March 2006
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Burkina Faso: Fifth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Request for Extension of Commitment Period—Staff Report; and Press Release on the Executive Board Consideration

In the context of the fifth review under the three-year arrangement under the Poverty Reduction and Growth Facility and request for an extension of commitment period, the following documents have been released and are included in this package:

- the staff report for the Fifth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Request for Extension of Commitment Period, prepared by a staff team of the IMF, following discussions that ended on December 15, 2005, with the officials of Burkina Faso on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on March 3, 2006. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a Press Release summarizing the views of the Executive Board consideration of the staff report that completed the request and review.

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

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

*May also be included in Staff Report

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

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BURKINA FASO

Fifth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Request for Extension of Commitment Period

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

Approved by Thomas Krueger and Mark Plant

March 3, 2006

Executive Directors approved an arrangement under the Poverty Reduction and Growth Facility (PRGF) on June 11, 2003, in an amount equivalent to SDR 24.08 million (40 percent of quota), of which SDR 17.2 million has been disbursed. The fourth review was completed on September 7, 2005. Upon completion of the fifth review, a disbursement in the amount of SDR 3.44 million becomes available.

The authorities request that the arrangement be extended until September 30, 2006, to ensure that there is sufficient time to complete the sixth review under the arrangement and that the final disbursement can be made within the arrangement period.

Discussions on the fifth review were held in Ouagadougou during November 29–December 15, 2005. The mission met with the Minister of Finance and Budget, Mr. Compaoré; National Director of the central bank (Mr. Bolo Sanou); and other senior officials, as well as representatives of the private sector.

The mission team comprised Mr. Rogers (head), and Messrs. Geiregat, Köhler, and Melhado (all AFR). The mission was assisted by Mr. Zejan, the Fund's Resident Representative. World Bank staff also participated in the discussions.

Burkina Faso is a member of the West African Economic and Monetary Union (WAEMU) and shares a fixed exchange rate and common external tariff with other members. Monetary and exchange rate policies are conducted at the regional level by the Central Bank of West African States (BCEAO), which are discussed in Western African Economic and Monetary Union – Recent Economic Developments and Regional Policy Issues (www.imf.org). Burkina Faso has accepted the obligations under Article VIII and maintains an exchange system free of restrictions on payments and transfers for current international transactions. Selected economic, financial, and social indicators are presented in Tables 1–8. Relations with the Fund and the World Bank are summarized in Appendices II and III, respectively.

Presidential elections were held in November 2005 and President Blaise Compaoré was re-elected by a wide margin. Municipal elections are scheduled for April 2006 and parliamentary elections will be held in 2007.

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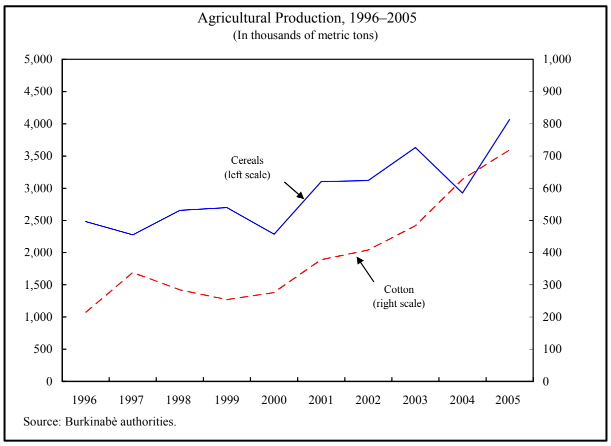
EXECUTIVE SUMMARY

- **Performance under the PRGF-supported program has been good and all quantitative and structural performance criteria for the fifth review were observed**. In the attached letter (Appendix I), the authorities confirm their commitment to the policies set out in their previous letter, and request an extension of the arrangement. Conditionality for the sixth and final review was approved by Executive Directors at the conclusion of the fourth review, and no modifications are proposed, but program adjusters have been amended to allow the spending of all resources freed up under the MDRI in 2006.
- **Real GDP grew by an estimated 7½ percent in 2005 as record cereal and cotton harvests more than offset a slowdown in other sectors arising from a sharp deterioration in the external terms of trade.** After rising for much of the year, inflationary pressures began to ease in September as food and domestic gasoline prices retreated from record highs. The fiscal deficit for 2005 is estimated to have been somewhat smaller than programmed owing to higher revenues and lower capital outlays.
- **Discussions focused on the macroeconomic framework and draft budget for 2006**. Economic growth is projected to slow as agricultural output returns to trend, and declining food prices and the exchange rate peg should keep inflation low. The fiscal deficit will widen, reflecting increased spending on priority social and infrastructure programs, as well as transfers to local governments. The deficit is nearly fully financed by net external flows.
- **The authorities welcomed the debt relief provided under the Multilateral Debt Relief Initiative (MDRI) and indicated that they would use the resources to increase spending on priority social and infrastructure programs**. Discussions with the authorities were concluded before Executive Directors approved debt relief under the MDRI. However, the program was designed to accommodate the spending of all resources freed up under the MDRI in 2006. The authorities noted the sizable expenditure needs of the country, but indicated that they would take a cautious approach to new borrowing to ensure debt sustainability.
- **The authorities will soon begin working on the 2007–09 medium-term expenditure framework (MTEF) in support of the updated poverty reduction strategy paper**. Discussions focused on linking the MTEF to the Millennium Development Goals (MDGs), while maintaining its central role in the annual budget process. The new MTEF process is expected to provide a distinction between the expenditures needed to achieve the MDGs, those that are feasible given capacity constraints, and those that are consistent with available resources.
- **The authorities want to maintain a close policy dialogue with the Fund following the current PRGF arrangement**. They are considering the relative merits of a low-access successor PRGF arrangement and an arrangement under the Fund's Policy Support Instrument. The discussions on the appropriate course of action will be held after the completion of the upcoming Ex Post Assessment.
- **The staff supports the authorities' requests for the completion of the fifth review and an extension of the arrangement period**.

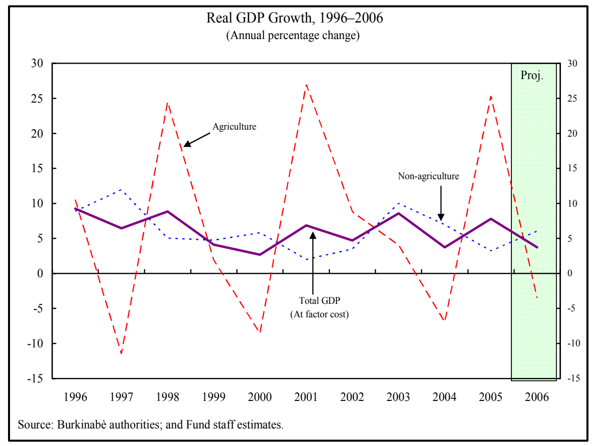
I. Recent Developments

1. **Favorable rains contributed to record cereal and cotton harvests, pushing real GDP growth to an estimated 7½ percent in 2005, with robust growth in agriculture offsetting a slowdown in other sectors** (Table 1).



Agricultural Production, 1996–2005
(In thousands of metric tons)

Source: Burkinabè authorities.

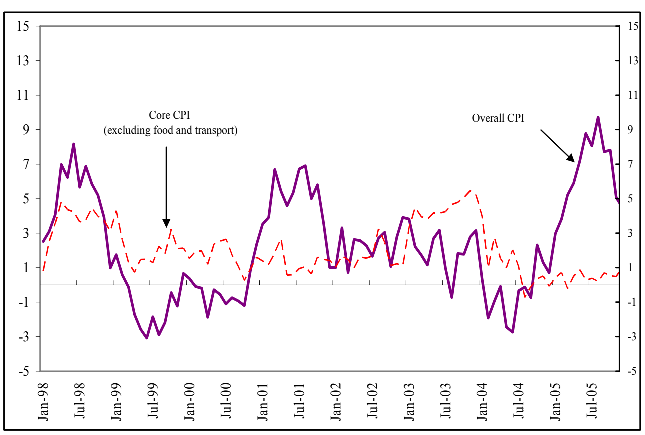


Real GDP Growth, 1996–2006
(Annual percentage change)

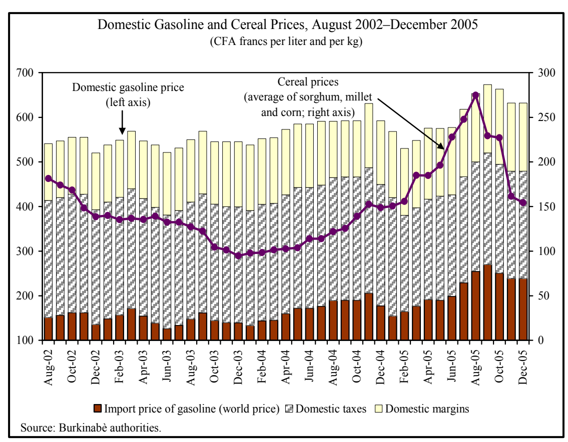
Source: Burkinabè authorities; and Fund staff estimates.

2. **Inflationary pressures have begun to ease as domestic food and fuel prices have retreated from recent peaks. Core inflation has remained low**.

CPI Inflation Rates, Monthly, January 1998–December 2005
(Percent change from 12 months earlier)



Source: Burkinabè authorities and staff estimates.

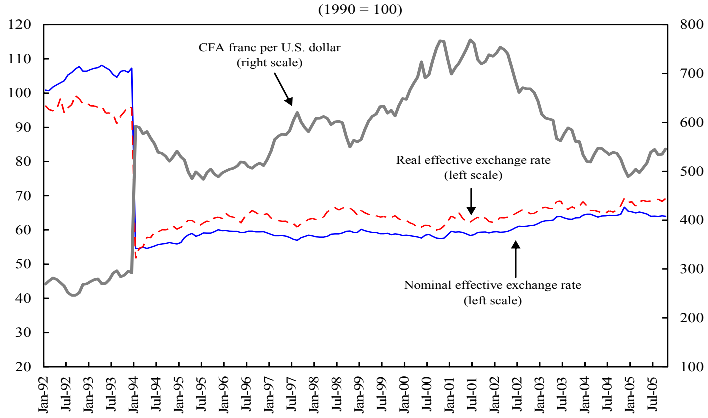


Domestic Gasoline and Cereal Prices, August 2002–December 2005
(CFA francs per liter and per kg)

Source: Burkinabè authorities.

3. **With the nominal effective exchange rate largely unchanged during the year, domestic inflation resulted in a 4 percent appreciation of the real effective exchange rate** (Table 1).

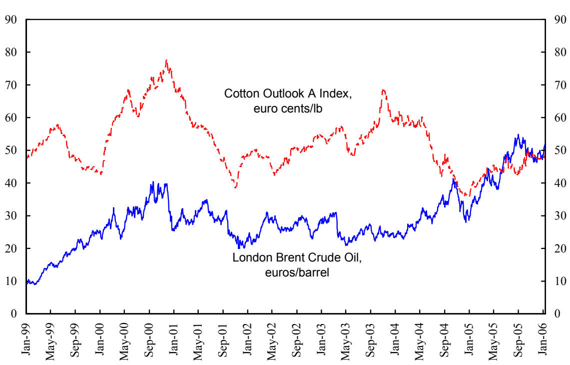
Selected Nominal and Real Exchange Rates, Monthly,
January 1992–October 2005
(1990 = 100)



Source: IMF (Information Notice System).

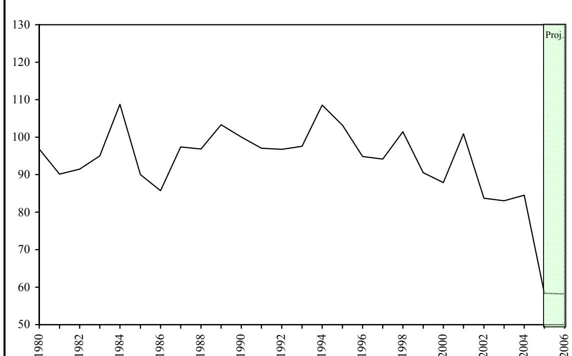
4. **The world cotton price has rebounded from the record low reached in 2004, but it remains weak by historical norms. Meanwhile, the world oil price increased for most of the year and the external terms of trade fell by 31 percent in 2005,**

Cotton and Oil Prices, Daily, January 1999–January 2006



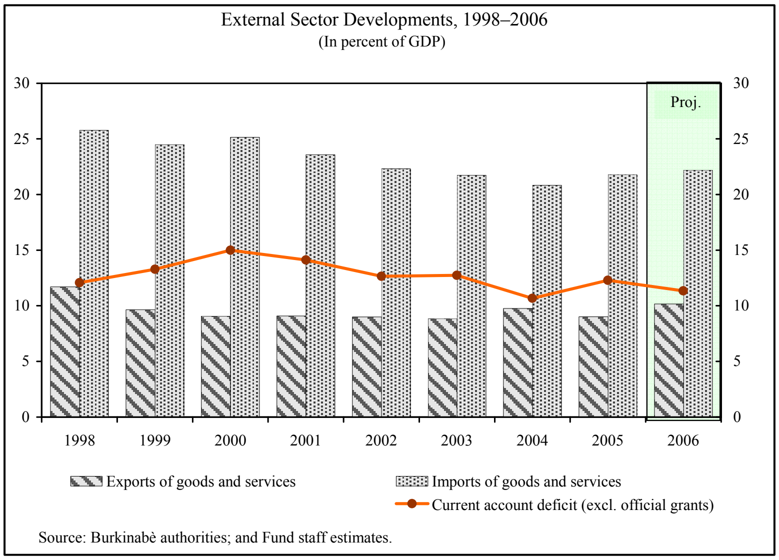
Source: Thomson Datastream.

Terms of Trade, 1980–2006
(1990=100)



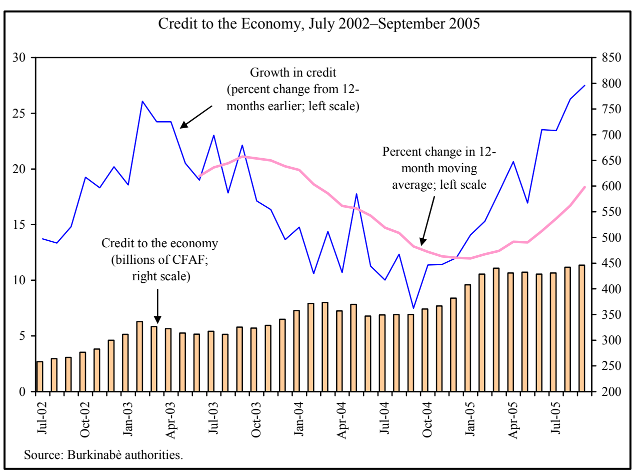
Source: Burkinabè authorities; and Fund staff estimates.

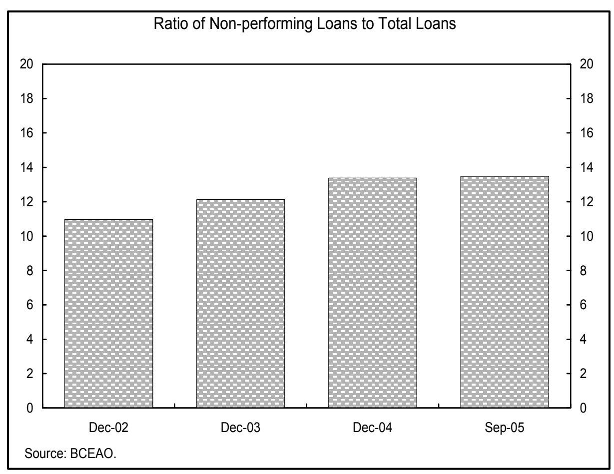
contributing to an increase in the external current account deficit of 1.6 percent of GDP (Table 4).



5. **Credit to the economy expanded rapidly during the first nine months of the year, primarily in the form of short-term credit to support the commercial and industrial activity** (Table 3).

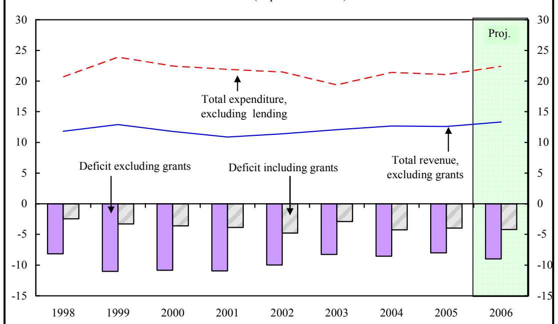
6. **The quality of commercial banks' lending portfolios at end-September 2005 appeared little changed relative to end-2004.**





7. **Program performance has been good and all quantitative performance criteria for the fifth review were observed.** The fiscal deficit for the first nine months was larger than targeted, primarily because of an acceleration of expenditure authorizations (*engagements*) for the domestically-financed public investment program, and, to a lesser extent, nonwage recurrent outlays (Table 2).[1] However, many of these expenditure were not executed, resulting in a cash-based deficit consistent with the quantitative performance criterion on net domestic financing to the government. The authorities indicated that they reduced expenditure authorizations in the fourth quarter to a level consistent with the fiscal deficit target for the year as a whole, and that they would reinforce controls at the authorization level in the future. Preliminary data indicate that the fiscal deficit for the year as a whole was smaller than programmed on the basis of moderately higher revenues and lower capital expenditures, and that the end-2005 indicative targets were observed.

Fiscal Developments, 1998–2006
(In percent of GDP)



Source: Burkinabè authorities and Fund staff estimates.

Fiscal Operations, 2004–2005
(In percent of GDP).

	2004	2005	
	Est.	Prog.	Est.
Revenue	12.7	13.3	12.6
Expenditure and net lending	21.2	22.9	20.6
Overall balance (excluding grants)	-8.5	-9.6	-8.0
External financing	8.7	9.4	8.0
Of which: grants	4.3	5.4	4.1
Domestic financing	-0.4	0.6	-0.1
Cash basis adjustment / Errors and omissions	0.2	-0.4	0.1

Sources: Burkinabè authorities and Fund Staff estimates.

8. **All structural performance criteria under the program were observed.** The large taxpayer unit implemented fiscal controls on over 100 enterprises by end-June, against a benchmark of 60, and the Tax Directorate launched the census of large and medium-sized enterprises ahead of schedule. The Customs Directorate adopted instructions for customs valuation and established a unit to monitor imports benefiting from tax and customs exemptions (for donor-financed projects and diplomatic offices). In the area of fiscal transparency, the authorities submitted the general balance sheets of the Central Accountant of the Treasury, the General Spending Accountant, and the General Revenue Accountant to the Auditor General, and the 2004 audited public accounts were submitted to the National Assembly. The structural performance criteria for end-December 2005 pertaining to the establishment of the Joint Brigade of the Tax and Customs Directorates and the launch of a census of large and medium-sized enterprises in Ouagadougou and Bobo-Dioulasso were met.

[1] Ratios are affected by GDP revisions. The higher GDP outturn for 2005 did not lead to proportionately higher fiscal revenues because agriculture, the source of the higher GDP, is not generally taxed.

II. REPORT ON THE DISCUSSIONS

9. **Discussions focused on the macroeconomic framework and draft budget for 2006.** There were no substantive differences of views between the staff and the authorities. The staff and the authorities concurred that the performance criteria set at the conclusion of the fourth PRGF review remained appropriate, but some quantitative indicative targets and the adjuster to domestic financing were revised to accommodate the spending of debt relief provided under the Multilateral Debt Relief Initiative (MDRI). The discussions also covered the medium-term expenditure framework (MTEF), cotton and financial sector developments, energy pricing, structural reforms and governance, and future relations with the Fund.

A. Macroeconomic Framework for 2006

10. **Discussions on the macroeconomic framework for 2006 focused on the permanence of the record 2005/06 harvest.** The authorities expressed the view that much, if not most, of the increase in agricultural output reflected improvements in infrastructure and techniques. The mission took a more cautious view, noting that large increases in agricultural production in the past had usually been followed by a return to trend. It was agreed to base the 2006 GDP projection on a return of agricultural production to its 5-year trend, which would capture the effects of the government's agricultural development program.

Selected Economic Indicators, 2004–2006.

	2004	2005		2006	
	Est.	Prog.	Est.	Prog.	Proj. 1/
Real GDP growth	5.5	3.5	7.5	4.8	4.4
Agriculture	-7.0	4.5	25.3	5.0	-3.5
Non-agriculture	7.0	2.9	3.2	3.8	6.0
CPI (end of period)	0.7	2.0	4.5	2.0	2.0
Overall fiscal balance, excluding grants	-8.5	-9.6	-8.0	-10.7	-9.0
Current account balance, excluding current official transfers	-10.7	-12.3	-12.3	-12.8	-11.3
Terms of trade (percentage change)	1.8	-26.4	-31.0	0.3	-0.3
NPV of debt as a ratio to:					
Revenues	141	144	145	149	74
Exports	183	201	203	217	97

Source: Burkinabe authorities, and Fund staff estimates.

1/ With the exception of the debt ratios, projections exclude the impact of the MDRI.

Nonagricultural production would grow above trend, reflecting spillover effects of the record 2005 agricultural campaign into other sectors. On this basis, real GDP growth is projected to slow to 4.4 percent. Declining food prices and the fixed exchange rate should help keep inflation low. The fiscal deficit is projected to rise, but the external current account deficit should shrink based on strong cotton export volumes. With the smaller current account deficit and a higher level of official capital and financial inflows, the overall balance of payments deficit is projected to decline. The main risks to the macroeconomic outlook are a renewed weakening of the world cotton price, a strengthening of the euro, to which the local currency is pegged, a further increase in the world oil price, and the recurring threat of drought.

B. Fiscal Policy

11. **The fiscal deficit for 2006 (excluding grants) is projected to rise to 9 percent of GDP, somewhat smaller than was envisaged earlier, and is almost entirely financed by net external flows.** Revenue is projected to rise to just over 13 percent of GDP, buoyed by

Fiscal Operations, 2005–2006

(In percent of GDP).

	2005		2006	
	Prog.	Est.	Prog.	Proj.
Revenue	13.3	12.6	14.0	13.3
Expenditure and net lending	22.9	20.6	24.7	22.3
Current expenditure	12.1	11.2	12.5	11.9
Of which : wages and salaries	5.0	4.7	5.1	4.7
Capital expenditure	11.1	9.8	12.4	10.5
Overall balance (excluding grants)	-9.6	-8.0	-10.7	-9.0
External financing	9.4	8.0	6.0	8.8
Of which: grants	5.4	4.1	3.4	4.8
Domestic financing	0.6	-0.1	0.4	0.4
Cash basis adjustment / Errors and omissions	-0.4	0.1	0.0	-0.1
Financing gap	0.0	0.0	4.5	0.0

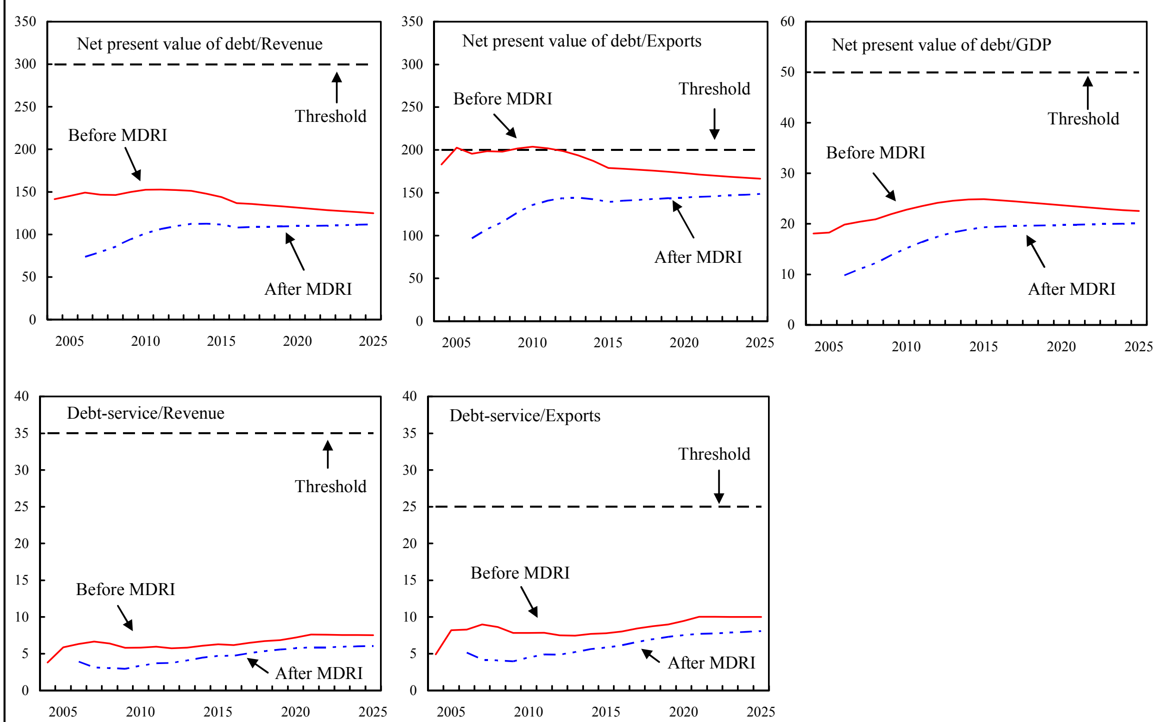
Sources: Burkinabè authorities and Fund Staff estimates and projections.

the rebound in growth in nonagricultural sectors. Expenditures are programmed to increase to just over 22 percent of GDP, primarily because of higher spending on externally-financed capital projects, as well as transfers to local governments linked to the reform of the municipal system. The wage bill is budgeted to increase by about 7½ percent (remaining constant relative to GDP). About half of the increase would be for new staff, primarily for health, education, financial control, and the judiciary. The remainder would fund promotions and incentives for teachers and health workers to relocate to rural areas. The budget also contains CFAF 18 billion (0.6 percent of GDP) for the fuel subsidy to SONABEL (the state-owned power utility) and increased provisions for food security (CFAF 2 billion). Key structural reforms in the fiscal area in 2006 are the completion of the taxpayer census and the commencement of operations by the Joint Brigade of the Tax and Customs Directorate, which should enlarge the tax base and strengthen tax enforcement. The authorities will also update the multi-year plan for strengthening tax and customs administration with technical assistance from the Fund.

C. The MDRI

12. **The authorities welcomed the debt relief provided under the MDRI and indicated that they would use the additional resources to increase spending in priority social and infrastructure programs.** Debt relief provided under the MDRI would reduce debt ratios well below the policy-based indicative thresholds of the low income debt sustainability framework. The 2006 program contains an adjuster that accommodates the

Selected Debt-Sustainability Indicators Before and After MDRI, 2005–25 1/ 2/
(In percent)



Source: Burkinabe authorities, and IMF-World Bank staff estimates.
1/ Using the same debt data and similar medium- and long-term macroeconomic assumptions as the DSA (IMF Country Report No. 05/354, August 24, 2005).
2/ Assumes MDRI relief starts beginning-2006 for IMF and AfDF, and mid-2006 for IDA.

spending of all resources freed up under the MDRI in 2006. Potential flow relief under the MDRI in 2006, including relief from the Fund, IDA and AfDB, is estimated at CFAF 10 billion (0.3 percent of GDP).[2] The program also accommodates additional spending of up to another CFAF 25 billion (0.6 percent of GDP) if the authorities receive budget support in excess of projected amounts. The additional expenditures would be included in the revised budget (*Loi Rectificative*), and would be subject to the established reporting, audit

[2] This assumes that MDRI relief from IMF and AfDB starts beginning-2006, and mid-2006 for relief from IDA. MDRI relief from the Fund became effective in January 2006. Relief from IDA and AfDB has not been finalized.

and oversight requirements, and monitored by staff. Looking forward, the authorities noted the substantial unmet expenditure needs, but agreed to take an appropriately cautious approach to new borrowing to ensure that new borrowing would be consistent with debt sustainability and domestic absorptive capacity.

D. Medium-Term Expenditure Framework

13. **Discussions on the MTEF focused on the desire to link it to the costs of achieving the Millennium Development Goals (MDGs), while maintaining its central role in the annual budget process.** The MTEF is currently constructed on the basis of identified financing for the first year, and a notional level of budget support for the second and third years that is consistent with donor indications and recent trends. This has ensured a good alignment between the budget and PRGF-supported programs, but it has increasingly distanced the MTEF exercise from the objectives of the poverty reduction strategy and the strategy needed to achieve the MDGs. The staff and authorities agreed that the 2007–09 PRSP should include the costs of achieving key, if not all, objectives of the PRSP and explicitly incorporate these into the MTEF process.[3] The expenditure framework would essentially contain three tiers: one that identifies the expenditures needed to achieve the goals of the PRSP (assuming no capacity and resource constraints); one that identifies expenditures that could be effectively undertaken given absorptive capacity; and a third that identifies expenditures consistent with available resources. The third would form the basis for the proximate budget, but would be adjusted for more spending during the year if additional budget support were to become available, with the ceiling established on the basis of the identified capacity constraints. The PRSP would also identify measures to remove constraints to help bring spending capacity up to the level needed to attain the objectives of the PRSP. This would facilitate efforts by local donor representatives to justify additional financial support, even though the PRGF-supported program would be "fully financed".

E. Cotton Sector Issues

14. **The authorities reaffirmed their policy of allowing the cotton companies and farmers to find their own solution to low world cotton prices without government support to cover financial losses.** They stressed again the need for removing cotton subsidies in industrialized countries in the context of the World Trade Organization (WTO). They will continue to support the cotton sector through donor-funded projects to improve infrastructure, and agricultural extension and research services. Cotton ginning companies financed losses realized during the 2004/05 campaign from their own resources and commercial borrowing. Ginning activities of the record 2005/06 cotton crop are underway and are projected to result in a 16 percent increase in cotton fiber production to more than 300,000 tons, making Burkina Faso the largest cotton producer and exporter of sub-Saharan

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[3] The latest PRSP Progress Report and JSAN were issued to the Board on April 18, 2005 and considered on a lapse of time basis.

Africa. With the increase in world cotton prices since the end of 2004, the financial position of the cotton companies has improved, but ginning companies indicated they may realize losses in 2006 as well, unless world prices rise further. The staff estimates that the companies, combined, would realize modest profits in 2006.

F. Financial Sector Issues

15. **Available data indicate that commercial banks have so far survived the external terms of trade shock without a noticeable deterioration in their balance sheets, but banks continue to have difficulty meeting all prudential requirements.** Two of the three cotton ginning companies have repaid all loans related to the 2004/05 cotton crop, and the third expects to repay its outstanding balance in the first half of 2006, somewhat later than

Adherence to Prudential Ratios

(Number of banks meeting the requirements out of total banks)

	Norm	**2002** Dec.	**2003** Dec.	**2004** Dec.	**2005** Sept.
Minimum capital	1,000	7/7	7/7	8/8	8/8
Risk-weighted capital asset ratio	≥ 8%	5/7	7/7	7/8	6/8
Ratio of coverage of medium and long term lending by stable resources	≥ 75%	5/7	5/7	4/8	4/8
Coefficient of liquidity	≥ 75%	6/7	6/7	5/8	5/8
Ratio of participation in any non-bank company to capital	≤ 15%	7/7	7/7	8/8	8/8
Ratio of real estate holdings to capital	≤ 15%	7/7	7/7	8/8	8/8
Total real estate and participations to net worth	≤ 100%	6/7	7/7	7/8	8/8
Ratio of insider loans to net worth	≤ 20%	4/7	6/7	8/8	7/8
Exposure to individual large borrower to net worth	≤ 75% of net worth	...	1/7	8/8	8/8
Exposure to large borrowers to net worth	≤ 8 times net worth	...	7/7	8/8	8/8

Source: BCEAO.

usual. Commercial banks did not report difficulties in recovering loans in other sectors, indicating that the sharp increase in world and domestic fuel prices had not yet impeded companies' ability to service their loans. Despite the nonobservance of some prudential regulations by all banks, the supervisory authorities were generally satisfied with the quality of commercial bank balance sheets and did not view noncompliance as indicative of systemic weakness or risk, and noted that banks have adequately provisioned against nonperforming loans. The government moved ahead with establishing a new housing bank, taking an initial majority position. Staff had recommended against taking a majority position because of the potential contingent liability, and that it ran counter to the principle of allowing the private sector to take a leading role in economic development. Nevertheless, the authorities felt that there was an urgent need to develop housing finance and that an initial public majority position was therefore justified. Together with the social security fund, the state controls 52 percent of shares, which it intends to reduce to 25 percent before the end of 2006.

G. Energy Pricing

16. **Discussions on energy pricing focused on taxes on retail petroleum products and the budget subsidy to the state-owned electricity company (SONABEL).** The authorities withstood pressure to reduce petroleum-based taxes to mitigate the impact of rising world oil prices, and consistently implemented the monthly automatic pricing mechanism that links domestic retail prices to world prices. The subsidy to SONABEL, on the other hand, has nearly tripled in three years, reaching CFAF 18 billion (0.6 percent of GDP) in 2005, an amount comparable to external debt service before MDRI. While the authorities would not commit to implementing an automatic adjustment mechanism in 2006 to link electricity tariffs to energy costs, they reiterated their commitment to increase electricity tariffs in 2006 in the context of the power-sector strategy agreed with several development partners, including the World Bank. They will take additional measures, as necessary, to ensure that SONABEL meets all its financial obligations in 2006 without recourse to support from the budget beyond the CFAF 18 billion. The authorities are also exploring ways to reduce the operating costs of SONABHY, the state-owned oil importing monopoly, to reduce fuel prices without reducing fuel-based taxes.

H. Structural Reforms

17. **Performance on structural reforms outside the fiscal area during the first nine months of 2005 was mixed**. At the time of the discussions, the authorities had not yet begun the audits of the state-owned power and oil importing companies (SONABEL and SONABHY), which were to have been completed by the end of 2005, and donors have called for amendments to the electricity sector regulatory framework approved by the National Assembly in the first half of 2005. The authorities reassured the mission that these difficulties have been addressed and that they are on target to achieve their objectives for private-sector participation in these sectors in 2006. The authorities are negotiating an agreement with an investment bank to manage the privatization process of the state-owned telecommunications company (ONATEL) and expect to sell 51 percent of the company before the end of 2006. In addition, ONATEL’s monopoly on fixed-line telecommunication service legally ended on January 1, 2006, opening the way for competition in that sector.

18. **The authorities are taking steps to improve the business climate and governance**. The World Bank rated Burkina Faso’s business environment the second worst in the world (154 out of 155 countries surveyed), citing cumbersome procedures and high costs for opening a business and complying with licensing and permit requirements; rigidities of employment regulations, including high hiring and firing costs; and difficulties of enforcing contracts. While the authorities questioned the accuracy and timeliness of some indicators used in this survey, they affirmed that improving the business climate is a high priority. A center for business registration (CEFORE) was created in June 2005 to act as a one-stop shop for investors, and the administrative requirements for registering an enterprise have been simplified. From January 2006, the center is to take no more than seven days to approve a business license, and administrative fees are substantially reduced. With support of the World Bank, the authorities plan to amend the labor code to simplify procedures for business

registration. They also intend to revise the Investment Code with a view to enhancing investment incentives while reducing revenue losses caused by tax exemptions. The number of courts and magistrates is being increased to strengthen arbitration processes, accelerate the resolution of business conflicts, and prosecute corruption. The authorities intend to strengthen public procurement procedures in 2006, having already completed the audit of public procurement in 2004 and the review of the relevant laws and regulations.

I. Post Program Issues

19. **The authorities indicated their desire to maintain a close policy dialogue with the Fund following the current PRGF arrangement.** They are considering the relative merits of a low-access successor PRGF arrangement and an arrangement under the Fund's Policy Support Instrument. The discussions on the appropriate course of action will be held after the completion of the upcoming Ex Post Assessment of performance under Fund-supported programs, which would dovetail with the mission for the sixth and final review.

III. Staff Appraisal

20. **Macroeconomic management has remained strong in the face of a difficult external environment**. The sharp deterioration in the external terms of trade in 2005 reduced incomes and increased transportation costs. Nonetheless, the authorities maintained fiscal discipline while pushing ahead with expenditures in support of the poverty reduction strategy. All quantitative and structural performance criteria for the fifth PRGF review were observed.

21. **The 2006 budget appropriately provides for increased expenditures in support of economic growth and improved social services**. The fiscal deficit is almost entirely financed by highly concessional donor resources, mostly grants, and would be consistent with an improvement in external debt indicators even in the absence of debt relief provided under the MDRI.

22. **Debt relief provided under the MDRI will provide much needed resources for implementing the poverty reduction strategy and will significantly reduce the country's debt burden.** The 2006 program accommodates the full utilization of resources freed up in 2006 from the MDRI. It would also accommodate a substantial further increase in spending if donor budget support exceeds projections, thus providing flexibility in meeting the country's substantial expenditure needs.

23. **The use of resources freed up under the MDRI beyond 2006 should be considered in the context of the upcoming poverty reduction strategy paper and the supporting medium-term expenditure framework for 2007–09.** While the MDRI will substantially reduce the external debt burden, the authorities should continue to seek financing on highly concessional terms, preferably in the form of grants, to ensure that meeting the country's substantial expenditure needs does not lead to a return to excessive debt.

24. **The authorities have made good progress in implementing structural reforms to strengthen tax and customs administrations and improve fiscal transparency.** The former will help raise Burkina Faso's low revenue-to-GDP ratio, which needs to rise to meet the expenditure needs of the MDGs. Continued improvements in fiscal transparency will facilitate a more informed public debate on the effectiveness and priority of government expenditure, and support the government's efforts to combat corruption.

25. **Similar progress is needed in other structural areas**. The preparation of the utilities for private-sector participation should be accelerated. While the authorities' commitment to raise electricity tariffs in 2006 is welcome, they should move toward a system of flexible tariffs that promotes efficiency, investment, and cost recovery. This would also free up much needed resources for poverty-reducing expenditures. The commitment to reducing the time needed to establish a new business is an important step toward improving the business climate in the country, as is the policy of strengthening the judicial system. More flexibility in labor markets would further improve business conditions.

26. **The staff recommends that the fifth review under the PRGF arrangement be completed and supports the authorities' request for extension of the program period.**

Table 1. Burkina Faso: Selected Economic and Financial Indicators, 2003–06

	2003	2004	2005		2006	
	Est.	Est.	Prog. 1/	Est.	Prog. 1/	Proj.
	(Annual percentage change; unless otherwise specified)					
GDP and prices						
GDP at constant prices	8.0	5.5	3.5	7.5	4.8	4.4
GDP deflator	1.5	3.3	1.7	3.5	2.2	2.8
Consumer prices (annual average)	2.0	-0.4	4.0	6.4	2.0	2.1
Consumer prices (end of period)	3.2	0.7	2.0	4.5	2.0	2.0
Money and credit						
Net domestic assets (banking system) 2/	10.4	1.7	8.2	13.7	7.4	10.5
Credit to the government 2/	2.4	-4.9	4.8	3.7	5.1	4.2
Credit to the private sector 2/	9.4	8.1	3.4	12.0	2.3	6.3
Broad money (M2)	16.3	22.9	5.3	6.0	7.1	7.3
External sector						
Exports (f.o.b.; valued in CFA francs)	9.1	22.9	1.4	1.4	8.5	23.4
Imports (f.o.b.; valued in CFA francs)	-0.7	4.9	13.1	17.3	10.6	9.5
Terms of trade	-0.8	1.8	-26.4	-31.0	0.3	-0.3
Real effective exchange rate (– = depreciation)	3.8	-1.1	...	4.0	...	...
World cotton price (US$ cents per pound) 3/	63.4	62.0	53.0	54.0	55.0	59.5
Average petroleum spot price (US$ per barrel) 3/	28.9	37.8	50.7	54.2	53.0	61.8
	(In percent of GDP; unless otherwise indicated)					
Gross investment	17.0	18.4	19.5	19.9	20.8	20.2
Gross domestic savings	4.1	7.3	6.6	7.1	7.2	8.1
Gross national savings	8.4	10.6	10.4	10.5	9.0	11.5
Central government finances						
Current revenue	12.1	12.7	13.3	12.6	14.0	13.3
Total expenditure	20.3	21.2	22.9	20.6	24.7	22.3
Overall fiscal balance, excluding grants	-8.2	-8.5	-9.6	-8.0	-10.7	-9.0
Overall fiscal balance, including grants	-2.9	-4.2	-4.3	-3.9	-7.3	-4.2
External sector						
Exports of goods and services	8.9	9.8	9.6	9.0	9.6	10.2
Imports of goods and services	21.7	20.8	22.4	21.8	23.1	22.2
Current account balance (excluding current official transfers)	-12.7	-10.7	-12.3	-12.3	-12.8	-11.3
Current account balance (including current official transfers)	-8.6	-7.8	-9.1	-9.3	-11.8	-8.7
Reserves in months of imports of goods and services	5.0	6.7	3.6	5.6	3.2	4.7
Debt indicators						
External debt in percent of GDP	...	34.3	34.8	33.0	37.3	35.5
NPV of external debt in percent of GDP	...	18.1	19.2	18.3	20.9	19.9
NPV of external debt in percent of exports	...	183.1	200.5	202.7	216.9	195.5
NPV of external debt in percent of revenues	...	141.5	143.9	145.1	149.3	149.1
Nominal GDP (in billions of CFA francs)	2,494	2,720	2,838	3,026	3,039	3,246

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

1/ IMF Country Report No. 05/134, August 24, 2005.
2/ In percent of beginning-of-period broad money.
3/ Source: WEO.

Table 2. Burkina Faso: Consolidated Operations of the Central Government, 2003–06

	2003	2004	2005				2006	
	Est.	Est.	Jan.-Sep.		Jan.-Dec.		Prog. 1/	Proj.
			Prog. 1/	Est.	Prog. 1/	Proj.		
	(In billions of CFA francs)							
Total revenues and grants	435	462	352	362	530	504	528	588
Total revenues	301	344	272	279	378	381	426	432
Tax revenue	270	318	252	256	350	354	395	399
Non-tax revenue	31	26	20	23	28	27	31	33
Grants	133	117	80	84	152	123	102	156
Expenditure and net lending 2/	507	577	451	477	651	623	751	725
Current expenditure	260	285	253	266	342	340	380	385
Wages and salaries	113	119	106	106	141	142	155	152
Goods and services	59	63	58	63	77	76	91	88
Interest payments	17	19	13	13	19	18	18	17
Domestic	5	6	5	6	7	7	7	6
External	12	13	8	8	12	11	11	11
Current transfers	70	83	75	83	100	103	115	126
Safety net and other expenditures	1	1	2	1	6	1	2	2
Capital expenditure	224	298	203	224	315	297	378	342
Net lending	24	-5	-5	-13	-7	-13	-7	-3
Overall balance	-72	-115	-99	-115	-121	-120	-223	-136
Excluding grants	-206	-233	-179	-198	-273	-243	-325	-292
Financing	73	117	99	122	121	119	85	136
Foreign	83	118	96	101	114	120	79	128
Domestic financing	6	-10	4	-6	17	-4	13	13
Cash basis adjustment	-16	9	-1	26	-10	4	-7	-5
Errors and omissions / Financing gap	-1	-2	0	-7	0	0	138	0
Identified possible financing	...	...	...	...	...	...	105	...
Of which : grants	...	...	...	...	...	...	47	...
loans	...	...	...	...	...	...	58	...
Residual financing gap	...	...	...	...	...	...	33	...
Memorandum items:								
Poverty-reducing social expenditures	117	145	...	129	174	166	...	181
Projected resources from the MDR Initiative	...	...	...	...	...	...	...	10
	(In percent of GDP, unless otherwise specified)							
Revenue	12.1	12.7	...	...	13.3	12.6	14.0	13.3
Expenditure and net lending	20.3	21.2	...	...	22.9	20.6	24.7	22.3
Current expenditure	10.4	10.5	...	...	12.1	11.2	12.5	11.9
Of which : wages and salaries	4.5	4.4	...	...	5.0	4.7	5.1	4.7
Capital expenditure	9.0	11.0	...	...	11.1	9.8	12.4	10.5
Overall balance (excluding grants)	-8.2	-8.5	...	...	-9.6	-8.0	-10.7	-9.0
External financing	8.7	8.7	...	...	9.4	8.0	6.0	8.8
Domestic financing	0.3	-0.4	...	...	0.6	-0.1	0.4	0.4
Cash basis adjustment	-0.6	0.3	...	...	-0.4	0.1	-0.2	-0.1
Errors and omissions / Financing gap	0.0	-0.1	...	...	0.0	0.0	4.5	0.0
Identified possible financing	n.a.	n.a.	...	...	n.a.	n.a.	3.4 ...	
External financing and financing gap	8.7	8.7	...	...	9.4	8.0	10.5	8.8
Projected resources from the MDR Initiative	...	...	...	...	...	...	...	0.3
GDP (in billions of CFA francs)	2,494	2,720	...	...	2,838	3,026	3,039	3,246

Sources: Burkinabè authorities and Fund Staff estimates and projections.

1/ IMF Country Report No. 05/134, August 24, 2005.

2/ On an authorization basis.

Table 3. Burkina Faso: Monetary Survey, 2004–06

	2004	2005					2006	
	Dec.	Mar.	Jun.	Sep.	Dec. Prog. 1/	Dec. Proj.	Dec. Prog. 1/	Dec. Proj.
	(In billions of CFA francs)							
Net foreign assets 2/	274	229	218	212	149	226	147	204
Central Bank of West African States (BCEAO)	232	194	207	207	107	221	105	200
Assets	318	282	288	291	192	306	187	282
Liabilities	86	88	81	84	85	85	83	83
Commercial banks	42	35	12	5	42	5	42	5
Net domestic assets	350	434	417	405	387	436	427	505
Net domestic credit	385	483	460	452	427	484	467	553
Net credit to government	3	43	31	6	28	27	56	54
Credit to the economy	382	440	429	446	399	457	411	499
Of which: crop credit	15	68	65	49	16	18	16	20
Other items (net)	-35	-50	-43	-48	-40	-48	-40	-48
Broad money 2/	624	663	635	617	536	662	574	710
Of which : bank deposits	399	426	414	399	422	425	454	459
	(Annual changes in percent of stock of broad money of 12 months earlier, unless otherwise specified)							
Memorandum items:								
Net foreign assets	21.2	19.8	8.9	2.7	-2.9	-7.7	-0.4	-3.2
Net domestic assets	1.7	11.2	16.1	19.4	8.2	13.7	7.4	10.5
Net credit to government	-4.9	1.7	-0.1	1.4	4.8	3.7	5.1	4.2
Credit to the economy	8.1	13.2	16.1	19.0	3.4	12.0	2.3	6.3
(annual percentage change)	12.0	17.9	23.5	27.5	4.5	19.7	3.1	9.2
Money supply	22.9	31.0	25.0	22.1	5.3	6.0	7.1	7.3
Of which : bank deposits	6.2	6.4	4.3	0.6	4.5	4.1	6.0	5.0
Currency velocity (GDP/broad money)	4.4	4.6	4.6	4.6	5.3	4.6	5.3	4.6

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

1/ IMF Country Report No. 05/134, August 24, 2005.
2/ From December 2004 onwards, reflects the BCEAO's revised estimates of currency in circulation.

Table 4. Burkina Faso: Balance of Payments, 2004–06

	2004	2005		2006	
	Est.	Prog. 1/	Proj.	Prog. 1/	Proj.
	(In billions of CFA francs)				
Exports, f.o.b.	229	233	232	253	287
Of which: cotton	159	157	151	173	202
Imports, f.o.b.	-418	-473	-490	-523	-537
Of which: petroleum products	-90	-125	-139	-144	-170
Trade balance	-189	-240	-258	-270	-250
Services and income (net)	-127	-142	-146	-154	-157
Services	-112	-124	-129	-138	-141
Income	-15	-17	-17	-16	-16
Current transfers (net)	104	123	121	66	126
Private	26	32	32	33	39
Official	78	91	89	33	87
Current account (– = deficit)	-212	-259	-283	-357	-281
Excluding current official transfers	-290	-349	-372	-390	-368
Capital transfers	99	137	110	135	136
Project grants	70	93	66	102	102
Other capital transfers	29	44	44	33	34
Of which: HIPC Initiative	25	39	40	29	30
Financial operations	120	107	125	82	124
Official capital	87	84	88	59	101
Private capital 2/	33	22	37	23	23
Errors and omissions	101	0	0	0	0
Overall balance	108	-15	-48	-140	-21
Financing	-108	15	48	2	21
Net foreign assets	-108	15	48	2	21
Net official reserves	-103	15	11	2	21
Of which: IMF (net)	-8	-1	-1	-2	-3
Net foreign assets, commercial banks	-4	0	37	0	0
Financing gap	0	0	0	138	0
Identified possible financing 3/	...	0	...	105	...
Residual financing gap	...	0	...	33	...
Memorandum items:	(In percent of GDP; unless otherwise indicated)				
Debt service relief from MDRI 4/	...	...	...	...	0.3
Trade balance (– = deficit)	-6.9	-8.4	-8.5	-8.9	-7.7
Cotton export volume (thousands of metric tons)	203.3	260.7	260.0	273.7	306.6
Current account (– = deficit)	-7.8	-9.1	-9.3	-11.8	-8.7
Excluding current official transfers	-10.7	-12.3	-12.3	-12.8	-11.3
Overall balance (– = deficit)	4.0	-0.5	-1.6	-4.6	-0.7
Total debt-service ratio after HIPC 5/	12.6	8.3	8.9	9.1	8.7
Gross international reserves (in billions of CFA francs)	318.1	191.7	306.0	187.3	282.1
In months of imports of goods and services	6.7	3.6	5.6	3.2	4.7
GDP at current prices (in billions of CFA francs)	2,720	2,838	3,026	3,039	3,246

Sources: Central Bank of West African States (BCEAO); and Fund staff estimates and projections.

1/ IMF Country Report No. 05/134, August 24, 2005.
2/ Includes portfolio investment and foreign direct investment.
3/ Excluding the Multilateral Debt Relief Initiative.
4/ Multilateral Debt Relief Initiative.
5/ In percent of exports of goods and services.

Table 5. Burkina Faso: External Debt Sustainability Framework Including Projected Impact of MDRI, 2004-2025 1/ 2/
(In percent of GDP, unless otherwise indicated)

	Actual	Estimate	Projections									
	2004	2005	2006	2007	2008	2009	2010	2005-10 Average	2015	2020	2025	2011-25 Average
External debt (nominal) 2/	**34.3**	**33.0**	**15.5**	**18.0**	**20.2**	**22.9**	**25.3**	**22.5**	**31.7**	**32.0**	**32.0**	31.3
Change in external debt	-8.6	-1.0	3.3	2.5	2.2	2.7	2.3	2.0	0.6	0.0	0.0	0.5
Identified net debt-creating flows	0.7	6.6	8.2	8.2	7.8	6.2	5.3	7.0	1.9	1.6	1.4	2.2
Non-interest current account deficit	**7.6**	**9.1**	**8.5**	**9.3**	**9.1**	**7.4**	**6.6**	8.3	**3.4**	**3.2**	**3.0**	3.7
Deficit in balance of goods and services	11.1	12.8	12.0	11.1	10.9	10.4	9.9	11.2	6.4	5.8	5.3	6.5
Exports	9.9	9.0	10.2	10.3	10.6	10.9	11.2	10.3	13.9	13.7	13.5	13.4
Imports	21.0	21.8	22.2	21.4	21.4	21.3	21.1	21.5	20.3	19.5	18.8	19.9
Net current transfers (negative = inflow)	-3.9	-4.0	-3.9	-2.1	-2.0	-3.2	-3.4	-3.1	-2.9	-2.5	-2.1	-2.7
Other current account flows (negative = net inflow)	0.3	0.3	0.3	0.3	0.2	0.2	0.1	0.2	-0.1	-0.1	-0.2	-0.1
Net FDI (negative = inflow)	**-0.4**	**-0.3**	**-0.3**	**-0.3**	**-0.3**	**-0.3**	**-0.3**	-0.3	**-0.1**	**-0.1**	**-0.1**	-0.1
Endogenous debt dynamics 3/	**-6.5**	**-2.1**	**0.0**	**-0.7**	**-1.0**	**-1.0**	**-1.1**	-1.0	**-1.4**	**-1.5**	**-1.5**	-1.4
Denominator: 1+g+ρ+gρ	1.2	1.1	1.0	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Contribution from nominal interest rate	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3
Contribution from real GDP growth	-5.4	-2.4	-0.2	-0.9	-1.1	-1.2	-1.3	-1.2	-1.7	-1.8	-1.8	-1.7
Contribution from price and exchange rate changes	-1.4	…	…	…	…	…	…	…	…	…	…	
Residual (3-4) 4/	**-9.3**	**-7.6**	**-4.9**	**-5.7**	**-5.6**	**-3.4**	**-2.9**	**-5.0**	**-1.3**	**-1.6**	**-1.4**	-1.7
o/w exceptional financing	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NPV of external debt 5/	18.1	18.3	9.8	11.1	12.2	13.8	15.2	13.4	19.3	19.8	20.1	19.2
In percent of exports	183.1	202.7	96.5	107.4	115.6	127.0	135.8	130.8	139.1	144.4	148.8	143.9
In percent of revenues	141.5	145.1	73.6	79.4	85.5	94.3	101.5	96.6	111.7	109.9	111.8	110.2
Debt service-to-exports ratio (in percent)	4.9	8.2	5.1	4.2	4.1	4.0	4.5	5.0	5.8	7.5	8.1	6.7
Debt service-to-revenues ratio (in percent)	3.8	5.9	3.9	3.1	3.0	2.9	3.3	3.7	4.7	5.7	6.1	5.1
Total gross financing need (millions of U.S. dollars)	393.4	546.4	520.9	610.6	653.3	581.2	572.9	580.9	508.6	759.9	1,079.7	717.6
Non-interest current account deficit that stabilizes debt ratio	16.2	10.0	5.2	6.8	6.9	4.7	4.3	6.3	2.9	3.2	3.0	3.3
Key macroeconomic assumptions												
Real GDP growth (in percent)	15.0	7.9	1.4	6.3	6.9	6.2	6.1	5.8	6.0	6.0	6.0	6.0
GDP deflator in US dollar terms (change in percent)	3.3	3.5	2.8	2.1	2.2	2.1	2.1	2.5	2.1	2.1	2.1	2.1
Effective interest rate (percent) 6/	0.7	0.8	1.4	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Growth of exports of G&S (US dollar terms, in percent)	32.5	3.0	17.4	9.9	12.0	11.5	11.7	10.9	13.3	8.0	8.0	9.6
Growth of imports of G&S (US dollar terms, in percent)	14.9	16.9	6.1	4.6	9.3	7.6	7.5	8.7	7.4	7.4	7.4	7.4
Grant element of new public sector borrowing (in percent)	...	44.5	47.9	48.4	48.1	45.9	45.8	46.8	47.1	46.1	44.2	46.1
Memorandum item:												
Nominal GDP (millions of US dollars)	5,110	5,760	6,000	6,510	7,109	7,708	8,354		12,403	18,416	27,343	

Source: Staff simulations.

1/ Using the same debt data and similar medium- and long-term macroeconomic assumptions as the DSA (IMF Country Report No. 05/134, August 24, 2005), and assuming MDRI relief starts beginning-2006 for IMF and AfDF, and mid-2006 for IDA.
2/ Includes public external debt.
3/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.
4/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
5/ Assumes that NPV of private sector debt is equivalent to its face value.
6/ Current-year interest payments devided by previous period debt stock.

Table 6. Burkina Faso: Schedule of Disbursements Under the PRGF Arrangement, 2003-06

Amount	Available Date	Conditions Necessary for Disbursement 1/
SDR 3.44 million	June 11, 2003	Following Executive Board approval of the three-year PRGF arrangement
SDR 3.44 million	March 19, 2004	Observance of the performance criteria for September 30, 2003 and completion of the first review under the arrangement
SDR 3.44 million	February 2, 2005	Observance of the performance criteria for March 31, 2004 and completion of the second review under the arrangement 2/
SDR 3.44 million	February 2, 2005	Observance of the performance criteria for September 30, 2004 and completion of the third review under the arrangement 2/
SDR 3.44 million	September 7, 2005	Observance of the performance criteria for March 31, 2005 and completion of the fourth review under the arrangement
SDR 3.44 million	March 15, 2006	Observance of the performance criteria for September 30, 2005 and completion of the fifth review under the arrangement
SDR 3.44 million	August 15, 2006	Observance of the performance criteria for March 31, 2006 and completion of the sixth review under the arrangement

Source: International Monetary Fund.

1/ In addition to the generally applicable conditions under the Poverty Reduction and Growth Facility (PRGF) arrangement.

2/ The second and third reviews under the arrangement were completed simultaneously on February 2, 2005.

Table 7. Burkina Faso: IMF Credit Position and Projected Payments to the IMF, 2005–15 1/

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
					(In millions of SDRs, unless otherwise indicated)						
Fund credit, net charges	1.8	-6.6	0.3	0.3	0.3	1.0	2.7	3.7	3.7	3.7	3.0
Poverty Reduction and Growth Facility (PRGF) disbursements	10.3	6.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PRGF repayments	11.7	0.0	0.0	0.0	0.0	0.7	2.4	3.4	3.4	3.4	2.8
PRGF charges and interest	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
MDRI relief 2/	...	7.4	10.9	11.7	9.6	8.2	6.4	3.1	1.0	0.3	0.0
Quota	60.2	60.2	60.2	60.2	60.2	60.2	60.2	60.2	60.2	60.2	60.2
Exchange rate: CFA francs per SDR (period average)	772.2	796.9	796.4	794.1	792.6	787.8	787.8	787.8	787.8	787.8	787.8
					(In billions of CFA francs, unless otherwise indicated)						
Exports of goods and services	273	330	353	370	397	422	471	528	593	666	750
Tax revenue	354	399	452	506	563	625	698	779	867	968	1,082
GDP	3,026	3,246	3,511	3,793	4,099	4,426	4,779	5,159	5,572	6,018	6,502
Outstanding Fund credit, end of period											
In millions of SDRs	72.4	17.2	17.2	17.2	17.2	16.5	14.1	10.7	7.2	3.8	1.0
In billions of CFA francs	55.9	13.7	13.7	13.7	13.6	13.0	11.1	8.4	5.7	3.0	0.8
In percent of quota	120.3	28.6	28.6	28.6	28.6	27.4	23.4	17.7	12.0	6.3	1.7
Debt service to the Fund											
In millions of SDRs	12.1	0.3	0.3	0.3	0.3	1.0	2.7	3.7	3.7	3.7	3.0
In billions of CFA francs	9.3	0.3	0.3	0.3	0.3	0.8	2.2	3.0	2.9	2.9	2.4
In percent of exports of goods and services	3.4	0.1	0.1	0.1	0.1	0.2	0.5	0.6	0.5	0.4	0.3
In percent of tax revenue	2.6	0.1	0.1	0.1	0.0	0.1	0.3	0.4	0.3	0.3	0.2
In percent of GDP	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.0

Sources: IMF, Finance Department.

1/ Assumes 2 disbursements in 2006 of SDR 3.44 million each.
2/ Annual relief on principal and interest, net of remaining HIPC assistance.

Table 8. Burkina Faso: Selected Indicators on the Millennium Development Goals

	1990	1994	1997	2000	2003	2004
Eradicate extreme poverty and hunger	(2015 target = halve 1990 US$1 a day poverty and malnutrition rates)					
Percentage share of income or consumption held by poorest 20 percent	..	..	4.5	..	..	...
Population below US$1 a day (percent)	..	62.7	44.9	..	..	...
Population below minimum level of dietary energy consumption (percent)	...	..	19.0	..	19.0	...
Poverty gap ratio at US$1 a day (incidence x depth of poverty)	..	27.5	14.4	..	..	...
Poverty headcount, national (percent of population)	..	44.5	45.3	..	..	...
Prevalence of underweight in children (under 5 years of age)	..	32.7	..	34.3	37.7	37.7
Achieve universal primary education	(2015 target = net enrollment to 100)					
Net primary enrollment ratio (percent of relevant age group)	26.2	..	33.5	35.0	36.2	...
Primary completion rate, total (percent of relevant age group)	19.1	18.1	23.7	27.8	29.2	...
Proportion of pupils starting grade 1 who reach grade 5	69.7	..	68.3	63.7	..	...
Youth literacy rate (percent ages 15–24)	...	...	19.4	..	..	...
Promote gender equality and empower women	(2015 target = education ratio to 100)					
Proportion of seats held by women in national parliament (percent)	..	..	4.0	8.0	12.0	12.0
Ratio of girls to boys in primary and secondary education (percent)	60.7	..	66.8	69.7	72.2	...
Ratio of young literate females to males (percent ages 15–24)	...	...	54.9	..	..	...
Share of women employed in the nonagricultrual sector (percent)	12.5	13.2	13.9	14.5	15.2	15.2
Reduce child mortality	(2015 target = reduce 1990 under 5 mortality by two-thirds)					
Immunization, measles (percent of children ages 12-23 months)	79.0	45.0	41.0	59.0	76.0	76.0
Infant mortality rate (per 1,000 live births)	118.0	110.0	..	107.0	107.0	107.0
Under 5 mortality rate (per 1,000)	210.0	207.0	..	207.0	207.0	207.0
Improve maternal health	(2015 target = reduce 1990 maternal mortality by three-fourths)					
Births attended by skilled health staff (percent of total)	..	41.5	..	31.0	..	...
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	...	...	1,000.0	..	...
Combat HIV/AIDS, malaria, and other diseases	(2015 target = halt, and begin to reverse, AIDS, etc.)					
Contraceptive prevalence rate (percent of women ages 15–49)	..	7.7	11.9	..	14.0	14.0
Incidence of tuberculosis (per 100,000 people)	147.3	151.9	155.5	159.1	162.8	162.8
Number of children orphaned by HIV/AIDS (in thousands)	..	..	..	240.0	260.0	260.0
Prevalence of HIV, total (percent ages 15–24)	..	..	..	4.2	1.8	1.8
Tuberculosis cases detected under DOTS (percent)	..	10.8	15.3	18.9	18.5	18.5
Ensure environmental sustainability	(2015 target = various)					
Access to an improved water source (percent of population)	39.0	..	..	..	51.0	..
Access to improved sanitation (percent of population)	13.0	..	..	..	12.0	..
Access to secure tenure (percent of population)	..	..	..	..	..	..
CO_2 emissions (metric tons per capita)	0.1	0.1	0.1	0.1	..	..
Forest area (percent of total land area)	26.5	..	..	25.9	..	..
GDP per unit of energy use (PPP U.S. dollar per kg oil equivalent)	..	..	..	..	..	..
Nationally protected areas (percent of total land area)	..	..	..	..	11.5	11.5
Develop a Global Partnership for Development	(2015 target = various)					
Aid per capita (current US dollars)	37.3	44.4	35.2	29.8	37.2	37.2
Debt service (percent of exports)	8.0	15.0	18.0	23.0	13.0	13.0
Fixed line and mobile telephones (per 1,000 people)	1.8	2.7	3.6	6.9	23.9	23.9
Internet users (per 1,000 people)	..	..	0.2	0.8	3.9	3.9
Personal computers (per 1,000 people)	0.1	0.2	0.8	1.3	2.1	2.1
Unemployment, youth female (percent of female labor force ages 15-24)	..	..	..	..	..	..
Unemployment, youth male (percent of male labor force ages 15-24)	..	..	..	..	..	..
Unemployment, youth total (percent of total labor force ages 15–24)	..	..	..	..	..	..
General indicators						
Total fertility rate (births per woman)	7.0	..	6.8	..	6.2	6.2
GNI per capita, Atlas method (current U.S. dollars)	330.0	230.0	270.0	250.0	300.0	360.0
Gross national income, Atlas method (current billion U.S. dollars)	2.9	2.3	2.8	2.8	3.6	4.4
Gross capital formation (percent of GDP)	18.2	19.3	25.0	22.7	18.7	19.1
Life expectancy at birth (years)	45.4	..	45.5	44.9	42.8	42.8
Adult literacy rate (percent of people ages 15 and over)	..	..	12.8	..	..	..
Population (million)	8.9	9.8	10.5	11.3	12.1	12.4
Trade (percent of GDP)	35.6	37.1	35.6	34.4	31.9	31.5

Source: World Development Indicators database, April 2005.

Ouagadougou, February 27, 2006

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
700 19th Street NW
Washington DC 20431
USA

Dear Mr. de Rato:

1. The government of Burkina Faso is implementing a program of macroeconomic and structural reforms for the period 2003–06 with the support of the International Monetary Fund (IMF). An arrangement under the Poverty Reduction and Growth Facility (PRGF), for an amount equivalent to SDR 24.08 million (40 percent of quota), was approved by the IMF Board on June 11, 2003. The program expires in August 2006.

2. The attached memorandum of economic and financial policies (MEFP) supplements the one attached to my letter to you dated August 16, 2005. The MEFP attached to that letter established quantitative performance criteria (for end-March 2006) and structural performance criteria (through mid-May 2006) for the completion of the sixth and final review under the PRGF arrangement. While we have updated the macroeconomic framework for 2006 in light of recent developments, we believe that the quantitative performance criteria for 2006 remain appropriate.

3. All quantitative and structural performance criteria for the completion of the fifth review were observed and we are on track to realize the program targets for 2005 as a whole. On the basis of this performance, and on the strength of the policies set forth in the attached memorandum, the government requests that the IMF complete the fifth review under the PRGF and disburse the sixth loan in the amount of SDR 3.44 million.

4. The government believes that the policies set out in the MEFP are adequate to achieve the program objectives. However, it stands ready to take any further measures that may prove necessary. The government of Burkina Faso will continue to provide the staff of the IMF with the information required to properly evaluate Burkina Faso's progress in executing the policies contained in the attached MEFP. It will also continue to consult with the IMF on its economic and financial policies, in accordance with the provisions and practices of the Fund governing such consultations.

5. To ensure that there is sufficient time to complete the sixth review under the three-year arrangement, which will be based on performance at end-March 2006, we request that the arrangement be extended until September 30, 2006.

Sincerely yours,

/s/

Jean-Baptiste Compaoré
Minister of Finance and Budget
Officer of the National Order
Ouagadougou, Burkina Faso

Memorandum of Economic and Financial Policies of the government of Burkina Faso for 2006

I. Program Implementation in 2005

1. The economic outturn for 2005 is estimated to be substantially better than previously envisaged. Real GDP growth is estimated at 7½ percent, with strong growth in cereals and cotton more than offsetting a slowdown in nonagricultural growth arising from the sharp deterioration in the external terms of trade. After rising for the first eight months of the year, inflation has begun to come down as domestic food and fuel prices have retreated from recent peaks. Inflation averaged just over 6 percent in 2005, but excluding food and transport, it remained near zero. The world price of cotton has rebounded since the end of 2004, but the situation in our cotton sector remains difficult. With cotton export revenues declining and oil imports rising in 2005, the external current account deficit (excluding official grants) is estimated to have increased to just over 12 percent of GDP in 2005. Growth of broad money has been in line with the growth of nominal GDP, but credit to the economy has expanded rapidly and the overall balance of payments is projected to be in deficit.

2. The fiscal deficit for the first nine months of 2005 was larger than programmed, despite higher revenues, primarily because of an acceleration of expenditure authorizations for the domestically-financed public investment program, and, to a lesser extent, nonwage recurrent outlays. Actual spending by ministries was in line with the program and the quantitative performance criterion on domestic financing of the government was observed, as were all other quantitative and structural performance criteria (Tables 1 and 2). We reduced expenditure authorizations in the fourth quarter to insure that the fiscal targets for the year as a whole are achieved, and the overall fiscal deficit (excluding grants) will be entirely financed by net external resources.

II. The PRSP, Medium-Term Expenditure Framework, and the 2006 Program

3. We are preparing our priority action plan (PAP) of the poverty reduction strategy paper (PRSP) for 2006–08 and intend to develop a medium-term expenditure framework that reflects the costs of achieving the Millennium Development Goals (MDGs). We will also develop an expenditure scenario that reflects our absorptive capacity, while we implement measures to increase this capacity. Finally, the budget for each year will be aligned with available resources at the time it is drafted. The government will identify additional spending that would be undertaken if additional resources were to become available during the course of the year, provided they are accessible on appropriately concessional terms to ensure external debt sustainability.

4. This is also the strategy we will implement in 2006. The budget is fully financed, but the level of expenditure will not be sufficient to realize the objectives of the 2004–06 PRSP, and we could effectively absorb an additional CFAF 35 billion toward meeting spending requirements in priority social and infrastructure programs. The savings from debt relief that could be released under the multilateral debt relief initiative (MDRI) in 2006 would cover less than half this amount. We will therefore continue to work with our

development partners during the course of the year to obtain additional budget support for increasing spending to achieve the MDGs.

5. Real GDP growth in 2006 is projected to slow to about 4½ percent as agricultural production returns to trend; nonagricultural economic growth is projected to rise to about 6 percent in the wake of the record harvest of 2005. Inflation is projected to fall to about 2 percent. Cotton exports in 2006 are projected to rise by about 35 percent on the basis of the record 2005/06 harvest and the recent improvement in the world cotton price, and the external current account deficit (excluding official grants) is projected to shrink moderately to about 11 percent of GDP. With growth rates of both broad money and credit to the economy slowing in 2006, the overall balance of payments is projected to improve moderately, but we still anticipate a deficit. While the financial situation of the ginning companies is expected to improve in 2006, they are unlikely to show a profit without a further improvement in world prices.

6. We project that fiscal revenue will increase to about 13¼ percent of GDP. The wage bill to rise on the order of 7½ percent to reach CFAF 152 billion, reflecting the expansion of educational opportunities, especially for girls, which will entail hiring more teachers. Transfers are programmed to rise by 25 percent to CFAF 126 billion, primarily to finance the decentralization of health and education services, municipal elections, and establishing new municipal administrations. We will also continue our policy of waiving school fees for girls and increasing outlays on other priority social programs, notably in the areas of health and rural infrastructure. We introduced a temporary fertilizer subsidy in 2003 to help defray higher transportation costs associated with the disruption of supply lines through Côte d'Ivoire. We intend to extend this subsidy for one more year, limited to a total of CFAF 3 billion. Against this background, total expenditure and net lending will rise to about 725 billion, amounting to about 22¼ percent of GDP. The overall deficit, excluding grants, would be nearly covered by net external flows and the projection of domestic financing (including cash adjustment) is unchanged from our previous MEFP.

7. We remain committed to the fiscal reforms set forth in our previous MEFP and are on track for meeting all structural performance criteria and benchmarks for the sixth and final review. The Tax Directorate launched the census of large and medium-sized enterprises in Ouagadougou and Bobo-Dioulasso in early December, and the Joint Brigade of the Tax and Customs Directorates is in place and has prepared a work plan for 2006. We will also push ahead with our program to strengthen budget management. In particular, we are streamlining documentation requirements to expedite government payments and strengthening internal controls. We will also update our multi-year plan for strengthening tax and customs administration, including measures to reduce smuggling, expedite VAT refunds, revise the investment code to enhance investment incentives while reducing revenue losses through exonerations, and computerize revenue management.

8. We also remain committed to the other structural reforms set forth in our previous MEFP, notably: (i) approval of a revised law on the legal and regulatory framework for the electricity sector; (ii) establishment of a regulatory agency for the electricity sector; (iii) issuance of a tender for the selection of a private operator for the management of SONABEL (the electricity utility) before end-June 2006; (iv) issuance of bidding documents for private sector participation in the capital of SONABHY (the oil importing

company) before end-June 2006, and the sale of a minority stake by the end of 2006; and (v), privatization of ONATEL (telecommunications) by the end of 2006. Competition in telecommunications will also be enhanced by the elimination of ONATEL's monopoly in land-line service, effective January 1, 2006. In addition, we intend to reduce the state and national social security holdings of the recently created Housing Bank to 10 and 15 percent, respectively, before the end of 2006.

9. A key medium-term objective for the development of the electricity sector is to eliminate the need for budget subsidy. In that regard, we will continue working to reduce costs of electricity production, and will also raise electricity tariffs in the context of our power sector strategy agreed with development partners. The government will take additional measures as needed to ensure that SONABEL continues to meet all its financial obligations without recourse to a budget subsidy beyond the programmed of CFAF 18 billion.

10. We are also improving the business climate to promote private investment, employment and economic growth. In addition to revising the investment code, we are streamlining procedures and costs for the transfer of property and the licensing of businesses, and implementing reforms to enhance labor market flexibility. We will continue to combat corruption and improve contract enforcement through our judicial reform program by increasing the number of magistrates, improving training and strengthening judicial oversight.

III. Program Monitoring

11. Implementation of our program in 2006 will be assessed against the continuous performance criteria, the quantitative and structural performance criteria for March 2006 and indicative targets for end-June that were established at the conclusion of the fourth review (Table 3). We expect to complete the sixth review under the program by August 15, 2006 on the basis of performance criteria at end-March 2006.

Table 1. Burkina Faso: Quantitative Performance Criteria and Indicative Targets for the Program Under the Poverty Reduction and Growth Facility Arrangement, 2005

(In billions of CFA francs; cumulative from beginning of year)

	2004	2005							
	Dec.	End-June			End-Sep.			End-Dec.	
	Actual	Prog. 1/	Prog. 1/ Adj. 2/	Actual	Prog. 1/	Prog. 1/ Adj. 2/	Actual	Prog. 1/	Proj. 1/
Performance criteria and indicative targets 3/									
Ceiling on cumulative change in net domestic financing to government 4/	-9.7	25.3	21.8	16.1	4.2	-5.0	-5.6	8.9	-4.3
Ceiling on the cumulative amount of new nonconcessional external debt contracted or guaranteed by the government 5/ 6/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which: less than one year's maturity 5/ 6/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accumulation of domestic payments arrears 6/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accumulation of external payments arrears 6/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Indicative targets									
Government revenue	344.5	177.6	177.6	185.3	272.1	272.1	278.7	377.9	380.4
Current expenditure	284.5	167.1	167.1	174.2	253.2	253.2	266.0	337.6	339.6
Expenditure on wages and salaries	119.0	69.7	69.7	71.0	105.6	105.6	106.4	140.7	141.6
Basic balance 7/ 8/	-82.0	-38.8	-38.8	-46.2	-56.4	-56.4	-83.8	-84.7	-85.5
Change in the stock of expenditure authorized but without payment orders 8/	7.4	1.0	1.0	-9.6	6.0	6.0	4.7	3.0	3.4
Adjustment factors									
Balance of payments assistance	89.8	23.7	...	24.2	67.8	...	72.9	93.2	98.4
Adjustment lending	42.8	10.5	...	10.4	45.0	...	38.4	49.3	41.0
Adjustment grants	47.1	13.2	...	13.9	22.9	...	34.4	43.9	57.4
Debt service after HIPC relief	14.2	10.6	...	5.6	17.2	...	8.0	21.0	18.3
Memorandum items:									
Social spending	145.0	71.8	71.8	84.4	112.5	112.5	128.8	160.5	166.2

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

1/ IMF Country Report No. 05/134, August 24, 2005.
2/ Target on net domestic financing adjusted to reflect the excess or shortfall in balance of payments assistance and deviations in external debt service compared to program projections.
3/ Performance criteria at end-March and end-September 2005.
4/ For 2005, the ceiling on the cumulative change in net domestic financing is to be adjusted upward (downward) by the amount of shortfall (surplus) in balance of payments assistance. The downward adjustment does not apply to the first CFAF 25 billion in excess balance of payments support, provided that additional spending is for priority social programs. At end-December 2005, the adjustment is limited to a maximum of CFAF 50 billion.
5/ Excluding treasury notes and bonds issued in CFA francs on the regional West African and Economic Monetary Union (WAEMU) market. This ceiling excludes supplier credits with a maturity of one year or less.
6/ To be observed on a continuous basis.
7/ Revenue (excluding grants) minus expenditure, excluding foreign-financed investment outlays and net lending.
8/ Including HIPC Initiative expenditure.

Table 2. Burkina Faso: Quantitative Performance Criteria and Indicative Targets for the Program Under the Poverty Reduction and Growth Facility Arrangement, 2006
(In billions of CFA francs; cumulative from beginning of year)

	2005	2006			
	Dec.	End-Mar.	End-June	End-Sep.	End-Dec.
	Proj.	Prog. 1/	Proj.	Proj.	Proj.
Performance criteria and indicative targets 2/					
Ceiling on cumulative change in net domestic financing to government 3/	-4.3	14.8	-12.1	-14.8	12.8
Ceiling on the cumulative amount of new nonconcessional external debt					
contracted or guaranteed by the government 4/ 5/	0.0	0.0	0.0	0.0	0.0
Of which: less than one year's maturity 4/ 5/	0.0	0.0	0.0	0.0	0.0
Accumulation of domestic payments arrears 5/	0.0	0.0	0.0	0.0	0.0
Accumulation of external payments arrears 5/	0.0	0.0	0.0	0.0	0.0
Indicative targets					
Government revenue	380.9	87.7	213.4	314.8	432.3
Current expenditure	339.6	91.2	190.5	288.7	384.9
Expenditure on wages and salaries	141.6	37.1	75.2	113.9	151.8
Basic balance 6/ 7/	-85.5	-23.7	-37.7	-73.5	-97.1
Change in the stock of expenditure authorized but without payment orders 7/	3.4	-7.0	-2.0	1.0	3.0
Adjustment factors					
Balance of payments assistance 8/	98.4	24.0	61.7	103.1	103.1
Adjustment lending	41.0	2.7	14.5	49.2	49.2
Adjustment grants	57.4	21.3	47.2	53.9	53.9
Debt service after HIPC relief	18.3	6.0	10.0	15.1	20.1
Memorandum items:					
Social spending	166.2	35.4	90.7	134.5	181.1

Sources: Burkinabè authorities; and staff estimates and projections.

1/ IMF Country Report No. 05/134, August 24, 2005.
2/ Performance criteria at end-March 2006.
3/ The ceiling on the cumulative change in net domestic financing is to be adjusted in line with the specifications set out in paragraph 7 of the TMU.
4/ Excluding treasury notes and bonds issued in CFA francs on the regional West African and Economic Monetary Union (WAEMU) market. This ceiling excludes supplier credits with a maturity of one year or less.
5/ To be observed on a continuous basis.
6/ Revenue (excluding grants) minus expenditure, excluding foreign-financed investment outlays and net lending.
7/ Including HIPC Initiative expenditure.
8/ Includes identified financing only.

Table 3. Burkina Faso: Structural Performance Criteria and Benchmarks for the Program in 2005–06

	Measures	Dates
1.	Production by the Tax Directorate of monthly outcomes and quarterly progress reports on the 10 management indicators for three computerized offices (DGE, Kadiogo I, Houet I).	From end-March 2005 Observed
2.	Introduction of a new taxpayer identification system based on a revised single taxpayer identification number (TIN). 1/	End-March 2005 Observed
3.	Transfer of collection of the RSI tax (régime simplifié d'imposition) from the Treasury Directorate to the Tax Directorate. 1/	End-March 2005 Observed
4.	Submission to the Auditor General Office of the 2003 general balance sheets of the Central Accountant of the Treasury, the General Spending Accountant, and the General Revenue Accountant.	End-March 2005 Observed
5.	Adoption by the Customs Directorate of instructions for customs valuation, and transmission to the pre-inspection company of customs data allowing for the reconciliation of the pre-inspection and declared values of imports.	End-June 2005 Observed
6.	Submission to the Auditor General Office of the 2004 general balance sheets of the Central Accountant of the Treasury, the General Spending Accountant, and the General Revenue Accountant.	End-September 2005 Observed
7.	Submission to the Auditor General Office of the 2004 draft annual budget act. 1/	End-September 2005 Observed
8.	Implementation by the Large Taxpayer Division (DGE) of fiscal controls of at least 60 companies.	End-September 2005 Observed
9.	Establishment by the Customs Directorate of a special unit to monitor the use of imports benefiting from fiscal exonerations. 1/	End-September 2005 Observed
10.	Launch by the Tax Directorate of a comprehensive census of large and medium-sized enterprises in Ouagadougou and Bobo-Dioulasso and publication of a report on the status of its implementation.	End-December 2005
11.	Establishment of a fully operational Joint Brigade of the Tax and Customs Directorates with an annual work program for 2006. 1/	End-December 2005
12.	Submission to the Minister of Finance of a report on the six joint audits of the Joint Brigade of the Tax and Customs Directorates. 1/	End-March 2006
13.	Completion of the taxpayer census in Ouagadougou and Bobo-Dioulasso, and submission to the Minister of Finance of an implementation report. 1/	15 May, 2006
14.	Implementation of the automatic price structure adjustment mechanism for petroleum products in relation to costs.	Continuous

[1] Performance criterion.

Technical Memorandum of Understanding

Ouagadougou, February 27, 2006

1. This memorandum of understanding 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 the 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:

- 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, debt will be understood to mean a current, that is, not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows: (i) loans, that is, advances of money to obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, obligations, commercial loans, and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers' credits, that is, contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods have been delivered or the services provided; and (iii) leases, that is, arrangements under which property is provided that the lessee has the right to use for one or more specified periods of time, which are usually shorter than the total expected life of the property, while the lessor retains the title to the property. For the purpose 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, excluding those payments that cover the operation, repair, or maintenance of the property. 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 the purposes of this memorandum.
- Government is defined as the central government of Burkina Faso and does not include any political subdivision, government-owned entity, or central bank having a separate legal personality.

- External payments arrears are external payments due but unpaid. Domestic payments arrears under the 2005–06 program are domestic payments due (following the expiration of a 90-day grace period, except where the obligation provides for a specific grace period, in which case that grace period will apply) but unpaid.

- Government obligation is any financial obligation of the government accepted as such by the government (including any government debt).

II. Quantitative Performance Criteria

A. Cumulative Change in Net Domestic Financing to the Government

Definition

3. Under the 2005–06 program, net domestic financing of the government is defined as the sum of (i) net bank credit to the government, including both the net bank credit to the treasury as defined below, and other government claims and debts vis-à-vis national banking institutions; (ii) the unredeemed stock of government bills and bonds held outside national commercial banks; and (iii) privatization receipts.

4. Net bank credit to the treasury is defined as 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 the 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.

5. Net bank credit to the government is calculated by the Central Bank of West African States (BCEAO), whose figures are deemed valid within the context of the program. The stock of treasury bills and other government debt is calculated by the Ministry of Finance.

Quantitative performance criterion/indicative targets

6. The ceiling on the cumulative change (from January 1, 2005 onward) in net domestic financing of the government is set at CFAF 4.2 billion at September 30, 2005 and represents a performance criterion at end-September 2005. The ceiling is programmed at CFAF 8,9 billion at December 31, 2005 and (from January 1, 2006 onward) at CFAF 14.8 billion at March 31, 2006.

Adjustment

7. For external debt service, excluding IMF amortization, the ceiling on the cumulative change in net domestic financing is to be adjusted upward (downward) by the amount of excess (shortfall) debt service relative to program (as indicated in Table 2 in the attached Letter of Intent). The downward adjustment does not apply to the shortfall in external debt service arising from the MDRI. In 2006, the ceiling will be adjusted downward by an amount equivalent to the debt relief on IMF principal falling due after 2006. The ceiling on the cumulative change in net domestic financing is also to be adjusted upward (downward) by the amount of shortfall (surplus) in balance of payments assistance. The downward adjustment does not apply to the first CFAF 25 billion in excess balance of payments support, provided that additional spending is for priority social programs or priority infrastructure. The upward adjustment arising from a shortfall in balance of payments assistance is limited to CFAF 50 billion at end-December 2005 and CFAF 50 billion at end-December 2006.

Reporting deadlines

8. Data on net bank credit to the government will be forwarded monthly to the IMF by BCEAO staff, and those on the stock of government bills and other government debt by the Ministry of Finance within six weeks following the end of each month.

B. Nonaccumulation of Domestic Payments Arrears

Definition

9. The government undertakes not to accumulate any new domestic payments arrears on government obligations. The treasury keeps records of domestic payments arrears on government obligations and records pertinent repayments.

Performance criterion

10. The government will not accumulate any domestic payments arrears on government obligations in 2005 and 2006. Said nonaccumulation of domestic payments arrears is a performance criterion, to be observed continuously.

Reporting deadlines

11. Data on outstanding balances, accumulation, and repayment of domestic arrears on government obligations will be reported monthly within four weeks following the end of each month.

C. Nonaccumulation of External Payments Arrears

Performance criterion

12. The government's external debt is the stock of debt owed or guaranteed by the government. External payments arrears are external payments due but unpaid on the due date. Under the program, the government undertakes not to accumulate external payments arrears on its debt, with the exception of external payments arrears arising from government debt being renegotiated with external creditors, including non-Paris Club bilateral creditors and multilateral creditors participating under the enhanced HIPC Initiative. Nonaccumulation of external payments arrears is a performance criterion, to be observed continuously.

Reporting deadlines

13. Data on outstanding balances, accumulation, and repayment of external payments arrears will be forwarded monthly within four weeks following the end of each month.

D. Nonconcessional External Debt Contracted or Guaranteed by the Government of Burkina Faso

Performance criterion

14. The government undertakes not to contract or guarantee any external debt maturing in one year or more with a grant element of less than 35 percent (calculated using the interest reference rate for borrowed foreign currencies provided by the IMF). This performance criterion applies not only to debt as defined in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt, adopted by the IMF's Executive Board on August 24, 2000,[4] but also to all commitments contracted or guaranteed for which value has not been received. However, this performance criterion does not apply to treasury bills and bonds issued in CFA francs on the WAEMU regional market. This commitment is a performance criterion, to be observed continuously.

[4] See para. 2.

Reporting deadlines

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

E. Government Short-Term External Debt

16. 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 on Performance Criteria with Respect to Foreign Debt, adopted by the IMF's Executive Board on August 24, 2000, 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 of one year or less. This obligation is a performance criterion to be observed continuously. As of March 31, 2005, the government of Burkina Faso had no short-term external debt.

III. Other Quantitative Indicative Targets

17. The program also includes indicative targets on the basic balance of the government budget, total government revenue, current expenditure, the government's wage bill, and expenditure committed but not authorized.

Definitions

18. The basic balance of government financial operations is defined as the difference between total government revenue (excluding grants and the proceeds of privatization) and total government expenditure and net lending, excluding foreign-financed investment and net lending. It is valued according to the statement of government budgetary execution, which is established monthly in the central government's financial operations table 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 Finance and Budget.

19. 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 the revenue collection units at ministries and institutions, and it includes revenue from treasury checks.

20. Expenditure is valued on a commitment basis, including expenditure financed from HIPC Initiative funds. It includes current expenditure and capital expenditure financed by the Treasury.

21. Current expenditure is defined as the difference between total expenditure (including expenditure financed from HIPC Initiative resources) and capital expenditure and net

lending. It is made up of the wage bill, expenditure on goods and services, interest on the debt (domestic and external), transfers, subsidies, and other current expenditure.

22. The wage bill is defined as the entire government payroll (on a commitment basis), including wages and benefits for all permanent and temporary civilian and military personnel, and the wage bill paid out of HIPC Initiative funds.

23. Expenditure committed for which a payment order has not been issued (DENM) is defined as all expenditure proposed for commitment that has been certified by the financial comptroller (including HIPC Initiative expenditure) but for which the payment authorization (*mandat*) has not been issued and forwarded to the treasury. Its stock is valued according to the statement of government budgetary execution, which is established monthly in the central government's financial operations table prepared by the SP-PPF, in collaboration with the other directorates of the Ministry of Finance and Budget.

Other quantitative indicative targets

24. The ceiling for the cumulative basic deficit (from January 1, 2005 onward) of government financial operations is established at CFAF 38.8 billion at June 30, 2005 and at CFAF 56.4 billion at September 30, 2005. These ceilings are indicative targets at end-June 2005 and end-September 2005. The ceiling is projected at CFAF 84.7 billion at December 31, 2005 and (from January 1, 2006 onward) at CFAF 23.7 billion at March 31, 2006.

25. The floor for total government revenue (cumulative from January 1, 2005 onward) is set at CFAF 177.6 billion at June 30, 2005 and at CFAF 272.1 billion at September 30, 2005. These floors are end-June 2005 and end-September 2005 indicative targets. The floor is projected at CFAF 377.9 billion at December 31, 2005 and (from January 1, 2006 onward) at CFAF 87.7 billion at March 31, 2006.

26. The respective ceilings for current expenditure and the wage bill (cumulative from January 1, 2005 onward) are established at CFAF 167.1 billion and CFAF 69.7 billion, respectively, at June 30, 2005, and at CFAF 253.2 billion and CFAF 105.6 billion, respectively, at September 30, 2005. These ceilings are end-June 2005 and end-September 2005 indicative targets. They are projected, respectively, at CFAF 339.6 billion and CFAF 141.6 billion at December 31, 2005, and (from January 1, 2006 onward) at CFAF 91.2 billion and CFAF 37.1 billion at March 31, 2006.

27. The ceiling for the cumulative increase (from January 1, 2005 onward) in the stock of DENMs is set at CFAF 1.0 billion at June 30, 2005, and at CFAF 6.0 billion at September 30, 2005. These ceilings are end-June 2005 and end-September 2005 indicative targets. The ceiling for the cumulative increase in the stock of DENMs is projected at CFAF 3.4 billion at December 31, 2005, and the floor for the cumulative reduction (from January 1, 2006 onward) is projected at CFAF 7.0 billion at March 31, 2006.

Reporting deadlines

28. Details on the basic balance of the government budget, total revenue, current expenditure, the wage bill, and the DENMs will be sent monthly to IMF staff by the SP-PPF of the Ministry of Finance and Budget within six weeks following the end of each month.

IV. Additional Information for Program-Monitoring Purposes

A. Public Finance

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

- a monthly government flow-of-funds table (TOFE) and the 13 customary appendix tables, to be forwarded monthly within six weeks following the end of each month; if the 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 adopted;

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

- quarterly data on implementation of the public investment program, including details on financing sources. These data will be sent quarterly within six weeks following the end of each quarter;

- monthly data on external debt stock and service, to be sent within four weeks following the end of each month;

- monthly data on prices and the taxation of petroleum products, including (i) the price structure prevailing during the month; (ii) the detailed calculation of the price structure, from the f.o.b.-MED price to the retail price; (iii) the volumes purchased and made available for consumption by the petroleum distributor (SONABHY); and (iv) the 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 following the end of each month; and

- 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), and to be provided monthly within four weeks following the end of each month.

B. Monetary Sector

30. The government will provide monthly the following information within six weeks following the end of each month:

- the consolidated balance sheet of monetary institutions;
- the monetary survey, within six weeks following the end of each month for provisional data, and ten weeks following the end of each month for final data;
- borrowing and lending interest rates; and
- customary banking supervision indicators for bank and nonbank financial institutions, if necessary.

C. Balance of Payments

31. 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), whenever they occur;
- foreign trade statistics compiled by the National Statistics Institute, within three months following the end of the month concerned; and
- preliminary annual balance of payments data, within nine months following the end of the year concerned.

D. Real Sector

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

- disaggregated monthly consumer price indices, within two weeks following the end of each month;
- provisional national accounts, within six months after the end of the year; and
- any revision of the national accounts.

E. Structural Reforms and Other Data

33. The government will report the following information:

- any study or official report on Burkina Faso's economy, within two weeks following its publication; and
- any decision, order, law, decree, ordinance, or circular with economic or financial implications, upon its publication or, at the latest, when it enters into force.

F. HIPC Initiative

34. The government will report monthly, within three weeks following the end of each month, monthly data on resources, uses, and balances in the special account established at the BCEAO for the use of resources generated by a reduced debt burden under the HIPC Initiative.

Summary of Data Requirements

Type of Data	Tables	Frequency	Reporting Deadline
Real sector	Provisional national accounts	Annual	Year's end + six months
	Revisions of national accounts	Variable	End of revision + eight weeks
	Disaggregated consumer price index	Monthly	Month's end + two weeks
Public finance	Net treasury and government position at the BCEAO and details of nonbank financing, including the stock of treasury bills and bonds	Monthly	Month's end + six weeks
	Government flow-of-funds table (TOFE) and the 13 customary appendix tables	Monthly	Month's end + six weeks
	Execution of capital budget	Quarterly	End of quarter +six weeks
	Petroleum product pricing formula, tax receipts on petroleum products, and subsidies paid	Monthly	Month's end + four weeks
	Status of the deposit accounts with the public treasury, classified by major category	Monthly	Month's end + four weeks
Monetary and financial data	Monetary survey	Monthly	Month's end +six weeks
	Consolidated balance sheet of monetary institutions	Monthly	Month's end + six weeks
	Borrowing and lending interest rates	Monthly	Month's end + six weeks
	Banking supervision ratios	Quarterly	End of quarter + eight weeks
Balance of payments	Balance of payments	Annual	End of year + nine months
	Revised balance of payments data	Variable	When revisions occur
External debt	Outstanding external arrears and repayments (if applicable)	Monthly	Month's end + four weeks
	Details of all new external borrowing	Monthly	Month's end + four weeks
HIPC Initiative	Statement of special account at the BCEAO, that receives resources generated by the HIPC Initiative and tracks their use	Monthly	Month's end + three weeks

Burkina Faso: Relations with the Fund
(As of December 31, 2005)

I. Membership Status: Joined: May 2, 1963; accepted Article VIII on June 1996

II. General Resources Account:	**SDR Million**	**In percent of quota**
Quota	60.20	100.00
Fund holdings of currency	52. 87	87.83
Reserve position in Fund	7.33	12.18
Holdings Exchange Rate		

III. SDR Department:	**SDR Million**	**In percent of allocation**
Net cumulative allocation	9.41	100.00
Holdings	0.14	1.48

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IV. Outstanding Purchases and Loans:	**SDR Million**	**In percent of quota**
Poverty Reduction and Growth Facility (PRGF) arrangements	72.44	120.33

V. Latest Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	Jun. 11, 2003	Aug. 15, 2006	24.08	17.20
PRGF	Sep. 10, 1999	Dec. 09, 2002	39.12	39.12
PRGF	Jun. 14, 1996	Sep. 09, 1999	39.78	39.78

VI. Projected Payments to Fund (without HIPC Assistance)
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2006	2007	2008	2009	2010
Principal	10.09	12.12	11.48	9.52	8.77
Charges/interest	0.62	0.56	0.50	0.45	0.41
Total	10.70	12.68	11.99	9.97	9.18

Projected Payments to Fund (with Board-approved HIPC Assistance)
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2006	2007	2008	2009	2010
Principal	7.07	10.71	11.48	9.52	8.77
Charges/interest	0.62	0.56	0.50	0.45	0.41
Total	7.69	11.27	11.99	9.97	9.18

VII. Implementation of HIPC Initiative:

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

VIII. Safeguards Assessments:

The Central Bank of West African States (BCEAO) is the common central bank of the countries of the West African Economic and Monetary Union. A new safeguards assessment of the BCEAO was completed on November 4, 2005. The assessment found that progress has been made in strengthening the BCEAO's safeguards framework of the bank since 2002 when the last safeguards assessment took place.

The BCEAO now publishes a full set of audited financial statements, and improvements have been made to move financial reporting closer to International Financial Reporting Standards (IFRS). Furthermore, an internal audit charter has been put in place, mechanisms have been established to improve risk management and risk prevention, and follow-up on internal and external audit recommendations has been strengthened.

The new assessment identified a number of areas where further steps would help solidify the progress made. The main recommendations relate to improvements in the external audit process (including the adoption of a formal rotation policy), further enhancement of the transparency of

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

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

the financial statements by fully adopting IFRS, and further strengthening of the effectiveness of the internal audit function.

Financial reporting framework. Fund staff recommended that the BCEAO formally adopt International Accounting Standards (IAS) and publish a complete set of financial statements, including detailed explanatory notes. The BCEAO and Fund staff reached understandings that the **BCEAO will strive to improve its financial and accounting reporting by aligning its practices with those recommended by IAS**, as adopted internationally by other central banks.

Internal controls system. The staff noted that the absence of oversight of the bank's governance, financial reporting, and internal control practices by an entity external to the management of the BCEAO represented a significant risk. The BCEAO and Fund staff reached understandings that, after seeking the opinion of the external auditor (Commissaire Contrôleur), BCEAO staff will propose to the BCEAO Board of Directors that it adopt a resolution whereby **the external auditor will be required to apprise the Board of Directors, during its annual review and approval of the financial statements, of the state and quality of internal controls within the bank.**

Based on the 2001 financial statements, the staff noted that the BCEAO has improved the explanatory notes to the financial statements and further changes are scheduled for the next fiscal year, with a view toward a graduate alignment with IAS accounting to the extent applicable to central banks by 2005. The external auditor has apprised the Board of Directors of the BCEAO of the quality of internal controls in June 2003, and the financial statements for the year 2001 were published on the bank's website. The staff will continue its follow up on the progress of the BCEAO in implementing the proposed recommendations as part of the ongoing safeguards monitoring process."

IX. Exchange Rate Arrangement:

Starting on January 1, 1999, Burkina Faso's currency, the CFA franc, has been pegged to the euro at the rate of €1=CFAF 655.957. The exchange rate as of January 9, 2006 was CFAF 786.3=SDR 1. The exchange and trade system is free of restrictions on the making of payments and transfers on current international transactions.

X. Article IV Consultations:

The periodicity of Burkina Faso's Article IV consultation is set in accordance with the July 15, 2002 Executive Board Decision on consultation cycles. Discussions on the 2005 Article IV consultation and fourth review under the Poverty Reduction and Growth Facility (PRGF) were held during the period May 24—June 9, 2005 in Ouagadougou. The staff report (IMF Country Report No. 05/354, August 24, 2005) and the Selected Issues and Statistical Annex (IMF Country Report No. 05/358, August 24, 2005) were considered by the Executive Board on September 7, 2005.

XI. ROSC/AAP:

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

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

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

XII. Technical Assistance:

Significant technical assistance has been provided since 1989, more recently especially in the fiscal area:

Department	Type of Assistance	Time of Delivery	Purpose
FAD	Staff	October 6–17, 1997	Assessing the fiscal impact of the common external tariff (CET) and regional integration and defining policies to offset revenue losses.
FAD	Staff	November 20–30, 1998	Assessing implementation of the 1997 mission recommendations, and proposing complementary reforms to strengthen the fiscal and customs administration.
FAD	Staff	February 11–25, 1999	Assisting in upgrading the computer system used for large taxpayers and following up on the implementation of previously recommended measures.
FAD	Staff	December 4–11, 1999	Monitoring the upgrading of the computer system used for large taxpayers; reviewing the establishment of a withholding system for business taxes; reviewing the system of treasury refunds of taxes due on foreign-financed projects; and proposing modalities for eliminating value-added tax exemptions on investments.
FAD	Staff	May 7–18, 2001	Assisting in completion of the fiscal module of the ROSC, and drafting on assessment of action plan on the capacity of the public expenditure management system to track and report on the uses of HIPC Initiative assistance and all poverty-reducing expenditures.
STA	Staff	Since April 2002	Assisting West African Economic and Monetary Union (WAEMU) countries in improving government finance statistics (GFS).

Department	Type of Assistance	Time of Delivery	Purpose
FAD	Staff	March 6–17, 2003	Reviewing the status of implementation of previous FAD recommendations and developing a program of measures to further improve the effectiveness of the tax and customs administration.
STA	Staff	May 8–21, 2003	Assist in completing the data module of the ROSC, assessing the quality and timeliness of macroeconomic data, and helping draft an action plan to ensure the timely disclosure and improve the quality of data.
AFRITAC	STA Advisor	December 8–19, 2003	Help MOF improve GFS, expand the scope of the TOFE, and train staff (first of three scheduled missions).
AFRITAC	PEM Advisor	January 19–30, 2004	Assess the computerized system for expenditure management regarding external financing.
AFRITAC	Customs Advisor	February 7–14, 2004	Review the status of implementation of previous FAD recommendations.
AFRITAC	Tax Advisor	February 18–25, 2004	Review the status of implementation of previous FAD recommendations (first of three scheduled missions).
AFRITAC	STA Advisor	March 29–April 2, 2004	Help MOF improve GFS, expand the scope of the TOFE, and train staff (second of three scheduled missions).
AFRITAC	Short-term expert	April 26–30, 2004	Develop an action plan to mobilize taxpayer registry and central database creation and management.
AFRITAC	Tax Advisor	April 28–May 1, 2004	Review the status of implementation of previous FAD recommendations (second of three scheduled missions).

Department	Type of Assistance	Time of Delivery	Purpose
AFRITAC	Custom Advisor	August 23–27, 2004	Review the status of implementation of previous FAD recommendations, and help use ASYCUDA.
AFRITAC	Debt Advisor	September 13–24, 2004	Assess public debt data recording and reporting. Monitor progress in establishing domestic primary markets for government securities and develop secondary market.
AFRITAC	Tax Advisor	October 4–9, 2004	Review the status of implementation of previous FAD recommendations (third of three scheduled missions).
AFRITAC	Tax Advisor	February 7–11, 2005	Review the progress made on : (1) the setup of the Large Taxpayer Unit and the Medium Taxpayers Office; (2) the steps to strengthen the fiscal control; and (3) the corporate registry reform.
AFRITAC	Customs Advisor	February 14–18, 2005	Provide assistance to control transit merchandises in the country and travelers at Ouagadougou airport.
AFRITAC	Customs, short-term Expert	February 14–23, 2005	Implement customs valuation code and establish a database for indicative import prices.
AFRITAC	Microfinance Advisor	March 21–25, 2005	Assess the TA need of the Cellule responsible of the supervision of microfinance institutions and prepare a capacity-building program.
AFRITAC	Short-term Expert	April 18–29, 2005	Training of auditors of the Tax administration.
AFRITAC	STA Advisor and Short-term Expert	June 27–July 5, 2005	Assist in setting up database for the TOFE (first or two scheduled missions) and expand further the scope of the TOFE (last of three scheduled missions).
AFRITAC	Customs Advisor	July 10–15, 2005	Strengthen capacity to fight fraud at customs.

Department	Type of Assistance	Time of Delivery	Purpose
AFRITAC	Tax Advisor	August 8–12, 2005	(1) Review the status of implementation of the 2003 FAD mission's recommendations; (2) update the tax directorate's action plan; and (3) asses the DGI TA's needs.
AFRITAC	STA Short-term Expert	August 29–September 2, 2005	Assist and setting up database for the TOFE (last of the two scheduled missions)
AFRITAC	Microfinance Advisor	September 19–23, 2005	Strengthen operational systems for the surveillance of microfinance institutions
AFRITAC	STA Short-term Expert	September 19–23, 2005	Assist and setting up database for the TOFE (additional mission)
AFRITAC	PEM Advisor	October ,10–14, 2005	Review the status of implementation the January 2004 mission recommendations and asses the technical assistance needs
AFRITAC	Microfinance Advisor and short-term Expert	November 21–December 16, 2005	Coaching in microfinance inspections

XIII. Resident Representative:

Mr. Mario Zejan took up the post of Resident Representative in March 2004.

Burkina Faso: Relations with the World Bank Group
(As of January 31, 2006)

Partnership in Burkina Faso's development strategy

1. **Government's development strategy**. The government of Burkina Faso outlined its development strategy in a revised PRSP (PRSP-2) adopted by the Council of Ministers on October 27, 2004, along with a Priority Action Program (PAP). The PAP translates strategic direction into sequenced actions and strengthens results-based monitoring and evaluation of the PRSP. The revised PRSP and accompanying PAP were presented to World Bank and IMF Board on May 3, 2005. PRSP-2 reaffirms the four interrelated pillars as identified in the first PRSP, namely: (i) accelerating broad-based growth; (ii) promoting access to social services; (iii) increasing employment and income-generating activities for the poor; and (iv) promoting good governance.

2. **Partnership with the Fund**. The Fund has supported Burkina Faso under three arrangements under the Poverty Reduction and Growth Facility between 1993 and 2002, and the authorities are currently receiving support under a fourth PRGF arrangement covering 2003–06. The first review of the latter arrangement was completed in March 2004, and the fourth review was completed in September 2005.

3. The Fund takes the lead in the policy dialogue on macroeconomic policies and monitors macroeconomic performance through quantitative performance criteria. In addition, it has established structural performance criteria in the areas of tax policy, financial transparency and good governance, and trade policy. The Bank is supporting the implementation of the PRSP in the areas of public finance management, good governance, decentralization, health, education, and cotton reform through a series of poverty reduction support credits (PRSC), complemented with a portfolio of specific projects to address issues relating to HIV/AIDS, basic education, infrastructure investments in transport, water and urban areas, rural development, private sector development, and statistical capacity building.

The FY06–09 Country Assistance Strategy (CAS)

4. **Lessons from past support to Burkina**. The 2000 CAS Completion Report concludes that development outcomes in FY01–05 were satisfactory, as was Bank performance in supporting implementation of the strategy. Key lessons from the past CAS have shaped the strategy for FY06–09. First, strong country commitment and consistent policy reform have succeeded in creating an environment more conducive to growth. Second, a more aggressive approach to economic diversification and administrative decentralization will be required in order to accelerate growth and make it more inclusive. Third, the CAS needs to do more to support strengthening of national capacity and country systems, in order to get better results and sustain them. Finally, IDA and other external partners must use the next few years to translate principles of harmonization into reality, in order to reduce the burden of aid management for Burkina.

5. **The FY06–09 CAS** was discussed by the Bank's Board on June 28, 2005. This CAS supports the pillars of the revised CSLP with analytic work, technical advice, on-going operations and new financing. It is built around a results framework that explicitly defines the assumed causal links between IDA-supported activities, direct outcomes of these activities and the country's higher-level development outcomes. IDA will seek to contribute to the following outcomes:

- **Accelerated and shared growth**. IDA will support enhanced regional integration, expanded and diversified export earnings, an improved investment climate, decentralized urban development to promote urban-rural linkages, and economic infrastructure needed to reduce factor costs and stimulate private sector investment and growth.

- **Improved access to basic social services**. IDA will continue to support access to basic education and improved quality of teaching, expanded coverage of basic health care and HIV/AIDS prevention and treatment and increased access to clean water and sanitation, particularly in urban areas. IDA will also provide technical input for better targeting of social protection to the most vulnerable groups.

- **Increased employment and income opportunities for the poor**. A two-pronged approach will focus, first, on the labor market and employment strategy for urban workers. Second, IDA will support efforts to reduce risk, increase revenues, upgrade economic and market infrastructure and enhance women's opportunities in rural areas, along with promoting community-based land and natural resource management for sustainable development.

- **Better governance with greater decentralization**. Governance affects the achievement of development outcomes across all strategic pillars and sectors. Efforts to enhance governance and accountability will be integral to all IDA-supported activities. Particular emphasis will be placed on supporting a more efficient judiciary, promoting public resource management and increased decentralization and strengthening local capacity and participation in public policy decisions.

6. The PRSP-2 provides the framework in which the FY06–09 CAS can contribute to Burkina Faso's development objectives. Given the country context, recent progress and medium-term prospects, the main challenges for Burkina in the upcoming CAS period can be summarized as follows: (i) maintaining commitment to reform despite less favorable conditions for growth; (ii) overcoming long-standing obstacles to economic diversification; (iii) improving the efficiency of public spending for social services, water and sanitation; (iv) decentralizing development to enhance pro-poor growth; and (v) creating a public sector interface that inspires private sector confidence.

Assessment of country policies

7. In close collaboration with the Burkinabè authorities, IDA has undertaken substantial analytical work over the past five years to assess key social, structural, and sectoral

development policies and to identify policy and institutional reform priorities for poverty reduction. IDA has relied on a combination of the PRSP and its annual progress reports, a second priority poverty survey and two poverty profiles, sectoral policy notes, and informal papers on specific issues, such as constraints in growth and competitiveness, or the dynamics of poverty and income inequality. IDA has also helped the Burkinabè authorities carry out analytical work in key sectors (education, health, rural development, energy, transport, and private sector development) and assisted with the preparation of a comprehensive economic study on long-term sources of growth and competitiveness in 2001. IDA completed a public expenditure review in June 2004 and a Poverty Assessment in July 2004; a Population Sector Work in April 2005 and a Country Procurement Assessment Report (CPAR) in June 2005. IDA will continue to support preparation and dissemination of participatory analytical work in the FY06–09 period linked to strategic priorities. Areas of particular emphasis in the next few years will include private sector development (Investment Climate Assessment, Financial Sector Review, Integrated Trade Framework and Labor Market Study), sequencing of decentralization, and understanding and addressing persistent malnutrition.

The Bank portfolio and proposed lending pipeline

8. The Bank's cumulative commitments to Burkina Faso as of January 31, 2006 amount to US$1,578,635 million equivalent for 75 operations, comprising 69 IDA credits and 6 IDA grants.

9. The **current portfolio** amounts to IDA commitments of US$465 million, of which US$285 million is undisbursed. Two GEF Projects also complement the IDA portfolio for a commitment amount of US$12 million, of which $5 million has been disbursed. IDA's portfolio in Burkina Faso is as follows:

- The **PRSC-5** approved on May 3, 2005 for US$46.1 million equivalent in credit and US$13.9 million equivalent in grant will support the implementation of PRSP-2 and its accompanying PAP. Under the growth and employment objectives, PRSC-5 supports reforms in the cotton, rural, telecommunication and energy sectors, as well as in the labor market, to lower factor costs, increase productivity and favor new investments. PRSC-5 also supports policies in the education, health, social protection, and water sectors with the objectives to improve access and improve service quality. Lastly, PRSC-5 supports measures to strengthen budget formulation, execution, procurement, and control, as well as public sector performance, decentralization, and environmental management.
- In the **agriculture** sector, the community-based rural development program (US$66.7 million equivalent, FY01) aims at reducing poverty and promoting sustainable development in rural areas. Its first phase provides for building local capacity to plan and implement rural development projects, accelerating the pace of public transfers for decentralized rural development, and supporting implementation of the country's decentralization framework.

- To support **human resource development**, three operations are being implemented. In **education**, a basic education operation (US$32.6 million equivalent) was approved in January 2002. The project provides support for the government's ten-year basic education program, which will be implemented in three phases, the first of which covers the period 2001–05. The main development objective of Phase I of the ten-year program is to lay the foundation for accelerating the development of basic education, while ensuring adequate quality and financial sustainability. The Bank also assists the country with the implementation of a new development learning center (US$2.3 million equivalent, FY03) for distance-learning activities that will give the Burkinabè access to the latest research worldwide. A **HIV/AIDS** disaster response project (US$22 million equivalent, FY02) underpins the implementation of the government's 2001–04 medium-term HIV/AIDS/STIs strategic plan, which has been endorsed by the country's technical and financial partners. A US$5 million supplemental grant has been approved on May 3, 2005 to complete the activities of the original operation. In addition, the multi-country *HIV/AIDS Treatment Acceleration Program* (TAP), approved in June 2004, includes US$18 million for Burkina, to scale up treatment through strengthening the response of associations of persons living with HIV/AIDS and the Ministry of Health.
- A **water supply** project (US$70 million equivalent, FY01) aims at increasing access to adequate and reliable potable water in Ouagadougou through expanded distribution and tertiary water networks and improved urban water sub-sector management.
- A technical assistance credit for **private sector development** (Competitiveness and Enterprise Development Project, US$30.7 equivalent, FY03) provides support to implement the privatization program; improve the quality, access, and cost of telecommunications, and promote the development of a strong indigenous private sector in Burkina Faso through a streamlined business environment and well-targeted financial and nonfinancial services to small and medium-sized enterprises.
- The Bank approved a **transport sector** project in April 2003 for US$92.1 million equivalent. The project concentrates on rural roads as the rural economy is the main source of income and employment for 80 percent of the population.
- A **statistical capacity building** credit for US$10 million equivalent was approved in March 2004. The project aims at improving policy decision-making, based on timely and accurate quantitative and qualitative information, that help monitor progress towards national development goals, including the PRSP goals and the MDGs.
- An **administration capacity building** grant for US$7.0 million equivalent was approved in March 2005. The project aims at improving administration structures and processes in light of the decentralization policy, in order to yield measurable impact on provision of services to the citizens of Burkina. This will improve human and financial management systems and entrench a culture of capacity building in the administration.

- A **power sector development** project, US$63 million equivalent, was approved in November 2004, with the aim to increase power supply through domestic generation and investment in sub-regional inter-connectors for increased electricity imports.

10. The Bank's **proposed lending** program for the FY06–09 period will consist of: (i) one programmatic development lending operation per fiscal year; (ii) support to the agriculture sector through an intensification and market diversification project and its follow-up project, and the second phase of the community-based rural development program; (iii) a rural energy project which will aim at increasing access to infrastructure services, especially for rural communities; (iv) a capacity building project to support the decentralization agenda; and (v) a Health/HIV/AIDS and an education sector-wide programs. In addition, Burkina will participate in regional projects to improve infrastructure networks and increase agricultural productivity[7].

Bank-Fund collaboration in specific areas

11. **Cotton sector and energy sector.** The Bank and Fund staffs jointly follow developments in the cotton sector because of its importance for macroeconomic aggregates and rural incomes. The Fund staff focuses on the overall financial management of the cotton sector in order to limit spillover effects for government finances and the banking sector. The Bank staff is accompanying the government's structural reform agenda in the sector under a series of PRSCs. These reforms aim at creating a more competitive environment. The reforms have contributed over the past decade to bought spun-off units from the former monopoly enterprise, prudent financial management and the increased involvement of producer organizations in decision-making processes, including the setting of producer prices.

12. **Public finance management and good governance**. The Bank and the Fund closely collaborate in supporting the government's reforms in the area of public finance management and good governance. Important elements of the reform program are enshrined in the government's own action plan for the improvement of budget management and incorporate the main recommendations of the HIPC Assessment and Action Plan prepared jointly by Bank and Fund staff and the Country Financial Accountability Assessment (CFAA). Recently, the Bank's PRSCs supported the establishment of a functioning Auditor General Office, resumption of regular submissions of budget audit laws to the Auditor General Office and the National Assembly, and revisions of procurement laws and regulations. The Bank's PRSC series is also supporting extensions of the computerized expenditure circuit to deconcentrate budget execution and, together with sector-specific projects, is assisting with the preparation for the political decentralization. The PRGF-supported program included measures to ensure the effectiveness of the Auditor General Office, and the Fund has given technical assistance in the area of tax and customs administration. Both the Bank and Fund

[7] A regional aviation project, a regional transit facilitation project, a West Africa power pool project and a West African agricultural productivity program.

staffs have followed jointly the government's anticorruption policies, including the creation of the High Authority to Fight Corruption. The Fund is focusing its support under the PRGF on tax administration and tax reform issues while the Bank is supporting expenditure management and control reform under the PRSCs.

13. **Promotion of private sector activity**. Given the importance of private sector development for accelerating growth, the Bank and Fund staffs take a close common interest in policies that foster competition, as well as privatization. The Fund focuses on trade policies and monitors the financial performance of public enterprises. The Bank has taken the lead in assisting with the privatization of the energy and telecommunications sectors and removing administrative obstacles to the creation of enterprises and private investment. IFC and MIGA have intensified their support for private sector investment in Burkina in the past year.

Statement of IDA Credits/Grants
As of January 31, 2006
(In millions of U.S. dollars)

Credit/Grant Number	Fiscal Year	Sector	IDA	Undisbursed
C34360-BF	2001	Community-Based Rural Dev.	66.7	19.29
C34760-BF	2001	Ouagadougou Water Supply	70.0	48.10
C35570-BF	2002	HIV/AIDS Disaster Response	22.0	1.65
C35970-BF	2002	Basic Education	32.6	22.33
C51242-BF	2002	Partnership for Nat. Eco/System	7.5	3.08
C37070-BF	2003	Development Learning Center	2.3	0.83
C37330/H0220	2003	Competitiveness & Ent. Dev.	30.7	27.52
C37450/H0320	2003	Transport Sector	92.1	84.88
C38780-BF	2004	Statistical Capacity Bldg	10.0	8.56
C53855-BF	2004	Sahel Inter lowland	4.5	3.91
G29867-BF	2005	Power Sector Dev.	63.6	60.22
H1510	2005	Administration Capacity Building	7.0	6.02
H1580	2005	PRSC-5	60.0	
H1600	2005	MAP Supplemental	5.0	2.80
C40190	2005	WA Locust	3.0	2.80
Total (number of credits/grants: 18)			477.0	292.0

Source: World Bank.

For additional information, please contact Sabine Hader, Acting Country Program Coordinator, Tel. 458-8414, or Abdoulaye Seck, Senior Country Economist, Tel. 473-4508
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CAS Annex B8 - Burkina Faso

Operations Portfolio (IBRD/IDA and Grants)

As Of Date 01/31/2006

Closed Projects **56**

IBRD/IDA *	
Total Disbursed (Active)	144.15
of which has been repaid	0.00
Total Disbursed (Closed)	1,187.61
of which has been repaid	253.66
Total Disbursed (Active + Closed)	1,331.77
of which has been repaid	253.66
Total Undisbursed (Active)	279.41
Total Undisbursed (Closed)	0.00
Total Undisbursed (Active + Closed)	279.41

Active Projects		Last PSR Supervision Rating						Difference Between Expected and Actual Disbursements [a/]	
Project ID	**Project Name**	**Development Objectives**	**Implementation Progress**	**Fiscal Year**	**IDA**	**GRANT**	**Undisb.**	**Orig.**	**Frm Rev'd**
P035673	BF-Com Based Rur Dev (FY01)	S	S	2001	66.70		19.29	11.50	-6.56
P000306	BF-Ouaga Water Suply (FY01)	S	S	2001	70.00		48.10	23.39	
P000309	BF-Basic Edu Sec SIL (FY02)	MS	MU	2002	32.60		22.33	13.83	
P052400	BF-GEF Nat Res Mgmt Prtnrshp APL (I	S	S	2002		7.50	3.08	0.74	
P071433	BF-HIV/AIDS Disaster Response APL (	MS	S	2002	22.00		1.65	-1.68	-5.92
P071443	BF-Compet & Enterprise Dev (FY03)	S	S	2003	30.70		27.52	9.25	
P076159	BF-Dev Learning Center LIL (FY03)	MU	MU	2003	2.30		0.83	0.28	-0.14
P074030	BF-Transp Sec SIM (FY03)	U	U	2003	92.10		84.88	40.85	
P070871	BF-GEF Sahel Lowland Ecosys Mgmt (	S	S	2004		4.50	3.91	0.49	
P085230	BF-STATCAP SIL (FY04)	MS	MS	2004	10.00		8.56	3.54	
P078596	BF-Admin CB (FY05)	S	S	2005	7.00		6.02	1.25	
P069126	BF-Power Sec Dev (FY05)	S	S	2005	63.58		60.22	46.04	
P078995	BF-PRCS-5 (FY05)	S	S	2005	60.00				
	BF-MAP Supplemental (Regional = 18.1)			2005	5.00		2.80		
	BF-WA Locust (Regional = 8.4)			2005	3.00		2.80		
Overall Result					**464.98**	**12.00**	**292.00**	**149.48**	**-12.61**

INTERNATIONAL MONETARY FUND

EXTERNAL RELATIONS DEPARTMENT

Press Release No. 06/51
FOR IMMEDIATE RELEASE
March 13, 2006

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Fifth Review Under Burkina Faso's PRGF Arrangement and Approves US$4.9 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) completed today the fifth review under the Poverty Reduction and Growth Facility (PRGF) arrangement for Burkino Faso (see Press Release No. 05/207). The completion of the review, which was undertaken on a lapse of time basis[1], enables the release of a further SDR 3.44 million (about US$4.9 million) under the arrangement. This will bring the total amount drawn under the arrangement to SDR 20.6 million (about US$29.6 million).

The PRGF is the IMF's concessional facility for low-income countries. PRGF-supported programs are based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners and articulated in the country's Poverty Reduction Strategy Paper. This is intended to ensure that PRGF-supported programs are consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty. PRGF loans carry an annual interest rate of 0.5 percent and are repayable over 10 years with a 5½-year grace period on principal payments.

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