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

November 20, 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.
Dear Mr. Strauss-Kahn:

1. The second review of our economic and financial program supported under the Fund’s Poverty Reduction and Growth Facility (PRGF) was approved by the IMF Executive Board on June 30, 2008. To help the country address the impact of higher oil prices and the adverse shock on cotton, the Board had approved earlier, in January 2008, an increase in access of 15 percent of quota (SDR 9.03 million).

2. The attached Memorandum of Economic and Financial Policies (MEFP) reviews recent economic developments and progress in the implementation of our program through the end of the third quarter of 2008; it also sets out the policies the government intends to pursue in the remainder of 2008 and 2009.

3. While the economic environment remains challenging, we have redoubled our efforts to address the consequences of high oil and food prices and to pursue our structural reform agenda. The government’s continued efforts to strengthen tax and customs administration and implement other structural reforms enabled us to meet all quantitative performance criteria and most benchmarks. The fiscal deficit target was met, after taking into account the adjustment for grants shortfall. With regard to customs and tax administration, steady progress has been made to increase efficiency, and the revenue target has also been met. On tax policy, we have established a tax policy unit as recommended by the technical assistance mission of the IMF’s Fiscal Affairs Department. The unit has the required authority to supervise the implementation of tax policy reforms and oversee the essential technical analyses. The Council of Ministers has approved the broad outlines of our tax reform strategy, despite some delay. We are working on the finalization of the revised system for the monitoring of social expenditures.

4. The 2009 fiscal program is based on a vigorous refocusing of government expenditure in an effort to address concerns pertaining to debt sustainability and social and
investment-related needs. We intend to ensure the rapid implementation of structural reforms, including in the areas of tax policy, the financial sector, and the cotton sector.

5. In support of our implementing our reform program, and on the strength of the policies set forth in the attached memorandum, we request completion of the third program review supported by the PRGF arrangement and the fourth disbursement, in the amount of SDR 4.014 million.

6. The government believes that the policies set forth in the attached MEFP will enable us to meet program objectives in a difficult external economic environment, characterized by lingering uncertainty concerning oil and food prices and global growth. The government is, nonetheless, determined to take any other measures that might become necessary to achieve that goal. Burkina Faso would 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 fourth review under the PRGF arrangement is expected to be completed no later than end-July 2009 and the fifth review by end-January 2010.

7. 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,

Lucien Marie Noël BEMBAMBA  
*Chevalier de l’Ordre National*  
Commander of the National Order

Attachments

Memorandum on Economic and Financial Policies  
Technical Memorandum of Understanding
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.\footnote{The program document was published as IMF country report (CR007/153) on the IMF website (www.imf.org).} The second review was completed on June 30, 2008. During 2008, the government put in place several measures to address the impact of high food and oil prices, continued its efforts to strengthen tax and customs administration, and followed through on other structural reforms.

II. RECENT ECONOMIC DEVELOPMENTS AND PROGRAM IMPLEMENTATION THROUGH THE THIRD QUARTER OF 2008

A. Recent Economic Developments

2. Recent economic performance has been subdued, largely as a result of external shocks. GDP growth in 2007 has been revised downward, from 4 percent to 3.6 percent, primarily reflecting the impact of the floods on agricultural production, including on cotton. The soaring food and oil prices, particularly in the first half of 2008, lackluster global activity, and a strong euro (which put pressure on competitiveness) held growth below trend. Inflation, which had been negative on average in 2007, attained 8.5 percent (as an annual average) in September.

3. In common with other countries in the sub-region, we had felt the need to offset the impact of the high prices of essential goods. Twice we extended these temporary measures to cushion the impact of the high prices of these products, first by three months, and then by one additional month in order to tide things over until the following harvest which is expected to have a positive effect. These measures include temporary suspensions of custom duties and/or VAT on some imported goods, notably rice, milk, salt, milk-based food...
products for children, as well as durum wheat semolina. The measures also include temporary VAT exemptions on locally produced goods, such as soap and cooking oil. In addition, we have monitored price developments and strengthened dialogue with importers and wholesalers in order to protect the most vulnerable. To support the poorest people, we have also made use of our stock of food reserves, which are being replenished. The recent decrease in food prices allowed us to eliminate these temporary measures in October. We did not fully pass through international oil price increases to domestic pump prices either.

4. **The impact of the general increase in prices was considerable, particularly during the first half of the year.** This led to strike action by trade unions as well as to demonstrations against the higher living costs in the major urban centers in March and in April 2008. The government’s immediate announcement of temporary measures and the prospect of a better harvest served to soothe tensions.

5. **In July 2008, we announced an adjustment in the prices of petroleum products.** The increase ranged from 6 percent (lamp oil) to 15 percent (super 91 and diesel). To show the fiscal impact of the temporary suspension of the automatic price adjustment mechanism, we published with the latest increase actual pump prices for the various types of products together with the prices that would have been obtained with the full application of the mechanism. At current prices, the gap between pump prices and prices mandated by the oil price mechanism is closed.

6. **We are in regular dialogue with our technical and financial partners.** In July the Millennium Challenge Corporation approved a grant of US$480.9 million for Burkina Faso. The five-year agreement will help the country reduce poverty and stimulate economic growth through investments intended to improve indicators of primary education, agricultural productivity, land reform, and farm-to-market roads.

**B. Program Implementation**

7. **Key program targets for the review were met.** The June target for the fiscal deficit (a quantitative PC) was met, taking into account the shortfall in grants. The revenue collection target (indicative target) was also met. The effect of the temporary suspension of import duty and the VAT for certain products was offset thanks to strong tax revenues linked to trade and steady progress in the tax and customs administrations.

8. **Progress has been made in meeting structural reform objectives.**

   - **Tax administration.** We have made significant progress 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. We continue to use the notification system for late-filers and non-filers to remind them of their obligation to file tax returns. The non-filer rate was at about 6 percent in June, in line with program objectives to keep it at less than 7 percent by end-2008 for the industrial, business, and agricultural profits tax (BIC PM), the tax on wages and benefits (IUTS), and the VAT. We have also started selective audits to reduce the high rate of large taxpayer VAT returns that have either zero liabilities or structural credit positions. We have started to check the plausibility of information from tax offices for large and
medium taxpayers with customs data. This reconciliation exercise has enabled us to include a number of corporations in the LTO and MTO.

- **Customs administration:** The transit module of ASYCUDA is now operational and the selectivity model is fully integrated. The transit module helps us to improve transit monitoring by providing offices at points of entry, destination, and exit with real-time information on inbound and outbound traffic and clearances. The electronic interconnection between the various border offices and the central administration was completed in November 2007. The selectivity module allows declarations to be automatically assigned to the appropriate customs channel. The selectivity module currently assigns about 20 percent of all declarations to the blue and green channels, thus we are on track to meet the end-December 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. We have also integrated our customs valuation database with ASYCUDA facilitating automatic verification of declared customs values. In addition, we are requiring and using pre-shipment inspection certificates for all imported goods, in accordance with the regulations.

- **Tax policy:** A tax policy group (*cellule*) was established in July. The group is made up of three technical advisers from the Ministry of Finance, the directors of the three revenue-collecting agencies, and two outside tax experts. In early October, the Council of Ministers approved a tax reform strategy, which lays out the focus of our tax reform efforts.

- **Public procurement.** In the context of our action plan to improve the public procurement system, following the adoption in 2007 of new regulations now covering the delegation of public services, we have initiated important reforms with the objective of increasing transparency in public procurement. Thus, we have set up an autonomous regulatory authority, which is in charge of managing litigations related to procurement contracts, and strengthening administrative capacities of the different actors of the sector. We have also initiated a process of deconcentrating the public procurement administration in the line ministries and regions, in order to foster files processing. We have also developed an integrated public procurement management software program, which is expected to help monitoring the process of awarding public contracts and therefore ensure a more rigorous application of public procurement standards. In particular, we have set ourselves the target of reducing the rate of directly-awarded procurement contracts from 13 percent to less than 10 percent by end-2008.

**C. Macroeconomic Framework**

9. **We continue to adjust to a challenging economic outlook, related to a number of external factors.** The anticipated recovery in domestic agricultural output, primarily attributable to favorable climatic conditions, should help ease inflationary pressures and support a progressive relaunching of growth. After significant floods in 2007, which led to a poor harvest, preliminary reports indicate that most farming regions have enjoyed very good rains this year. A good harvest, together with no further international price pressures, is
expected to reduce price pressures. Even if the increase in oil and food prices and a strong euro—particularly in the first half of 2008—had an impact on the competitiveness of the economy, we believe that agricultural production will grow by about 10-15 percent. This expected recovery in agriculture—especially in cotton—and the start of the operation of three gold mines are expected to support the revival of activity. According to projections, the growth in real GDP is expected to stay in the vicinity of 4.5 percent in 2008. To the extent that entrenched inflation expectations are contained, fiscal policy, agreed during the second review, seems broadly adequate. This is predicated on a program target for the overall deficit in the amount of CFAF 195 billion in 2008, and substantial fiscal consolidation in 2009.

10. Burkina Faso was reclassified as a medium performer based on the World Bank Country Policy and Institutional Assessment (CPIA) rating in mid-2008. This reclassification changed the thresholds for debt sustainability analysis. Thus, the risk of debt distress has become high. To address the issue of high risk of debt distress, we will:

- improve our institutions and put in place structural reforms which would pave the way for a higher CPIA rating, thus raising the relevant debt thresholds. Further steps, in line with the objectives of this program, will focus on tax policy and tax administration reforms; PFM reforms (mobilizing more revenue, improving the quality of tax administration, and reducing corruption); successfully implementing FSSA recommendations to strengthen the financial sector; and improving the regulation of business, and more generally, strengthening governance in the broadest sense of the term;

- reduce significantly the budget deficit over the medium term;

- work to attract additional donor aid to limit recourse to expensive domestic financing; and

- set up an integrated domestic debt data framework and continue to train officials in debt sustainability analyses and debt management;

- strengthen the monitoring and supervision of public enterprises and the efforts to identify concessional financing.

**Fiscal Policy**

11. We prepared a supplementary budget (LFR) for 2008 while keeping the programmed budget deficit at its level. The LFR incorporates the impact of higher inflation and prioritizes support for agricultural production. There is also a need to compensate the national oil company SONABHY for margin losses, which derive from the limited price pass-through over an extended period. The supplementary budget allocates CFAF 8.5 bn in additional subsidies for inputs in the agricultural sector under the government food security initiative, as well as CFAF 3 billion in transfers to SONABHY.

12. Due to the above-mentioned debt sustainability considerations, fiscal consolidation is a key element of the 2009 budget. The 2009 budget seeks to strike a
balance between fiscal adjustment, acute social needs, the findings of the recent debt sustainability analysis, and potential expenditure compression. We will aim for a deficit target of 4.9 percent of GDP as a decisive first step toward reducing the deficit over the medium to long term to below 3 percent, which, based on the recent joint IMF-World Bank DSA, is needed to stabilize debt ratios. On the revenue side, the budget incorporates some short-term tax policy measures, in particular to simplify tax administration for large enterprises. We will also eliminate for large enterprises prepayment deductions of profit taxes for payments made to service providers and for imports and purchases from wholesalers, semi-wholesalers, and producers, and we will adjust the taxation rates for tobacco. Thanks to the combined effect of the planned phasing-out of the temporary tax and customs measures to counter the impact of food price developments and continued efforts to enhance the efficiency of tax and customs administration, tax revenue as a share of GDP is expected to increase by 0.1 percent of GDP.

13. **Helping the population cope with the impact of rising food and energy prices is a key priority.** To achieve this goal, the government will strike a balance between safeguarding macroeconomic stability and providing immediate relief to those in need. We will examine the targeting of existing measures such as subsidies, with a view to ensuring that they truly benefit the most vulnerable members of society. In addition, working in conjunction with certain technical and financial partners, we will work to implement a system of transfers to the most disadvantaged households in the two largest cities, in order to counter the effects of food and energy price inflation. We will also follow-up with the IMF and the Bank on the ongoing analysis of further policy measures for protecting the poorest households from food and energy price inflation.

14. **Tracking social expenditure more closely and making spending more efficient will help achieve the Millennium Development Goals (MDG).** We have improved on our previous system of tracking social expenditures that largely focused on a classification by ministry. We are working on finalizing the revised system, which covers all categories of domestically-financed spending except personnel expenditure (benchmark for September 2008). Some delays were observed in implementation as it is necessary to identify social expenditures on the basis of carefully defined criteria and to integrate the two computer systems. We believe that this system will be functional by early 2009 (benchmark for February 2009). To include salaries and foreign-financed capital expenditure in the tracking of poverty-reducing expenditures, an interface will be built between the SIGASPE software program and the CID, in tandem with an extension of the various classifications to include external financing by means of interfaces with the software program that is currently being developed for managing these financing resources. Given the complexity of the project, notably linked to the need for numerous interfaces with other software systems, full implementation is expected in 2009 at the earliest. Furthermore, work is in progress to migrate from the functional classification in the 1986 GFSM which includes 14 classes, to the 2001 GFSM Manual which has just 10 classes.

15. **Follow-up action with respect to the domestic debt audit is in progress.** As at end-September 2008, over CFAF 49 billion in claims of various government suppliers had been settled. Claims in the amount of approximately CFAF 6.2 billion are still being processed. The amount outstanding is in the vicinity of CFAF 22.4 billion, including CFAF 13 billion related to claims for which there are no supporting documents. To prevent such obligations
from recurring, all ministries and institutions adopted procurement plans, the implementation of which is periodically monitored by the contract officers (Personnes responsables des marchés (PRM)) created in the context of efforts to reform public procurement. In addition, appropriations managers produce quarterly reports on the physical and financial execution of the budget. We are committed to developing a financial plan to clear remaining claims, which will be approved by the Cabinet in March 2009 (new benchmark).

D. Fiscal Structural Reforms

Strengthening Tax and Customs Administration

16. **Taxpayer compliance will continue to be a priority.** We will continue to use our current notification system and send reminder letters to late-filers and non-filers without delay. This should allow us to achieve a nonfiler rate of less than 7 percent by end-2008 and 5 percent by end-2009 for VAT, the BIC PM and IUTS (indicative target). To improve tax compliance further, 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.

17. **We will continue to make use of the ASYCUDA modules to improve customs administration.** The selectivity module currently assigns about 20 percent of all declarations to the blue and green channels. We plan to gradually increase this rate to 30 percent in December (benchmark) while seeking a fair balance between improving customs procedures for importers and the risk of revenue losses resulting from fraud. In addition, we will further advance customs administration by pursuing efforts to train personnel in various priority areas, in particular in the area of tracking and utilizing the single customs declaration form, with a view to ensuring that this tool is used more effectively.

Tax Policy Reform

18. **Increasing revenue is at the core of our macroeconomic stabilization policy, and requires substantial reform of the tax system.** Our tax system has still a narrow base, as a result of the structure of GDP and numerous exemptions; and its structure is complex, as a result of withholdings and prepayment deductions.

19. **Our tax reform strategy is designed to:**
   - enhance the tax revenue by broadening the tax base while promoting investment and economic growth;
   - improve the consistency of taxation systems;
   - simplify the tax laws;
   - align the structure of tax revenues to reflect the extent to which Burkina Faso opens up to the WAEMU market and international market.

20. **The new tax policy unit will play a key role in driving the reform process.** Under the auspices of this unit, we will set up several working groups that will be working on different areas in parallel:
• the introduction of a single tax on business profits to replace the current one, which comprises several schedules. Currently, tax revenues from the BIC are fairly low (about 1.6 percent of GDP). The tax is very complex and incorporates numerous exemptions.

• the review of the investment code, with the objective of its simplification and integration in the general tax code. The investment code, which was put in place in 1995 and modified in 1997 and 2000, defines six different regimes with significant investment incentives, but the positive impact of these incentives is unclear.

• VAT reform. We intend to raise the VAT thresholds within the budget in order to ensure that they are managed more efficiently. In revising the thresholds, we will follow closely developments at the WAEMU level. The WAEMU is working on defining new tax thresholds.

<table>
<thead>
<tr>
<th>Measures</th>
<th>Timeline</th>
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<tbody>
<tr>
<td>Cabinet approval of comprehensive tax policy reform strategy with outline of main pillars and indicative timetable</td>
<td>End-September 2008 (benchmark)</td>
</tr>
<tr>
<td>Set-up different working groups for business tax, investment code, and VAT</td>
<td>October 2008</td>
</tr>
<tr>
<td>Prepare overview of tax exemptions, create a statistical database, including data on profits, tax deductions etc. for last three years</td>
<td>November/December 2008</td>
</tr>
<tr>
<td>Develop tax simulation models to analyze alternative tax policies and trends, begin stakeholder consultation</td>
<td>December 2008 / January 2009</td>
</tr>
<tr>
<td>First proposal for revised business tax, investment code, and VAT, to IMF for comment</td>
<td>February 2009</td>
</tr>
<tr>
<td>Stakeholder consultations, public information</td>
<td>February, March, 2009</td>
</tr>
<tr>
<td>Submit to Cabinet detailed tax reform proposals focusing on business tax, investment code, and VAT, with quantified estimates of the revenue impact of the reform measures</td>
<td>April 2009 (benchmark)</td>
</tr>
<tr>
<td>Preparation of legal text</td>
<td>June/July</td>
</tr>
<tr>
<td>Submit to National Assembly 2010 budget, including tax reform measures pertaining to VAT, business tax, and investment code that will take effect with the 2010 budget</td>
<td>October 2009 (PC)</td>
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</table>

21. The tax reform program builds on a work plan which should allow us to reach our goal of finalizing the tax reform during 2009 (text table 1). Importantly, we will need to collect data, build up a framework to assess the impact of changes in the business tax, investment code, and VAT.
22. **Once all the data are in place, the simulation of the revenue impact of the various tax measures will make it possible to guide the detailed preparation of our tax reform.** We will conduct tax simulations to quantify alternative options. Also, broad stakeholder consultations will be a key aspect of the preparation. We intend to submit to the Cabinet detailed tax reform proposals by April 2009, focusing on business tax, the investment code, and VAT, which will include a quantification of the revenue impact of the reform measures (benchmark). Afterwards, the tax policy reform will be finalized and submitted to the National Assembly (Fall 2009), to take effect with the 2010 budget (PC). We shall consult the IMF throughout the reform process.

**Public Financial Management**

23. **In January 2008, we set up six technical groups entrusted with monitoring the implementation of our new sectoral strategy (Stratégie de renforcement des finances publiques—SRFP) in an effort to strengthen public financial management.** This strategy focuses on the following areas: a) budget management; b) raising and managing revenue; c) public procurement; d) supervisory systems; e) decentralization; and f) capacity-building. Progress is monitored at quarterly intervals. With regard to budget management, we are formalizing for the first time this year a midterm review of budget outturn. We have made headway in implementing an action plan for expediting the processing of payments and eliminating redundant control procedures (structural benchmark end-December 2008). The next steps to improve public financial management are as follows: starting the implementation of an action plan for the budget process, with the objective of implementing fully the budget program by 2012, disseminating the new rules regarding public procurement, delegation of public services, and strengthening the administrative capacity of other actors of the sector.

**Financial Sector Development**

24. **An action plan, based on relevant conclusions of the FSAP, will be elaborated by March 2009 (Text Table 2, new PC).** To monitor the FSAP recommendations, we will set up a working group comprising representatives of the BCEAO, the Ministry of Finance, the banking sector, and other stakeholders. The action plan will focus on measures capable of being implemented domestically (rather than measures falling within the purview of WAEMU). It will notably cover the following areas: (i) facilitating cotton sector financing; (ii) reducing government ownership in the banking sector; and (iii) improving microfinance supervision.

25. **Several reforms are under way and reflect some of the FSAP recommendations.** To reduce the risks associated with cotton sector financing, the national banking pool has set up a system for monitoring cotton exports and payments. We have also begun to reduce government involvement in the banking sector. After completing the sale of 37.5 percent of government shares to UBA, the authorities initiated discussions with ECObank in mid-2008 to sell to ECObank a portion of government stock in BACB. Over time, ECObank will hold a total stake of 90 percent, including a portion of the shares of other shareholders.
Text Table 2: Work Plan: Financial Sector

<table>
<thead>
<tr>
<th>Measures</th>
<th>Timeline</th>
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<tbody>
<tr>
<td>Set-up working group to follow-up on financial sector action plan, with</td>
<td>Summer 2008</td>
</tr>
<tr>
<td>sub-groups as needed.</td>
<td></td>
</tr>
<tr>
<td>First draft of action plan that includes key areas of reform, proposed</td>
<td>January 2009</td>
</tr>
<tr>
<td>actions, timetable for reforms, and major responsibilities to IMF / WB</td>
<td></td>
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<tr>
<td>for comment and suggestions.</td>
<td></td>
</tr>
<tr>
<td>Revise action plan, stakeholder consultation</td>
<td>February, March, 2009</td>
</tr>
<tr>
<td>Submit action plan to Cabinet</td>
<td>March 2009 (PC)</td>
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</table>

Other Structural Reforms

26. We will continue to cooperate closely with the World Bank on cotton sector reform, including reducing state participation in the cotton sector and improving its efficiency. The 2007 cotton sector strategy envisages a reduction of the government’s interest in SOFITEX by disposing of a 30 percent stake (actions en portage) to a strategic investor. To prepare the ground, we have arranged for financial and operational audits of SOFITEX, which are expected by the first quarter 2009 (benchmark). These results will also provide the management of SOFITEX with the data they need to improve their internal governance. The cotton price mechanism that aligns producer prices with world market prices, in place since 2006, will again be applied next season. We continue to work with cotton sector stakeholders to ensure that the price-smoothing fund (fonds de lissage) is sustainable and transparent. With support of the World Bank, we will sustain ongoing reforms in the cotton sector to improve the viability of the cotton companies as well as improve on-farm productivity, ginning efficiency and product quality.

27. We are committed to a transparent application of the petroleum price mechanism. To show the impact of the temporary suspension of the mechanism, we will continue to publish a comparison of actual pump prices for the various types of gasoline with the prices that would result from a full application of the mechanism. At current prices, the gap between pump prices and prices resulting from the formula is closed. To minimize the budgetary impact, we envisage to restore the price mechanism as soon as possible, while seeking to reconcile the imperative of maintaining SONABHY’s action capacities in performing its functions with the needs of fiscal sustainability.

28. We are examining the possibility of reinvigorating the privatization program, which has stalled somewhat. After relinquishing 51 percent of our interest in ONATEL to Maroc Télécoms at end-2006, we plan to sell additional shares 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 production and distribution law adopted in November 2007, we will continue to work with the World Bank to solicit bids for private management of SONABEL, the national electricity company, hoping to finish the operation in 2009. We plan to withdraw further from the banking sector as part of the financial sector strategy.
29. **We have launched a large-scale governmental initiative (supported by our development partners) to boost domestic agricultural production, employment, household income, and exports.** The objective of the program is to complete by 2015 the development of market integrated agriculture and competitive agro-industrial products. More specifically, the program seeks to improve agricultural productivity through diversification and intensification of production.

30. **We are continuing to improve the business climate.** Burkina Faso was classified among the world’s ten leading reformers according to the World Bank’s *Doing Business* indicators and moved from 161st place in 2008 to 148th place in 2009. In the context of our cooperation with International Finance Corporation (IFC), we are pursuing policies to improve our business climate.

31. **We will continue to take steps to improve governance.** Thanks to the government’s bold efforts, Burkina Faso has improved its ranking in the Transparency International index in 2008, moving from 105th to 85th place. The new government supervisory authority (*Autorité supérieure de contrôle d'État (ASCE)*), created in December 2007, has been operational since July 2008. 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. It also keeps track of ongoing judicial proceedings. We are currently in the process of publicizing the ASCE’s services among a broader audience. We have set up a hot-line and an anonymous mailbox for those who wish to report misconduct. The ASCE is in the process of preparing a more detailed work program and will be publishing annual reports in future.

**E. Program Monitoring**

32. The program will continue to be monitored through the agreed quantitative financial targets (Table 1) and structural performance criteria and benchmarks (Table 2), and through program reviews. The third program review is scheduled to be completed by end-January 2009, and the fourth review by end-July 2009. For the fourth review, the quantitative financial targets for end-December 2008 are performance criteria. We have agreed on new conditionality in the areas of domestic debt audit, financial sector reforms, and cotton sector reform. Moreover, because of the high risk of debt distress, we will strengthen surveillance of borrowing by public enterprises, and we will work to enhance their access to concessional financing. Definitions of the variables used and the reporting requirements are given in the attached Technical Memorandum of Understanding (TMU).
<table>
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<tr>
<th>Performance criteria and indicative targets</th>
<th>2007</th>
<th>2008</th>
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<tr>
<td>Ceiling on the overall fiscal deficit including grants ¹</td>
<td>240.0</td>
<td>181.2</td>
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<tr>
<td>Ceiling on the amount of new nonconcessional external debt contracted or guaranteed by the government ² ³</td>
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<td>0.0</td>
</tr>
<tr>
<td>Ceiling on the amount of new external debt of less than one year's maturity contracted or guaranteed by the government ² ³</td>
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<td>0.0</td>
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<tr>
<td>Accumulation of domestic arrears ⁴</td>
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<td>0.0</td>
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<tr>
<td>Accumulation of external arrears ²</td>
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<tr>
<th>Indicative targets</th>
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<th>2008</th>
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<tr>
<td>Government revenue</td>
<td>440.0</td>
<td>440.2</td>
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<tr>
<td>Poverty-reducing social expenditures</td>
<td>203.0</td>
<td>182.6</td>
</tr>
<tr>
<td>Large taxpayer non-filer rate ⁵</td>
<td>25.0</td>
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<th>Maximum upward adjustment of deficit ceiling including grants due to:</th>
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<th>2008</th>
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<tbody>
<tr>
<td>Shortfall in grants relative to program projections</td>
<td>25.0</td>
<td>25.0</td>
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<tr>
<td>Excess in concessional loan financing relative to program projections</td>
<td>15.0</td>
<td>0.0</td>
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<tr>
<th>Adjustment factors</th>
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<th>2008</th>
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<tr>
<td>Shortfall in grants relative to program projections</td>
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<td>27.7</td>
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<td>Excess in concessional loan financing relative to program projections</td>
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<tr>
<th>Memorandum items:</th>
<th>2007</th>
<th>2008</th>
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<tr>
<td>Grants</td>
<td>238.0</td>
<td>210.3</td>
</tr>
<tr>
<td>Concessional loans</td>
<td>122.9</td>
<td>114.5</td>
</tr>
</tbody>
</table>

Sources: Burkinabé authorities; and IMF staff estimates and projections.
¹ The ceiling on the overall fiscal deficit is to be adjusted in line with the TMU definition. It is calculated on a commitment basis.
² To be observed continuously.
³ Excluding Treasury bills and bonds issued in CFA francs on the regional West African Economic and Monetary Union (WAEMU) market. This ceiling excludes supplier credit with a maturity of one year or less.
⁴ Indicative target since July 2008.
⁵ Applies to average over respective quarter.
⁸ Program targets adjusted for shortfall in grants and excess in concessional financing.
Table 2. Burkina Faso: Quantitative Performance Criteria and Indicative Targets, 2009
(CFAF billions, cumulative from beginning of year)

<table>
<thead>
<tr>
<th>Performance criteria and indicative targets</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ceiling on the overall fiscal deficit including grants</td>
<td>195.6</td>
<td>57.0</td>
</tr>
<tr>
<td>Ceiling on the amount of new nonconcessional external debt contracted or guaranteed by the government</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Ceiling on the amount of new external debt of less than one year’s maturity contracted or guaranteed by the government</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Accumulation of external arrears</td>
<td>0.0</td>
<td>0.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Indicative targets</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government revenue</td>
<td>475.0</td>
<td>125.1</td>
</tr>
<tr>
<td>Poverty-reducing social expenditures</td>
<td>195.0</td>
<td>45.4</td>
</tr>
<tr>
<td>Large taxpayer non-filer rate</td>
<td>7.0</td>
<td>7.0</td>
</tr>
<tr>
<td>Accumulation of domestic arrears</td>
<td>0.0</td>
<td>0.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Maximum upward adjustment of deficit ceiling including grants due to:</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shortfall in grants relative to program projections</td>
<td>25.0</td>
<td>25.0</td>
</tr>
<tr>
<td>Excess in concessional loan financing relative to program projections</td>
<td>15.0</td>
<td>15.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Adjustment factors</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shortfall in grants relative to program projections</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Excess in concessional loan financing relative to program projections</td>
<td>0.0</td>
<td>0.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Memorandum items:</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grants</td>
<td>219.1</td>
<td>54.3</td>
</tr>
<tr>
<td>Concessional loans</td>
<td>160.2</td>
<td>36.9</td>
</tr>
</tbody>
</table>

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

1 The ceiling on the overall fiscal deficit is to be adjusted in line with the TMU definition. It is calculated on a commitment basis.
2 To be observed continuously.
3 Excluding Treasury bills and bonds issued in CFA francs on the regional West African Economic and Monetary Union (WAEMU) market. This ceiling excludes supplier credit with a maturity of one year or less.
4 Applies to average over respective quarter.
5 Indicative target.
6 Performance criteria.
Table 3. Burkina Faso — Structural Conditionality for the Period October 1, 2008–December 31, 2009

<table>
<thead>
<tr>
<th>Measures</th>
<th>Deadline</th>
<th>Performance criterion/benchmark</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Tax policy and Tax administration</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Submit to Cabinet detailed proposals concerning the reform of business tax, the investment code, and VAT, based on the IMF’s recommendations, the overall tax policy reform strategy, and WAEMU directives (MEFP ¶20)</td>
<td>April 30, 2009</td>
<td>Structural benchmark (fourth review)</td>
</tr>
<tr>
<td>Submit to National Assembly the tax policy reform including measures on VAT, business tax, and the investment code, to take effect with the 2010 budget (Text Table 1). On the VAT, incorporate into the budget the higher thresholds for small, medium, and large enterprises in January 2010, and make small enterprises liable for simplified taxation instead of VAT, in accordance with IMF recommendations and WAEMU directives (MEFP ¶20)</td>
<td>October 31, 2009</td>
<td>Performance criterion (fifth review)</td>
</tr>
<tr>
<td><strong>Customs administration</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>In Q4 2008, assign at least 30 percent of customs declarations to green and blue channels and keep below 10 percent the proportion of returns thus selected but assigned to inspectors for additional controls (MEFP ¶17).</td>
<td>December 31, 2008</td>
<td>Benchmark (fourth review)</td>
</tr>
<tr>
<td><strong>Public financial management and governance</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prepare an action plan to improve the effectiveness of ex-ante and ex-post expenditure controls, including the elimination of redundant procedures (MEFP ¶23).</td>
<td>December 31, 2008</td>
<td>Benchmark (fourth review)</td>
</tr>
<tr>
<td>Ensure the operational implementation of a general system for the tracking of poverty-reducing spending incorporating all domestically funded expenditures except for salaries (MEFP ¶14).</td>
<td>February 28, 2009</td>
<td>Benchmark (fourth review)</td>
</tr>
<tr>
<td>Submission to Cabinet of plan to clear outstanding payments identified in the domestic debt audit. (MEFP ¶15 ).</td>
<td>March 31, 2009</td>
<td>New benchmark (fourth review)</td>
</tr>
<tr>
<td><strong>Financial sector</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Submission to Cabinet of financial sector action plan with timetable of reforms. The action plan, based on the FSAP recommendations, will cover the following areas: (i) facilitating cotton sector financing; (ii) reducing government ownership in the banking sector; and (iii) improving microfinance supervision (MEFP ¶24).</td>
<td>March 31, 2009</td>
<td>New performance criterion (fourth review)</td>
</tr>
<tr>
<td><strong>Cotton sector</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Conduct financial an audit of SOFITEX with a view to supporting transparency and privatization (MEFP, par. 26).</td>
<td>March 31, 2009</td>
<td>New benchmark (fourth review)</td>
</tr>
</tbody>
</table>
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. The same requirement applies to guarantees granted by the government.

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

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

**III. OTHER QUANTITATIVE INDICATIVE TARGETS**

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

**A. Total Government Revenue**

**Definition**

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

**Reporting deadlines**

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

**B. Poverty-Reducing Social Expenditures**

**Definition**

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

**Reporting deadlines**

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

**C. Nonaccumulation of Domestic Arrears**

**Definition**

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

**Reporting deadlines**

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

**D. Large Taxpayer Nonfiler Rate**

**Definition**

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

**Reporting deadlines**

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

**IV. STRUCTURAL 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 to non-standard treatment.

**B. Monetary Sector**

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

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

**C. Balance of Payments**

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

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

**D. Real Sector**

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

  - disaggregated monthly consumer price indices, within two weeks after the end of each month
• provisional national accounts
• any revision of the national accounts.

E. Structural Reforms and Other Data

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