

## International Monetary Fund

[Burkina Faso](#) and the  
IMF

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

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December 19, 2014

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## Letter of Intent

MINISTRY OF ECONOMY  
AND FINANCE

Ouagadougou, May 13, 2015

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GENERAL SECRETARIAT  
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DIRECTORATE GENERAL  
OF COOPERATION  
N°2015/...../MEF/SG/DGCOOP

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

**Subject:** Letter of Intent and Memorandum of Economic and Financial Policies

**Madame Managing Director,**

The government of Burkina Faso has continued to implement the measures established in its three-year economic program supported by the arrangement under the Extended Credit Facility (ECF) of the International Monetary Fund (IMF) for the period 2013-2016. Also, the transition government established following the popular uprising on October 30-31, 2014 reaffirms its determination to continue the implementation of sound economic and financial policies, and to organize free and transparent elections in October 2015.

The transition government will maintain efforts geared towards consolidation of public finances and strengthening social policy. It will carry on the implementation of reforms needed to accelerate the pace of growth and poverty reduction, in a context of budgetary austerity. The government is aware that the implementation of the program in 2015 will take place in an unusual and difficult context, still characterized by the negative effects of exogenous shocks related to the price decline of major export goods (gold and cotton) and by the sociopolitical crisis of end-2014. In order to alleviate the impact on the most vulnerable sectors of the population, the government, despite a context of budget austerity, adopted an emergency social program, amounting to CFAF 25 billion (0.4 percent of GDP), which will be financed by current spending cuts and trimming public sector wage costs. This social program focuses on supporting employment for youth and women, and strengthening education and health infrastructure. Furthermore, the government intends to implement medium term measures to increase revenue mobilization and streamline current expenditure. Similarly, it will continue reforms aimed at improving the business climate, to bolster private investment and external financial inflows that can improve the fundamentals for sustainable growth. Furthermore, the government will continue its efforts to restore a calm sociopolitical environment, and maintain its prevention program against the Ebola virus and new spending to eradicate bird flu.

The attached Memorandum of Economic and Financial Policies (MEFP) examines program performance in 2014, presents the policies that the government intends to pursue in 2015, and sets program targets and reforms for 2015-16. It explains the country's balance of payments needs and outlines the government's efforts to preserve macroeconomic stability, and strengthen the foundation for sustained and inclusive growth in line with the objectives of the Strategy for Accelerated Growth and Sustainable Development (SCADD).

Performance under the program supported by the ECF is satisfactory. Indeed, the end-December performance criteria on the ceiling on net domestic financing, the ceiling on new non-concessional loans contracted or guaranteed by the State, as well as on external arrears accumulation, were all met. While the indicative target for the overall deficit on a commitment basis has been met, the other targets relating to overall revenue collection, the level of implementation of social spending to reduce poverty and the accumulation of domestic arrears were not achieved due to the aforementioned shocks.

Regarding structural benchmarks, six (6) out of eight (8) benchmarks for 2014 were completed. The two benchmarks to be achieved by SONAPOST and SONABEL have been reformulated and reprogrammed to be completed in early 2016.

In light of our commitment to preserving macroeconomic stability and based on the policies set out in the attached MEFP, we request that the IMF conclude the second and third reviews under the ECF arrangement. To this end, we request disbursements in the amounts of SDR 4.11 million, and SDR 4.47 million, respectively, under the second and third reviews of the ECF arrangement. In order to facilitate adjustment to the aforementioned exogenous shocks and address significant additional financing needs without jeopardizing the objectives of the national development strategy, the government also requests increased access under the ECF arrangement in an amount equivalent to SDR 24.08 million. Furthermore, we request an increase of the ceiling on the continuous performance criterion on nonconcessional external debt from CFAF 150 billion to CFAF 200 billion and a modification of the definition of the net domestic financing performance criterion.

The government believes that the policies set forth in the attached MEFP are adequate to achieve the economic and social objectives of its program, but it will take any further measures that may become appropriate for this purpose, including ensuring the program is fully financed. The government will consult with the IMF on the adoption of these measures, and in advance of revisions to the policies contained in the MEFP, in accordance with applicable IMF policies on such consultation. The government will provide the IMF with information on implementation of the agreed measures and program execution, as provided in the attached revised Technical Memorandum of Understanding or at the request of the IMF.

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

Sincerely,

/s/

Jean-Gustave Sanon

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

## Attachment I. Memorandum of Economic and Financial Policies 2015–2016

### INTRODUCTION

1. Burkina Faso's economic and financial program for the period 2014–2016, supported by the International Monetary Fund (IMF) under the Extended Credit Facility (ECF), aims to preserve macroeconomic stability and strengthen the basis for sustained and inclusive growth in line with the objectives of the Strategy for Accelerated Growth and Sustainable Development (SCADD). This Memorandum of Economic and Financial Policies (MEFP) presents the economic situation at end-June and end-December 2014. It also reviews the quantitative criteria and structural benchmarks at these same dates and sets out program objectives for 2015 and 2016.

### ECONOMIC DEVELOPMENTS IN 2014

2. In 2014, Burkina Faso's economic and financial position was affected by several concurrent shocks to the economy: unsatisfactory rainfall, the fall in cotton and gold prices (main exports) the impact of the Ebola crisis in the region and the appreciation of the dollar against the CFA franc. This was compounded by the impact of the domestic sociopolitical crisis and the popular insurrection of October 30 and 31, 2014 which culminated in a sweeping change in the leadership of the country. Lower oil prices helped to mitigate partly the combined adverse effects of the other shocks.

3. These various factors led economic agents to adopt a wait-and-see attitude. This, as well as the postponement of several international events that were to be held in Burkina Faso, resulted in significant losses for the service sector and a slowdown in growth. Thus, real GDP growth, which had initially been projected at 6.7 percent at end-June 2014, and revised downwards to 5.0 percent in October, was estimated at 4.0 percent at end-December 2014 compared to 6.6 percent in 2013. The deceleration of 2.6 points of GDP growth is attributable to a decline in all sectors, most pointedly in the tertiary sector (hotels and tourism sector output fell by 1.4 percentage points). The primary sector grew by only 2.7 percent, reflecting a decline in grain production by 8.2 percent as well as other food crops (24 percent), offset by the strong growth of production of cash crops (23 percent). Growth in the secondary sector declined by 4.5 percentage points to 4 percent, mainly due to the slowdown in activity in the construction sector and in manufacturing, resulting from the effects of the socio-political situation.

4. With respect to consumer prices, the annual average inflation rate stood at -0.3 percent at end-December 2014 compared to 0.5 percent at end-December 2013. The decline in global food prices, the relative sufficiency of farmer inventories, and government measures implemented to contain the rising cost of living (sale of grain at subsidized prices in areas with

shortages and establishment of special retail outlets with controlled prices for food staples) all helped to limit inflation.

**5.** Imports are expected to have dropped by 9.1 percent year on year, owing mainly to the shrinkage of imports of capital goods (-21.1 percent) and intermediate goods (-9.3 percent). This compression of imports is in fact a reflection of the marked reduction in government spending as well as interruption of new investments in the mining sector. Exports are expected to have been 4.8 percent lower in 2014 than in 2013, based on lower cotton and gold prices and unchanged gold volumes. Exports of services are likely to show a steep decline weighed down by the impact of the Ebola crisis on hotel and tourism services. The trade balance is expected to be -1.9 percent of GDP in 2014 (compared to -3.3 percent in 2013), and the current account balance is expected to move from -6.6 percent of GDP in 2013 to -6.1 percent in 2014.

**6.** In 2014, the monetary aggregates were impacted by a steep, year-on-year decline of 12.4 percent in net foreign assets, weighed down by an increase in payments abroad, in particular for services and capital income, resulting from high levels of foreign investment in large national enterprises. This coincided with an increase in domestic credit of 17.4 percent, including a 16.5 percent increase in credit directed to the private sector.

**7.** On the fiscal front, the simultaneous occurrence of the aforementioned series of shocks took a severe toll on economic activity with a strong adverse knock-on effect on revenue collection related, in particular, to imports of goods, tourism, and government investment spending. As of end-December 2014, revenue collection for the year amounted to 86.0 percent of anticipations, that is, 17.3 percent of GDP, compared to 18.5 percent in 2013. With regard to grants, 74.6 percent of the forecast amount forecast was disbursed. Compared to 2013, grants declined by 21.0 percent.

**8.** Execution of total expenditure and net lending at end-December 2014 stood at 80.6 percent of initial projections. Current expenditure execution was 94.0 percent of target. The reductions in spending were mainly in the area of domestically-financed capital expenditure, of which 66.4 percent of target was executed, that is, 5.5 percent of GDP, versus 9.8 percent in 2013. Expenditure compression was necessary in order to balance the fiscal accounts. Externally-financed capital expenditure was executed at 68.7 percent of the targeted amount.

**9.** The overall fiscal deficit (commitment basis), stood at 1.8 percent of GDP as of end-December 2014, compared to projections of 3.1 percent. In turn, the overall balance on a cash basis posted a deficit of 0.6 percent of GDP, which was financed mostly by net external flows amounting to 0.8 percent of GDP while net domestic financing was -0.2 percent of GDP.

## A. Performance Under the Program

**10.** All the performance criteria, consisting of the ceiling on net domestic financing at end-June 2014 and at end-December 2014, the ceiling on new nonconcessional debt contracted or guaranteed by the government, and the accumulation of external arrears (both continuous), were met. Net domestic financing totaled CFAF 29.3 billion at end-June and CFAF 84.3 billion at end-December 2014, against adjusted ceilings of CFAF 84.4 billion and CFAF 100.6 billion, respectively. As for new non-concessional borrowing, this amounted to CFAF 83.2 billion at end June and end December 2014. However at end February 2015 it reached CFAF 121,2 billion against a program ceiling of CFAF 150.0 billion.

**11.** Looking at indicative targets, the overall deficit (commitment basis) stood at CFAF 66.8 billion and CFAF 113.4 billion against adjusted program ceilings of CFAF 148 billion and CFAF 155.5 billion for end-June and end-December, respectively. However, targets related to revenue collection and execution of poverty-reducing expenditures were not met. Revenue collection amounted to CFAF 537 billion and CFAF 1,065 billion against adjusted program floors of CFAF 594 billion and CFAF 1,238 billion at end-June and end-December, respectively. Poverty-reducing social expenditures reached CFAF 219.5 billion and CFAF 445.3 billion against adjusted program floors of CFAF 244.7 billion and CFAF 489.5 billion at end-June and end-December, respectively.

**12.** Domestic arrears amounting to CFAF 37.4 billion were accumulated by end-December 2014, breaching the program ceiling of zero. A redefinition of the criterion has been proposed to improve program monitoring: (i) a quarterly report will be produced for monitoring pending payments; and (ii) the quarterly reports will be audited by the ASCE on an annual basis.

**13.** The two structural measures with a target date set for end-September 2014 were implemented. A study to identify options for putting the cotton price stabilization fund on a more financially sustainable basis recommended a review of the fund's operational parameters and recapitalization. As regards the second measure, a report on improving the quality of investment spending was adopted by the Council of Ministers at its meeting of October 1, 2014 along with an action plan for its implementation.

**14.** A measure set for end-November 2014 regarding the conduct of external audits of SONABHY (National Hydrocarbon Company) and SONABEL (National Electricity Company) under the supervision of the national external control agency (ASCE) was implemented. The audit reports were submitted in December 2014 with numerous recommendations for lowering the costs of the two state-owned companies.

**15.** Of the five measures that were to be observed at end-December 2014, two were met on time and one was implemented with a delay. The first two measures related to the adoption of an updated business plan by the cotton company SOFITEX and initiation of the process to

update the base year for the national accounts. The third measure, concerning implementation of a satellite tracking system for goods in customs transit was completed with a delay, the official launch having taken place on February 16, 2015. Two measures were not implemented. In the case of adoption of an action plan by the Board of Directors of SONAPOST to improve the quality of financial services provided, the difficulty lay in finding suitable providers. The new proposal is to replace this measure with a more efficient one aimed at improving access to banking services. Regarding the conduct of the SONABEL study on the viability of production and import options, the deadline for implementing this measure has been changed to March 2016 to take into account the new performance contract with the government.

## **B. Implementation and Outlook for the Strategy for Accelerated Growth and Sustained Development (SCADD)**

**16.** Over the course of 2014, the government continued the process of promoting the growth poles. Implementation of the “Bagré growth pole” pilot project continued through a public-private partnership. Further, national conferences on the “Sahel growth pole” were held to reinforce project preparation.

**17.** In line with the monitoring and evaluation mechanism of the SCADD, in 2014, the Burkinabè government conducted a review of implementation at end-2013 to measure performance, identify constraints, and make adjustments as needed for future years. The evaluation report stated that 66.7 percent of the measures in the performance matrix had been implemented and 58.7 percent of the targets had been met.

**18.** The results of the evaluation showed that major progress has been made towards meeting certain Millennium Development Goals (MDGs), such as the prevalence of underweight children under five years of age, the infant mortality rate, the proportion of children aged 12-23 months immunized against measles, and the ratio of girls to boys in primary enrollment. Other targets such as improving maternal health and access to potable water in urban areas can potentially be met in 2015. Nevertheless, Burkina Faso will not be able to achieve all the MDGs targeted for 2015, due to slow progress with respect to the objectives on universal primary education and environmental sustainability. The evaluation also identified factors that could undermine the sustainability of the results achieved, namely social and political crises, frequent institutional changes associated with the structure of ministerial departments, and the high dependence on external funding of several bodies involved in implementing the SCADD.

## **ECONOMIC POLICIES FOR THE PERIOD 2015–2016**

### **A. Macroeconomic Framework**

**19.** Economic activity will pick up pace slightly in 2015, with real GDP growth reaching 5 percent, as a result of a small improvement across all sectors. This forecast for 2015 is based on

the assumption of a peaceful political transition, coupled with an abatement of the Ebola crisis in the region. For the medium term, a gradual recovery in economic activity is expected to begin in 2016 with a growth rate at around 6.0 percent. Assuming favorable rainfall and the continuation of government measures to contain the cost of living as well as favorable oil-price trends, average annual inflation should reach 0.7 percent in 2015 and 1.8 percent in 2016.

**20.** A deterioration of the current account deficit is expected in 2015, to 7.6 percent of GDP. This change is due mainly to the rising price of imports following the appreciation of the dollar, coupled with only a slight upturn in exports. Cotton exports are set to fall by 4.2 percent, pushed down by the drop in international prices, partially offset by the appreciation of the dollar. Gold production is expected to dip by 4 percent, as production in certain mines will soon come to a halt. In value terms, gold exports will increase by 5 percent reflecting the appreciation of the dollar. For 2016, the current account is expected to settle at -7.8 percent of GDP. The money supply is expected to increase by 14.3 percent at end-December 2015 compared to end-December 2014, despite a forecast reduction of 17.6 percent in net foreign assets.

## B. Fiscal Policy

**21.** The 2015 budget was prepared against the backdrop of a popular uprising on October 30 and 31, 2014 that culminated in the drawing up of a transition charter and the formation of a transition government. As a result of the external shocks faced by Burkina Faso and their impact on government revenues, an austerity budget needed to be prepared. Thus, the priorities set in the context of the preparation of the 2015 budget before the popular uprising were reviewed to take account of both the new mission assigned to the transition government and the new, more difficult socio-political and economic environment. Consequently, the transition government, while continuing to take action to reduce poverty by stepping up growth and wealth creation for inclusive development, will put greater emphasis on:

- **improving justice** by taking strong measures to restore the confidence of the people in the judiciary and the justice system in general;
- **restoring governance** through the construction and normalization of new jurisdictions, courts, and penitentiaries, the humanization of conditions in penitentiaries, increasing support for oversight structures, and publication and outreach activities with respect to the law on preventing and combating corruption in Burkina Faso. Particular attention will be paid to the organization of presidential and legislative elections for which an allocation of CFAF 25 billion (0.4 percent of GDP) has been included in the initial budget law for 2015. The total cost of elections is estimated at CFAF 54 billion (0.8 percent of GDP), resulting in a financing gap of CFAF 29 billion for which funding requests have been made to technical and financial partners. The government will make the necessary adjustments to the 2015 budget to ensure that the elections budget is fully funded once it has a clear picture of the level of contributions from partners;



- **consolidating social gains** through high labor-intensity programs (HIMO), enhancing the capacity of the education system, preparing a response plan to deal with epidemics, including the Ebola virus; and
- **strengthening internal security and national defense.**

**22.** In 2015, domestic revenues are expected to amount to 17.3 percent of GDP, program grants to 1.9 percent of GDP, and total expenditure to 24.8 percent of GDP. The overall fiscal deficit (commitment basis) is expected to be 2.5 percent of GDP which will be covered by both external (budget support) financing and domestic bond issuances. The 2015 government budget execution program has identified several reforms and support measures pertaining both to revenue collection and to the programming and execution of capital spending.

**23.** Significant measures have recently been implemented to strengthen the efficiency of revenue collection, including interconnection of the DGI and DGD (GERIF) databases, which has made it possible to detect more than 250 cases of fraud. Additional measures will build on these achievements and will focus particularly on: (i) putting in place an efficient system for managing and monitoring exemptions to improve tax revenue collection; (ii) improving the inspection mechanism for mining sector operations with the preparation of the standard protocol for installation of customs posts at mining sites; (iii) strengthening arrangements for collection of value-added-tax (VAT) with the introduction of a standardized invoice; (iv) an exhaustive survey of medium-sized enterprises for better monitoring and efficient control of the new classification of enterprises in order to increase the number of taxpayers; (v) launching the Virtual Liaison System for Import and Export operations (SYLVIE) to ensure transparent, reliable, and rapid production and delivery of the documents required for customs clearance operations; (vi) using the satellite tracking system for vehicles in transit to improve the control of merchandise in transit, which would make it possible to redeploy at least 120 agents previously deployed to carry out physical escorts; (vii) the introduction of scanners in customs offices to improve efficiency in combating fraudulent shipments and tracing hidden compartments; (viii) the creation of an Investigations and Intelligence Directorate with a view to increasing the number of audits by 10 percent.

**24.** To improve investment spending quality and execution, a planning procedures guide/manual will be prepared to put in place a formal programming process as well as an operational mechanism for decision-making on priority investment spending commitments. Furthermore, hearings with ministries and institutions will be reintroduced to ensure a more realistic public investment program.

**25.** Significant progress has been made on managing the government expenditure chain, notably the time frame for verification, which was reduced to 17 days in December 2014 from 35 days in 2013 following the implementation of reforms within the framework of procedures and responsibilities of participants in the public expenditure chain. It has been decided to continue these reforms which will include (i) implementing the action plan on the

computerization of the public expenditure chain; (ii) strengthening the activities of the committee responsible for monitoring expenditures on development projects and programs for more effective execution of capital spending; (iii) putting in place a sectoral committee to monitor public expenditure execution for a monthly review of budget execution; (iv) easing ex ante control by prioritizing invoices above a certain threshold; (v) giving project and program coordinators greater responsibility for the execution of funds released by delegation of signature.

## C. Debt Policy

**26.** The government intends to continue implementing the debt policy adopted in 2008 and to update the medium-term debt management strategy. This will imply maintaining the current strategy of using highly concessional resources to finance the needs of the economy. Further, external financing denominated in euros will be given preference in view of the low risk involved. Through its participation in the regional financial market, the government plans to diversify its financing sources, reduce its dependence on external financing, and contribute to the development of the financial market.

**27.** Financing needs in 2015 have been estimated at 2.9 percent of GDP, broken down as follows: 1.1 percent of GDP in net external financing; and net domestic financing of 1.8 percent of GDP, including the use of amounts held in the Treasury Single Account. This leaves a remaining financing gap of 0.5 percent of GDP. Approval of the second and third reviews under the ECF arrangement should result in the disbursement of SDR 8.58 million with SDR 4.47 million programmed for disbursement under the fourth review later in 2015. To bridge the outstanding financing gap, the government requests an augmentation of access under the ECF arrangement of SDR 24.08. For 2016, a financing gap is estimated at CFAF 54 billion (0.9 percent of GDP). The government will seek new external concessional financing to close this gap, and stands ready to adjust its policies as needed to ensure that its 2016 budget is fully-financed.

**28.** For the current program, the government is proposing an increase in the ceiling of nonconcessional financing from CFAF 150.0 billion to 200.0 billion to finance road, hydroagricultural, and market infrastructure projects that have already been identified. These consist of the drinking water supply project for Ouagadougou from the Ziga dam, the University campus project for Bobo Dioulasso, the road paving project Guiba-Garango, and the sanitation project for peripheral zones of Ouagadougou.

## OTHER STRUCTURAL REFORMS 2015 AND 2016

### A. Public Finance Reforms

**29.** Wage bill and administrative management reform for state employees through measures including: (i) boosting the system for redeploying personnel from areas with a high concentration of workers to underserved areas so as to minimize the need for additional staff

recruitment; (ii) the implementation in 2015 of cash payment operations for all government employees to monitor staffing and streamline the components of remuneration to supplement the biometric operation conducted in 2012 that made it possible to identify 1,235 persons in irregular status and stop their salaries from January 2014; (iii) adoption of regulations, making it compulsory to state the identity and identification number of incoming and outgoing officials on appointment documents to facilitate automatic updating of the salary status .

**30.** The reform of public debt management that will focus on the following four broad areas: (i) issuance of domestic debt, cash-flow forecasting, and management of cash balances; (ii) institutional arrangements, including the coordination of public debt procurement and external and internal audit procedures; (iii) debt and risk management strategies, including the issuance of guarantees; and (iv) operational risk management. A study is underway, the conclusions of which will feed into an action plan.

## B. Mining Sector Reforms

**31.** Following the withdrawal of the draft mining code, there have been ongoing discussions on the points of disagreement between the government and the various actors in the mining sector. These exchanges resulted in a consensus on a draft code that was adopted by the Council of Ministers and which took on board most of the concerns of technical and financial partners. The draft was adopted by the government on February 18, 2015 and sent to the National Transition Committee (CNT) on February 23, 2015.

**32.** With a view to creating a conducive environment for better facilitating artisanal mining operations and generating additional revenues for the country, a number of measures are being envisaged. They include : (i) bringing on stream the National Support Agency for Artisanal and Semi-mechanized Artisanal Mining Operations; (ii) revising the inter-ministerial order of February 3, 2009, establishing the licensing requirements and specifications for the purchase, sale, and export of gold in Burkina Faso particularly with respect to taxes and royalties; (iii) revisit the antifraud law with respect to the marketing of gold to strengthen the operations of the National Anti Gold-Fraud Brigade; (iv) setting up the National Board for Securing Mining Sites; (v) strengthen the operating capacities of the Directorate responsible for Artisanal and Semi-mechanized Artisanal Mining Operations to better equip it to monitor artisanal mining activities; and (v) develop a methodology and action plan for an in-depth study on traditional gold prospecting (orpaillage) sector, to better gauge the importance of this sector for the Burkinabè economy.

## C. Energy Sector Reforms

**33.** Conditions in the energy sector in Burkina remain difficult. Insufficient electricity supply is one of the major constraints for growth, and the financial situation of the national oil company (SONABHY) and the electricity utility (SONABEL) remains tight after years of losses. SONABHY's financial performance improved at end-2014 as it benefited from lower petroleum product prices

in the international market, which generated a financial surplus. This trend continued through to February 2015, thus boosting SONABHY's weak financial situation and cash position. However, the depreciation of the CFA franc against the US dollar and the reduction of pump prices in January and February 2015 by the government in response to pressure from trade unions reduced these gains. Taking this into account, the Government committed not to further decrease pump prices ahead of the elections in October.

**34.** With a view to meeting the objectives of strengthening the infrastructure of the public service electricity utility and improving the quality of service to customers, a performance contract between the government and SONABEL will be prepared for the period 2015-2019 to establish the modalities for cooperation and support from the state for the efforts of SONABEL. This should allow SONABEL, *inter alia*, to optimize its fuel consumption costs and improve its financial balance through better cost control, regularize its financial relations with the government, enhance its technical performance and distribution to customers and improve the continuity and quality of supply. Regarding investments, SONABEL is seeking to diversify its sources of production, by pursuing the building of new thermal and solar power plants and interconnections with neighboring countries. Over the 2015-2016 period, the principal new investment projects will be targeted towards: (i) the increase of thermal production capacity; (ii) establishment of the interconnections including the one with Ghana planned for 2017; (iii) the development of renewable energies; (iv) the development of independent electricity production; and (v) improving access to electricity. Thus, in the context of improving its financial situation and based on the recommendations of the audit of its expenses, SONABEL has developed a program to optimize its cost management over the period 2015-2017. A study on the rate structure is also envisaged to take into account certain parameters identified in the conclusions of the audit.

**35.** In order to reduce the cost burdens of SONABHY and improve its financial situation, the Government is committed to implement the recommendations of the cost audit carried out in 2014. Also, a performance contract will be prepared to define the cooperation framework between SONABHY and the state, as part of its investment plan to increase its capacities for storage and bottling of butane gas to overcome shortages. In addition, important measures will be taken in the context of implementing the findings of the expenditure audit conducted in December 2014. A key focus will involve streamlining the transport sector. To reduce the incentive for haulers to commit fraud, there are plans to redraft regulations to penalize leakages of hydrocarbons. To this end, it is planned to begin invoicing haulers at market prices for any transport leakages.

#### **D. Reforms to Improve Macroeconomic Monitoring**

**36.** Several reforms are envisaged to improve macroeconomic monitoring and strengthen the analysis of structural trends, in order to identify the most efficient sectors for promoting growth and creating jobs. To achieve this, the National Statistics and Demographic Institute intends to publish by June 2015, quarterly national accounts on an output basis at constant

prices. In addition, the updating work on the new base year for the national accounts should be continued, with the completion of the informal sector survey and other specific studies.

## **PROGRAM MODALITIES**

**37.** The government intends to take all the necessary measures to achieve the objectives and criteria, as presented in Tables 1 and 2 of this Memorandum of Understanding. The program will be examined in keeping with the Technical Memorandum of Understanding that defines the quantitative performance criteria and requirements regarding data reporting to Fund staff. The 4<sup>th</sup>, 5<sup>th</sup> and 6<sup>th</sup> program reviews are expected to take place on or after December 1, 2015, May 16, 2016 and December 1, 2016, respectively.

| <b>Table 1. Burkina Faso: Quantitative Performance Criteria and Indicative Targets for ECF Arrangement, June 2015-<br/>June 2016</b> |       |                    |       |                   |       |
|--|-------|--------------------|-------|-------------------|-------|
| (CFAF billions, cumulative from beginning of year; unless otherwise indicated)   |       |                    |       |                   |       |
|  | 2015  |                    |       | 2016              |       |
|  | Jun.  | Sept. <sup>6</sup> | Dec.  | Mar. <sup>6</sup> | Jun.  |
|  | Proj. | Proj.              | Proj. | Proj.             | Proj. |
| <b>Quantitative Performance Criteria</b>   |       |                    |       |                   |       |
| Ceiling on net domestic financing of central government <sup>1</sup>   | 97.3  | 150.7              | 149.2 | 56.3              | 96.0  |
| Ceiling on the amount of new nonconcessional external debt contracted or guaranteed by government <sup>2, 3</sup>                    | 200   | 200                | 200   | 200               | 200   |
| Accumulation of external arrears <sup>2</sup>  | 0.0   | 0.0                | 0.0   | 0.0               | 0.0   |
| <b>Indicative targets</b>  |       |                    |       |                   |       |
| Ceiling on domestic financing outside central government <sup>4</sup>  | 14    | 22                 | 29    | 15                | 22    |
| Ceiling on the overall fiscal deficit including grants   | 110.7 | 179.5              | 163.7 | 82.4              | 164.8 |
| Floor on Government revenue  | 556   | 800                | 1137  | 268               | 585   |
| Floor on Poverty-reducing social expenditures <sup>5</sup>   | 218   | 327                | 436   | 118               | 237   |
| Sources: Burkinabè authorities; and IMF staff estimates and projections.   |       |                    |       |                   |       |
| <sup>1</sup> Defined in the TMU, and including on-lending of prospective IMF disbursements.  |       |                    |       |                   |       |
| <sup>2</sup> To be observed continuously.  |       |                    |       |                   |       |
| <sup>3</sup> The limit is not tied to specific projects.   |       |                    |       |                   |       |
| <sup>4</sup> Defined in the TMU.   |       |                    |       |                   |       |
| <sup>5</sup> 90 percent of budget amount.  |       |                    |       |                   |       |
| <sup>6</sup> Indicative Target, except for continuous performance criteria.  |       |                    |       |                   |       |

**Table 2. Structural Benchmarks for end-June 2015 to end-March 2016**

| <b>Measure</b>   | <b>Explanation</b>   | <b>Completion date<sup>1</sup></b> |
|--|--|------------------------------------|
| Sign a performance contract between the government and SONABEL to increase its efficiency and put it on a stable footing for medium-term development. <b>(SONABEL)</b>   | Strengthen control of the government's contingent liabilities and ensure the viability of public enterprises | June 2015                          |
| Completion of an exhaustive survey of medium-sized enterprises for proper monitoring and efficient control of the new classification of enterprises. <b>(DGI)</b>  | Optimize revenue collection through increasing revenue base  | June 2015                          |
| Draft regulations ensuring that invoicing is based on delivery prices instead of import prices to penalize losses above the specified norms during the transport of petroleum products from the ports to SONABHY. <b>(SONABHY)</b> | Lower the costs of public enterprises through reducing fraud   | June 2015                          |
| Publish a quarterly report on pending payments to avoid the accumulation of arrears. <b>(DGTCP, DGB, DGD)</b>  | Improve cash management and budget execution   | Quarterly, starting in June 2015   |
| Adopt an action plan for implementing suggestions contained in the SONABHY audit report. <b>(SONABHY)</b>  | Improve the efficiency of public enterprises   | August 2015                        |
| Adopt regulations making it compulsory to state the identity and identification number on appointment authorizations to facilitate automatic updating of the salary status of incoming and outgoing officials. <b>(DGB)</b>        | Safeguard the sustainability of the government wage bill   | August 2015                        |
| Install and operate of scanners with a view to improving and expediting customs controls. <b>(DGD)</b>   | Improve revenue collection   | Sept 2015                          |
| Implement ad-hoc cash payment operations of the salaries of all government employees to monitor staffing and to streamline the components of remuneration. <b>(DGB)</b>  | Safeguard the sustainability of the government wage bill   | Sept 2015                          |
| Sign a performance contract between the government and SONABHY to increase its efficiency and put it on a stable footing for medium-term development. <b>(SONABHY)</b>   | Strengthen control of the government's contingent liabilities and ensure the viability of public enterprises | Sept 2015                          |

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<sup>1</sup> End of the month.

|   |  |            |
|---|--|------------|
| Begin operations of the Virtual Liaison System for Import and Export operations (SYLVIE) to ensure transparent, reliable, and rapid production and delivery of the documents required for customs clearance operations. <b>(DGD)</b>                        | Improve the efficiency of the customs system and combat fraud          | Dec 2015   |
| Implement regulations requiring large enterprises to use the standardized invoice by end-July 2015 and medium-sized enterprises by end-January 2016, to improve the traceability of transactions carried out by taxpayers with respect to VAT. <b>(DGI)</b> | Improve revenue collection   | Jan 2016   |
| Finalize a study on the viability of production and import options, to take account of changes in the energy sector at both the national and sub-regional level. <b>(SONABEL)</b>   | Improve the reliability and efficiency of electricity supply           | March 2016 |
| Conduct an annual audit of pending payments and arrears. <b>(ASCE)</b>  | Improve cash management and budget execution                           | March 2016 |
| Establish an Investigations and Intelligence Directorate. <b>(DGI)</b>  | Improve revenue collection through increasing the number of tax audits | March 2016 |
| Adoption by Board of Directors of SONAPOST the recommendations of a feasibility study on the provision of decentralized financial services. <b>(SONAPOST)</b>   | Improve access to decentralized financial services                     | Jan 2016   |



## Attachment II. Technical Memorandum of Understanding

This Technical Memorandum of Understanding (TMU) defines the quantitative performance criteria, indicative targets, and structural benchmarks that will serve to assess performance under the program supported by the Extended Credit Facility (ECF) from 2015 to 2016. It also sets the framework and deadlines for the submission of data to IMF staff for assessment of program implementation.

### CONDITIONALITY

1. The quantitative performance criteria and indicative targets for the period between end-May 2015, and end-June 2016 are provided in Table 1 of the MEFP. The structural benchmarks set forth in the program are presented in Table 2 of the MEFP.

### DEFINITIONS

2. **Government.** Unless otherwise indicated, the term "government" means the central administration of Burkina Faso and does not include local administrations, the central bank, or any other public or government-owned entity with autonomous legal status not included in the table detailing the financial operations of the state (TOFE).
3. **Definition of debt.** Definition of debt. For the purposes of the relevant performance criteria, the definition of debt is set out in IMF Executive Board Decision No.6230-(79/140), Point 9, as amended by Executive Board Decision No. 14416-(09/91), as published on the IMF website.
4. **Debt guarantees.** For the purposes of the relevant performance criteria, a government debt guarantee means an explicit legal obligation to service a debt in the event of nonpayment by the borrower (through payment in cash or in kind).
5. **Debt concessionality.** For the purposes of the relevant performance criteria, a debt is considered concessional if it includes a grant element of at least 35 percent. The present value (PV) of debt at the time it is contracted is calculated by discounting the borrower's future debt service payments on the debt. The discount rates used is 5.0 percent.
6. **External debt.** For the purposes of the relevant performance criteria, external debt is defined as debt contracted or serviced in a currency other than the CFA franc. This definition also applies to debt among WAEMU countries. The relevant performance criteria apply to the external debt of the government, public enterprises that receive government transfers, and other public entities in which the government holds more than 50 percent of the capital, and any private debt for

which the government has extended guarantees that constitute a contingent liability for the government.

## QUANTITATIVE PERFORMANCE CRITERIA

7. The revised quantitative performance criteria proposed for 2015 are as follows: (i) a ceiling on net domestic financing of the Treasury defined below in paragraph 10; (ii) a ceiling on the contracting or guarantee of nonconcessional external debt by the government, as defined in paragraphs 4 to 7, and (iii) a ceiling on the non-accumulation of payment arrears on external debt service.

### A. Net Domestic Financing of the Treasury

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

#### Adjustment

9. The cumulative ceiling on net domestic financing will be adjusted upward in the amount by which external program support to central government, excluding project grants and project loans, falls short of the amount projected, in the event the external program assistance is lower than programmed, up to a maximum of CFAF 65 billion. The shortfall will be calculated in reference to the projections in Table 1 below. The ceiling will not be adjusted downward in the event the external program assistance is higher than programmed. In the event prospective IMF financing is delayed, the cumulative ceiling on net domestic financing will not be reduced by a concomitant amount.

**Table 1. Projected External Program Assistance (Cumulative, CFAF Billions)**

|                  | End-June 2015 | End-September 2015 | End-December 2015 |
|------------------|---------------|--------------------|-------------------|
| Grants and loans | 88.8          | 167.4              | 203.4             |

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

## **B. Nonconcessional External Debt Contracted or Guaranteed by the Government**

### **Performance criterion**

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

### **Reporting deadlines**

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

## **C. Non-accumulation of New External Payment Arrears**

### **Performance criterion**

**13.** External payment arrears are external payments due but unpaid. Under the program the government agrees not to accumulate external payment arrears on its debt, except arrears arising from obligations being renegotiated with external creditors, including bilateral non-Paris Club

creditors. Nonaccumulation of new external arrears by the government is a performance criterion, to be observed continuously.

### **Reporting deadlines**

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

## **OTHER QUANTITATIVE INDICATIVE TARGETS**

**15.** The program also includes indicative targets for the ceiling on net domestic financing beyond the Treasury, the overall deficit (commitment basis, grants included) as defined in paragraph 19 below; total government revenue; poverty-reducing social expenditures.

### **A. Ceiling on Net Domestic Financing beyond the Treasury**

**16.** For the purposes of the indicative target, net domestic financing beyond the Treasury is defined as the sum of (i) net bank credit to public bodies beyond the Treasury, including net bank credit to these bodies as defined below vis-à-vis the national banking institutions (claims associated with IMF disbursements are included); (ii) the stock of unredeemed bills and bonds held outside national commercial banks; (iii) privatization receipts and other claims and debts of public bodies beyond the Treasury vis-à-vis national nonbank institutions. Net bank credit to the public bodies beyond the Treasury is the balance of the claims and debts of the bodies concerned vis-à-vis national banking institutions. These include (i) deposits of public bodies (beyond the Treasury) at the BCEAO, (ii) deposits of public bodies (beyond the Treasury) at the commercial banks, (iii) commercial liabilities of public bodies beyond the Treasury, (iv) commercial bank liabilities of the postal savings bank (CCP), (v) remaining Treasury deposits in postal checking accounts (CCP), (vi) Treasury deposits at the CNE, (vii) other net liabilities of the State (Secured obligations). 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, and funding from commercial banks (including any government securities held by commercial banks). Net bank credit to public bodies beyond the Treasury is calculated based on information provided by the Central Bank of West African States (BCEAO), whose figures are deemed valid for program purposes.

### **B. Overall Deficit Including Grants**

#### **Definition**

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

above. The cash basis adjustment is defined as the sum of: (i) the total change in unauthorized expenditure commitments, (ii) the change in pending bills, and (iii) the change in Treasury deposits.

### **Adjustment**

**18.** The ceiling on the overall fiscal deficit, including grants, will be adjusted upward in the amount by which external program support, excluding grants and project loans, falls short of the projected amount, in the event the actual figures are lower than projected, up to a maximum of CFAF 65 billion. The shortfall will be calculated in reference to the projections in Table 2 above. The ceiling will not be adjusted downward in the event that actual external program assistance is higher than projected.

**19.** The ceiling on the overall fiscal deficit, including grants, will be adjusted downward in the amount equivalent to the difference between projected and actual project loans in the event the actual figures are lower than projected. The overall fiscal deficit, including grants, will be adjusted upward in the amount equivalent to the difference between projected and actual project loans in the event the actual figures are higher than projected. The difference in the amount will be calculated in reference to the projections in Table 3 below.

| <b>Table 3. Projected External Program Grants and Project Loans<br/>(Cumulative, CFAF billions)</b> |               |                    |                   |
|---|---------------|--------------------|-------------------|
|   | End-June 2015 | End-September 2015 | End-December 2015 |
| Grants  | 43.9          | 122.4              | 143.9             |
| Project loans   | 32.4          | 55.2               | 57.7              |

## C. Total Government Revenue

### Definition

**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 revenue collection units at ministries and institutions. It also includes revenue from treasury checks.

## D. Poverty-Reducing Social Expenditures Definition

**21.** Poverty-reducing social expenditures are defined as the expenditures of sectors sponsoring the priority programs identified in the Strategy for Accelerated Growth and Sustainable Development (SCADD) to accelerate the achievement of poverty reduction objectives. Such expenditures cover all spending categories for the following ministries: Promotion of Women and Gender Issues; Health; Social Action and National Solidarity; National Education and Literacy; Agriculture and Food Security; Animal Resources; Environment and Sustainable Development; Youth, Professional Training and Employment including the labor and social security components of Civil Service, Labor, and Social Security; Water, Hydraulic Improvements, and Sanitation. They also cover rural roads and Heavily Indebted Poor Countries (HIPC) initiative (Category 5) for Infrastructure, Integration, and Transport; and HIPC expenditures only for Communication; Justice and Human Rights; Economy and Finance; and Mines, Quarries, and Energy. Added to this is the allocation under section 98 "transfers to subnational governments" from Health, Agriculture and Food Security as well as National Education and Literacy. These expenditures are monitored directly through the budget, and the indicative threshold for the program will be 90 percent of the amount established by the budget authority.

### **Non-accumulation of Domestic Payment Arrears**

**22.** The government will not accumulate payment arrears on domestic obligations during the program period.. This is a structural benchmark. Under the program, domestic payment arrears arise when actual payment is made more than 90 days after liability is incurred for an undisputed debt to a third party, except in cases where the terms and conditions of the transaction stipulate a longer period. In the case of debt service, arrears arise 30 days after the due date. Payments are deemed to be in arrears in keeping with the following definition:

- Debt unpaid for more than 30 days after the due date stipulated in the agreement between the parties (creditor/debtor).
- Wages or pensions unpaid 90 days after their due date.
- Payments for services rendered received more than 90 days after processing of the supporting documents submitted by suppliers.

### **Additional Information for Program Monitoring**

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

**Table 4. Summary of Data Reporting Requirements**

| <b>Information</b>  | <b>Institution Responsible</b> | <b>Data Frequency</b> | <b>Reporting Frequency</b> |
|---|--------------------------------|-----------------------|----------------------------|
| <b><i>Public Finance</i></b>  |                                |                       |                            |
| The government flow-of-funds table (TOFE) and the customary appendix tables; (if data on actual investment financed by external grants and loans are not available in time, a linear estimate of execution based on the annual projections will be used)  | MEF                            | Monthly               | 6 weeks                    |
| Domestic budgetary financing (net bank credit to the government and stock of unredeemed treasury bonds and bills)   | MEF/BCEAO                      | Monthly               | 6 weeks                    |
| Data on implementation of the public investment program, including details on financing sources   | MEF                            | Quarterly             | 6 weeks                    |
| The stock of external debt, external debt service, external debt contracted, and external debt repayment  | MEF                            | Quarterly             | 6 weeks                    |
| Social poverty-reducing expenditures in table format  | MEF                            | Monthly               | 6 weeks                    |
| Petroleum product prices, consumption and taxes, including: (i) the price structure for the month concerned;; (ii) detailed calculation of the price structure, from the f.o.b-MED price to the retail price; (iii) volumes purchased and distributed for consumption by the petroleum distributor (SONABHY); with a distinction made between retail and industry sales; and (iv) a breakdown of tax revenue from petroleum products — customs duties, tax on petroleum products (TPP) and value-added tax (VAT) — and subsidies unpaid | MEF                            | Monthly               | 4 weeks                    |
| A monthly statement of the accounts with the treasury, broken out by major category (administrative services, state enterprises, joint public-private enterprises, public administrative enterprises, international organizations, private depositors, and others)  | MEF                            | Monthly               | 6 weeks                    |



**Table 4. Summary of Data Reporting Requirements**

| <b>Information</b>  | <b>Institution Responsible</b> | <b>Data Frequency</b> | <b>Reporting Frequency</b> |
|---|--------------------------------|-----------------------|----------------------------|
| <b><i>The consolidated balance sheet of monetary institutions</i></b>   |                                |                       |                            |
| The consolidated balance sheet of monetary institutions   | NDs of the BCEAO               | Monthly               | 6 weeks                    |
| The monetary survey: provisional data   | BCEAO                          | Monthly               | 6 weeks                    |
| The monetary survey: final data   | BCEAO                          | Monthly               | 10 weeks                   |
| The lending and borrowing interest rates  | BCEAO                          | Monthly               | 6 weeks                    |
| The standard bank supervision indicators for banks and nonbank financial institutions   | BCEAO                          | Monthly               | 6 weeks                    |
| <b><i>Balance of Payments</i></b>   |                                |                       |                            |
| Preliminary annual balance of payments data   | BCEAO                          | Annual                | 9 months                   |
| Foreign trade statistics  | INSD/BCEAO                     | Monthly               | 3 months                   |
| Any revision of balance of payments data (including services, private transfers, official transfers, and capital transactions)                              | BCEAO                          | As they occur         | 2 weeks                    |
| <b><i>Real Sector</i></b>   |                                |                       |                            |
| Provisional national accounts; and any revision of the national accounts  | MEF                            | Annual                | 2 weeks                    |
| Disaggregated monthly consumer price indices  | MEF                            | Monthly               | 2 weeks                    |
| <b><i>Structural Reforms and Other Data</i></b>   |                                |                       |                            |
| Any study or official report on Burkina Faso's economy, on the date published, or the date of entry into force.   | MEF                            |                       | 2 weeks                    |
| Any decision, order, law, decree, ordinance, or circular having economic or financial implications, on the date published, or the date of entry into force. | MEF                            |                       | 2 weeks                    |