International Monetary Fund

Burkina Faso and the IMF

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December 14, 2009

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

November 24, 2009

LETTER OF INTENT

Ouagadougou, November 24, 2009

Dominique Strauss-Kahn
Managing Director,
International Monetary Fund
700 19th Street NW
WASHINGTON, DC 20431 (USA)

Dear Mr. Strauss-Kahn:

1. The fourth review of our economic and financial program, supported by the Poverty Reduction and Growth Facility (PRGF), was approved by the IMF Executive Board on June 22, 2009.

2. The attached Memorandum of Economic and Financial Policies (MEFP) reviews recent economic developments and progress made in the implementation of our program through end-June 2009. It also sets out the policies the government intends to pursue during the remainder of 2009 and in 2010.

3. In 2008-09, the Burkinabè economy suffered three major shocks: the energy and food crisis, the international financial and economic crisis, and a natural disaster in the form of torrential rains, which caused severe floods on September 1, 2009. These three shocks had an important impact on the external sector and on the fiscal position, and they affected the welfare of the population. They resulted in: (i) a decline in cotton prices, Burkina Faso's primary export commodity; (ii) the increase in the oil bill and the cost of cotton fertilizers; (iii) the slowdown in economic growth; (iv) the decrease in certain categories of budget revenues; (v) the destruction of road and administrative infrastructure; (vi) a humanitarian crisis involving 180,000 people that the government had to cater, with the support of donors, humanitarian agencies, and the collective efforts of the population; and (vii) the destruction of critical biomedical equipment and health infrastructure. Based on initial estimates, the impact of the flooding amounts to about 2 percent of GDP. This challenging environment has put an important strain on the budget framework for 2009 and 2010.

4. In spite of the difficult economic environment, the government continued its reform and fiscal consolidation efforts. All quantitative objectives under the program for end-June were met. However, the indicative target for revenue could not be achieved because of the impact of exogenous shocks on economic activity. Some delays in expenditure execution also hampered the attainment of the indicative target for social spending. Structural benchmarks for end-September were observed, except for one that was met in mid-October.

5. Steady progress was made to enhance revenue performance. With respect to tax reform, detailed proposals were adopted by the Council of Ministers and forwarded to the National Assembly at end-October. They cover the introduction of the corporate tax, the rationalization of the investment code, and the strengthening of the VAT system. These proposals were prepared based on the guidelines for the comprehensive tax policy reform strategy, WAEMU directives, and IMF recommendations. They also reflect the findings of the tax policy simulations.

6. Despite the challenging environment, the government remains committed to achieving further fiscal consolidation, with the aim of safeguarding fiscal sustainability in the medium term, while strengthening the outlook for growth. In this context, as indicated in the attached MEFP, for 2010, the government intends to implement major tax reforms, strengthen the expenditure management, and pursue other structural reforms initiated in 2009 in the cotton and financial sectors.

7. In light of its overall performance and based on the policies set forth in the attached memorandum, the government requests the completion of the fifth review of the PRGF-supported program and the sixth disbursement, for SDR 1.004 million.

8. However, given the increase in budget financing needs in the aftermath of the exogenous shocks referred to above, the government—while exploring the possibilities for raising additional resources from Burkina Faso's other development partners—is seeking additional resources from the IMF through an augmentation of access under the PRGF for SDR 33.11 million (55 percent of quota) to be made available in one disbursement at the completion of the fifth review; and the modification of the performance criterion on the overall fiscal deficit for the sixth review.

9. The government believes that the measures set forth in the attached MEFP will allow it to achieve the objectives of its program in a challenging economic environment, characterized by repercussions from the global economic and financial crisis compounded by the humanitarian and reconstruction challenges created by the September 1, 2009 the natural disaster. The government remains determined to take any other appropriate measures that may prove necessary to achieve the program objectives. 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.

10. It is expected that the sixth review of the PRGF-supported program will be completed by April 15, 2010.

11. The government wishes to substitute the Extended Credit Facility (ECF) for the existing PRGF once the amendments to the PRGF-ESF Trust that create the ECF have been approved. A new three-year program under the ECF will serve to support the government's

development efforts whose general principles, currently being reviewed, will be defined in a strategy for faster growth and sustainable development (*Stratégie de croissance accélérée et de développement durable—SCADD*), currently under preparation.

12. The government plans to make available to the public the content of this Letter of Intent and its attachments, i.e., the MEFP and the Technical Memorandum of Understanding, as well as the IMF staff report and annexes for information. Therefore, the government 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
Officier de l'Ordre National

Attachments: Memorandum on Economic and Financial Policies, 2009-2010
Revised Technical Memorandum of Understanding

MEMORANDUM ON ECONOMIC AND FINANCIAL POLICIES FOR 2009/10

I. INTRODUCTION

1. **The economic recovery that began in 2008, slowed down in 2009, mostly because of the global economic and financial crisis.** Economic growth reached 5.2 percent in 2008, after a slowdown in 2006-07, thanks to an expansion of agricultural production and an increase in investment in the mining sector. In 2009, economic growth is expected to decline to 3.1 percent, primarily reflecting the impact of the international financial crisis on the economy, particularly in the cotton and service sectors.

2. **The agriculture sector performed well in 2008-09.** Food production increased by 41 percent, while cottonseed production amounted to 447,100 tons, up by 26 percent. However, the collapse in international cotton prices led to a cumulative loss of CFAF 12.2 billion for the three cotton ginning companies. The 2009/10 crop year is taking place in a difficult economic environment marked on the one hand by difficulties for ginning companies to get sales contracts because of low demand for textile, which has caused delays in shipping out ginned cotton; and on the other hand by the late arrival of rains.

3. **The mining sector expanded considerably in 2008-09.** Three new mines became operational, while older ones increased their output. Therefore, overall gold production is expected to double, from 5.6 tons in 2008 to 11 tons in 2009.

4. **Inflationary pressures have eased, helping to stabilize the real effective exchange rate.** The slowdown in international food prices, coupled with a tax suspension on some basic consumption items and measures to boost agricultural production, have helped to bring down domestic prices. The inflation rate moved from 8½ percent in 2008 to 5.3 percent in August 2009. As a result, the inflation gap between Burkina Faso and its trading partners narrowed, mitigating the earlier appreciation of the real effective exchange rate.

5. **Burkina Faso suffered another major exogenous shock in 2009.** Torrential rains fell on several towns, with loss of human life and destroying or damaging roads, dams, government buildings, hospitals and health centers, and displacing some 180,000 individuals. Preliminary estimates put the cost of this natural disaster at around CFAF 82 billion.

6. **The overall net external position, which had weakened in 2008, recovered in 2009, in spite of adverse developments in international markets.** The decline in the price of cotton, combined with the surge in food and oil prices, led to a major deterioration in the trade balance, which moved from a deficit of 8.8 percent of GDP in 2007 to a deficit of 11 percent in 2008. In 2009, this deficit is expected to narrow to 9.1 percent, thanks to higher gold production. The current and financial accounts also recorded a downturn reflecting an increase in the cost of services, and a reduction in direct investment. The current account deficit (including transfers) increased from 8.3 percent of GDP in 2007 to approximately 12 percent of GDP in 2008, and is forecast to narrow to 9.1 percent of GDP in 2009.

Accordingly, the overall balance moved from a surplus of 5.8 percent of GDP in 2007 to a deficit of 1 percent in 2008, and is expected to approach equilibrium in 2009. As a result, international reserves moved from 6.8 months of imports in 2007 to 5.4 months of imports in 2008, and would improve in 2009.

7. **Fiscal consolidation efforts have continued, despite the difficult context.** The measures implemented in 2008 and 2009 to strengthen revenue collection had mixed results, partly on account of the adverse effects of the global economic and financial crisis on certain tax categories. Accordingly, revenue stabilized at about 13.3 percent of GDP in 2008-09, compared with 13.6 percent of GDP in 2007. Expenditure declined to 21.7 percent of GDP in 2008, compared to 25.8 percent of GDP in 2007, primarily reflecting the low execution rate of externally-funded investment.

8. **In 2009, expenditure is programmed to increase significantly, reaching 27.0 percent of GDP.** This increase reflects government's measures to mitigate the impact of the global financial crisis, in particular on the cotton sector, as well as the impact of the September 1, 2009 floods. In its supplementary 2009 budget, the government decided to increase expenditure in several categories in order to: (i) ease the adverse effects of the financial crisis on the domestic economy; (ii) support the cotton sector through: higher subsidies for agricultural inputs to mitigate the impact of higher import prices on producers' income and protect production, assistance to cotton producer associations to enable them to clear their cross-arrears, and recapitalization of the main ginning company, SOFITEX in an amount of CFAF 18.5 billion; (iii) stimulate economic activity through a more rapid reduction in audited domestic arrears; (iv) provide emergency assistance to those affected by the floods; and (v) finance the rebuilding of roads, government buildings, and health facilities destroyed or seriously damaged by the floods.

9. **The overall budget deficit (payment order basis, excluding grants) is expected to reach 14.4 percent of GDP in 2009, compared with 8 percent of GDP in 2008.** These estimates form the basis of the supplementary budget for 2009, which the government submitted to Parliament at end-September.

10. **A new bond issue by the Public Treasury, and the use of the new SDR allocation provided additional financing.** In 2009, two bond issues raised CFAF 80.7 billion, with maturities of 5-7 years, and an interest rate of 6.5 percent. Furthermore, reflecting a decision of the WAEMU Council of Ministers, the Central Bank of West African States (BCEAO) lent CFAF 38.8 billion to Burkina Faso, corresponding to the new SDR allocation granted by the IMF. In accordance with regional arrangements, these resources will help expedite repayment of the audited stock of domestic payments arrears, amounting to CFAF 22.9 billion.

11. **In 2009, trends in the monetary sector were characterized by an increase in money supply in line with the increase in net foreign assets.** Credit to the economy

decelerated mainly because of lower economic activity. With stronger reliance upon the regional financial market, net credit to the government remained virtually unchanged in 2009. Although the financial position of banks remains sound overall, the slowdown in economic activity and the difficulties experienced by some economic operators have resulted in an increase in non-performing loans.

II. Program Implementation

12. **The quantitative performance criteria for end-June, as well as the structural benchmarks for end-September were observed.** In the fiscal area, the budget deficit ceiling (commitments basis and including grants) was respected, thanks to rigorous expenditure management, which helped offset revenue losses and a shortfall in program grants. Indeed, the floor for revenues could not be adhered to, because of the repercussions of the economic and financial crisis on the tax base, as well as the impact of a number of tax measures in 2008-09, in particular the decrease in the rate of the industrial and commercial profits tax (BIC), the elimination of withholding taxes and levies at source on large enterprises, and the authorization granted to banks and financial institutions to deduct provisions from the taxable base. The other quantitative targets were met, except for poverty-reducing expenditure, which was slightly lower than the target. Moreover, the structural benchmarks regarding the tax reform, tracking poverty-reducing expenditures, and cotton sector reform were observed (Tables 1 and 2), though the latter with a small delay.

13. **Significant progress has been made with the implementation of other fiscal reforms.** With respect to tax administration, the management of taxpayer files has improved, and the rollout of the computerized tax management system (SINTAX) at the tax divisions of the Regional Directorate of the Center was achieved. At the Large Taxpayer Office (LTO), the measures taken regarding (i) the issuance of the list of late filers and nonfilers in the case of the VAT, the BIC, and IUTS, and (ii) the sending of reminder letters for these various taxes, meant that the weighted average overall nonfiler rate at end-June 2009 stood at 4.75 percent (4 percent for the VAT and the IUTS, 5 percent and 6 percent respectively for the BIC PM and the BIC PP), against a target of 7 percent. With the aim of revamping the database of the LTO and the Medium Taxpayer Office (MTO), the government adopted legislation to deactivate non-active taxpayers.

14. **Several measures to strengthen customs administration will enhance its efficiency.** The connection of seven major border customs offices to the single server at the General Directorate of Customs is in place, as is the interconnection with the import supervision company. This will facilitate the cross-checking of data and thus enhance controls. The objective of assigning at least 40 percent of all customs declarations to the green and blue channels through the use of the ASYCUDA selectivity module was overachieved, with actual performance being 42.5 percent. Moreover, efforts to improve customs controls are continuing through the introduction of joint customs/tax inspections, and through enhanced controls of final destinations of duty-free merchandise.

15. **Enhancing fiscal transparency remains a major policy objective of the government.** Accordingly, the government has engaged in outreach efforts on the 2009 budget, encompassing the media, civil society, and the country's 13 regions. Similarly, the High Authority for State Oversight (Autorité Supérieure de Contrôle de l'Etat—ASCE) published its first report in May 2009, and conducted a wide-ranging campaign of education and outreach on corruption. After the adoption of the new procurement regulations in 2008, steps aimed at strengthening their implementation were undertaken in 2009, including their dissemination and the provision of training for various stakeholders. In addition, the regulatory framework was supplemented by the provision of the General Administrative Clauses (*Cahiers des Clauses Administratives Générales—CCAG*) and sets of standardized files pursuant to decrees and circulars issued in July 2009.

16. **The second midterm budget review was carried out in May 2009.** This exercise focused on the execution of the 2009 budget. It identified adjustment measures in response to (i) the international economic crisis, (ii) the revenue collection outturn, (iii) expenditure execution, and (iv) new financing needs. As a result, appropriations were re-affected to priority spending.

17. **The government has continued its efforts to promote the private sector.** To facilitate transfer of ownership, the government set up one-stop shops for land transactions (*Guichets Uniques du Foncier—GUF*) in Ouagadougou and Bobo-Dioulasso. These were launched in May and September 2009, respectively. To make the GUF operational, manuals were prepared and training exercises for revenue collectors and external stakeholders organized. The implementation of the Real Estate File Information System (*système d'information du dossier du foncier—SIDOFO*) is expected to help expedite the processing of applications submitted to the GUF.

18. **The government's economic and financial policies seek to promote growth and alleviate poverty.** They are aligned with the strategic priorities as laid out in the Poverty Reduction and Strategy Paper (PRSP), namely: (i) to accelerate equitable growth; (ii) to increase the poor's access to basic social services and social protection; (iii) to strengthen income generation activities; and (iv) to promote good governance. Moreover, the government's program with the IMF included measures to increase poverty-reducing expenditure, and significantly improve the monitoring of such expenditure. The government also took measures to cushion the impact of the food and oil price shocks on the poor, such as subsidies to stimulate food production and establishing a cash transfer system for the urban poor. As a result of the program, growth–promoting structural reforms were implemented and macroeconomic stability was maintained, allowing for the creation of fiscal space for poverty-reducing expenditure, which increased from an average of 22 percent of total expenditure and 5 percent of GDP between 2001 and 2006, to an average of 24 percent of total expenditure and 5.9 percent of GDP between 2007 and 2009.

III. Economic and Financial Policies for 2010 and Medium-Term Outlook

A. Macroeconomic Framework

19. **The government will pursue its efforts to support economic growth and to ease the impact of the 2008-09 crises and the floods.** In an economic environment that will remain challenging in the aftermath of the successive crises that occurred in 2008-09, the government will continue its efforts to achieve fiscal consolidation, strengthen its social policies, and press ahead with the reforms necessary to enhance growth prospects while reducing poverty. Against this background, economic growth is projected at 4.2 percent in 2010, with inflation kept within limits compatible with WAEMU convergence criteria.

20. **The government is mindful of several obstacles that could slow down medium-term growth.** The government intends to enhance the effectiveness of its development policies through the new Strategy for Faster Growth and Sustainable Development (*Stratégie de Croissance Accélérée et de Développement Durable—SCADD*) under preparation. In this context, the government is determined to promote the diversification of the productive base to reduce dependency on cotton and vulnerability to exogenous shocks. Meanwhile, the government intends to improve the business climate further and to increase investment in infrastructure to support productivity gains in the private sector. Cotton sector reforms and the implementation of the financial sector strategy scheduled for 2010 are also expected to enhance growth prospects. In addition, the strong expansion anticipated in the mining sector would help speed up economic growth.

B. Fiscal Policy

21. Fiscal policy will primarily support economic recovery, while safeguarding medium-term fiscal and debt sustainability. Accordingly, reform measures to strengthen revenue and expenditure management will be continued and intensified. The fiscal stance will provide budgetary room for reconstructing infrastructure and delivering social assistance to those affected by the recent flooding, as well as to other vulnerable groups. However, the government will also take measures to avoid any slippages that could undermine continued fiscal consolidation. Consequently, budget revenue and expenditure are forecast to attain 13.6 percent of GDP and 25.3 percent of GDP respectively in 2010. Thus, the budget deficit (commitments basis and excluding grants) will reach 11.7 percent of GDP.

22. Revenue is expected to increase slightly in 2010, amounting to CFAF 556 billion, equivalent to 13.6 percent of GDP. They will benefit from the anticipated recovery of economic activity and mining receipts boosted by the higher gold production, and from administrative and tax reform measures introduced in 2009, particularly the agency-by-agency contracts with quantitative targets that has produced encouraging results since it was introduced in early 2009. Revenue performance should further be enhanced by the tax reform strategy submitted to the National Assembly in October 2009, which encompasses the following main areas: improvement in the management and yield of indirect taxation, in particular the VAT; the creation of a corporate tax through the merger of the various schedules of taxes on the income of legal entities; and the streamlining of tax incentives granted under the various investment promotion codes. With respect to VAT reform, the proposals focus inter alia on eliminating the 20 percent withholding tax by way of advance payment (*acompte*), reviewing the refund mechanism through enhancing the transparency of procedures and expediting the pertinent operations, broadening the scope of the VAT to encompass goods previously exempt and extending the exclusion of the deduction entitlement to encompass particular goods, abolishing the principle of outright exemptions previously granted to NGOs, and raising from CFAF 50 to 100 million the thresholds for the simplified tax regimes (*régimes simplifiés d'imposition (RSI)*) for purchases/resales and from CFAF 25 to 50 million for other activities. However, those enterprises covered by the RSI system—whose yield is in the range of 4 to 5 billion per year (a comparatively substantial sum)—and which according to the analysis do not transfer deduction entitlements to enterprises covered by the standard taxation regime (*réel normal d'imposition (RNI)*), shall continue to be subject to the VAT. It is expected that these reform measures, coupled with more rapid economic growth, will help to bring revenue to a level of 15.7 percent of GDP by 2014.

23. The draft 2010 budget makes provisions for new tax measures, and was submitted to the National Assembly. These include a specific tax of 2 percent on access to or use of telecommunications networks. There are also plans to introduce tollbooths on paved roads to facilitate the collection of fees from users. Furthermore, in regard to improving the business climate, the draft budget for FY 2010 has made provision for lowering the registration duty on commercial leases from 10 to 5 percent; for reforming the rules governing mortgages by making the deletion process (*radiation*) non-mandatory; and for paying a fixed duty in lieu of the proportional duty in the case of deletion and mortgage renewal.

24. The pricing mechanism for petroleum products will be reviewed in 2010. The authorities have entrusted its management to an ad-hoc committee, independent of the national petroleum company (SONABHY). This committee will propose a reform agenda, with the aim of enhancing the transparency of the current system, and for taking account of the pricing formulae in neighboring countries. The automatic pass-through mechanism for pump prices of petroleum products was suspended in 2008, in response to the upsurge in international oil prices, which adversely affected SONABHY's cash flow and tax collection on petroleum products. However, since pump prices have not been revised in the same magnitude as the recent decline in international oil prices, SONABHY should be in a position to recoup the losses before end-December 2009.

25. **Total expenditure and net lending will total CFAF 1,036 billion, equivalent to 25.3 percent of GDP in 2010.** Efforts to control expenditure will remain a major objective of the government. In particular, its wage policy will remain cautious in the context of the implementation of the merit-based system. The wage bill for 2010 will reflect the impact of the 4 percent pay increase and the catching up on payments for promotions granted in 2006

that were granted in 2009, recruitments in priority sectors, and the return to the merit-based system for promotions. In addition, the authorities have laid the ground for the implementation of the General Reform of the Civil Service (*Réforme Globale de l'Administration Publique—RGAP*). They also intend to prepare a plan to modernize the civil service and improve the payroll management system to ensure proper control over the wage bill, which currently amounts to over 40 percent of budget revenue. Efforts to support the population affected by the 2009 floods will continue, in the context of an overall increase in priority expenditures. Current expenditure and domestically financed capital expenditure will remain high, compared with pre-crisis levels, totaling 18.7 percent of GDP, down from 20.2 percent of GDP in 2009. This level also reflects expenditure in the education sector related to the Fast-Track Initiative, as well as investment in the water and sanitation sector, which will be financed through sectoral budgetary support from the government's technical and financial partners. Overall, capital expenditure would reach 12.4 percent of GDP in 2010, compared to a projection of 13.7 percent of GDP for 2009, and approximately 8.9 percent of GDP in 2008.

26. **In 2010, the overall budget deficit (commitments basis, excluding grants) is projected at 11.7 percent of GDP.** It will be financed by budgetary assistance from Burkina Faso's development partners, working together within the General Framework of Budgetary Support for Implementation of the Poverty Reduction Strategy Paper in Burkina Faso (CGAB/CSLP), and disbursements anticipated in the context of the IMF-supported program. The government also plans to carry out a bond issue on the regional financial market.

27. **Efforts to strengthen expenditure management and the tracking of poverty-reducing expenditure will continue.** Accordingly, the government will seek to reduce the lag between payment verification and actual payment from the current 72 days to 62 days—the goal as defined in the PFM framework for 2010. In this context, measures to streamline the review and verification of supporting documents will allow for less red tape and speed up overall expenditure execution. Since emergency outlays related to the 2009 floods will be phased out, expenditure in 2010 will follow the normal expenditure commitment and payment procedures, with emergency or treasury prepaid expenditure being regularized in full at the end of the 2009 budget cycle. The tracking of poverty-reducing spending will be fine-tuned in 2010 thanks to the new tracking system introduced in September 2009, and a quarterly report will be prepared. The first such report, covering poverty-reducing expenditure execution through end-December 2009, will be produced by end-March 2010 (structural benchmark).

C. Balance of Payments and External Debt

28. **The external current account deficit (excluding official transfers) is expected to reach 14.9 percent in 2010, compared to 13.8 percent projected for 2009.** This

deterioration reflects mostly (i) moderate increase in exports because cotton prices are expected to remain stable; (ii) an increase in imports because of the expected increase in oil prices, the anticipated economic recovery, and increased investment, particularly in infrastructure. With the forecast level of project loans and grants, and the expected improvement in the financial account, the overall balance of payments should move into a surplus in 2011, allowing Burkina Faso to contribute to the regional reserve pool. In the medium term, the outlook for cotton prices is expected to improve, and exports of gold and other minerals should increase further. The external current account deficit (excluding official transfers) is expected to narrow to 10.3 percent of GDP by 2014.

29. **The government is committed to continue with its prudent borrowing policy, to safeguard external debt sustainability.** Furthermore, the government intends to remain selective regarding its investment projects, focusing on their impact on economic growth and on needed improvement to the quality of basic services, particularly for the most vulnerable segments of the population. Accordingly, the government has ultimately decided not to contract a loan, which had been under discussion with the Islamic Development Bank to finance the Samendeni dam project. Rather, the government intends to finance a part of this strategically important project by tapping into its own resources, while trying to identify additional concessional loans.

D. Structural Policies

Management of government expenditure

30. **The pace of public finance reform will accelerate in 2010.** A key focus of this reform will be to pave the way for program budgeting. Crucial measures in this regard include: (i) strengthening the medium-term budget framework and the sectoral medium-term expenditure frameworks; (ii) improving the expenditure execution process, particularly by ensuring capacity-building for the entities responsible for monitoring and auditing the budget; (iii) strengthening the capacity to mobilize resources and manage liquidity; and (iv) enhancing the transparency and reliability of budgetary and financial data. In order to overcome any delays in implementing these budgetary reforms, the authorities intend to give priority to the above-described measures during 2010. They will attach particular importance to preparing the medium-term expenditure frameworks at the six ministries initially considered, in line with the timetable agreed upon with the IMF technical assistance mission.

Reform of the cotton sector

31. **Ensuring the viability of the cotton sector will remain a major policy goal for the authorities.** In 2010, the reform agenda covers the restructuring of the cotton parastatal SOFITEX, the reorganization of producer associations to prevent the resurgence of cross-arrears which creates cash flow problems between these associations, and measures to ensure the financing of inputs for producers, in particular through the setting up an input Fund, and a

mechanism designed to provide adequate financing for the Price-Smoothing Fund (*fonds de lissage*).

32. **The restructuring of SOFITEX will be based on the action plan adopted by the SOFITEX board of directors on October 16, 2009.** This plan includes the following measures: (i) disseminating information on genetically modified cotton seeds throughout the SOFITEX zone; (ii) strengthening supervisory structures; (iii) reviewing the staffing plan and updating the procedures manual; (iv) optimizing the information system; and (v) lowering operating costs. The status of implementation of these key measures will be reviewed in a report at the end of the first quarter of 2010 (structural benchmark). In 2009, SOFITEX had already undertaken a number of adjustment measures, the most important of which focused on reducing costs, in particular, the wage bill.

Reform of the financial sector

33. **Financial sector reform is designed to deepen the sector and improve access to financial services.** Based on FSAP recommendations, a financial sector development strategy has been prepared, which is designed to promote the following objectives: (i) enhance the stability and depth of the financial sector; (ii) boost competition among financial institutions; (iii) promote the insurance sector; (iv) improve access to financing in rural areas and for Small-and-Medium-Sized Enterprises; (v) promote housing finance to facilitate access to real estate ownership; and (vi) enhance the legal and judicial framework. In the context of this strategy, the government—working in cooperation with its partners in the sub region and with assistance from the Bretton Woods Institutions—has prepared a comprehensive action plan. This plan will be implemented in 2010 following its adoption by the Council of Ministers by January 2010 (benchmark). It will take into account the impact of the financial crisis and will cover in detail the following areas: banking and insurance sectors, microfinance, retirement systems, postal finance, cash flow management, the legal environment, and access to financial services.

E. Program Monitoring

34. **The program will continue to be monitored based on quantitative performance criteria and benchmarks, and structural benchmarks which have been agreed between the government and the IMF** (Tables 1 and 2). The authorities will report to the IMF data needed to monitor the program in accordance with the definitions in the attached Technical Memorandum of Understanding. Furthermore, during the program period, the government will not introduce restrictions on payments and transfers on current international transactions, or tighten any such restrictions without first consulting the IMF; introduce or modify multiple currency practices; conclude bilateral payment agreements not compatible with Article VIII of the IMF Articles of Agreement; or introduce restrictions on imports for balance of payments purposes.

35. **The sixth review is expected to be completed by April 15, 2010.** For this review, the quantitative financial objectives for end-December 2009 are performance criteria.

Table 1. Burkina Faso: Quantitative Performance Criteria and Indicative Targets, 2009

(CFAF billions, cumulative from beginning of year)

	2008			2009									
	Dec.			Mar.			Jun.			Sep.		Dec.	
	Prog. [6]	Adj. Prog. 7	Proj.	Prog. [5]	Adj. Prog. 7	Proj.	Prog. [6]	Adj. Prog. 7	Proj.	Prog. [5]	Proj.	Prog. [6]	Proj.
Performance criteria and indicative targets													
Ceiling on the overall fiscal deficit including grants [1]	195.6	220.6	161.1	71.5	96.5	44.5	80.1	105.1	82.0	111.5	120.3	202.3	281.3
Ceiling on the amount of new nonconcessional external debt contracted or guaranteed by the government [2, 3]	0.0	…	0.0	0.0	…	0.0	0.0	…	0.0	0.0	0.0	0.0	0.0
Ceiling on the amount of new external debt of less than one year's maturity contracted or guaranteed by the government [2, 3]	0.0	…	0.0	0.0	…	0.0	0.0	…	0.0	0.0	0.0	0.0	0.0
Accumulation of external arrears [2]	0.0	…	0.0	0.0	…	0.0	0.0	…	0.0	0.0	0.0	0.0	0.0
Indicative targets													
Government revenue	475.0	…	483.8	121.6	…	118.3	274.5	…	262.6	391.0	381.1	508.4	506.8
Poverty-reducing social expenditures	195.0	…	198.5	45.4	…	42.4	106.0	…	104.5	164.4	164.4	216.4	259.5
Large taxpayer non-filer rate [4]	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
Maximum upward adjustment of deficit ceiling including grants due to:													
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	…	0.0	15.0	…	0.0	15.0	15.0	15.0	15.0
Adjustment factors													
Shortfall in grants relative to program projections	0.0	…	72.2	0.0	…	33.6	0.0	…	40.0	0.0	0.0	0.0	0.0
Excess in concessional loan financing relative to program projections	0.0	…	-45.0	0.0	…	-19.4	0.0	…	-47.5	0.0	0.0	0.0	0.0
Memorandum items:													
Grants	219.1	…	146.9	44.0	…	10.4	119.7	…	79.7	208.9	165.9	242.6	271.1
Concessional loans	160.2	…	115.3	36.9	…	17.5	88.6	…	41.1	125.5	92.6	162.4	152.1

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

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

[2] To be observed continuously.

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

[4] Applies to average over respective quarter.

[5] Indicative target.

[6] Performance criteria.

[7] Program targets adjusted for shortfalls in grants and excesses in concessional financing.

Table 2. Burkina Faso — Structural Conditionality, June 1, 2009–March 31, 2010

Measure	Rationale	Deadline Benchmark
Tax policy and tax administration		
Submit to the Council of Ministers detailed proposals on the reform of corporate tax, the investment code, and VAT, based on IMF recommendations, the strategy for comprehensive reform of tax policy, and WAEMU Community directives.	Important to raising tax revenue	Benchmark, July 31, 2009. Met.
Submit to the National Assembly tax policy reform related to VAT, corporate tax, and the investment code, which will enter into force with the 2010 budget law. It is planned to include in the budget law the raising of VAT thresholds for small, medium, and large enterprises as of January 2010, and to make small enterprises liable for simplified taxation instead of VAT, in accordance with IMF recommendations and WAEMU directives.	Tax reform is necessary to raise revenues, reduce the deficit, and ensure debt sustainability.	Benchmark, October 31, 2009. Met
Customs administration		
Electronically connect five additional border posts and the General Directorate of Customs.	Limit discretion at customs, increase revenues, and improve governance.	Benchmark, December 31, 2009.
Public financial management and governance		
Improve the performance of the system for monitoring poverty reduction expenditure, incorporating all expenditure financed by own resources except for personnel.	Increase the efficiency of expenditure.	Benchmark, September 30, 2009. Met.
Produce on a continuous basis a quarterly report on poverty-reducing expenditures based on the new system.	Enhance the monitoring of poverty-reduction efforts	New benchmark, March 31, 2010.
Financial sector		
Have the Council of Ministers adopt a comprehensive, detailed action plan for strengthening the financial sector, with a timetable for major reforms.	Reduce financial sector vulnerabilities and support growth.	Benchmark, January 31, 2010

Cotton sector

Submit for discussion by the SOFITEX Board of Directors an action and monitoring plan based on financial and operational audits.	Increase transparency and limit budgetary risks.	Benchmark, September 30, 2009. Met with delay (submitted on October 16, 2009).
Identify and implement key measures from the SOFITEX action plan.	Strengthen the financial health of SOFITEX	New benchmark, March 31, 2010

TECHNICAL MEMORANDUM OF UNDERSTANDING

Ouagadougou, November 10, 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 2).

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 in the table on the monitoring of poverty-reducing expenditures that will be submitted with the same transmission delay as for the above-defined TOFE table.

- 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.