directorate of Customs (para. 19).	December 31, 2009	New benchmark
<b>Fiscal Management and Governance</b>		
Improvement of the performance of the general system for monitoring poverty reduction expenditure, incorporating all expenditure financed by own resources, except for personnel expenditure (MEFP, para. 24).	September 30, 2009	New benchmark
<b>Financial Sector</b>		
Adoption by the Council of Ministers of a comprehensive, detailed action plan for strengthening the financial sector, with a timetable for major reforms (MEFP, para. 27).	January 31, 2010	New benchmark
<b>Cotton Sector</b>		
Submission for discussion by the SOFITEX Board of Directors of an action plan/monitoring plan based on financial and operational audits (MEFP, para. 26).	September 30, 2009	New benchmark

**Table 2. Burkina Faso: Quantitative Performance Criteria and Indicative Targets, 2008**

(CFAF billions, cumulative from beginning of year)

	2007				2008								
	Dec.		Mar.		Jun.			Sep.			Dec.		
	Prog. <sup>6</sup>	Act.	Prog. <sup>7</sup>	Est.	Prog. <sup>7</sup>	Adj. Prog. <sup>8</sup>	Act.	Prog. <sup>7</sup>	Adj. Prog. <sup>8</sup>	Proj.	Prog. <sup>7</sup>	Adj. Prog. <sup>8</sup>	Proj.
<b>Performance criteria and indicative targets</b>													
Ceiling on the overall fiscal deficit including grants <sup>1</sup>	240.0	181.2	68.2	56.4	75.0	100.0	88.5	104.8	129.8	125.1	195.6	220.6	161.1
Ceiling on the amount of new nonconcessional external debt contracted or guaranteed by the government <sup>2,3</sup>	0.0	0.0	0.0	0.0	0.0	...	0.0	0.0	...	0.0	0.0	...	0.0
Ceiling on the amount of new external debt of less than one year's maturity contracted or guaranteed by the government <sup>2,3</sup>	0.0	0.0	0.0	0.0	0.0	...	0.0	0.0	...	0.0	0.0	...	0.0
Accumulation of domestic arrears <sup>4</sup>	0.0	0.0	0.0	0.0	0.0	...	0.0	0.0	...	0.0	0.0	...	0.0
Accumulation of external arrears <sup>2</sup>	0.0	0.0	0.0	0.0	0.0	...	0.0	0.0	...	0.0	0.0	...	0.0
<b>Indicative targets</b>													
Government revenue	440.0	440.2	100.0	102.4	245.0	...	245.2	358.0	...	358.4	475.0	...	483.8
Poverty-reducing social expenditures	203.0	182.6	40.0	40.0	95.0	...	97.0	149.9	...	145.0	195.0	...	198.5
Large taxpayer non-filer rate <sup>5</sup>	...	...	...	...	...	...	...	...	...	...	7.0	...	7.0
<b>Maximum upward adjustment of deficit ceiling including grants due to:</b>													
Shortfall in grants relative to program projections	25.0	25.0	25.0	25.0	25.0	...	25.0	25.0	...	25.0	25.0	...	25.0
Excess in concessional loan financing relative to program projections	15.0	0.0	15.0	8.2	15.0	...	0.0	0.0	...	0.0	15.0	...	0.0
<b>Adjustment factors</b>													
Shortfall in grants relative to program projections	0.0	27.7	0.0	32.0	0.0	...	76.7	45.6	...	114.2	0.0	...	72.2
Excess in concessional loan financing relative to program projections	0.0	0.0	0.0	8.2	0.0	...	-15.1	-32.7	...	-55.2	0.0	...	-45.0
<b>Memorandum items:</b>													
Grants	238.0	210.3	59.1	27.1	138.8	...	62.1	185.6	...	117.0	219.1	...	146.9
Concessional loans	122.9	114.5	17.0	25.2	48.3	...	33.2	66.8	...	44.3	160.2	...	115.3

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

<sup>1</sup> The ceiling on the overall fiscal deficit is to be adjusted in line with the TMU definition. It is calculated on a commitment basis.

<sup>2</sup> To be observed continuously.

<sup>3</sup> 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.

<sup>4</sup> Indicative target since July 2008.

<sup>5</sup> Applies to average over respective quarter.

<sup>6</sup> IMF Country Report 08/168

<sup>7</sup> IMF Country Report 09/38

<sup>8</sup> Program targets adjusted for shortfall in grants and excess in concessional financing.



**Table 3. Burkina Faso: Quantitative Performance Criteria and Indicative Targets, 2009**

(CFAF billions, cumulative from beginning of year)

	2008		2009							
	Prog.	Proj.	Mar.		Jun.		Sep.		Dec.	
			Prog. <sup>5</sup>	Proj.	Prog. <sup>6</sup>	Proj.	Prog. <sup>5</sup>	Proj.	Prog. <sup>6</sup>	Proj.
<b>Performance criteria and indicative targets</b>										
Ceiling on the overall fiscal deficit including grants <sup>1</sup>	195.6	161.1	57.0	71.5	72.3	80.1	127.0	111.5	187.3	202.3
Ceiling on the amount of new nonconcessional external debt contracted or guaranteed by the government <sup>2,3</sup>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ceiling on the amount of new external debt of less than one year's maturity contracted or guaranteed by the government <sup>2,3</sup>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accumulation of external arrears <sup>2</sup>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Indicative targets</b>										
Government revenue	475.0	483.8	125.1	121.6	283.8	274.5	403.0	391.0	524.7	508.4
Poverty-reducing social expenditures	195.0	198.5	45.4	45.4	106.0	106.0	164.4	164.4	216.4	216.4
Large taxpayer non-filer rate <sup>4</sup>	7.0	7.0	7.0	7.0	7.0	7.0	6.0	6.0	5.0	5.0
Accumulation of domestic arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Maximum upward adjustment of deficit ceiling including grants due to:</b>										
Shortfall in grants relative to program projections	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0
Excess in concessional loan financing relative to program projections	15.0	0.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0
<b>Adjustment factors</b>										
Shortfall in grants relative to program projections	0.0	72.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Excess in concessional loan financing relative to program projections	0.0	-45.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Memorandum items:</b>										
Grants	219.1	146.9	54.3	44.0	116.8	119.7	179.3	208.9	232.3	242.6
Concessional loans	160.2	115.3	36.9	36.9	73.7	88.6	110.6	125.5	162.1	162.4

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

<sup>1</sup> The ceiling on the overall fiscal deficit is to be adjusted in line with the TMU definition. It is calculated on a commitment basis.

<sup>2</sup> To be observed continuously.

<sup>3</sup> 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.

<sup>4</sup> Applies to average over respective quarter.

<sup>5</sup> Indicative target.

<sup>6</sup> Performance criteria.

## ATTACHMENT II

### TECHNICAL MEMORANDUM OF UNDERSTANDING

Ouagadougou, June 3, 2009

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

#### I. DEFINITIONS

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

- **Debt**, as specified in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted by the Executive Board of the IMF on August 24, 2000, will be understood to mean a current, not contingent, liability, created by contract through provision of value in the form of assets (including currency) or services, that requires the obligor to make one or more payments in the form of assets (including currency) or services, at one or more future points in time; these payments being made to discharge principal and interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being:

- (i) loans, consisting of advances of money to the obligor (e.g., deposits, bonds, obligations, commercial loans, and buyers’ credits), who undertakes to repay the funds in the future, and temporary exchanges of assets that are equivalent to fully collateralized loans where the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (e.g., repurchase agreements and official swap arrangements);

- (ii) suppliers’ credits, which are contracts where the supplier lets the obligor defer payments until after the date on which the goods have been delivered or the services provided;

- (iii) leases, which are arrangements in which property is provided for the use of the lessee for a specified period, usually shorter than the total expected life of the property, while the lessor retains title to the property. For purposes of this guideline, the debt is the present value at the inception of the lease of all lease payments expected to be made during the period of the agreement, except payments that cover the operation, repair, or maintenance of the property; and

(iv) Treasury bills and bonds issued in CFA francs on the WAEMU (West African Economic and Monetary Union) regional market are included in domestic debt for purposes of this memorandum.

- **Government** is defined as the central government of Burkina Faso and does not include any political subdivision, government-owned entity with a separate legal personality, or the central bank.
- **External payments arrears** are external payments due but unpaid. Domestic arrears are domestic payments due but unpaid after a 90-day grace period, unless the obligation specifies a different grace period.
- **Government obligation** is any financial obligation of the government accepted as such by the government (including any government debt).

## II. QUANTITATIVE PERFORMANCE CRITERIA

3. The numerical values for quantitative performance criteria, indicative targets, and adjusters are set out in Table 3 of the attached Memorandum of Economic and Financial Policies (MEFP).

### A. Overall Deficit Including Grants

#### **Definition**

4. For the program, the overall deficit including grants is valued on a commitment basis (*base engagement*). It is defined as the sum of foreign and domestic financing (net) of the government measured from the financing side plus cash basis adjustment. Net foreign financing is the sum of foreign borrowing and debt relief minus amortization. Net domestic financing is the sum of (i) net bank credit to the government, including both net bank credit to the treasury as defined below and other government claims on and debts to national banking institutions; (ii) unredeemed government bills and bonds held outside national commercial banks; and (iii) privatization receipts. 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 with the postal system (CCP). Treasury debt to the banking system includes funding from the central bank (including statutory advances, consolidated advances, IMF financing, and refinancing of secured obligations), government securities held by the central bank, funding from commercial banks (including government securities held by commercial banks), and CNE (*Caisse Nationale d'Épargne Postale*)/CCP securitized deposits. Net bank credit to the government is calculated by the Central Bank of West African States (BCEAO), whose

figures are recognized as valid for program purposes. The stock of treasury bills and other government debt, as well as net foreign financing, is calculated by the Ministry of Finance. Cash basis adjustment is the sum of (i) expenditure commitments not paid (*engagées non-payées*); and (ii) change in treasury deposits.

5. All these items are valued according to the statement of government budgetary execution established monthly in the central government's financial operations table. This is prepared by the Permanent Secretariat for the Monitoring of Financial Policies and Programs (SP-PPF), in collaboration with the other directorates of the Ministry of Economy and Finance.

### **Adjustment**

6. The overall deficit including grants is adjusted upward by the amount that grants fall short of what is programmed up to a maximum (see the MEFP, Table 3). It will not be adjusted if grants are higher than programmed.

7. The overall deficit including grants will also be adjusted upward by the amount that concessional loans exceed what is programmed up to a maximum (see the MEFP, Table 3).

### **Reporting deadlines**

8. The ministry in charge of finance will forward data to the IMF on the overall deficit excluding grants within six weeks after the end of each quarter.

## **B. Nonaccumulation of External Arrears**

### **Performance criterion**

9. The government's external debt is the stock of debt owed or guaranteed by the government. External arrears are external payments due but not paid on the due date. Under the program, the government undertakes not to accumulate arrears on its external debt, except those arising from government debt that is being renegotiated with creditors, including non-Paris Club bilateral creditors. Nonaccumulation of external arrears is a performance criterion, to be observed continuously.

**Reporting deadlines**

10. 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**

11. The government undertakes not to contract or guarantee any external debt maturing in one year or more that has a grant element of less than 35 percent (calculated using the interest reference rate for borrowed foreign currencies provided by the IMF) beyond the ceiling indicated in the MEFP (Table 3). This performance criterion applies not only to debt as defined in point 9 of the Guidelines (see ¶2), but also to all commitments contracted or guaranteed for which value has not been received. However, it does not apply to treasury bills and bonds issued in CFA francs on the WAEMU regional market. This performance criterion is to be observed continuously.

**Reporting deadlines**

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

**D. Government Short-Term External Debt**

13. The government undertakes not to accumulate or guarantee any new external debt with a contractual maturity of less than one year. This performance criterion applies not only to debt as defined in point 9 of the Guidelines (see ¶2), but also to commitments contracted or guaranteed for which value has not been received. Excluded from this performance criterion are import- and export-related loans and treasury bills and bonds issued in CFA francs on the WAEMU regional market and normal short-term suppliers' credits. This performance criterion is to be observed continuously. As of April 1, 2007, the government of Burkina Faso had no short-term external debt.

**III. OTHER QUANTITATIVE INDICATIVE TARGETS**

14. The program also includes indicative targets on total government revenue, poverty-reducing social expenditures, nonaccumulation of domestic arrears, and large taxpayer non-filer rates.

## **A. Total Government Revenue**

### **Definition**

15. 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, and it also includes revenue from treasury checks.

### **Reporting deadlines**

16. Details on total revenue will be sent to IMF staff by the SP-PPF of the Ministry of Finance and Budget within six weeks after the end of each month.

## **B. Poverty-Reducing Social Expenditures**

### **Definition**

17. Poverty-reducing social expenditures are defined by the PRSP priority sector programs designed to accelerate the reduction of poverty. They cover all spending categories for the following ministries: Primary Education and Literacy; Health; Social Action and National Solidarity; Promotion of Women; Labor and Social Security; Employment and Youth; Agriculture, Water and Fishing Resources; Animal Resources; and Environment and Living Conditions. They also cover rural roads and HIPC resources (Category 5) for infrastructure spending and HIPC expenditures only for the Justice Ministry and the Ministry of Economy and Development. These expenditures are monitored directly through the budget.

### **Reporting deadlines**

18. The government will report within six weeks after the end of each month the monthly data on poverty-reducing social expenditures.

## **C. Nonaccumulation of Domestic Arrears**

### **Definition**

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

### **Reporting deadlines**

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

### **D. Large Taxpayer Nonfiler Rate**

#### **Definition**

21. The large taxpayer nonfiler rate is defined as the ratio of late and nonfilers in the Large Taxpayer Office (LTO) relative to the total number of taxpayers obligated to file in LTO. A late filer is anyone who files a tax return after the deadline. A nonfiler is anyone in the database who did not file taxes. The main tax categories are the VAT (*TVA*), the corporate income tax (*BIC*), and the tax on wage income (*IUTS*). Filing deadlines for the main tax categories are set in the tax code.

#### **Reporting deadlines**

22. The government will report within two weeks after the end of each quarter the total number of late and nonfilers as well as the total number of taxpayers obligated to file in LTO for the main tax categories.

## **IV. STRUCTURAL BENCHMARKS**

23. The program incorporates structural benchmarks (see the MEFP, Table 1).

## **V. ADDITIONAL PROGRAM MONITORING INFORMATION**

### **A. Public Finance**

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

- The monthly government flow-of-funds 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 implementation estimate 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 external debt stock, external debt service, signing of external loans, and disbursements of external loans, to be sent within six weeks after the end of each quarter.

- Monthly data on prices and the taxation of petroleum products, including
  - (i) prices prevailing during the month; (ii) detailed calculation of the price structure, from the f.o.b.-MED price to the retail price; (iii) volumes purchased and made available for consumption by the petroleum distributor (SONABHY); and (iv) a breakdown of receipts from the taxation of petroleum products— customs duties, tax on petroleum products (TPP), and value-added tax (VAT)— and of subsidies, to be provided within four weeks after the end of each month.
- A monthly statement of the status of accounts with the treasury, classified by major category (administrative services, state enterprises, mixed enterprises, public administrative enterprises, international organizations, private depositors, and others), to be provided within six weeks after the end of each month.
- Quarterly data for the large taxpayer office on (for *TVA, BIC, IUTS*) the numbers of:
  - registered taxpayers
  - declarations received on time
  - reminder letters sent to late and nonfilers.
- These quarterly statistics are to be provided within two weeks after the end of each quarter. Similarly, quarterly data on the following are to be sent within 2 weeks of the end of the quarter:
  - total number of customs declarations
  - number of declarations selected by channel
  - number of declarations by channel subject to non-standard treatment.

## **B. Monetary Sector**

25. The government will provide the following information within six weeks after the end of each month:
- the consolidated balance sheet of monetary institutions
  - provisional data on the monetary survey provided six weeks after the end of each month (with final data provided ten weeks after the end of each month)
  - borrowing and lending interest rates
  - customary banking supervision indicators for bank and nonbank financial institutions, if necessary.



### **C. Balance of Payments**

26. The government will report the following to Fund staff:
- any revision of balance of payments data (including services, private transfers, official transfers, and capital transactions), as they occur
  - foreign trade statistics compiled by the National Statistics Institute, within three months after the end of the month concerned
  - preliminary annual balance of payments data within nine months after the end of the year concerned.

### **D. Real Sector**

27. The government will report the following to Fund staff:
- disaggregated monthly consumer price indices, within two weeks after the end of each month
  - provisional national accounts
  - any revision of the national accounts.

### **E. Structural Reforms and Other Data**

28. The government will also report the following:
- any study or official report on Burkina Faso's economy, within two weeks after its publication
  - any decision, order, law, decree, ordinance, or circular that has economic or financial implications as soon as it is published or at the latest when it enters into force.