

## International Monetary Fund

**Burkina Faso** and  
the IMF

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

August 16, 2005

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.

Ouagadougou, August 16, 2005

Mr. Rodrigo de Rato  
Managing Director  
International Monetary Fund  
Washington DC 20431

Dear Mr. de Rato:

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

2. The attached memorandum of economic and financial policies (MEFP) supplements the one attached to my letter to you dated December 20, 2004. The supplemental MEFP describes progress under the 2005 program and sets forth the broad objectives and policies for 2006 and the medium term. The policies for 2005 set forth in the previous MEFP remain appropriate, and we do not envisage a need for new measures.

3. The economic program for 2005 remains on track. For technical reasons, the performance criterion for end-March 2005 pertaining to net domestic borrowing by the government was not observed, because some expenditure authorizations made late in 2004, in line with the program, did not clear the payments system until early 2005. As a result, the ceiling was exceeded by a small amount of FCAF 0.3 billion. For this reason, we are asking for a waiver of the nonobservance of this performance criterion. All other performance criteria were observed. On the basis of this performance, and on the strength of the policies set forth in the attached memorandum, the government requests that the IMF complete the fourth review under the PRGF and disburse the fifth loan in the amount of SDR 3.44 million.

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

Sincerely yours,

/s/

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

## **BURKINA FASO**

### **Memorandum of Economic and Financial Policies of the Government of Burkina Faso for 2005-06**

#### **RECENT ECONOMIC DEVELOPMENTS AND PROSPECTS FOR 2005**

1. Economic and program performance during 2004 was generally favorable, despite a sharp deterioration in Burkina Faso's external terms of trade during the second half of the year. Real GDP is estimated to have grown by 4.6 percent, following a year of exceptionally high growth associated with a record cereal harvest. Production of seed cotton increased by 31 percent in 2004 to a record level. Ample food stocks led to a reduction in food prices and helped keep overall inflation low, despite an increase in transport costs linked to rising world oil prices. The overall fiscal deficit (both including and excluding grants) was smaller than programmed because of restrained non-priority expenditures; while outlays on priority poverty-reducing programs were lower than programmed, they increased by 25 percent compared to 2003. The combined effects of declining world cotton prices and rising world oil prices contributed to an overall balance of payments deficit.
2. The current outlook for 2005 is not appreciably different from the one set out in the government's previous MEFP. World cotton prices rebounded by about 16 percent during the first four months of this year (measured in CFA francs), but they remain low by historical standards and world oil prices have increased sharply. Thus, Burkina Faso's external terms of trade are still projected to reach a 25-year low. Against this background, we are maintaining the projections of real GDP growth in 2005 at 3.5 percent. Inflation reached 7.2 percent in May (12-month change), reflecting the return of food prices to trend, as well as the impact of rising world oil prices. Food price inflation should soon ease with normal weather conditions and world oil prices are projected to stabilize around recent levels. On this basis, overall inflation is projected to average about 4 percent for the year as a whole, while core inflation (excluding food and beverages) should average about 2¼ percent.
3. The fiscal stance was tighter than programmed in the first quarter, despite a temporary shortfall in cash revenue. The revenue shortfall had two causes: (i) the non-payment of compensation related to the tariff reform of 2000 by the West African Economic and Monetary Union; and (ii) delays in registering tax receipts following the computerization of procedures at the tax directorate. Tax collection procedures have been normalized and revenue collection through May indicates that the revenue target for the year as whole remains appropriate. Expenditure authorizations were slower than expected because of the delayed start of budgetary operations linked to the installation of a new version of the expenditure tracking software integrating a new nomenclature for streamlined documentation requirements. The new expenditure controls are now fully operational and aggregate expenditures are proceeding in line with the program. While we will adhere to the overall programmed expenditure ceiling for 2005, we intend to reallocate expenditures from non-priority areas toward transfers to autonomous public institutions. In line with the program adjustor pertaining to excess balance of payments assistance, we are in the process of

identifying priority social programs that could effectively absorb the extra CFAF 6.1 billion in budget support for which we have received assurances in 2005. Improvements in tax and customs administration have been proceeding as scheduled and all structural performance criteria and benchmarks for end-March were observed (Table 4).

4. The outlook for the cotton sector has improved somewhat since the end of 2004, but the situation remains difficult. Cotton producers received CFAF 210 per kilo of seed cotton for the 2004/05 harvest (including a ristourne of CFAF 35 per kilo), an historical high. Gross payments to cotton farmers increased by 48 percent during the 2004/05 campaign to CFAF 130 billion (also a record high). Cotton ginning companies and the farmers association recently confirmed the producer price for the 2005/06 season at CFAF 175 per kilo for seed cotton and agreed that no ristourne would be paid. As noted in our previous MEFP, the cotton sector in Burkina Faso is largely private, with the government owning a minority share in one of three companies, and the interprofessional agreement between the farmers association and other shareholders in the cotton companies has served the sector well. If cotton companies incur financial losses because of the recent decline in world cotton prices, shareholders would be expected to find an internal solution. For its part, the government provided for a fertilizer subsidy in the 2005 budget to help the sector adjust to the increase transport costs associated with the disruption in normal supply routes because of regional security disturbances. The government will also continue to support the cotton sector by actively seeking donor assistance to accelerate improvements in competitiveness and diversification. We will also continue to push for the removal of cotton subsidies by industrialized countries.

5. We are continuing to strengthen our efforts to improve governance and fight corruption. The four most egregious cases of alleged corruption documented in the 2003 report of the High Authority for the Coordination of the Fight Against Corruption have been forwarded to the tribunals and are being investigated. In total, the Ministry of Justice is conducting six investigations of fraud involving public funds. The High Authority also drafted the National Strategy to Fight Corruption, which was discussed with civil society in a workshop in December 2004. This strategy is part of the broader National Strategy for Good Governance, an updated version of which was adopted by the Council of Ministers in July 2005.

6. We have continued to make progress in implementing structural reforms to support private-sector led economic growth, principally through our privatization program, regulatory reform, and reducing bureaucratic barriers to private investment. In March 2005, the Council of Ministers approved a new strategy for privatizing the national telecommunications company (ONATEL) under which a majority of shares will be sold to a qualified private operator. The National Assembly approved a new law in May that amends the legal and regulatory framework for the power sector. Bids were received to perform the audits of SONABEL and SONABHY and are currently being evaluated. In May, the Council of Ministers approved the creation of a center for business registration that consolidates and simplifies administrative requirements (including the reduction of administrative fees) for establishing businesses. A center of arbitration was created to expedite the resolution of labor

disputes. We have decided to postpone the adoption of the strategy for the microfinance sector in order to benefit from a mission of high-level experts to analyze the experience of the sector in other countries, and from the results of discussions at the sub-regional level being held by the BCEAO.

### **The PRSP and Medium-Term Macroeconomic Framework for 2006-07**

7. The government recently published its poverty reduction strategy paper (PRSP) for 2004-06, as well as the priority action plan (PAP). The PRSP is founded on four pillars: (i) accelerating broad-based economic growth; (ii) promoting access to basic social services by the poor; (iii) increasing employment and income-generating activities for the poor; and (iv) promoting good governance. While the PRSP is revised every three years, the PAP is updated annually and incorporates the rolling three-year medium-term expenditure framework (MTEF), which aligns public expenditures with the objectives of the PRSP. In this context, we are preparing the 2006-08 MTEF to be included in the 2005 PAP.

8. The medium-term macroeconomic framework, which will underpin the updated MTEF, will reflect a gradual improvement in Burkina Faso's economic growth prospects and the continued implementation of sound macroeconomic policies. We envisage real GDP growth rising to about 6-7 percent in 2008. The exchange rate peg, together with low world inflation and normal rainfall, would contain inflation between 2 and 3 percent. Reducing external debt vulnerability is a key component of sustaining high rates of economic growth and ensuring that debt service does not divert an increasing share of scarce fiscal resources from poverty-reducing programs. Consistent with this policy, we will be seeking levels of grant financing consistent with a gradual decline in the overall fiscal deficit including grants, and give high priority to highly concessional loans. This strategy will also help reduce pressure on the external current account and allow Burkina Faso to play a role in maintaining adequate international reserves at the BCEAO. The medium-term economic framework will be finalized by end 2005.

9. Real GDP growth in 2006 is currently projected at 5.0 percent and inflation at 2 percent. On the basis of continued improvements in tax and customs administration and the inherent buoyancy of the tax structure, we anticipate that fiscal revenue will increase to about 14 percent of GDP. We are currently projecting the wage bill to rise on the order of 10 percent to CFAF 155 billion, primarily reflecting the expansion of educational opportunities, especially for girls, which will entail hiring more teachers. Continuing the policy of waiving school fees for girls and increasing outlays on other priority social programs, notably in the areas of health and rural infrastructure, would push total expenditure and net lending to about 750 billion, amounting to about 24½ percent of GDP. The overall deficit, excluding grants, would be nearly covered by net external flows. Total budget support would need to rise to about CFAF 140 billion, of which we have identified about CFAF 105 billion. In the context of consultations with our development partners, we will stress the need to maximize the share of grants in the total financing package in order to ensure that our poverty reduction strategy is consistent with external debt sustainability in the medium term. If sufficient resources cannot be obtained on appropriate terms, we would need

to revise the proposed expenditure levels downward, undermining the attainment of the Millennium Development Goals.

10. Structural reforms will continue to focus on enhancing tax and customs revenues, improving budget execution and transparency, finalizing the privatization of key utilities, providing support to enhance agricultural productivity and diversification, and combat corruption. In the area of fiscal reforms, we will put in place a fully operational Joint Brigade of the Tax and Customs Directorates with an annual work program for 2006 by end-December 2005. In addition, by end-March 2006, the Joint Brigade will conclude at least six joint audits and submit its report and recommendations for follow-up actions to the Minister of Finance and the Budget. We will also complete the taxpayer census in Ouagadougou and Bobo-Dioulasso and submit to the Minister of Finance by May 15, 2006 a report that will include the list of taxpayers and their taxpayer identification number. These three measures would constitute structural performance criteria under the program. We also intend to strengthen customs controls to reduce smuggling and to implement a new computerized revenue management system in 2006. Other key structural reforms include: (i) the establishment of an autonomous regulatory agency for the electricity sector and the issuance of a tender for the selection of a private operator for the management of SONABEL (the electricity utility) before end-June 2006; (ii) the issuance of bidding documents for private sector participation in the capital of SONABHY (the oil importing company) before end-June 2006, and the sale of a minority stake by the end of 2006; and (iii) privatization of ONATEL (telecommunications) by the end of 2006. A key medium-term objective for the development of the energy sector is to eliminate the need for the subsidization of fuel. However, there may be a need to maintain the subsidy to SONABEL in 2006 if the world price of oil does not retreat from its current high level. This would only be done in the context of other reforms set forth in our sector strategy recently agreed with development partners.

#### **PROGRAM MONITORING**

11. To monitor progress in implementing our program, the government has established quantitative and structural performance criteria for March 2006 and indicative targets for end-June (Tables 3 and 4). The program includes an adjuster on domestic financing for deviations in external debt service relative to program projections. In addition, domestic financing will be adjusted upward for a shortfall in budget support, up to a maximum of CFAF 50 billion. The program allows the government to spend budget support in excess of projected amounts on priority social programs, up to a maximum of CFAF 25 billion.

12. We expect to complete the fifth review under the program by end-February 2006 on the basis of results at end-September 2005, and the sixth review by August 15, 2006 on the basis of results at end-March 2006. We also wish to discuss the possibility of a new program supported by the International Monetary Fund in the context of discussions for the fifth program review.

Table 1. Burkina Faso: Quantitative Performance Criteria and Indicative Targets for the Program  
Under the Poverty Reduction and Growth Facility Arrangement, 2004  
(In billions of CFA francs; cumulative from beginning of year)

	2003			2004										
	Dec.	End-Mar.			End-Jun.			End-Sep.			End-Dec.			
		Est.	Prog.	Adj. 1/	Est.	Indicative	Indicative	Est.	Prog.	Adj. 1/	Est.	Indicative	Indicative	Est.
			Target	Target		Target	Target		Target	Target				
Performance criteria and indicative targets 2/														
Ceiling on cumulative change in net domestic financing to government 3/	6.3	17.3	23.2	8.3	21.2	24.3	-2.8	3.1	7.2	-27.9	19.7	15.5	-9.7	
Ceiling on the cumulative amount of new nonconcessional external debt contracted or guaranteed by the government 4/ 5/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
<i>Of which: less than one year's maturity 4/ 5/</i>	0.0	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 payments arrears 5/	0.0	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 payments arrears 5/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Indicators														
Government revenue	301.2	70.7	70.7	73.9	162.4	162.4	174.6	248.8	248.8	253.0	345.6	345.6	344.8	
Current expenditure	259.6	72.2	72.2	67.1	148.8	148.8	133.6	225.5	225.5	212.6	300.7	300.7	284.5	
Expenditure on wages and salaries	112.5	28.3	28.3	27.7	58.5	58.5	57.9	88.6	88.6	89.9	118.1	118.1	119.0	
Basic balance 6/ 7/	-71.4	-26.8	-26.8	-8.9	-40.0	-40.0	-22.4	-58.3	-58.3	-57.0	-77.1	-77.1	-81.7	
Change in the stock of expenditure authorized but without payment orders 7/	0.9	2.0	2.0	-17.2	2.6	2.6	-3.9	-12.3	-12.3	8.0	-15.0	-15.0	7.4	
Adjustment factors														
Balance of payments assistance	83.6	15.3	...	9.3	26.7	...	23.6	78.4	...	74.2	83.0	...	87.2	
Adjustment lending (excluding IMF)	12.1	0.0	...	7.7	8.1	...	7.7	43.4	...	40.1	43.4	...	40.1	
Adjustment grants	71.6	15.3	...	1.6	18.6	...	15.9	35.0	...	34.1	39.6	...	47.1	

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

1/ Target on net domestic financing adjusted to reflect the excess or shortfall in balance of payments assistance.

2/ Performance criteria at end-March and end-September 2004.

3/ For 2004, the ceiling on the cumulative change in net domestic financing is to be adjusted upward (downward) by the amount of shortfall (surplus) in balance of payments assistance (excluding debt relief under the HIPC Initiative). At end-March 2004, the adjustment is limited to a maximum of CFAF 10 billion, to a maximum of CFAF 15 billion at end-June 2004, to a maximum of CFAF 45 billion at end-September 2004, and to a maximum of CFAF 50 billion at end-December 2004.

4/ Excluding treasury notes and bonds issued in CFA francs on the regional West African and Economic Monetary Union (WAEMU) market. From end-June 2004, this ceiling excludes supplier credits with a maturity of one year or less.

5/ To be observed on a continuous basis.

6/ Revenue (excluding grants) minus expenditure, excluding foreign-financed investment outlays and net lending.

7/ Including HIPC Initiative expenditure.

Table 2. Burkina Faso: Quantitative Performance Criteria and Indicative Targets for the Program  
Under the Poverty Reduction and Growth Facility Arrangement, 2005  
(In billions of CFA francs; cumulative from beginning of year)

	2004				2005		
	Dec.	End-March		Est.	End-June	End-Sep.	End-Dec.
	Est.	Prog. 1/	Prog. 1/ Adj. 2/	Est.	Prog. 1/	Prog. 1/	Prog. 1/
Performance criteria and indicative targets 3/							
Ceiling on cumulative change in net domestic financing to government 4/	-9.7	20.8	26.9	27.2	25.3	4.2	8.9
Ceiling on the cumulative amount of new nonconcessional external debt contracted or guaranteed by the government 5/ 6/	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Of which: less than one year's maturity 5/ 6/</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accumulation of domestic payments arrears 6/	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accumulation of external payments arrears 6/	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Indicative targets							
Government revenue	344.8	77.3	77.3	71.9	177.6	272.1	377.9
Current expenditure	284.5	81.0	81.0	68.0	167.1	253.2	337.6
Expenditure on wages and salaries	119.0	33.8	33.8	34.7	69.7	105.6	140.7
Basic balance 7/ 8/	-81.7	-23.2	-23.2	-10.8	-38.8	-56.4	-84.7
Change in the stock of expenditure authorized but without payment orders 8/	7.4	0.0	0.0	-23.1	1.0	6.0	3.0
Adjustment factors							
Balance of payments assistance	89.8	12.2	...	6.1	23.7	67.8	93.2
Adjustment lending	42.8	10.5	...	2.6	10.5	45.0	49.3
Adjustment grants	47.1	1.7	...	3.5	13.2	22.9	43.9
Debt service after HIPC relief	13.9	3.2	...	3.2	10.6	17.2	12.6

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

1/ IMF Country Report No. 05/95, December 22, 2004.

2/ Target on net domestic financing adjusted to reflect the excess or shortfall in balance of payments assistance and deviations in external debt service compared to program projections.

3/ Performance criteria at end-March and end-September 2005.

4/ For 2005, the ceiling on the cumulative change in net domestic financing is to be adjusted upward (downward) by the amount of shortfall (surplus) in balance of payments assistance. The downward adjustment does not apply to the first CFAF 25 billion in excess balance of payments support, provided that additional spending is for priority social programs.

At end-December 2005, the adjustment is limited to a maximum of CFAF 50 billion.

5/ Excluding treasury notes and bonds issued in CFA francs on the regional West African and Economic Monetary Union (WAEMU) market. This ceiling excludes supplier credits with a maturity of one year or less.

6/ To be observed on a continuous basis.

7/ Revenue (excluding grants) minus expenditure, excluding foreign-financed investment outlays and net lending.

8/ Including HIPC Initiative expenditure.



Table 3. Burkina Faso: Quantitative Performance Criteria and Indicative Targets for the Program  
Under the Poverty Reduction and Growth Facility Arrangement, 2006  
(In billions of CFA francs; cumulative from beginning of year)

	2005 Dec. Proj.	2006			
		End-Mar.	End-Jun.	End-Sep.	End-Dec.
Performance criteria and indicative targets 1/					
Ceiling on cumulative change in net domestic financing to government 2/	17.3	14.8	7.6	19.5	12.8
Ceiling on the cumulative amount of new nonconcessional external debt contracted or guaranteed by the government 3/ 4/	0.0	0.0	0.0	0.0	0.0
<i>Of which: less than one year's maturity 3/ 4/</i>	0.0	0.0	0.0	0.0	0.0
Accumulation of domestic payments arrears 4/	0.0	0.0	0.0	0.0	0.0
Accumulation of external payments arrears 4/	0.0	0.0	0.0	0.0	0.0
Indicative targets					
Government revenue	377.9	87.7	210.2	310.1	425.9
Current expenditure	342.4	91.2	188.0	284.9	379.8
Expenditure on wages and salaries	140.7	37.1	76.5	115.9	154.5
Basic balance 5/ 6/	-92.5	-23.7	-51.2	-95.8	-129.9
Change in the stock of expenditure authorized but without payment orders 6/	3.0	-7.0	-2.0	1.0	3.0
Adjustment factors					
Balance of payments assistance 7/	99.2	24.0	58.3	95.1	110.1
Adjustment lending	40.5	2.7	18.8	52.1	62.9
Adjustment grants	58.7	21.3	39.5	43.0	47.2
Debt service after HIPC relief	21.0	6.0	12.5	18.9	25.2

Sources: Burkinabè authorities; and staff estimates and projections.

1/ Performance criteria at end-March 2006.

2/ For 2006, the ceiling on the cumulative change in net domestic financing is to be adjusted upward (downward) by the amount of shortfall (surplus) in balance of payments assistance. The downward adjustment does not apply to the first CFAF 25 billion in excess balance of payments support, provided that additional spending is for priority social programs. At end-December 2006, the adjustment is limited to a maximum of CFAF 50 billion.

3/ Excluding treasury notes and bonds issued in CFA francs on the regional West African and Economic Monetary Union (WAEMU) market. This ceiling excludes supplier credits with a maturity of one year or less.

4/ To be observed on a continuous basis.

5/ Revenue (excluding grants) minus expenditure, excluding foreign-financed investment outlays and net lending.

6/ Including HIPC Initiative expenditure.

7/ Includes identified financing only.

Table 4. Burkina Faso: Structural Performance Criteria and Benchmarks for the Program in 2005-06

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

<sup>1</sup> Performance criterion.

## **BURKINA FASO**

### **Technical Memorandum of Understanding**

Ouagadougou, August 16, 2005

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

#### **DEFINITIONS**

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

- As specified in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted by the Executive Board of the IMF on August 24, 2000, debt will be understood to mean a current, that is, not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows: (i) loans, that is, advances of money to obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, obligations, commercial loans, and buyers’ credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers’ credits, that is, contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods have been delivered or the services provided; and (iii) leases, that is, arrangements under which property is provided that the lessee has the right to use for one or more specified periods of time, which are usually shorter than the total expected life of the property, while the lessor retains the title to the property. For the purpose of this guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement, excluding those payments that cover the operation, repair, or maintenance of the property. Treasury bills and bonds issued in CFA francs on the West African Economic and Monetary Union (WAEMU) regional market, are included in domestic debt for the purposes of this memorandum.

- Government is defined as the central government of Burkina Faso and does not include any political subdivision, government-owned entity, or central bank having a separate legal personality.
- External payments arrears are external payments due but unpaid. Domestic payments arrears under the 2005-06 program are domestic payments due (following the expiration of a 90-day grace period, except where the obligation provides for a specific grace period, in which case that grace period will apply) but unpaid.
- Government obligation is any financial obligation of the government accepted as such by the government (including any government debt).

### **QUANTITATIVE PERFORMANCE CRITERIA**

#### **Cumulative Change in Net Domestic Financing to the Government**

##### **Definition**

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

4. Net bank credit to the treasury is defined as the balance of the treasury's claims and debts vis-à-vis national banking institutions. Treasury claims include the cash holdings of the Burkinabè Treasury, deposits with the central bank, deposits with the commercial banks, secured obligations, and government deposits with the postal system (CCP). Treasury debt to the banking system includes funding from the central bank (including statutory advances, consolidated advances, IMF financing, and refinancing of secured obligations), government securities held by the central bank, funding from commercial banks (including government securities held by commercial banks), and Caisse Nationale d'Épargne Postale (CNE)/CCP securitized deposits.

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

6. At end-March 2005, net domestic financing of the government was CFAF 27.2 billion, made up of CFAF 39.8 billion in changes in net bank credit to the government and CFAF -12.6 billion in nonbank financing.

##### **Quantitative performance criterion/indicative targets**

7. The ceiling on the cumulative change (from January 1, 2005 onward) in net domestic financing of the government is set at CFAF 25.3 billion at June 30, 2005, and

CFAF 4.2 billion at September 30, 2005. These ceilings represent an indicative target at end-June 2005 and a performance criterion at end-September 2005. The ceiling is programmed at CFAF 8,9 billion at December 31, 2005 and (from January 1, 2006 onward) at CFAF 14.8 billion at March 31, 2006. These figures will be re-examined and set as an indicative target at end-December 2005 and a performance criterion at end-March 2006 during the fifth program review.

### **Adjustment**

8. The ceilings on the cumulative change in net domestic financing to the government will be subject to adjustment when actual disbursements differ from program forecasts of external budgetary assistance. When disbursements exceed forecasts, the ceilings will be adjusted downward by the amount of excess disbursements, with the exception of up to a maximum of CFAF 25 billion in expenditure for priority social programs. In contrast, when disbursements fall short of forecasts, the ceilings will be adjusted upward by the amount of the shortfall. However, upward adjustments of ceilings are limited to a maximum of CFAF 50 billion at end-December 2005 and CFAF 50 billion at end-December 2006. In addition, the ceiling will be adjusted for deviations in external debt service relative to program projections.

### **Reporting deadlines**

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

## **Nonaccumulation of Domestic Payments Arrears**

### **Definition**

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

### **Performance criterion**

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

### **Reporting deadlines**

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

### **Nonaccumulation of External Payments Arrears**

#### **Performance criterion**

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

### **Reporting deadlines**

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

### **Nonconcessional External Debt Contracted or Guaranteed by the Government of Burkina Faso**

#### **Performance criterion**

15. The government undertakes not to contract or guarantee any external debt maturing in one year or more with a grant element of less than 35 percent (calculated using the interest reference rate for borrowed foreign currencies provided by the IMF). This performance criterion applies not only to debt as defined in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt, adopted by the IMF's Executive Board on August 24, 2000,<sup>1</sup> but also to all commitments contracted or guaranteed for which value has not been received. However, this performance criterion does not apply to treasury bills and bonds issued in CFA francs on the WAEMU regional market. This commitment is a performance criterion, to be observed continuously.

### **Reporting deadlines**

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

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<sup>1</sup> See para. 2.

### **Government Short-Term External Debt**

17. The government undertakes not to accumulate or guarantee any new external debt with a contractual maturity of less than one year. This performance criterion applies not only to debt as defined in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt, adopted by the IMF's Executive Board on August 24, 2000, but also to commitments contracted or guaranteed for which value has not been received. Excluded from this performance criterion are import- and export-related loans and treasury bills and bonds issued in CFA francs on the WAEMU regional market and normal short term suppliers' credits of one year or less. This obligation is a performance criterion to be observed continuously. As of March 31, 2005, the government of Burkina Faso had no short-term external debt.

### **Other Quantitative Indicative Targets**

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

#### **Definitions**

19. The basic balance of government financial operations is defined as the difference between total government revenue (excluding grants and the proceeds of privatization) and total government expenditure and net lending, excluding foreign-financed investment and net lending. It is valued according to the statement of government budgetary execution, which is established monthly in the central government's financial operations table prepared by the Permanent Secretariat for the Monitoring of Financial Policies and Programs (SP-PPF), in collaboration with the other directorates of the Ministry of Finance and Budget.

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

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

22. Current expenditure is defined as the difference between total expenditure (including expenditure financed from HIPC Initiative resources) and capital expenditure and net lending. It is made up of the wage bill, expenditure on goods and services, interest on the debt (domestic and external), transfers, subsidies, and other current expenditure.

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

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

25. At end-March 2005, the basic deficit was valued at CFAF 10.8 billion, made up of CFAF 71.9 billion in government revenue and CFAF 82.7 billion in expenditure, excluding foreign-financed investments. Total revenue was made up of the following:

- tax revenue (customs, Directorate General of Taxation): CFAF 68.0 billion; and
- nontax revenue, including capital revenue: CFAF 3.9 billion.

Expenditure, excluding foreign-financed investment, was made up of the following:

Expenditure Category	Amount (In billions of CFA francs)
Current Expenditure	68.0
Wage bill	34.7
Goods and services	11.4
Interest on debt (domestic and foreign)	4.3
Transfers and subsidies	17.5
Other	0.0
Capital expenditure financed by treasury	19.6
Capital expenditure financed from HIPC funds	0.8

26. The stock of DENMs was valued at CFAF 23.6 billion at end-September 2004.

#### **Other quantitative indicative targets**

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

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



CFAF 87.7 billion at March 31, 2006. These figures will be reexamined and established as indicative targets during the fifth program review.

29. The respective ceilings for current expenditure and the wage bill (cumulative from January 1, 2005 onward) are established at CFAF 167.1 billion and CFAF 69.7 billion, respectively, at June 30, 2005, and at CFAF 253.2 billion and CFAF 105.6 billion, respectively, at September 30, 2005. These ceilings are end-June 2005 and end-September 2005 indicative targets. They are projected, respectively, at CFAF 337.6 billion and CFAF 140.7 billion at December 31, 2005, and (from January 1, 2006 onward) at CFAF 91.2 billion and CFAF 37.1 billion at March 31, 2006. These figures will be reexamined and established as indicative targets during the fifth program review.

30. The ceiling for the cumulative increase (from January 1, 2005 onward) in the stock of DENMs is set at CFAF 1.0 billion at June 30, 2005, and at CFAF 6.0 billion at September 30, 2005. These ceilings are end-June 2005 and end-September 2005 indicative targets. The ceiling for the cumulative increase in the stock of DENMs is projected at CFAF 3.0 billion at December 31, 2005, and the floor for the cumulative reduction (from January 1, 2006 onward) is projected at CFAF 7.0 billion at March 31, 2006. These figures will be reexamined and established as indicative targets during the fifth program review.

### **Reporting deadlines**

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

### **Additional Information for Program-Monitoring Purposes Public Finance**

32. The government will report the following to Fund staff:
- a monthly government flow-of-funds table (TOFE) and the 13 customary appendix tables, to be forwarded monthly within six weeks following the end of each month; if the data on actual investment financed by external grants and loans are not available in time, a linear implementation estimate based on the annual projections will be adopted;
  - complete monthly data on domestic budgetary financing (net bank credit to the government and stock of unredeemed treasury bonds and bills), to be provided monthly within six weeks following the end of each month;
  - quarterly data on implementation of the public investment program, including details on financing sources. These data will be sent quarterly within six weeks following the end of each quarter;

- monthly data on external debt stock and service, to be sent within four weeks following the end of each month;
- monthly data on prices and the taxation of petroleum products, including (i) the price structure prevailing during the month; (ii) the detailed calculation of the price structure, from the f.o.b.-MED price to the retail price; (iii) the volumes purchased and made available for consumption by the petroleum distributor (SONABHY); and (iv) the breakdown of receipts from the taxation of petroleum products—customs duties, tax on petroleum products (TPP), and value-added tax (VAT)—and of subsidies, to be provided within four weeks following the end of each month; and
- the status of accounts with the treasury, classified by major category (administrative services, state enterprises, mixed enterprises, public administrative enterprises, international organizations, private depositors, and others), and to be provided monthly within four weeks following the end of each month.

### **Monetary Sector**

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

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

### **Balance of Payments**

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

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

### **Real Sector**

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

- disaggregated monthly consumer price indices, within two weeks following the end of each month;

- provisional national accounts, within six months after the end of the year; and
- any revision of the national accounts.

**Structural Reforms and Other Data**

36. The government will report the following information:

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

**HIPC Initiative**

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

### Summary of Data Requirements

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