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

June 11, 2008

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

(Translated from French)

Burkina Faso: Letter of Intent

Ouagadougou
June 11, 2008

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
700 19th Street NW
Washington, DC 20431
USA

Reference: Letter of Intent for Economic and Financial Policies 2008–09

Mr. Strauss-Kahn:

1. The first review of our economic and financial program supported under the Fund's Poverty Reduction and Growth Facility (PRGF) was approved by the IMF Board on January 9, 2008. To help the country address the impact of higher oil prices and the adverse shock on cotton, the Board also approved an increase in access of 15 percent of quota (SDR 9.03 million).
2. The attached Memorandum on Economic and Financial Policies (MEFP) reviews recent economic developments and progress in the implementation of our program through the first quarter of 2008; it also sets out the policies the government intends to pursue in the remainder of 2008 and early 2009.
3. The government's continued efforts to strengthen tax and customs administration and implement structural reforms enabled it to meet all quantitative performance criteria and most benchmarks. In particular, the revenue and fiscal deficit target were met. With regard to tax administration, substantial progress has been made in making use of the notification system for late-filers and non-filers to remind them of their obligation to file tax returns. Even though technical problems prevented us in some cases from sending notification letters within a week after the filing deadline, the late-filing and non-filing rates have still declined significantly. As we have complied with the substance of the measure, we request a waiver of this structural performance criterion.

4. In support of our overall performance and on the strength of the policies set forth in the attached memorandum, we request completion of the second review under the PRGF and the third disbursement in the amount of SDR 4.014 million.

5. The government believes that the policies set forth in the attached MEFP will enable it to meet its program objectives in a difficult economic environment, characterized by rising prices of some consumer goods, high oil prices, a strong euro, and a slowdown in global growth. However, the government is nonetheless determined to take any other measures that might become necessary to achieve that goal. Burkina Faso would then consult with the Fund before revising any of the policies contained in the attached MEFP, in accordance with the Fund's policy on such consultation. The third review under the PRGF arrangement is expected to be completed no later than end-January 2009 and the fourth review by end-July 2009.

6. The government intends to make the contents of this letter and the attached MEFP and Technical Memorandum of Understanding available to the public. Therefore, it authorizes the IMF to publish these documents on the IMF website once the Executive Board concludes the review.

Sincerely yours,

/s/

Jean-Baptiste M. P. Compaoré
Commander of the National Order

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

(Translated from French)

Attachment I. Burkina Faso: Memorandum of Economic and Financial Policies of the Government for 2008–09

I. INTRODUCTION

1. **This memorandum updates Burkina Faso’s economic and financial program under the three-year Poverty Reduction and Growth Facility (PRGF) arrangement with the IMF.** It summarizes recent economic developments, reviews performance under the PRGF-supported program, and updates the government’s strategy for pursuing its financial and economic policies. The program, which was approved by the IMF’s Executive Board on April 23, 2007, aims at consolidating macroeconomic stability and fostering conditions that can sustain high economic growth and reduce poverty.¹ The first review was completed on January 9, 2008. On that occasion, the Board approved an increase in access of 15 percent of quota (SDR 9.03 million) to help address the impact of higher oil prices and the adverse shock to cotton. In the second half of 2007, the government continued its efforts to strengthen tax and customs administration, made progress with cotton sector reform, and followed through on structural reforms.

II. RECENT ECONOMIC DEVELOPMENTS AND PROGRAM IMPLEMENTATION DURING 2007 AND THE FIRST QUARTER OF 2008

A. Recent Economic Developments

2. **Affected by external shocks, recent economic performance was mixed.** Real GDP growth slowed to 4 percent from 5.5 percent in 2006 as cotton production declined by over 40 percent, oil prices surged, and the strengthening of the euro put pressure on competitiveness. Cotton production was low as a result of several factors: late rainfalls, floods in certain production areas, delayed payments to producers from the previous crop year, and a late announcement of the producer floor price. However, growth was strong in the other sectors, in particular construction and mining, as reflected in the high level of credit to the economy, excluding crop credits. Inflation, which was on average negative during 2007, has been rising recently, mainly due to higher food prices reflecting the poor harvest and global price increases, in particular for rice and wheat. The recapitalization (equivalent to 1 percent of GDP) of SOFITEX, the largest cotton company contributed, as projected, to a widening of the fiscal deficit excluding grants. Low cotton exports and high oil prices led to

¹ The program document was published as IMF country report (CR007/153) on the IMF website (www.imf.org).

a widening of the current account deficit, which was partly offset by rising gold exports, as one major gold mine started up operations in the second half of 2007.

3. **We took measures to offset the impact of the floods and rising consumer goods prices on the most vulnerable groups.** Poor weather conditions affected food production in a third of the provinces. To support the poorest people, we made use of our stock of food reserves, which will be replenished. Like other countries in the subregion, we also felt the need to soften the impact of mounting prices of essential goods. In February, we introduced a three-month suspension (later extended to six months) of customs tariffs and VAT on rice, powdered milk, evaporated milk, and salt. In early March, we announced indicative prices for these goods, based on import prices and “reasonable” margins. We will monitor price developments and strengthen the dialogue with importers and wholesalers to protect the most vulnerable.

B. Program Implementation

4. **Key program targets for the second review were met, largely due to continued improvements in tax and customs administration.** The year-end targets for the fiscal deficit and revenue collection (quantitative performance criterion and benchmark, respectively) were met. Thus, total revenues increased by 0.6 percent of GDP to 13.6 percent in 2007. However, despite the 9-percent increase from one year to the next, social expenditures, according to the program monitoring definition, fell short of the set minimum by 0.7 percent of GDP, mainly because of insufficient capacity in executing capital expenditures. In the meantime, against a backdrop of oil price increases and cotton sector problems, the government provided considerable support in other areas having a significant impact on poverty reduction, such as subsidies on cotton producer inputs and the social safety net, to make products like gas and oil accessible to the poor.

5. **Progress was made in the area of structural reforms.**

- **Tax policy:** With the submission of the single tax code to the National Assembly in December, another benchmark was met.
- **Tax administration:** SINTAX, the tax administration system, has been used to automatically notify late-filers and non-filers (continuous PC). This led to a substantial reduction of the nonfiler rate for VAT and corporate income taxes to below 7 from about 12 percent in early 2007. However, because of some technical difficulties in transmitting filing information from provincial offices to Ouagadougou, in a few cases notification letters were not sent within a week after the filing deadline. However, the opening of a DGE window in Bobo-Dioulasso in early March 2008 will provide a solution to this problem. We were also not able to supply filing statistics on the tax on income from real estate (IRF) and the tax on income from securities (IRVM). The IRF is paid by taxpayers that are not

always registered in the IFU because it is not a professional tax. The new lease management software that we hope to rollout by end-May 2008 will enable us to monitor this tax. In the case of the IRVM, payment, which depends on dividend distribution, is not systematic. In all events, we have implemented much of the substance of this measure by reducing the nonfiler rate. We therefore request a waiver of this structural performance criterion. The computer connection between the Ouagadougou and Bobo-Dioulasso offices became effective in early March, facilitating notification.

- **Customs administration:** We have implemented the computerized customs management system (ASYCUDA) in our Ouagadougou offices and its main modules are fully operational (structural benchmark). A number of customs brokers (*commissionnaires en douane*) are already making use of ASYCUDA's remote access capabilities, which allows them to file declarations from their own premises. The selectivity module, which automatically assigns customs declarations to the respective customs channels, has been programmed and we are currently testing it in practice. We have integrated our customs valuation database with ASYCUDA; this facilitates automatic verification of declared customs values. In addition, we are requiring and using pre-shipment inspection certificates for all goods imports, in accordance with the regulations.
- **Other structural policies:** The government adopted a strategy for divestment of SOFITEX (structural benchmark). This strategy envisages the sale of a 30 percent share of SOFITEX to a financially strong private investor with proven expertise in the sector. It should be recalled that the recapitalization of SOFITEX, which was completed in December 2007, increased the government's ownership to 65.4 percent.

III. POLICIES FOR 2008 AND 2009

A. Macroeconomic framework

6. **We need to adjust to a challenging economic outlook, related to a number of external factors.** Real GDP growth is projected to edge-up slightly to 4.5 percent, supported by a recovery of cotton production and the start up of several gold mines. Thus despite the surge in oil prices and the strong euro, which will continue to weigh on economic competitiveness, the economy will remain on a growth path. In the short term, inflation may rise further under the pressure of escalating food prices and the other factors mentioned above, but the situation should improve with the policy of making low cost grain available to the public and with the next harvest.

B. Fiscal Policy

7. **The fiscal policy stance will have to accommodate social needs, while preserving macroeconomic stability.** As we expect the increase in food prices to be temporary, the fiscal stance agreed during the first review remains appropriate by and large in terms of the overall budget deficit as a share of GDP. While maintaining this fiscal position, we will take steps to mitigate the social impact of higher food and energy prices. We are closely monitoring these rapidly mounting prices and will take the proper measures if the situation so warrants. Indeed, a lasting increase in inflation would be detrimental for long-run growth.

8. **Our policy is aimed at maintaining social cohesion while preserving tax revenues by reinforcing our administrative capacities.** The six-month suspension of customs duties and VAT to cushion the impact of rising consumer prices will lead to a slight loss in customs and tax revenue. The suspension of these duties and taxes represents a revenue loss of about 0.3 percent of GDP. Despite the negative impact of these few measures on tax revenues, we should be close to the revenue-to-GDP ratio in 2008, thanks to a sustained improvement in tax and customs administration.

9. **Prioritizing our expenditure appropriately is key to addressing the adverse impact of external shocks.** To support a rebound in growth and social cohesion, we will allocate support for rising input costs for cotton producers, funds to minimize the impact of escalating world market prices for oil and electricity, as well as a contingency reserve for additional measures. The funds will be made available through strong revenue efforts. Moreover, the recapitalization of SOFITEX, at a cost to the government of CFAF 34 billion) was finalized in FY 2007 and will not be a burden on the 2008 budget. Furthermore, we are reinforcing administrative capacities to improve, *inter alia*, the execution of investment expenditures and, thus, basic infrastructures. Arrangements for setting-up the operations related to the U.S. Millennium Challenge Account are expected to start this year, with a total envelope of US\$520 million (including administrative costs and monitoring) over a five-year period. These funds will be managed through a separate fiscal agency, and the projects will focus on: (i) agricultural and irrigation; (ii) roads; (iii) land reform; and (iv) primary education.

10. **Tracking social expenditure more closely and making spending more efficient is a key priority and will help achieve the Millennium Development Goals (MDG).** We want to establish a system for tracking such expenditures (benchmark for September 2008). By 2008, this system will cover all categories of self-financed spending except personnel expenditure, which is tracked with special software, namely SIGASPE. This program is currently under review and includes the establishment of a CID interface that will be ready by year-end. Our current definition is largely based on an economic classification by ministry. It would be advisable to adopt a functional classification, and we are preparing a pilot project in this area. The need for numerous interfaces with other software systems and

the overall complexity of the project have delayed the full implementation until 2009 at the earliest.

C. Fiscal Structural Reforms

Strengthening Tax and Customs Administration

11. **Taxpayer compliance is improving.** Substantial progress has been made in using the notification system for late-filers and non-filers to remind them of their obligation to file tax returns. Thus, we agreed with the Fund mission to change the process-oriented performance criterion into an indicative target intended to achieve a non-filer rate of less than 7 percent by end-2008 and 5 percent by end-2009 for VAT, the BIC PM and IUTS. We will continue to use our current notification system and send reminder letters to late-filers and non-filers without delay. We also plan to use audits to reduce the high rate of large taxpayer VAT returns that have either zero liabilities or structural credit positions. We will pursue efforts to check periodically the plausibility of information from tax offices for large and medium taxpayers with customs data.

12. **The harmonization of tax thresholds should be postponed to align it with WAEMU schedule.** We want to raise the VAT threshold so as to enhance the efficiency of VAT administration (benchmark, June 2008). However, as WAEMU is working on defining new tax thresholds, it is preferable to wait until the new thresholds have become effective (scheduled for September 2009). We will include this measure in our tax reform strategy.

13. **Significant progress has been made with the computerization of the Large Taxpayer Office (LTO) and the Medium Taxpayer Office (MTO).** The IT system SINTAX is fully operational at both the LTO and MTO. SINTAX is already used by the LTO. At the MTO, the software has been installed, training was completed in February, but additional computer equipment may be required to make the system operational.

14. **In order to reinforce the customs administration, the transit module of ASYCUDA should be operational and the selectivity model should be fully integrated.** The transit module will help us significantly improve transit monitoring by providing border offices and the central administration with real time information on inbound and outbound traffic. Such a mechanism requires an electronic interconnection between the various border offices and the central administration, which will be established by the end of the summer in 2008. The transit module should be fully operational by the end of the year. The selectivity module allows declarations to be automatically assigned to the appropriate customs channel, thereby reducing discretionary decisions and the risk of corruption. The selectivity module currently assigns about 10 percent of all declarations to the blue and green channels. By September, we intend to increase this rate to 30 percent. Based on the lessons of this first experience, we will gradually increase the rate while seeking a fair balance between improving customs procedures for importers and the risk of revenue losses resulting from fraud. We will maintain a minimum rate of 30 percent by December (benchmark).

Tax Policy Reform

15. **Increasing revenue is at the core of our macroeconomic stabilization policy, and requires substantial reform of the tax system.** The consolidation of tax legislation into a single tax code in December 2007 has increased transparency. But several issues remain: the tax system has a narrow base, as a result of the structure of GDP and its numerous exemptions, in particular for external financing; its structure is complex, as a result of withholdings and prepayment deductions. While some measures can be implemented in the short-term, other measures require more preparatory work and a substantial consultation with the various stakeholders.

16. **The cabinet will approve a tax policy reform strategy** (benchmark, September 2008). The strategy will broadly define the scope of the reform, the process, and a timetable. The recent technical assistance from the IMF's Fiscal Affairs Department will serve as major input for our reform plans. We will introduce a single tax on business profits to replace the current one, which comprises several schedules. Our strategy also includes (i) the revision of the investment code, with the dual objective of its simplification and rationalization of incentives, particularly those fiscal incentives which could be integrated in the general tax code, all this with special focus on accelerated depreciation; (ii) increase of tax thresholds; and (iii) VAT reform. Given capacity constraints and a lower revenue impact, the treatment of the informal sector will only be addressed at a later stage.

17. **This tax policy reform will be supported by the establishment of a policy unit and by substantive dialogue with stakeholders.** The lack of an appropriate institutional structure and a database, which prevent us from conducting the necessary cost-benefit analysis, are a fiscal reform handicap. Therefore, we have decided to create a tax policy unit, and the recommendation of the technical assistance mission from the IMF's Fiscal Affairs Department, which will have the necessary authority and will be in charge of supervising implementation of the reforms and preparing essential analyses. The tax policy unit will be operational by August 2008, including staffing of the unit (new structural performance criterion).

18. **Several measures that are consistent with the reform program will be incorporated in the short-term, when the draft 2009 budget is submitted to the National Assembly.** To ensure that our reforms have the necessary coherence and credibility, we will further revise the draft general tax code and postpone its adoption to 2009 to include the pertinent recommendations of the Fund's technical assistance mission. However, through end-2008, we will channel short-term reform measures through the budget law. More specifically we will harmonize the taxation of all types of tobacco and eliminate for large enterprises withholding and prepayment deductions of profit taxes for payments made to service providers and for imports and purchases for wholesalers, semi-wholesalers, and producers. In addition, we will analyze in detail exemptions.

19. **In 2009, we will reform the VAT regime and introduce an autonomous corporate income tax.** In this context, we intend to: (i) establish a more efficient VAT refund mechanism, while taking into account appropriate safeguards; (ii) increase VAT thresholds; (iii) exclude bank interest from VAT coverage; (iv) begin discussions with all development partners with a view to subjecting foreign-financed investments to the VAT; and (v) introduce a new corporate income tax to replace the existing schedules. Afterwards, we envisage eliminating withholding taxes for the profit tax. In parallel, we will also reform the investment code. Owing to some delays, the adoption of certain tax policy measures will shift from 2009 to 2010 because of the scope and complexity of the proposed reforms (Text Table 1). We shall consult the IMF throughout the reform process.

Text Table 1. Burkina Faso: Tax Reforms—Timeline

Measures	Timetable	Benchmark
Tax reform policy		
Set-up a tax policy unit in Ministry responsible for finance to formulate the tax reforms and supervise their implementation.	August 31, 2008	New performance criterion
Cabinet approval of comprehensive tax policy reform strategy with outline of main pillars and indicative timetable.	September 30, 2008	Benchmark
Submission to the National Assembly of a draft 2009 budget that includes tax policy measures consistent with the overall tax policy reform strategy described in this MEFP.	September 30, 2008	
Submit to cabinet a comprehensive tax policy reform program in line with Fund recommendations and WAEMU community directives.	April 30, 2009	New Benchmark
Submit the comprehensive tax policy reform program to the National Assembly to take effect with the 2010 budget.	December 31, 2009	Performance Criterion (Revision of Benchmark)

20. **The revised timetable for tax reform will affect the 2009 macroeconomic program.** As the target date for important policy measures is pushed back from 2009 to 2010, revenues in 2009 could be about 0.6 percentage points of GDP below original program targets. We will discuss policies for 2009 in greater detail during the next review mission; however, to avoid an excessive expenditure compression, the deficit target will need to be raised, yet maintained below 5 percent.

Public Financial Management

21. **In January 2008, the Ministry of Finance created six technical committees to monitor implementation of its new sectoral strategy (*Stratégie de renforcement des finances publiques, SRF*) to strengthen public financial management.** It focuses on the following areas: (a) budget management; (b) revenue mobilization and management; (c) public procurement; (d) audit systems, (e) deconcentration and decentralization; and (f) capacity building. Progress will be monitored quarterly. An action plan to expedite the processing of payments and eliminate redundant controls will be implemented for 2008 and 2009 (structural benchmark, end-December 2008).

22. **Follow-up work on the recommendations of the domestic debt audit is ongoing.** At December 31, 2007, over CFAF 40 billion in claims from various government suppliers had been settled. Claims amounting to CFAF 13 billion are still being processed. The remainder pending processing totals about CFAF 25 billion. To prevent such obligations from recurring, all ministries and institutions were required to adopt procurement plans, whose implementation must be periodically monitored by the DEP (Direction des Etudes and de la planification). Similarly, appropriation managers must produce quarterly reports on the physical and financial execution of the budget. Lastly, in general terms, a mid-term assessment of budget execution is conducted every year in May to allow corrective measures to be taken. The regular meetings organized between the budget department and the appropriation managers connected with the financial controllers of the line ministries are forums for exchanges of views between the main operators in the expenditure chain and a reminder to all of the need to meet the requirements of the budget law.

Other Structural Reforms

23. **We are cooperating closely with the World Bank on reducing the participation of the state in the cotton sector and improving its efficiency.** The sector still faces many challenges. In March 2008, the domestic arrears of producer groups amounted to CFAF 4 billion and their external arrears (i.e., to cotton companies) stood at CFAF 1.5 billion. We are pursuing a multifaceted strategy to support the recovery of the sector. The cotton strategy in December 2007 envisages a reduction of the government's interest in SOFITEX by disposing of a 30 percent stake to a strategic investor. Producer prices are now determined on the basis of a transparent pricing mechanism indexed to world cotton price trends and bonus payments from the 2006–07 harvest will help reduce the domestic arrears of producer groups. External arrears will be rescheduled by the cotton companies. We continue to work with cotton sector stakeholders to ensure that the price-smoothing fund is self-financing and transparent. To make Burkina Faso cotton production more competitive and ensure its long-term viability, efforts to raise productivity are crucial. This will require institutional and policy reforms to disseminate advanced agricultural techniques and stimulate adoption of potentially high-yielding cotton seeds.

24. **We reviewed the findings of the joint Bank-Fund staff Financial Sector Assessment mission in March 2008 and are preparing an action plan for the financial sector.** Promoting an efficient financial sector will help to preserve financial sector stability and increase its contribution to growth. The FSAP includes several recommendations to (i) facilitate cotton financing; (ii) improve microfinance supervision; (iii) enhance access to finance for SMEs; (iv) strengthen the legal and judicial framework; and (v) to reduce the role of the state in the banking system. We are reviewing these proposals. The prioritization of measures and a timetable for implementing the action plan will be discussed during the third PRGF review.

25. **In the wake of sustained oil price hikes, pump prices were raised in January 2008 but remained below the rates determined by the petroleum price adjustment mechanism.** While preliminary financial results indicate that SONABHY still made a small net profit in 2007, cumulative margin losses reached some CFAF10 billion between July 2007 and March 2008. In a concerted effort, based on an independent study, we will work on an arrangement to partially or fully compensate SONABHY for the cumulative margin loss.

26. **We are committed to a transparent oil price mechanism.** To show the impact of the temporary suspension of the mechanism, we will publish each month a petroleum price table, which will compare actual pump prices for the various types of gasoline with the prices that would have been obtained with the full application of the mechanism. We will also report quantities of imports and sales. To minimize the budgetary impact, for which we allocated CFAF 8 billion in 2008, we will gradually reduce the price gap, with a view to reinstating the automatic petroleum price adjustment mechanism as soon as market conditions allow for it. Until the formula is restored, we will continue to pass through future increases in world prices in order to gradually reduce the subsidies granted to SONABHY. In the event of a very high rise in gas prices, we will consult the Fund.

27. **We are reviewing the possibility to reactivate the privatization program, which has experienced some delays.** After relinquishing 51 percent of our interest in ONATEL to Maroc Télécoms at end-2006, we plan to sell by end-December 2008 additional share representing 26 percent of the capital (20 percent through public offering, and 6 percent directly to ONATEL employees). On the basis of the new electricity law adopted in November 2007, we are working with the World Bank to solicit bids for private management of SONABEL, the national electricity company, hoping to finish the operation in 2009.

28. **We have taken steps to create a more business-friendly environment.** Through our work with the International Finance Corporation (IFC), we are continuing to improve the business climate. New labor market legislation targeting greater flexibility, was adopted by government and submitted to the National Assembly in April 2008.

29. **Improving governance is a priority.** In December 2007, the National Assembly unanimously adopted a law creating a new government supervisory authority, the *Autorité de Contrôle d'Etat* (ASCE). The ASCE merges the State General Inspectorate, the High Authority to Coordinate the Fight Against Corruption, and inherits some of the attributes of the National Anti-Fraud Committee. The new institution enjoys more independence and power to investigate government agencies, monitor the work of audit offices in different ministries, and take legal actions. The agency will also publish an annual report. To date two decrees are still to be adopted concerning the organization of specific jobs and the terms of compensation for the staff of the Authority. Notwithstanding, the agency is expected to start its activities by end-June 2008. Moreover, we are carrying out a comprehensive Governance and Anti-Corruption diagnostic study with support from the World Bank. The study, which focuses on the sources of corruption, will include several sector analyses and policy recommendations. This work is part of the National Plan of Good Governance (*Plan national de bonne gouvernance*, PNBG). It should also be noted that Burkina Faso joined the Extractive Industries Transparency Initiative (EITI) in September 2007 and is establishing an institutional system for EITI-related activities. The Ministry of Mines, Quarries, and Energy is ready to join the process.

D. Program Monitoring

30. The program will continue to be monitored against the agreed quantitative financial targets (Table 1) and structural performance criteria and benchmarks (Table 2) and through program reviews. The quantitative financial targets for end-June 2008 and end-December 2008 are performance criteria; those for end-September 2008 are indicative targets. The third program review is scheduled to be completed by end-January 2009 and the fourth review by end-July 2009. Definitions of the variables used and the reporting requirements are given in the attached Technical Memorandum of Understanding (TMU). The performance criterion of generating a list of late filers and nonfilers was changed from a process- to a results-based performance benchmark for measuring the non-filer rate beginning in the final quarter of 2008. A results-based measure is more relevant for program purposes.

Appendix I. Attachment I. Table 1. Burkina Faso: Quantitative Performance Criteria and Indicative Targets, 2007–08

(CFAF billions cumulative from beginning of year)

	2007				2008							
	End-Sep.		End-Dec.		End-Mar.	End-Jun.		End-Sep.		End-Dec.		
	Prog. ⁶	Act.	Prog. ⁷	Act.	Prog. ⁷	Prog. ⁷	Proj. ⁸	Prog. ⁷	Proj. ⁸	Prog. ⁷	Proj. ⁸	
Performance criteria and indicative targets¹												
Ceiling on the overall fiscal deficit including grants ²	155.0	99.1	240.0	181.2	35.0	75.0	75.0	105.0	105.0	195.0	195.0	
Ceiling on the amount of new nonconcessional external debt contracted or guaranteed by the government ^{3,4}	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ceiling on the amount of new external debt of less than one year's maturity contracted or guaranteed by the government ^{3,4}	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accumulation of domestic arrears ^{3,10}	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accumulation of external arrears ³	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Indicative targets												
Government revenue	340.0	325.6	440.0	440.2	100.0	245.0	245.0	355.0	355.0	475.0	475.0	
Poverty-reducing social expenditures	150.0	140.1	203.0	182.6	40.0	110.0	95.0	160.0	145.0	213.0	195.0	
Large taxpayer non-filer rate ⁹	...	...	...	...	...	...	...	...	...	...	7.0	
Maximum upward adjustment of deficit ceiling including grants due to:												
Shortfall in grants relative to program projections	25.0	0.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0
Excess in concessional loan financing relative to program projections	15.0	0.0	15.0	0.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0
Adjustment factors												
Shortfall in grants relative to program projections	0.0	0.0	0.0	27.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Excess in concessional loan financing relative to program projections	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:												
Grants ⁵	140.2	184.4	238.0	210.3	59.1	151.7	138.8	234.9	231.2	254.8	233.8	
Concessional loans ⁵	161.5	96.9	122.9	114.5	17.0	50.7	48.3	102.3	99.5	145.7	138.9	

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

¹ Performance criteria at the end of June and December 2007 and 2008.

² The ceiling on the overall fiscal deficit is to be adjusted in line with the TMU definition. Up to September 2007 it is calculated on a payment-order basis and afterwards on a commitment basis.

³ To be observed continuously.

⁴ Excluding Treasury bills and bonds issued in CFA francs on the regional West African Economic and Monetary Union (WAEMU) market.

This ceiling excludes supplier credit with a maturity of one year or less.

⁵ Includes identified financing only.

⁶ EBS/07/38, April 11, 2007.

⁷ EBS/07/153, December 21, 2007.

⁸ Proposed program.

⁹ Applies to average over respective quarter.

¹⁰ Beginning July 2008, this will become an indicative target.

Appendix I. Attachment I. Table 2: Burkina Faso—Structural Conditionality from July 1, 2008 to December 31, 2009

Measures	Timing	PC/Benchmark
Tax policy		
Set up a tax policy unit in Ministry of Finance to formulate tax reforms and supervise their implementation (MEFP ¶17).	August 31, 2008	New performance criterion
Cabinet approval of comprehensive tax policy reform strategy (MEFP ¶16).	September 30, 2008	Benchmark
Submit to cabinet a comprehensive tax policy reform program in line with Fund recommendations and WAEMU community directives (Text Table 1)	April 30, 2009	New structural benchmark
Submit a comprehensive tax policy reform program to the National Assembly to take effect with the 2010 budget (Text Table).	December 31, 2009	Performance criterion (revised timing of previous benchmark)
Tax administration		
Raise VAT thresholds for large, medium, and small taxpayers and subject small taxpayers to simplified taxation instead of VAT, in line with Fund recommendations and WAEMU community directives (MEFP ¶12).	September 30, 2009	Benchmark
Customs administration		
During the fourth quarter of 2008, assign at least 30 percent of customs declarations to the green and blue channels and keep the percentage of declarations thus selected but assigned for further controls by individual inspectors to less than 10 percent (MEFP ¶14).	December 31, 2008	Benchmark
Public financial management and governance		
Introduce system for tracking of poverty-reducing expenditures in order to track all self-financed spending except for personnel expenditures (MEFP ¶10).	September 30, 2008	Benchmark
Develop an action plan for improving the effectiveness of ex ante and ex post expenditure controls, including elimination of redundant procedures (MEFP ¶21).	December 31, 2008	Benchmark

ATTACHMENT II. BURKINA FASO: TECHNICAL MEMORANDUM OF UNDERSTANDING

Ouagadougou, June 11, 2008

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

I. DEFINITIONS

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

- **Debt**, as specified in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted by the Executive Board of the IMF on August 24, 2000, will be understood to mean a current, not contingent, liability, created by contract through provision of value in the form of assets (including currency) or services, that requires the obligor to make one or more payments in the form of assets (including currency) or services, at one or more future points in time; these payments being made to discharge principal and interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being:
 - (i) loans, consisting of advances of money to the obligor (e.g., deposits, bonds, obligations, commercial loans, and buyers’ credits), who undertakes to repay the funds in the future, and temporary exchanges of assets that are equivalent to fully collateralized loans where the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (e.g., repurchase agreements and official swap arrangements);
 - (ii) suppliers’ credits, which are contracts where the supplier lets the obligor defer payments until after the date on which the goods have been delivered or the services provided; and
 - (iii) leases, which are arrangements in which property is provided for the use of the lessee for a specified period, usually shorter than the total expected life of the property, while the lessor retains title to the property. For purposes of this guideline, the debt is the present value at the inception of the lease of all lease payments expected to be made during the period of the agreement, except payments that cover the operation, repair, or maintenance of the property.

- Treasury bills and bonds issued in CFA francs on the WAEMU (West African Economic and Monetary Union) regional market are included in domestic debt for purposes of this memorandum.
- **Government** is defined as the central government of Burkina Faso and does not include any political subdivision, government-owned entity with a separate legal personality, or the central bank.
- **External payments arrears** are external payments due but unpaid. Domestic arrears are domestic payments due but unpaid after a 90-day grace period, unless the obligation specifies a different grace period.
- **Government obligation** is any financial obligation of the government accepted as such by the government (including any government debt).

II. QUANTITATIVE PERFORMANCE CRITERIA

3. The numerical values for quantitative performance criteria, indicative targets, and adjusters are set out in Table 1 of the attached Memorandum of Economic and Financial Policies (MEFP).

A. Overall Deficit Including Grants

Definition

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

Cash basis adjustment is the sum of (i) expenditure commitments not-paid (*engagées non-payées*); and (ii) change in treasury deposits.

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

Adjustment

6. The overall deficit including grants is adjusted upward by the amount that grants fall short of what is programmed up to a maximum (see the MEFP, Table 1). It will not be adjusted if grants are higher than programmed.

7. The overall deficit including grants will also be adjusted upward by the amount that concessional loans exceed what is programmed up to a maximum (see the MEFP, Table 1).

Reporting deadlines

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

B. Nonaccumulation of External Arrears

Performance criterion

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

Reporting deadlines

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

C. Nonconcessional External Debt Contracted or Guaranteed by the Government

Performance criterion

11. The government undertakes not to contract or guarantee any external debt maturing in one year or more that has a grant element of less than 35 percent (calculated using the

interest reference rate for borrowed foreign currencies provided by the IMF) beyond the ceiling indicated in the MEFP (Table 1). This performance criterion applies not only to debt as defined in point 9 of the Guidelines (see ¶2), but also to all commitments contracted or guaranteed for which value has not been received. However, it does not apply to treasury bills and bonds issued in CFA francs on the WAEMU regional market. This performance criterion is to be observed continuously.

Reporting deadlines

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

D. Government Short-Term External Debt

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

III. OTHER QUANTITATIVE INDICATIVE TARGETS

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

A. Total Government Revenue

Definition

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

Reporting deadlines

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

B. Poverty-Reducing Social Expenditures

Definition

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

Reporting deadlines

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

C. Nonaccumulation of Domestic Arrears

Definition

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

Reporting deadlines

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

D. Large Taxpayer Nonfiler Rate

Definition

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

Reporting deadlines

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

IV. STRUCTURAL PERFORMANCE CRITERIA

23. The program incorporates structural performance criteria (see the MEFP, Table 2).

V. ADDITIONAL PROGRAM-MONITORING INFORMATION

A. Public Finance

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

- The monthly government flow-of-funds table (TOFE) and the customary appendix tables, to be forwarded within six weeks after the end of each month; if data on actual investment financed by external grants and loans are not available in time, a linear implementation estimate based on the annual projections will be used.
- Complete monthly data on domestic budgetary financing (net bank credit to the government and stock of unredeemed treasury bonds and bills), to be provided within six weeks after the end of each month.
- Quarterly data on implementation of the public investment program, including details on financing sources, to be sent within six weeks after the end of each quarter.
- Quarterly data on external debt stock, external debt service, signing of external loans, and disbursements of external loans, to be sent within six weeks after the end of each quarter.
- Monthly data on prices and the taxation of petroleum products, including (i) prices prevailing during the month; (ii) detailed calculation of the price structure, from the f.o.b.-MED price to the retail price; (iii) volumes purchased and made available for consumption by the petroleum distributor (SONABHY); and (iv) a breakdown of receipts from the taxation of petroleum products—customs duties, tax on petroleum products (TPP), and value-added tax (VAT)—and of subsidies, to be provided within four weeks after the end of each month.
- A monthly statement of the status of accounts with the treasury, classified by major category (administrative services, state enterprises, mixed enterprises,

public administrative enterprises, international organizations, private depositors, and others), to be provided within six weeks after the end of each month.

- Quarterly data for the large taxpayer office on (for *TVA*, *BIC*, *IUTS*) the numbers of:
 - registered taxpayers
 - declarations received on time
 - reminder letters sent to late and nonfilers.
- These quarterly statistics are to be provided within two weeks after the end of each quarter. Similarly, quarterly data on the following are to be sent within 2 weeks of the end of the quarter:
 - total number of customs declarations
 - number of declarations selected by channel
 - number of declarations by channel subject non-standard treatment.

B. Monetary Sector

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

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

C. Balance of Payments

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

- any revision of balance of payments data (including services, private transfers, official transfers, and capital transactions), as they occur
- foreign trade statistics compiled by the National Statistics Institute, within three months after the end of the month concerned

- preliminary annual balance of payments data within nine months after the end of the year concerned.

D. Real Sector

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

E. Structural Reforms and Other Data

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