International Monetary Fund

Burkina Faso and the IMF

Press Release:
IMF Executive Board Approves Three-Year, US$41.6 Million ECF for Burkina Faso and US$3.9 Million Disbursement
December 27, 2013

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

November 28, 2013

Letter of Intent

Ouagadougou, November 28, 2013

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

SUBJECT: Letter of Intent and Memorandum of Economic and Financial Policies

Madame Managing Director,

The Government of Burkina Faso continues to implement the measures established in its economic and financial program supported by the three year arrangement under the Extended Credit Facility (ECF) of the International Monetary Fund (IMF) for 2010-2013, which will expire on December 31, 2013 or earlier upon the final disbursement. Program implementation took place in an environment characterized by an expected slowdown in economic activity due, in part, to the decline in world prices for gold and cotton, and under-execution of public investment spending.

The attached Memorandum of Economic and Financial Policies (MEFP) provides an overview of program implementation and compliance, and presents the policies that the government intends to pursue for the remainder of 2013, as well as medium term policies in the framework of a new three-year program for 2014-2016 to meet balance of payments needs. Policies under a new program would seek to maintain macroeconomic stability, as well as reinforce foundations for sustained and inclusive growth, consistent with the objectives of the Strategy for Accelerated Growth and Durable Development (SCADD).

Over the course of 2013, dynamic economic activity continued, but with a slight slowdown in growth, such that it is expected to reach 6.8 percent compared to 9 percent in 2012. The Government continued to implement its Strategy for Accelerated Growth and Durable Development (SCADD) in order to strengthen the resilience of the economy against various shocks while promoting inclusive growth and poverty reduction. Lower public investment spending combined with social and job-creating measures taken in October 2013 warranted supplemental budget authority amounting to CFAF 64 billion. With the implementation of these measures, the overall deficit including grants is expected to be 3.2 percent of GDP.

All quantitative performance criteria were observed for end-June 2013.

All structural benchmarks included in the program were met. The Government is committed to implement several other measures that were fixed for end-2013, namely; (i) making the tax information cross checking module in GERIF operational and functional; (ii) adoption by the SONAPOST executive board a strategy to improve the quality of financial services offered;

(iii) updating and submitting to the SOFITEX executive board the financial projections contained in the its business strategy for 2013-16 based on the 2012 financial outcomes.

Tax policy and customs reforms were continued, strengthening revenue collection despite a slight and temporary decline in revenues attributable to measures intended to improve the financial situation of SONABHY and a slowdown in mining activity due to lower international gold prices. Reforms under the new program will aim to continue to strengthen and improve domestic revenue collection, above all, to finance investment spending that can bring more growth and job creation to ensure growth that is more inclusive. Toward this goal, investment will be increased to improve human capacity in the areas of health, education, and vocational training, as well as in the energy sector, to reduce the costs of production such that the benefits of growth can be shared more broadly.

In view of the progress in implementing the current program and on the basis of the policies outlined in the attached MEFP, we would like to request the completion of the seventh review of the current ECF arrangement and the associated disbursement of SDR 3.225 million.

We would like to request a new three-year ECF arrangement to be approved following the expiration of the current ECF arrangement. The new arrangement would meet balance of payments needs and support the implementation of the Government's economic and financial policies during this period, supported by the establishment of quantitative performance criteria and structural benchmarks for 2014 (Tables 1 and 2 of the attached MEFP). Under the new arrangement, we request access in the amount of 45 % of quota, or 27.09 million SDR (CFAF 21.2 billion), to be disbursed in seven installments.

The Government believes that the measures contained in the MEFP will enable attainment of the economic and social objectives of the program.

In accordance with IMF policy, the Government will consult with the IMF on the adoption of these measures, and on any revision thereto.

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

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

Sincerely,

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

Attachments: 2014–2016 Memorandum of Economic and Financial Policies
Revised Technical Memorandum of Understanding

Attachment I. Memorandum on Economic and Financial Policies, 2014–2016

1. This Memorandum of Economic and Financial Policies (MEFP) provides an update on the implementation of the government's economic and financial program supported by the International Monetary Fund (IMF) under the Extended Credit Facility (ECF) from 2010 to 2013, as well as the new program requested for the period for 2014–2016. The new program under the ECF aims to preserve macroeconomic stability and reinforce the foundation of a strong and inclusive growth, in line with the objectives of the Accelerated Growth and Sustainable Development Strategy (SCADD). This memorandum describes recent economic trends, summarizes the structural benchmarks as of end-September 2013, and establishes the new macroeconomic framework for the three years as well as the structural objectives and benchmarks for end-2013 and 2014.

Recent Trends in the Economic Situation and Short-term Outlook

2. After the good performance registered in 2012, economic activity should remain relatively brisk in 2013, albeit with a slower growth. Preliminary estimates indicate a real GDP growth rate of about 6.8 percent in 2013, as against 9.0 percent in 2012. The contribution of the primary sector to GDP growth is expected to be 1.3 points compared with 4.3 points in 2012. The secondary sector should contribute 1.6 points, representing an increase of 0.3 percentage points relative to 2012. The tertiary sector's contribution should increase from 3.4 points in 2012 to 3.9 points in 2013. Agricultural production is projected to grow by 6.8 percent on account of a poorer geographical distribution of rainfall. Mining activity was slightly weaker due to lower gold prices. Private sector lending remained buoyant; however, there are indications of activities in new areas such as manganese mining and the cement sector.

3. Inflation declined due to lower food prices, and should remain below the three percent WAEMU convergence criterion. As a result of the favorable outcome of the 2013-2014 harvest, expected to be relatively positive, the implementation of price controls and the availability of foodstuffs in special outlets supporting food security policy at lower-than-market prices (boutiques témoins), inflation should be 2.0 percent in 2013, compared with 3.8 percent in 2012. This slowdown can be explained by lower prices of the "food and non-alcoholic beverage" segment (4.0 percent in 2013 compared with 6.1 percent in 2012), "housing, water, electricity, gas and other fuels" (2.6 percent in 2013 compared with 4.4 percent in 2012), and "hotels, cafés and restaurants" (1.8 percent in 2013 compared with 7.6 percent in 2012). However, this drop in prices was mitigated by the increase in the price of transportation (4.2 percent in 2013 compared with 2.6 percent in 2012).

4. Revenue mobilization strengthened in line with expectations. Total revenue mobilized at end-September 2013 amounted to CFAF 825.2 billion compared with CFAF 754.2 billion the previous year. This result was 9.4 percent higher than in 2012. This increase in domestic revenue was made possible by the pursuit of several government programs including the application of tax collection units; a broadening of the tax base; public awareness raising programs on tax compliance; and efforts to combat fraud, forgery and corruption. This performance was also attributable to the actions undertaken by several agencies, notably the application of VAT on imports of mining companies in the resource exploitation phase, as well as on companies subcontracting for the government. Emergency measures took effect on May 1. The first step is observing office jurisdiction by forwarding complete shipments to the appropriate interior offices that are responsible for customs clearance for the shipments. The second step contributes to more accurate valuation and is intended to institute the principle of systematically unloading shipments that consist of at least two items.

5. Grants were up by 63.3 percent, rising from CFAF 151.9 billion as of end-September 2012 to CFAF 248.1 billion as at end-September 2013. Execution of spending and net lending stood at CFAF 1,107.4 billion as of end-September 2013 compared with 943.2 billion in 2012. At end-September 2013, the execution of capital expenditure reached CFAF 452.0 billion, compared with 374.1 billion the previous year.

6. As of end-September, the budget deficit (including grants) reached 0.6 percent of GDP. This is due to the low level of execution in investment spending. A supplemental budget law authorizing additional spending in the amount of one percent of GDP (CFAF 64 billion) was enacted in October 2013. Its purpose is to incorporate social and job-creating measures taken by the government to better redistribute the fruits of growth. Additional spending related to these measures was allocated to increasing allowances for civil servants, creating jobs and income, granting investment and settling-in loans for financing self-employment of young graduates, strengthening the university infrastructure, improving social safety nets for the most vulnerable, and hiring women and youths for labor-intensive jobs. The additional spending will be financed through savings derived from reallocating certain investment and operating expenditures and their levels of execution. With the implementation of these measures, total spending for 2013 is projected at 27.0 percent of GDP, with an increase in the wage bill relative to 2012 (from 5.9 to 6.0 percent of GDP), and a drop in current transfers. The budget deficit, including grants, roughly 3.2 percent of GDP, will be financed by slightly higher external lending than in 2012 (due to changes in the financing modalities of the third World Bank budget support operation) and domestic financing amounting to 0.9 percent of GDP (including a portion of the proceeds from the 2012 CFAF 32.60 billion bond issuance).

7. The trade balance as of end-September posted a shortfall of CFAF 783.8 billion, based on the raw data reported by the Directorate General of Customs. This shortfall is broadly explained by the drop in gold exports due to lower international gold prices. The balance of payment projections for 2013 feature a deterioration of the current account deficit to 3.5 percent of GDP relative to the 0.8 percent registered in 2012, primarily due to lower exports of gold, combined with higher imports. However, an improvement in the financial account will partly offset the deterioration in the current account when combined with higher external financing, lower outflows and a more effective repatriation of gold export proceeds.

8. The monetary position as of end-September 2013 showed a year-on-year growth rate of 31.1 percent in lending to the private sector and a 12.9 percent growth rate in broad money. Based on final quarter trends, growth rates of 20.8 percent and 14.0 percent are forecast for year-end for private sector growth and broad money, respectively. The overall external balance should reach a surplus of CFAF 14.7 billion as of end-December 2013, thereby strengthening the coverage of international reserves.

Implementation of the Accelerated Growth and Sustainable Development Strategy (SCADD)

9. Government policies are formulated and implemented in line with the national development strategy known as the SCADD. According to the last annual performance report, 57 percent of the measures and actions listed in the SCADD performance matrix were fully implemented, and 66 percent of the targets were reached in terms of their indicators. Efforts are underway to strengthen regional and sectoral capacities to deepen the ongoing reforms thereby allowing key measures and actions to be fully applied during the period 2014 to 2016, measures such as the development of the Bagré growth hub, public-private partnerships, better access of the population to energy services, increasing private-sector competitiveness by improving the business climate, and promoting the establishment of processing units. Over the next two years, within its social protection policy, the government plans to put in place a universal health insurance, to extend social protection to the population at large and broaden Burkinabè's access to a minimum of quality healthcare. Moreover, in terms of strengthening human capital, there are plans to bring staffing of public health facilities up to required levels, to provide first emergency kits to fully treat malaria in children below the age of five, to broaden the implementation of reforms in the education system, to increase the supply of education in all levels of teaching, and to provide vocational education and professional training. There are plans to build new classrooms, renovate schools, and hire about 5,000 new teachers per year.

Performance under the ECF-supported program

10. All of the quantitative performance criteria for end-June 2013 were met. Revenue was slightly below the indicative target due to a few measures such as the tax on petroleum products (TPP) partly foregone, and corporate tax proceeds from mining companies. This was compounded by the slowdown in mining activities due to lower international gold prices. In spite of lower than forecast revenues, the ceiling on net domestic financing and deficit were easily reached due to low spending execution, particularly for investment.

11. Regarding the structural benchmarks for end-June, a committee to monitor the execution of development project and program spending was established by ministerial order on June 27, 2013. The purpose of the committee is to effectively monitor public investment and improve the level of execution of domestically- and externally-financed investment. The committee met three times and fielded visits to the projects that are experiencing execution difficulties. After these visits, the committee prepared a report that described the status of the execution rate by each ministry, making recommendations to improve the level of execution of investment spending. At the next committee meeting, all the projects with an estimated spending execution rate below 50 percent will be reviewed. A cabinet meeting comprising four ministers was held in June to establish measures that would accelerate the execution of the investment expenditure set out in the 2013 budget law. This meeting, chaired by the Minister of the Economy and Finance, and including three ministerial departments, aimed to take stock of some projects in difficulty in these departments and to prepare for a high-level meeting with certain donors. The meeting led to the adoption of measures for the execution of some projects in difficulty.

12. The two structural benchmarks slated for completion by end-September were met. A national workshop on streamlining and digitizing public spending was held in June; it led to the preparation of an action plan adopted by the Council of Ministers on September 11, 2013. In addition, the interconnection of the biometric database and SIGASPE was completed. Through this effort, 125,319 out of 138,395 employees were enrolled as of August 31, 2013, broken down as follows: 117,574 active employees, 5,293 seconded employees, 841 employees on call, 1,611 on permanent contract assignment, and 13,076 unenrolled and unaccounted for employees. The Council decided to suspend the wages of the employees concerned and granted employees who had not yet enrolled three more months on a one-time basis to legalize their status; otherwise, they would be dismissed.

Macroeconomic Outlook and Risks over the Medium Term

13. Real growth is expected to remain between 6 and 7 percent, although it should align itself with the average of the last few years provided there are no serious climatic conditions or other external shocks. Growth will be driven by improved implementation of the government investment program, in particular key investment in the growth hubs, the development of power generation, and increases in social expenditures. These investments will ensure a more equitable distribution of growth benefits. Inflation should remain comfortably below the margin of the 3 percent regional norm based on the unchanged central bank policies, and provided that international food and oil prices remain consistent with projections.

14. However, due to projections for prices of export commodities, and in particular for gold and cotton, the terms of trade should deteriorate substantially in 2014 before improving slightly after that. This, combined with the investment program that the government has planned, could result in a sizeable current account deficit over the medium term, reaching 5.2 percent of GDP in 2016. It will be necessary to significantly accumulate international reserves over the next three years, which would correspond to a protracted balance of payments need and thereby justify the request for access under a successor three-year arrangement under the Extended Credit Facility (ECF).

15. Risks could begin to emerge at the time that the macroeconomic policy measures are being formulated. In spite of the variety of many measures that were undertaken to improve resilience, especially in the high labor-intensive cotton industry, Burkina Faso remains extremely vulnerable to shocks. The main risk that could jeopardize the objectives of macroeconomic policy in the successor program is, as always, a change in climatic conditions or an acceleration of climatic trends over the medium term. One other major risk is the deterioration in terms of trade, for commodity imports as well as exports, and a protracted global economic slowdown, which could in the short term alter foreign aid. The other risks may include the security situation in the region and social tensions in the country due to the high cost of living.

Objectives of the New Program Supported by the ECF Arrangement

16. During the period from 2014 to 2016, the new program will attempt to focus on long-term challenges while ensuring macroeconomic stability within a more difficult economic setting. The main long-term challenge is to create jobs and more diversified activities, particularly in the agriculture sector, but in new areas as well. Another challenge is to improve education in order to meet the growing demands for labor, while taking advantage of new technologies and globalization. A reliable and sufficient supply of electricity will be essential to ensure sustainable growth, fiscal viability, job creation, and a considerable reduction in the cost of inputs. Another challenge is to ensure that revenue derived from the exploitation of natural resources is invested judiciously, laying a foundation for strong growth for generations to come.

17. To achieve the strategic objectives seeking to attain widespread growth, create jobs and reduce poverty, the government will have to accelerate the pace of its public investment program, particularly in the area of energy and infrastructure in order to lower the cost of inputs. The government will also have to: (i) expand its social protection system to ensure that a larger percentage of the population benefits from growth and macroeconomic stability; (ii) pursue measures that aim to improve productivity and resilience in agriculture; (iii) promote the agrifood industry; (iv) strengthen human capital, mainly by developing worker skills; and (v) maintain macroeconomic stability through sound fiscal policy management.

18. The government program supported by the current ECF arrangement is coming to an end. It had put an emphasis on improving revenue collection and registered good results. The successor program will build on these gains, but it will place greater emphasis on the quality and pace of spending, in particular by: (i) carefully ranking public investment projects; (ii) accelerating spending through public finance management reforms; (iii) reorienting public investments to strategic sectors such as energy, education and employment; and (iv) providing sound and transparent management of mining revenue.

Medium-Term Macroeconomic Policy Framework

19. The medium-term macroeconomic policy framework will pave the way for spending to preserve social expenditures and priority investment while keeping institutional capacity constraints in mind. From this standpoint, it will be necessary to increase revenue and reallocate non-priority spending and additional internal/external financing. In order to keep the risk of over-indebtedness at a "low-moderate" level, the macroeconomic objectives aim to contain the budget deficit excluding grants at a reasonable level, below 3 percent of GDP.

20. To maintain the budget revenue collection level, the government will continue with actions to upgrade the tax and customs administrations, will bolster the achievements of the tax collection units and will seek new tax niches to broaden the tax base. During 2014–2016, revenue should reach 19.1 percent of GDP and expenditures should rise to 25.7 percent of GDP, driven by current expenditure (13.1 percent) as well as capital expenditure (12.5 percent). In this period, credit to the economy should increase considerably to support economic activity, in line with the policy of easing the cost of borrowing money. In addition, a system for ongoing monitoring of the repatriation of export proceeds was put in place, particularly for mining companies, in order to strengthen foreign currency reserves.

2014 Draft Budget Law Compared to the Program Framework

21. The 2014 draft budget law is projecting a deficit of 90.0 billion (1.4 percent of GDP) and net domestic financing of CFAF 15.4 billion (0.2 percent of GDP), with net external financing of CFAF 74.6 billion and a remaining gap of CFAF 55.0 billion to be filled by a new bond issuance

(0.8 percent of GDP). Revenue is projected at CFAF 1,281.7 billion, and grants amount to CFAF 373.5 billion; expenditure is projected at CFAF 1,745.2 billion.

22. However, the macroeconomic framework underlying the program includes a number of additional components that are not yet reflected in the draft budget law. For revenue, the projection has been lowered to CFAF 1,242.4 billion, partly due to the decision to lower the IUTS (the single tax on wages and salaries) and its impact in 2014. Moreover, the framework includes additional spending to meet subsidy needs for SONABEL and SONABHY at the same level as in 2013 since there were no other policy changes as of May 2013. In addition, the framework includes additional subsidies related to the bonds issued for SONABHY and SOFITEX to strengthen their financial positions that are to be sold to banks in 2014. This generates a larger deficit of CFAF 197.7 billion, or 3.0 percent of GDP. The framework also includes the amortization of domestic bonds for CFAF 59 billion. The combination of the drop in income with higher spending is observed through net domestic financing of CFA 102.6 billion or 1.6 percent of GDP. This financing includes use of the proceeds from the 2013 CFAF 55 billion bond issuance, the issuance of another bond to the same amount in 2014, and financing stemming from the sales of public enterprise bonds (SONABHY and SOFITEX). The amount of CFAF 102.6 billion (on top of the scheduled IMF disbursements) provides the ceiling on the budget performance criterion under the program.

Structural Reforms

Improving the quality and pace of investment spending

23. The annual monitoring report on the implementation of the SCADD highlighted that the execution rate of investment projects was a cause for concern. The government has devoted efforts to verify the public expenditure chain and identify bottlenecks on execution rates. Four major areas were identified: the procurement process; the expenditure approval process; dependency on paper transactions; and donor approval procedures. To address these concerns, the government adopted an action plan for implementing the reform in terms of streamlining the expenditure process over the period 2014-2016. In 2014, the government will review the laws to implement the findings of the study on the reform of procedures and agent responsibilities along the expenditure chain and will establish a committee in charge of coordinating activities relating to digitalization. The inter-ministerial investment expenditure monitoring committee, already in place, will continue its monitoring activities to enhance the level and quality of investment expenditures for projects and programs.

24. Several measures were implemented recently as part of budget programming and the implementation of the program budget. Thus, in terms of achievements, we note: (i) the preparation of the 2013-2015 program budgets for all the ministries and institutions except for the Ministry of Transportation, the Post Office and the Digital Economy (MTPEN), the Ministry of Human Rights and Civic Promotion (MDHPC) and the National Independent Elections Commission (CENI); (ii) the approval by a monitoring committee of a plan to strengthen the capacities of the program budget stakeholders; (iii) the completion of the review of the programs of eight ministries and institutions; and (iv) the completion of an impact study of the program budget approach on the IT applications currently being used in the area of finance to strengthen economic governance.

25. The government pays very close attention to improving the quality of investment spending, giving preference to spending on projects that are close to completion, expected to generate growth and create jobs and can be swiftly executed. Hence, emphasis will be placed on labor-intensive projects. In 2014, the government will continue to implement major infrastructure projects such as paving roads, the Samendeni Dam construction project, the Bagré growth hub project, and the implementation of the youth employment and skills development project.

Ensuring a better sharing of the benefits of growth

26. The implementation of the National Social Security Policy adopted in 2012, and its three-year operating program for 2013-2015, is continuing. The overarching goal is to contribute to a qualitative change in living conditions for all social segments and to promote the effectiveness, expansion and breadth of existing social safety nets in order to provide better access for the most vulnerable groups. The major innovations are expanding the school cafeteria program, free education and basic health care for infants and children up to five years old, free basic health care for pregnant women and the poorest, subsidized housing for the neediest, and expanding social security benefits to workers in the informal sector. Spending to finance the action plan amounts to CFAF 5 billion in 2013 (including the supplemental budget measures). The allocations provided for in the 2014 budget amount to CFAF 5.27 billion, which represents a 5.41 percent increase over 2013.

27. The programs to promote the growth hubs were upgraded in 2012 with the extensive restructuring of the Maîtrise d'ouvrage de Bagré (MOB), which created the semi-public company named "Société de développement intégré du pôle de Bagré," abbreviated as "BAGREPOLE." The organs of the semi-public company have been put in place and are operational, and the implementation of the 2013-2017 strategic development plan adopted in 2012 by the board of directors is continuing. In addition, it should be noted that in February 2013 the operationalization of the agribusiness component of the Bagré growth hub began; this was done through the Notice of Manifestation of Interest (AMI) for allocating developed land (a first parcel of 30,000 irrigated hectares, for which the allocation conditions were discussed on September 19, 2013 by applicants (700 agribusiness men) and BAGREPOLE officials). The government plans to initiate another growth hub development project in the Sahel in 2014.

28. The government will also be deploying efforts to improve access to affordable financial services. By the end of December 2013, SONAPOST will have approved its new strategy that aims to provide basic financial services throughout the country, using its comparative advantage that enables it to cover a broad geographical region. An action plan for implementing this strategy will be prepared to enable better monitoring. Through improvements in the institutional, organizational and regulatory framework of microfinance, bank deposits of microfinance institutions increased (CFAF 44.6 billion as of end-2012) and the client portfolio (public and private employees and SMEs/SMIs) has expanded. In 2013 and 2014, the government will continue to implement its strategy to strengthen the microfinance sector by building institutional and operational capacities of the Chamber of Business (acting within its delegated authority to implement the National Microfinance Strategy) by making a decentralized financial system (DFS) support unit housed in it structure operational. This unit will be responsible for creating expertise in the DFS environment that is suited to non-financial support services useful for developing DFSs.

Tax policy and administration reforms

29. The government is committed to keep up recent progress in mobilizing domestic revenue. It plans to implement a new 5 percent turnover tax (TCA) on the use of mobile phones, which is expected to generate revenue of CFAF 12 billion in 2014. Fully implementing the Virtual Liaison System for Import and Export operations (SYLVIE) at the national level has contributed to a sustained improvement in customs revenue collections. Other customs administration reforms include the implementation of a satellite system for tracking goods in transit to address the risk of fraud, and the use of new software to better value imported used vehicles. Reforms also include heightened surveillance of publicly purchased goods to ensure that they are consistent with customs regulations, and measures to ensure that the new IT systems collecting VAT are fully operational. Other reforms that are in progress include: establishing standardized invoices to fight fraud in VAT billing; migration from ASYCUDA++ to ASYCUDA World to shorten customs clearance times; and finalizing the interconnection between the Directorate General of Taxes and the Directorate General of Customs to improve sharing of information. Moreover, to improve the compilation of national accounts, the government plans to set the ball rolling in 2014 and conduct a number of studies that are necessary to update the growth base year used by the National Statistics and Demography Institute (INSD).

Energy

30. The insufficient supply of energy dominates the discussions on supply constraints that affect growth, and the problem of power outages worsened in 2013. One priority to be addressed in the investment budget is increasing the supply of energy by building new thermal energy power plants and implementing solar energy projects. Shortages in the supply of imported electricity and increasing fuel prices have led to increasing budgetary costs, causing an energy security issue that is an obstacle to growth. Energy production costs have increased considerably with purchases of standby generators and the recurring replacements of equipment damaged by the frequent power outages. From a regional standpoint, the increased supply through power imports from Côte d'Ivoire, Ghana and potentially Niger, should lower SONABEL's supply costs and make the supply of energy secure. The authorities and the development partners (the EU, AFD and the WB) are in discussions to support new projects that aim to improve the quality and quantity of supply and lower production costs.

31. SONABEL, the public electricity company, recorded significant losses in 2013 due to the increase in production costs per kilowatt-hour and the higher costs of hydrocarbons. Despite the fact that SONABEL took steps to lower costs, obtain steady supplies and increase production, it must still deal with the stability of the tariff grid and difficulties in quickly increasing capacity to meet the growing demand. Its medium-term policy in the energy sector area will continue to revolve around the following axes: develop regional interconnections to import lower-cost energy; increase thermal capacity; develop solar technology to bring the cost down to affordable levels; consider strategic changes to the tariff grid to improve cost recovery; and improve access to the grid outside urban areas. In its five-year investment plan for 2011-2016, SONABEL is committed to pursuing its efforts to lower connection costs, stabilize rates and meet its obligations to the government in terms of dividends, debts and taxes. A roundtable of donors and the authorities was held in June 2013 to explore concerted action to accelerate the plans to expand the supply of energy and discuss options to improve cost recovery. SONABEL will implement a new results-based strategic plan and the recommendations from three studies performed using World Bank funding beginning in 2014. SONABEL also plans to undertake a complementary study on the reliability of production capacity options proposed in earlier studies, to take into account the developments in the energy sector and put the sector on a more sustainable financial footing.

32. SONABHY's financial performance improved in 2013 following steps taken in May 2013 to contain losses and the impact of changes in international fuel prices. SONABHY faced serious cash flow problems in 2012 due to the increase in international fuel prices in a context of unchanged prices at the pump. Indeed, the losses in the first quarter of 2013 remained high. Thus, the government took a series of steps in May 2013, including to partially forego the per liter tax on gasoline and diesel fuel and to increase the retail price of butane gas. The government also transferred government bonds to SONABHY in the amount of CFAF 38 billion in 2012 and CFAF 31 billion in 2013 to improve its financial position and its relations with commercial banks. The government is pursuing discussions with all stakeholders to improve cost recovery on a more automatic and incremental basis.

Management of Revenue from Natural Resources

33. Revenue from natural resources is becoming a decisive factor in the expenditure envelope, and recent explorations indicate that revenue may continue to grow in the future. The 2003 Mining Code was revised to make it more consistent with international practice. It was submitted to the Council of Ministers in September 2013 and the National Assembly is expected to enact it by the end of 2013.

34. The government plans to implement other measures to improve its ability to manage the wealth generated by natural resources, with technical assistance from the IMF. With limited resources and substantial development requirements, the goal is to direct the use of revenue derived from natural resources towards public investment spending that can foster inclusive and sustainable growth. In view of the extent of investment requirements for development, and intergenerational equity concerns, the government will take steps to ensure the optimal and long-term use of the revenue derived from the exploitation of natural resources.

Debt Policy

35. The government has prepared a comprehensive five-year strategy for managing the debt, identifying the guidelines and criteria for the external and internal debt so as to frame the debt policy during this period. The key objectives of this strategy are to ensure that the level of public debt remains sustainable and to meet financing requirements.

36. The government intends to explore more flexible borrowing opportunities in view of the fact that the concessionality limit is difficult to reach, even for traditional lenders, in the current context of low interest rates. The nominal limit on nonconcessional lending of CFAF 135.9 billion under the program (2.1 percent of GDP) was linked to four projects, namely the construction of the new Donsin Airport, the project to develop 1,500 ha of irrigated perimeters, the construction of a 53-km feeder canal upstream from the Samendeni Dam, the project to improve the urban section of National Road RN04/RN03+ and extending it to the intersection with Avenue de la Liberté, and the project to pave the Kongoussi-Djibo and Dédougou-Tougan highways. In October 2013 the government signed the agreement to fund the project to improve the urban section of National Road RN04/RN03+ and extend it to the intersection of Avenue de la Liberté for the amount of CFAF 18 billion with the WADB. However, new projects have emerged that can be implemented more quickly, such as the Kantchari-Diapaga-Tansarga-Benin border regional road project. As a result, we propose retaining the nominal limit on nonconcessional borrowing as under the current ECF-supported program, since the risk of over-indebtedness is broadly unchanged compared to the "moderate" risk evaluation completed during the sixth review. However, the limit will not apply to any specific project. This will enable the government to retain greater flexibility in the use of this limit and build experience in nonconcessional lending to strengthen its debt management capabilities. As for domestic financing, the government plans to hold its participation in the regional financial market steady and to strengthen it, as doing so provides an opportunity to diversify funding sources, to reduce dependence on external partners and to contribute to financial market development.

Program Modalities

37. The government intends to take all the necessary measures to achieve the targets and performance criteria agreed with IMF staff, as indicated in Tables 1 and 2 of this Memorandum. The program will be reviewed in accordance with the Technical Memorandum of Understanding (TMU), which defines the quantitative performance criteria and requirements in terms of reporting data to IMF staff. The first, second, and third program reviews under the new ECF arrangement are expected to take place on May 15, 2014, December 1, 2014, and May 15, 2015, respectively, or shortly thereafter.

Table 1. Burkina Faso: Quantitative Performance Criteria and Indicative Targets for Proposed Successor ECF Arrangement,
December 2013–December 2014
(CFAF billion, cumulative from beginning of year; unless otherwise indicated)

	2013	2014			
	Dec.	Mar. [4]	Jun.	Sept. [4]	Dec.
	Proj.	Proj.	Proj.	Proj.	Proj.
Quantitative Performance Criteria					
Ceiling on net domestic financing of government[1]	56.7	115.0	95.9	128.0	109.6
Ceiling on the amount of new nonconcessional external debt contracted or guaranteed by government [2, 3]	135.9	135.9	135.9	135.9	135.9
Accumulation of external arrears [2]	0.0	0.0	0.0	0.0	0.0
Indicative targets					
Ceiling on the overall fiscal deficit including grants [4]	193.3	100.9	125.8	125.8	197.7
Government revenue	1147.9	268.7	583.2	863.4	1242.5
Poverty-reducing social expenditures[5]	417.9	115.5	231.0	346.5	462.0
Accumulation of new domestic arrears	0.0	0.0	0.0	0.0	0.0

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

[1] Including on-lending of prospective IMF disbursements. The ceiling on net domestic financing is to be adjusted in line with the TMU definition. Prospective sales of public enterprise bonds are included in the targets.

[2] To be observed continuously.

[3] The non-zero limit is untied.

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

[5] 90 percent of budget amount.

Table 2. Burkina Faso: Structural Benchmarks for Proposed Successor ECF Arrangement

Measures	Rationale	Evidence	Date
Make the tax information cross checking module (with Customs) operational and functional in GERIF (system used by internal revenue service) **(DGI)**	Improve information sharing between the DGI and the DGD	Note on the functionality of the module	Jan-14
Update the financial projections for 2013-16 underlying the SOFITEX business plan based on financial results for the 2012 fiscal year **(SOFITEX)**	Update financial projections	Approval of new projections by Board of Directors of SOFITEX	Jan-14
Adopt a new strategy to improve the quality of the financial services offered by the national postal service, SONAPOST **(SONAPOST)**	Broaden access to basic financial services with SONAPOST's wide geographic coverage	Adoption of the strategy by the SONAPOST Board of Directors	Jan-14
Finalize SONABEL's new financial model and produce new financial projections for 2014-2016 including different scenarios. **(SONABEL)**	Update SONABEL's financial projections to provide more clarity in the context of accelerating investment in new capacity.	Updated financial projections for 2014-2016	Jan-14
Use the tax information interconnection between internal revenue service (DGI) and Customs (DGD) through an automatic update of the IFU database in Sydonia++ **(DGD/DGI)**	Use of the same database by the DGD and the DGI when handling taxpayers files	Joint note on the use of single tax statements (IFU) by the DGD and the DGI	Mar-14
Begin operations of the committee charged with computerizing the expenditure approval chain **(DGB)**	Begin implementing and monitoring computerization of expenditure approval chain	Decree for the creation of the committee and progress report	Mar-14
Revise 2014 Budget law and its implementing decrees to incorporate reforms to rationalize the expenditure approval process **(DGTCP)**	Accelerate expenditure flows by eliminating duplication in expenditure control chain.	Changes in laws and implementing decrees.	Mar-14
Harmonize different databases for gold production and conduct monthly audit on mining production statistics **(MEF/MME).**	Use a single database for the gold production	Monthly audit report	Mar-14
Devise a report with recommendations to improve the quality of investment expenditures to the Cabinet **(DGB).**	Improve the quality of investment expenditures	Report to the Cabinet	Sep-14

Conduct a study of options to reinforce the cotton stabilization fund, and put it on a financially sustainable basis. **(SP/SFCL).**	Put the stabilization fund on a financially sustainable basis.	Submit report	Sep-14
Adopt an action plan (choosing among strategy options) to improve the quality of financial services provided by SONAPOST **(SONAPOST)**	Improve access to financial services	Approval by Board of Directors of SONAPOST	Dec-14
Updated the business plan for SOFITEX, taking into account all new assumptions and projections (e.g. including yields, commodity price projections, land cultivated). **(SOFITEX).**	Update business plan based on all new assumptions and projections	Approval by Board of Directors of SOFITEX	Dec-14
Conduct a study on the reliability of the production and import options to take into account the new developments in the energy sector at a regional and sub regional level **(SONABEL)**	Find the best generation option capable of responding to the demand in a cost effective way	Submit report to SONABEL Board of Directors	Dec-14
Implement a customs system to track transit cargo **(DGD).**	Combat fraud and improve revenue collection	Note on the implementation of the system	Dec-14
Start the updating process from the base year used by the INSD for the production of the national accounts **(INSD)**	Produce national accounts on an updated base	Interim note on the beginning of the process	Dec-14

Attachment II. Technical Memorandum of Understanding

1. This Technical Memorandum of Understanding (TMU) defines the quantitative performance criteria, indicative targets and structural benchmarks that will serve to assess performance under the program supported by the Extended Credit Facility (ECF) from 2013 to 2016. It also sets the framework and deadlines for the submission of data to IMF staff to be used to assess the implementation of the program.

CONDITIONALITY

2. The quantitative performance criteria and indicative targets for end-December 2013, end-March 2014, end-September 2014, and end-December 2014 are provided in Table 1 of the MEFP. The structural benchmarks set forth in the program are detailed in Table 2 of the MEFP.

DEFINITIONS

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

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

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

6. **Debt concessionality**. For the purposes of the relevant performance criteria, a debt is considered concessional if it includes a grant element of at least 35 percent.[1] The present value (PV) of debt at the time it is contracted is calculated by discounting the borrower's future debt service on this debt.[2] The discount rate used is 5.0 percent.

7. **External debt.** For the purposes of the relevant performance criteria, external debt is defined as debt contracted or serviced in a currency other than the CFA franc. This definition also

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

[2] The calculation of concessionality takes into account all the aspects of the loan contract, including the due date, differing repayment, maturity, contracting commissions and management costs.

applies to debt among WAEMU countries. The relevant performance criteria apply to the external debt of the government, public enterprises, and other public entities in which the government holds more than 50 percent of the capital, and any private debt for which the government has extended guarantees that constitute a contingent liability for the government.

QUANTITATIVE PERFORMANCE CRITERIA

8. The revised performance criteria proposed for end-December 2013 and 2014 relate to: (i) a ceiling for net domestic financing as defined below in paragraph 10; (ii) a ceiling on the contracting or guarantee of nonconcessional external debt by the government, as defined in paragraphs 4 to 7; and (iii) with a ceiling on non-accumulation of payment arrears on external debt service.

A. Net domestic financing

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

Adjustment

10. The cumulative ceiling on net domestic financing will be adjusted upward in the amount by which external program assistance, excluding project grants and loans, falls short of the projected amount, up to a maximum of CFAF 65 billion. The shortfall in the amount of external program assistance (grants and loans) will be calculated in reference to the projections in Table 1 below. The ceiling will not be adjusted downward in the event the external program assistance is higher than programmed.

Table 1. Projections of External Program Assistance (cumulative, CFAF billions)					
	End-December 2013	End-March 2014	End-June 2014	End-September 2014	End-December 2014
Program Grants and Loans	172.4	18.0	37.4	95.6	115.0

11. The cumulative ceiling on net domestic financing will be adjusted downward in the amount by which the actual sale to commercial banks of government bonds given to public enterprises is less than projections. The shortfall will be calculated in reference to the projections in Table 2 below. The ceiling will not be adjusted upward in the event such sales are higher than programmed.

Table 2. Projections of Sales to Banks of Public Enterprise Bonds (cumulative, CFAF billions)					
	End-December 2013	End-March 2014	End-June 2014	End-September 2014	End-December 2014
	38.3	39.4	39.4	39.4	39.4

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

B. Nonconcessional External Debt Contracted or Guaranteed by the Government

Performance criterion

13. The government undertakes not to contract or guarantee any nonconcessional external debt beyond the ceiling indicated in MEFP Table 1. This performance criterion applies to external debt as defined in paragraph 7 of this memorandum. It utilizes the concept of concessionality as

defined in paragraph 6 of this memorandum. This performance criterion also applies to any private debt guaranteed by the government that constitutes a contingent government debt as defined in paragraphs 4 to 7 of this memorandum. In addition, this criterion applies to public enterprises, local governments, and other public sector entities (including public administrative, professional, scientific and technical agencies) unless excluded in MEFP Table 1. However, this performance criterion will not apply to Treasury bills and bonds issued in CFA francs on the WAEMU regional market, to suppliers' normal short-term credits, or to IMF loans. This commitment is a performance criterion, to be observed continuously. It is measured on a cumulative basis from the IMF Executive Board's approval of the ECF arrangement, and no adjustment factor will apply.

Reporting Deadlines

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

C. Non-accumulation of New External Payment Arrears

Performance criterion

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

Reporting deadlines

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

OTHER QUANTITATIVE INDICATIVE TARGETS

17. The program also includes indicative targets for the overall deficit (commitment basis, grants included) as defined in paragraph 19 below; total government revenue; poverty-reducing social expenditures, and nonaccumulation of domestic payment arrears.

A. Overall Fiscal Deficit Including Grants

Definition

18. For the program, the overall fiscal deficit including grants is valued on a commitment basis. It is defined as the sum of the government's net foreign and domestic financing, measured from the financing side, plus a cash adjustment. Net foreign financing is the sum of new foreign borrowing less amortization. Net domestic financing is defined in paragraphs 10-11 above. The

cash basis adjustment is defined as the sum of: (i) all unpaid expenditure commitments and (ii) the change in pending payments and (iii) the change in treasury deposits.

Adjustment

19. The ceiling on the overall fiscal deficit including grants will be adjusted upward in the amount by which external program assistance, excluding project grants and loans, falls short of the projected amount, up to a maximum of CFAF 65 billion. The shortfall in the amount of external program assistance (grants and loans) will be calculated in reference to the projections in Table 1 above. The ceiling will not be adjusted downward in the event the external program assistance is higher than programmed.

20. The ceiling on the overall fiscal deficit including grants will be adjusted downward in the amount by which the actual sale to commercial banks of government bonds given to public enterprises is less than projected. The shortfall will be calculated in reference to the projections in Table 2 above. The ceiling will not be adjusted upward in the event such sales are higher than programmed.

21. The ceiling on the overall fiscal deficit including grants will be adjusted downward in the amount by which projected project loans fall short of the actual amount. The ceiling on the overall fiscal deficit including grants will be adjusted upward in the amount by which projected project loans are in excess of the actual amount. This difference in the amount will be calculated in reference to the projections in Table 3 below.

Table 3. Projections of Project Loans (cumulative, CFAF billions)

	End-December 2013	End-March 2014	End-June 2014	End-September 2014	End-December 2014
Project loans	134.8	10.0	14.0	35.0	97.4

B. Total Government Revenue

Definition

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

C. Poverty-Reducing Social Expenditures

23. Poverty-reducing social expenditures are defined as the expenditures of sectors sponsoring the priority programs identified in the Accelerated Growth and Sustainable Development Strategy (SCADD) to advance the achievement of poverty reduction objectives. These cover all spending categories for the following ministries : Women's Empowerment and Gender , Health , Social Action and National Solidarity , National Education and Literacy , Agriculture and Food Security , Animal Resources , Environment and Sustainability , Youth, Vocational Training and employment including labor and social security aspects of the Ministry of Public Service, Labor and social Security , Water and Sanitation Development Hydraulics. They also include rural roads and the Heavily Indebted Poor Countries Initiative (HIPC Title 5) expenditure for the Ministry of Infrastructure and Transport of Opening up, and HIPC expenditure only for Communication expenditure, Justice and Human Rights, Economy and Finance and the Ministry mining, quarrying and energy. Section 98 allocations covering "community transfers", from the Ministries of Health, Agriculture and Food Security and the National Education and Literacy are also included. These expenditures are monitored directly through the budget, and the indicative threshold for the program will be 90 percent of the amount established by the budget authority.

D. Non-Accumulation of New Domestic Payment Arrears

Definition

24. The government will not accumulate payment arrears on domestic obligations during the program period. This is an indicative target.

ADDITIONAL INFORMATION FOR PROGRAM MONITORING

25. To enable IMF staff to assess program performance, the government agrees to submit the following data to them in paper format and/or MS Excel electronic files, with the frequencies and deadlines specified below.

Table 4. Summary of Data Reporting Requirements

Information	Institution Responsible	Data Frequency	Reporting Frequency
Public Finance			
The monthly government financial operations table (TOFE) and the customary appendix tables, to be forwarded within six weeks after the end of each month; if data on actual investment financed by external grants and loans are not available in time, a linear estimate of execution based on the annual projections will be used.	MEF	Monthly	6 weeks
Domestic budgetary financing (net bank credit to the government and stock of unredeemed treasury bonds and bills)	MEF/BCEAO	Monthly	6 weeks
Data on implementation of the public investment program, including details on financing sources.	MEF	Quarterly	6 weeks
The stock of external debt, external debt service, external debt contracted, and external debt repayment.	MEF	Quarterly	6 weeks
Social poverty-reducing expenditures	MEF	Monthly	6 weeks
Petroleum product prices, consumption and taxes, including: (i) the price structure for the month concerned; (ii) detailed calculation of the price structure, from the f.o.b price to the retail price; (iii) volumes purchased and distributed for consumption by the petroleum distributor (SONABHY); with a distinction made between retail and industry sales; and (iv) a breakdown of tax revenue from petroleum products—customs duties, tax on petroleum products (TPP), and value-added tax (VAT) — and subsidies unpaid	MEF	Monthly	4 weeks
A monthly statement of the accounts with the treasury, broken out by major category (administrative services, state enterprises, public administrative enterprises, international organizations, private depositors, and others),	MEF	Monthly	6 weeks
Monetary Sector			
Consolidated balance sheet of monetary institutions	BCEAO	Monthly	6 weeks
Monetary survey: provisional data	BCEAO	Monthly	6 weeks
Monetary survey: final data	BCEAO	Monthly	10 weeks
Lending and borrowing interest rates	BCEAO	Monthly	6 weeks
Bank supervision indicators for banks and nonbank financial institutions	BCEAO	Monthly	6 weeks
Balance of Payments			
Preliminary annual balance of payments data	BCEAO	Annual	9 months
Foreign trade statistics	INSD/ BCEAO	Monthly	3 months
Any revision of balance of payments data (including	BCEAO	As soon as	2 weeks

Information	Institution Responsible	Data Frequency	Reporting Frequency
services, private transfers, official transfers, capital transactions)		revisions are made	
Real Sector			
Provisional national accounts and any revision of the national accounts	MEF	Annual	2 weeks
Disaggregated consumer price indices	MEF	Monthly	2 weeks
Structural reforms and other data			
Any study or official report on Burkina Faso's economy, from the time of its publication or the time it enters into force.	MEF		2 weeks
Any decision, order, law, decree, ordinance, or circular having economic or financial implications, on the date published, or no later than the date of entry into force.	MEF		2 weeks